



The Hedge

By Larry A. Bauman

Every organization has some degree of sales and managerial hedging. It is the mental process, knowingly or otherwise, of holding back vital information or funds in reserve for increased probability of producing a successful objective.

What causes hedging within a management team? The obvious answer is expectations, usually very high expectations. Who is responsible for the expectations? Are the expectations part of an overall plan established by the management team that demands obtainment of goals and objectives, or are these expectations placed on the individual by the individual himself? It could be one or the other or a combination of both that causes the hedging to occur.

The setting of yearly goals and objectives is generally standard operating procedure in most companies. The goals and objectives are tied to compensation models that demand if the individual is to make money, the specific objectives that are assigned to him or his department have to be accomplished. Lack of accomplishment

means bonus money at the end of the quarter or year won't be available resulting in less financial growth for the individual. Does the average manager think about this? He wouldn't be human if he didn't. So why not reserve or hold back just enough to make sure the objective will get accomplished during the time period allotted? If the objective is accomplished with time to spare, then the opportunity to have a little more in the back pocket will be a good thing for the next bonus period, right? The corporate culture will either support the hedge or it will refuse to allow it. There are several different aspects that should be discussed before deciding if your company's culture is suspect.

Providing the expectations that are set forth are reasonable and achievable, they can be viewed by a manager as either motivating or non-motivating. Competition from both within the organization and from outside can demand that the expectations be high as well as achievable. No matter the extent of the force that is driving the expectation, it demands a respect and is usually heeded by the manager. Ignoring it doesn't make it go away, but increases the degree of self-expectation to get results. This may occur at the

corporate, departmental, supervisory, or individual level. The largest impact is always at the individual level.

Performance drivers gauge the ability of the individual to succeed in a position. Certain areas are more susceptible to hedging. For example, the areas of workload or teamwork require more input from the manager than the individual. The measure of employee throughput can be easily defined. Individual evaluation is created by having specific, quantifiable, realistic and time sensitive objectives in place for the employee. Without these types of objectives in place, not only is hedging available, but monitoring performance as a whole is jeopardized. It is at this level that companies lose huge amounts of productivity.

Setting and attaining goals should be part of every company's culture. It is the mechanism by which standards are set and the forward progress is measured. Strategic goal setting is the beginning of the internal corporate hedge. No matter what the goal or long-term objective, the measure of success is getting there within a specified time successfully. Is the company any less successful if it arrives at the accomplished goal prior to the specified time? It would seem so because the opportunity to achieve more in the same amount of time

is primary to drive both short-term and long-term achievement. It produces excellence within the organization.

By having a set of strategic goals, the ability to get only these objectives accomplished limits the view of the company producing multiple levels of opportunity to hedge the results to assure success. No company can move forward without a firm set of strategic goals at the forefront. Can the aspect of hedging be minimized by strong strategic goals? My opinion is no because strategic goals create a set of cascading objectives throughout the organization.

Objectives are created at the top with the strategic goal accomplishment as a primary success point. These objectives are passed downward from level to level creating a cascading effect on the objectives. Levels of specific accomplishment are needed to provide overall objective success. The responsibility is spread throughout the organization by department. Who then becomes the guarantor of the objective? And to what degree should some "fluff" be interjected to assure complete success? Hedging then becomes a norm and not an exception.

The answer to a solution for hedging lies in multiple areas. If hedging does exist within an organization, it has to be brought to light

with a complete knowledge that hedging does occur and the protracted consequences that can come to bear. This responsibility lies with the top executive management team. Corporate awareness is the beginning of dealing with a hedging problem.

Most companies spend little time developing or seeking help to develop a workable compensation model based on their market and culture. By providing a model that allows for strong performance tied to legitimate performance drivers, the compensation model can be used to minimize the hedge as opposed to sponsoring it.

Least used and most effective is the use planning instruments that can link planning, strategic direction, performance, and accountability to the organization. When these are linked correctly, the ability to create a personal or departmental hedge is limited. When a plan is installed that provides responsibility with defined accountability, every part of the organization wins from the CEO to the individual employees.

The expectation of company owners shouldn't necessarily change to accommodate a management team that incorporates a hedge into the company's strategy and design. Awareness is critical to monitor the company's performance at all levels. Managers have

the opportunity and responsibility to make businesses profitable and stable. By employing reasonable tools, managers can drive a business at full throttle with a certain amount of comfort that individual and departmental achievements are being accomplished without a created or perceived performance hedge.

The ramifications of hedging are substantial, if not huge. In production, capacity issues are affected. In accounting, the cash flow is affected. In sales, the top line revenue is affected. There is virtually no department within an organization that can't be dramatically impacted even if the smallest amount of hedging takes place.

If the hedge exists with your company, the impact of viable compensation modeling coupled with a strong planning diagnostic tool will limit the ability of your employees to apply hedging as part of their standard planning process and daily activities. Responsibility demands accountability when performance drivers are part of the process and daily routine. Without these tools in place, you can be assured that the hedge is alive and well within your organization. To what extent may vary, but the inevitable results are the same with all companies. A critical evaluation of your company's culture and

management style is your first step to understanding this intrinsic phenomenon. Your gain, as well as your company's gain, will be recognized and rewarded.