Hitting the Target but Missing the Point

Most managers see the setting of numerical targets as the only way of committing their organizations to performance. The practice, however, can be highly problematic – for various reasons and especially if individual bonuses are attached to the targets set. Yet, there are other ways to achieve the best possible performance – and there are examples that prove they work.

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The world of management is full of myths and rituals. Many seem to have been with us forever and are explained and justified with "we have always done it like this" or "everybody else is doing it". One of these rituals, target setting, seems to have always been there. However, that is not actually true. If we go back 20 or 30 years, the situation was quite different. There were far fewer targets around. Yes, there were detailed budgets, which often represented targets, and there still are in many organizations. These were mainly financial numbers, however. The birth of the Balanced Scorecard in the 1990s led to a massive increase in non-financial KPIs, leading to a much greater prevalence of measurement and subsequent target setting. This new way of managing later spread to the public sector, where "New Public Management" has led to a highly problematic increase in target setting, measurement, and reporting there, as well.

Along the way, we seem to have forgotten something important: "The target is not the target". It is not about hitting a certain number. What we really want is the best possible performance given the circumstances. Setting targets is one way of trying to achieve this but not the only way and, all too often, not the best way.

The target myths

Rituals are not necessarily a problem. Myths are different because they are typically not true. There are three strong myths surrounding targets, which are all seemingly undisputable justifications for this popular management practice:

- "Without targets, employees will not know what to do."
- "Without targets, employees will not be motivated to perform."
- "Without targets, management will be unable to evaluate performance."

These myths are not only disputable, they are simply not true. I will explain why, but let me first clarify an important point. The targets I challenge here are numerical targets. They are very specific, often annual, and different from more general ambition statements with rounded numbers such as "in the range of" or "towards". In addition, they are also absolute, not relative, where one's own performance is compared to the performance of others. They are also typically set from above in order to control, punish, or reward. I have much fewer problems with targets people set for themselves to learn and improve, although these can also be problematic if they are taken too literally.

"We seem to have forgotten something important: 'The target is not the target'."

"Without targets, employees won't know what to do". Not true. Words can often give direction and set expectations much more clearly and intelligently than any single number can do.

"Without targets, employees will not be motivated to perform". Not true. Many, including myself, are much more fired up by the right words, igniting our hearts and minds in a very different way than those clinical and decimal-loaded numbers ever could.

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"Without targets, management will be unable to evaluate performance". Not true. This one might be the most solid myth to bust, so let us dive a bit deeper here.

No target – no performance evaluation?

A target attempts to describe what good performance will look like at some point down the road, for instance at year-end in the case of an annual target. When there is a lot of uncertainty that we cannot control, this becomes quite difficult to define. Where is the market going? What will competitors do? What about the oil price and exchange rates? We must make a number of assumptions about all these uncertainties, which forces us to be quite subjective even if we do not want to be. Yet, when we finally decide on a specific number, the subjectivity seemingly disappears. We have now defined what good performance looks like. It has all become more orderly, and we can focus on measuring whether we are hitting the number or not.

Setting targets is a demanding exercise when there is high uncertainty.

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What we have been through, though, is actually a premature performance evaluation, and a quite difficult one, due to all that uncertainty that forced us to make all those guesses. Would it not make more sense to do this job afterwards only, when all the uncertainty is gone? We would then know what happened with markets and competitors. We would know how the oil price and exchange rates moved and more. Why should we let a yardstick selected twelve months ago be the blind judge when we can examine the facts now? Why should we base it all on the guesses we made back then? To put it simply: Most of us know what good performance looks like when we see it. We do not always need the crutch of a preset target.

Targets work. That's the problem.

Many will still argue that target setting works. Yes, targets do work. That is actually the problem! However, when managers hit their targets, there is no guarantee whatsoever that that was their best possible performance or the performance or behaviors we actually wanted. Too often, targets stimulate what we do not want to see in our organizations, from lowballing and gaming during target negotiations to suboptimal and sometimes even unethical behaviors when trying to hit them. Also, perhaps some managers could actually have performed even better because they had a lot of tailwind, whereas others had a lot of headwind and actually performed well even though they did not hit their target. But, we can only know this in hindsight!

The economist Charles Goodhart already addressed the behavior issue back in 1975. "Any observed statistical regularity will tend to collapse once

Summary

- Target setting has emerged as an important and undisputed part of management over the last 20 to 30 years, setting ambition levels and securing both performance and a reference to evaluate it against.
- The practice can however be highly problematic, and even more problematic if individual bonuses are attached to targets.
- All too often, we do not get the outcome we actually want – the best possible performance given the circumstances.

pressure is placed upon it for control purposes." Marilyn Strathern later phrased what became known as Goodhart's law: "When a measure becomes a target, it ceases to be a good measure" (Strathern 1997, p. 308). It happens because the purpose shifts – from learning to control.

Targets are often expressed through Key Performance Indicators (KPIs). When we convert everything into three-letter acronyms, we often forget what the letters stand for. Many seem to have forgotten that the "I" in KPI stands for "indicator". KPIs indicate whether we are moving in the right direction. The indication can be strong or weak, but it seldom tells the full truth. This is probably why they are not called KPTs: Key Performance Truths. We must therefore look behind these indications before any conclusions are possible. Do not forget these wise words: "Not everything that counts can be counted, and not everything that can be counted counts" (Cameron 1963, p. 13). That is why we need a holistic performance evaluation.

Focusing blindly on targets, therefore, can be highly problematic, even dangerous, even when there is no change in assumptions. We have seen too many sad examples of blind KPI target management running the show, with disastrous results.

A holistic performance evaluation

If we do set KPI targets, the uncertainties discussed above require that we take hindsight knowledge into account:

- Indicator uncertainty – How big is the "I" in the KPI, i.e., how strong is the indication?
- Target uncertainty – What is the right number for a target?

In addition to the consideration of indicator and target uncertainties, there are also other questions that should be asked in a holistic performance evaluation: How did we achieve our results? How ambitious were the targets? Which risks were taken? How sustainable are the delivered results? Some would argue that all this assessment on top of measurement makes the performance evaluation too subjective. They would prefer the objectivity of only comparing two numbers: Actuals versus targets. Yet, as we discussed above, this objectivity is an illusion due to the subjectivity going into target setting in the first place.

"Focusing blindly on targets can be highly problematic, even dangerous."

The longing for full objectivity might also have something to do with managerial laziness. It is obviously much easier to compare only two numbers. Making a deeper performance assessment by looking at what really happened and digging behind measured results in order to reveal the true underlying performance requires more effort. It takes leadership. Some find that cumbersome, even difficult. But we need leaders with competence beyond the ability to compare numbers. Leadership is not meant to be easy.

If you are new to, but intrigued by these reflections, you might wonder if it is all nice theory and wishful thinking. It is not. Several organizations have

Individual bonuses amplify the target problems and often have negative effects when applied on more complex work.

either dropped or never introduced targets. For instance, Handelsbanken and Miles, two great and high-performing companies that operate not only without targets but also without most other management rituals, including budgeting. They are both the focus of case studies in my book "Implementing Beyond Budgeting" (Bogsnes 2016).

It is possible to set ambition levels, get great performance, and evaluate it without pre-set targets.

Making it worse – individual bonuses

Another ritual that dominates business today, and which has now also found its way into the public sector, are individual bonuses – "do this and get that". Linking individual bonuses to targets will only increase the many challenges described above. Shared bonus schemes, in contrast, are very different – i.e., everyone on a common scheme driven by, for instance, company performance.

There are two main reasons why organizations operate with individual bonuses, but they are not related. The first is a market reason: "We have to be competitive". I accept that; but there are many ways of being competitive. Individual bonuses do not have to be on the list. Handelsbanken has had no problems whatsoever with recruiting great people without offering individual bonuses. This is true even in the UK, where it is the fastest growing bank on that market, and thus requires a lot of new staff. The second reason is quite different: "Individual bonuses are both good and necessary for motivating people". This is where the myth kicks in. I can hardly think of any other area where there are larger gaps between what business believes and what research documents. There are fifty years of highly consistent research with very clear conclusions.

This research tells us that individual bonuses can be highly effective under the following circumstances: When there is little motivation associated with the job itself, measuring is easy, and quantity is more important than quality. So, for picking carrots, simple sales work (maybe), and similar jobs, individual bonuses do motivate better performance. However, when we move to more complex and team based "knowledge" work, money loses its motivating power to purpose, mastery, autonomy, and belonging. The feeling of being part of something big and bold, the joy of getting better at something, the freedom of not being micro-managed, and the power of teamwork and togetherness are all more powerful motivators than that bag of money. What they all have in common (beyond the fact that they are all free) is leadership. They all require good and solid leadership efforts, which of course is more demanding than dangling carrots in front of people.

I have personally been on individual bonus schemes for more than twenty years. Of course, I enjoy the money, but if someone believes that this is what motivates me, they have not done their homework. I am optimistic, though. There are positive signs out there. The Nordic insurance giant "If" has just abolished individual bonuses in their customer center in favor of a shared bonus scheme and somewhat higher base salaries. The result? Better employee and customer satisfaction and improved business performance.

Even the management consultants seem to be waking up. It began with recommending their clients to move away from the traditional performance

Tips for further study

If you found this article interesting, read more about Beyond Budgeting at https://bbrt.org/. The Beyond Budgeting community has been advocating more agile, adaptive, and human ways of leading and managing for twenty years. A number of organizations around the world today are on a Beyond Budgeting journey.

Hope, J./Bunce, P./Röösli, F. (2011): The Leader's Dilemma: How to Build an Empowered and Adaptive Organization Without Losing Control, San Francisco.

Morlidge, S. (2017): The Little Book of Beyond Budgeting: A New Operating System for Organisations: What it is and Why it Works, Leicester.

reviews and ratings and making the link to pay in a more assessment-based manner. Several of the big firms have actually done this themselves (it is not always the case that they take their own advice…). Some have also moved towards more shared bonus schemes, a sign that I hope will soon result in a strong and unified message from this powerful part of the business world: Individual bonuses are incompatible not just with what research tells us. They are also very much in conflict with the spirit of Lean and Agile, which so many of their clients have been or are currently implementing. The focus on team, flow, and customers in these concepts are the very opposite of what results from "do this and get that".

What's in it for me?

Getting rid of things does have consequences. If you are a manager or if you work in Finance or Human Ressources, should you be worried about your role if there are much fewer targets and no bonuses? No, you need not be! There will be more than enough left for you to do. Your job will be different, however. The future will be much less about managing performance through targets and bonuses (and budgets and a lot of other stuff). It will be much more about enabling performance; about creating conditions for great performance. It will be about dismantling all the traffic lights put up in the organization and replacing them with roundabouts where self-regulation, trust, autonomy, transparency, and helping each other is key. The result will be a much better "flow", more happy people, and much better performance. There is not much to be worried about!

The actual, measured performance must be pressure-tested with hindsight insights before any conclusion are drawn.

Literature

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