When managers and employees go to the beach

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You have seen it. Towards the end of the year, managers and employees make a deal with themselves. Those that have reached 80% of their performance targets mentally “go to the beach” as they don’t see that they can reach the threshold of their incentive plan. Furthermore, they make sure that they have a lower bargaining base for the next season’s target. Those that have already reached their 120% do the same. Doing more hurts the next cycle. People make smart decisions that are fully in line with the logic of the system.

The result is that the firm does not get the mileage it deserves. People withhold their performance. And, more important, honest employees don’t like to make a trade-off between their benefits and what is good for the firm. It is unfair to ask employees to make this deal. This is a system that sabotages its well-intended purpose. Moreover, it is stupid to argue that we want Management by Objectives (MbO) but, at the same time’ demand that employees should behave reasonably – e.g to accept disadvantages for themselves.

For the advocates of MbO, you may be a leader, an employee – both are practitioners -, an HR professional, or an advisor, and its most of you: Just because goals are seemingly simple to use, because everyone uses them, and because some management guru has said so, it does not mean that they are necessarily useful to drive performance!

The topic of “Setting Performance Targets” is likely one of the

most debated and controversial discussions in managerial science. There are plausible arguments on both side of the fence. The advocates refer to Peter Drucker's idea of "goal directed behavior". To use the positive power of the negative thinking, here is a list of issues that shows how the benefits have been perverted to MbO practices in many firms that deserve reflection.

Targets and target setting …

- create stress and de-motivation which reduces performance. Every golfer knows what I am talking about. They can also create boredom. The effect on performance is the same.
- tend to be set rather than agreed upon. Agreement often is another label for "Do what we say".
- tend towards the average not peak performance: The gaming problem. It reinforces that "my intent is not in line with the firm's intent".
- contain the "beach problem". Under and over achievement result in lower performance.
- make alignment slow - in most cases, the environment has already changed when things believe to be aligned.
- are inflexible – in a dynamic world, they need constant adjustment.
- reduce communications on targets rather direction and purpose. They are not useful for motivation.
- reduce the ability to use common sense and the people's minds to 5-7 things on the "to do" list.
- require lots of training with little effect on performance.
- result in missed opportunities as the focus is what the top thinks it should be.
- reduce the power of using measurement to making the budget.
- are very expensive. Organizations invest millions in a tool that has had its days: Transaction costs that one better eliminates. 45% reductions are possible by just eliminating

the goals item.

- are hardly a topic in the daily work life. Ask about them on your shop floor and you find out.
- are always late. Appraising goals at half-year intervals is useless. You cannot change the facts after the fact.
- focus on those things that are easy to measure. This goes against the need for an integrated perspective. Business is more complex as goals can address. Value is created through intangibles.
- tend to get connected with incentive programs. This reinforces the negative effects.
- often explain the "what" but fail on how to improve performance.

Here my point of view: Don't confuse goal directed behavior with goal setting. To make the argument, I separate the discussions into goal orientation, performance measurement and goal setting.

Goal directed behavior. There is no doubt about the validity of goal directed behavior. It builds on the basics of human capacity. People have the creative energy that wants to be applied. We are designed for goal oriented work, and performance is part of every human being. As such, people search for work with goals that are acceptable, work that has a purpose, and that makes sense to our own life. Employees search for a playing field where they can use their potential. This means that organizations need to provide playing fields that make sense for employees.

This further means that one cannot limit leadership to goal oriented behavior. Leadership needs to address a much wider perspective in order to guide action, behaviors, decisions, and thoughts. As a short summary, it includes information & feedback [Focus of work], direction [Intent], implementation [Measurement], beliefs [Collaboration] and boundaries [Purpose]. There are tools and processes available for every area. We call it the Leadership Toolbox. Leadership work means applying these practices simultaneously and situational.

Performance measurement. Unfortunately, critical performance indicators (CPIs) are confused or combined with performance

targets (goals). CPIs provide leaders with observation points. This enables the observer to focus the attention on what is critical and relevant. Physics call it the observation effect. Through observation, people learn and start the change process. It is the fastest approach to getting things done. Those that play a technically demanding sport know about the focus of attention effect on their performance. If we combine CPIs with targets, then we look for “What needs to be” rather “what is”.

Performance happens in the present and not in the future or in our expectations. This completely destroys the attention effect. Again, my sports friends would argue “The moment I focus on my target, I have lost the game”. CPIs are extremely valuable to drive performance. But don’t combine them with targets. Every responsible employee knows exactly what the desired performance level (target) is. There is no need to disturb attention through goals.

Goal setting. Goals have little to do with motivation, purpose and accountability – the things that make people perform at the peak. Goals should be reduced to a simple means of communications – but not the only means used to enable good leadership! I have made the point.

Better, discuss the critical observation points with employees. What are the things that you look for? This helps employees to share their observation points with you. As such, you know that important things are “under observation”. Simultaneously, use the other levers, intent, collaboration and purpose to help them make sense.

I know that some of you now question and are offended. STOP and think. Then this note has already achieved its purpose. Sometime, you will change … If you want to engage your organization to change, then diagnose, create insights, and energize the team to make the change.

The question is what organizations can do and do the get there. Here is an idea. Understand where change is needed. Look at the cause beyond the symptoms.

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