BLOG BOOK

CUSTOMER FOCUSED GOAL SETTING

A COLLECTION OF BLOGS FOCUSED ON IMPROVING BUSINESS PERFORMANCE BY SETTING GOALS

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PART 1: THE MAN IN A GORILLA SUIT

Researchers ask a group of people to watch a video in which two teams are passing basketballs. One team wears white shirts, while the other wears dark shirts. The viewers are assigned the task of counting the passes among the white-shirt team. In concentrating on this objective, the viewers unconsciously block out the players wearing dark shirts. They become so focused on the players wearing white shirts that they don't notice when a man wearing a black gorilla suit enters the scene, pounds his chest, and walks off screen.

Measuring company performance leads quite naturally to the impulse to set a goal. Goal-setting is a favorite tool used by companies in an effort to motivate employees and to improve business performance. While this strategy certainly has its merits, it is not a blanket business solution. Extensive consideration must go into determining the suitability of a goal, identifying a metric, and determining effective short and long-term targets. In the example above, the participants focused so narrowly on their goal that they became blind to surrounding circumstances. If such tunnel-vision can occur in a controlled lab setting, imagine the potential oversights in such a complex environment as the business world!

Noted benefits of goal-based management:

- Goal-based management presents unambiguous expectations.
- It allows for objective evaluation of performance.
- Attention and resources are focused on a common objective.
- Goals serve as motivation to increase efforts.

Associated risks:

- Such narrow focus can inhibit creativity, innovation, and learning.
- It can increase competition, thereby decreasing cooperation.
- Pressure to meet a goal sometimes results in unethical employee behavior.
- The goal may be achieved at the cost of other essential components for success.

This is the first post within a series that explores the potential benefits, as well as the dangers, in relying upon goals in business. The series offers opportunity for discussion on how to effectively set and manage goals (using both statistical and practical applications), should they be deemed appropriate for your business.

PART 2: WHAT A WASTE!

Imagine that your business has hit a plateau. You are able to attract new customers, but you have experienced very little growth because you are losing customers just as quickly.

Your Business Objective: Achieve sustained net revenue growth.

A Related Business Problem: Customer churn rate is high.

Your Business Goal: Reduce churn rate.

You now have a plan, and you need buy-in from your employees. So you go one step further.

Management Strategy: Offer bonus pay for all employees who effectively maintain customers.

But you have overlooked a key metric. Only 25% of your customers are highly profitable. Most of your revenue originates from 25% of your customer base.

Consequences: You waste resources on keeping customers that offer little to no ROI, and miss an opportunity to attract new customers who fit the highly profitable profile.

In this example, the mistake is in simply selecting a metric that happens to be readily available, without considering whether achieving this goal will necessarily lead to sustained net revenue growth.

Other traps to avoid when setting goals:

- Choosing the wrong metric
- Setting too many goals
- Limiting focus to financial/stock metrics
- Allowing an inappropriate timeframe for reaching the goal
- Setting goals that are too challenging or not challenging enough
- Limiting goals to improvement upon past performance rather than customizing them to the future direction of the company
- Making erroneous assumptions about the data used to track progress

Here you have a "Don't" list. Upcoming entries will discuss the "Do" list, as well as another component of the example above – incentivizing by linking goals to compensation

PART 3: BIGGER AND HAIRIER…BUT WHY?

The business world has introduced me to the BHAG – Big Hairy Audacious Goal. We do love our acronyms, but we don't need to keep them all. Your BHAG may sound impressive, but it won't go far in gaining employee buy-in or making steady, sustainable progress.

Send BHAG packing..........!

To begin a more effective approach to setting business goals, a definition is in order. Within this context, a "goal" is a **specific** target for a **measurable** metric that can be **monitored over time**. A strong goal is different from (but directly related to) a desired business outcome. Ask yourself, "**WHY should the company strive to reach this goal?**" The answer to that question is the desired business outcome. If you do not have an answer to that question, STOP RIGHT NOW because every aspect of successful goal-based management depends upon a proven link between the goal metric and your desired outcome.

	METRIC	SPECIFIC VALUE	BUSINESS OUTCOME
1.	Total fixed costs	10% reduction	Increased net income
2.	Customer complaint rate	2.7%	Higher overall satisfaction with transactions

Simplicity is important here. Consider #1 above. It might be tempting to jump straight to a goal of $X in net income, but consider all the factors involved in achieving that goal. Your "goal" is not a wish. It is something that you will have to manage, so do your best to make it manageable. If your business requires a lofty goal, break it down into components that you can work with.

Once you have identified your desired outcome and the associated metric(s), some questions remain:

- What should be the target value of the chosen metric?
- What timeframe should be set for achieving the goal?
- How can I communicate the importance of this goal to gain employee support?
- Do monetary incentives work?
- What happens when the goal is achieved?

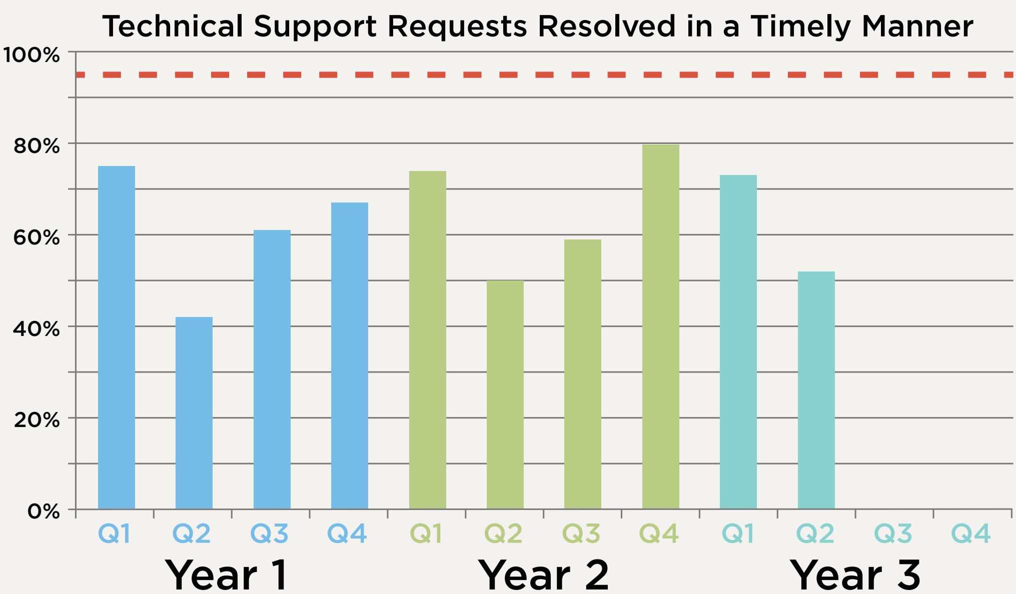
PART 4: WHAT IS "SUCCESS?"

In order to be considered among the best in the industry, your company would like to be able to claim a 95% success rate in responding to technical service requests. You survey customers after each technical support transaction is completed, asking whether the request was resolved in a timely manner. You monitor results on a quarterly basis to learn what percentage of customers report that 'Yes,' the request was resolved in a timely manner.*

Assumptions: Your approach makes the following assumptions. Move on ONLY if you determine that these are appropriate:

- Maintaining a 95% success rate among technical support requests will qualify your company as best in the industry.
- A 'Yes' response to "Was your request resolved in a timely manner?" indicates technical support success.
- Employees can directly impact this measure.

OBSERVATIONS:



- Scores are FAR from the ultimate target of 95%.
- Scores are not consistent from one quarter to the next.
- Scores are cyclical. There is a drop in performance at each second quarter.

SETTING A GOAL:

- Metric – Since there is great fluctuation in scores over time, your quarterly metric may need adjustment. Consider the following:
  - Monitor quarterly evaluations, but aim for greater CONSISTENCY before trying for improvement.
  - If quarterly consistency is not realistic given the business cycle, aim for semi-annual or annual targets that increase steadily until 95% is eventually reached.
  - Consider whether another metric might be more stable, more comparable to what other top companies are monitoring, more indicative of technical support success, etc.
- Target value – 95% is not realistic at this time. Many alternatives exist, including:
  - Computing the average annual score and setting an initial annual target that represents a statistically significant improvement.
  - Targeting a quarterly score that is a statistically significant improvement over the score for that same quarter in the previous year.

Some questions that naturally follow the goal-setting process include:

- how best to gain employee support, and
- how to not only achieve the goal but also build upon that success.

The next part of the Goals series will explore these topics, including the heavily debated topic of linking goals to employee compensation.

PART 5: WHEN, "BECAUSE I SAID SO," ISN'T ENOUGH…

After emerging from bankruptcy during the 1990s, an airline focused efforts on reducing costs. To motivate employees toward the goal, the company offered rewards to pilots who effectively reduced fuel costs. The plan worked. Pilots did reduce fuel costs…by adjusting air conditioning and reducing flight speed. The changes resulted in late and uncomfortable flights, so customers switched to other airlines.

Desired Business Outcome: Reduced total costs.
Selected Metric: Fuel costs (presumably to be reduced by a specified percentage).
Action: Reward pilots who minimize fuel costs on their flights.
Oversight: Fuel cost is tied to aspects of the business that affect customer perceptions.

The airline offers a real example of one of the dangers of linking employee compensation to company goals. The approach will likely be effective, but could result in a case of, "be careful what you wish for…"

At the opposite end of the spectrum is an automobile manufacturer that failed to gain employee buy-in on the company goal. Executives observed low productivity (38.98 hours to assemble a vehicle) and a high error rate (179 problems per 100 vehicles produced). They communicated the improvement goals, showing that they were vital to success. But employees did not strive for the goals because they feared that improved productivity would result in job loss.

Desired Business Outcome: Improved performance.
Selected Metrics: Assembly time, Problems per vehicle.
Action: Communicate the importance of the goals throughout the company.
Oversight: Employees saw no benefit (and in fact suspected job loss) associated with achievement of the goal.

This company learned from the experience and went on to develop a more successful system. They dispelled the fears about job security and introduced incentive to work harder. Employees who achieved their productivity goals would be redeployed to more intellectually challenging activities within the organization. The result was a reduction in error rate (from 179 to 134 problems per 100 vehicles) and quicker assembly (from 38.98 to 24.44 hours per vehicle).

Incentives are often necessary to motivate employees to strive for the goals that will benefit the company. Reward systems must be implemented carefully, though. If they are not thoroughly researched and closely monitored, the incentives can result in success at high cost, or even in unethical behavior. If they are not enticing enough, the investment in the research and development of the goals may yield little to no return.

A well-developed goal-based management system sets realistic targets and gives employees a reason to help the company succeed. With that strong foundation, the next issue to face is the happy dilemma of what to do after you have achieved your goal!

PART 6: THE SKY IS NOT THE LIMIT

A man leaves work on a stormy afternoon, only to find that he is unable to catch a cab. This is because all the cabs have been taken by the many other commuters who don't want to walk home in the rain, right? One group of researchers argues that while this DOES reflect increased demand, it is also the result of decreased supply, and exemplifies the potential de-motivating effects that goals can have. The researchers found that cab drivers would set daily wage goals. On sunny days, one would have to drive a full shift in order to reach those goals. But with the increased demand on rainy days, the drivers would find success much more quickly. As drivers reached their daily wage targets, they would end their shifts early, calling that day a success. This would leave an increased number of soggy commuters to battle over a ride home.

This represents a challenge that companies face as they approach and eventually achieve the goals they have set for themselves. Authors Ordóñez, Schweitzer, Galinsky, and Bazerman point out that people tend to view goals as "ceilings" rather than "floors." They suggest that an employee who has reached his assigned goal is one who, in his own eyes, has earned the right to slack off for the remainder of the associated timeframe. A natural remedy might be to set a higher goal once the original is achieved. This IS a recommended approach when dealing with short term goals designed to incrementally make progress toward a lofty long-term result. In other cases though, this approach can get you into trouble.

Consider, for example, any metric that is represented as a percentage. You may start by setting a goal of 85%. Once that is achieved, you might choose to raise the bar to 90%. But as performance improves, further progress becomes more and more of a challenge. There may even come a point when the next targeted score is actually impossible. Remember that there is often a limit (in this case, 100%).

This brings me to what is undoubtedly the most important component of goal-based management: the desired business outcome (discussed in Parts 2, 3, and 5 of this series). Never lose sight of WHY you set a goal in the first place!

If there is no more room for improvement in the target metric and the desired outcome has not yet been realized, you'll need to determine why that is. Maybe the indicators of that ultimate outcome have shifted, or perhaps the originally-targeted metric is simply one of multiple contributors to that final indicator of success. If, on the other hand, achieving your goal has already led you to that business outcome, then congratulations are in order. It's time to kick back and let your business run itself.

PART 7: NOW WHAT?

In earlier entries on this topic, I discussed ideas for successfully managing and improving business performance through goal-setting. ‘Part 6: The sky is not the limit’ emphasized the need to know when to recognize either success or the need to adjust focus. When you hit your target and things are running just perfectly, what happens next? Is there still a need to continue tracking performance once you’ve figured out how to optimize resources?

This is a common point of interest among customer-focused businesses, particularly those whose method for tracking performance comes in the form of customer feedback. Because there is a cost associated with a customer relationship assessment program, the question becomes, “Do we have to keep collecting feedback now that we have achieved optimum performance levels?” According to the 2006 article Building on Success, the answer is, “YES.”

Building on Success, by Lisa Norcross, emphasizes the importance of sustaining high performance in an operating system environment, though the author’s principles apply across industries. Her claim is that, “hard-earned improvements will quickly sip away if appropriate measures are not put in place to monitor performance.” Her suggested approach includes:

- Using measures to monitor performance and prevent losing improvements.
  - Selecting indicators that are simple and that reflect business goals
  - Primary measures effectively describe the system’s performance.
  - Secondary measures can act as predictors for forthcoming problems and to aid to the diagnosis of root causes
- Selecting measures of different timescales for short- and long-term monitoring.
- Taking frequent measurement to identify and address issues before they become systematic.

The cost associated with such monitoring will vary by company. It is important to evaluate the cost of monitoring versus the potential cost incurred by a slip in performance. It may be determined that a time- and resource-intensive customer feedback program is well worth the investment. Alternatively, there may be internal metrics that serve as adequate metrics. Norcross suggests the following:

- Metrics that reflect the customer’s experience of operational performance, and which do not lead to optimization of individual process steps
- Metrics that cascade from the top-level downward
- Simple metrics that minimize cost

The resources required to monitor performance vary based on any number of business factors. The key is in acknowledging the success so far and in recognizing that some thought and effort will be required to maintain it.

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ABOUT WALKER

Walker specializes in customer loyalty and related customer strategies, including innovative approaches to segmenting, valuing, obtaining, serving, and growing customers. Walker's diverse team of consultants provides tailored, comprehensive solutions to help companies achieve their business objectives and, ultimately, grow shareholder value. Walker's consultants regularly conduct workshops and assessment programs to help organizations improve their ability to administer customer listening programs.

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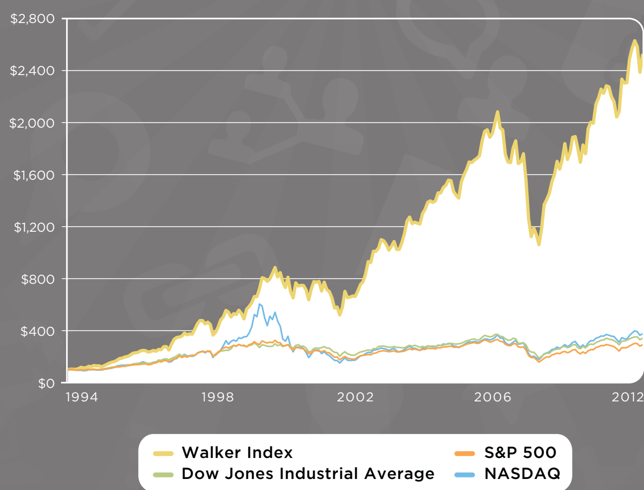

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