



OFFICE OF ORGANIZATIONAL EFFECTIVENESS

PERFORMANCE MANAGEMENT TIPS: A PRIMER ON TARGET SETTING

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Why You Need Targets

To manage performance effectively, you need to understand how you are doing. Your measures will give you quantitative information about your performance, but to understand if you are optimizing performance you need to put those numbers into perspective. Comparisons help you gain perspective by gauging your performance with respect to a broader context.

The Views environment in OGS offers two types of comparatives: the previous year and a target. Comparisons with the previous year show how performance compares with that of the prior year. Comparisons with a target show how performance compares with a goal set by the program. This primer focuses on targets.

Used appropriately, targets have significant benefits. They can:

- Communicate leaders' expectations,
- Drive continuous improvement, and
- Motivate staff (provided that the target is realistic).

Why People Fear Targets

Although targets are essential to an effective performance measurement and management program, setting them is not easy. Indeed, target setting can give rise to intense anxiety. Many managers and line staff strongly resist efforts to set and use targets fearing that they will be punished if performance falls short of the target. The key, then, is to cultivate positive uses for targets.

Positive Uses for Targets

Targets can motivate staff by providing a clear and measureable goal. Achieving or exceeding a target can provide a reason for celebrating important achievements. Even disappointing or poor performance need not be an occasion for self-doubt. Instead, a failure to meet a target can be grounds for inquiry and learning more about the factors driving performance. Such inquiry helps identify opportunities for improvement. Disappointing performance may also lead to more effective

resource allocation (which may involve prioritization and advocacy for essential program needs). Targets also help organizations monitor pain points, such as process bottle necks, and show progress made in addressing them.

In the context of OGS’s performance review process, performance shortfalls are very often an opportunity to direct agency leaders’ attention to areas where programs need their support. Such support can take the form of communication with stakeholders, resource allocation, and policy direction. Agency leaders and managers need to foster a culture of performance measurement as proactive problem-solving. By focusing on actions to improve poor performance, leaders keep the lines of communication open and win support for change management efforts.

How to Choose Targets

Use past performance to set targets for incremental improvement

Perhaps the simplest way to set a target is to choose a target representing an incremental improvement over recent performance. Such targets encourage minor process improvements and changes in resource allocation. This is a good approach in areas where resources are limited, measures are not especially volatile, and transformational change is not needed.

For volatile measures, the target may need to be set with the aid of smoothing techniques such as moving averages or in the case of cyclical behavior, varying the target to mirror the cyclical behavior. Managers and leaders must take into account volatility in interpreting performance results.

Use past performance to set targets for incremental improvement	
<i>Pros</i>	<i>Cons</i>
<ul style="list-style-type: none"> ⊙ Doable ⊙ Easy to understand and explain ⊙ Usually results in realistic targets that are likely to be accepted by line staff 	<ul style="list-style-type: none"> ⊙ Does not promote transformational change ⊙ Does not compare against best in class ⊙ Target setting may be delayed if past performance data are not available ⊙ Corrections may need to be made when working with volatile measures.

Use customer expectations

Using customer expectations for target setting ensures that agency actions are centered around the customer. The keys to successful target setting in this method are knowing who the customers are and gathering reliable information on their expectations. Customer satisfaction surveys are one source of information. To get detailed feedback on customer expectations, focus groups can provide valuable open-ended feedback on customer expectations and details on what factors have the most influence on customer satisfaction.

In some cases, customer expectations may exceed the organization’s capacity to meet them. In such cases efforts may have to be made to manage expectations.

Use customer expectations	
<i>Pros</i>	<i>Cons</i>
<ul style="list-style-type: none"> ⊙ Relevant; serves an important strategic goal ⊙ Easy to explain, and justify ⊙ Research to understand customer expectations can inform customer service improvement efforts 	<ul style="list-style-type: none"> ⊙ Expectations can be difficult to meet (in which case the strategy may be to manage expectations) ⊙ Customer relations research can require a significant investment of resources

Use legislative or regulatory mandates or important policy goals

Sometimes performance expectations are embedded in legislation, Executive Orders, regulations, or other forms of policy guidance. Executive Order 111 offers a good example of this type of target setting. EO111 requires OGS to reduce energy consumed by 35 percent by 2010 relative to its 1990 energy consumption level.

Targets set in this manner are clear and easy to explain; however, they may also be overly ambitious or optimistic. Also, when targets are set by outside groups (legislators, politicians, or policy advocacy groups) with little or no input from the managers who will be responsible for performance, then staff may feel the targets are unreasonable and lack motivation to achieve them.

Use legislative or regulatory mandates or important policy goals	
<i>Pros</i>	<i>Cons</i>
<ul style="list-style-type: none"> ⊙ Aligned with important stakeholder values and goals ⊙ Easy to justify 	<ul style="list-style-type: none"> ⊙ May not be realistic ⊙ Managers not involved in target setting (and so lack motivation to achieve them)

Rely on industry standards or widely accepted best practices

In some cases, especially in highly professionalized disciplines with formal associations, targets can be set according to industry standards or norms that constitute widely accepted best practices. Industry standards are very useful because in most cases they have been thoroughly researched and vetted. As such, they tend to be methodologically sound, attainable, aligned with important organizational goals, and widely accepted. For organizations that are underperforming, using industry standards can encourage transformational change to bring the organization up to speed with current practice in a particular discipline.

One challenge of using industry standards is that often an organization must customize them to account for regional variations, differences in the customer base, or other factors that differentiate the organization's business from the standard. Because the methods used to set industry standards are often quite complex and sophisticated, the adjustments needed may also be

complex and sophisticated. Maintaining transparency while making the necessary adjustments to an industry standard can be difficult.

Rely on industry standards or widely accepted best practices	
<i>Pros</i>	<i>Cons</i>
<ul style="list-style-type: none"> ⊙ Usually based on sound research and analysis ⊙ Ensures staff are “plugged into” the best thinking in their professional disciplines ⊙ Easy to defend and explain. (If “they” can do it, so can we.) ⊙ Can drive transformational change 	<ul style="list-style-type: none"> ⊙ Often need to be adapted (regional adjustments or to adjust for the specific characteristics of OGS’ business environment), and calibrating the adjustments can require time-consuming and fairly sophisticated analysis

Benchmark against your best performing peers

If you cannot find an industry standard to aid in target setting, you may be able to set a target by comparing your performance to that of your peers. This can be a time-consuming and challenging exercise. Finding peers that are truly comparable and developing a reliable method for making the comparisons can be difficult. Moreover, targets set using benchmarking exercises lacking sufficient vetting and critical rigor are easily criticized and may not be taken seriously.

On the plus side, a solid benchmark can drive transformational change. Because other organizations have achieved the results, they cannot be viewed as unattainable.

Benchmark against your best performing peers	
<i>Pros</i>	<i>Cons</i>
<ul style="list-style-type: none"> ⊙ Can drive transformational change ⊙ The benchmarking effort can have value in and of itself as a capacity-building exercise ⊙ Targets are indisputably attainable (because someone else has attained them) 	<ul style="list-style-type: none"> ⊙ The benchmarks must be appropriate (comparable to OGS’ situation) ⊙ Finding an appropriate method can be difficult ⊙ Requires time consuming analysis ⊙ Gameable (in both the selection of a benchmark and the method used)

Pick a big bold number (also known as a BHAG: a Big Hairy Audacious Goal)

It sometimes happens that, at a loss for a benchmark or other target grounded in reality, a leader or politician will settle on an ambitious target, or a Big Hairy Audacious Goal (BHAG), that represents a significant improvement over current performance.¹ When staff believe in the leader’s vision and find the target realistic, the organization is in a position to achieve transformational change. If staff think the target is unrealistic and/or they do not share the vision, then they will not

¹ The term was coined by James Collins and Jerry Porras. See their 1996 article: “Building your Company’s Vision.” *Harvard Business Review* 74(5): 65-77.

be motivated to change the way they work to achieve the target. Typically, success in achieving a BHAG depends on a detailed understanding of the performance issue and what needs to be changed in order to achieve the goal. (The team charged with improving performance on that metric usually decides how best to solve the problem to meet the target.)

Pick a Big Hairy Audacious Goal (BHAG)	
<i>Pros</i>	<i>Cons</i>
<ul style="list-style-type: none"> ⊙ Can drive transformational change ⊙ Can align staff's efforts with organizational goals 	<ul style="list-style-type: none"> ⊙ May not be grounded in reality (in which case morale can suffer) ⊙ Can depend on leaders' ability to communicate a vision and motivate staff

Target Setting Tips

Targets should be attainable

Targets should be attainable. If the target represents a large improvement over current performance, consider using a stepped approach. Gradually increase the target over a number of time periods (even years in some cases) to get to the desired level.

Calibrate your targets

When setting targets, look at trend data and take into account how each measure behaves. Some measures vary little from one time period to another, while others vary substantially. Measures with little variability require no special target adjustments.

Measures that tend to increase or decrease steadily or follow some other cyclical pattern, on the other hand, require that the target take into account this tendency. For example, many cost or price measures that tend to increase with inflation should have targets that are adjusted for inflation. Since there are many types of inflation indexes, be sure to use one appropriate for your measure. Another type of variability for which adjustments are relatively straight forward is cyclical variability. For measures that vary according to an annual cycle (such as a budget cycle), consider basing the target for a given period on past performance at the same time during prior years.

Don't "set it and forget it;" review and revise your targets

Signs you may need to adjust your targets:

- ⊙ You have consistently exceeded the target for quite some time
- ⊙ Performance changes steadily in one direction, but the target remains flat. (For example, some measures should be adjusted for inflation)
- ⊙ You have never come close to the target and probably never will

Target setting for measures with unpredictable variability is more problematic. To get a sense of performance with respect to an overall trend, consider basing your target on a moving average, which averages the results from several

consecutive time periods. (For each successive time period a moving average shifts the periods comprising the average one time period forward.)

Beware of creating perverse incentives

Performance management occasionally gives rise to counter-productive behavior from employees. This can happen when efforts to meet a target result in unintended negative consequences. For example, having a goal of decreasing the cycle time for a production process could result in an increase in the error or defect rate as employees cut corners to meet the cycle time target. Establishing a companion quality assurance measure with targets for error rates would prevent employees from trading quality for speed. Having a balanced portfolio of measures ensures that your measures do not encourage employee actions that undermine organizational goals.

Conclusions

Target setting and working toward those targets is an integral part of performance measurement and performance management at OGS. Targets are intended to motivate employees and guide the agency to improved performance in strategically important areas. Accordingly emphasis should be placed on making positive uses of targets to foster an improvement-oriented culture.

Targets need to be realistic. As part of the iterative performance improvement cycle, both metrics and targets should be reviewed and adjustments made when necessary. Targets that have been exceeded for several time periods may need to be raised. Targets for some measures will need inflation adjustments or other modifications to account for changes in the performance environment.

Thank you for your ongoing efforts to implement and improve OGS' performance metrics. Target setting is an important component of an effective performance management program. If you have questions or would like advice about setting targets for your measures, contact the Office of Organizational Effectiveness at 518.474.1589.