Managing in a downturn

People

Getting staff on your side

During a downturn, listening to employees and setting realistic goals helps to maintain trust and dedication. By Michael Gibbs

These are tough times. Most industries are in recession; many companies are at risk of failing. Fear of lay-offs pervades the workplace as negative economic news accumulates and it can be difficult to motivate staff – but this is when you need them most.

In tough times, the best managers stand out even more. Moreover, handling staff well now can pay high dividends when good times return. My research and experience suggests ways to make incentive systems work effectively even in this economic climate. Below are some suggestions of how to think through goal setting and evaluation.

What to emphasise?

Every incentive plan evaluates employee performance in some way, and most make use of goals as thresholds for earning rewards or to set expectations for performance. The business climate has changed dramatically, and there are different pressures on business now, so goals and evaluation methods need to change. What should be emphasised?

Usually, incentive plans are criticised for being too short-term oriented. That is because they tend to focus on things that are easy to measure, whereas the effect an employee’s performance has on the future is difficult to quantify.

In today’s environment, however, a short-term orientation is often appropriate. Given the weak credit market, many companies need to manage for cash, and are concerned about the inability of customers to pay receivables. Incentives for better management of receivables, cost cutting, or temporary reductions in areas of discretionary spending, can be a good idea. However, implementation must be carefully monitored, as overly aggressive incentives to manage for cash can lead employees to manipulate numbers, damage relationships with clients, defer essential maintenance, and so on.

In some economies, most managers are compelled to give less emphasis to strategy and more to tactics. Doing so means tapping into the creativity and initiative of employees, who often have many ideas about ways to improve operations and cut costs. To motivate this creativity, you must give broader discretion to staff over methods. Focus on broadly stated goals (“cut costs” or “increase revenue”). Then measure outcomes instead of specific inputs (total revenue instead of number of new customers). This gives your employees latitude to try different methods and see what works best to achieve your objectives.

Determining the right level of expected performance is never easy, but it is even more difficult in 2009. There is great volatility and uncertainty about the future, and performance in recent years is less likely to be a good indicator than in more stable years. Even if you can be relatively confident about expected performance, the highly volatile economy means that actual performance may well overshoot or undershoot expectations by a wide margin. If the employee finds the goal too easy or too difficult to achieve, poor motivation may result. How can you set goals in such an environment?

Set meaningful goals

Consider using shorter time horizons. Instead of stating goals for the entire year, set goals on a quarterly basis. Predictions over a shorter horizon are more likely to be accurate. An additional benefit is that your staff have a better idea of where they stand and what level of compensation they can expect. The tie between their actions and their rewards is stronger. Finally, a shorter horizon allows you to change expectations or criteria more quickly as the economic situation unfolds.

In highly volatile times, it makes sense to set easier-to-achieve goals than during more stable times. Goals may not be met because the employee was ineffective, or because of events beyond their control. It does not make sense to punish employees for factors beyond their control, especially when they are already nervous about their jobs and compensation. In the current downturn, there is greater risk that uncontrollable events will result in poor performance. It is appropriate to take some of this risk of failure away from employees by recognising that such risk is beyond their control.

Many companies use growth-based targets or performance measures. For example, a salesman might be rewarded based on the percentage increase in sales compared with last year. This approach has some downsides, but provides automatic goal setting. Growth-based targets may make sense when last year’s performance is expected to be better, but provides automatic goal setting. Growth-based targets may make sense when last year’s performance is expected to be better, but may turn out to be irrelevant; unexpected situations are likely to arise.

Finally, an important part of virtually any incentive plan is good judgment, especially in 2009. There is simply too much complexity and uncertainty to expect that even the best-designed incentive plan will fit the circumstances adequately. Good judgment can have multiple benefits. Consider using subjectively determined goals and performance evaluation rather than reliance only on numbers. Business conditions are changing rapidly. You may need to reassign people to different jobs, or reallocate tasks.

What you think will be important may turn out to be irrelevant; unexpected situations are likely to arise. Stating qualitative goals and expectations about performance may
work better than tying rewards to explicit performance metrics. This gives you the flexibility to adapt those goals over time, much like the effect of using shorter time horizons, and to incorporate input from staff.

Also, reserve the right to change the incentive system at any time. You may not need to, but by making clear that you might, less conflict will arise if you do. If you use careful judgment, and establish trust with your employees, adapting poorly designed incentives will be preferable to leaving the system unaltered.

Collaborate

Economists, psychologists and human resource practitioners tend to agree that the job characteristic that employees value most is feeling that they can trust their supervisor. In tough times, with companies implementing lay-offs, it is even more of an issue.

What can you do to improve trust? Broadly speaking, collaborate with your employees on goal setting and evaluation, and in addressing the problems that your business faces. Sit down with each employee, discuss the current situation, and describe the kind of behaviour you are looking for (such as the creativity and initiative mentioned above). Using their input in goal setting and evaluation makes goals more realistic and relevant, and reduces employee risk. It provides buy-in and builds trust. Meet regularly to re-assess goals as the situation evolves. Of course, this is simply Peter Drucker’s “Management by Objectives” approach. That method is often very effective but is particularly well suited to volatile times such as these.

Regular discussion about subjective goals has an additional advantage: manipulation is more likely when the economy is weak and employees are under high pressure. A collaborative approach to evaluation and monitoring makes it easier to detect, and thus deter, manipulation. In addition, manipulation tends to be easier when performance is based on pre-set metrics rather than retrospective judgment.

Communicate and listen. Be open about the challenges facing the business. In many cases, providing real-time data on the company’s economic situation will be helpful. The environment is already risky enough, so listening and responding to employee feedback about the incentive system is important. If your employees believe that you are trying to treat them fairly and provide the tools they need to succeed, they are more likely to respond by working hard and creatively to improve the company’s prospects.

Rise to the occasion

Managers face great challenges in 2009. But this is also an excellent time to improve your abilities as a leader. Self-reflection and continuous improvement in your management style now will make you a better manager for the rest of your career.

In addition, by asking your staff to help you address a difficult economic situation, and then carefully listening and incorporating their concerns and ideas, you will increase your reputation as a manager who is trusted and good to work for. That is an excellent foundation for growth when the recession inevitably ends.