THE STRATEGIC PERFORMANCE MANAGEMENT PROCESS

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Contemporary trends in global competition, rapid technological developments and increased use of management information systems and the Internet, developments in planning and control and management thinking, and changing demographics are putting pressures on profit and nonprofit organizations. As a consequence, companies are having more and more difficulty in achieving sustained performance. They are forced to look for new management methods and to develop cutting-edge processes to deal with existing trends and developments.
The paper focuses on describing how strategic performance management supports organizations in their pursuit of better performance.

Keywords: strategy, performance management, strategic objectives, management.

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1. Introduction

Performance management is important because it plays a pivotal role in any organization's human resource framework. There are clear benefits from managing individual and team performance to achieve organizational objectives. Similarly, compensation in the form of pay, bonuses, stock options and other benefits can be linked to the achievements of particular goals. But such links do not necessarily produce extended results. This is a problematic and complex area in which common-sense solutions do not work.

A well-designed performance management process stimulates managers to develop high-quality strategic plans, set ambitious targets, and track performance closely-all activities which help to achieve strategic objectives and consequently sustained value creation[112].

The purpose of this paper is:

- to underline ideas and developments in the field of performance management which will help managers to improve the performance management process in their organization.
- to investigate how performance management can be used to reinforce an organization's human resource strategies;
- to consider whether or not performance management really encourages desirable work behavior;

Performance management processes have come to the fore in the recent years as means of providing a more integrated and continuous approach to the management of performance than was provided by previous isolated and often inadequate merit rating or performance appraisal schemes. Performance management is based on the principle of management by agreement or contract rather than management by command. It emphasizes the integration of individual and corporate objectives as well as the initiation of self managed learning development plans. It can play a major role in providing for an integrated and coherent range of human resource

112 C. Lobo, D. Cochran, J. Duda, "Using axiomatic design to support the development of balance scorecard" In Performance Measurement Past, present and future, ed. A Neely, p.347-357, 2000.

management processes that are mutually supportive and contribute as a whole to improving organizational effectiveness.

Performance management can be defined as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors[113].

Performance management is strategic in the sense that is concerned with the broader issues facing the business if it is to function effectively in its environment, and with the general direction in which it intends to go to achieve longer-term goals.

2. Purpose of performance management

Performance management strategy aims to provide the means through which better results can be obtained from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements. It involves the development of processes for establishing shared understanding about what is to be achieved, and an approach to managing and developing people in a way that increase the probability that it will be achieved in the short and longer term. Evaluating periodically the human resource inside the organization can increase the motivation and commitment of employees and enable individuals to develop their abilities, increase their job satisfaction and achieve their full potential to their own benefit and that of the organization as a whole. Unfortunately not all organizations provide opportunities for personnel evaluation.

An example: Personnel evaluation in Latin America and Spain.[114]

A study by Bumeran, a HR technology company owned by Terra Lycos, focused on personnel evaluation in Latin America and Spanish companies. The study looked at the issue from both company and employee perspectives. The online survey received a total of 3500 responses from all countries combined. This represented 450 companies.

Results from the employee perspective included: 35% of responses stated that they never received evaluations from their employees, 53% of Brazilian responses said that they were never evaluated, and 49% of Spanish respondents said that they received annual evaluation.

From the company side: 50% of Brazilian companies stated that they never evaluate their employees, 50% of the companies from Spain said that they conduct annual evaluation of their personnel, and in Brazil, Mexico and Spain a similar percentage of both employers and employees indicated that they know the internal procedures and evaluation methods, and when evaluations are done, they are clear and understandable.

Results varied considerably in Argentina, Chile and Venezuela but this may be due to the high level of unemployed respondents. Obviously the unemployed group does not receive any kind of evaluations

3. The process of performance management

Performance management strategy has to focus on developing a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework. This should set out how they can best work together to achieve the required results. It focuses on future performance planning and improvement rather than on retrospective performance appraisal. It provides the basis for regular and frequent dialogues between managers and individuals or teams about performance and development needs. Performance management is mainly concerned with individual performance and development but it can also be applied by teams.

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113 M. Armstrong, "Strategic Human Resource Management", 3rd edition, ed. Kogan Page, London, p. 142, 2006.
114 Source: HRM Guide.com (www.hrmguide.com), 20 June 2002

Performance management measures outputs in the shape of delivered performance compared with expectations expressed as objectives. In this respect, it is concerned with targets, standards and performance measures or indicators. But it also deals with inputs- the knowledge, skills and competencies required to produce the expected results. It is by defining these input requirements and assessing the extent to which the expected levels of performance have been achieved by using skills and competencies effectively that developmental needs are indentified.

4. Components of the strategic performance management process

Strategic performance management is defined as: **the process where steering of the organization takes place through the systematic definition of mission, strategy and objectives of the organization, making these measurable through critical success factors and key performance indicators, in order to be able to take corrective actions to keep the organization on track[115].**

The strategic performance management process consists of various sub-processes: strategy development, budgeting/target setting, forecasting, performance measurement, performance review and incentive compensation. These integrated sub-processes create the performance-driven behavior of employees that is needed to become and stay world-class.

4.1. Strategic development

The strategy development process results in clear strategic objectives and action plans for measurable performance improvement. These are based on a through understanding of the key value drivers that are aimed at achieving a competitive advantage. Business issues that drive organizations to improve the strategy development process are the lack of focus of the strategic plans and the low quality of the strategic targets. The strategy development process often focuses too much on meticulously calculating future financial results instead of planning for value creation. Strategic plans tend to look inward, resulting in unrealistic long-term views that do not take environmental developments into account and that focus insufficiently on competitive advantage and true differentiation.

4.2. Budgeting/target setting

The budget/target setting process results in clear operational action plans for improving the key value drivers, for committing resources, and for setting financial targets for the coming year. Business issues that drive organizations to improve the budgeting/target setting process are the low reliability of the budget data and the too high level of detail of the budget. Because of the volatility of the business environment and the organization itself and the early start of the budgeting process in the year, the targets in the budget tend to be out of date the moment it is set. In addition, the budget tends to be detailed with too many parameters on all management levels, and therefore takes too much time to prepare.

4.3. Forecasting

During the forecasting process organizational members execute the activities that have to lead to the desired results. Regular forecasts are made to predict whether the organization is still on track or whether corrective and/or predictive actions are needed to solve current or predicted problems.

4.4. Performance measurement

The performance measurement process collects, processes (including consolidation), and distributes data and to allow an effective execution of the other sub-processes. The information is represented in the form of critical success factors (CSFs) performance indicators (KPIs). A business issue that drives organizations to improve the performance measurement process is the low quality of management information and management reports. Often management information does not fully satisfy management's needs and does not stimulate proactive behavior because the reports lack non-financial information, are not sufficiently exception-based, do not include

115 A. Wall, "Power of performance management: How leading companies create sustained value", ed. Wiley, New York, 2001

corrective and preventive actions, and are incomplete because data collection is very time-consuming.

4.5. Performance review

The performance review process periodically reviews actual performance, targets, and forecasts in order to ensure that timely preventive and corrective action is taken to keep the company on track. Business issues that drive organizations to improve the performance review process are the low quality of forecasts and bad timing of performance reviews. The added value of forecasts is relatively low because their accuracy is often insufficient, they are usually too financially oriented, they do not provide enough explanatory information about future issues, and it takes too much time to prepare them. Performance review meetings generally take place on a regular basis rather than as an exception when there really is a problem. As a result the performance reviews take up too much time when there are no problems in the organization and when there are real performances issues and problems the reviews are either not held or held too late.

4.6. Incentive compensation

This process links strategic and operational actions for key value drivers, in a balanced way with compensation and benefits policies. The main business issue that drives organizations to improve the incentive compensation sub-process is that this process is not sufficiently aligned with the other sub-processes; therefore it does not reward the right performance-driven behavior of organizational members.

5. Conclusions

In conclusion it must be emphasized that strategic performance management is not about establishing a top-down, backward-looking form of appraising people. Neither is it just a method of generating information for pay decisions. Performance management is a strategic process because it is forward-looking and development. It provides a framework in which managers can support their team members rather than dictate to them, and its impact on results will be much more significant if it is regarded as a transformational rather than as an appraisal process.

To be successful in the long run, an organization strives for organizational fitness, which is defined as an organization's ability to adapt and survive in the ever-changing business environment.

Organizations that have implemented a performance management system, and are using it, perform both financially and non-financially better than organizations that are less performance management driven.

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