

SOE Board Talk

lakweaolep

Two very fundamental duties are the responsibility of boards – Performance Management and Risk Management.

This week we begin a sequence of Board Talks that discuss the topic of Performance Management for SOEs. Later we will discuss issues of Risk Management.

Please contact SOEMU if there are any concerns or clarifications needed.

2nd Floor Finance Building

Ph. 625 8311

Performance management is an expansive topic on which there is a great deal of literature espousing ideas, fundamentals and advocating particular best practices.

The aim here, is to focus on the key elements deemed important to RMI SOEs; to identify the essential issues to be implemented in regard to SOE institutional performance, board performance, management and employee performance.

Performance Management System – what is it?

The SOE's business plan and/or statement of corporate intent sets the basis for performance targets and performance measurement. These forward-looking plans set accountability measures for the board and managers.

Under the SOE Act, the SOE must consult with the Minister on the content of the plan and to take into consideration the views of the Minister, but the board approves and adopts the plan and is therefore responsible for the plan and performance against the plan. Establishing a robust plan is crucial. Unambiguous performance targets established through these plans combined with accountability for results drives performance and forms the basis of a performance management system (PMS).

PMS is both a strategic and an integrated approach to delivering successful results by improving the performance and developing the capabilities of teams and individuals. It is also described as a process of creating a work environment or setting in which people are enabled to perform to the best of their abilities.

Thus, the PMS is the whole process of organizational plans and performance measures cascaded through the organization into departmental and section plans. These then form the basis of individual job goals that in conjunction with job/position descriptions are agreed with individuals during the PMS reviews. In this way organizational plans

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and KPIs are linked to individual performance assessments and organizational success is the collective responsibility of the whole organization.

Components of a PMS

- Clear job descriptions and employee performance plans including key result areas (KRAs) and performance indicators,
- Appropriate staff selection process,
- Performance standards to measure outcomes and overall productivity against predefined benchmarks,
- Employees can expect formal feedback on their performance at least annually and informal feedback regularly,
- Training and development plans,
- Regular performance development and evaluation meetings,
- Effective compensation and reward systems,
- Provides promotional/career development support, and
- Exit interviews to understand why staff leave.

An effective PMS sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization's mission and objectives (the business plan). A PMS should assist the employee to understand the importance of the specific job in realizing the organizational outcomes. This requires, as much as possible, a clear line of sight between the employee's efforts and the organization's desired outcomes. Sometimes it is not possible to drill down to individual employee efforts, but rather focus on team efforts. This can be just as powerful.

A PMS must be underpinned by clear performance objectives that include results, actions and behaviors. A desired outcome of an effective PMS is that employees understand exactly what is expected of them and how their efforts impact on the organization's success. Through regular feedback and coaching, performance issues and problems are diagnosed early, and corrective action can be taken. Also, timely and regular positive feedback can be extremely motivating and encourage even greater efforts.

Whatever difficulties arise for SOEs, boards must be held accountable and that accountability should be based around the strategic/business Plan and there should be a clear line of sight between performance targets in the plan and performance targets in a PMS

Successful organizations tend to execute their PMS effectively in differentiating performance and provide staff with useful performance messages as an output of the PMS.

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It is important that training is provided to management on how to conduct a performance evaluation meeting and that the quality and process of the performance evaluations and appraisal systems is regularly reviewed and is highly transparent, i.e. employees understand the quantitative and qualitative measures, any rating scales that are used and overall, how their performance is being assessed.

Effective PMS systems can energize groups (teams) and propel individual performance. However, if implemented badly, it can be a powerful de-motivator, creating and fostering distrust between management and staff.

While the SOE Act requires that CEO remuneration is partially performance-based, it will be difficult to implement this effectively unless it cascades through the organization.

If organizational business plan targets and measures (of accountability) are shared to responsible departments and teams and then to individual job performance goals, it follows that if the individual assists the department to achieve goals that contribute to the organizational achievement of goals, then any incentives or benefits accruing should be shared.

An effective PMS system in an organization will drive accountability throughout the organization and hold individuals (specifically including senior management) accountable to deliver on agreed results/outputs.

It all starts with effective planning and the implementation of a robust strategy for success. The SOEs must align organizational structure and performance measures to the agreed strategy. **This is the responsibility of the board.** Once this is in place, management can coach staff and prioritize people development and implement an effective performance appraisal process as a key component of PMS.

It has been suggested (Cascio, 1998) that the combination of managers accomplishing three core things, leads to effective performance management. These are clearly directed towards individuals but should be driven from the defined organizational objectives and goals.

- Adequately define performance objectives and outcomes so that individuals, and work groups understand clearly what is expected of them. This involves effective goal setting, monitoring and regular feedback, as well as clarity of how performance will be measured,
- Facilitate performance by removing obstacles, providing sufficient resources and ensuring an appropriate harmony and mix of skills to permit effective performance. Assist and advise employees as necessary,
- Encourage performance through timely interventions, instigating rewards at the appropriate time and engaging in dialogue and feedback.

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Next week we continue with the topic of PMS and its importance to SOE reform

Good luck this week in the boardroom

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