

## Introduction



This 2GC Management Briefing looks at target setting within the context of performance management. Targets have had a “bad-press” in recent years, but without target values the utility of a performance management system is reduced enormously. Targets are a powerful expression of the underlying purpose of measurement. Without purpose we measure for measurements’ sake, and in turn we fail to inform management activity in any meaningful way. If we know what we are trying to achieve (purpose), and how we intend to achieve it (objectives) then problems in target setting, use and acceptance can be reduced considerably. Use of an appropriate and systematic design framework can provide these underpinnings and help make target setting easier.

It has been argued that the need to simplify the target setting process has been a key driver of improvements to the Balanced Scorecard framework. Over the last 17 years, Balanced Scorecard design methods have been developed to ensure that measures and targets are explicitly related to objectives recognised as actionable and important by the managers designing the system.

However, even with the use of an appropriate performance management framework, target setting remains a challenging area of system design. This 2GC Management briefing aims to address some of the issues commonly encountered by clarifying what performance targets are, and how they are used. The briefing also provides some guidelines about what constitutes an appropriate target value.

The briefing begins with discussion of key issues relating to Target Setting, then moves on to provide practical guidance from 2GC on the target setting activity.

Because target setting is an important activity, we would greatly value your comments and feedback on this 2GC Management Briefing: if you have the time please consider sharing your views on this topic. Contact details for 2GC appear at the end of this briefing document.

## What is a target?

Before explaining targets, we need to briefly define **measures**. There are two forms of measure, Variables (sometimes referred to as Scalar measures) and Attributes (sometimes referred to as “Levels”). A variable can take any number value along a metric (units). Examples would be £x, y meters, z% or “customer satisfaction”. Sometimes the units require additional definition as in the case of customer satisfaction. By contrast, attributes occur (by definition) in a limited number of states. For example we might have the binary attribute: Pass or Fail, or the three categories: Poor Service, Acceptable Service, Delightful Service. Variables can be converted to attributes by agreeing category limits (for example, pass marks) and attributes can be converted to variables via sampling. A target is a statement of the objective (intended or expected) value of the variable or attribute at a distinct time. Defined in this way, a **target** is a simple concept and is used to evaluate actual measure data; to assess performance achieved compared to performance intended or expected. However, as with many aspects of performance management the real challenge lies in providing the basis for target selection.

## The Context and Rationale for target setting

Besides the simple comparison between intended and actual performance, target setting is used for a variety of other purposes:

- Simplified Strategic Communication. For example, the proclamation of target values for key performance measures often substitutes for a richer communication concerning strategic choices (for example communicating a target cost per transaction, rather than the description of a “cost-effectiveness” strategic choice).
- Communicating Benchmark Standards. Similarly, operational targets can be used as a shorthand way to describe ‘best practice’ levels for defined activities (for example, the proportion of transactions completed without error).
- Who are we? Targets for intangibles (often very difficult to measure) can be used to describe desired attitudinal characteristics, cultural attributes or more subtle goals (for example, the proportion of a workforce who advocate an organisation’s products within non-work communities).

The list is not exhaustive. This variety of potential uses, means that target setting is often carried out concurrently with other management activities. In our experience it is not unusual for targets to be adopted without explicit consideration of the underlying strategic or tactical implications. The result is the adoption of targets dependent upon performance measures that cannot be collected, or which require levels of performance that cannot be achieved. If external benchmarking systems drive unfettered target selection, targets can drive internal behaviour that addresses generic or industry priorities rather than supporting strategic intent. Similarly, an internal marketing programme might result in ‘implicit’ attitudinal targets that run counter to broader strategic decisions made by an executive board. Such activities and outcomes are the stuff of everyday organisational routine, but in the context of performance management system design they are unhelpful. It is important therefore to recognise how they can dilute the purpose of target setting in its purest sense. Target setting is of most value when it is derived from explicit and informed consideration of underlying strategic choices and the strategic objectives - with associated measures - that are expected to address these.

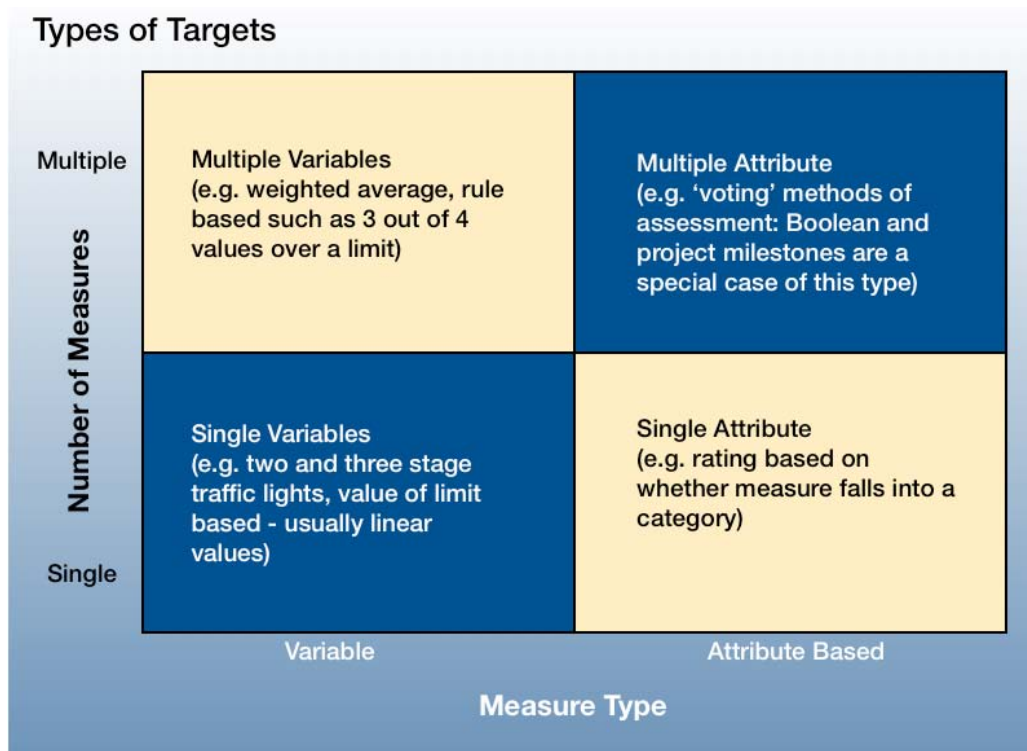
## Trigger thresholds?

Measure data, when compared with targets alert managers to the need for intervention. This implies that targets should reflect the subsequent need to appraise performance data. Targets should trigger an alert to managers if expected performance is not being achieved, but with sufficient tolerance that the alert fires only when there is likely an unambiguous case for intervention. Real performance management systems use multiple measures. If all the targets are firing alerts all the time, the utility of targets to warn managers about significant issues will be diminished.



## Processing rules

Both attribute and variable measures can be used singly or in combination. In order to limit the volume and timing (the bandwidth) of measure data impinging on managers, real organisations will often need to simplify multiple measures into composite measures. Typically, processing rules are designed to generate an assessment of achieved performance in the form of a single indicator (for example a Traffic Light colour). The simplest form of rule is a numerical comparison between performance measure data and pre-defined target qualified directionally (for example 'green light if value is equal to or higher than target, red light otherwise'). In some cases comparison of composite measure data with multiple targets is less straightforward and more complex processing rules will be required.



The figure shows the result of a simple categorisation of measures based upon whether they are used singly, or in combination, and whether variable or attribute. The figure also shows some examples of processing rules. All are likely self-explanatory save perhaps in the case of multiple attribute measures. Here we might need to apply processing rules representative of underlying logical propositions made by the designing management team. For example:

**IF Safety Audit Report = Pass AND Environmental Audit = Pass,  
THEN, CSR Rating = Green**

The assessment of progress on a set of projects might be similarly conflated into a composite attribute as follows:

**Three out of four sub-projects on track, overall attribute = green.**

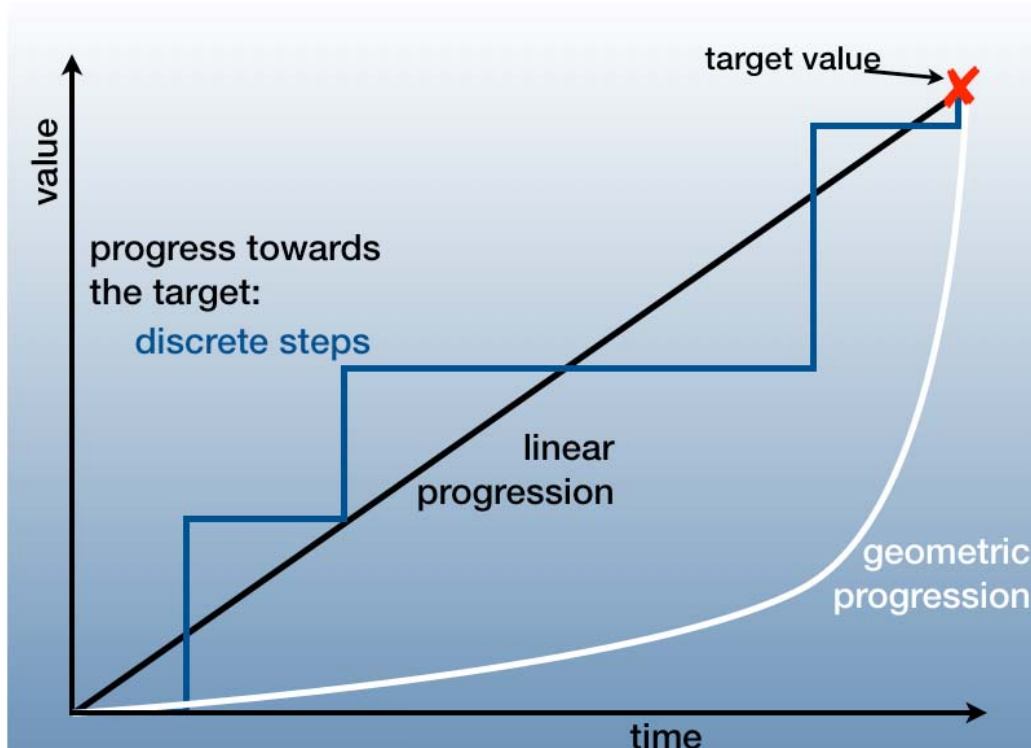
## Choosing a Target Value

As should be obvious from the preceding discussion of measures, the actual target depends upon the type of measure used, but three general categories apply:

- Where we have multiple or single variables (scalar measures) targets are usually **Thresholds**. i.e. we need to reach a fixed value on a linear scale – one side of the threshold is OK, the other side is not.
- **Limit** based targets (i.e. 100% or 0%) are usually operational or aspirational. Operational limits may describe a required operating pattern (“... this is how we want you to behave.”) Aspirational targets may be impractical to achieve (“... we are the World’s Favourite Airline”), but may define ‘worthy’ goals.
- Lastly, implicit in the discussion of multiple measures are **Rule** based targets. i.e. we need x out of y to hit a limit or threshold type target for overall target achievement.

The ultimate informants of these thresholds, limits and rules are what the organisation is trying to achieve; strategically, operationally or both.

## Deconstructing Targets



Targets derived from the long-term stretch goals will need to be broken down into manageable sub-goals corresponding with the review cycle of the performance management system. If the behaviour of the measure variable is anticipated to be linear over time, then simple division achieves decomposition of long-term targets into annual or quarterly targets. However, not all measure variables will behave in this way. For example, if the measure were project milestone achievement, then discrete step changes in the measure variable would occur. By contrast, a measure variable might be expected to change geometrically. The various outcomes of quality improvement programmes would likely behave in this way, with little tangible return on investment in improvement activity for some time after the initial investment. Another challenge is in decomposing a long-term strategic objective that is a binary attribute into an interim outcome target. Here it may be the case that the only possible decomposition is into a series of "enabling" milestones much like backward scheduling in project management.

### Baselines

Knowing enough to know what target to set is particularly an issue when there is no baseline, and this is often the case when an organisation adopts a 'new' measure. In 2GC's experience, about half of all measures selected for corporate performance management systems are ones that were previously un-recorded. In such cases it may be necessary to first measure current performance for some months, before it will be possible to establish what a realistic target might be.

### Frequently and infrequently reported measures within the same system

Often there is a need to reconcile measures that have long reporting cycles with other more frequently reported measures that can be used as 'surrogates' for these values. The need for this substitution is that without frequent data from the surrogate measures, insufficient information may be available for the management team to intervene on a timely basis. Under these circumstances, the long reporting cycle data can be used to 'calibrate' the target values set for the more frequent surrogate data.

### About 2GC

2GC is a research-led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Founded in 1999, UK-based 2GC has worked with organisations in over 35 countries, helping senior management teams to implement their strategic goals. Central to much of 2GC's work is the application of its 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.

For more information on 2GC's approach, please visit the 2GC web site at [www.2gc.co.uk](http://www.2gc.co.uk), or telephone 2GC on +44 1628 421506 or email us via [info@2gc.co.uk](mailto:info@2gc.co.uk)