Executive Summary: The Cost of Poor Performance

Key Question:
What is the cost of poor performance? Is it more efficient to take the time to develop employees or offer a severance package early to someone who is not coachable or does not want to improve?

Introduction:
Untrained employees are typically poor performers and they cost employers significantly more than trained employees (Hackel, 2017). The cost of poor performance is measured by the profits lost due to employees inadequately meeting their responsibilities. The money spent training is well worth it to the company. The first step to countering the cost of performance is to train employees and communicate clear guidelines of performance measurements. Even employees with vast experience in a field need company-specific training. This practice financially helps the company by maximizing employee output and delivering results the right way while building a positive work environment.

Recommendation:
It is our recommendation to continue with the robust training and development program and implement a severance package for employees unwilling or unable to retrain. This way, those unwilling to be coached will have an incentive to consider alternative employment decisions. This strategy fosters belonging to both the worker and management teams.

Measuring the Cost of Poor Performance:
Companies can begin to find the true cost of poor performance by determining how much value an average worker brings to the company, followed by the value the under-performing employee brings. The calculation should take into account other factors that under-performers generally are associated with; missing work, poor performance, hurting morale, damaging team dynamics, and the company image. After adding these additional costs to the underperforming employee's total score, management is encouraged to either tailor their performance reports to minimize as many of these costs as possible, or whether it is more expensive to let the employee go. (See Appendix B)

Management Toolkit:
There is a cost to poor performance, but there is also a cost to creating an environment that is unforgiving where workers do not feel valued or like they can learn and grow. We recommend companies use caution if adapting a strict policy surrounding poor performance. Navigating this line is tricky. It can be daunting to deal with underperforming employees because the manager feels that they are on their own. Our suggestion is to support the manager and come up with a series of company-specific tools they can use to recognize when to let an employee go versus when to invest in training. This way, those unwilling to be coached will have an incentive to not waste the company's time. This strategy fosters belonging to both the worker and management teams.

Role Expectations and Performance:
By including these points into role expectations, workers know that coachability is an important part of their job. Having clear role expectations leads to workers understanding not only how they should be bettering themselves for advancement within the company, increasing career progression satisfaction, but also can be used as a tool to help explain why Personal Improvement Plans (PIPs) or Letter of Expectations (LOEs) based around coachability should be taken seriously. Harvard Business Review recommends not hesitating after management makes the decision to terminate (Knight, 2019). Transparency is key and people value respectful honesty. HR should be involved from the beginning as well to protect both the employee's rights and the company. However, the cost of procrastinating a termination is high for everyone, the employee, any team they are on, and the company.

Tools for the manager to use from LinkedIn to recognize "uncoachable" employees:

1. Other employees do not want to work with them in group projects due to their negative attitude
2. Improvement suggestions from managers are received with anger, defensiveness, or are not accepted
3. They are resistant to any changes and are set in their ways

The opposite of these can be included in role expectations:

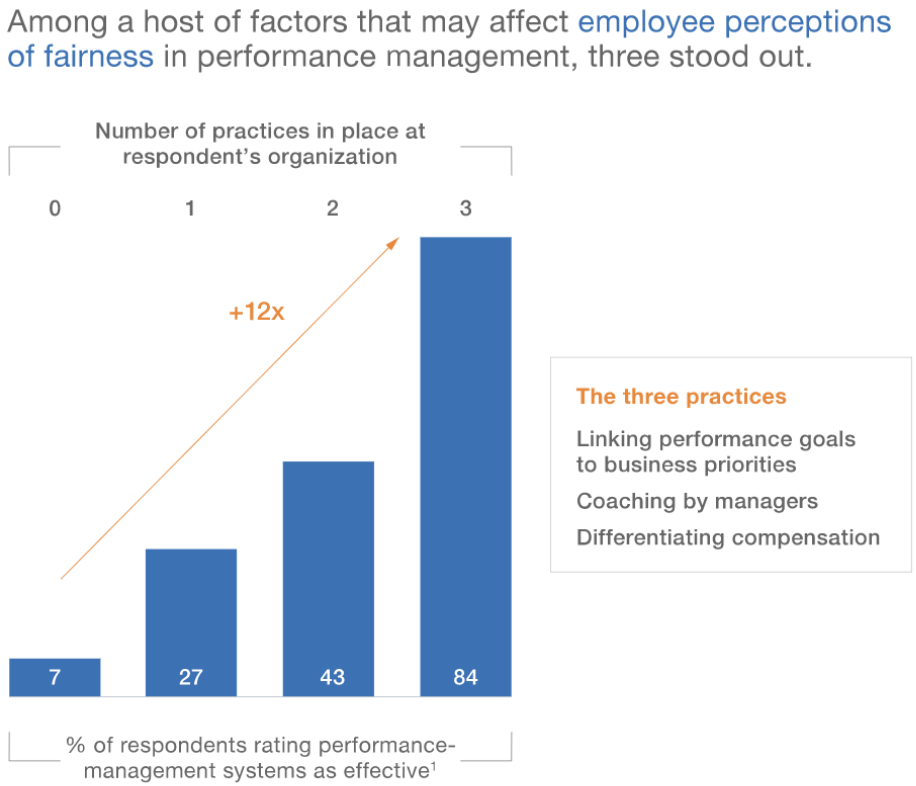
1. Works well with others and contributes positively to the group
2. Encourages a learning mindset in themselves and others
3. Adaptable to the ever-changing world and work environment

Implementing Procedural Fairness:
After identifying employees or business areas that can benefit from training to combat poor performance, the next step is to prevent the issue before it begins again. According to McKinsey consultants, there is a performance management issue due to the inherent conflict of interests between employees and employers. Many employees view performance evaluations as biased and managers view these evaluations as a "box-checking exercise". See Appendix C to view steps to implementing "Procedural Fairness".

Conclusion:
By implementing the preventative measure of procedural fairness, including role expectations and coachability in evaluations and using severance packages we believe that the cost of poor performance will be lower for your company.

Appendix

Appendix A: Impact of Procedural Fairness on Employee Performance



[1]That is, having a positive impact on individual employees' performance and on their organizations' overall performance.
Source: McKinsey Global Survey of 1,761 executives on performance management, July 2017

McKinsey&Company

Appendix B: Measuring the Costs of Under-Performing Employees

"We can measure costs of an under-performing employee with the following six calculation steps:

1. Determine what an average employee is worth
2. Determine the differential between an average and a weak employee in the same job
3. Quantify the value of the "weak performer differential" percentage
4. Determine the "weak performer differential" for other jobs
5. Adding other "weak performer costs" to the calculation (Absenteeism, errors, negative team impacts, etc.)
6. Determine whether weak performers can be improved quickly and inexpensively" (Knight 2019)

Appendix C: Implementing "Procedural fairness"

1. “Transparently link employees’ goals to business priorities and maintain a strong element of flexibility.
    a. Give employees autonomy in making decisions regarding KPIs used to measure their performance.
2. Invest in the coaching skills of managers to help them become better arbiters of day-to-day fairness.
    a. When employees get two red lights, they receive written feedback and three hours of extra coaching.
3. Reward standout performance for some roles, while also managing converging performance for others.
    a. Award spot bonuses” (Hancock, 2021)

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