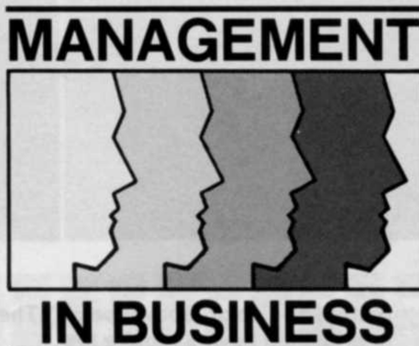
MANAGEMENT EVALUATION

Last month we offered some ideas on personnel evaluation. This month we deal with management evaluation and assessment.

by Rudd McGary and Ed Wandtke

The big difference between personnel and management evaluation lies in the ability of managers to have an effect on companies through more than just their own personal actions. Managers manage either assets or personnel through which they attempt to reach the company's objectives.

Since more people than just the manager are involved, evaluation methods and criteria are different than those we presented for personnel in our last column.



Evaluating control

The key to making a management evaluation work, at least in part, is to be sure that the evaluation focuses on those things under the manager's control. For instance, managers being evaluated on sales growth should have some ability to control that growth. If bottom line profitability is being measured, the manager should be able to affect that bottom line.

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A second important factor in assessing managers is that some plan must be in place against which to measure the managers. We have written several columns dealing with the planning function as one of the most important parts of a manager's job. In preparing an assessment, the plan is the instrument that gives a basis for evaluation. Without the plan, the assessment will be a totally subjective one, which can lead to misunderstandings between the managers and their superiors.

So, we need a plan on which are three assessment levels. On the first level, the manager fails to make satisfactory progress towards fulfilling the plan. In that case, some sort of corrective action needs to be taken. On the second level, the manager makes the "average" plan, the one which is acceptable but not exceptional. On the third level, the manager goes above plan, showing exceptional effort and management talent. By keeping in mind these three levels, you have the beginning of a management evaluation program.

Now, on to possible areas that can be evaluated for management performance.

Financial

Managers can be assessed in several ways financially. First, you may look at their contribution to profitability based on their section's performance. Second, you can look at their control of costs. The key to both of these is to be working against a written forecast for the appropriate time period and to make sure that the managers have control over the things you are measuring.

An example of a poor assessment is looking at bottom line profitability as a measurement of a small company's management effectiveness. While doing so, you, the owner, decide that at the year's end you will give yourself a large bonus. Clearly the manager should be evaluated before you take any extraordinary actions. The manager who can't control the bottom line in this case shouldn't be measured on it.

Marketing objectives

If you are a sophisticated company, with a great deal of market information, you can begin a marketing evaluation with growth in market share.

If you don't have a clear picture of the overall market's worth (and most small companies find it too time-consuming to arrive at a true figure in this area), you can look more closely at sales figures. In sales you can look at:

- closing ratios for the salespeople;
- overall growth in revenue;
- the number of "cold" calls;
- the ability of the manager to meet overall sales plan objectives;
- sales force retention; and
- the profitability of the sales force based on all the costs allocated to that force.

All of these areas are ones which can be under the control of a manager, and as such are ones which offer good information when you evaluate them.

Asset use and control

In looking at the manager from the standpoint of asset utilization and control, you should be aware of the best way to leverage the company's assets, and that awareness should

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translate into your planning.

For instance, if you have three vehicles, you should have a plan which shows how much revenue you expect to achieve through use of these vehicles. That becomes the standard against which the manager is evaluated.

Some young companies fall into the trap of looking at assets on a time basis rather than a revenue basis. They look at how often something is used rather than how much revenue is generated. All the vehicles in the above example may be used 12 hours a day, but that doesn't matter much if you don't receive enough revenue from that operating time.

Make sure you know how much each of your assets can contribute to the company and then evaluate them on a revenue basis or cost control basis, rather than on simply a time usage basis.

You should also look at downtime of assets. The more breakdowns you have, the less revenue you will generate. This is a key part of asset management, preventive maintenance, and is one that should be evaluated from the standpoint of management effectiveness.

Asset custody and safety should also be evaluated. Assets should be accounted for and controlled to avoid misuse of vehicles or inventory in the company's operations.

If you have three vehicles, you should have a plan which shows how much revenue you expect to achieve through use of these vehicles.

Operations efficiency

Operations efficiency is closely linked to asset management but has the personnel variable in it. You can evaluate how well crews are routed or how well equipment is used.

Time spent in transit is not usually billable as revenue. By tightening up the routes, the manager can greatly improve efficiency, and in turn use the assets better.

You should also make sure that, in their evaluations, the rate of call-back and service calls goes down because of management attention.

Summary

Assessing managers is a different process than assessing personnel. The planning that is part of managers' positions gives a guideline to effective evaluation.

You must keep the fact that the manager is controlling more than just himself or herself in clear perspective. Their job is to work with others in order to achieve company objectives. The need to allow the managers control over the variables on which they are being evaluated is extremely important.

We have seen companies assign jobs to managers without giving them the necessary authority to finish the jobs. If you combine a good planning system, evaluate against the planning done, and give the managers the authority to do their jobs, you should have a successful system in place that will help you evaluate the true effectiveness of your managers. **LM**

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