

Jomer & Co

Strategic target setting

One of the outcomes of developing a strategy is defining performance targets with strategic intent. We call them strategic targets. Without having clearly defined strategic targets and carefully chosen means to achieve those targets, it is difficult to focus progress toward the organization's wanted position and when needed making adjustments to the strategic direction. Making a strategy operational requires tangible strategic targets that clearly connect to the strategy.

The purpose of a strategic direction is to successfully move the organization from the current position to a defined wanted state. A strategic direction includes all key elements that define the path toward the wanted position, i.e. the organization's mission, vision, values, customer focus, winning proposition, key priorities, operating model and business plan. Without an integrated and aligned approach to these elements, there will be lack of clarity and specificity. As a consequence, the organization will most likely struggle to make strategic decisions, allocate resources effectively, align efforts of people, execute actions, and measure performance and progress against the strategic targets.

Strategy is all about focus and making choices, which involve down-prioritizing some targets in favor of others. Strategic targets are fundamental to strategy. They are not the same, and it is important to understand the difference between the two. A strategy defines what to do, whereas strategic targets are the measure of progress in doing that. The challenge is to align the strategic targets behind the strategy in order to progress along the strategic direction toward the wanted position. Without measuring progress, one will navigate blindly, thus being unable to effectively manage and improve the ways of reaching the targets. Failing to set strategic targets, the result often becomes disappointing, and when targets are set but sight is lost, efforts are often increased with little impact.

Organizations need to position themselves and set their strategic targets in alignment with their wanted positions. Strategic targets should provide guidance and direction, facilitate resource planning and help evaluate and control performance. Thus, they should clarify and facilitate the path toward the wanted position and measure the progress of getting there. In combination with the wanted position, they need to provide inspiration and motivation for making progress, so people can use them for guidance when making difficult decisions.

Once the wanted position and strategy are formulated, strategic targets and measures need to be defined and clearly communicated. For alignment reason, they should be derived and defined from the perspectives of the wanted position. They must reflect the strategy, i.e. what to achieve in terms of customer focus and winning proposition, and aligned with the key priorities, which determine those few things that will make the biggest difference. Since a wanted position normally lies three to five years into the future, strategic targets need to be reachable within that time frame. They need to be

relevant and measurable, and should not be confused with mission or vision, which often are useless as strategic targets.

The processes of defining strategic targets and budgeting need to be linked. *Nota bene*, they are not the same thing. However, it seems from our experience that many organizations allow the budget process to take over and squeeze out the process of defining strategic targets. To improve the target setting process, it is important to acknowledge that operations deliver the fundamental financial performance, that financial targets are often based on past performance, and that financial track record does not say anything about the future. Hence, an assessment of the organization's probability of future success and bold ambitions based on strategic decisions is needed as a foundation to define the strategic targets. In addition, to enhance focus on key priorities and strategic targets, it is helpful to identify strategic initiatives, which are discretionary cross-functional programs of finite duration and designed to close identified performance gaps.

Strategic targets should be defined and measured in a context of:

- Why do we need to reach the targets?
- What do we need to do to reach the targets?
- How do we need to perform to reach the targets?
- How do we measure progress toward the targets?

It is crucial to put emphasis on making sure that managers and employees really understand a target's why and what, how to accomplish it and their expected present and future performances. Starting with why rather than what drives inspiration, motivation and engagement. It is much easier to contribute with what and how when one fully buys into the reason behind the target.

A system for measuring strategic targets should give early warnings of target deviations and enable management to take corrective actions or even abandon an initiative that is failing to perform. Regular reviews of strategic metrics against the organization's actual performance are key to alert management of any emerging problems. Too many believe that their existing system for monitoring performance is fully tuned to monitor progress on strategic targets.

Measuring progress requires strategic targets to be specific, measurable, achievable, realistic and time-bound. Each target should be achievable through direct action. Deadlines are critical to prevent targets from becoming open-ended, and they must be accompanied by measures that will be tracked over time, as well as descriptions of actions to accomplish the target. It is important to acknowledge that identifying measures of success is an iterative process of clarification of the desired and feasible outcomes of the strategy. Specific metrics will vary depending on the type and purpose of the target. In some cases, indicators of success need to be qualitative and in other cases they need to be quantitative.

Progress should be measured continuously rather than only at the end of the measurement period to determine if the target has been reached. Stage the targets into milestones that include both deadline dates and appropriate metrics. Establish simple ongoing progress reports that coincide with milestone dates and measurements, record

the monitored results, and indicate whether they are on or off target. The ambition is to be as transparent as possible regarding target definition, how it is measured, progress status, and learning from efforts and feedback, which may change definitions and indicators over time.

Horizontal alignment

Strategic targets are typically cascaded down vertically, and many organizations have efficient processes for this. However, quite many lack approaches for cross-organizational alignment of activities and efforts to reach the targets. Strategic targets are seldom fully understood in terms of implications on the organizational need for increased collaboration. Often, they are poorly understood down the line, or they seem unrelated to one another and disconnected from the overall strategy. Hierarchical structures and processes, which are designed to smooth operations, may actually become obstacles for collaboration. In other words, without cross-organizational alignment with respect to strategic targets, dysfunctional behaviors may surface and result in conflicts between units, thus undermining the execution.

Coming from an ideal target alignment on paper to the reality of implementation is difficult. To be successful, leadership teams need to secure transformation of the strategic view to perspectives down the line in all aspects. Successful implementation needs more than a leader and a great leadership team. It requires teamwork from middle management through dialogue and collaboration to stay connected to the knowledge embedded in the organization's lower levels, where much of the actual work is being done and where most of the customers are served.

Organizations operate in a contemporary context that is complex and highly description intensive. The meaning of words associated with strategic targets is too often left to personal interpretations, resulting in misunderstanding, confusion and lack of focus. The possibility for managers to talk and think together is vital for horizontal target alignment and organizational effectiveness, since people create, refine, and share understanding and knowledge through conversations. When people get together and coordinate around strategic targets, they build relationships and trust, and will more easily get encouraged to try new ways of finding workable solutions. Such interpersonal contacts are crucial for horizontal alignment and helps managers rely on and learn from colleagues in other functions. Coordination across functions is importance for any organization to attain their strategic targets.

Aligning capabilities

Mismatched capabilities often undermine an organization's feasibility to reach the strategic targets. Even the best strategy with clear strategic targets may fail if the organization does not have the right capabilities in the right places. Capabilities refer to how people, processes and technology are combined in a repeatable way to deliver desired outcomes. Capability building has for long been prioritized, but the linkage between performance targets and adequate capability targets is often undervalued. The level of support a capability target gives a specific strategic target determines the capability's strategic importance. In order to capitalize on capabilities, it is critical to formalize an approach to capability target setting in terms of identifying the relevant

supporting capabilities, setting their targets and coupling them to the relevant performance target. Without a robust approach to assess current and needed capabilities, it is difficult to underpin the expected performance with the right capabilities. The purpose is to link persistent and predictive targets and measures that employees can act on, since strong institutional and individual capabilities aligned with their strategic targets are more likely to succeed.

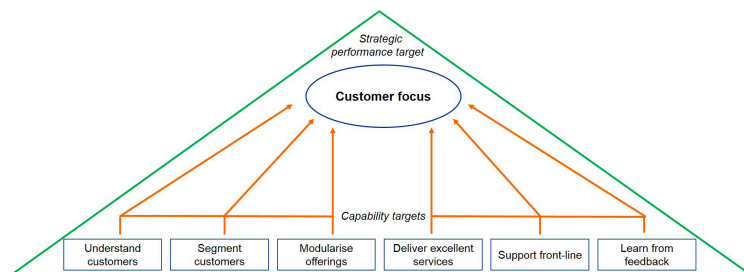


Figure 1. Illustrative example: Linking strategic performance targets to capability targets

As an example, most industries today aspire to become more customer-focused, and the ones that succeed understand not just the needs and priorities of their customers, but also the best organizational setup to address those needs. The customer experiences surrounding an offering have become an important source of differentiation. This shift often

puts a premium on deploying frontline employees with the right autonomy, motivation and tools to better serve and delight the customers, and on ensuring that the entire organization supports them. Hence, a strategic target could be to excel in customer focus. To achieve such a strategic performance target, several capabilities need to be in place, e.g. organizational ability to:

- Understand customer demands and preferences
- Categorize customer segments
- Modularize customer offerings to specific customer segments
- Increase attention and resources to deliver excellent services at the front line
- Support front-line with flexible ready-made solutions
- Collect and learn from customer feedback

The challenge is to identify the adequate capabilities that drive the right performance for reaching the target and to define targets for each of those key capabilities, see fig. 1. By analyzing the gap between current and needed capabilities, the organization can learn and improve.

Connecting targets with values

For today's enlightened and skilled workforce, strategic targets will make better sense if they are consequences of a thorough understanding of why the target is strategic and how it is connected with their beliefs and values. When that is the case, the targets will better serve to translate work into proper actions and results. The ability to connect emotionally with the workforce and redirect values and attitudes is a key factor when directing the organization's culture in pursuit of closing the strategy-to-execution gap. Thus, things will seldom happen naturally until strategic targets and measurement are aligned with values that support the strategy.

The complexity in day-to-day work, derived from the growing need to understand customer demands and increase customer value, as well as from more agile

organizations, is absorbed to a greater extent by shared values than by objectives and instructions. The need for many organizations to increase the general level of professionalism and creativity among the workforce calls for management to treat employees as mature individuals, capable of articulating their own values and translating them into initiatives and creative behavior at work. A professional without autonomy and skill is not a real professional, rather an operative and dependent resource.

From our work with supporting complex organizations, we have seen that Management By Objectives, MBO, needs to be complemented with Managing By Values, MBV, to successfully close the strategy-to-execution gap. See fig. 2. Note that MBV does not eliminate the need for MBO, since targets are vital in terms of telling why and what to achieve, rather than how to do it. Values on the other hand, even though described only in a few words, encompass complex ideas about an organization's wanted behaviors and encapsulate how it should achieve its objectives.

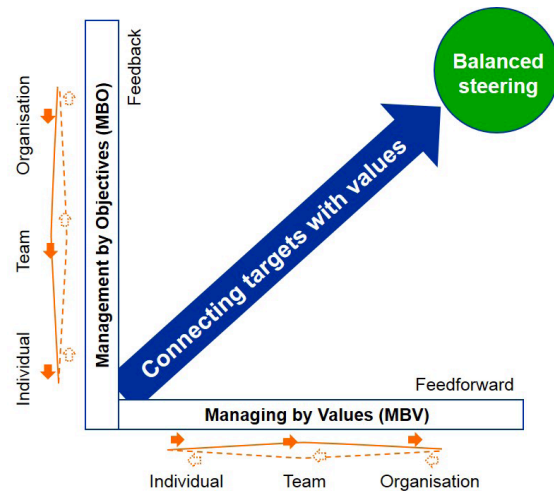


Figure 2. Connecting targets with values for balanced steering

Leaders usually use shared values to keep the organization together and channel efforts toward success. But genuine success does not come from proclaiming values, it comes from consistently living the values, and when this happens, people often accomplish extraordinary results. Putting shared values into play when formulating and implementing strategic targets is about simplifying, guiding and securing commitment. Simplifying involves absorbing the complexity created by the ever-increasing need to adapt to changes at all levels in the organization. Guiding means using the strategy and the strategic targets to direct people toward the wanted position and vision. Securing commitment is all about integrating why with purpose, values and people, aiming at creating the right conditions for employees to deliver high commitment and performance in their daily work.

If you do not distinctively clarify which behaviors you expect from your people, you may miss out on essential things. You may end up having achievers, who make the numbers but in a way that is not in line with company policy. Judgment requires standards. To judge means to apply a set of values, and to value judgments without clearly and sharply communicated and agreed standards become irrational and arbitrary.

Staging strategic targets in the business plan

The sole purpose of a business plan is to make the strategy operational for the coming year by detailing how the organization should meet shorter-term targets to achieve the strategic targets and thus evolve toward the wanted position. Therefore, the quality of the business plan is dependent on the clarity and precision of the strategy. When that is not the case, especially in large and complex organizations, interpretations of the strategic direction will be blurred. To create a winning business plan, one need to be

clear on what activities that need to be prioritized to direct the organization toward the strategic targets. Furthermore, the strategic targets need to be staged in the business plan so that the annual performance and capability targets are aligned with the longer-term strategic targets.

A business plan is an important tool, not just for top management, but also for the broader organization, since it ultimately provides ownership, clarity, direction, motivation and incentive for completion of the strategic direction in operational terms. In successful organizations, the business plan is reviewed periodically to compare current standpoints to those outlined in the plan, and actions are taken when they differ. It is a good idea to secure monitoring of the business plan progress as an integrated part of the governance model. However, our experience tells us that too many business plans are not being followed up adequately. As a consequence, ambitions stipulated in the plan are soon forgotten.

When target setting goes wrong, organizations often tend to abandon some of the targets due to lack of commitment, responsibility, accountability, time, resources or buy-in from people who are expected to fulfill the targets. The target setting process requires the organization to identify performance and capability targets that underpin the strategic targets. Employees need to be made aware of their role in the process and how their efforts contribute to meeting the organization's targets. Setting performance targets that are too aggressive may result in that even the best efforts are unrewarded, leaving people demoralized. Even worse, in an attempt to meet unrealistic targets, people may feel tempted to cut corners or resort to unethical or illegal behaviors that they otherwise would be reluctant to even consider. However, setting overly conservative goals is hardly an alternative, since it may lead to sandbagging and missing out on opportunities.

The purpose of the target setting process is to set a number of objectives in response to different priorities. In a world of scarce resources and finite horizons, they need to be carefully coordinated and aligned. Since most targets are interdependent, inherent complexity needs to be recognized when selecting and defining them. Unless shorter-term targets are consistent with the strategy, the strategic targets and between themselves, they will not effectively serve in making the organization as one entity. Allowing inconsistency often leads to suboptimization and may give rise to warring factions internally and cutting off collaborative possibilities externally.

Leadership evolution

Winning in an increasingly competitive complex and challenging environment requires a bold strategy, clear strategic targets, and an aligned organization, which is committed to execute along the strategic direction. Leading organizations look beyond the lines and boxes to the mechanics of how strategy creation and implementation get done from a system perspective to make sure that everyone understands the situational context, the organization's objectives and the decisions and actions for which he or she is responsible and accountable.

Many of the senior executives and managers we support in strategy formulation, strategic target setting and strategy implementation have come to understand the

importance of setting adequate performance targets coupled with supporting capability targets to guide the organization toward a defined wanted position. They are eager to explain why the targets are important, and they allow information and knowledge to flow freely across organizational boundaries to oppose silo formations and ensure that people understand how their day-to-day activities support the organization's performance and capability targets.

How can we help?

Risk-taking is an integral part of leadership. However, we argue that it is possible for organizations to significantly reduce risk and improve their chances of success when it comes to strategy creation and implementation if they put emphasis on making sure that managers and employees know the strategic targets' why and what, how to accomplish them and their expected present and future performances.

Jomer & Co has long experience and knowledge of helping leadership teams and executives with strategic target setting processes. Our support is always bespoke and there are several possible entry points to a successful collaboration, for example:

- Strategic dialogue: executive coaching regarding strategic challenges.
- Target setting process support: executive support for improving the target setting process or defining strategic targets.
- Balance analysis: identify and analyze imbalances in the strategic direction, its strategic targets and execution.
- Unifying progress sessions: increase the capability of the leadership team to unisonally follow up the strategy, the strategic targets and ensure progress toward the wanted position.
- SAX dialogues: secure cross-organizational collegial collaboration between down-the-line managers to increase progress toward the wanted position.
- Balanced steering: analyze and develop balance between MBO and MBV.
- Organizational efficiency: manage lack of clear strategic targets, clarity in roles, responsibility and interpersonal dynamic in order to ensure quality of direction, learning and implementation.

Jomer & Co

We help clients close the strategy-to-execution gap by creating and implementing winning strategies.

Jomer & Co is a boutique advisory firm, focusing on strategy creation and implementation. Our focus on employing professionals with extensive experience provides us with the executive resources of a larger organization while still being flexible and responsive in the relation to our clients' challenges.

We are devoted to knowledge and situational insight and are aligned to the shift in demand for management consulting services by its way of leveraging knowledge, experience and giving advice. Our experienced Consulting Associates work closely with clients throughout the stages of strategy creation and implementation.

For contact and more information, please email info@jomer.se.