How to tame the destructive nature of targets

By David Parmenter

Introduction **2**

The myths about targets **2**

It is appropriate and right to set annual targets 2

Targets are necessary 3

Targets are motivational 4

Targets used by others in the sector are good to use 5

The term target is understood by all 6

Targets are a great communicator 6

Targets and purpose are aligned 6

Targets can be aligned with financial incentives and penalties 7

Organisations around the world are now questioning this linkage. Banks for example have now removed monthly targets from 'teller based' staff. 7

The masters from the past have given great advice so lets use it **7**

Lessons from the health system **9**

Ten rules for making targets work **10**

Rule#1: Do not set an annual target. 10

Rule#2: Consider very carefully what you really need. It could be a goal or a standard both are very different from a target. 10

Rule #3: Agree on a set of criteria for a target 10

Rule #4: Targets are only set and reported on by a skilled in-house resource 10

Rule #5: Progress is monitored through charts (at least 16 data points) to take account of environmental fluctuations 11

Rule #6: Look for patterns before you jump to conclusions 12

Rule #7:Be clear on what you are trying to improve 12

Rule #8: Adopt an ongoing abandonment programme of broken targets 13

Rule #9: Do not develop performance measures from targets. They should be derived from your organisation’s critical success factors. 13

Rule 10: If you are connecting pay to the target make sure you THINK, TEST, IMPLEMENT in that order. 13

Writer’s Biography **13**

Introduction

I never realized what a can of worms target setting is. There are two very different opposing views and 'never the twain should meet'.

I believe most of the argument is wasted energy around terminology. For this 'expert article', I will use the following:

- A goal is something that you set which is for a period longer than a year. It is intended to be transformative and is not linked to pay. In organisations it involves many teams or, in fact the whole organisation working together, as demonstrated by NASA in the sixties. 'Big hairy audacious goals' are those that drive the human race to achieve something never thought possible. Some can never be achieved, such as Sweden's and now New Zealand's zero deaths on the road, but the journey towards zero is a journey every country would want to make.
- A target is something that we set for hourly, daily, weekly, monthly, and annual activity. It is often tied to incentives and has many negative behavioral aspects associated with it. In such circumstances, they become a binary switch that informs the staff if they have been successful or not.
- A standard refers to a set of criteria or guidelines that define the level of quality, performance, or behaviour that is considered acceptable or desirable. They serve as a reference point or benchmark against which actual performance or outcomes are measured.

'So what?' I hear you say. Well, the word 'target' in your organisation is used for goals, targets, and standards. So please read on.

The myths about targets

There are many myths about targets.

It is appropriate and right to set annual targets

Jeremy Hope[i], a past mentor of mine, made a compelling case against the use of any fixed annual performance target. He pointed out that all forms of annual targets are doomed to failure. Far too often, management spends months arguing about what is a realistic target, when the only sure thing is that it will be wrong. It will be either too soft or too hard. How can you set an annual target unless you can see into the future?

He went on to say that far too frequently, organizations end up paying incentives to management when, in fact, they have lost market share. In other words, rising sales did not keep up with the growth rate in the marketplace.

As Jeremy Hope points out, not setting an annual target beforehand is not a problem as long as staff members are given regular updates about how they are progressing against their peers and the rest of the market. Jeremy Hope argues that if you do not know how hard you have to work to get a maximum bonus, you will work as hard as you can.

Jack Welch, when at General Electric, rewarded subsidiaries that, in a difficult trading year, sold less than in previous years but had managed to increase their market share.

One of the stupidest annual targets is the annual budget or annual plan, depending on your terminology. Progressive organizations around the world, such as Whole Foods Market (USA), American Express, (USA), Statoil (Norway), Ahlsell (Sweden), General Electric, Swenka Handelsbanken (Sweden), and Tomkins (UK), have moved away from the annual planning cycle to a rolling quarterly planning process. The transmission away from annual planning is covered in my implementation guides, "How to Implement Quarterly Rolling Forecasting and Quarterly Rolling Planning – and get it right first time."

Targets are necessary

In the 1960s, social psychologist Douglas McGregor developed two contrasting theories that explained how managers' beliefs about what motivates their people can affect their management style. He labeled these Theory X and Theory Y.

If you are a follower of theory X, which states that your staff dislike their work and have little motivation to complete tasks to the best of their ability, then you would think targets are necessary. However

> *"Targets are one means to achieve progress against a priority, but not all priorities lend themselves to a target."*[ii]

> *"performance measurement, target setting, and incentives are all important issues, but often there is disquiet about targets and whether they have the right impact on people's behaviour and organisational performance."*[iii]

However, this ignores the carnage that targets can cause, which includes:

- Deaths in the health sector – 400 deaths between 2005-2008 in one health trust in the UK[iv]
- the ENRON and Subprime mortgage market collapse have been laid at the feet of target setting.
- If set too high, targets create stress, gaming, and de-motivation.
- If set too low, targets encourage complacency.
- Where imposed without consultation, a lack of ownership develops.
- May lead to a disproportionate focus on areas that are measured at the expense of those which aren't.

- Ignores inter-connectivity as they tend to look at one driver only. E.g., staff at call centres, truncating calls from long-standing customers leads to the very loss of that customer.
- Seldom encourage action to change systems for long-term improvement.
- Creating a culture of distrust.

Targets are motivational

It had been assumed that targets are motivational, but Fredrick Herzberg, proved otherwise.

> *If I kick my dog, he will move. And when I want him to move again, what must I do? I must kick him again. Similarly, I can charge a person's battery, and then recharge it, and recharge it again. But it is only when one has a generator of one's own that we can talk about motivation. One then needs no outside stimulation. One wants to do it.* [v]

He made a stunning discovery that requires a good coffee to understand. He found that the **motivational** factors involved in producing job **satisfaction** (and motivation) are largely separate and distinct from the **hygiene** factors that lead to job **dissatisfaction**. In other words, the opposite of:

job satisfaction is **no job satisfaction**
job dissatisfaction is **no job dissatisfaction**

Did you drink that coffee?

He pointed out that any shortfall in basic human needs, and here we can bring in Maslow's first two levels of needs, will lead to job dissatisfaction, but once met and exceeded, they will not lead to job satisfaction, for a different game is played here. In his study,[vi] the' hygiene factors', in descending order of importance, were:

- company policy and administration
- supervision
- the work itself (a motivational factor cross over)
- relationship with your supervisor
- working conditions
- achievement (a 'motivational factor' cross over)
- recognition for achievement (a 'motivational factor' cross over)
- relationships with peers and subordinates
- salary
- personal life, status, and security were the bottom three

He pointed out that once these are at satisfaction levels, any increase WILL NOT motivate staff. While higher salaries may well retain staff, they will not motivate them. Imagine a staff member paid $1m a year to sit in a room and do nothing. You may eventually see them resigning once they had met their saving goal.

The **'motivational factors'** in descending order of importance were:

- achievement
- recognition for achievement
- the work itself
- responsibility
- advancement/growth
- salary (a hygiene factor cross over)

These are the factors that make the human being jump out of bed every morning with a spring in their step. So it must have dawned on you that hourly, daily, weekly and monthly targets don't seem to sit here unless you believe that achieving the target with the knowledge that the next target, just around the corner, now is unlikely to be reached, gives the staff that glow of achievement. I leave the final word to Herzberg, where there is no reference to targets,

> *"The motivation-hygiene theory suggests that work be enriched to bring about effective utilization of personnel."*

In Berry, Gardner and Anderson's compelling and often damning report on target setting in the British National Health System (NHS)[vii] they stated:

> *"_ many people spoke of organisations which hadn't managed targets well, with examples given of 'an industry of gaming' occurring or entrenched bullying becoming an acceptable way of getting things done. The organisational culture and leadership failed to tackle these issues and the subsequent impact on morale led to consequences beyond performance.*

My ex-wife has experienced this first hand and has left over three positions through bullying.

I recommend you finish your coffee and read this section again.

Targets used by others in the sector are good to use

For years the health system has been setting targets that were flawed from the start. I imagine years ago some bright young policy analyst dreamt up the 90% inside four hours emergency department target.

We seem to assume someone previously must have done the research to ensure that the target was meaningful so why not copy it. It being far too time consuming to ask the customer or investigate what the system can deliver before setting a target.

The term target is understood by all

Besides being mixed up with goals and standards, as previously mentioned, the word "Target' ignores that there are two different types of targets.

1. **The binary** (succeed/fail) **numerical target** that gives no recognition for progress achieved, environmental factors, and is often set with little or none knowledge of the environment in which it has been set. All the issues with targets fit with this common category.

   Examples includes: 98% of hospital accident and emergency patients to be seen, treated, discharged or admitted within four hours from arrival; 98% of incoming telephone calls to be answered within 30 seconds by the call centre;

2. **Benchmark target** where you are measuring relative to others. This means environmental conditions are taken into account as they are the same.

   Examples includes: market share, industry awards.

Targets are a great communicator

This is where we need to understand the difference between goals, standards and targets.

There is no doubt that if you explain to staff what good practice looks like, and the **hygiene factors** are not getting in the way, and you have modern good management practices at work, staff will strive towards them. And this is where Jim Collins' Big Hairy audacious goals come into play. The timeframe is set in the future and staff search new ways to march towards the goal. In some cases, this results in a life changing experience as all those working in the sixties in NASA would attest to.

The trouble with a target is that there is an assumption that you did well or badly, with often no reflection on resources available, the drivers of demand or the compatibility with other targets

Targets and purpose are aligned

The majority of targets do not have much intellectual rigour attached to them. They can be designed in haste by a very clever, inexperienced and under pressure' young gun' in head office. Or worst chosen because they are used in the industry at large, which assumes someone 'must have done the intellectual grunt' to ensure it is right and appropriate.

Simon Black[viii] points out that:

> *"If you create arbitrary targets (and measures of performance) you will create a de facto purpose in people's mind which is to deliver those targets. This is different from actually delivering the purpose of the work."*

Targets can be aligned with financial incentives and penalties

It is very common for sales staff to be set annual sales targets and then a sub set of monthly targets. Some organisations then carrying forward any under performance into the next month thus increasing that target.

All I can say is that such systems are naïve at best and are often brought into the organisation without enough research and mental horsepower.

In NHS penalties were introduced. In the extensive study on NHS targets[ix] the researchers found,

> *"Many professionals and members of the public that we spoke to perceived financial penalties as perverse during a period when many providers are experiencing deficits."*

Organisations around the world are now questioning this linkage. Banks for example have now removed monthly targets from 'teller based' staff.

> One modern agile company, in both senses of the word, has taken profit sharing into a new "Blue Ocean'. They have a stated % of monthly profit that is put into the staff profit pool, which is shared equally between all employees. When the numbers are known for the previous month the staff gather and the newest member of the team now rolls a dice.
>
> Everybody holds their breath for if a six is rolled then the bonus pool is paid out and much merriment through the next few days is evident. The roller is a hero.
>
> The beauty of this method is that it happens randomly around two to three times a year, staff have not pre-spent their share so it is a true windfall, and the business has a one in six chance of a pay out when the cash is at its tightest.

The masters from the past have given great advice so lets use it

I was introduced Donald Wheeler and Brian Joiner in a podcast where Benyamin Elias, VP of Marketing at Podia was being interviewed on 'Metrics and Chill', an outstanding podcast series. Both these writers had been influenced by the great statistician W.E Deming.

Donald Wheeler pointed out that

> *"we can set a target of answering calls within 20 seconds, yet I have yet to meet a person would say yes I am happy when my call is answered quickly. Instead, they say, 'I want you to deal with me at my first point of contact' (i.e. have call center staff with the necessary knowledge, expertise, and authority)' Don't put me on hold unnecessarily', 'I want you to action what you have promised, when I need it and to do so first time.'"*

Wheeler went on to point out that a target is binary – it is either 'a pat on the back' or 'not good enough'.

> *"This 'on-again, off again' approach is completely antithetical* (directly opposed) *to continual improvement."*

Brian Joiner pointed out that

> *"When people are pressured to meet a target value, there are three ways they can proceed: They can work to improve the system; they can distort the system; or they can distort the data."*

Unfortunately, with target driven organisations there is no slack so there is no time for option 1, hence manipulation is a common and a widespread practice.

Managers at a hospital in the United Kingdom were concerned about the time it was taking to treat patients in the Accident and Emergency Department. Staff realized that they could not stop patients registering with minor sports injuries, but they could delay the registration of patients in ambulances as they were receiving good care from the paramedics.

The nursing staff thus began asking the paramedics to leave their patients in the ambulance until a house doctor was ready to see them, thus improving the "average time it took to treat patients." Each day there would be a parking lot full of ambulances and some circling the hospital. This created a major problem for the ambulance service, which was now unable to deliver an efficient emergency service.

Management should have been focusing on the timeliness of treatment of 'critical patients' and thus they only needed to measure the time from registration to consultation of these critical patients. Nurses would have therefore treated patients in ambulances as a priority, the very thing they were doing before the target came into being.

> In another UK hospital the unlucky patients waiting over four hours were now treated as a lower priority as they had become a statistic that could not be altered.

Wheeler was also scathing about the seductiveness of having a target on a target, such as treating 90% of patients within four hours in an accident and emergency department. These seduce us into thinking we are using something meaningful. In reality they mean nothing. They will encourage distortion.

Lessons from the health system

Since all readers will have visited a hospital , at some time in their life, it is appropriate to look at the impact targets have had there.

The '98% of hospital accident and emergency patients to be seen, treated, discharged or admitted within four hours from arrival' target has lead to:

- a disproportionate focus on areas which are measured at the expense of those which aren't. e.g. Cancelling aftercare as not covered by the target
- the setting of unrealistic targets such as ambulances reaching patients in less than seven minutes for life threatening issues regardless of traffic conditions and location of the patient.
- Gaming the system with patients who had already waited longer than the target given a lower priority:

Ten rules for making targets work

Here are the ten rules I have developed from the preceding discourse.

Rule#1: Do not set an annual target.

The only sure thing is that it will be wrong. It will be either too soft or too hard. To fully understand this important argument read Jeremy Hope and Robin Fraser's *Who Needs Budgets? Paper* in the Harvard Business Review 2002[x].

Rule#2: Consider very carefully what you really need. It could be a goal or a standard both are very different from a target.

A goal is something that you set which is for a period longer than a year. It is intended to be transformative and is not linked to pay.

A standard refers to a set of criteria or guidelines that define the level of quality, performance, or behaviour that is considered acceptable or desirable.

Rule #3: Agree on a set of criteria for a target

Because there has been so much carnage with targets you need to set some strict criteria before you give birth to them. As a minimum your criteria for targets should include:

1. Targets are not to be designed as a binary target (succeed or fail).
2. Target should be carefully aimed at the right problem.
3. Target are to designed through collaboration and thoroughly tested (three pilots is the gold standard) to ensure there are minimal negative flow-on consequences.
4. The team associated with a target can do something that has an almost immediate positive effect.
5. The necessary resources required to meet and exceed the target already exist or can be acquired.
6. Changes in performance can be adequately measured.

Rule #4: Targets are only set and reported on by a skilled in-house resource

In my KPI work I have argued for some time for a Chief Measurement Officer who would be responsible for developing, testing, implementing and using winning KPIs. Target setting would naturally be within their portfolio.

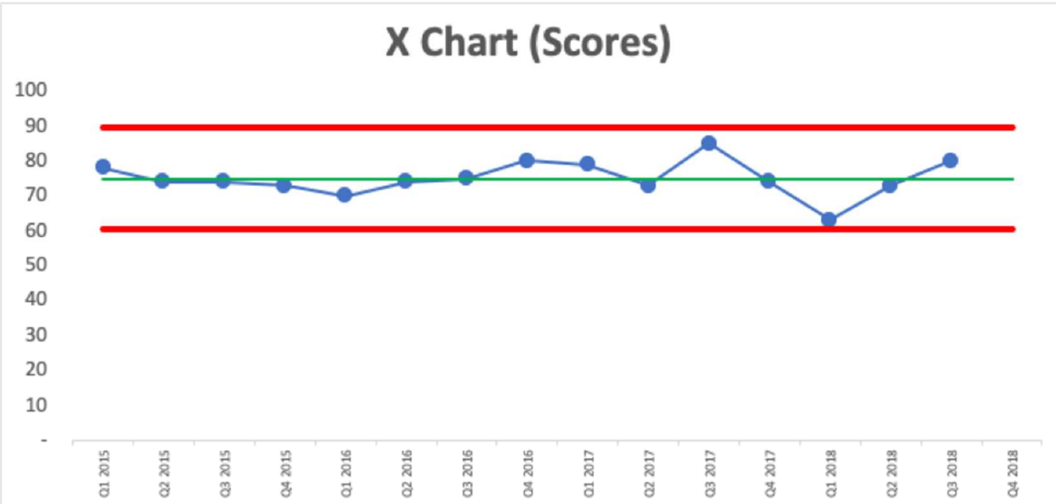
It is important that you train or recruit a staff member in statistical analysis. Someone who can maintain a XmR chart which is a Statistical Process Control chart. Now I know you are saying, "What?". Well, I told you that you need to train someone in this important field.

Rule #5: Progress is monitored through charts (at least 16 data points) to take account of environmental fluctuations

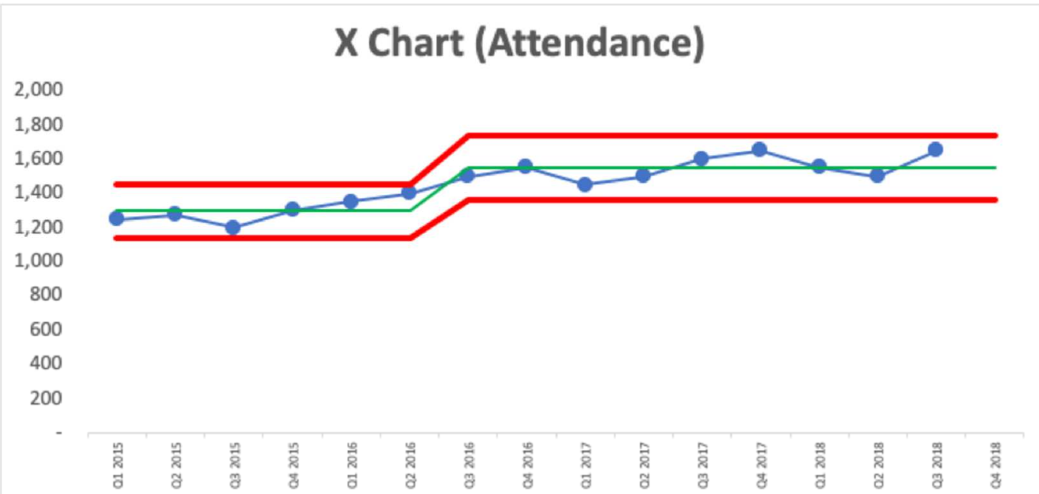
Quarter by quarter comparison in tables can lead to knee jerk reactions. For years statisticians have been giving use guidance on what constitutes a trend. They have suggested at least 16 data points. So, it would be logical to have four years of data if looking at quarter end results and 18 months if looking at monthly results.

Statisticians even created a chart called a "Process Behaviour Chart or X chart" to show what you should be looking at. They added three lines to the commonly used timeline:

1. An average (the green line)
2. A lower natural process limit (the lower red line)
3. An upper natural process limit (the upper red line)



If there has been a significant shift then the upper and lower lines are redrawn see as shown below.



Rule #6: Look for patterns before you jump to conclusions

As the saying goes," One swallow doesn't make a summer", nor does one outlier data point make a signal worth investigation (unless it is outside the acceptable limits). Statisticians need to see more evidence than typically we do before they talk about a major shift.

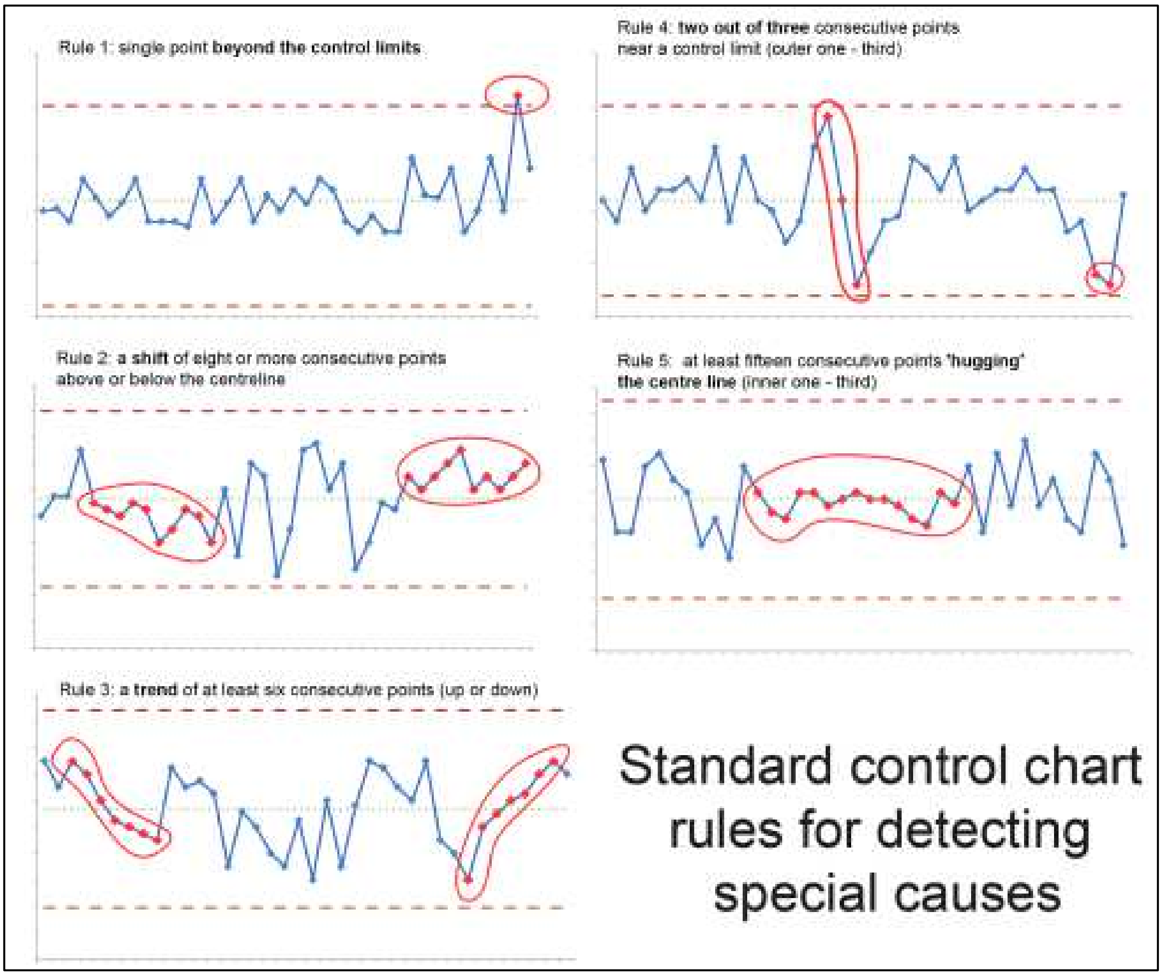
They use these simple rules when looking for a signal in an X Chart:

Rule 1: Any single data point outside of the deemed control limits

Rule 2: Eight consecutive points on the same side of the average

Rule 3: A trend of at least six data points going in the same direction

Rule 4: 3 out of 3 data points (or 3 out of 4) that are closer to the same control limit than they are to the average.



Rule #7:Be clear on what you are trying to improve

Use the 5 Whats to get to 'what' you are really after and therefore be able to ascertain whether a target, goal or standard is the best option. It is a way of drilling down and is a derivative of the commonly known 'The five whys' used in Kaizen to get to the route cause.

> Ask what(1) are we trying to improve? The answer I hear you say, "That's easy, we want growth in revenue by 20%." I then will ask, "What(2) are you trying to improve so that you increase revenue by 20%". "More sales from our key customers," you answer. So then I ask, "What(3) are you trying to do to increase sales to your key customers." Eventually you will unmask the real actions that need to happen, who can do it, and what tool to use to increase performance.

Rule #8: Adopt an ongoing abandonment programme of broken targets

> One sales team who sold farm equipment were paying commission on the total revenue of the sale, no account was given to the loss made on the over generous valuation on trade-in. On realising their error they changed to paying commission on the net revenue, were the trade-in value was taken off the gross revenue. This led to the sale person, who gave the most generous trade-ins, to resign and move on to create havoc at the less aware competitor.

Rule #9: Do not develop performance measures from targets. They should be derived from your organisation's critical success factors.

You will need to trust me on this one unless you what to invest 2-4 hours reading my work on this important issue. See my website, DavidParmenter.com

Rule 10: If you are connecting pay to the target make sure you THINK, TEST, IMPLEMENT in that order.

You can rest assured that most incentive schemes in your sector are flawed. So don't adopt them without a rigorous analysis of the consequences.

For sales targeting and commissions, I would read the HBR paper called "Motivating Salespeople: What Really Works". For bonus schemes access my chapter on it, "Performance Bonus Schemes" from DavidParmenter.com

Writer's Biography

David Parmenter is an international presenter who is known for his thought provoking and lively sessions, which have led to substantial change in many organisations. He has spoken in 33 countries. Besides delivering in-depth workshops he has been a keynote speaker for the IBM Finance Forum, The World Capability Congress, TEC Malaysia, and Profiles International Romania. David is a leading expert in; the development of winning KPIs, replacing the annual planning process with quarterly rolling planning, quick month-end processes and making reporting a decision based tool.

John Wiley & Sons Inc have published his four books, including "The Financial Controller and CFO's Toolkit", "The Leading-edge Manager's guide to success – strategies and better practices", "Key Performance Indicators – developing, implementing and using winning KPIs" and "Key Performance Indicators for Government and Non-Profit Agencies".

David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David was a fellow of the Institute of Chartered Accountants in England and Wales before he retired.

He has written over 50 articles for the accounting and management journals. He has won two 'article of merit' awards from the International Federation of Accountants. (2007 and 2009). His published articles titles include: *"Quarterly rolling planning - removing the barriers to success"*, *"Throw away the annual budget", "Beware corporate mergers", "Implementing a Balanced Scorecard in 16 weeks not 16 months", "Convert your monthly reporting to a management tool", "Smash through the performance barrier", "Is your board reporting process out of control?" "Implementing winning Key Performance Indicators", "Quick month end reporting" "Conquest leadership- lessons from Sir Ernest Shackleton" "Should we abandon performance measures?" "Putting the finance team on the map" etc.*

---

[i] Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap*, Harvard Business Press 2003

[ii] Natalie Berry, Tim Gardner, Isobelle Anderson, *On Targets: How Targets Can Be Most Effective In The English NHS*, Health Foundation 2015

[iii] Dr Monica Franco-Santos and Prof Mike Bourne, *The Impact Of Performance Targets On Behaviour: A Close Look At Sales Force Contexts*, Cranfield School of Management 2008

iv Simon Caulkin, award-winning business journalist, *This Isn't An Abstract Problem. Targets Can Kill* , Sunday Observer March 2009

[v] Frederick Herzberg, *One More Time: How Do You Motivate Employees?, Harvard Business Review January 2003*

vi The theory was first drawn from an examination of events in the lives of 1,685 employees engineers and accountants. At least 16 other investigations, using a wide variety of populations (including some in the Communist countries), have since been completed, making the original research one of the most replicated studies in the field of job attitudes.

[vii] Natalie Berry, Tim Gardner, Isobelle Anderson, *On Targets: How Targets Can Be Most Effective In The English NHS*, Health Foundation 2015

[viii] Simon Black, *Targets Only Motivate People To Meet The Target (Not To Do Good Work*) January 2017

[ix] Natalie Berry, Tim Gardner, Isobelle Anderson, *On Targets: How Targets Can Be Most Effective In The English NHS*, Health Foundation 2015

[x] Read Jeremy Hope and Robin Fraser's *Who Needs Budgets? ,* Harvard Business Review 2002