

CGMA TOOLS

How to set the right
performance targets:
a ten step target
setting tool

HOW TO SET THE RIGHT PERFORMANCE TARGETS: A TEN STEP TARGET SETTING TOOL

Targets are frequently used as a motivational technique. Founded on well established theories of achievement motivation, targets that are specific and perceived as achievable can help to focus managerial action, encourage people to succeed and drive superior performance.

But setting the right targets is tricky and has become a real issue for many organisations.

The target-setting tool presented here is based on research by Professor Mike Bourne and Dr Monica Franco-Santos at the Centre of Business Performance, Cranfield School of Management and was adapted from *The impact of performance targets on behaviours: a close look at sales force contexts*, CIMA/ Cranfield School of Management, 2009.

Based on a two year study and interviews with nearly 100 sales people, the Cranfield School of Management identified the common barriers to setting effective targets, and have developed a ten-step tool to help improve the target setting process.

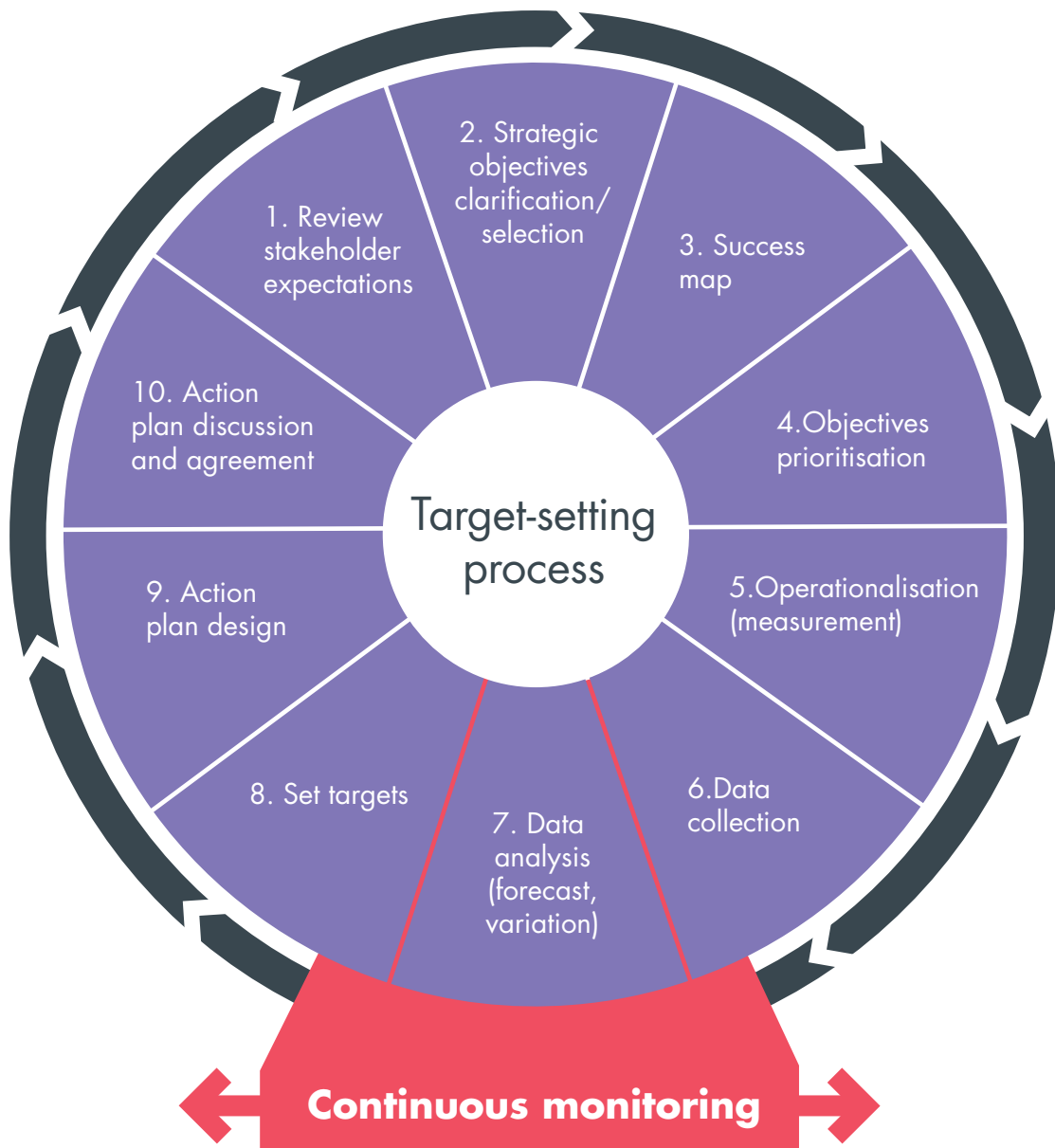
Common target setting issues

There are three common issues that undermine the effectiveness of targets. These are:

- **The forecast was mainly based on past performance** so people do not over achieve as over achievement will make the next year's target much harder.
- **Some targets are based on the wrong performance measures** which is often referred to as "hitting the target and missing the point."
- **Targets were 'given' to the sales people** and no ownership was created.

This target-setting tool will help you better understand and implement sales targets. It is divided into ten steps and presented in the form of a wheel to illustrate its cyclical nature. (see page 3)

1. **Review stakeholder expectations:** You need to ask "who are our stakeholders?" and "what do they expect from us?" This will determine the critical areas your organisation needs to address in order to be perceived as successful.
2. **Strategic objectives clarification/ selection:** Once the stakeholders' expectations are identified, you need to express these as strategic objectives. Strategic objectives are clear statements of what the organisation needs to achieve. They must be few in number and should address the different stakeholders' requirements.
3. **Success map:** A success map is a visual tool that shows how lower level objectives link to higher level strategic objectives. It is a powerful communication tool that explains "what" is to be achieved and "why". It also shows where each part of the organisation contributes to achieving these goals.
4. **Objectives prioritisation:** Most companies try to achieve too much. It is much better to prioritise and deliver fewer objectives than fail to deliver on too wide a range of goals. The focus will help employees too as they will be very clear about what is important in the coming period.
5. **Operationalisation:** This means designing appropriate performance measures. How you define the measure will drive behaviour. So KPIs must reflect the organisation's goals and encourage the right behaviour from those responsible for delivering the goals.
6. **Data collection:** This step is often overlooked. You need to collect timely and relatively accurate information as a basis for setting your targets. Data is never perfect, but it does have to be consistent and reliable enough to be fit for purpose.



- 7. **Data analysis:** This is fundamental. You have to draw on your knowledge of the past and of the future to project what is going to happen. You also have to analyse the capability of your processes. Are the processes capable of delivering the forecast? Most companies forecast, but fewer reassess their capabilities.
- 8. **Set targets:** Based on the previous steps, this is the point you set the target. Judgement is required and you need to assess the risk of getting the target wrong. This is also where most organisations stop, but this is not the end of the process.
- 9. **Action plan design:** An action plan is required covering all the projects and changes to the organisation that are needed to ensure the target is reached. This may include training, new processes, new IT systems or ways of working with your customers.
- 10. **Action plan discussion and agreement:** The plan must be communicated to staff. The communication has to be two way and done regularly. Regular staff meetings where the objectives are restated, goals outlined and progress discussed is a good format. Sending out the annual targets by email is not!

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