



According to the American Heritage Dictionary of the English Language: 4th Edition 2000, "management" is defined as (1) The act, manner, or practice of managing; handling, supervision, or control; or (2) The person or persons who control or direct business or other enterprise, and "performance" is defined as (1) the state of being performed or (2) something performed; an accomplishment. Adding them together, performance management would be defined as the state of performing accomplishments in a managed or controlled way.

There are many companies and organizations that profess to use performance management as a means of performing accomplishments in a managed or controlled way. However, those organizations that think implementing a performance appraisal process and a yearly merit increase budget to achieve desired results miss the boat when it comes to implementing a performance management program that truly drives an organization to success. There are obviously challenges to overcome when developing a successful performance management program. It takes hard work and there are no quick fixes to facing performance management challenges. The question then becomes - Why do some companies and organizations "get it" when it comes to implementing an effective performance management program and some don't.

Over the last 20 years, more and more companies and organizations have come under tremendous pressure to achieve financial and operating results and maximize stakeholder value. Since the mid to late 1980's, the trend towards performance management and total compensation strategies and the use of variable and incentive compensation programs has steadily increased. Organizations that have implemented successful performance management programs tend to be successful and they share common principles and design strategies that can be customized and utilized by others who wish to put a program into place. Let us explore some of these principles and strategies.

First and foremost, an organization should have a clear purpose for its existence and a good understanding of its vision, mission, culture and operating direction before moving forward. If this information does not formally exist, initiating a performance management process might serve as an excellent opportunity to put this information together.

Second. There needs to be buy-in, involvement and support from the Board, Chief Executive Officer and the executive team in order for the performance management process to have a chance. For those who "Get It", executives in successful organizations embrace performance management and use the process as a way to communicate performance expectations and organizational goals, hold employees accountable for their work and reward their employees for their contributions when success is achieved.

Third. Whatever performance management philosophy and strategy an organization adopts, the philosophy and strategies need to be in sync with the organization's

vision, mission, culture and operating direction. Failure to align appropriately will oftentimes result in a dysfunctional performance management program.

Fourth. Performance standards and measures should be an integral part of and closely aligned with an organization's strategic plan. When performance standards and measures reflect the true driving forces of an organization, the stage is set for the organization to improve performance and achieve its strategic goals and objectives.

Fifth. An organization's performance standards should be identified in terms of: financial outcomes; operational outcomes and personal / behavioral outcomes. Target measures, goals and objectives generated from these performance standards should be clearly defined, clearly communicated and closely tracked in order for the organization to measure target levels of performance and to generate desired outcomes.

Sixth. An ideal characteristic of a successful performance management and reward / incentive compensation program is for it to be understandable. Typically, successful communication is accomplished by communicating how the programs work and by providing employees with accurate, timely information about performance outcomes of both the organization and individual goals and objectives. Successful communication involves keeping employees abreast of the state of the business by continually updating employees on business results and performance indicators. It is also critical for employees to know that rewards and recognition programs exist.

Seventh. Focus groups comprised of supervisors and employees throughout the organization should provide input and be included in the design process. Who knows best in their respective areas what needs to be improved (line of sight). Gathering input from focus groups and employees will improve performance enhancing content and increase acceptance and buy-in for the program.

Eighth. Reward, incentive and recognition programs should be a part of the performance management strategy and be prevalent throughout the organization. Developing these complimentary programs into the performance management process truly links pay to performance and creates an environment where employees feel a sense of ownership. Performance management requires everyone in the organization to share responsibility for outcomes and accordingly, employees at all levels in the organization should share in the success when outcomes are good.

Ninth. Performance management and reward programs should be dynamic and reviewed yearly in order to re-focus the organization to support continuous improvement efforts, organizational changes and ever changing business needs. A flexible system accounts for change and allows the organization to realign strategies when necessary.

It all comes down to a systematic approach to managing the organization's human capital which in turn handles and controls the business. More and more studies are

showing that organizations with strong performance management and reward systems are more likely to out perform their competitors and fare much better on the achievement of their success measures.

As a result, the spark for more broad usage of performance management processes and rewards / incentive compensation programs continues to grow brighter and it comes from a belief that people at all levels in the organization can have a significant impact on business results and that incentive compensation can unleash people's desire and ability to perform.

The foundation required to keep these programs fresh and effective entails linking the programs to the business strategy, gaining and maintaining commitment and involvement from key leaders, and establishing a performance road-map for developing and implementing key initiatives throughout the organization. Methods of keeping performance management and reward / incentive compensation programs effective year to year includes: Ensuring accountability for program results; Learning from mistakes; and Refocusing organizational goals and objectives each year to meet current challenges and strategic initiatives.

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