

# **MAKE SUCCESS MEASURABLE!**

**A Mindbook-Workbook  
for Setting Goals  
and Taking Action**

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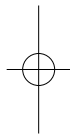
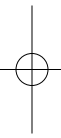
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# INTRODUCTION

**T**his is a how-to book. It explains how you and your colleagues can set the performance goals that matter most to your customers, to your shareholders, and to yourselves. It also lays out the managerial disciplines you need to achieve the goals you set. If you read and use this book, you will learn how to:

- Set goals that are specific, aggressive, and achievable.
- Set goals that matter to customers who want speed, quality, and value at a fair price.
- Set goals that matter to shareholders and funders who want a return on their investment and funding dollars.
- Set goals that matter to you in terms of opportunities, rewards, skills, and membership in an organization with strong values.
- Link the goals that matter to you to the goals that matter to customers to the goals that matter to shareholders and funders.
- Set nonfinancial as well as financial goals and link them together.
- Identify and use familiar and unfamiliar metrics that are relevant to today's most pressing performance challenges.

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- Understand and use outcome-based goals that support success, while avoiding activity-based goals that produce failure.
- Set and commit to goals that challenge your minds and your hearts.
- Use the concept of working arenas to get beyond thinking only about “my job.”
- Use the concept of working arenas to coordinate and align your goals with the goals of others throughout your organization.
- Understand how the time it takes to achieve different goals can help you see when and whether those goals fit together and make sense.
- Convert new visions, strategies, and directions into achievable outcome-based goals that can galvanize yourself and others in your organization.
- Choose when to use the team discipline to achieve your goals and when to use the working group discipline to achieve your goals.
- Choose when to use the horizontal/process management discipline to achieve your goals and when to use the vertical/functional management discipline to achieve your goals.
- Choose when to use the discipline of behavior-driven change to drive organizational success and when to rely on the decision-driven discipline.
- Build an outcomes management system to drive performance and personal development throughout your organization.

I believe you will benefit from this book because the challenge of setting and achieving performance goals has become very confusing. It has been more than 30 years since Peter Drucker wrote about the importance of managing for results. His work led to the widespread practice of management by objective. But an awful lot has happened in the past 30 years. The world of business

and organizations has changed dramatically, turning many of Drucker's specifics (though not his wisdom) upside down. In the aftermath of total quality, customer service, time-based competition, strategic alliances, globalization, reengineering, core competencies, continuous improvement, innovation, teams, horizontal organization, benchmarking, best place to work, information technology, diversity, environmentalism, deregulation and reregulation, eCommerce, and privatization, those of us left standing in today's organizations are unsure about what performance goals and outcomes make the most difference and why. We know that setting performance goals is key to managing ourselves and others, but we no longer know how.

We continue to manage by objective. But the vast majority of our objectives are mere activities, or what I call "activity-based" goals. We set goals and objectives to *pay* better attention to customers and their needs, to *team up* better across the organizational silos, to *build* core competencies, to *reengineer* our processes, to *globalize* our management, and so forth. In doing so, we have utterly confused the distinction between the *outcomes* we are attempting to achieve and the *activities* by which we hope to achieve them. Activities are not and should not be objectives. Activities are *how* we achieve the objectives—the outcome-based goals—we set for ourselves. Activities are essential to our success. But activities are not goals. A major purpose of this book is to familiarize you with the distinction between outcome-based goals and activity-based goals and to help you set and achieve more of the former.

Nor do we routinely differentiate among the most critical management disciplines needed to achieve the performance goals we set. Most of us continue to manage in one way, and one way only. Regardless of the nature of the challenge at hand, if we are bosses, we give direction, delegate responsibilities to individuals, monitor, and follow up. That is, in fact, *one* powerful way to manage. But it is only one of several management disciplines for delivering performance. Today, there are many other disciplines. This book will describe the major disciplines you need to use and help you figure out when you need to use them.

## Introduction

The book is organized in four parts. Chapters 1 through 4 provide the background, concepts, tools, techniques, and frameworks you need to set specific outcome-based goals that matter to successfully navigate today's most pressing performance challenges. Chapters 5 through 7 focus on helping you align and coordinate goals throughout your organization. Chapters 8 through 10 describe the management disciplines you need to achieve your goals and how to make choices among them. Chapter 11 concludes the book with a step-by-step design for building an outcomes management system in your organization.

Here's what you'll learn from each chapter.

Chapter 1 starts with an explanation of the critical distinction between activity-based goals and outcome-based goals. It identifies the problems and misguided assumptions you need to overcome to avoid activity-based goals, including the pitfall of goals that are strictly financial. Chapter 1 reminds you that today's performance challenges demand outcomes that are both financial and nonfinancial, and that those outcomes must simultaneously benefit customers, shareholders, and the people of the enterprise and their partners. It introduces you to the *cycle of sustainable performance*, a logical framework you can apply to ensure that your organization's goals reflect a truly balanced scorecard.

Chapter 2 helps you articulate and pick metrics that make success measurable. It describes the difficulties and challenges in using the unfamiliar metrics so often required by today's new performance requirements, and it introduces you to the *four yardsticks*—four families of metrics you can apply to set goals for any challenge you face.

Chapter 3 reviews the SMART criteria that you must use to articulate outcome-based goals that are specific, measurable, aggressive and achievable, relevant, and time-bound. It encourages you to set *and* achieve goals by following an iterative cycle of performance that includes setting, pursuing, evaluating, achieving, and/or adjusting goals continuously. Finally, Chapter 3 describes how to use a powerful logic device called a *performance tree* to break down any broad challenge you face into the set of

specific goals that are most important for you and your colleagues to achieve.

Chapter 4 expands upon the familiar notion of *stretch*. Everyone knows how important it is to aim high. By using stretch goals, we can achieve far more than we imagined possible. We also learn and improve the skills we need to prosper in today's tough competitive environment. Chapter 4 explores the link between learning and stretch goals and explains how you can use outcome-based goals to drive and respond to change. A series of specific tools is provided in Chapter 4 that expands on the idea of stretch. These tools will help you inject creative and personal tension into your goals.

Chapters 5 and 6 introduce you to the concept of *working arenas* and describe how you can match performance goals to working arenas in order to avoid the chaos that too often troubles today's organizations. Instead of hopelessly trying to make all your goals fit your job, Chapter 5 encourages you to identify the working arenas you contribute to, and then fit outcome-based goals to those arenas. Chapter 6 helps you use working arenas to align and coordinate goals throughout the organization. In Chapter 6, you will learn why a single, all-purpose, static picture of organizational alignment is impossible in today's fast-moving world. But you will also learn how to dynamically align your organization around the visions, strategies, initiatives, and directions that matter most to customers, shareholders, and the people of your enterprise.

Chapter 7 concludes the book's focus on aligning and coordinating performance goals. It more fully discusses the cycle of sustainable performance introduced in Chapter 1. In Chapter 7, you will learn how to link goals that primarily matter to customers to goals that primarily matter to shareholders to goals that primarily matter to the people of your enterprise and their partners. There are leading and lagging, cause-and-effect relationships among goals at all levels of the organization. By understanding these lead/lag relationships and by identifying whether the time frames to complete goals are simultaneous or sequential, you can make sense out of all the various performance challenges and goals in your organization.

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Chapters 8 through 10 review the management disciplines you must use to achieve the outcome-based performance goals you set. Chapter 8 concentrates on the two essential disciplines by which small groups achieve performance: the team discipline and the working group discipline. Each of these is good. The issue of which to use is not an idealistic or moral choice of “command and control” versus “engage and empower.” Rather, the question for any small group is which discipline makes the most sense in light of each specific performance goal the group faces. Chapter 8 describes how your small group can use a *performance agenda* to identify the most critical goals to pursue, and to choose when to use the team discipline versus the working group discipline to accomplish those goals.

Chapter 9 describes the difference between managing horizontally across processes and managing vertically in functions. Again, each of these disciplines is important; the question is which discipline best achieves the goals at hand. Chapter 9 reviews the familiar particulars for managing functionally. It also describes the management principles to use when you face a horizontal process performance challenge. Finally, Chapter 10 reviews the management disciplines you must understand in order to succeed in the face of change. It introduces you to the critical distinction between decision-driven change and behavior-driven change, and describes how to manage each successfully.

Chapter 11 concludes the book with a step-by-step design for building an outcomes management system in your organization. By using the design explained in Chapter 11 (as supplemented by the frameworks, tools, and techniques described throughout the book), you can ensure that your entire organization and everyone in it are managing for performance.

## Mindbook and Workbook Sections

The challenge of setting and achieving performance goals differs dramatically today from what it was 30 years ago. Nevertheless, many of our deepest managerial instincts and practices were

established in the 1950s and 1960s. You can rid yourself of this cumbersome heritage if you work to understand and use the concepts, frameworks, tools, and techniques in this book. To help you, I have included both explanatory Mindbook sections and practice Workbook sections in each chapter.

*Mindbook:* In the Mindbook sections, you will find descriptions and explanations for key concepts, frameworks, tools, and techniques, as well as the specific obstacles and difficulties that get in the way of using them. The Mindbook sections seek to build your intellectual understanding of how to set and achieve the performance goals that matter.

*Workbook:* The Workbook sections include exercises you and your colleagues can use to practice the concepts, frameworks, tools, and techniques. By using the Workbook exercises, you can convert understanding into action, and action into results.

The Mindbook and Workbook sections will reward you most if you use them with specific reference to a particular performance challenge you currently face at work. This is not hard to do. All of you are contributing to many specific performance challenges. For example, as you read these words you might be contributing to a quality initiative. Or you might be implementing a new marketing strategy. Or you might be reengineering a critical process. Or you might be working with a strategic vendor or partner to explore more effective ways to collaborate. Or you might be developing plans for better serving one or more customers or customer segments. Or you might be designing and building information technology that will enable people in your organization to become much more effective.

## Introduction

Take a moment right now and set forth one to five specific performance challenges that most concern you. Use the following space to write these down (in pencil!):

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As you read and use the Mindbook sections in this book, keep these specific challenges in mind. Importantly, make sure that you refer to these challenges when you and your colleagues do the exercises contained in the Workbook sections.

This introduction started by describing this as a how-to book. It ends by claiming that *Make Success Measurable* is also a practical guidebook to thriving in today's fast-moving world. By learning to master the disciplines needed to set and achieve performance, you will guarantee yourself a lifetime of opportunity and achievement. The time has come for all of us to step out of the chaos of activity-based objectives, unconnected and poorly communicated initiatives that promote change for the sake of change, flavor-of-the-month fads, financial goals that are not balanced with concerns for customers and the people of the enterprise, and destructive we-versus-they attitudes and behaviors that build cynicism and despair. You don't need to be a victim of this disarray. Instead, you can lead yourself and others into a world of organization performance characterized by goals that are outcomes; goals that are clear, specific, and coordinated; and goals that drive you and others to learn the skills and disciplines needed for success that matters to customers, shareholders and funders, and yourselves. You only need to let measurable success and performance show you the way.

# Focus on Outcomes, Not Activities

## **MINDBOOK**

### **Using Outcomes, Not Activities, as Goals**

Performance begins with focusing on outcomes instead of activities. In my experience, most people in most organizations most of the time do the reverse. They concentrate their efforts on the pursuit of activities instead of outcomes. As a result, they rarely set or achieve performance results that matter.

If you read the goals of many people, you will see comments such as “research what customers want,” “develop plans to reduce errors,” “reorganize into teams,” “improve cross-functional communication,” and “reengineer our costs.” These are not effective performance goals. They are activities that may or may not produce performance results that matter. For example, “research what customers want” is an activity that might lead to improvements in meeting customer needs. And “develop plans to reduce errors” is an activity that might lead to fewer errors. But neither of these activities lets the people involved know when they have succeeded, or even how their efforts matter to their own success and that of their organizations.

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Some activity-based goals are even worse than something like “research what customers want.” Consider “improve cross-functional communication.” Good cross-functional communication is one of many characteristics of effective organizations. But this goal tells us nothing about performance outcomes that matter. If you were part of a group pursuing this goal, you would know neither why you were working to improve cross-functional communication nor how to evaluate whether you had succeeded.

Regrettably, activity-based goals too often produce dispiriting experiences and mediocrity in organizational life. When people lack the most basic understanding of why their efforts matter and how to recognize success, the self-confident spirit of a high-performance organization evaporates. People throughout the organization seek refuge in the pursuit of activities without any clear purpose. “We” are always trying our best to research what customers want, develop plans to reduce errors, reorganize into teams, improve cross-functional communication, and reengineer our costs. But “they” are never putting forth a best effort. “They” are forever getting in the way of . . . of what, exactly? “We” are not too sure. But when it comes time to review our performance, “we” can point to any number of activities we have undertaken to, for example, research customer needs. “We” have done our best, and no one can convince us otherwise. “They” had better reward us. And if the organization continues to flounder? Well, hey, “we” feel bad about it, but it’s not our fault. “We’ve” done our job.

Don’t let yourself drift into waters like these. Don’t waste your working life pursuing activities for the sake of activities. Instead, begin your journey toward performance by focusing on outcomes and results that matter instead of activities only. If you prefer, instead of *outcomes* you can choose any of the following words: *impacts*, *consequences*, *ends*, *effects*, or *payoffs*. Or you can choose any other word—*so long as the clear and easily grasped meaning of that word is the performance outcome or result of effort instead of a description of the effort itself.*

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For example, consider the word *payoff*. Will you and others quickly and dependably interpret *payoff* to mean the impacts, outcomes, and results you hope will happen instead of only the activities by which you conduct that effort? If yes, then go ahead and use the word *payoff*. Otherwise, avoid it.

Notice, please, I am not saying that activities are bad; I am saying that goals that are *activity-based* are ineffective. Activities are the things people must do to produce performance outcomes. We cannot achieve outcomes without doing activities. As Figure 1.1 illustrates, activities are the inputs by which we achieve the impacts of performance results.

But activities are not outcomes. When people confuse activities with goals, they get lost. They soon cease all pursuit of clear and compelling outcomes and results. They travel in circles. Instead of producing outcomes that matter, activity-based goals only produce more activities that in turn produce still more activities, and so on. In contrast, when people have clear, outcome-based performance goals, they know best how to choose, conduct, evaluate,

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and modify the activities necessary for such achievement. They continue to do activities, but with clear purposes and goals in mind.

Let me illustrate this in the context of team performance. Since the publication of Jon Katzenbach's and my book, *The Wisdom of Teams* (Harvard Business School Press, 1993), I have had the opportunity to observe thousands of team-oriented efforts in organizations. Sometimes the context has been a single, small group. Other times it has been many small groups spanning the organization. I always ask those involved, "What are the performance outcomes you are trying to achieve?" Far too often, people describe the activities associated with teaming instead of the results such teaming might accomplish:

"We need to work collaboratively."

"We need to be a team."

"We're trying to make sure all relevant functions participate."

"We want to have more teams."

"We're reorganizing into teams."

"We need to make sure everyone gets trained in how to team."

Are such activities helpful? Most of the time, yes. But I have observed that people who participate in such initiatives only accidentally produce performance results that matter. They lack the most basic sense of what they are trying to accomplish. Look back at the responses. Not a word in them tells you *why* all the collaboration, multifunctional effort, teaming, and training matters to performance.

The least likely way to deliver team performance is to make your primary objective "becoming a team." Yet each of the activity-based answers listed above has "becoming a team" as the objective lurking at or near the surface. People who are focused on "working more collaboratively" or "ensuring that all perspectives are present" or "increasing the number of teams" are people trying

## Focus on Outcomes, Not Activities

to be a team as opposed to people seeking to apply the team discipline to deliver specific performance outcomes and results that matter.

Clear and compelling performance objectives are the driving force behind teams, not the desire to be a team. Teams that understand the difference between outcomes and activities are teams that are well positioned to learn the discipline needed to perform. (See Chapter 8 for an overview of the team discipline.) Examples of such team performance outcomes include:

- Win contracts from at least two major equipment manufacturers based on our new component design by the end of this calendar year.
- Have five joint local/national headquarters fund-raising teams succeed in raising at least \$100,000 each from new sources over the next 15 months.
- Within 60 days, deliver to senior management specific recommendations, which, if implemented, could cut new product development time in half, while simultaneously doubling our commercial success rate.
- Never permit any customer checkout line to be more than three people long.
- By May 15, eliminate our delivery backlog entirely, while also meeting all current deliveries in under 48 hours.

There is a night-and-day difference between these clear and compelling outcome-based performance goals and the activity-based goals stated earlier. Most people most of the time are far more likely to achieve performance results *and* learn the team discipline if they have outcome-based performance goals instead of activity-based goals.

The same is true for other critical skill, behavior, and working relationship challenges beyond teaming. By focusing on performance outcomes and results instead of activities, people through-

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out today's organizations can master challenges ranging from improved customer service, quality, supplier partnering, strategic alliances, and innovation to reengineering, core competencies, and continuous improvement. Unfortunately, far too many people in for-profit, nonprofit, and governmental organizations, whether in executive offices or at the front lines, are focused on activities instead of outcomes.

Don't make this mistake. Setting and achieving results that matter begin with outcome-based goals instead of activity-based goals. The following Mindbook and Workbook sections will help you and your colleagues make this shift from activities to results. The first section explains why an orientation toward performance results has become so challenging. Understanding these difficulties can help you avoid them. The second section provides exercises you can use to set outcome-based goals instead of activity-based goals.

### **Why an Orientation toward Outcomes Has Become Rare**

The majority of people know that their organizations must perform and that they must contribute to that performance. This knowledge is as deep-seated as common sense itself. Indeed, I can happily report that I have never (seriously, *never*) heard any objections from any person or group at any level in any kind of organization when I have pointed out the importance of focusing on performance. It is reassuring that all of us know just how fundamentally important an orientation toward performance is.

Paradoxically, however, a routine habit of setting and achieving performance outcomes that matter has become rare. Not (as I have just noted) because people disagree or fail to grasp the importance of performance. Rather, our current activity-oriented habits emerge from a mixture of misguided assumptions, natural human anxieties, and the strong legacy of financial measure-

ment. Meanwhile, as our performance attitudes and skills have weakened, a remarkably new and different set of performance challenges has arisen to confront us. Simply put, we know performance is essential, but we are out of practice and faced with many new performance realities.

### Misguided Assumptions

A series of flawed beliefs causes people to assume performance outcomes exist when, in fact, they don't. In an all too typical experience, I once challenged the hundred top executives of a multinational corporation to take some time and come back with statements of "the most critical performance outcomes they and their people were aspiring to achieve." Many of these men and women were so upset about being asked to work on such a basic question that they complained to the CEO and senior vice president of human resources. In both verbal and body language, the complaining executives betrayed all of the assumptions that get in the way of focusing on performance outcomes instead of activities.

- *"I already know that!"* This is the most naked of the misguided assumptions. While I have found it expressed by all manner of jobholders, it is, understandably, particularly characteristic of bosses. Whether senior executives or front-line supervisors, bosses are deeply aware that they are *supposed* to know the performance outcomes that matter most. It is a core part of their job. Consequently, they can be offended by the suggestion that they don't.
- *"The performance outcomes are implied!"* This is a variation on "I already know that!" Consider how fundamentally aware most of us are about performance as the necessary engine of organizational and personal success. It is only a short leap from this most basic belief to the assumption, "Of course the performance outcomes are there! Otherwise, why would we be doing all these activities?" Unfortunately,

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far too often the performance outcomes are *not* there; they are neither implied by nor easily understood within the activity-based goals spread throughout the organization.

- *“They’re in the plans!”* This is a variation on “The performance outcomes are implied!” It is one aspect of the strong legacy of financial measurement we will discuss later. Interestingly, it suggests a kind of alchemist’s faith. We are not certain how our activity-based goals (e.g., “improving cross-functional communications”) relate to the financial targets stated in this year’s budgets and plans. But we take it on faith that, through the alchemy of organization, such activities will be converted into gold! (In a second prevalent version of this, we do not have such faith. Instead, we know for certain that the only goals that matter are the financial results in the plan. Consequently, we ignore—even scorn—goals such as “improve cross-functional coordination” as so much fluff and nice talk.)
- *“That’s someone else’s job!”* Again, a variation. After all, classically it *was* the job of the boss or the finance group to set goals. But this passive, “somebody else’s job” perspective doesn’t work in today’s fast-paced environment. Yes, bosses and financial people still must set performance directions. *But so must everyone else.* People who assume that their activity-based goals somehow contribute to performance outcomes being set by other people, and yet remain unclear about those outcomes or the connection, are people who are flying blind.

When the CEO and SVP of human resources read the performance goals handed in by the hundred executives, they were shocked. Notwithstanding all the complaints and protests, *less than 10 out of more than 1,000* goal statements set forth real performance outcomes that mattered—Ninety-nine percent of the goal statements were activity-based.

## Natural Human Anxieties

Let's face it. Most of us most of the time get nervous when we start to discuss the outcomes by which our success or achievement might be measured. Most of us find it easier and more reassuring to commit to goals entirely within our control and comfort zone. Activity-based goals, then, are the very thing for us. Consider the following goals set by the executives in this story:

- Develop a strategic plan for each of my four markets.
- Hold quarterly reviews with key contributors, beginning second quarter next year.
- Assess whether to expand or exit product line Y.
- Send staff meeting memos to all employees each month.

Each of the executives could easily accomplish each of these goals. And yet, every one of these activity-based goals begs critical questions: Why do these activities matter? How would you know they made any difference to performance? Consider the last of these examples: "Send staff meeting memos to all employees each month." Undoubtedly, the executive in this case wanted to keep the people in her division better informed about the direction and decisions emerging from staff meetings. All of us should applaud this. But how would the executive know she had succeeded? What is the outcome this executive should target as the result—the real performance purpose—of employee involvement and understanding?

It is not easy to state goals and outcomes for such things as employee involvement and understanding. However, seeking refuge in pure and easily accomplished activities is an unconstructive response to this dilemma. Indeed, activity-based goals like those listed above are shams, and we know it.

The basic anxiety and risk aversion most of us feel about setting real outcomes as goals—let alone stretch outcomes—will always be around, particularly when new and different chal-

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lenges confront us. The central question is whether we will allow the anxiety to control us, or will we control our anxiety?

**The Legacy of Financial Measurement**

Ask how to evaluate the performance of an enterprise and invariably the answer comes dressed in financial terms such as revenues, costs, and profits. This should surprise no one. Organizations have measured and evaluated their performance financially as long as any of us can remember. And we have become very sophisticated at doing so. Simple balance sheet and profit-and-loss indicators of the early twentieth century have evolved into a complex array of financial indicators including share price, earnings per share, cash flows, coverage, and other ratios. This financial orientation is an integral part of our everyday experience and reality. It is even embedded in our language. The phrase most often used to describe performance is “the bottom line.”

Our sophisticated financial orientation has bestowed tremendous economic value upon our organizations and ourselves. Nothing that follows is meant to suggest that we abandon this perspective. Having said and meant that, however, we have reached a point in history when an *exclusively* financial approach to organization performance no longer works. Indeed, even today’s most astute financial executives recognize that the financial-only approach is self-defeating. The surest way to ruin financial measures, they will tell you, is by focusing only on financial measures. More and more leaders today call for a balanced scorecard that recognizes the necessity of delivering performance to all of the stakeholders who matter to the health of the enterprise (see Figure 1.2).

As balanced scorecards get introduced, however, most organizations quickly discover just how iron-fisted is the grip of the orientation toward financial results. This should not surprise us. We should never underestimate the power a financial perspective has on our lives. Today, the assertion that financial indicators no longer occupy the fixed center of our performance universe is as

heretical as Copernicus's sixteenth-century refutation of Ptolemy. Ptolemy's system had governed the learned mind for *1,400 years*. It took several hundred more years before most people *believed* Ptolemy was mistaken. Hopefully, it will not take as long for people to believe—*really believe*—there is more to performance than financial results.

To help you and your colleagues along the way toward a more balanced view of performance, let me point out three particular pitfalls of the financial-only perspective.

**Pitfall No. 1: Unsustainability**

As mentioned, a singular obsession with financial indicators ultimately destroys those indicators. Figure 1.3 illustrates why. Achieving sustained organizational performance demands outcomes and results that benefit all of the constituencies that matter. It also demands that the outcomes beneficial to any single constituency actually fuel or reinforce the outcomes beneficial to others. Thus, the balanced performance orientation in Figure 1.3 reads as follows: “Shareholders who provide opportunities and rewards to people of the enterprise to deliver value to customers who generate returns to shareholders who provide opportunities to people of the enterprise, and so on.” In governmental or non-profit organizations, the same reinforcing cycle obtains, although

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“shareholders” are replaced by “citizens/taxpayers” (governments) or “donors/supporters” (nonprofits); and “customers” are replaced by “beneficiaries and customers.”

A strict financial-only performance perspective inevitably ignores or undervalues the other constituencies. As organization after organization has discovered to its dismay, this narrow view results in poor customer service, shoddy products, unfulfilled and unhappy people in the enterprise, and other cancerous phenomena, all of which eventually reflect themselves in poor numbers. The wisest executives understand that financial indicators are lagging; that is, they are the effect caused by other leading indicators such as customer satisfaction and people’s skills or competencies. A balanced performance orientation, then, is one that includes but goes beyond financial indicators only. Whether considering the entire organization, a business unit within the organization, a function or department, a key cross-functional process, a team, or a single person’s contribution, sustainable performance emerges when we move beyond the financial-only legacy we have inherited to a richer variety of reinforcing performance outcomes and results (see Figure 1.4).

## Focus on Outcomes, Not Activities

### **Pitfall No. 2: Demotivation**

Today's challenging world demands tremendous energy and enthusiasm from people throughout the organization. Financial goals typically inspire only the narrow few (e.g., senior executives) instead of the broad many (all of the people of the enterprise). Yes, financial outcomes should and do energize top executives as well as partners in professional service firms. Why? Because such people either are, or are rewarded as if they were, owners. In addition, financial goals classically motivate people whose work directly contributes to financial results—for example, people in sales and marketing. Finally, during periods of rapid growth or imminent decline (such as pending bankruptcy), financial goals can inspire the entire organization. Beyond such

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people or situations, however, financial-only indicators are most often music to deaf ears. The vast majority of people simply do not *hear* them. In fact, such goals can demotivate people if they suspect their leaders care more about self-enrichment than about delivering value to customers and building prosperity and opportunity for all.

**Pitfall No. 3: Confusion**

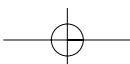
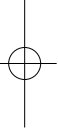
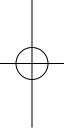
Perhaps the most recognizable defect of financial-only goals is the barrier that inevitably blocks the translation of overall corporate financial goals into subgoals that people in the enterprise can pursue with confidence. Consider revenue, profitability, share price, and market share goals. At the top of an organization, such goals make sense because the CEO and his or her direct reports can understand how the entire organization might work together to accomplish them. Yet, when senior executives begin to dissect such goals into subgoals for the third, fourth, fifth, and lower levels of the organization, they run into trouble. Yes, they can give revenue or share goals to sales and marketing people, and they can give cost goals to everyone. But that's it. What top executives see as a rich mixture of organization effort becomes a thin gruel for everyone else. Again, refer to Figure 1.4. People throughout the organization need to set and achieve performance results across the spectrum, not just the single strand of revenue (e.g., sales) or cost (e.g., operations) that seems relevant to their function. When top management's overall financial goals do not translate into such meaningful contributions, people get confused about how and why their contribution makes a difference. In the midst of such confusion, people often resort to setting activity-based goals.

When combined, these misguided assumptions, natural anxieties, and the strong financial legacy help explain why people find it so difficult to focus on performance outcomes instead of activities. As you reflect on your own performance challenges,



## Focus on Outcomes, Not Activities

you should be candid about such obstacles. Having done that, the most important step you and your colleagues can take is to resolve not to allow such forces to get in your way. You can start today. Pick a performance challenge that matters, and work together to identify the performance outcomes and results that make sense to pursue. Yes, of course, identify the activities necessary to accomplish these outcomes. But do not confuse activities with outcomes. The next section provides a series of exercises that you can use to make this all-important shift from a focus on activities to a focus on outcomes.



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## WORKBOOK

Consider any effort, initiative, program, plan, assignment, or project to which you are making a contribution. Take a few moments and write a description of that effort and estimate the expected time frame for its completion. Also, identify who else is joining you in the effort. Consider doing the exercises below together with those colleagues. Please note that the exercises employ a variety of different approaches. You may find some more useful than others. Consider practicing all of them until you know which work best for you.

### Exercise 1.1: Mirror, Mirror

Gather any formal goals that you have written down or that are part of your management system. If any or all of you have no written goals at all, discuss the implications of that among yourselves and then move on to Exercise 1.2. If you do have written goals, analyze them. Are they activity-based or outcome-based?

### Exercise 1.2: How Would You Know Success?

Imagine that I have just spent 15 to 20 minutes with you and your colleagues. You have explained to me an effort that you have under way and the time frame projected to complete it. Now take 5 or 10 minutes alone, or in pairs, to answer the following question:

*How would I know if you and your colleagues were successful in this effort?*

In other words, if I were to disappear and return at some relevant point in the future, how would I know whether the effort succeeded? What would you and your colleagues point to as indicators of that success?

### Exercise 1.3: The Five Hows

This is a variant on Exercise 1.2 and it comes from a very useful technique called the Five Whys, which helps people gain clarity about why they are doing something. The objective here is to gain increasing clarity and specificity about the performance outcomes that matter most to the effort you and your colleagues have under way.

The exercise starts the same way as Exercise 1.2. Once you have recorded your responses to the question, “How would you know success?,” ask the same question again, but with reference to the answers. Continue to do this up to five times, or until your answers describe performance outcomes or results instead of activities. Figure 1.5 illustrates this exercise for the challenge of innovation. Please compare the specificity of the fifth answer with the specificity of the first answer. The fifth answer is a much better outcome-based goal than the first.

### Exercise 1.4: Stakeholder/Constituency Analysis

A useful way to gain an outcome focus is to ask yourselves, “To whom does this effort matter, and why?” This basic question guides you toward a performance orientation. Thus, consider the following constituencies that might matter to the success of your organization:

- *External constituencies:* Customers, shareholders, strategic partners, distributors, suppliers, regulators, others.
- *Internal constituencies:* People in other functions, departments, processes; bosses; subordinates, team members; task forces or committees; others.

Whether your effort spans much or all of your organization (e.g., implementing a new strategy) or is confined to yourself and/or a small number of colleagues (e.g., increasing the productivity with which your small group answers customer service calls), take the time to respond to the following three questions:



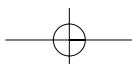
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1. To which of these constituencies does your effort matter or make a difference?
2. Why does it matter to them? Why do they care?
3. How would they (members of the constituencies) judge whether your effort succeeded?

### **Exercise 1.5: Scratching the Activity Itch**

Okay. Go ahead. Scratch that activity itch! Take some time and list all the activities that you and your colleagues need to complete as



part of your effort. That's right. Get them all out on the table. When the frenzy is over, when you feel you've listed all the necessary activities, then go back to Exercise 1.2 or 1.3. With respect to each of these activities, ask, "How would I (or you) know if these activities were successful?"

### Exercise 1.6: Metrics/Yardsticks

Take 5 to 10 minutes to identify as many metrics or yardsticks by which you might evaluate the success of your effort. Remember to identify both financial and nonfinancial yardsticks. Having done so, and discussed these yardsticks among yourselves, return to Exercise 1.2.

### Exercise 1.7: Inputs—Impacts—Outputs

This exercise is a bit more sophisticated. As illustrated in Figure 1.1, activities are the inputs by which we achieve the outputs of performance outcomes. However, sometimes there is an *intermediate* set of accomplishments that interposes itself between activities and results. Figure 1.6 shows these intermediate accomplishments as *impacts*. You and your colleagues might find it useful to set goals that include a mixture of impacts and outputs.

To illustrate this, consider some of the inputs, impacts, and outputs typically involved in a total quality effort. As shown in Figure 1.6, inputs, or raw activities, almost always include training or education efforts to introduce people to the philosophy and tools of total quality. These inputs lead to intermediate impacts that might include the number of people trained or, even better, the number of teams that have set total quality goals that matter. But the most critical performance outcomes would include the outputs accomplished by those teams, such as errors reduced, cycle times shortened, customer satisfaction increased, revenues gained, and skills learned and applied.

You and your colleagues might find the distinctions among inputs, impacts, and outputs helpful. Accordingly, take time to complete the following table:



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*To succeed at our challenge, we need to pay attention to:*

Exercises 1.2 through 1.6 will provide you with plenty of material for completing this table. Once you have done so, try crafting one or more outcome-based goals that draw from the second and third columns. The key, as always, is to avoid goals that are entirely activity-based (inputs).

