

Goal-based Leadership

– Introducing an efficient management approach

Why are so many goals not relevant for the organization? Is it because goals are often cascaded (pushed) by top management? Or is it management's ability to set right goals? A *Fortune* cover story "Why CEO's fail" discussed the difficulties of organizations to implement their strategies. It was estimated that execution failed in 70 percent of organizations. The causes why organizations fail in achieving desired results are found to be many.

Many management models and methods are ineffective and thereby short-lived. A method may look good when described as a theoretical model, but not efficient and effective when applied to the management process. Managers working in an environment of continual change need good practices to fulfill their responsibility to work strategic by:

- acting on changes in your business environment,
- having a dialogue with the Key Stakeholders,
- setting goals for the own business, and
- following up and acting on results.

This way of working strategic will not be accomplished without a shift in thinking – a paradigm shift.

The new management approach described in this White Paper is based on four management principles:

1. Use empowerment to take the initiative based on one's own mission
2. Focus on how your key Stakeholders (interested parties) evaluate the performance of your organization
3. Track and improve one's own capabilities which improve performance
4. Collaborate with your key Stakeholders to develop the most competitive supply chain

Challenges to the established management models and methods

The traditional management approach usually starts with top management's identification of strategic goals based on an analysis of the external business environment. In some organization it is also called situational analysis. Deciding goals on the highest level and cascading them down in the organization is very efficient in the eye of top management. Hatch (*Organization Theory 1997*) is critical what she call the rational model of decision-making (see the figure Models for cascading goals). "The separation of duties suggested by the rational decision making model often produces communication problems." Middle and lower management, given the responsibility to implement the strategies, usually don't understand what top management intends (*Organization Theory 1997*).

Model for cascading goals



The top-down approach may lead to several hindrances in the execution of strategies:

- Leaders and managers on the lower level of the organization feel they can't use empowerment to take the initiative based on their own mission
- The goals are not recognized as belonging on their own level of the organization and will therefore not lead to effective actions
- Top management drives goals belonging to and better driven by the lower level of the organization
- The employees don't understand/accept the goals and are not motivated to contribute

A top-down/bottom-up approach to planning and executing breakthrough improvements in business performance has been applied in Japan, the USA and elsewhere. This management approach is a critical element in Japan's Total Quality Management. It is also called *Hoshin Kanri*. *Kanri* is translated as Management or Planning and *Hoshin* as Policy or Target respectively. Policy Deployment is a common translation for the term *Hoshin Kanri*. It is used as a synonym for a top-down/bottom-up management approach using the iterative Shewart Plan-Do-Check-Act cycle to improve performance. Bottom-up, top down negotiations (Catchball) are conducted throughout the planning process until all levels reach agreement. The top-down/bottom-up approach, i.e. the Policy Deployment method, is applied on the entire organization to collectively plan and execute breakthrough improvements. However, in this approach goals are still tied to the vision and top management decides the goals.

Vision-driven method - example



Over the years many models and methods have been published with the purpose to help managers to manage more efficiently and to achieve effective results. Managers have been taught to use vision-driven methods (see the example in the figure *Vision-driven method*) in translating strategies into actions. Many managers seem to think that their vision alone should set the direction. "A myopic focus on the vision has led many organizations to pursue less than ideal strategies and objectives. In the strategic management process, vision isn't the starting point – it's a byproduct of competent analysis" (*The Vision Thing*, Humphreys 2004).

SWOT-analyzis (an acronym for Strength, Weakness, Opportunities and Threats) has become a well known strategic planning activity for the management team to analyze the current status of the organization. In order to articulate outcome-based goals SMART-check criteria (an acronym for Specific, Measurable, Aggressive/Achievable, Relevant and Time-bound goals) has been introduced in the management literature as well (*Make Success Measurable*, Smith 1999). None of the published methods cover the entire management process. Nor are the methods linked to each other with the purpose to be applied step by step in the management process and by the management team. There is a need for an integrated method that gives managers support all the way throughout the management process from the analysis to follow up of progress and performance.

Why Managers fail

It is easy to be intrigued by a management model. How many managers succeed when applying a new model? And how to avoid the many pitfalls? To understand why managers fail several issues need to be discussed.

Why are managers using goals? Are they setting goals to show efficiency of the organization or drive necessary changes? But are the goals relevant for the organization? Who is compiling and securing data and preparing performance reports? And are the actions effective? Etc, etc. Usually managers set financial goals like sales goals and budget goals to manage the organization. This mean the focus is only on one of the key stakeholders - the sponsor, i.e. the next higher level of line management. The requirements and expectations of other Key Stakeholders in the supply chain are left unattended.

Managers love to talk about their goals as impressive visions, rather than using them as motivators to achieve desired results. Often managers focus on operative issues when identifying goals resulting in activity-based goals, i.e. actions only. Goals should be used as long-term motivators. When one action has been executed it is necessary to follow up the progress to see rif the goal have been archived. Managers don't realize how much time they have to spend on implementation of goals, execution of actions and follow up of performance (see the figure *Managers ability to lead through goals*).



Often managers have to prioritize short-term activities, i.e. prioritize the operative work. As a consequence the execution of planned actions will be interrupted and the goal will not be achieved.

Since managers are expected to know almost everything, many managers are taken for granted; they have the ability to lead through goals as well. It is our understanding that the main cause as to why managers' fail is lack of an efficient and hands-on method developed from many lessons learned. Other causes why managers fail are lack of knowledge of the management process, lack of empowerment to take own initiative, lack of common understanding within the management team, lack of a dialogue with the stakeholders, and lack of balance between the operative and strategic work.

New managers are taught how to manage and how to lead an organization in the classroom. Many experienced managers realize they need refresher training. However sufficient knowledge is not provided on:

- how to identify the **right** goals and actions,
- how to define measures (indicators),
- how to improve capabilities, and
- how to follow up on progress and performance.

To set direction, to identify **right** goals and actions, and to lead and to manage an organization through goals are challenging. An effective management team is required for success to happen. And foremost the management team needs a **facilitator** understanding all steps in the management process.

Our experiences from facilitating management teams have shown:

- Management teams need time to learn to work efficiently and effectively together. Management teams not reaching certain maturity level will be locked in endless conflicts and power struggles;
- Management teams try to grasp everything they think is important, they set too many goals and thereby lose focus on what is most important. Lack of prioritization will be a hindrance for the execution of necessary actions;
- Management teams must have a common understanding of what tasks team members have to perform to achieve more. The most successful management teams are those using

defined management roles throughout the management process. Examples of management roles are “Relation Manager”, “Goal Owners” and “Goal Drivers”

Managers will achieve more if they use the management team to

- build a common understanding of the organization and the environment it operates in;
- understand the need for changes and prioritize the vital few!;
- share the tasks, e.g. establish a dialogue with the key Stakeholders in driving the own goals.

Rational for a paradigm shift

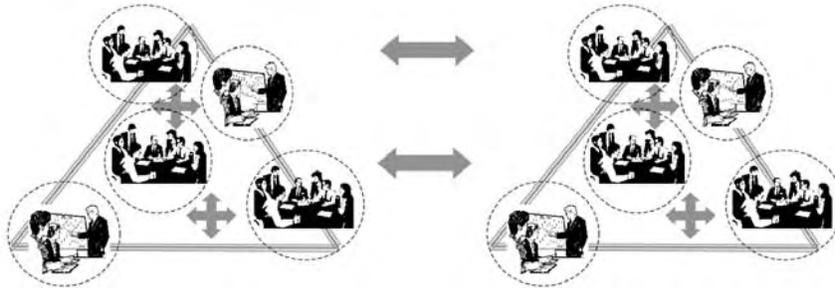
This White Paper has addressed the need for a new way of working strategic. Why? Most Managers are working in an environment of continual change. Established management models and methods don't support Managers sufficiently when fast response is required. To describe the rational for a new management approach we have identified three important shifts (see the table below).

Top-down approach in goal setting. Goals are cascaded from the top and a subset of goals is identified from the bottom. This leads to a hierarchy of goals.	=>	A new approach in goal setting based on empowered Management Teams driven by their own mission and insight. Applied on all levels/units in the organization and carried out in parallel.
Activity-based goals	=>	Characteristic-based goals
Goals are identified from the overall vision and pre-determined perspectives (e.g. finance, customer, process, innovation)	=>	Goals are identified from what characteristics the Key Stakeholders (interested parties) evaluate the performance and from one's own mission.

Empowerment is not a new fad. Empowerment was the idea behind the American Constitution starting with “To give power or authority to...” written 1787. Managers on all levels of an organization should use their empowerment more as an internal motivator. Isn't it better that goals be driven where the actions are executed and followed up?

A prerequisite is that the members of the management team have understood their managing role in the organization and in the supply chain. Empowerment and empowered management teams are one of the management principles Goal-based Leadership is based on. A network of empowered management teams working in networks to develop the most competitive supply chain is fundamental in the **business logic** of Goal-based Leadership (see the figure *Empowered Management Teams acting in networks*).

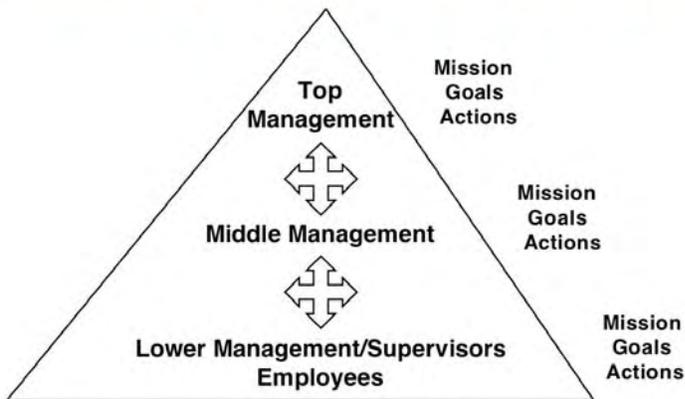
Empowered management teams acting in networks



The new approach is neither a top-down nor a bottom-up approach along the organizational line. Initiatives are based upon one's own insight and own mission, at their own organizational level/unit (see the *figure Initiatives based upon one's own mission*).

This symbol  illustrate that this management practice has a process- as well as line approach.

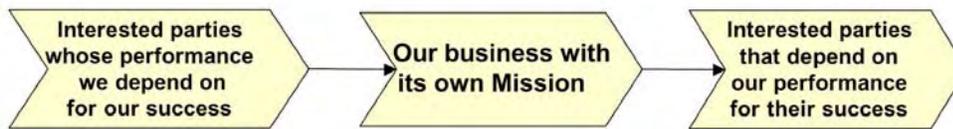
Initiatives based upon one's own mission



Fast responses to a world of change require a more efficient way of setting goals and follow up performance. With the management approach described in this White Paper teams are able to work in an iterative way with fast response to changes. If goals are based on characteristics derived from processes and results of the organization, they may survive the next reorganization. Examples of characteristics are response time on customer complaints, capital growth, and planning accuracy (see also the section *About performance indicators and capability indicators*).

Analysis of how the Key Stakeholder evaluates the performance of the business is one other fundamental in Goal-based Leadership. With this approach the initiative can be taken when and wherever there is a need for it (see the figure *Analysis of Stakeholders*). This is not possible with traditional top-down approach.

Analysis of interested parties (Stakeholders)



If pre-determined perspectives (e.g. customer perspective, financial perspective, process perspective, etc.) are used (*The Balanced Scorecard*, Kaplan & Norton 1996) to guide the management team in identifying goals, focus on the most important Stakeholders may be lost. Our experiences are that the concept of Balanced Scorecard is mainly used as a framework for presenting vision, strategies, goals, etc. (see example in figure *Balanced Scorecard*). Most Scorecards we have seen are constructed from the vision and strategies formulated by top management.

Balanced Scorecard, example



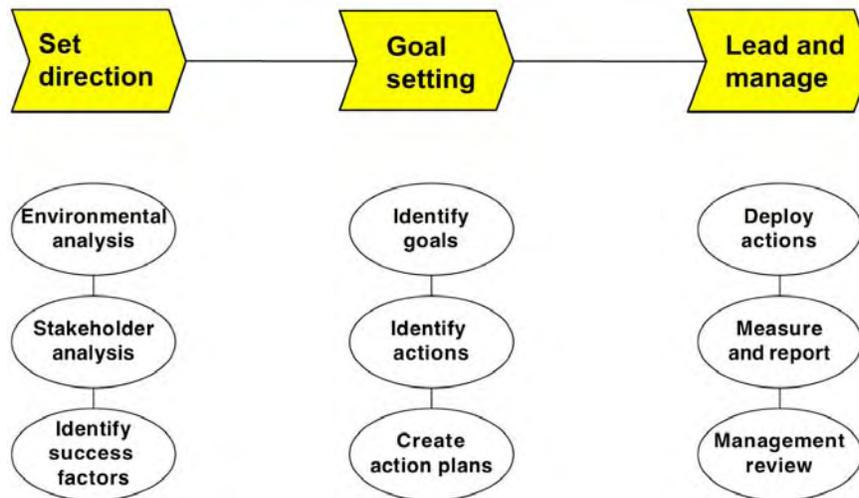
Apply an effective and efficient method to the management process

We have discussed the need for an integrated method that gives managers full support all the way to throughout the management process – to be applied anytime and anywhere in the organization. The method for the management process described in this White Paper includes all steps from the environmental analysis to management review of results (see the figure *The management process*).

NOTE 1: The process of Strategic planning is a subset of the Management process.

NOTE 2: The Environmental analysis is also known as Situational analysis.

The management process



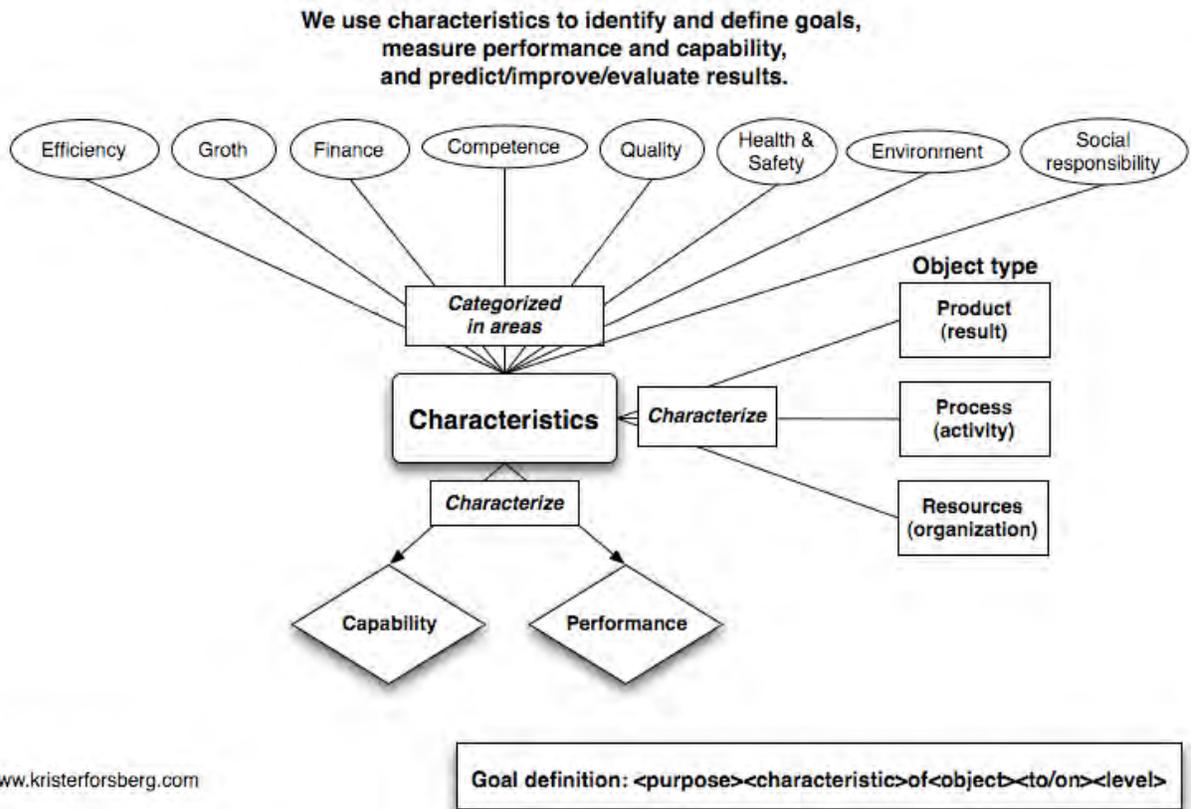
This method is based on many years of practical experiences and lessons learned. To be accepted as good management practices the following criteria was stated:

1. **Generic** – applicable on existing management systems and processes in profitable or non-profitable organization.
2. **Prioritizing** – exclude what is less efficient to identify the right goals and actions.
3. **Stakeholder focus** – focuses on Key Stakeholders' evaluation of performance.
4. **Fast** – to be applied in a relatively short time on all levels of the organization in parallel.
5. **Complete** – gives full support all the way to effective actions and follow up of performance.

About Performance Indicators and Capability Indicators

This is important to understand: A Measure or Indicator is a definition of a Characteristic. Each Characteristic belongs to a product, a process or to resources. Further, goals are defined from the specific characteristic we want to improve. In the figure below characteristics are shown in a context of object type, area and capability and performance. When Characteristics are defined (e.g. length and meters) they will become measurable and continuously reported in trends and variation.

Indicators and Measures are synonyms and general accepted terms. Metrics are also a common term for Measures used in the industry.



Why is it important for an organization to understand what characteristics characterizes its Capability and Performance? The answer is easy. It is the organizations performance and ability to perform the Stakeholders evaluate.

Goals based on characteristics which have been identified from the organization's result and processes will "survive" organizational changes and changes in the organizational environment. If each organization defines its most important characteristics it will facilitate the work defining indicators and goals.

It is easy to characterize an object in the area of efficiency or finance, but how do we characterize Human Rights or Ethics? How do we differ one characteristic of one process from one other? Management needs support of a specialist in defining the characteristics in setting the **right** goals.

Use Key Questions as a tool to make decisions

What is triggering the management process? Is it the budget process, restructuring of the organization, change in business environment or management decision of a new direction? We think "change in the environment of the organization" is the most important starting point for the management teams. "What trends and events do we have to act on in our supply chain and the environment around it?" should be the first Key Question in the journey of the management team

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throughout all 9 steps in the management process (see the figure *The management process*). In the last step of the process the management team reviews progress of actions and performance reports. The head of the unit, i.e. the Goal Owner has to decide on the following Key Question: *Will we achieve our goals?*

1. “Does performance and trends in the reports show that our goals will be achieved in accordance to the plan?”
2. “Do we need to decide on taking any further actions?”
3. “Do we need to decide on a identifying a new level of the goal or do we have to decide on a new goal?”

This is the list of the Key Questions developed for all steps of the management process.

What trends and events do we have to act on?

Which are our key stakeholders?

How do our key stakeholders evaluate our performance?

How do we evaluate our key stakeholders’ performance?

Who is managing stakeholder relationships?

What are the capability and performance goals?

What are the capability and performance indicators to measure goal achievement?

What actions are effective to achieve the goals?

Who is managing the goals?

Who is allocating the resources and follow up progress?

Who is compiling data and preparing reports?

Who is analysing the reports?

Will we achieve our goals?

What should be reported and to whom?

Conclusions

Although there have been a large number of articles and books published on strategic planning, goal setting, managing organizations, operational development, etc. managers lack a management approach to practice when changes happen quickly. The approach described in this White Paper is developed from many years of practical experiences in organizations operating in a highly competitive business environment. It is based on four management principles: 1) Empowered management teams 2) Stakeholders’ evaluation of performance, 3) Capabilities which improve own performance 4) Competitive supply chain.

Organizations striving for higher performance usually apply continual improvement for the operational management, while management teams often lack effective methods to drive improvements through the management process. The method described in this paper is business-ready to be applied by empowered management teams working in networks.

A management approach is efficient when focuses on the “vital few”, i.e. what are the KEY questions, which are the KEY stakeholders, what are the KEY indicators, etc. It requires less resource compared to other approaches.

The management approach including an efficient method for the management process described in this White Paper is fully described as a workbook. (In Swedish: *Målbaserat Ledarskap. In English: Goal-based Leadership*. Forsberg & Olsson. Liber 2004) The book includes many tips.

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