Decision Making
Is the foundation of
Performance

Thinking Dimensions Global

Insights and Actions for Executives

CEO P.O.V.

Ambiguity in Goals Handcuffs Business Performance

CEO POINT OF VIEW QUARTERLY q1.2012

AMBIGUITY IN GOALS HANDCUFFS BUSINESS PERFORMANCE:

TAKING THESE STEPS TO ELIMINATE LACK OF CLARITY IN GOALS WILL EXPEDITE BUSINESS PERFORMANCE

POV of article: CEO's and Senior Leadership must ensure these four elements make up the structure of all goals or they run the risk of making accountability nearly impossible for those they manage.

1. Goal Setting Reality – Too much room for interpretation

Too often CEO's allow ambiguity to creep in to the language of goals and objectives. Ask a senior leadership team to individually write down the overarching goal for the company for the year and the variety of answers will surprise you; ask them to identify the year's revenue or EBITDA goal and the variety of answers in that narrowed range may surprise you as well. Which always begs the question; if the leadership team is not aligned on the specific language of goals and objectives, what happens to expectations as those goals in their various forms trickle down to functional areas and actions? In short – you have set up the organization to underperform. But there is a simple fix to resolve this disconnect.

The specific language of goals can determine the black and white between success and failure. Lack of specificity can lead to serious miscommunication or in extreme cases, violent disagreement on someone's personal performance. An employee may believe they achieved a goal based on how it is "written in their head" and you may tell them they failed; because of your interpretation or the way that goal is "written inside your head." Thinking needs to be made visible. Ambiguity needs to be eliminated. Not just for company goals, but for individual's objectives as well or implicitly employees are being set up to deliver less than optimal business results.

How do we make sure everyone is on the same page? Simple. Insist that every goal and personal objective, at every level, contains four elements. And that no one can assign a goal if any one of the four is missing and no one in the organization is accountable for a goal unless all four elements are in place in the goal statement. These include:

Eliminating Ambiguity in Company Goals – Checkpoints

1. ***Is the Leadership team aligned to the specific goals?***
2. ***Are there any goals that leave room for interpretation?***
3. ***Does each of the goals include these four elements?***
   - ***A. Simple, clear goal statement***
   - ***B. Metric – gauge of measurement***
   - ***C. Target – numeric or range***
   - ***D. Data Source***

4 Elements of Unambiguous Goal

1. Simple, clear goal statement
2. Metric
3. Target
4. Data Source is identified

Sounds simple? It is, but requires a commitment on behalf of the senior management not settling for ambiguity in goals. Decide to make it happen in your company, starting tomorrow, and the results will be significant. Let's take a close look at each element

1. Simple, Clear Goal Statement

This is where it begins. People often feel a need to fill in as many words as possible, quite often dealing in part for why this is a goal. The fact of the matter is a goal statement needs to be as lean as possible. The justification as to why this is a goal or worse yet, puffery as to what the intent of the goal is, must be totally eliminated. In goal statements, the fewer the words, the better.

TYPICAL GOAL STATEMENT:
In order to continue to position Acme Corp. as the world leader in widgets and to provide all our stakeholders with the returns they expect, we will increase EBITDA by a double digit %.

CLEAR GOAL STATEMENT:
Increase EBITDA

That's it, two words. The goal statement, cut to its essence, is to increase EBITDA. The more words you add, the less likely anyone will remember the goal.

2. Metric – a common gauge of measurement (e.g. $, %, # of)

A business metric is any type of measurement used to gauge some quantifiable component of a company's performance. This is specifically defining how this goal will be measured; is it in Dollars, Euros, percentage, and number of units, clock or calendar time? In addition using "MINIMUM or MAXIMUM" in the metric assists in setting clear boundaries of performance. This element is vital for clarity.

Why is this critical?

We once asked a group of company executives what the overarching goal for the year was for their company.

"Pick a specific metric and make sure everyone uses that same metric for that goal. "

Creativity is not advantageous in aligning metrics with people's performance targets

Their response? Increase EBITDA.
The next question asked was; by how much?
The VP of Sales responded with a quick “5%”.
The CFO responded second with, “well 5% is right, but what we really want to do is make sure we hit $8 million dollars…”

The VP nodded his agreement.
So, what’s the goal?
If you worked for the CFO, you probably were told the EBITDA goal this year is $8 million dollars.
If you worked in sales, you probably heard that the company wants a 5% increase in EBITDA this year.

The problem is that 5% and $8 million dollars are not the same number. You could have a sales department celebrating a 5% increase and a CFO asking why they are celebrating when they fell $350,000 short of this year’s goal.

Pick a specific metric and make sure everyone uses that same metric for that goal. Creativity is not advantageous in aligning metrics with performance targets

Without a clear target you will guarantee the probability of hitting a goal is low.

3. Target (a single number or set limit range e.g. 4 or 4-6)

This is the numeric that establishes whether the goal was achieved or not achieved. This is why it needs to be very, very specific – and numbers enable this.

Let’s assume that Acme Corp. set a goal of hitting $8 million in total EBITDA and after a very difficult year, with huge setbacks in the market, they scratched and clawed their way to an EBITDA of $7.8 million. Did they hit their goal?

Some people in the company may say no and others may say, “well, given the circumstances, I’d say we were close enough and hit our goal”. Do we celebrate victory?

Because we were not very specific, we now have introduced subjectivity in to the equation. Goals should be objective, not subjective.

This is eliminated by making sure that we clearly define what the target is. Numbers or ranges bring specificity to our meaning of “performance”.

Given the same scenario above with Acme Corp., if the goal statement had been “ Increase EBITDA to a minimum of $8 million“, there would be very few people who would make the case that $7.8 million was worthy of a victory dance.

Clear Goals Enable Performance

If percentages are used for a goal, they should be as specific as needed to draw the line in the sand. Depending on the circumstances, a percentage taken out two decimal points or more may be appropriate to add the clarity desired. “Increase throughput by a minimum of 6.27% over prior year”. Without a clear target you will guarantee the probability of hitting it is low.

4 Point Goal Example

Element 1 Clear Goal	Element 2 Metric	Element 3 X=Target	Element 4 Data Source
Increase net profitability in the Delta product line over prior year	**Minimum of X Thousand US dollars**	**65**	**Product Line Profitability Report 2.0**

4. Data Source - Where we go to get the agreed upon data

This is a crucial element that is often missing in goal statements.
It is the agreed upon source that will be used to determine if the goal target was achieved.

In big companies, there are a numbers of reports that often have conflicting filters that produce different numbers.

The sales department has a report they authored to track their sales by customer that doesn’t coincide with the report finance uses to track customer sales. So it needs to be very clearly stated as to which data source is going to be used to validate results. If this seems a bit too much detail, consider companies that rely on achieving goals to calculate incentive pay. Disagreements as to “whose numbers are we using” are not uncommon and can be very costly.

Ambiguity in goal setting is rampant. If everyone in the company who sets goals or objectives understands they must contain the required four elements, it will add the objectivity needed when discussing success or failure in achieving those goals. Enabling performance means set clear goals that actionable and people can be held accountable for.

This article was authored by John Case, Partner in the Global Strategy Practice.

Thinking Dimensions is a global consultancy that assists clients in resolving strategic and operational issues. We bring proven decision making methodologies to assist clients battling growth, cost, and security challenges. Our process-driven **KEPNERandFOURIE™** thinking technologies guide the development of effective corporate strategies, operational improvements, and Information Technology Root Cause Analysis (ITRCA) solutions. All of our client solutions recognize decision—making is the foundation of performance.

Thinking Dimensions is led by Drs. Charles Kepner and Mat-thys Fourie who have over 60 years of combined thought leadership in decision making and process consulting. Today, Thinking Dimensions Partners and Associates in over 20 countries throughout the ASIA-PACIFIC, EMEA and AMERICAS regions deliver expedited results on pressing business issues.