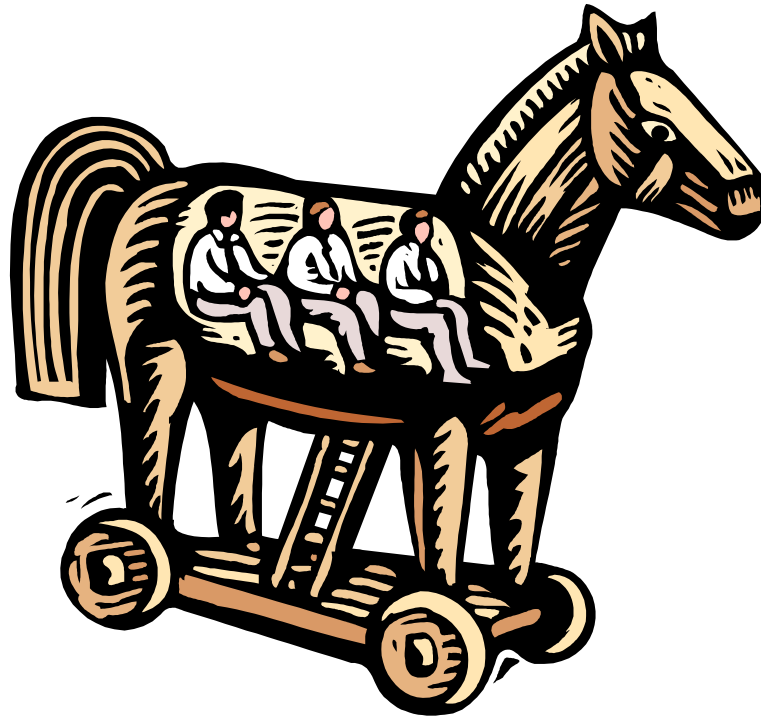


**OBJECTIVES AND APPRAISAL:
two links in the continuum of
strategy**





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Synopsis

Intuitively we know that it's worthwhile telling our staff how we think they are getting on. Intuitively too, we believe that we should all be tasked through objectives so that we strive for excellence. We know too that appraisal and objectives are linked – without the former, the latter would not be achieved. But what's that link and how does it affect the staff and managers in an SME as they go about their business day to day? How do they both link to the firm's strategy? And what place do they have in achieving excellence in human resource management?

This paper starts at the beginning – at why the firm exists. It then illustrates a rationale for the development of objectives and with this the development of strategy saying how the objectives will be achieved. It expands to show that objectives exist at several levels: at the level of the firm, group and individual.

The development of individual objectives then links to staff appraisal yielding what the author calls a purpose-strategy-objectives-strategy-action-strategy-appraisal continuum. Each element is essential in building a firm in which everyone sees a future.

This paper first discusses the meaning of objectives. It then looks at objectives and strategy at the level of the firm and how objectives extend to the employees. Finally it links objectives and strategy to staff appraisals.



Objectives and Appraisal: two links in the continuum

The idea of setting objectives for company, departments and individuals has its roots in the SME principal's desire to achieve outcomes on behalf of the firm's stakeholders. To achieve these outcomes, principals need staff to perform at their best. And performance presumes some form of measurement. Measurement implies metrics and measurement against something. In managing human resources, that 'something' is a job description and a set of objectives.

Job descriptions are rightly general. They require the employee to "do something, to something, to achieve a result". The job description is deliberately timeless. The job description has accountabilities. Specific objectives are then "set from time to time". An example job description accountability might read "to market electrical consumer goods across Europe to achieve annual objectives". An example corresponding objective might be "to achieve a turnover of £1M in 2011". This shows the essential nature of objectives. Job descriptions tell staff and managers what their job is about but objectives give the specifics against which all are measured. To measure staff performance principals must set objectives.



Basics of Measurement

The key performance indicators (KPIs) in an SME are the top line or turnover, cost of goods sold, gross profit, overheads and net profit. Each has its own essentialism: achieve the top line and (and assuming everything else is to plan) the forecasted net profit is achieved. Keep the cost of goods under control and the gross profit is secure and in falling sales save on overheads and the targeted net profit is achieved. However, the turnover is the number one objective for the firm. Operations may be a problem or job overrun or spiralling cost of goods but if the sales aren't there, the firm has a serious problem.

Each of these KPIs are focal points for objectives and if not these specifically, then derivatives of them need to be set. Examples include the number of client visits (since there's a relationship between contracts won and client visits) or overtime days (since overtime days are an indication of job overrun). Measurement then needs to link to staff appraisal and the giving of feedback so that all staff know a) what's expected of them and b) how they are doing against those expectations.



The remainder of this paper discusses how to go about developing objectives, giving practical tips on how to link business strategy to objectives and then how to link from strategy back to individual staff appraisal to form a joined-up purpose-strategy-objectives-strategy-action-strategy-appraisal continuum.

The Psychology of Objective Setting

By setting an objective the principal hopes to effect a desired outcome in behaviour, thoughts and emotion in staff members such that the objective is achieved. The figure below shows the simplified model of psychology¹. It shows the interaction between individual and environment on the left leading to outcomes on the right. Part of that environment is the objective.

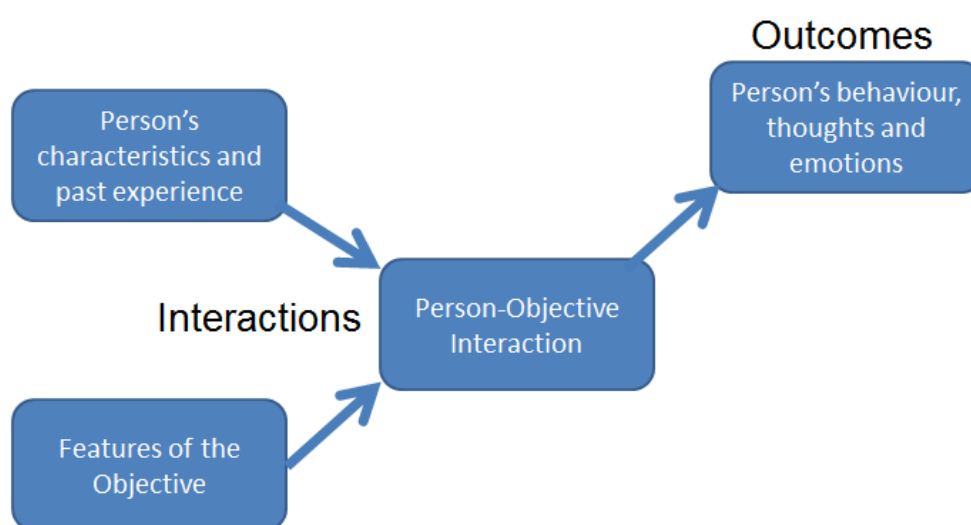


Figure 1: Simplified Model of Psychology Applied to Objectives

The resulting outcomes in emotions, behaviour and thoughts are determined in part by the interaction between person and objective. It's imperative that the objective is developed jointly between manager and each staff member. There must be buy-in. Intuitively we know that we all react badly to dictat and if the objective is handed down, the outcome is more emotional than behavioural. For a positive response the objective needs to be generated and agreed with the staff member, achieving a satisfactory person-environment or person-objective transaction.

Other psychological teaching suggests that objectives appeal to what's known as the self-actualising self². This postulates that each of us is striving for personal growth and to fulfil our potential. If the objective contributes to that fulfilment, then we are likely to happily strive. Objectives also set conditions of worth. If we achieve the objectives, we get the boss's approval and we like that. Better still if we get our colleagues' approval too.

¹ Arnold J and Randall R et al (2010), Work Psychology: Understanding Human Behaviour in the Workplace, Pearson Education, Harlow, UK, p57.

² Arnold J and Randall R et al (2010), Work Psychology: Understanding Human Behaviour in the Workplace, Pearson Education, Harlow, UK, p12.



So what are objectives and how do we set them?

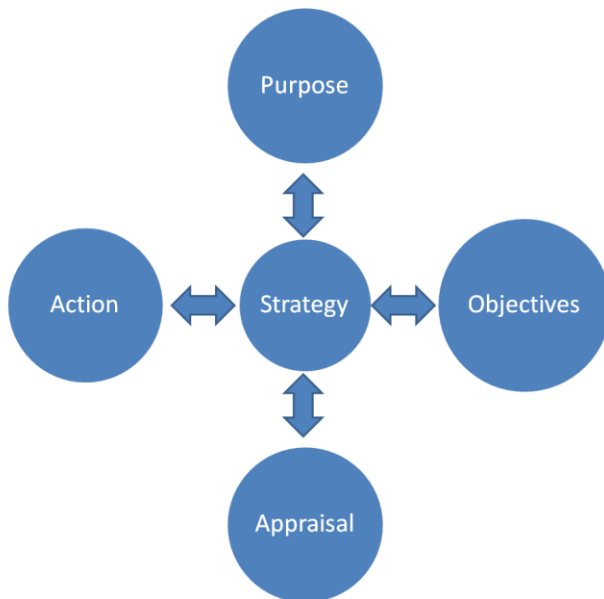


Figure 2: Objectives and Appraisal: two subjects on a continuum

Setting Objectives for a Firm

Objectives are developed to meet the needs of all stakeholders. Note that we've said 'stakeholders' and not shareholders. 'Stakeholders' is a diverse group. It includes those who own the firm but it also includes those who work in it and those who stand to benefit from its good function such as customers and suppliers. It even includes the firm's neighbours. This group exerts a pressure on the management and that pressure translates through the processes of strategy development to reveal objectives.

Objectives are developed by management. Management must first determine what the firm is about. Why does it exist? This is one of the most difficult questions for all principals. In answering, management need to be completely honest. If it's a firm that's owned by others and management has no real chance of ever owning it or owning a meaningful chunk of it, it's likely they can only conclude it's for their own gratification and perhaps for the development and personal achievement of staff. If management owns a controlling share (over 51% of voting shares) then everything changes and all manner of things are possible. If the owners are likely to sell and management and employees are likely to benefit then there's real chance for some exciting strategies as everyone buys in to a long term goal for the firm and themselves. It's absolutely fundamental that management know what the firm is for.

Before we go on to the methods of building objectives, let's clarify how an objective should look.



SMART Objectives

Objectives should be SMART – specific, measureable, achievable, realistic and time-bound. A good objective should look something like those below:

- Achieve a sales order book of £500k for machine tools in the Home Counties in 2011;
- Send out twelve newsletters to 3,000 prospective clients in the twelve months from January 2010;
- Achieve at least 33% gross margin in 90% of all jobs processed in the next 12 months.

Each of these are specific: they cite tangible outcomes. They are measureable in that there are measurable metrics that the firm can gather. We assume that they are achievable (in that the staff member accepting the objective can do what is needed to meet the targets). We assume they are realistic (in the context of both firm and market). And finally they are indeed time bound.

Cascade Model of Strategy

Strategy is confusing. There's purpose, aims, mission, objectives, strategy, tactics and a host of other names for the same thing. Basically the firm needs first to decide why it exists – a purpose something like this: *In Innovation Ltd we will build net profit year on year to achieve a net worth of £500k by 2020 at which point we will sell the firm to its staff through a management buy-out.*

Once this is established, the rest is easy! Note of course that such a high level strategy may be something that can't be communicated easily to staff. An intended sale naturally makes all uneasy and unlikely to stay – much will need to be done to sell such a high level strategy. Note also that it's likely that selected groups may need a different message – competitors will have a field day with anything that can be construed negatively.

Having a high level strategy for the entity is hugely re-assuring for management and pretty much unique to owner-managers. For 'trustee management' appointed by a major shareholder, it's frustrating to not be in control of the firm's destiny. Those who are in a less fortunate position, putting up with a *de facto* strategy from a major shareholder, will need nonetheless to interpret the owner's wishes and turn these and local pressures into a meaningful strategy.





Strategy begins with a scan of the environment in which the firm exists, then an assessment of the culture within the firm and finally a statement of its capability. These three together generate possibilities or options within the firm's chosen markets. These options need to be complete and realistic.

Typical options might include:

- Using skills and market position in the fine dining sector to develop into the Italian restaurants market, achieving 10% market share in the town within three years.
- Using the parent company's patents in mathematical modelling to develop a series of PC-based modelling tools for the engineering consulting market.
- Closing the village cafes and consolidating staff in the restaurants in the main towns in the region to fight off competition and sustain our current 40% market share in the family restaurant segment.

Each is some optional departure from the firm's current position. Each option needs to be assessed for its contribution to the high level strategy and for practicality before being added to the business plan. The result is a statement of strategy that can be translated into personal objectives for all. This mid point of strategy development culminates in initiatives and programmes. These need to be socialised into the firm; to become part of the fabric of the firm and often the way this is done is by giving them names that everyone comes to know the strategy by. There's many examples: 'Project Unify' at Ofcom, 'Transformation' at Virgin Atlantic, 'Vision 2020' in the Sultan of Oman's Government. A name gives a focus.

High level strategy spawns department strategy. Turnover objectives impact marketing and sales. Turnover impacts operations. Gross profit targets and strategy impact purchasing and operations. Net profit impacts operations and purchasing. And all are run by people. All people now need to have objectives to ensure each part of the strategy contributes.

Cascade Model of Objective Setting

Objectives need to be set at the level of the firm. A turnover objective of say £2.5m for invoicing in a company of 25 people means £100k per person. That doesn't mean that everyone is responsible for turnover directly, just that in a given sector a metric translated to 'per person' is easily benchmarked with other firms of differing size and differing turnover.

A turnover of £2.5m for the firm with a sales staff of five means £500k per head. Whilst some may be senior and some junior, the objectives need to balance out to give the top line figure: £2.5m. Likewise a turnover of £2.5m at a sales success rate of 30% means quotes to the tune of £8.3m. If each job is typically worth £20k, this means over 400 individual quotes. If each customer typically asks for two quotes per year, this means around 200 customers. Given 200 customers asking for quotes, and a conversion of one



hundred possible clients to one actual client (say) this means that marketing must reach 20,000 people with a possible need for the firm's services. It's a cascade from potential clients to hard orders.

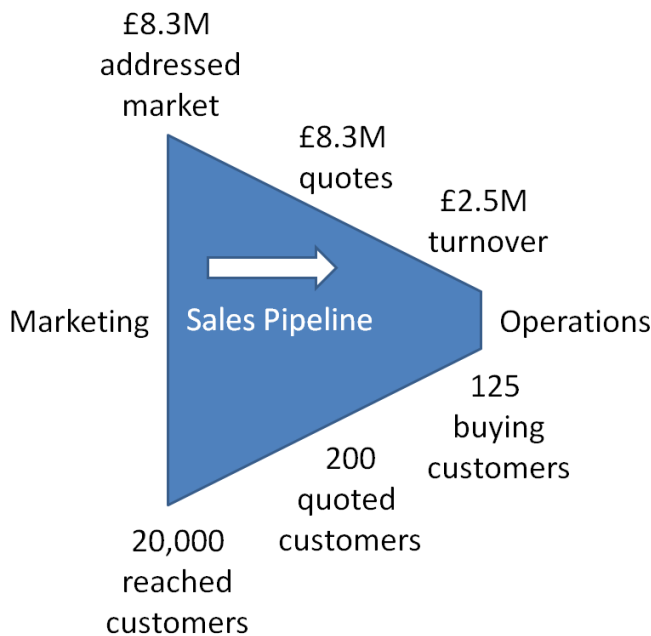


Figure 3: Example Opportunity Pipeline with Objectives

Whatever the actual figures, this shows that a high level objective of £2.5m turnover yields individual department objectives. Each objective needs the owner to then say how it will be achieved – and this then loops back to strategy. The 'how' says how the objectives will be met. A turnover objective of £2.5m will need five sales staff (say). But if there are only three today this then needs a strategy that will recruit two new heads in time to be effective to assure the objective met. And it

needs a marketing strategy that will generate enough leads for the two new heads to develop an effective pipeline.

High level strategy leads to lower level objectives. Objectives lead to lower level operations strategy and there is therefore a dual cascade from a single purpose through high level strategy and objectives to lower level strategy and all underpin the purpose. The whole lot is a continuum.

Linking to Appraisal

Appraisal of staff is essential for two reasons: firstly everyone needs stroking (even if it's negative strokes) and secondly managers need to say how each staff member is doing. Without appraisal principals can't ever expect to exert control and have objectives met. Management is facilitating objectives set, facilitating objectives met and giving feedback every step of the way.

There are perhaps two levels of appraisal. The first is the annual appraisal that sets developmental goals for each individual and sets high level objectives and strategy. The second is a routine review of lower level objectives week by week. Both are equally essential. If there are no high level objectives and annual appraisal, conditions of worth will not be set and the self-actualisation will not be engaged. But if the weekly appraisal is absent, it's a long time to wait to correct someone whose objectives are off course and who is under-performing.



So develop high level objectives and strategy annually and flow this down to individual staff. Then review weekly and track progress and contribution of each manager and employee.

Conclusion

This paper has emphasised the importance to the firm of an integrated strategy-building activity that links purpose through strategy to individual objectives. It has given an idea of how objectives might be developed so that they all aggregate to yield corporate objectives and satisfaction for all stakeholders.

First develop a purpose for the firm. Then say how the purpose will be fulfilled at entity level. Then develop the high level objectives. Break these down to department and individual and then have these departments and individuals say how they intend to achieve these objectives through their own strategy. The whole lot knits together. Some margins for error will be essential and there will always be those who over-perform and those who under-perform so a balanced view with contingencies will be essential.

Once formed, strategy is the basis for all subsequent decisions in the firm. Once formed though, do keep it all under review. It's not cast in stone and the environment is ever changing around the firm.

TimelessTime has significant experience in guiding and training managers in the process of integrated strategy and objective setting and TimelessTime consultants have implemented many appraisal schemes. There are two points: keep it all simple and make sure it knits together. Call us now for a no-obligation discussion.



The Author



John is an experienced executive, having held board and senior management positions with both SMEs and multinational firms. He has specific and detailed experience in product design, R&D project management, product management, marketing, software project management, consulting and business development. He has managed projects and enjoyed sales success across these domains in Europe, North America, the Far East and the Middle East.

The holder of a BSc in electrical and electronic engineering, a BA in politics, sociology and economics and an MBA majoring in technology management, John is a Chartered Engineer and a Fellow of both the Institution of Engineering and Technology and of the Chartered Management Institute.

John has been director of an American telecommunications multi-national, managing director of one of Europe's foremost radio communications software and consulting companies, business unit manager of Thales, a French multi-national, marketing manager for Maxon, a Korean mobile phone manufacturer, and product marketing manager for Philips in radio communications systems. He led a design laboratory in Philips managing mechanical, electrical and software engineers in Germany, France and UK. His role in TimelessTime is to provide specialist input on technology management and the selection, management and motivation of scientists and engineers, the management of the multi-national firm and on working abroad.

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