

Goal-based Leadership

– Introducing a new strategic management approach

Why are so many goals not relevant for the organization? 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 often found in the managers ability to create balance between the strategic and operational tasks.

Strategic tasks require a different skill set from operational tasks. You may work in a Management Team or on your own, collaborating with your most important stakeholders. Within the Management Team you will generate a global picture of the organization and the environment in which it operates. This picture includes an analysis of the supply chain and the organization’s internal processes. Part of the strategic process involves prioritizing the trends and events, which inform your actions. Outside the Management Team your task is to engage your key stakeholders, drive change, communicate with your employees and follow up on performance.

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:

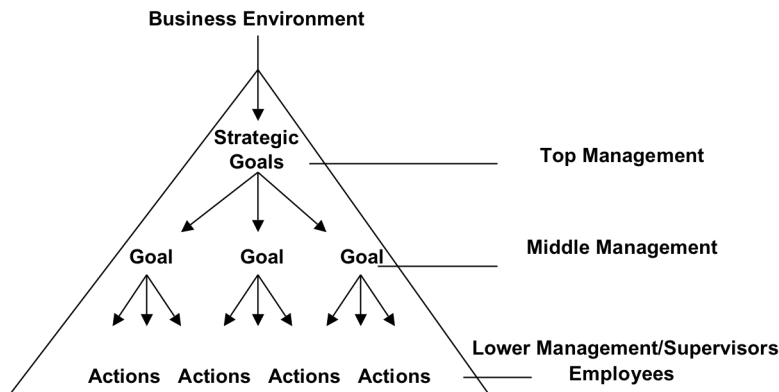
1. Use empowerment to take the initiative based on one’s own mission and own insight
2. Focus on how your key Stakeholders (interested parties) evaluate the performance of your organization
3. Track and improve one’s own capabilities which improve performance
4. Collaborate with your key Stakeholders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

Challenges to the established management models and methods

Many management models and methods are not efficient to apply for managers working in a highly competitive environment of 21st century.

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

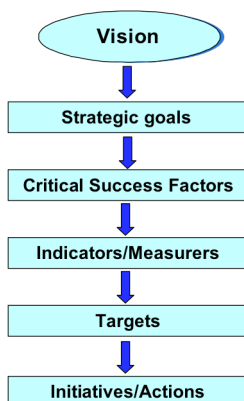


The top-down approach may lead to several hindrances in the execution of strategies:

- 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-analysis (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 interrelate with the purpose to carry out the management process efficiently. There is a need for a method that gives managers support all the way throughout the management process from the analysis to follow up of progress and performance.

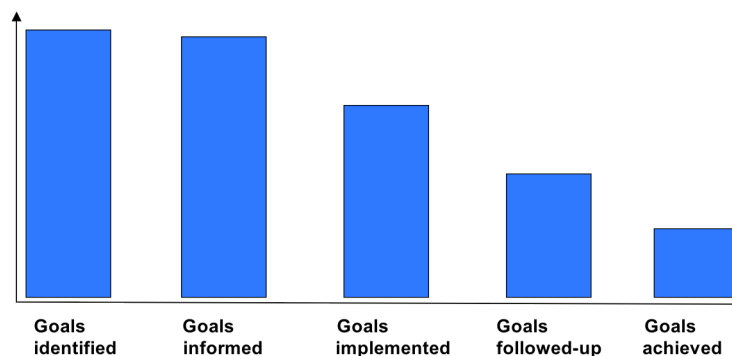
Why Managers fail

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? 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.

Most managers are enjoy problem solving and tend to spend too much time “fire fighting”. Too much fire fighting is a sign of poor management, an obstacle to change and may jeopardize the business in the long run.

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 to secure motivation long-term. When one action has been executed it is necessary to follow up the progress to see if 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*).

Managers ability to lead through goals



Often managers have to prioritize the operative tasks. As a consequence the execution of planned actions will be interrupted and the goal will not be achieved. The balance between strategic and operational tasks is a significant one. Line managers need to keep an eye on whether their managers are spending too much effort and time on operational, business-as-usual tasks.

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, and lack of a dialogue with the stakeholders.

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, strategies and actions,
- how to define measures (indicators) and implement the measurement process,
- 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** creating consensus when facilitating workshops. Top team effectiveness usually requires an experienced facilitator. Not all management teams have reached the level of maturity needed to manage strategically.

Our experiences from facilitating these teams suggest that:

- Management teams need time to learn to work efficiently and effectively together. Immature management teams are likely to be diverted by conflicts and power struggles;
- Many management teams try to grasp everything that they think is important; consequently, they set too many goals and they lose focus on what is most important. Lack of prioritization is one of the most common obstacles to action;
- Every management team needs a common understanding of the tasks the individual team members must perform if the organization is to achieve more. The most successful management teams are those that use defined strategic roles throughout the management process; the most important of which are *Relationship Manager*, *Goal Owner* and *Goal Driver*.

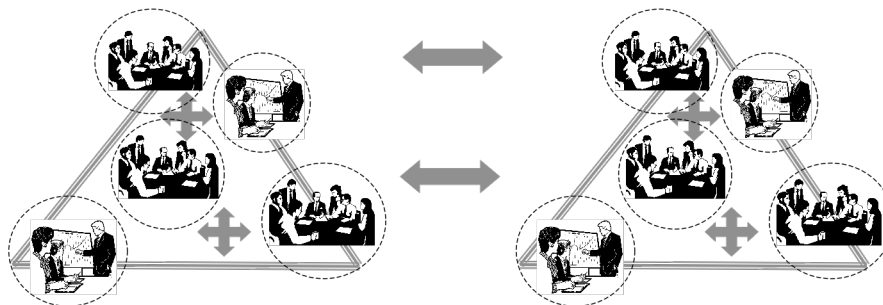
Rational for a paradigm shift

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 two important shifts (see the table below).

<p>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.</p>	<p>=></p>	<p>A new approach in goal setting based on empowered Management Teams working in networks driven by their own mission and insight. Carried out on all levels/units in parallel.</p>
<p>Goals are identified from the overall vision and pre-determined perspectives (e.g. finance, customer, process, innovation)</p>	<p>=></p>	<p>Goals are identified from what characteristics the Key Stakeholders (interested parties) evaluate the performance and the ability to perform.</p>

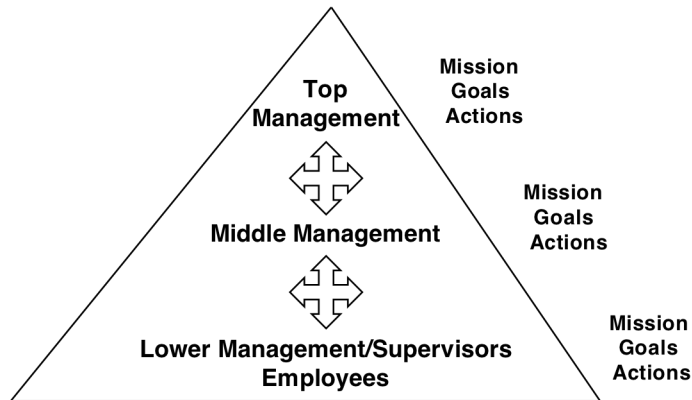
A prerequisite is that the members of the management team have understood their managing role in the organization and in the supply chain. A network of empowered management teams working in networks to develop the most competitive supply chain is fundamental in the **business logic** of Goal-based Leadership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


Empowered management teams acting in networks

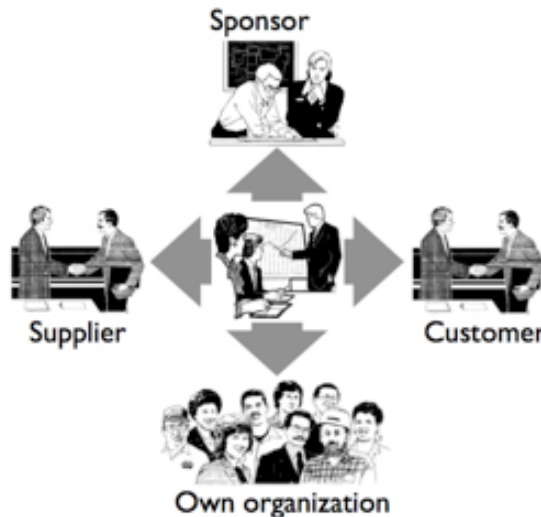


The new approach is neither a top-down nor a bottom-up approach along the organizational line. Initiatives are based upon one's own insight and own mission, at their own organizational level/unit (see the figure *Initiatives based upon one's own mission*).

Initiatives based upon one's own mission



This symbol  illustrate that this management approach has a process- as well as line approach. See also the figure Managers' communication path below.



Fast responses to a world of change require a more efficient way of setting goals and follow up performance. With the new strategic management approach described in this White Paper teams are able to work iterative with fast response to changes.

If goals are based on measurable 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*). This helps when new strategies have to be identified quickly.

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

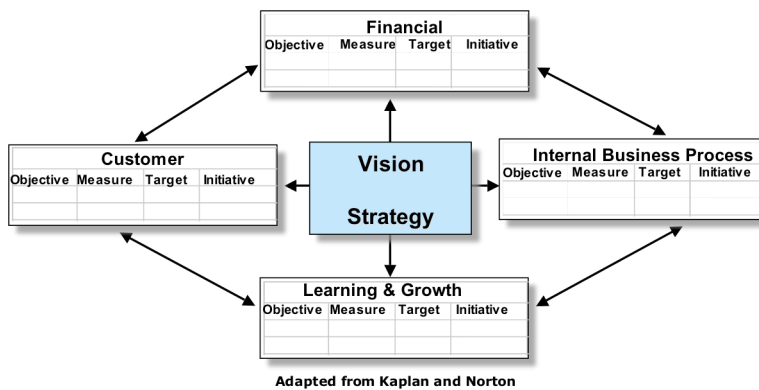
wherever there is a need for it (see the figure *Analysis of Stakeholders*), which is not possible with traditional top-down approach.

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. However, many visions are not formulated to be useful for the middle managers.

Balanced Scorecard, example



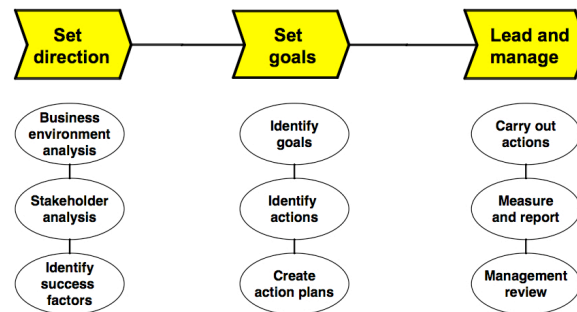
Apply an effective and efficient method to the management process

We have discussed the need for a 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 business 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 Business environmental analysis is also known as Situational analysis.

The Management Process



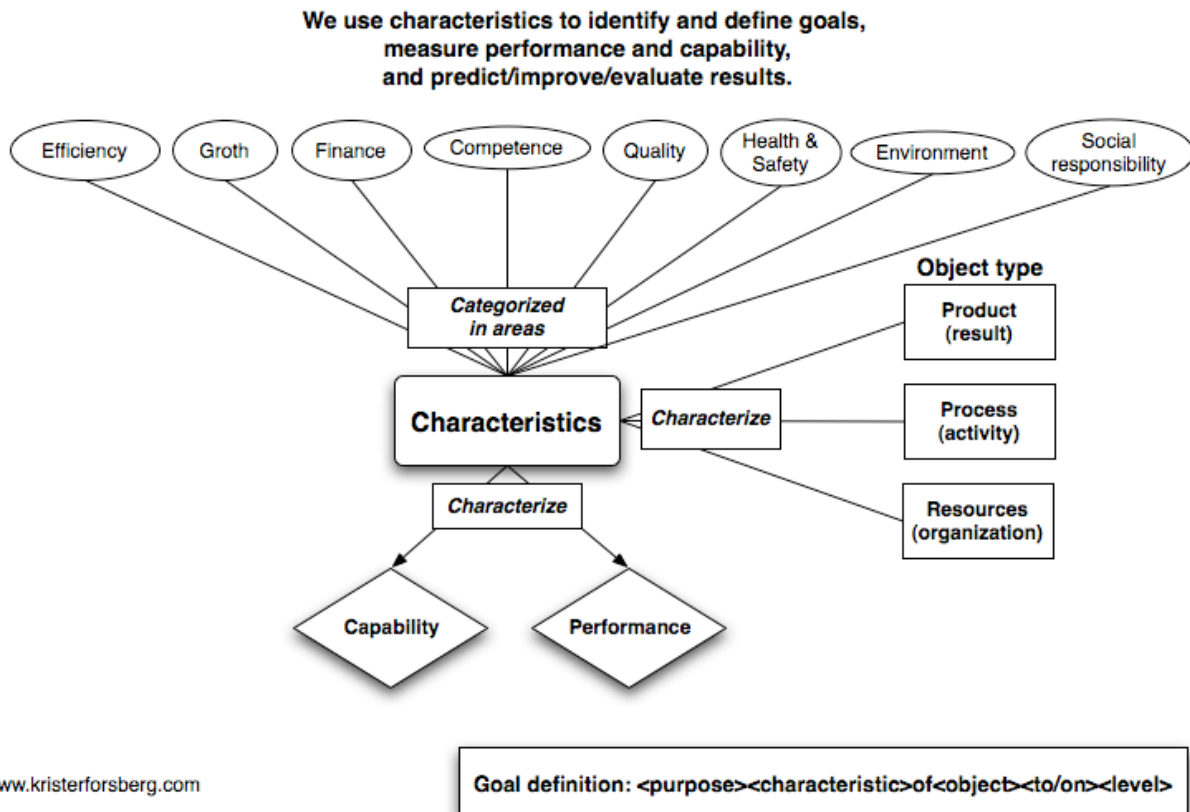
Over the years the authors (Forsberg K & Olsson P-O, 2004) have developed a set of interrelated methods to meet five specific criteria. These methods should be:

1. Generic – applicable to all organizations in terms of size, type, level and management system
2. Selective – identifying the vital few pieces of information in order to exclude what is less important
3. Stakeholder focused – the process must be centered on how key stakeholders evaluate the organization's performance and capability, and on collaboration with those stakeholders
4. Fast – applicable on all levels/units in parallel to save lead-time. All steps interrelate seamlessly for the desired outcome
5. Complete – provide support throughout the process from initial analysis to follow up on strategy implementation including progress reviews of actions and goals achieved

About Performance Indicators and Capability Indicators

A Measure or Indicator is a definition of a measurable 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.



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Why is it so 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. Each organization needs defines the most important characteristics and documents them in measurement specifications.

It is easy to characterize an object in the area of efficiency or finance, but how do we characterize Quality, Environment impact, Human rights or Ethics? How do we differ one characteristic of one process from one other?

Conclusions

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

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)

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