



## **Project report: Deployment of a “Staff appraisal with Goal setting” system at Schenker AG**

- :: The project was carried out with the consultation and accompaniment of flow consulting gmbh.
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- :: Period of project: April 1999 to June 2000
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Traditional appraisals are no longer contemporary. On the one hand, they are the continuation of the Teacher-Student-Relationship and on the other hand, after a few years -at the latest- they no longer entice the person being appraised, to surpass himself. Intelligent goal setting systems however ensure the continuous progress of an organization. They secure a new definition of a “performance-partnership”. How such an instrument can be deployed, what snares need to be considered and what experiences were gained in the practical business application is detailed in the following example.

## Goal Setting versus Appraisal?

### **The system of Staff appraisal with Goal setting at Schenker AG – Project progress and experiences during deployment**

About one year ago, Schenker AG decided to deploy the staff appraisal with goal setting, coupled with a variable salary system. Schenker AG Head Office Personnel Manager Thomas Brandt: “Our holding has only existed in this form for the past three years. Employees from different companies were brought together. Depending on how the appraisals had been held in the past, we continued or discontinued them. We wanted find a common process.”

An intelligent system was to be developed in conjunction with the Organization Consultant Frank Schache-Keil of flow consulting gmbh (Celle), which would ensure the continuous progress of the organization. In the following report, all involved persons comment: Personnel Manager, Managers, Employees and the external Consultant. Snares that crop up in the course of the project illustrate obstacles and solutions.

Systems for staff appraisal with goal setting, which have been implemented in recent years, experience trouble when attempting to integrate or refresh the old appraisal systems. The progress of the organization is obstructed. Before issuing a contract, Thomas Brandt (Schenker AG) reviewed whether the consultants shared his mindset: “Prior to contracting a consultant, we wanted to ensure that the consultant did not enter our organization with a concept, which would bring in its wake exact specifications for management and elaborate formal documentation. It was important to us, that managers did not get the impression they were being patronized.”

Organization consultant Frank Schache-Keil summarizes as follows: “If Personnel managers and consultants meet in projects for the integration of goal setting systems, who are more at home in classical personnel management, dialogue scripts and formulas are busily crafted in armchair discussions. During the introduction, handbooks are circulated to the managers that can take on the complexity of textbooks. This creates virtual security. In most cases, this is not practical and does not meet high acceptance. Organizational development can not be transfigured into formulas.”



## Clear Goals

“We knew what we wanted to achieve with the system”, says Thomas Brandt: “Firstly we wanted to improve the communication culture between the managers and employees and secondly more transparency regarding the criteria for the payment of variable salary components. We wanted external feedback from the consultants to gain an exact picture of where we stood. This is why it was imperative that the consultants possessed practical experience in the field “Integration of staff appraisal, including variable salary systems” from previous projects.”

Consultants from the training field “Personnel” or consultants that have been committed to personnel management tools, underestimate the dimension of the subject. Frank Schache-Keil: “The subject staff appraisal with goal setting including variable salary components gets into the nitty gritty of a company in more than one aspect. Most managers are reluctant to give direct one-to-one feedback to their employees regarding achievement and behaviour. Moreover, it is a new challenge for them to discuss goal achievements transparently and in a differentiated manner. Until now management had often clandestinely rated the employees by means of a sentimental appraisal schema or in abstract rating steps of an appraisal system. Now, however expectations, goals, concrete performance contribution and the reaching of agreed targets have to be discussed openly, conjointly and focused on constructive future teamwork. The difference between agreeing goals and the administration of assignments need to be understood. Last but not least it is simply about the money and as we know, that is where even some friendships end.”

## Employees Concerns

In many companies, the employees are apprehensive toward the beginning of the new business year. All of a sudden, royalties and bonuses appear to be set at inaccessible heights. Goals are set, which seem to be unachievable however they have to be met in order to get that variable salary. In earlier days, these were given without any additional commitment. Nowadays, only the flattering or less flattering words of the manager are for free. This quickly leads to the impression that it is all about cutting wages.

These are the concerns of both employees and managers when the implementation of “Staff appraisal with Goal setting” was addressed. Thomas Brandt says “We too felt some of these concerns when we approached the subject. Our HR department actively worked on the situation: preliminary extensive and informative meetings, clear messages as to what we planned to achieve, capturing of the is-situation by means of one-to-one interviews held by the external consultant, integration of employees and managers into a project group and a continuous updating of the works council.”

According to Thomas Brandt, the goals to be achieved were communicated as follows:



1. Customer orientation of value add processes in individual, specialized areas were to be developed. Individual goal setting for the employees was to support this. The variable salary system is directly linked to the achieving of goals and encourages entrepreneurial thinking. Next to the development of the value-add processes in the individual areas and the focus on the success of the entire organization are supported by interlinking one part of the salary to the achieving of organizational goals.
2. The development process of the organization and the alignment with the organizational goals are to be promoted top-down.
3. Success criteria for variable salary components are to be transparent. Based on clear criteria the employees are to be rewarded for the successful development of their work area and the success of the organization.
4. The communication culture and leadership competences are to be optimized.
5. The salary systems are to be synchronised.

To quote the Information Technology area manager at Schenker AG “Especially in my operational area there is an ongoing competition for the best people between companies. When the project kicked off, I made sure that this system by no means impedes employee loyalty but rather opens up new channels to promote the staff in my area.”

One of the product area managers of Schenker AG comments, “When looking at the situation from the perspective of the employee, the linking of the variable salary components to goal achievement has definitively given the salary system more structure and transparency. Royalties used to be paid without clarity as to whether the amount paid related to 50, 100 or 150 percent of the performance. Now the goals are set beforehand, success criteria is stipulated and associated to a certain amount of money.”

Frank Schache-Keil sees three different traditional standards typically applied in organizations:

- Classic appraisal systems, in which the individual receives an increase of basic salary or a standard royalty based on good “headcounts”. Doing this leads to the gross of employees slipping into better evaluations over the years and others are stuck at the bottom line. The boss assigns points for “industriousness and sympathy”. After a few years, this tactic becomes exhausted: The key players no longer see any incentive and the “hopeless cases” have long since resigned inwardly.
- In organizations with variable salary components, where the manager hands the variables out “freehandedly”, the monetary value is booked in the appraisal report logged with the human resources department. There is no feedback to the employee as to whether he achieved 50, 100 or 200 percent or if the manager sees potential for improvement or where the employee actually stands. The annual chat just before the Christmas party is not really helpful.



Quite often, the variable components have become a consistent part of the salary with only one direction: up.

- Variable salary components that are solely coupled with achieving goals, where the employee has no influence on whether or not goals are achieved. In these organizations, variable salary components only burn money. Neither do they lead to optimization nor do they lead to any form of communication between managers and employees within the leadership areas.

At Schenker AG, strong emphasis was placed on goal definition for precisely those reasons. Goals should not be routine, on the contrary, they should always be focused on development. It is not about tightening the “piecework”; it is about a continuous improvement process based on small projects and about enhancing certain key assignment areas. Positive testimonies of Schenker AG employees regarding the staff appraisal with goal setting: “There is an intensive discussion out-with the day-to-day business”. “I am involved in determining”. “The target is more clearly defined”. “If the goal is not reached, the consequences are clear”.

However, there were also concerns at Schenker: “Is the carrot going to be dangled further away?” “Will my basic salary be lower?” “Can I achieve more than the 100 percent?” The Schenker AG management particularly see the chance to win employee loyalty and to use the appraisals for career mapping as well as to express the expectations they have of employees. The negative side of this is the time involvement for the appraisals.

### **When Consultants “pull off” Concepts**

Thomas Brandt named the following thoughts as criteria for the consultant selection: “We want a consultant who has practical know-how and at the same time actively involves us in the formatting of the concept. It was important to us to go into the organization with a concept that fits into the company culture of Schenker and takes into consideration its current circumstances. This is why we agreed that one-to-one interviews be held with flow consulting throughout all hierarchy levels. The consultant prepared outlines for 15 in-depth interviews. These outlines contained the following subject fields: Motivators / De-Motivators at Schenker; quality of communication within the organization, within the department, between managers and employees; Evaluation of the transparency of success criteria of the individual achievements; Ideas for improvement. We gladly responded to each suggestion made by flow, to align the tried and tested concept frameworks of the consultant with our organization by means of a project group.”

From the perspective of the consultant, Frank Schache-Keil adds “Interviews that are held by an external consultant within an organization offer those internally responsible an excellent opportunity to gain a diagnostic view of the organization. This perspective is often impaired by routine. In addition, the opportunity is presented to take a looking-glass view of ones self. On the part of the consultant, this takes a trained eye, sure instinct and a portion of courage. Major surprises are only occasional, but important subjects become clearly outlined.



The second effect of interviews is that the concerns of the employees are covered: The employees receive the message “We are asking you”. The result of the interviews presented the kick-off for the project teamwork. In the carefully selected, inter-hierarchical (invitations also sent to works council) project group, the concept suggestions and implementation map were compiled. Additionally, intensive ballot rounds were held between the head of human resources and consultants before the project kick-off and between the individual project steps.

### **The Roll of Senior Management**

There are few other subjects where the employees point to the importance of the roll of Senior Management as intensely as on the subject of goal setting. Skeleton goals for the following year have to be issued by senior management, besides the current subject was about a change in the overall salary system. Thomas Brandt comments “After conclusion of the project groups’ work I had to present the conjoint results to the Board of Directors. It was important, that the Board did not only occupy themselves with the topic as a sideline, but gave it full consideration. In the extensive and controversial discussion, two things became particularly obvious: The Board viewed the staff appraisal with goal setting as an important lever to progress the organizations development and the department of human resource in the roll of an active designer of the organization- and personnel processes. This result is a success and of fundamental importance for our subsequent work.”

Pertaining to the call for a central role of the Board Frank Schache-Keil is of two minds “With the Goal setting process, the Board of a company certainly has the better prospect of calculating the annual forecast of the performance of each organizational unit and name variable salary components and combine these based on transparent success criteria. This enables a better focus on the development of the organisation. Those Boards of companies I have consulted in the past do not use this potential to the optimum. Insofar the call for the role of the Board, which always reverberates particularly loud from management, is a valid call. On the other hand, next to the call toward the superiors, I would wish for management to take a look at their own possibilities.

Just as every employee needs to think about the continuous improvement of his work area - Management is called on, to consider the goals for the development of their own operational areas. The performance contribution of the individual employee needs to be evaluated, on the back of mutually pre-determined goals and success metrics. Things such as “gut-feeling”, sympathy or antipathy, “favourite employee” or non-descript judgement criteria can easily be put behind, if so desired. This does not require top-down directives. The chances for the continuous improvement process in ones own operational area will improve one way or the other. Managerial training, which at Schenker AG was made up of eight to twelve managers and conducted over the period of two days, plays an important role in conveying this message.



## Implementation – Another Challenge

Here lies the rock face, on which many a project steamer shattered. Frank Schache-Keil names six elements, which are helpful in implementing the concept decreed by the Board:

1. Summarizing all salary components that are not part of the basic salary into one variable salary block.
2. Payment of variable salary components based exclusively on the achievement of goals (Individual / Organizational goals).
3. Stipulation and application of a clear and ambitious timeline for the implementation.
4. Mandatory management training.
5. Conducting appraisals in the individual operational areas within a set time-period.
6. Feedback to Personnel concerning the appraisals, equally reporting educational needs.

The discussion is made up of two pillars: The appraisal and the goal setting. It was most important to the head of Personnel at Schenker AG that the communication culture be enhanced through these appraisals, which were to be held at least once a year. The interviews held with both management and employees yielded, that the appraisals had been conducted in all operational areas and lasted between 45 minutes and two hours. The atmosphere in these conversations out-with the day-to-day business was described as very positive. The spirit of the concept was being lived. Several members of management also described the additional benefit of producing employee loyalty and carrier planning.

### A “Diverse Picture”

In the first run, a diverse picture regarding the “goal setting” pillar materializes. One of the department managers gave positive regard to the sequence of the concept “At a team meeting, I announced what was expected of the department. During the course of the appraisals the employees produced ideas and goals they had compiled themselves.” Positive aspects from the employee perspective: “There is more transparency on the background and the variable salary calculation.” “The communication is upheld when there are changes regarding the goals in the course of the year.” “There is a lower risk of biased evaluation by the manager.” “Due to the goal setting an exact description is given: What is to be achieved? When is it to be achieved by? For what am I held responsible? All in all you can say that especially the younger employees can see the goal setting as an opportunity to show what they are capable of.” A manager comment: “A young employee came to me with so many goals, that we had to cut it down to a realistic size, otherwise she would never have been able to manage it”.



Aspects, which the employees are not so happy with: "A part of the variable salary depends on the organizations' success, which I am not able to influence." "The goals must be discussed with the department, to prevent everyone only concentrating on his own goals and hence stalling teamwork." However, this alignment is not easy. "The developmental perspectives regarding the variable salary are not clear, is it always the same monetary value?" The managers continue to complain about the time involved as all appraisals need to be conducted within two months. When the leadership principal "Leadership through Goal Setting" reaps benefits, the gratification of the time invested needs to outweigh.

In retrospect, the consultant of flow consulting noticed about the -now closed- goal setting process, that in the first round of appraisals the goals and success criteria were relatively vague. Managers as well as employees were not yet ready to commit and leave "room for discussion" at the end of the year appraisal. Thomas Brandt: "We want to carry on supporting the managers in performing their new roll. We will organize an exchange of experiences for the managers and extend the subject "Goal shaping and agreement" in association with flow."

The joint résumé of Head of Personnel Thomas Brandt and Consultant Frank Schache-Keil: "The key features were achieved. The system is being applied and the opportunities for better communication are being utilized. The employees are experiencing the Goal setting in connection with a variable salary system as an improvement of transparency and reduction of biased evaluation criteria by management. There is, however still a lot to learn, especially regarding the specific definition of shaped goals. The concrete steps to achieve this have already been planned."

*The evaluation and wording by Erika Weber, free journalist in Braunschweig and consultant at flow consulting gmbh.*

## Summary

*Traditional appraisal systems are no longer up-to-date. On the one hand, they are a continuation of the teacher-pupil relationship, on the other they provide no incentive whatsoever to improve after a few years at the latest for those assessed. In contrast, intelligent systems in which goals are agreed ensure the continual further development of the company. They ensure that "performance partnership" is redefined. A practical example taken from the Head Office of Schenker AG in Essen serves to show how to introduce such an instrument, what snares to look out for and what experience has been gained in business practice. Everybody involved has a say: personnel managers, executive staff and employees as well as external consultants. The course of the project, impediments and approaches to solving problems are described on the basis of several "snares". These obstacles are a result of an incorrect basic understanding, a lack of the consultant's know-how, employee fears that the consultant might force his concept upon the company, that the role of the top management level might not be fulfilled, the concept not be implemented and the idea not properly put into practice.*



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