

How 'smart' are targets? (by David Hall)

This article examines some of the controversy around the use of performance targets and explores some of the reasons behind why performance targets make the headlines. The psychological aspects of targets are examined to provide an individual perspective, and an organizational view is provided by research into the People-Performance relationship.

The bad press

One can say with some confidence that one of the outstanding achievements of targets in recent years has been the ability to attract very bad press. Recently, the headlines were about the Healthcare Commissions report into Mid-Staffordshire Hospitals. On 18 March 2009, The Daily Telegraph ran with the front page headline 'Targets blamed for 1,200 deaths at hospital', and the BBC televised news programmes opened with the same story. There has probably not been a more damning headline implicating targets in organizational failure with such catastrophic consequences. The Mid-Staffordshire Hospitals case is the latest of many stories about dysfunctional behaviour which has performance targets at its roots. In October 2008, the press reported BT being fined £1.3m after its staff had been found calling each other to meet call-answering targets, which were part of BT's contract to service the Armed Forces telephone system. Headlines about payment of excessive bonuses linked to performance targets in the banking sector further harden public perception and damage reputations.

Deserved criticism?

Based on these examples, we know that objective-setting and particularly the use of targets, can lead to 'unintended consequences', causing serious problems for organizations, employees and other stakeholders. But there is another side to the stories. The 2005 CIPD Performance Management survey indicates that the majority of organizations, across all sectors, use some form of objective/target setting as a performance management technique and this practice is unlikely to change. The same survey also suggests that managers get it right most of the time, as objective setting is

regarded as being effective by the vast majority of organizations who use it. So, where does it all go wrong? Understanding the theory is a good place to start.

The theory behind the practice

Starting with the individual perspective, a good place to start is Goal Theory (Locke, 1968). Locke said that goals, when translated into personal objectives, positively affect individual effort, persistence and direction of behaviour, and result in enhanced performance. The motivational effect of goals on work motivation is one of the key findings in the study of organisational behaviour, and has played a major role in shaping performance management methods, from Drucker's 'Management by Objectives' (the 'original' performance management system) to Kaplan and Norton's prolific 'Balanced Scorecard'.

Goal-theory states that for goals to be effective, managers should consider five factors when designing and implementing goals, namely: *Goal difficulty; Goal specificity; Goal commitment; Participation in setting goals; and, Feedback*. Managers also need to take into account of the perceived value of goals to individual employees as this will influence motivation and behaviour, and it will differ from one person to another. Expectancy theory of motivation provides a major contribution to our understanding of people behaviour linked to objectives; it describes a process based on the individual's perception of the amount of effort needed to achieve specified performance levels and the value of reward. The important point being, as in the case of Goal Theory, the outcome manifests itself in behaviour and, the variables provide a means for intervention to influence and even predict behaviour. This is one of the key theories that has shaped performance and reward practice as we know it today.

Job enrichment is often cited as an important factor in improving motivation, satisfaction and performance. Hackman and Oldham (1980) developed a comprehensive model of job enrichment featuring five core job dimensions: *Skill variety; Task identity; Task significance; Autonomy* and *Feedback*. These, in turn, lead to three critical psychological states:

- Experienced meaningfulness of the work;
- Experienced responsibility for the outcomes of the work, and;
- Knowledge of the actual results of the work activities.

Hackman and Oldham's work on job enrichment was developed into a Job Diagnostic Survey and is the basis for many employee job satisfaction surveys that are around today.

Policy and performance

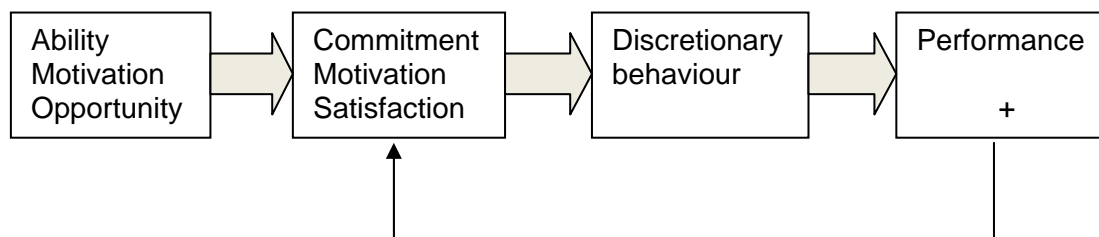
Sung and Ashton wrote a research report *High Performance Work Practices: linking strategy and skills to performance outcomes* (DTI/CIPD, 2005) describes how High Performing Organisations (HPOs) apply High Performance Work Practices (HPWPs) to drive performance (DTI/CIPD, 2005). The report presents several case studies of organizations using targets to improve performance, including the Scotland-based garment manufacturer, W L Gore, where team members determine their own objectives. HPOs are described as organizations which design work and people management practices that systematically link the achievement of organizational objectives and performance. This research and other research which has investigated the link between managing people and performance describes the application of integrated people management policy and practices, termed 'bundling'. Sung and Ashton term these policies and practices as 'High Performance Work Practices' (HPWPs), and categorise them under three broad headings of: *High Involvement*, *Human Resource Practices*, and *Reward and Commitment*.

Guest (2005), drawing on data from the UK, Australia and New Zealand, categorises the 18 HPWPs and identifies four dimensions:

- Employee autonomy and involvement in decision making;
- Training, development and support for employee performance;
- Rewards for performance;
- Sharing information and knowledge.

To understand how management practices influence employee performance, Professor John Purcell and his group at Bath University produced a research report *Understanding the People and Performance Link: Unlocking the Black Box* (Purcell *et al*, 2003) in which performance is described as a function of ability, motivation and opportunity. Based on his findings, Purcell's people-performance model proposes that the application of integrated HR policies or practices positively influences commitment and job satisfaction, which in turn, encourages positive employee behaviour based on free will, i.e. 'discretionary behaviour', which in turn produces improved performance. One of the 11 policy areas that Purcell identifies as driving this model in practice is concerned with appraising individual performance and development. For many employees setting objectives and targets is likely to play a role in this.

Figure 1: Purcell's People-Performance Model



The principle of applying integrated people management policies and practices is key, because the use of objectives alone, particularly those associated with narrowly defined targets, tends not to be enough to positively influence employee engagement, commitment and satisfaction, which were found to be antecedent to improved performance. Badly designed and badly applied targets can actually encourage undesirable or 'dysfunctional' behaviour. 'Gaming' is one such form of this behaviour, where employees attempt to beat the system to achieve the target. Dysfunctional behaviour can lead to 'unintended consequences', which may happen at an individual level or may be systemic, as in the case of the BT call centre. When targets are linked to powerful motivators such as fear and reward, this can have a strong effect. Managers need to be conscious of the directional nature of motivation in terms of how this might lead to undesirable behaviour. Many organizations use performance management methods

based on appraising attitudes and values to 'guide' employee behaviour in achieving good outcomes for the individual, the organization and other stakeholders.

Conclusions and lessons

Focusing organization and individual activity on what really matters, through the use of targets linked to strategic aims can be a powerful management 'tool' but careful consideration needs to be given to what is targeted, how targets are applied and who targets are applied to. Targets can also be viewed as an extreme form of management control which not all employees will accept as appropriate, be comfortable with or respond well to. Individual differences in attitude, motivation and personality will mean that individuals are likely to respond differently to targets and objectives, some more positively than others. For example, individuals will have a strong sense of what influence they can bring to a situation to achieve a target and therefore, how fair the target is. Research has identified autonomy, meaning of work and feedback as being key to encouraging employee engagement, commitment and satisfaction, which in turn are antecedent to performance. Good people management, enabled by integrated HR policies and effective line management, is essential to maintaining positive employment relationships and improving performance.

Objectives and target-setting may play a part in improving performance but only a part, and this technique should only be used as part of an overall strategy aimed at developing those conditions which influence behaviour and performance. The next time you are involved in setting and agreeing targets, ask yourself how the target will encourage employee engagement, commitment and satisfaction, and what the outcome is likely to be in terms of behaviour? In other words, ask yourself just how 'smart' the target really is.

The use of too many targets will have a human cost as well as a cost to the bottom line, as professional judgement and leadership are eroded by increasing pressures to 'manage by numbers'. This phenomenon has been widely reported in several areas of public service such as health, policing and teaching, as professional practice is compromised by over-bearing compliance regimes which demand that targets are shown to have been met.

There is a danger that as governments and organizations attempt to drive performance using a plethora of targets, the total cost of managing such grandiose interventions undermines the very reason why they were introduced in the first place. When the 'tail begins to wag the dog', you know there is a problem!

Sources

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