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## **SHIFTING THE PERFORMANCE CURVE** BY MARIA GONZALEZ

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IVEY BUSINESS JOURNAL  
405 THE WEST MALL, 6<sup>TH</sup> FLR  
TORONTO, ON M9C 5K7

TEL: 416/620-0116  
FAX: 416/620-1302  
EMAIL: [ibj@ivey.uwo.ca](mailto:ibj@ivey.uwo.ca)

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Ivey Publications  
Richard Ivey School of Business  
1151 Richmond Street North  
London, Ontario  
Canada N6A 3K7  
Tel: 519/661-3208  
Fax: 519/661-3882  
e-mail: cases@ivey.uwo.ca

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Ivey Business Journal  
405 The West Mall, 6<sup>th</sup> Flr  
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Tel: 416/620-0116  
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Ivey Business Journal  
405 The West Mall, 6<sup>th</sup> Flr  
Toronto, Ontario  
Canada M9C 5K7  
Tel: 416/620-0116  
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# shifting

## THE PERFORMANCE CURVE

BY MARIA GONZALEZ

A company's human resources, its people, are the leading indicators of its financial performance. This is why today, companies must pay close and regular attention to their people if they hope to gain and sustain a competitive advantage and create an environment for high performance. Companies must also realize that the health of the organizational climate will determine their ability to sustain high performance. This is why, today, organizational health is an important measure of an organization's future wealth.

People measures—such as employees' understanding of the company's strategy as well as the actual health of the organizational climate—can lead financial indicators by as much as two or three years. Long before financial results are in, these measures indicate how an organization is capitalizing on the potential of its people, which aspects of the corporate environment are helping or hindering them, the capability of its managers to lead and influence individual performance and the extent of employee loyalty. Collectively, these measures indicate future financial performance.

Up to now, many companies have not identified people as an important strategic asset. Instead, they have focused more on products and the bricks and mortar of their businesses. But today, a clear people strategy is a business imperative. Companies realize that bringing out the best in all their employees is the way to achieve and sustain high performance and competitive advantage.

The Bank of Montreal recently conducted extensive

research to establish the key factors that will help the bank take a quantum leap in its performance. From this research, the bank developed an integrated people strategy that would have a positive impact on its performance. Called "Shifting the Performance Curve," it is now part of the bank's strategy development and business planning processes and a vital part of how the bank does business today.

### MAKING THE STRATEGY WORK

There are six key steps to making the strategy work:

1. Design a people strategy to shift the bank's performance curve
2. Promote a healthy organizational climate to sustain high performance
3. Lead from the top to reinforce the importance of the people strategy as a corporate priority
4. Recognize managers as drivers of organizational and individual performance
5. Implement a people strategy throughout the organization
6. Measure and monitor results regularly to ensure that high performance is achieved.

1. Design a people strategy to shift the bank's performance curve.

Before designing and developing a people strategy, the Bank researched widely for models and benchmarks. Along with a review of the existing literature, the bank commissioned selected consulting firms to study and learn from their global

clients. It also conducted best-practices work with numerous organizations such as GE, IBM, Andersen Consulting, Hewlett Packard, Texas Instruments, Disney and Nortel. Internally, it thoroughly examined the major initiatives under way in the bank and identified those that qualified as best practices.

The results were surprisingly consistent. All research pointed to the implementation of specific “key performance levers” in order to raise both individual and business results. Examples of levers include achieving a clear understanding of the organization’s strategy and developing high-potential people. But the real discovery was the realization that an integrated people strategy is imperative for success.

As they reflected on what they had learned from the research, people in the bank realized that excellent work was being done in a number of places for each of the key performance levers. None of the levers was new; in fact they were all common sense. However, organizations were generally not working on using them together, as an integrated strategy, which the Bank of Montreal believed that it needed. Putting an integrated strategy into practice has meant taking a systemic viewpoint of all the interrelated elements that form part of the whole, such as staffing, strategy, communications and others. The organization

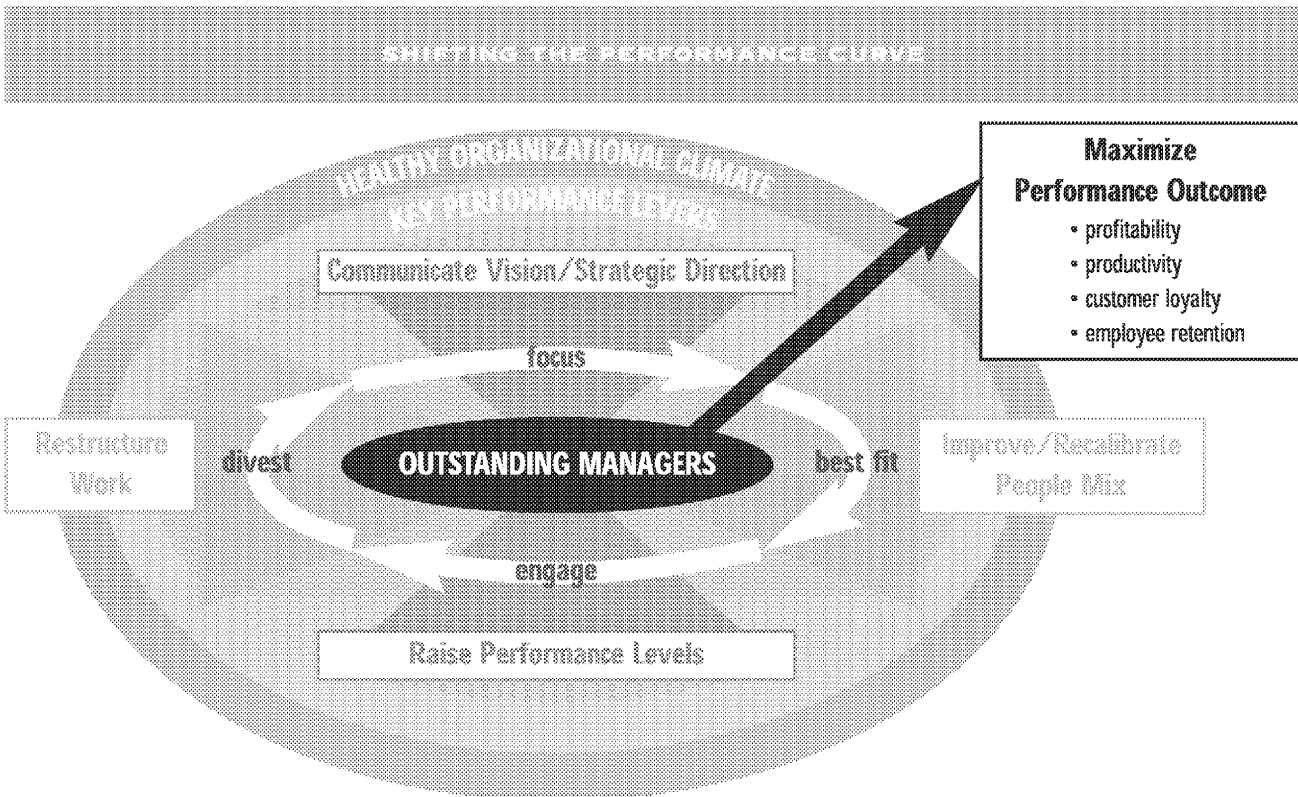
knows that excelling in any key performance lever at the expense of another would prevent it from achieving sustainable results.

There are four categories of key performance levers. They are those that:

- A Communicate a vision or strategic direction which creates organizational focus
- B Improve or recalibrate the “mix” that identifies the best fit for people in the organization
- C Raise performance levels, which entails engaging the company’s employees
- D Divest non-core work so that work can be restructured to be more effective.

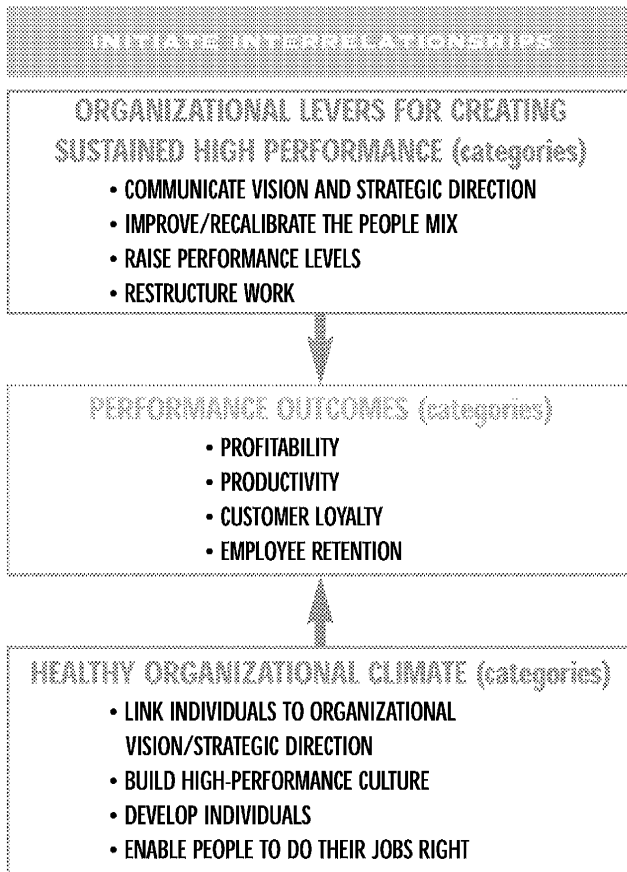
Shifting the bank’s performance curve through specific levers has become part of a two- to three-year strategy. Each Banking Group selects which levers it will implement and when it will implement them. The Chief Executive Officer identifies the levers that will be mandatory and implemented bank-wide. Progress is measured quarterly and reported to the CEO by each Vice-Chairman, at the same time as the Banking Group’s financial results.

The exhibit below illustrates the components of “Shifting the Performance Curve.”



2 Promote a healthy organizational climate to sustain high performance.

The primary goal of the Bank of Montreal's "People Strategy" is to develop a system to sustain high performance. Research had shown that a healthy organizational climate is a prerequisite for sustaining high performance. The research also identified statistical correlations between specific elements in the organizational climate and four performance measures: profitability, customer loyalty, productivity and employee retention. The specific elements include an individual's perception that their work is important to the organization, providing individuals with opportunities to do what they do best, and creating an environment in which quality work is the norm. The key performance levers and the elements of the organizational climate reinforce one another. The levers were developed to ensure a shift to high performance; the degree of organizational health determines whether the shift will be sustainable. As the exhibit below illustrates, these two components are linked to performance outcomes.



Because the organizational climate has a powerful impact on financial performance, the bank created a Climate Index to assess its health. All 33,000 employees are surveyed and each Banking Group receives its own Climate scores based on the survey results. This enables each Group to develop an action plan to improve its scores and to realize superior financial performance. Each group can then develop the strategies that will have the greatest likelihood of success.

The corporate-wide Climate Survey results determine which corporate programs or processes are required, particularly when patterns or trends affect the entire organization. If the whole organization is affected, a corporate initiative would be started to support all Banking Groups. Specific action plans for each part of the bank form part of the formal reporting. After that, progress is reported quarterly to the CEO.

3 Lead from the top to reinforce the importance of the people strategy as a corporate priority.

Throughout, the leadership and commitment of President and CEO Tony Comper have been clearly visible and important ingredients for success. He and Vice-Chairman Gary Dibbs were greatly involved in the initiative from the very early stages. Senior executives at the Banking Group level also put the initiative at the top of their agendas and all Vice-Chairmen took responsibility for implementing the initiative throughout their organizations. They then identified their own Implementation Teams and ensured that the responsibility cascaded through the organization.

4 Recognize managers as drivers of organizational and individual performance.

The bank's research indicated that managers play a crucial role in the organization's success. In fact, as much as 75 to 80 percent of an individual's performance is attributed to an employee's manager. The organization also broadened the definition of a manager to include anyone who is accountable for the work of others, even if there is no formal reporting relationship. This broad definition covers the changing nature of work. Formal reporting relationships are only a part of an employee's accountability, something that becomes more prevalent at higher levels of the corporate ladder.

Strong managerial capability in any organization is

therefore essential to success: Managers can either facilitate or hinder work from getting done. The bank's research identified three broad characteristics that all outstanding managers possess: Personal Effectiveness; Emotional Intelligence; and People Management Processes. Assessing candidates according to these attributes has now become common in staffing executive and managerial roles.

As part of its annual survey of employees, the Bank assesses its managerial capability to determine where it is strong and which areas need to be developed. To do this, the organization has created a Managerial Index that provides information about the performance and overall capability of each manager. This too forms part of the measurement for "Shifting the Performance Curve."

Not surprisingly, the organizational climate and the Managerial Index are very closely related. In fact, it is the manager who has the greatest impact on organizational climate, since he or she significantly influences each element in the climate. Individual managers are also responsible for the organization's competitiveness, since they influence the attraction, retention and development of employees.

## 5 Implement a people strategy throughout the organization Chief Executive Officer and Vice-Chairman

To weave "Shifting the Performance Curve" into the fabric of the organization, the bank established specific reinforcing mechanisms that affected every corner of every part of the bank. Assessing the performance levers and the overall organizational climate have become part of the Vice-Chairman's yearly performance reviews. As a result, the CEO's and Vice-Chairman's executive compensation are affected by their Banking Group's performance. As well, the results of the Bank's people strategy are reported quarterly, with the financials. To share information and the lessons learned—and to celebrate success—the bank publishes articles in its employee publication. The CEO also makes regular presentations to the senior executive Corporate Management Committee, which makes decisions on corporate issues.

## Implementation Teams

To implement the people strategy the organization uses line implementation teams led by Human Resources executives who are highly skilled professionals and who bring their knowledge of best practices to the table. Line

individuals have full responsibility, but they also share responsibility with other team members for implementing the initiative in their particular Banking Group. Individuals on the teams were identified by their Vice-Chairs for their leadership abilities and credibility. The implementation teams across the bank have also elected to hold monthly meetings to share organizational learnings and build on the work being done in different parts of the Bank.

## Planning Process

The organization is also implementing the people strategy by formally incorporating it into key bank processes. The strategy development and business planning processes impact and guide all the elements that affect how the organization does business. By incorporating the key performance levers into those processes, it ensures that the people process is as important as financial goals.

"Shifting the Performance Curve" is a central component of the annual Human Resources Review. This Review assesses the bank's human capital at all levels on a number of dimensions, to ensure that the bank is attracting, retaining and developing its brainpower to enable it to compete and win.

## 6 Regularly measure and monitor results to achieve high performance Three Indices are Monitored Internally

The organizational climate Index determines the extent to which performance in a particular group can be sustained and how the organization should respond to any warning signals. This measure indicates organizational health.

The Managerial Index is the organization's measure for overall and individual managerial capability and indicates the potential impact that managers could have on an individual's performance. This is a measure of managerial bench strength.

The Employee Commitment Index indicates the extent to which retention can be an issue for the organization. It measures whether employees, given the opportunity, would choose to remain in the organization or choose to work elsewhere.

These three indices give the Bank its leading indicators of performance. Information in these indices is used to take necessary actions, such as developing new programs or processes. Based on the research it has undertaken, the

bank knows that these indices preview potential future financial results by as much as two to three years. These are, in fact, the leading indicators that an organization can then act on to have a positive impact on its future.

Externally, the Bank also monitors measures obtained from customer surveys and financial results. Customer responses lag employee responses by approximately one year, but they lead financial results by as much as one year. Consequently, paying attention to customers' responses gives the organization an opportunity to have a positive impact on its financial results. As well, the combination of employee, customer and financial measures gives the organization an integrated perspective on performance.

The bank has consistently found that the groups with the highest scores in these indices also distinguish themselves in their financial performance. Evidence shows that it is a self-perpetuating cycle. Outstanding managers naturally operate according to the key performance levers; they create and perpetuate a healthy organizational climate in which people thrive and are committed to continuing to make a voluntary contribution. Experience overwhelmingly suggests that areas with this type of manager are among the highest-performing financially; they also command the highest customer loyalty. The combination of these conditions has been found to attract and retain high performers and key talent, which is a key competitive advantage.

#### LESSONS LEARNED

We have learned eight key lessons from designing and implementing the "Shifting the Performance Curve" initiative.

1 A "People Strategy" is an enterprise-wide business imperative, not a program or project. How the initiative is viewed by the organization is important. It is necessary to communicate that focusing on people and their work environment is as critical as the business strategy itself. In fact, they must complement one another in order to achieve success.

2 The key performance levers form a comprehensive strategy that contains the majority of elements necessary for success. Most important, the various types of levers reinforce one another. Since all the levers form a system, each one must receive an equal amount of attention. Otherwise, the system will be unbalanced. There

are four categories of levers:

The first category entails developing and communicating a shared understanding of the organizational vision and strategic direction. This helps individuals focus their attention and provides the context and opportunity to connect their professional purpose to the organization's.

The next category concerns itself with making sure that the best fit exists by improving or recalibrating the people mix. The key here is to ensure that individuals are well suited for their roles and that they are in a position that allows them to maximize their talents.

The third category is about engaging people. Its central focus is to raise performance levels in the organization. This is achieved by providing opportunities for people to develop and by clearly communicating expectations and accountability so that there is a shared understanding.

The final category of key performance levers is about divesting processes that no longer serve the organization well. It includes restructuring work to facilitate a successful performance.

3 A healthy organizational climate is critical for sustaining high performance. The organizational climate works with the levers to form an integrated people strategy. The levers shift performance and the healthy organizational climate facilitates and sustains that shift. There are four categories of organizational climate.

The first category links individuals to the organizational vision and strategic direction. Individuals must believe that their contribution is important to the organization's purpose and know what they need to contribute to it.

The second category focuses on building and sustaining a high-performance culture, which includes providing individuals with opportunities to do what they do best—creating an environment in which quality work and listening to the opinions of others are the norms.

The third category provides the opportunity for individuals to receive feedback that they can act upon.

Finally, a healthy organizational climate includes providing the necessary tools that will enable employees to do their job properly.

A U.S. research organization studied more than seven million employees in different industries around the world and found that organizational climate is correlated to performance outcomes such as profit, productivity, customer loyalty and employee retention.



Assessing the organizational climate regularly provides insight into a company's future financial performance. The results provide information that identifies the areas that will generate the greatest leverage and facilitates the development of a road map to improve and sustain performance. Regular monitoring of the climate enables an organization to determine the effectiveness of its actions and suggest an alternate—or the same—course of action.

4 Since the various components work together to achieve desired outcomes, a comprehensive or systemic viewpoint is necessary. While a superior business strategy—and implementing it effectively—are necessary for success, it is not enough. Both the strategy and implementation must be integrated with the key performance levers. By creating and sustaining a healthy organizational climate, they build a high-performance environment. The bank has found that incorporating a focus on the key performance levers and organizational climate into a cohesive whole has a positive impact on employee commitment and financial performance.

The ability to retain talent is key to maintaining competitiveness and an integrated strategy that takes all the interrelationships into consideration is a significant contributing factor to success. Every action impacts one or more areas, so focusing on the whole will ultimately pay off.

5 Support from senior executives is essential for success. The CEO, as well as other senior executives, needs to be seen as a champion and demonstrate clear ownership and leadership. This means incorporating specific people-strategy goals into senior executives' annual objectives, tying senior executive incentive compensation to the success of the people strategy and reporting progress regularly, with the financial results. These actions focus attention and also send a strong message that there is a deep commitment to the strategy.

6 A manager's role is critical for success. Research shows that managers impact and influence the performance of those reporting to them by as much as 75 to 80 percent. This influence permeates the entire organization, whether it is the most junior supervisory level or the most senior executive level.

A manager needs to be well suited for the role.

Desirable attributes include personal effectiveness, emotional intelligence and people management skills. Assessing those attributes in staffing managers increases the likelihood of success tremendously. Providing educational opportunities to teach core managerial skills, as well as communicating organizational values, sets up a common framework in which to operate. It enables the organization to communicate a "charter of expectations," whereby the organization and all individuals in it understand what is expected of them and what they can expect in return.

7 What gets measured gets done. Measuring progress on a regular basis focuses the organization's attention on the initiative. Measuring the three indices—climate, managerial capability and employee commitment—gives the organization an integrated view of the people side of the corporate strategy. Measuring this beside the financials gives the people component importance and credibility and signals the organization's commitment to succeeding through people. Incorporating measurement into the executive incentive compensation program facilitates its inclusion in the corporate agenda.

8 The final lesson we learned is that forming a partnership between the line function and Human Resources is a powerful tactic. Line involvement and leadership ensure that the initiative is seen as a business imperative that becomes part of the way the business is run. Line employees bring a business perspective, while HR professionals bring their knowledge of the best practices. It is a winning partnership.

We now know that incorporating the key performance levers into a coherent, consistent strategy will continue to shift the organization's performance upward. Ensuring a healthy organizational climate over time sustains a positive shift in that performance. And employee commitment ensures that there will be sufficient brainpower in the organization to shift and sustain the improved performance.

An organization's people are the leading indicators of financial performance. Paying attention to them and the climate that is created holds the key to competitive advantage and organizational wealth. ■

MARIA GONZALEZ IS VICE-PRESIDENT, STRATEGIC INITIATIVES, CORPORATE PLANNING AT BANK OF MONTREAL.

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