WHITEPAPER

Doing the Right Things:
Using Goal Management to Drive Business Execution

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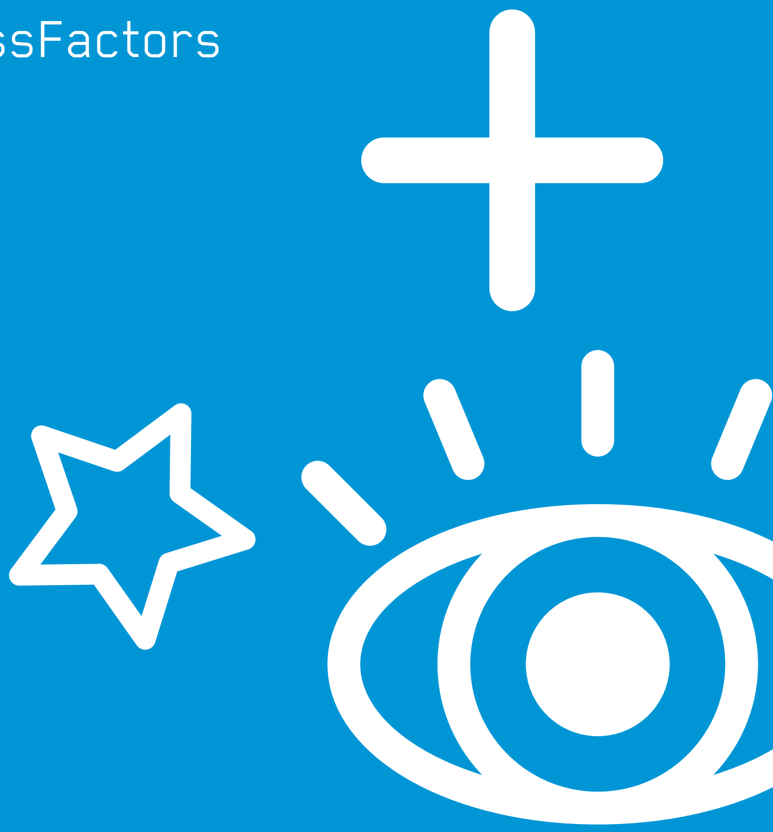

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Using Goal Management to Drive Business Execution

Goal management is among the most powerful methods companies have to execute business strategies. Thousands of studies have examined the impact of goal management on workforce productivity. The common finding from this research is:

Employees assigned specific, difficult yet achievable goals consistently outperform employees who are given no goals or non-specific goals encouraging them to "do their best".

Effective use of goals often increases employee productivity levels by 25% or more. The financial value of goal management is staggering given the relatively low cost associated with implementing goal management methods. Because the value of goals is tied to fundamental psychological principles of employee behavior, the benefits of goal management do not depend on being in a certain industry or market. If a company employees people then it will benefit from better goal management.

The basic concept of goal setting is so straightforward it almost seems silly. Employees are much more likely to do what you want them to do if they know what it is you want them to do, believe they can do it, and are motivated to do it. Yet virtually every person I have ever talked to can tell stories about jobs where they were not sure exactly what they were supposed to do or why it mattered.

The reason goals are such a powerful tool for driving business execution is because they impact performance in multiple ways. Effective use of goals provides a means for:

Setting direction. Goals clearly define what employees are expected to accomplish. Goals, when used correctly, create clarity around the role and importance of a person's job. They let employees know what it is they are supposed to be doing in their jobs and why it is important to the company.

Providing feedback. Goals allow employees to accurately track their own progress. If employees have clear goals and access to metrics that measure these goals then they can accurately assess their performance without asking for feedback from their managers, peers, or customers. This allows employees to more effectively self-manage performance.

Creating intrinsic motivation. Simply having a goal can motivate people to accomplish it. People often draw satisfaction merely from knowing they completed a goal. Just achieving the goal is its own reward. Goals that have this property are said to provide "intrinsic motivation".

Creating extrinsic motivation. Goals provide a means to link work accomplishments to other rewards such as pay and promotions. Tying goal achievement to external rewards is referred to as increasing the level of "extrinsic motivation" associated with a goal. Goals are particularly important for creating pay for performance processes because they provide a clear set of agreed upon standards for determining compensation decisions.

Building confidence. When a manager assigns an important goal to an employee it sends an implicit signal that the manager believes the employee is capable of achieving the goal. This creates higher levels of self-confidence that lead to stronger levels of performance.

Companies with well-designed goal management processes can more quickly and efficiently execute business strategies by aligning employees around the things that matter. Goal management processes also help companies adapt to changing market conditions by providing a means to quickly refocus employees on new sets of priorities. Goal management can also increase employee engagement and retention by creating a link between employees' jobs and the broader mission and strategy of the organization. In sum, the question is not whether goal management methods should be implemented at a company, but how to best implement them.

Although goal management provides a powerful tool for driving business execution, effective implementation of goal management is more complex than simply "telling people what to do". Effective use of goals increases employee productivity, engagement, and motivation. But ineffective use of goals can have the opposite effect. For this reason, it is important to approach goal setting as a powerful tool that needs to be used correctly. This paper provides guidance on using goal management to drive business execution. It also highlights common problems that can undermine goal management effectiveness. The information in the paper is based on empirical findings drawn from the goal setting research literature combined with SuccessFactors' experience assisting over 2000 organizations with implementing goal management technology.

The paper starts by discussing what it means to be a goal driven organization. The paper then discusses how goal management fits into an overall integrated talent management process, and explains the relationships between goals and other factors that drive employee performance such as skills and competencies. The next section of the paper reviews 8 critical design questions that should be addressed when designing and implementing goal management processes in an organization. The last section of the paper describes five levels of goal management excellence and discusses methods for achieving each level. In addition to these sections, the paper contains several "sidebar discussions" that provide additional detail around various concepts related to goal management. The first of these sidebars provides a summary of the empirical research that has been conducted to evaluate how the use of goals impact employee performance.

Goal setting theory and research:
A 300 word summary of more than 1,000 empirical research articles

There are relatively few widely accepted "truths" in the field of industrial-organizational psychology. But one finding that is almost universally agreed upon is that "employees assigned specific, difficult yet achievable goals consistently outperform employees who are given no goals or non-specific goals encouraging them to 'do their best'". This finding was not arrived at without considerable controversy and empirical investigation. More than 1000 empirical, peer-reviewed research articles have been published on the topic of goal management and its impact on employee performance.   People have empirically examined almost every aspect of goal setting ranging from the optimal number of goals employees should have to whether the value of goals varies depending on an employee's personality traits. One of the most comprehensive and influential summaries of this research was captured in the book "A theory of goal setting and task performance" by Locke and Latham. Since this book was published hundreds of additional studies have been conducted to test the boundaries of goal setting and find places when goals may not work well. While this research has identified goal setting techniques that enable or limit goal effectiveness and certain situations that mediate the value of goals, the fundamental premise of goal setting theory has remained intact: if you want to maximize employee performance then invest time in clearly setting employee goals.

For those interested in these things, the following are some of the more influential publications in the field of goal setting research. But recognize that these are just the "tip of the iceberg" when it comes to this particular research topic.

Kanfer, R., Chen, G., & Pritchard, R.D. (2008). Work motivation: past, present, and future. Routledge Academic Press

Kernan, M.C., & Lord, R.G. (1990). Effects of valence, expectancies, and goal-performance discrepancies in single and multiple goal environments. Journal of Applied Psychology, 75, 194-203.

Klein, H.J. (1991). Further evidence on the relationship between goal setting and expectancy theories. Organizational Behavior and Human Decision Processes, 49, 230-257.

Latham, G.P. (2004). The motivational benefits of goal-setting. Academy of Management Executive, 18, 126-129.

Locke, E.A., Chah, D.O., Harrison, S. & Lustgarten, N. (1989). Separating the effects of goal specificity from goal level. Organizational Behavior and Human Decision Processes, 43, 270-287.

Locke, E.A., & Latham, G.P. (1990). A Theory of Goal Setting and Task Performance. Englewood Cliffs, NJ: Prentice Hall.

Manderlink, G., Harackiewicz J.M. (1984). Proximal versus distal goal setting and intrinsic motivation. Journal of Personality and Social Psychology, 47, 918-928.

Seijts, G.H., & Latham, G.P. (2005). Learning versus performance goals: when should each be used. Academy of Management Executive, 19, 124-131.

Shaw, K.N. (2004). Changing the goal-setting process at Microsoft. Academy of Management Executive, 18, 139-142.

Tubbs, M.E., Boehne, D.M., & Dahl, J.G. (1993). Expectancy, valence, and motivational force functions in goal-setting research: An empirical test. Journal of Applied Psychology, 78, 361-373.

Section 1. Becoming a "Goal Driven" Organization

Being a "goal driven" organization means ensuring all employees are focusing on clearly defined goals that directly support the business needs of the company. This is achieved through establishing processes that link the personal interests of individual employees with the success of the entire organization. This is not simply a matter of communicating the company strategy to every employee. Being truly goal driven requires engaging employees at all levels of the company in meaningful discussion to identify things they can achieve that will help execute the company's business strategy, tying these to their personal job interests, and then holding them accountable for the commitments they make to support the business' overall strategic mission.

The following are characteristics of goal driven organizations that effectively leverage goal setting to drive business execution:

- **Every employee has clearly defined goals tailored to their specific job but also linked to the overall strategy of the company.** When asked, employees can tell you exactly what their goals are, when they need to be achieved, how they will be measured, and why they are important to the company's strategy and mission.
- **Managers are held accountable for setting effective goals with their direct reports and ensuring these goals are met.** The performance of managers is evaluated based on both the quality of the goals assigned to the people they manage and their ability to achieve these goals. Managers whose employees have poorly defined goals or consistently fail to achieve the goals assigned to them are considered to be poor managers and are treated accordingly.
- **Clearly defined processes are used to align strategic goals with operational goals.** Consistent methods are used to translate long-term strategic company goals related to profit, growth, and other business outcomes into near-term, tactical goals that specific departments and employees must achieve to deliver on the longer term strategic commitments.
- **Performance against goals is reviewed regularly to guide operational decisions.** Goals are reviewed on an ongoing basis throughout the year to guide decisions about business strategies, resource allocation, and project coordination. Data on goal accomplishment is used to gain insight into the operational performance of the company.
- **Goal plans are adjusted throughout the year to reflect changes in business strategies or operational tactics.** Goals are updated, redefined and re-communicated in response to changes in business strategy that may occur throughout the year. If the company decides to modify its direction or approach, then these modifications are captured in people's goal plans.
- **Goal performance data is used to guide personnel decisions.** Decisions regarding pay, career development, promotion, and hiring are based in part on how employees have performed against past goals and discussing what sort of goals need to be achieved in the future.

A quick way to evaluate whether a company has a goal driven culture is to ask employees to describe the link between the business strategies of the organization and their day to day jobs (see sidebar "Goal Management and Employee Engagement). Employees in goal driven organizations know what they are supposed to be working on and why it matters to the business. They know why their job is important. Employees in goal driven cultures see a direct relationship between how they are evaluated and the impact they have on the success of the company as a whole. They feel connected to the strategies set by top business leaders, and know that their success and the company's success are closely intertwined.

Goal Driven Cultures and Employee Engagement

Listed below are five questions that measure whether a company has a goal driven culture. Surveying employees on these questions will provide a quick sense of the degree to which an organization has a strong goal orientation.

1. I know exactly what goals I am expected to accomplish in my job.
2. The work that I do is well aligned with my company's strategy
3. Decisions about my pay and career opportunities depend in part on how well I perform against a formal goal plan agreed upon by me and my manager.
4. The company takes steps to ensure my goals are accurate and appropriate.
5. My manager and I review and update my goals throughout the year to ensure they are aligned with changes in company needs and strategy.

These questions are similar to survey questions frequently used to assess employee engagement. This is because one of the primary ways to increase employee engagement is to ensure employees have a clear sense of purpose in their jobs and know why their work matters. In addition to driving productivity and alignment, goals play a critical role in clarifying why employees' jobs are meaningful and important. The effective use of goals does not just increase the performance levels of employees; it also plays a key role in increasing employee engagement and retention.

Section 2. The Role of Goals in an Integrated Talent Management System

Maximizing business execution requires implementing talent management processes that ensure the right people are in the right roles doing the right things in the right way to deliver on a company's strategic initiatives. Goal management plays a key role in talent management by converting business strategies from lofty, long-term aspirations communicated by senior leaders into tangible commitments and deliverables owned by employees at all levels of the organization. But companies often fail to maximize the value of goal management as a result of allowing it to become confused or overshadowed by other talent management processes such as performance management or career development. This tends to occur when companies fail to look at goal management from a broader integrated talent management perspective and allow the management of goals management to become confused with the management of career development objectives and competencies.

Where goals fit into the broader talent management landscape. The primary purpose of talent management is to drive business execution through increasing employee performance and workforce productivity. To understand how goals fit into the broader field of talent management, it is necessary to first understand what drives the performance of individual employees. Figure 1 illustrates the basic components of job performance and the fundamental talent management processes used to influence them. Increasing job performance ultimately depends on managing three things:

Goals describe the business outcomes employees are expected to support or accomplish (e.g. achieving sales quotas, minimizing accidents, maintaining productivity levels, processing documents). In essence, goals define the reason why a job exists. People are employed to deliver, create, complete, produce, or otherwise accomplish specific things. Goals clarify the things they are expected to accomplish.

Competencies describe the behaviors employees are expected to display on the job. They include things like building relationships, planning and organizing, solving problems, and other activities that influence success or reflect cultural values of the company. People often distinguish goals from competencies using the concept of "what vs. how." Goals define "what" a person is supposed to do in the job, and competencies describe "how" they are expected to do it.

Attributes are characteristics of employees that are associated with job success. They include qualifications (e.g. job experience, education, certifications), aptitudes (e.g. personality and ability traits), and interests (e.g. career aspirations, salary preferences, work schedule expectations). Attributes define "who employees are" in terms of their knowledge, skills and abilities. The attributes employees possess influence the competencies they display, which determine the goals they can achieve.

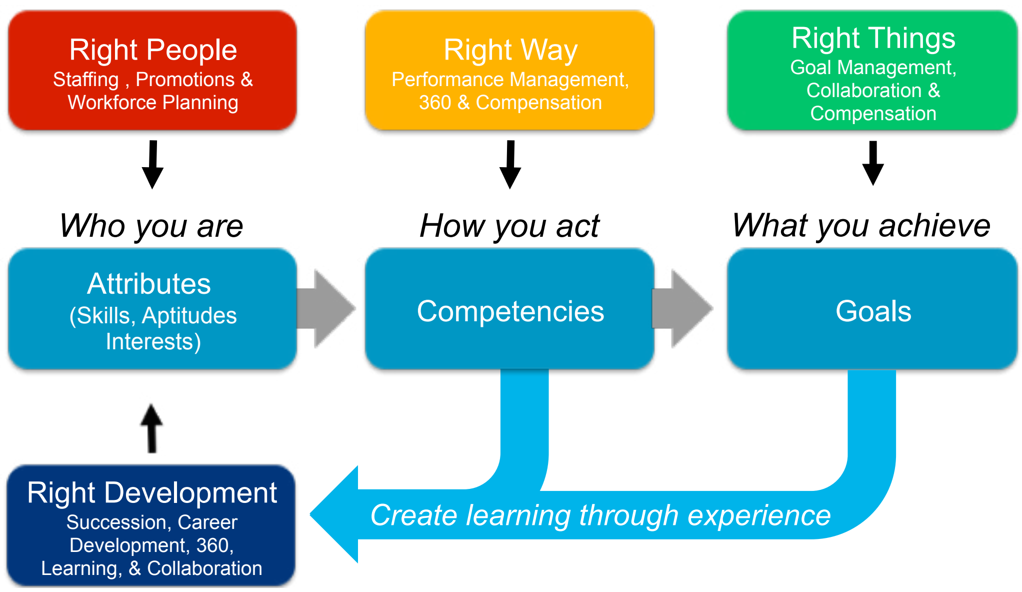


Figure 1. The role of goals in an integrated talent management process

The relationship between attributes, competencies and goals can be summed up as "what you achieve (goals) depends on how you act (competencies) which is largely determined by who you are (attributes)."

Attributes, competencies and goals are managed using processes focused on having the Right People (staffing) doing the Right Things (goal management) in the Right Way (performance management) while creating experiences that give them the Right Development (career management) so they can do what you want them to do in the future. Of these four processes, goal management is the most critical for driving business alignment, productivity, and efficiency. Goals define what employees need to accomplish for the company to be successful. Managing employees without defining job goals is like asking someone to enter a foot race without telling them where the course starts or stops. They may get there eventually, but they are likely to waste a lot of time and energy along the way. Staffing, performance management, and career development make sure you have the right people in the race and are giving them effective guidance to ensure they are on track to win. But goals define the actual finish line.

The importance of distinguishing between goals, development objectives and competencies. It is important that processes used to establish and track goals are distinct from those used to measure, manage, and develop employee attributes and competencies. Goal management, performance management, and career development methods must complement and reinforce one another without being treated as the same thing. Goal management processes need to clearly target business goals. Goal management should be kept distinct from career development and performance management processes that emphasize employee development objectives and job competencies.

An employee's goal plan should define what the employee needs to accomplish to support the company's business strategies. But companies often make the mistake of putting development objectives on employee goal plans. Development objectives describe things employees are doing to build their personal attributes and capabilities (e.g., knowledge, skills, and experience).   Development objectives may define things employees must learn to be effective in their roles, but they do not describe what employee actually needs to accomplish to support the company's business strategies.

Imagine an employee's job required them to report customer satisfaction scores. In order to do this more effectively the employee decided to learn how to create graphs in Excel. The job goal in this example is "report customer satisfaction scores".   "Learning to create graphs" is a development objective because it focuses on building the employee's knowledge.   But from a business perspective, it is reporting the customer satisfaction scores that ultimately matters – not whether the employee did or did not learn how to create graphs. Goals should define the things employees must achieve in their job to be successful. This is different from development objectives that focus on changing who employees are in terms of their capabilities, even if building these capabilities is necessary to achieve certain business goals.   Employee development objectives are important and should be the focus of career development processes, but they are not the focus of goal management.

It is also important to distinguish business goals from competencies. Competencies define behaviors employees are expected to display in a job. Goals define the results people are expected to achieve as a result of displaying these behaviors. Competencies play a critical role in driving workforce productivity, employee development, and company culture. But it is ultimately the accomplishment of goals that determines whether a company achieves it strategic business objectives. Creating performance management processes that clearly define and evaluate job competencies ensures people accomplish goals in a manner that is efficient and that supports the company's norms and values. But competencies are not the same thing as goals, and should not be included in goal management processes

Although goal management processes should be treated as distinct from processes used to manage competencies and development objectives, there is a logical connection between goals, competencies, and development objectives. When a company assigns goals to employees invariably some employees will struggle to achieve them. Companies can then use performance management processes to give employees feedback on the competencies they need to display to accomplish their goals. This helps employees identify what behaviors they need to change in order to succeed. In some cases, an employee's inability to display certain competencies will be due to a lack of skills or knowledge. In these cases, companies can use career development programs to help employees build the attributes needed to display the competencies that drive goal accomplishment. For example, imagine a sales person was given the goal of "selling 100 units in Q1". A month into their assignment, the manager realizes the sales person is not on track to achieve this goal. Upon observing the employee, the manager realizes the employee is struggling because they are not effectively displaying the competency "addressing customer questions." Upon talking to the employee, the manager learns that the employee does not know enough about the product to effectively answer customer questions. As a result, the employee sets a career development objective of "completing product training". Achieving this development objective will help them display the competency "addressing customer questions", which will increase the chance of them accomplishing their business goal of "selling 100 units in Q1."

The most effective talent management processes are designed with a clear understanding of the different roles played by goals, competencies and development objectives.   Goal management, performance management, and career development processes are built and managed as integrated but distinct activities. Managers and employees learn to understand and appreciate the difference between goals, competencies, and development objectives. This emphasis on definitions may seem somewhat trivial at first, but it pays off many times over by reducing confusion and process inefficiency over time.

Section 3. Goal Management Critical Design Questions

All companies utilize some form of goal setting to direct people's efforts on the job. But there is no one best way to do goal management. What works well for a regional healthcare organization could be inefficient for a multinational software company. Processes that are appropriate for front-line hourly retail employees are likely to be different from those used with senior executives. Fully leveraging the power of goals requires putting thought into designing goal management processes that make the most sense for your organization

The following questions are central to the design of effective goal management systems.

1. How will you ensure employees have well defined goal plans?
2. What are you doing to ensure goals are meaningful and motivational?
3. What methods are used to align employees' goals with company business strategies?
4. How is employee goal accomplishment measured?
5. What is the relationship between goal accomplishment and employee pay, promotions, and recognition?
6. How are goals used to support employee development and career growth?
7. How does the organization coordinate goals across different employees to foster communication and collaboration?
8. How are goals used to guide business execution on an ongoing basis?

The best answers to these questions will depend on your company's particular business strategies, the nature of its workforce, and its current talent management processes. The correct answer to each question can vary considerably from organization to organization. And failure to adequately address any of the questions will frequently result in a sub-optimal goal management process.

Question 1. How will you ensure employees have well defined goal plans?

A question frequently used to assess employee engagement and predict employee retention is "I know what is expected of me at work". Survey research has shown that employees often struggle to fully understand exactly what it is they are expected to do when they show up on the job. This lack of definition decreases employee productivity and retention, increases anxiety around role clarity and value, and raises the potential for internal conflict and organizational politics around responsibilities and accountability. The most direct way to address this problem to ensure employees and their managers sit down on a regular basis and clearly define the top 5 to 10 goals the employee is expected to accomplish through their work.

The simple action of requiring managers to meet with employees to establish goal plans drives tremendous value for business execution. It forces managers to engage with employees around what actions and accomplishments should take priority in their jobs. By establishing clear expectations, goals increase productivity in the near-term and set the foundation for more fair and effective conversations and decisions related to talent management later on (e.g., compensation allocation). Tracking whether employees have current goal plans also provides a metric for evaluating whether managers are performing the most basic part of their job: talking with employees about what they should be doing. In fact, research has found a positive correlation between measures of the frequency that managers work with their employees to maintain current goal plans and financial metrics reflecting overall company performance[1].

Two things need to be considered when designing processes to ensure employees have well-defined goal plans. First, managers and employees should be given clear guidelines on what a "well-defined" goal plan looks like. Second, managers and employees need to set goals in a manner that gives employees a sense of ownership and accountability toward achieving them.

Creating a well-defined goal plan. Many employees do not think of work in terms of discrete, well-defined goals and may struggle to come up with effective goal plans. Even highly experienced manager can find it difficult to summarize their roles in terms of a short list of succinct, well-defined and measurable objectives. Fortunately, there are at least three ways to help employees create more well-defined goal plans: 1) provide goal libraries, 2) communicate criteria for creating and evaluating goal plans, and 3) train employees on goal setting methodologies.

Goal libraries are databases containing common goals and goal plans associated with different types of jobs. An example from a goal library is provided in Figure 2. Goal libraries can be an effective starting point for crafting goals, although in most cases library goals will need to be modified to fit each specific employee's goal plan. The challenge to using goal libraries is they can take considerable effort to create and can be difficult to maintain over time.

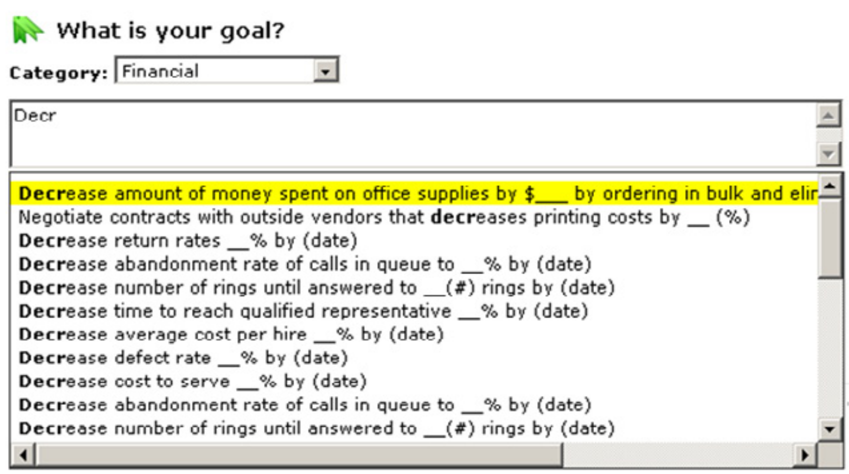


Figure 2 Example of contents from a Goal Library

Another method for creating well-defined goals is to provide employees and managers with clear criteria and frameworks for creating and evaluating goal plans. Table 1 provides a set of criteria for developing goal plans. This table addresses common problems found in employee goal plans. Providing simple sets of rules and recommendations like those in Table 1 leads to the creation of more consistent goal plans across the company and enables employees to develop and critique their goal plans without having to rely on extensive input from others.

[1]Becker, B.E., & Huselid, M.A. (1998). High performance work systems and firm performance: a synthesis of research and managerial implications. Personnel and Human Resources Management, 16, 53-101.
Berggren, E., & Strezo, M. (2011). How Companies Leverage Business Execution Softwareto Drive Excess Shareholder Return. SuccessFactors Research white paper available on "www.successfactors.com".
Bloom, N., & Van Reenen, J. (2007). Measuring and Explaining Management Practices Across Firms and Countries. Quarterly Journal of Economics, 122, 1341–1408.
[2] Berggren, E., & Messick, K. (2008). Moving mountains. SuccessFactors Research white paper available on "www.successfactors.com".

Most of the criteria in Table 1 are relatively uncontroversial, but there is one possible exception that warrants a bimore discussion. This is the guideline to "have at least 5 goals and no more than 10". Empirical research suggests the optimal number of goals on an employee goal plan is around eight[2] . SuccessFactors' experience suggests that most jobs cannot be adequately described in fewer than 5 goals. When people try to describe a job in fewer than 5 goals they either leave out important aspects of their work or combine different goals into less clearly defined, broad categories of "general things they have to do". On the other hand, employees should be able to easily remember all the goals in their goal plan. Employees who have more ten goals may be focusing on too many priorities. The purpose of goal plans is to describe what employees need to keep in mind as they go about performing and planning their day to day work. Employees should be able to easily recite all their goals from memory. And a well known finding from psychology is the number of things on a list that people can easily commit to memory is between 5 and 9 (often referred to as the "7 plus or minus 2" rule in introductory psychology classes).

Some employees will resist reducing their goal plans to fewer than 10 goals. We have seen goal plans with over 30 different goals listed for a single employee! When this happens, it is usually because the employee has confused goals with tasks. Goals are outcomes, accomplishments, or responsibilities people need to fulfill to be effective in their jobs. Tasks are activities people perform to achieve these goals. For example, a goal might be to "install a new heating system". Tasks for this goal might include things like "create a list of system specifications" or "review proposals from vendors". Some employees list all the tasks they intend to perform as separate goals. This can lead to the creation of very lengthy goal plans. Although it may be useful to describe the tasks a person plans to accomplish to achieve a goal, tasks are not what the company truly cares about. Tasks are a means to an end, but they are not the end unto itself. To use a sports analogy, the difference between tasks and goals is like the difference between executing plays in football and scoring points. At the end of the day achieving points is what matters, not the number of plays you ran.

Table 1. Some simple goal setting guidelines

Have at least 5 goals & no more than 10
- Do not oversimplify what you actually do; get credit for your contributions!
- Focus on what matters the most; don't try to catalog everything you do
- You should be able to quickly list all the goals on your goal plan from memory

Goals define the things you are here to do; they explain why your job exists and why it is important
- Even if someone never actually saw you work, they should be able to use your goals as evidence of the contributions you make to the company

Define goals to be independent of each other
- It should be possible to achieve one goal without achieving another

Do not list personal development objectives in your goal plan
- Goals can (and should) drive personal development, but they must reflect business needs
- Example: instead of listing a goal like "Learn C++", write the business needs driving this development objective, such as "support project X " which will require "learning C++"

Personalize cascaded goals to your job

- Change names of cascaded goals; make them relevant to your role
- Tasks or deliverables associated with the goals cascaded to you by your supervisor may become your actual goals
- You may create several different goals on your goal plan to support a single goal cascaded to you by your supervisor

A third method for establishing effective goal plans is to provide employees with a framework for writing and structuring goals. The most common framework is to teach employees how to set goals that are S.M.A.R.T: Specific, Measurable, Achievable, Relevant, and Time-bound (see sidebar "Making a goal plan SMART"). Although the SMART framework is probably the most widely used, we have found it to be less effective than another framework called the COD model: Commitments, Outcomes, and Deliverables (see Table 2). All the major concepts associated with the SMART framework are incorporated into the COD model. But they are presented in a way that is simpler and reflects how employees and managers actually discuss goals. Managers are encouraged to talk with employees about what commitments they can make to support key business initiatives, the deliverables they will meet to fulfill this commitment, and the business outcomes this will create. As one leader put it, "'commitments' is a better term than 'goals' because it implies what you are personally willing to do to support the company".

An additional advantage of the COD framework is it is well suited to support goal cascading. People are instructed that a Deliverable at one level in the organization may be reframed as a Commitment at the next level down. This will be discussed in more detail when we discuss methods for ensuring employees goals are aligned with the company's strategies.

Table 2. Commitment, Outcome, Deliverable Goal Methodology

Your goal plan defines what you are responsible for doing within the organization to support the company's business needs. Your goal plan should consist of 5 to 10 specific Commitments you have made to support the strategic needs of the organization. Each commitment will be associated with a variety of specific outcomes and deliverables. The following guidelines will help in building out your goal plans.

Commitment: What I'm doing

- Short phrase that describes what you are doing and why it is relevant to the business – it should have a verb in it!
- Commitments should be customized to your particular role; they should define what you specifically do in the company
- You should have a total of 5 to 10 different commitments. Each commitment will be associated with one or more outcomes and deliverables (see below).
- All commitments need to be linked to commitments on your manager's or other people's goal plans so they directly or indirectly roll up to the CEO's goal plan

Outcomes: Why I'm doing it

- The results you will create by achieving this commitment; the "evidence" that will demonstrate that you were successful
- Try to have no more than 4 outcomes per commitment. A single outcome may be adequate for some commitments.
- Multiple goals across the organization may be tied to the same general outcomes, although the actual targets may change (e.g., increase customer satisfaction score by x%)

Deliverables: How I will do it

- The actions you will complete to meet the commitment; the tactical strategy you are taking to drive the outcomes
- Try to have no more than 5 deliverables per commitment
- Deliverables at one level of the company often become commitments for people at the next level; you may cascade certain deliverables as "commitments" for your direct reports

The following is an example of a goal written using the Commitment, Outcome, Deliverable framework.

<u>Commitment (what I am doing to contribute to the company's business strategy):</u>

- Improve customer service levels in the stores I manage

<u>Outcomes (things that will result from meeting this commitment):</u>

- Achieve scores of 90% or better on customer surveys
- Increase year on year store sales by 5%

<u>Deliverables (actions I will take to deliver on this commitment)</u>

- Ensure all employees complete customer service training in Q1
- Provide customer service training to all new employees within their first 2 weeks
- Schedule monthly team meetings to review previous months customer survey results
- Implement a "customer suggestion" program by Q2

Making a Goal Plan SMART

The acronym "SMART" describes a method for ensuring that goals agreed upon by managers and employees are well defined and clearly understood. To be SMART, a goal must be:

<u>S</u>pecific: The details of the goal are defined so that its achievement can be objectively determined. Whether a goal is accomplished should not depend on someone's subjective evaluation, it should be based on tangible, observable facts and outcomes. Goals should be defined at a specific enough level so that there will be little debate about whether the goal was or was not achieved.

<u>M</u>easurable: The definition of the goal includes a list of one or more metrics or criteria that can be used to evaluate if the person is on track to accomplish the goal. Ideally, metrics are quantifiable measures such as percentages or numbers such as "achieve 95% uptime on service delivery" or "closed 5 new contracts in my region". But they can also be qualitative indicators of goal achievement such as "installed a new software system" or "completed a training course".

Attainable: The goal can realistically be accomplished. The skills, resources, and tools needed to achieve the goal are available to the employee and it is reasonable to expect the employee to achieve the goal successfully. This does not mean the goal will be easy to accomplish, but that it is realistic to expect that the employee can accomplish it.

Relevant: The goal should support the overall strategy and mission of the company. It reflects things the person is expected to do as part of their job.

Time bound: The goal definition should include specific milestones and deadlines for its accomplishment. Specific dates are agreed upon for determining whether the goal has or has not been achieved.

The following story illustrates how the SMART criteria can guide creation of goals. Imagine that a retail store manager asked a front-line clerk to set a goal for the coming year. The employee responded with a goal "to improve my performance". This goal does not meet any of the SMART criteria. So the manager and employee reviewed the following questions to make the goal SMART:

Is it "Specific"? The goal "Improve my performance" is not specific enough to be verifiable. Whether the employee's performance has improved will depend on what is meant by performance. Is improving performance a matter of better attendance, sales, customer service, attention to detail, or something else? To make the goal more specific, let's assume that the manager and employee re-wrote the goal as "improve my performance delivering service to store customers".

Is it "Measurable"? The goal "improve my performance delivering service to store customers" is reasonably specific, but does not define how to measure achievement of the goal. To address this, the manager and employee expanded the goal to "improve my performance delivering service to store customers as demonstrated by a significant increase in customer survey scores collected during my shift."

Is it "Achievable"? Determining whether a goal is achievable requires the manager and employee to reach agreement between what is desired by the business and what the employee thinks is possible. Employees should be encouraged to strive for goals that are felt to be difficult but achievable. These types of goals have been shown to create the highest levels of performance. For example, the manager may want customer satisfaction survey scores to increase by 10%, but the employee may feel that such an increase depends on too many factors they cannot control. The employee may argue for a 1% increase, but the manager may view this as too easy to achieve. For the purpose of this illustration, let's assume the manager and employee agree on setting the goal as a 5% increase in customer survey scores because this number is felt to be difficult but realistic to attain by both the manager and employee.

Is it "Relevant"? This means making sure the goal is associated with the employee's job duties and the company's overall business strategy. Improving external customer service is relevant to the job in this example. But it might not be considered relevant if the employee worked in a non-client facing role in a distribution center.

Is it "Time Bound"? This means making sure there is a specific date when the goal is expected to be completed. The manager and employee need to agree upon a date when they will formally review the goal to see if it has been achieved. This can be done by expanding the goal to "improve my performance delivering service to store customers demonstrated by achieving a 5% increase in customer survey scores collected during my shift by the end of Q4 of this year".

By going through a process of discussion, the manager and employee where able to translate the non-SMART goal "improve my performance" to a difficult but achievable SMART goal of "improve my performance delivering service to store customers demonstrated by achieving a 5% increase in customer survey scores collected during my shift by the end of Q4 of this year".

If a goal lacks any of the five SMART criteria then employees are at risk of not fully understanding what it is they are expected to do or how their success will be evaluated. The first step in becoming a goal driven organization is to ensure that every employee in the company works with their manager to define SMART goals that can be used to guide and evaluate their performance. Whether SMART goals should be set and reviewed annually, quarterly, monthly, or according to some other schedule will vary depending on the job and the organization. What is critical is that managers ensure all employees have SMART goals and hold employees accountable for achieving them.

Question 2. What are You Doing to Ensure Goals Are Meaningful and Motivational?

Goals will not impact performance if employees feel little sense of commitment toward achieving them. Managers must be reminded that goal setting is not about telling people what to do. It is about working with people to clarify what needs to be done in a manner that builds commitment toward goal accomplishment. There are many ways to increase the motivational power of goals. The most obvious is to tie goal accomplishment to valued rewards such as pay or promotion. This method will be discussed later in the paper. However, the best and least expensive way to create meaningful goals is to ensure managers pay attention to three key concepts when they work with employees to create goal plans: participative goal setting, managing goal difficulty, and addressing goal setting anxiety.

Participative goal setting. The best way to build goal commitment is to develop goal plans using a technique called "participative goal setting". Participative goal setting helps ensure that employees feel a sense of influence and buy-in over the goals that are assigned to them. It requires managers to meet with employees to discuss what goals make the most sense given their capabilities and the organization's business needs. The opposite of participative goal setting is to simply assign goals to employees without getting their input. In other words, just telling employees what they are supposed to do rather than talking with them about "what should you be doing?"

The simplest participative goal setting techniques involve some variation of the following steps:

Step 1. Managers ask employees to identify goals they can accomplish over the coming work period to support the organization.

Step 2. Managers create their own set of proposed goals they want employees to achieve.

Step 3. Managers and employees discuss the two sets of goals to find a mutually acceptable set of final goals.

Step 1 is often the most difficult step in this process. Employees may struggle to identify possible goals. When this happens managers need to be careful not to simply tell employees what the manager thinks their goals should be. Instead, they should use one or more of the following techniques to help employees identify goals. The first is to have employee list things they created, accomplished, or influenced over the past month, quarter or year that contributed to the company's success. These can be used as a source of inspiration for creating future goals for the next time period. The second method is to have the manager share his/her goals with the employee and ask them what things they can accomplish that would help support these goals. This reflects a method called "goal cascading" which will be discussed later in this paper in more detail. The third method is to ask employees to list things they do that justify why their job exists. This method focuses employees on the importance of being able to define and articulate the goals of their job. But it can come across as threatening if done poorly, and as such should be used with caution.

Managing goal difficulty. Goals have the strongest impact on productivity when they are "difficult but achievable". Managers should challenge employees to set ambitious goals where a successful outcome is possible but not certain. But managers also need to be sensitive to stress caused by having multiple, challenging goals. Goal plans ideally include a mixture of more difficult goals along with goals that are important but not as challenging. The less difficult goals provide employees with a sense of balance and confidence that they will be able to meet their job expectations. Managers must also be careful about pushing employees too hard quarter after quarter. Most people are capable of putting in high levels of effort when required to accomplish critical goals. But over time people will stop putting effort into goals if they feel they have become unrealistic and/or unreasonable.

Addressing goal setting anxiety. If employees are not used to setting goals then they may have concerns about how the goals will be used. The best way to address this is to clearly communicate why the organization is implementing more rigorous goal management methods and how these methods will help employees to be more successful. The following are several benefits goals provide that can help employees understand the value they will personally gain from adopting goal management processes in their organization.

Improving strategic communication. Well-defined goal plans clarify what people are working on and how it relates to the company's business strategy. Goals establish priorities for employees, and enable employees to clearly communicate to their peers and leaders what they are doing to support the company's strategies. To reinforce this message, let employees know who will be looking at their goal plans and how this will be used to guide company decisions.

Fairly evaluating performance. Goals provide a clear and transparent method for evaluating employee contributions to the organization. They reduce reliance on subjective opinions or ill-defined criteria when making decisions about pay, promotions, or job assignments. To emphasize this point, let employees know how goal accomplishment will be evaluated and used to guide pay and promotion decisions.

Managing workloads. More rigorous use of goals protects employees when there are changes in the business. Having clearly defined goal plans helps reduce the risk of managers asking employees to take on additional responsibilities without discussing how this impacts their existing commitments. To emphasize this, establish guidelines for updating employee goal plans during the year to reflect shifting organizational priorities.

Providing credit for contributions. Most employees have experienced the situation where they have been asked to work on one objective, only to be told later to stop working on that activity and pursue another objective. By tracking goals, companies are able to give employees credit for work they have done on an initiative even if the larger project may not have been completed due to changes in the overall business strategy. Let employees know how often goal data will be reviewed and what methods will be put in place to ensure people get recognized for past contributions.

Another way to reduce goal anxiety is to initially use goals solely as a communication tool until people become comfortable with them. After people become comfortable with the goal setting process, goals can be transitioned beyond strategy communication to include supporting pay and promotion decisions. On the other hand, employees in some jobs may only view goals as relevant if they directly impact their pay. In these cases, it may be important to immediately tie goal achievement to pay and personnel decisions so people take the process seriously. Which approach makes the most sense will vary depending on the situation.

Question 3. What methods are used to ensure employees' goals are aligned with company business strategies?

Goal management is not just about making sure employees have well defined goal plans. It is also about making sure these plans align with the overall objectives of the company. This requires structuring the process so goal conversations between managers and employees incorporate information about the company's strategy. There are three primary methods for doing this: establishing goal categories, using pre-populated goal plans, or implementing goal cascading. Each has their own strengths and weaknesses. Establishing goal categories is the easiest but least effective. Creating pre-populated goal plans provides the most clarity to employees but is the most difficult to maintain. Goal cascading is the most effective, but is the most complex to grasp and requires managers to invest time talking with their employees to develop appropriate goal plans.

Goal Categories. This method starts with identifying broad categories of goals that the company needs to address to support its business strategies (e.g., financial performance, customer service, safety, etc.). Employees are then instructed to set goals that fit into some or all of these categories. The value of goal categories is their ability to get employees to think about the company's overall strategic needs when setting goals. Rather than starting the goal setting process with the thought about "what do I need to get done in my job?" goal categories encourage employees to think about setting goals from the perspective of "what does the company need me to support through my work?" Goal categories also make it possible to track goals based on common strategic themes. This allows company leadership to analyze goals to make sure they adequately support different strategic initiatives. For example, goals might be used to diagnose if the company is on track to achieve its customer service objectives but at risk of not meeting financial objectives.

The most common example of goal categories comes from the "balanced scorecard" management theory[3]. The balanced scorecard approach argues that every company should focus on four categories of goals: 1) providing customer service, 2) increasing operational efficiency & quality, 3) attracting, retaining & developing employees, and 4) achieving financial targets. Balanced scorecard categories are a fairly effective method for ensuring employees are setting goals that support key elements of company performance. However there is also value in creating goal categories that reflect the company's particular business strategy, market, or industry. For example, a manufacturing company might create a goal category called "workplace safety" to ensure employees are actively thinking about ways to reduce injuries and accidents. A technology company that emphasizes innovation might create a goal category called "new product development" to reinforce the importance of setting goals that drive creativity and exploration. However care should be taken to avoid creating too many categories lest employees become confused or overwhelmed. Employees should also be reminded that certain categories may be more or less relevant to their particular jobs. As a result, some employees might have most or all of their goals under a single category.

Pre-Defined Goal Plans. Pre-defined goal plans are pre-set combinations of goals developed for specific jobs or groups of jobs based on company strategy. Employees are assigned pre-defined goal plans based on their role in the organization. For example, all customer service representatives in a company might be given a pre-defined goal plan with five core goals consisting of Achieve an average customer satisfaction score of "x%", Become certified to support at least "x" additional product lines, Reduce time to resolve customer problems by"x%", Sell at least "$x" of additional products and services, and Maintain a customer renewal rate of at least

[3]Kaplan R S and Norton D P (1992) "The balanced scorecard: measures that drive performance", Harvard Business Review Jan – Feb pp. 71–80.

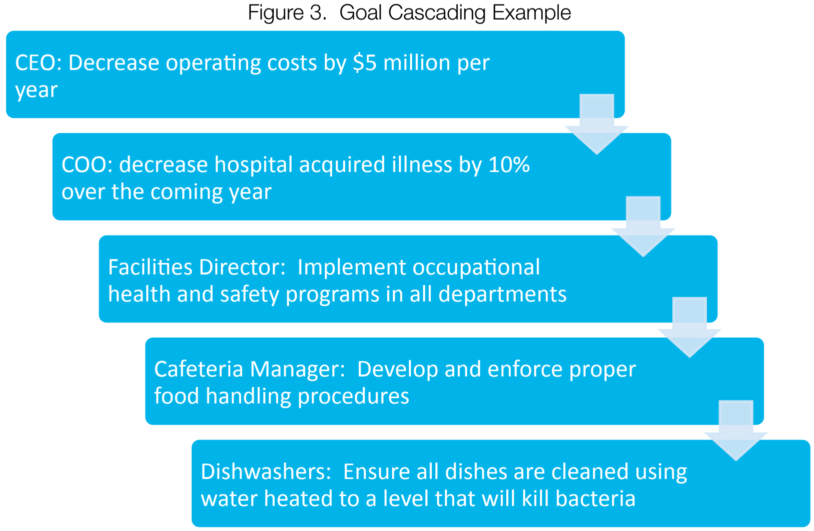
"x%". Every customer service representative would be assigned these same five goals, although the numeric targets associated with the goals might change from one employee to the next based on their experience level, job location, or some other variable.

The advantage of pre-defined goal plans is they provide detailed guidance to employees and managers on what things are important to the company. They also significantly reduce the time needed to establish goals since employees are working from a highly detailed, pre-set template. Pre-defined goal plans can be highly effective when setting goals for jobs with large numbers of employees in roles where the basic responsibilities and tasks do not change that much from one year to the next (e.g., hourly retail jobs, certain jobs in healthcare, many frontline sales jobs). The disadvantage is it takes time to develop pre-define goal plans, particularly if you are trying to set goals for wide range of job types. Pre-defined goal plans also do not work well for jobs where the kinds of goals employees have can change significantly based on shifting company needs and strategies.

Cascading Goals. Goal cascading is a method for communicating business strategies so every employee in the company understands the role they play in strategy execution. The goal cascading process starts with senior leaders setting their goal plans based on the company strategy. Leaders then share their goal plans with their direct reports, who in turn set goals that align and support those of their supervisor. By doing this, companies ensure that employees at all levels are working on goals that can be linked back to the organization's overall strategic initiatives.

Figure 3 provides an illustration of goal cascading drawn from the health care industry. In this example, the CEO of a hospital sets a goal to "decrease annual operating costs by $5 million by the end of Q4." This goal is cascaded to the COO of the hospital who proposes that one way to reduce operating costs is to "decrease the rate of illnesses acquired by patients while in the hospital by 10% by the end of Q4". The COO then cascades this goal to her Director of Facilities. The Director of Facilities determines that the best way his area can reduce patient acquired illness is to "implement health and safety programs by the end of Q2 in all the departments managed by facilities". This is cascaded to the Cafeteria Manager who suggests that the most appropriate health and safety programs in her area are to "develop and enforce proper food handling procedures for all cafeteria positions by the end of Q1". The Cafeteria Manager's goal is cascaded to the Dishwashing Supervisor who interprets this as setting a goal for his team to "ensure all dishes are cleaned in water heated to an appropriate level to kill bacteria."

Figure 3. Goal Cascading Example



The power of goal cascading is its ability to get everyone in the organization aligned around the same strategic objectives in a way that makes sense given their particular jobs in the organization. Consider how the example in Figure 3 illustrates the link between a high level strategic objective of "save $5 million dollars" and a seemingly minor, tactical task like "wash dishes using water heated at an appropriate level". Goal cascading also makes employees' goals more meaningful by linking them to the overall mission and strategy of the organization. Consider how the dishwashing employees in this example might have reacted if their supervisor simply said, "you need to wash the dishes in hotter water because its your job". It is likely they would have resented being told to do something that made their work more difficult. Compare this to the supervisor saying "you need to wash the dishes in hotter water to kill the bacteria that cause patient illnesses which directly impacts the mission and financial stability of our hospital. Your jobs are critical to the overall success of our organization and this is one of the reasons why". Now they understand the rationale for the request and why changing how they do their job is important for the overall success of the company.

When done well, goal cascading is much more than a method for communicating what the company's strategic objectives are. It is a method to help employees identify what they can do to support those objectives. The key to effective goal cascading is to approach it as a process for translating high level strategic objectives into actionable goals that employees can directly influence. This can be done by encouraging leaders and managers to actively think about three types of goals:

Outcomes are goals that result indirectly from actions taken by employees. This includes things such as "increase sales by 10%", "grow market share by 25%" or "reduce operating costs by $5 million". Companies cannot directly increase outcome goals such as sales volumes or market share. Instead, they take actions that result in customers buying more of their products which in turn create an increase in sales or market share.

The advantage of outcome goals is they can be tied directly to critical indicators of company performance. Outcome goals are frequently associated with senior leadership roles as well as certain roles in sales and marketing where people are comfortable being held accountable for results they may only indirectly influence. The disadvantage of outcome goals is employees often find them to be confusing or de-motivating because they cannot directly control them. Many things influence outcome goals besides the actions of employees (e.g., changes in the broader market and economy). Outcome goals are only indirectly influenced by what employees actually do. This may reduce employees' sense that they can directly affect these goals, and many employees may not find these goals to be highly meaningful. This was illustrated in a meeting where a CEO was announcing the company's goals to its development group. The CEO boldly proclaimed that the company's goal was to become the first billion dollar company in their industry niche. At which point, one of the development engineers replied, "that's great but it doesn't mean anything to me. What do you want me to build?"

Accomplishment goals describe things employees can directly achieve or create. For example, "develop three new products", "implement new technology system" or "deploy a new purchasing process". Accomplishments describe things employees do to create outcomes. They indicate the actions and deliverables a company is going to undertake to drive its strategic objectives. Accomplishments goals tend to be associated with professional positions such as engineering, production, and research & development.

Responsibilities are goals that describe ongoing performance levels employees are expected to maintain. Employees must support certain responsibilities if the company is to achieve certain outcomes. Examples of responsibility goals include things like "process 100 calls per day", "keep the error rate to less than 1 per 1000" or "score 95% on monthly safety audits". These types of goals are commonly associated with administrative, manufacturing and customer service positions.

Effective goal cascading involves connecting high level strategic outcome goals with accomplishment and responsibility goals that are meaningful to employees in different functions and levels across the organization. Figure 3 shows how an outcome goal “reduce operating cost by $5 million” was connected to an accomplishment goal, “implement health and safety programs”, which in turn was connected to a specific responsibility goal of “wash the dishes in water heated to an appropriate temperature”. Imagine how the cafeteria workers in this example might have reacted if they were simply given the original outcome goal of “reduce operating cost by $5 million”. At best they might have seen the goal as irrelevant to their jobs and something they could not directly impact. At worst they might find this goal to be threatening and intimidating as it is clearly something they cannot achieve by themselves.

Goal cascading starts with the creation of well-defined goals at the highest levels of the organization. It is not possible to effectively implement goal cascading without full support of senior leadership. The process requires that senior leaders set well defined goals that can be cascaded to their direct reports. In most cases, the quality of employee’s goal plans directly reflects the quality of their supervisors’ goal plans. Leaders that create and cascade goals provide visible role models of how to use goals to drive business execution. But the opposite is true as well. If leaders do not invest energy into setting and communicating well-defined goals, it is folly to expect that their direct reports will invest the time necessary to create effective goal plans. Leaders must also take time to discuss how their goals can be linked to the goals of their direct reports. The best and perhaps only way to effectively implement goal cascading is to have senior leaders set and cascade their goals and then follow up with people in the company asking them “what are you doing to support the goals I cascaded?”

Implementing goal cascading also requires that managers know how to engage their direct reports in goal cascading conversations. The “COD” method of goal setting discussed earlier is particularly well suited to support goal cascading discussions. This is because it is based on how business leaders naturally go about

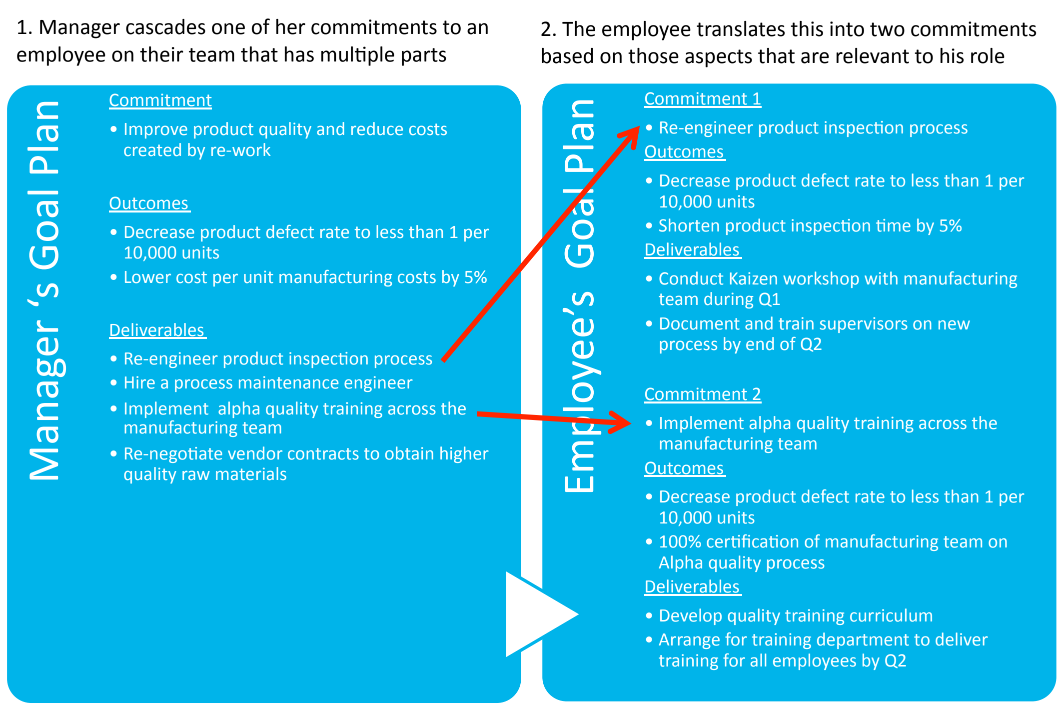


Figure 4. Goal cascading using the Commitments, Outcomes, Deliverables Methodology

communicating and managing business strategies. When using the COD method, leaders are instructed that a "deliverable" at one level in the organization may be reframed as a "commitment" at the next level down. Leaders are encouraged to have regular meetings with their direct reports where they discuss the overall commitments and deliverables assigned to their teams and explore commitments, outcomes, and deliverables individual people in the group can take on to support them. This approach helps people understand how to use goal cascading to rapidly communicate and align employees around new business initiatives. Figure 4 provides an example of how this works. A manager cascades a broader commitment around quality to one of her direct reports. The direct report then creates two new commitments that will support certain deliverables associated with the managers' higher level commitment. These two new commitments reflect the nature of the employee's particular role on the manager's team.

In many cases, it makes sense to use different goal alignment strategies for different parts of the company. For example, using goal cascading with senior leaders and managers, and then switching to goal categories or pre-defined goal plans for jobs further down the organizational structure. What is important is to have some method in place to make sure employee goal plans are supporting broader company strategic initiatives and critical business outcomes. This includes making sure the goals of senior leaders influence and align with the goals of their direct reports' direct reports. Remember, in most companies it is the people two levels or more down from the senior-most leader who comprise the bulk of the employee population.

Question 4. How will goal accomplishment be measured?

If goals were perfectly well-defined, there would be no reason to discuss measurement of goal accomplishment. Goal accomplishment would be self-evident because you could simply examine a goal and determine whether it was or was not achieved. But the reality is most goals are not so well defined. For example, if someone had a goal to sell $10,000 worth of product and they only sold $9000 did they completely "fail" to achieve their goal? Should they be evaluated as performing at the same level as someone who only sold $5,000? Many goals are also associated with relatively intangible concepts related to quality or performance. For example, if an author has a goal to "complete a 300 page book by September", can we evaluate whether they achieved that goal solely based on the number of pages they wrote? Or should the evaluation include some attempt to assess the quality of what was written in addition to just examining the absolute number of pages?

Using goal setting methods like SMART or COD helps make goals easier to measure and evaluate. This reduces subjectivity when evaluating employees' goal accomplishment. It also helps employees understand why they received certain evaluations, perceive these as fair, and know what they need to do differently to change the evaluation in the future. But there is almost always some level of subjectivity inherent in judging employee performance as it pertains to goal accomplishment. How goals are evaluated can become a particularly significant point of contention if goals are used to guide pay or promotion decisions. For this reason, a decision should be made early on whether certain goals can and should be evaluated solely on tangible, objective metrics or whether goal accomplishment will be determined based on some overall rating agreed upon by an employee and his/her manager.

Some goals lend themselves to more objective evaluation because they can be easily measured using available metrics. For example, sales goals associated with hitting specific financial targets or manufacturing goals associated with producing specific numbers of products falling within specific quality levels. But goals for many jobs are difficult to measure objectively due to the nature of goals themselves or because an inordinate level of effort would be required to collect truly objective goal data. In these cases, it is good to agree upon a standard goal accomplishment rating scale such as the following:

1 = Very poor performance: Failed to meet most or all goal expectations

2 = Poor performance: Met some goal expectations, but not all

3 = Effective performance: Met all expectations regarding goal

4 = Exceptional performance: Exceeded expectations regarding goal.

Employees should meet with their managers to review their goals and if possible reach consensus on the goal accomplishment rating. If agreement cannot be reached, then it is usually the manager who gets to make the final rating. If possible, it is also very beneficial to have the manager's evaluation reviewed by their supervisor and/or peers through some form of performance assessment calibration process.

It is also important to set expectations around the goal accomplishment levels most employees will achieve. For example, if the scale above was used to evaluate goal accomplishment the expectation should be set that most employees will receive 3s assuming they are generally solid performers. But relatively few will receive 4s. The rating of 4 is reserved for those employees whose performance truly went above and beyond goal expectations. This will encourage employees to strive for difficult goals without overly punishing them if they fail to accomplish everything that they set out to achieve. Remember that people are not setting truly difficult goals if they consistently achieve all of their goals year after year. If you always succeed at achieving every one of your goals then it is questionable if you are truly challenging yourself.

It is also good to set expectations around how frequently employees should update progress against goals. Employees and manager should update and review goal progress on a fairly regular basis throughout the year. Neither managers nor employees should be surprised at the end of the year when they are discussing the level of accomplishment achieved on different goals. It should also be emphasized to managers that if their employees fail to achieve their goals, then it is likely the manager is going to struggle to achieve his/her goals as well. If a goal is at risk of not being achieved, it is in the manager's and employee's best interest to raise this issue as soon as possible so something can be done to get it back on track before it is due.

Question 5. What is the relationship between goal accomplishment and employee pay, promotions, and recognition?

Goals define what people are expected to do in their jobs. They describe what people are hired to do. So goal accomplishment should naturally play a central role in decisions related to compensation, promotion and other forms of recognition used to reward and retain employees. Linking pay and promotions to goal accomplishment increases the meaningfulness of goals, reinforces organizational priorities, and creates a more consistent, transparent and fair process for making personnel decisions. But there are some risks associated with tying financial incentives and other tangible rewards to goal accomplishment. The following design principles help manage these risks when developing pay for performance strategies built around goals.

Balance goals vs. competencies. Performance can be defined in terms of two dimensions: what you accomplish and how you accomplish it. What you accomplish is measured by goal achievement. How you accomplish it is typically measured through competency evaluations or other ratings of employee job behavior. Pay for performance systems should balance both goals and competencies when allocating pay decisions. Over-emphasizing goals can lead to an unhealthy "ends always justify the means" approach to performance. Employees should not be rewarded for achieving goals if the methods used to achieve them violated company values or involved ethically questionable practices. To manage this risk, many pay for performance processes use a roughly equal weighting of goals vs. competencies when calculating overall performance levels.

Protect the intrinsic motivational value of goals. Research shows that goals people pursue voluntarily can become less enjoyable when people are paid to accomplish them. This reflects the difference between doing something because you want to compared to doing it because someone else expects you to do it. For example, the difference between playing music for fun versus playing professionally. This issue tends to be less of a concern in a job setting since employees naturally expect to be paid for what they do. But if employees are accomplishing certain goals without any specific financial incentives, then attaching financial rewards to these goals might actually decrease their motivation toward achieving them.

Define the link between goal accomplishment and pay. When employees feel pay decisions are based on clearly defined and consistently applied procedures they are much more likely to accept pay outcomes as fair, even if the decisions do not benefit them personally. This is referred to as "procedural justice". The key to creating procedurally just pay strategies is to make sure that goals are both measurable and time bound. If employees understand the measures and time frames used to determine pay, then they are much more likely to accept the results of pay decisions.

Encourage creativity and risk taking. Linking pay to goal accomplishment can make employees reluctant to set demanding or creative goals whose outcome is more uncertain since they know this could hurt their pay. Pay strategies should support employees who take on challenging and "audacious" goals, even if it means they may not always achieve the goals they set.

Encourage teamwork and collaboration. Using goals to drive pay may encourage employees to focus on activities that support their personal goals with little concern for supporting the broader goals of their team or organization. It is a good idea to base pay on a mix of individual goals and broader team or organizational based goals. This help to create a balance between "what is good for me" vs. "what is good for the group".

Balance the value placed on financial stability vs. financial opportunity. People differ widely in their preference and tolerance for financial uncertainty. Employees in sales jobs tend to be more comfortable with linking some or all of their pay to goal accomplishment because they are willing to trade the financial stability of a regular salary for the opportunity to make considerably more money by hitting all of their goals. In contrast, many service employees want a more stable source of revenue. They will trade the opportunity to make more money through a pay for performance plan for the greater financial stability associated with receiving a fixed salary. It is important to think about the stability preferences of employees before implementing a pay for performance strategy. Some association of pay to performance is almost always desirable. But whether the percentage of pay tied to goal attainment should be 5%, 50%, 100% or some other variable will change from one job to the next. Also remember that what motivates people in leadership roles when it comes to pay may not be the same thing that motivates the people they lead.

Emphasize that goals are about a lot more than pay. If compensation and promotion decisions are communicated as the main reason for goal management, then employees and managers will view goal management primarily as a method for evaluating employee performance as opposed to implementing business strategies. Manager may only look at employee goals once a year when it is time to make compensation decisions. And employees may be overly conservative when they set goals if they view them solely as a tool used to determine their pay or promotion opportunities. If your primary objective is to use goals to drive business execution rather than to justify compensation and staffing decisions, then you might consider downplaying the link between goal accomplishment and pay and promotion. This does not mean getting rid of the association between goals and personnel decisions, but just being careful to make sure people view goal management first and foremost as a tool for driving business strategies.

Linking goal accomplishment to pay and promotion decisions is critical to maximizing business productivity, alignment, and efficiency. But it needs to be done with caution or it can create unintended and potentially damaging consequences to employee motivation, engagement and focus. It is probably not possible to create a "perfect" pay for performance process. But by paying attention to the factors listed above you can create one that does far more good than harm.

Question 6. How are goals used to support employee development and career growth?

Effective goal setting requires striking a balance between what the organization needs to accomplish, what employees can do, and what employees want to get out of their jobs (see Figure 5). Pay and promotions are certainly part of this equation. But another frequently overlooked tool for increasing the motivational value of goals is to link them to employee's career development objectives. This can be done by encouraging managers and employees to evaluate goals in terms of two dimensions: organizational value and developmental value.

Organizational value reflects how important a goal is to the company in terms of key strategic objectives or job requirements. Goals that are low in organizational value may be nice to accomplish but are not critical to the organization. Goals high in organizational value are critical to the organization and may be considered to be the most important part of the person's job.

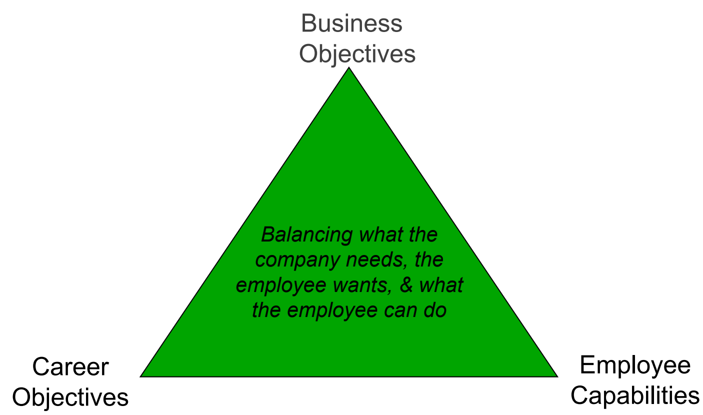


Figure5. Effective goal setting is about balance

Developmental value reflects how much a goal requires the employee to learn new things and/or exposes them to unfamiliar work environments, problems, or business situations. Goals that have little developmental value are usually things that an employee has done before. They may be mentally complex or time consuming but the employee "knows what they are doing". Goals with low development value can also be things that are unfamiliar but easy to master. Goals high in development value are things that are unfamiliar to the employee and that require them to develop additional skills, acquire new experiences, or work in new areas. This does not mean the employee lacks confidence toward achieving the goal, but simply that in order to achieve it they will have to acquire new knowledge, skills, and experiences.

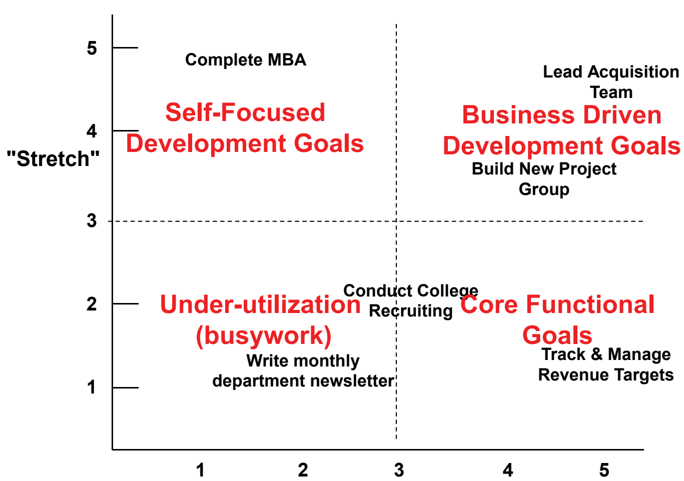


Figure 6. Plotting goals from a development perspective

Figure 6 provides an example of a person's work goals plotted based on organizational and developmental value. The goals are divided into four quadrants: business driven development, functional, self-focused development, and under-utilization.

1. **Business driven development goals** are high in organizational value and development value. These are things that employees have to do for work that will also require them to gain new experiences and develop new skills. These goals tend to be highly meaningful to employees because they are important to the company and give them the chance to build capabilities to advance their careers. The downside of these goals is they tend to be mentally demanding. They require learning how to do the work while getting the work done at the same time. People who have too many business driven development goals risk becoming overwhelmed or "burning out".
2. **Functional goals** are high in organizational value but low in development value. These are things that employees know how to do and have typically done before. They are not necessarily easy, but they are familiar. The advantage of functional goals is they allow employees to contribute to the organization by focusing on important but familiar tasks. Furthermore, functional goals are often intrinsically motivating because they emphasize things employees know how to do. People often enjoy doing things they are good at.
3. **Self-focused** development goals are low in organizational value but high in development value. The advantage of these goals is they allow employees to take developmental risks since failure will not have a major negative impact on the business. The disadvantage is employees may never get around to these goals since they are not important to the organization. This quadrant is sometimes referred to as the "books I want to read" or "foreign languages I want to learn" section of someone's goal plan.
4. **Under-utilization** goals are low in both organizational value and developmental value. These may be goals that used to have more value but that have become less important or challenging over time. Under-utilization goals provide little value to the company or the employee and should be removed from an employee's goal plan if possible. It may make sense to reassign these goals to other employees who will gain more developmental value from performing them. What may be a relatively unimportant and low development value goal for a more tenured employee might be a challenging and important goal for a less experienced employee.

Based on experience working with clients, the optimal mix of goals is approximately 40% to 50% business driven development, 40% to 50% functional, 10% to 20% personal development, and 0% under-utilization. Assigning goals using this career development mindset makes goal plans more meaningful to employees because they support their career aspirations. It also avoids motivational problems that occur when employees feel overwhelmed due to too many business driven development goals, stuck in a dead end job due to too many functional goals, or undervalued due to too many self-focused or under-utilization goals. Perhaps most important, this goal setting approach allows the organization to build the capabilities it will need tomorrow through changing how it accomplishes key business goals today.

Getting managers to assign goals with development in mind. Most operationally focused managers prefer to assign goals to people they know can achieve them. These managers typically assign goals to people based on their prior experience achieving similar goals. In other words, people are asked to do something because they have done it before. While this makes sense for achieving short term results, it undermines the power of using goals to drive long-term employee development. High performers may become frustrated at always being given the really challenging assignments to the point of feeling overwhelmed and stressed out. Employees who have not yet shown their full potential may grow weary of being asked to perform the same old tasks over and over without being given a chance to demonstrate their ability to do something new.

This tendency can be overcome through a few different methods. First, managers should be trained on the concept of mapping employee goals based on organizational value and development value. They should also be given support and guidance on how to shift goal assignments to balance the company's short term operational needs with employees' longer term career development objectives. Last but not least, the organization should give managers goals that encourage them to provide their direct reports with developmentally meaningful job assignments (e.g., assigning goals to managers that are associated with staff retention, internal promotion rates, or employee engagement and development).

Effective goal setting is not just about telling employees what the company needs them to do. It is about assigning goals so employees understand how they will benefit from achieving them. To do this managers need to approach goals as a tool for engaging and developing employees, not just getting work done.

Question 7. What methods are used to coordinate goals across employees and foster collaboration around common or interdependent goals?

It is quite common to find that two people in the same organization are working on almost exactly the same goal totally unbeknownst to one another. This situation leads to wasted resources, missed opportunities to support one another, and possible conflicts over "whose work is best". Avoiding this requires giving employees greater insight into each others' goals and promoting communication and collaboration between groups with similar goals. The following three methods all address this challenge: increasing goal visibility, sharing and linking goals, and creating common interest groups and communities.

Increasing Goal Visibility. The most basic step for improving goal coordination is to simply give employees greater insight into the goals of the people they work with. For example, having people list their goal plans on a publicly available employee profile on a company's intranet system. Employee goal plans should be public unless there is a very clear business or legal reason for keeping them private. Even then, it is often possible to share goals publically while hiding sensitive information. For example, sharing a goal of increasing revenue associated with a product without showing the actual revenue targets. Employees should be actively encouraged to share and discuss their goals with others so they can benefit from the support and advice of those around them.

Sharing & Linking Goals. Another method to encourage collaboration is assign one goal to multiple employees or to link one employee's goals to the goals of another employee. This encourages employees to work together to achieve goals reflecting common interests. Shared and linked goals can bring employees together, but do pose some risks if clear guidelines are not established around how goal performance will be evaluated. For example, how will the organization assign responsibility for failure to achieve a shared goal? Will responsibility be shared equally across all employees or will some employees be given more responsibility than others. Linked and shared goals can be powerful tools for encouraging collaboration, but must also be carefully managed lest they create internal tension and resentment among employee groups.

Creating Common Interest Groups & Communities. The development of social media technology has made it much easier for companies to create groups of employees who share the same or similar sets of goals. Creating online common interest groups encourages employees to communicate ideas, resources, and advice on how to achieve goals. It also creates a sense of cohesion and camaraderie among employees who are wrestling with the same types of challenges. This approach also avoids many of the issues that can arise from shared and linked goals since no assumptions are made around shared goal responsibility. Common interest groups can be particularly powerful in geographically distributed or "virtual" workforces where employees do not physically work together. By having a group of compatriots to turn for advice, employees feel a greater sense of support and connection to the company. Organizations may even provide formal rewards and recognition to employees based on the contributions they make to supporting their broader community of colleagues who share common goals.

Question 8. How will goals be used to guide business execution on an ongoing basis?

Most organizations view goal setting as an annual or quarterly event. Goals are set at the beginning of the quarter or year and are then reviewed at the end of that time period to make personnel decisions associated with pay and promotions. Goals are rarely examined in any detail on an ongoing basis. Such infrequent use of goals significantly limits their value for driving business execution.

To maximize the value of goal management methods, companies must shift goal management from an administrative process used solely for evaluating employee performance to an operational process used to guide decisions about business execution. This involves creating processes and norms that ensure goals are discussed, reviewed, and updated on a regular basis. Four things are particularly important for making this shift: focus on goal accomplishment instead of employee performance, establish goal based operational reviews, regularly update goals, and link goals to other business metrics.

Focus on goal accomplishment instead of employee performance. Using goals operationally requires shifting the focus of goals from being something an employee is expected to accomplish to something the organization needs to accomplish. Employees must be comfortable openly sharing issues and concerns about their ability to achieve their goals without fear of immediate or lasting negative repercussions. Saying "we're behind on one of my goals" should be interpreted as a signal that the company needs to re-shift its resources. It should not be viewed as a sign that an employee is failing to do their job effectively.

Employees will not be comfortable calling attention to goals they are struggling to achieve if they see goals as something that is mainly used to evaluate their personal performance. Goals should be treated primarily as metrics for measuring company performance, and secondarily as measures of employee success. When an employee says they are not achieving a goal, the initial response from their manager should be "what can the company do differently to help you succeed?" as opposed to "what are you failing to do?". This does not mean that goal accomplishment will not affect compensation and promotion status, but that compensation and promotion decisions are not the primary reason for using goals. Goals should still be viewed as critical to organizational performance even if a company decided to freeze salary and pay decisions for year.

Establish goal based operation reviews. The purpose of goals is to define what individual people across the company need to do to execute the organization's overall strategies. Goals, like business execution, are not things people should only discuss quarterly or annually. They are things people should talk about on an ongoing basis. Operations review meetings should start with reviewing what goals the group or company needs to achieve, tying them to the goals of individual employees and then discussing whether they are achieving them, and how to achieve them more effectively. Goals should also be used to guide decisions about allocation of scarce organizational resources. If managers want additional resources in terms of finances, technology, headcount or training they should be expected to justify their request by linking it to specific organizational and employee goals.

The simplest way to incorporate goals into operations discussions is to leverage people's goal plans as a tool for guiding operation review meetings. For example, one manager uses her weekly operations meeting as an opportunity to publicly discuss the goal plans of her direct reports. Each week a different person on the team shares their goal plan and reviews the progress they are making on different goals. If people know their goals are going to be discussed and reviewed in an open setting on a regular basis, they will put much more effort into keeping goal plans updated and ensuring performance against goals is on track. The open discussion of goals also keeps the goal management process focused on the relationships between people's goals and business needs as opposed to using goals as a way to evaluate each person's individual performance.

Regularly update goals. A quick way to see if your company is using goals to drive business execution is to evaluate how frequently people review and update their goals. If goals are only updated once or twice a year then it is unlikely they are being used to guide ongoing operational decisions. Company strategies often shift over the course of a year and virtually all companies modify the tactics they use to accomplish strategies on a quarterly basis if not more often. Yet these same companies may treat goal setting as a once a year event. Goals are set at the beginning of the year and are not updated until the end of the year right before they are reviewed. As a result, employees' goals do not account for shifts that have occurred over the year related to the strategic and tactical focus of the company and the jobs people are performing to support it.

To support operational use of goals, a company needs to encourage employees to update and modify goals over the course of a year to reflect changes in their roles, business strategies, or market conditions. Few jobs stay exactly the same over a course of twelve months. So employees should be expected to regularly update and occasionally even change their goals throughout the year. It is important to put some guidelines and review processes in place to ensure people don't "game the system" by lowering or changing their goals to ensure they have 100% goal achievement. But goals should not be seen as something "set in stone" that can only be updated annually or quarterly. If the company changes its strategy or tactics or an employee changes their job role, then these changes should be reflected in a shift in people's formal goal plans.

Link goals to other business metrics. There should be a clear relationship between employees' goals and operational metrics such as those found on P&L statements, customer service measures, financial forecasts, and productivity charts. Creating links between goals and company operational metrics calls attention to the role goals play in driving the success of the company. This allows people to more clearly see the impact that goal accomplishment has on overall company performance. It also allows leaders to more clearly diagnose the issues impacting performance against key operational metrics. For example, if a company is failing to achieve its revenue targets is it because the company has not effectively executed its strategy or because the strategy itself is incorrect? In other words, have people failed to accomplish the goals associated with the strategy, or did people accomplish the strategic goals but these goals failed to have the business impact the company was expecting?

Fully leveraging goal management as a tool to drive business execution requires making the review and discussion of goals integral to the day-to-day actions and decisions taking place within the company. This means creating processes and norms that encourage managers and employees to use goals to structure operational discussions. In other words, treating goals as things that are truly important to the business, and not just viewing them as things employees have to do to get a raise or be promoted. Goals define what the company has to achieve to be successful. As such, they should be reviewed regularly, discussed openly, tied to key business metrics, and updated throughout the year to reflect shifts in company strategies and tactics.

Goal Management Process Maturity

It is remarkable how quickly companies can implement goal management processes when they are made a priority by senior leadership. We have seen companies go from no standardized goal management process to the implementation of goal plans across over 10,000 employees in less than 3 months. However creation of goal plans is only the first step towards creating a world class goal management process. Additional time is required to develop the internal skills and processes required to efficiently cascade and set well-defined goals,

effectively manage and update goals throughout the year, and coordinate activities across the company to align efforts to accomplish shared goals. Company's implementing goal management methods can and should expect to see immediate short-term rewards associated with increased employee engagement, productivity and retention. But they should also recognize that fully realizing the business execution value of goal management methods will only occur through ongoing efforts lasting multiple years.

Figure 7 lists five general maturity levels companies go through as they develop their goal setting processes. The levels begin with simply having goals and progresses through using goals as a strategic tool to communicate, monitor, and manage the execution of business strategies. Each level is briefly described below:

Tangible Goals. The first level of maturity focuses on making sure employees have well defined goals. Do not underestimate the business value of achieving this level. Simply getting managers to sit down with their employees and map out a clear set of goals and expectations is a major leap forward for many organizations. The value of achieving this level was memorably captured in a comment an employee made on an engagement survey conducted shortly after implementation of new goal management process in a large, multi-national company: "For the first time in the 14 years I have been with this company I actually know what I am supposed to be doing in my job".

Aligned Goals. The next level focuses on ensuring employees' goals are aligned with the company's overall strategy. This is typically done through some form of goal cascading process, but can also be achieved through use of goal categories or standardized goal plans. It is important to focus on creating alignment early in the goal setting process, otherwise the company risks getting employees engaged and focused around activities that may not fully support the company's overall strategic objectives.

Meaningful Goals. Level 3 shifts the focus from setting goals that are important to the company to setting goals that are meaningful to employees. This involves using methods to ensure employees see goals as being relevant to their personal career aspirations. The best way to do this is to establish goal plans that support both business needs and employee development, and tie goal accomplishments to pay and promotion decisions.

Coordinated Goals. Level 4 focuses on building collaboration within the company around common types of goals. It is about breaking down silos and coordinating common efforts across peers and departments. This level is achieved through making goals visible across the organization and providing employees with tools to create communities and collaborative processes focused around common goals.

Operational Goals. Level 5 emphasizes getting business leaders to use goal processes as tools for running and managing the business. As one COO put it, "you are using goal management correctly when it ceases to become a tool for personnel administration and becomes a tool for strategy communication and evaluation." This level is achieved by review reports on goal progress through the year and using these to diagnose how effectively the organization is executing on its strategic objectives.

Appendix 1 contains a short questionnaire to help determine the goal management maturity level of your organization. Note that you do not necessarily need to master lower levels of maturity to reach some of the higher levels. But maturity levels do tend to build on one another somewhat like the stories of a building. The stronger the foundation of the lower stories, the more stable the higher levels will be. For example, it is difficult to make operational use of goals unless employee goals are tangible and well-defined. In addition, companies do not necessarily need to place equal emphasis on all five maturity levels across the organization. For example, goal coordination may be more important for some jobs than others. Similarly, companies may differ from one department to the next in terms of emphasis placed on using formal processes to ensure goal alignment. What is important is to consider what level of goal maturity is most critical to driving business success given a particular organization's business strategies, workforce characteristics, and operational challenges. Then stay focused on steadily developing and improving goal management methods until that level is achieved.

Conclusion

Goal management is one of the most powerful and probably one of the most under-utilized tools for driving business execution. This paper has explained why goals are critical for business success, and provided guidelines for answering critical questions that underlie the design of effective goal management processes. The next step is to use the information and questions in this paper to create a goal management process that align with the unique needs and nature of your company. All companies that employ people use some form of goal management, but very few do it well. Those companies that make a concerted effort to fully leverage the value of goals to guide and motivate employee performance are likely to be the ones that outperform and outlast their competition.

Appendix 1. A Quick Measure of Goal Management Maturity

The following assessment can be used to diagnose the level of maturity a company has with regard to its goal management processes. This measure is intended to guide effective conversations around business execution. It does not provide specific answers to increase business execution, but can be used to focus efforts on building out a business execution strategy and talent management roadmap.

How to use this assessment

Read each statement and give the company a score from 1 to 5 based on the following scale

1	2	3	4	5
Not at All	Rarely/in a few cases	To a limited extent	Consistently Frequently	Always/Constantly

Add the ratings to create a total "maturity" score. Based on this score, examine the suggested business execution strategies and critical business questions. Use the overall score as well as the individual ratings to engage line leadership in targeted discussions around actions you can take to increase the company's business execution maturity.

QUESTION	RATING (1 TO 5)
Employees can readily list the 5 to 10 goals they have to achieve this year to be successful in their jobs	
Employees understand what defines success and failure in their job.	
Employees feel a strong sense of commitment and personal ownership toward their job goals.	
Employees understand how completion of their job goals will impact their career objectives.	
Employees at all levels understand the company's strategy and how their work supports it.	
Senior leaders have insight into the objectives employees are working on and how they relate to strategic initiatives.	
Employees know how their goals and objectives relate to similar goals held by employees in other parts of the business.	
Employees effectively collaborate across departments and functions to work on common goals.	
Senior leaders actively track employee progress on critical business goals and take swift action when initiatives seem off track.	
Employees constantly update their progress on critical business goals and keep leadership proactively appraised of accomplishments, challenges, and obstacles.	
TOTAL SCORE	

SCORE	BUSINESS EXECUTION STRATEGIES YOU MAY WANT TO CONSIDER
Less than 30	Focus on ensuring every employee knows exactly what he/she is responsible for contributing to the organization. Create systems that provide visibility into whether managers are ensuring their employees have well defined goals. Ask line leaders the following critical business question: "How can we tell if the things people are working on right now are what really matter for delivering our strategic commitments?"
30 to 40	Ensure there is a clear link between employees' goals and their career interests and aspirations. Utilize goal setting process to support career development. Reward and recognize employees based on the contributions they make toward overall company performance. Ask line leaders the following critical business question: "If required, how would we change the strategic direction of this company in 9 months or less?"
41 to 50	Invest in tools to more effectively leverage goal management data to gain insight into organizational performance. Use workforce analytics to uncover relationships between goal performance and financial outcomes. Ask line leaders the following critical business question: "How do we know if the goals we are assigning to employees are effectively supporting our business strategies?"

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