Strategies for Effective Goal Setting and Alignment

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FOUNDATIONAL This research is reviewed periodically for accuracy.

HR Practitioner Research Team

Initiatives: Employee Performance Management Resources for HR Professionals; Employee Performance Management

Organizations are recognizing inadequate performance management systems can have an adverse impact on employee engagement and motivation. To drive business performance, HR professionals must reconsider how they are designing and implementing goal-setting and alignment strategies.

Overview

HR and business leaders are confronted with the evergreen challenge of reinventing performance management to keep pace with today's rapidly evolving business landscape. Although the ways HR professionals choose to address performance management will vary depending on the specific needs of their organizations, we suggest applying four broad criteria — alignment, agility, collaboration and transparency — to enhance goal-setting and alignment programs.

Key Findings

- One of the biggest drivers of discretionary effort is employees' ability to align their individual goals with larger organizational success; 52% of employees report their understanding of organizational goals and the link between those goals and their day-to-day responsibilities increases their discretionary efforts.
- High-performing employees who exert discretionary effort — those who are willing to go above and beyond baseline duties — are more likely than their low-performing counterparts to understand how their roles and responsibilities align with company strategy.
- Organizations that drive team performance increase the likelihood of surpassing revenue and profitability goals by twofold. Additionally, employees on teams that collaborate effectively show a 20% increase in individual performance.
- As companies look to refine or completely reinvent their goal-setting strategies, they would be wise to embed the following criteria — alignment, agility, collaboration and transparency — into their performance management processes.

Introduction

Although roughly eight in 10 HR leaders are working on improvements to their performance management systems, managers and employees are still dissatisfied with current performance management processes. [1] This figure has remained unchanged for three years, raising questions about the effectiveness of attempts to improve performance management. Meanwhile, 90% of HR professionals question the validity of performance evaluations and 96% of managers report dissatisfaction with their organization's performance management practices. [2] Failing to properly address these shortcomings could be detrimental to these companies — in terms of high turnover, low productivity and low employee engagement — inflicting material damage on their bottom lines. [3]

Goal setting and performance management is more than just an annual or quarterly designation of goals and review of employee performance. Successfully managing performance requires employees to understand their roles within the organization and how their skills and development contribute to overarching business strategy. Needless to say, goal setting can be a powerful motivating force to engage employees. However, several variables make it difficult for organizations to get this right. When improperly designed, goal setting can be ambiguous, with targets that leave employees confused about what they are tasked with accomplishing, as well as why and how they are expected to achieve these goals. Uncoordinated, static goal-setting processes can make it difficult to achieve and/or maintain goal alignment. Additionally, siloed geographic regions and business functions often hinder organizational efforts to obtain goal alignment, which can lead to duplicated, overlapping and even conflicting objectives.

This challenge is especially pressing considering today's business climate. This current disruptive environment will require corporate leaders to rethink the quality and sophistication of their companies' approach to all aspects of the employee experience. To effectively compete in this era, organizations will need employees who have bought into and are capable of meeting the demands of new business models and strategies. This presents an important test for those in HR, the function that will ultimately be responsible for developing the practices and processes used to evaluate employees' ability to achieve their performance goals. Given the business implications of getting this right, ensuring workforce goals are aligned with organizations' strategic direction is more critical than ever. While implementation and maintenance are likely to require significant effort, if properly utilized, the benefits have the potential to far outweigh the initial investment.

That said, how should companies and their HR teams go about designing processes for goal setting so employees throughout their organizations are properly incentivized to maintain performance and engagement? We find that by successfully embedding alignment, agility, collaboration and transparency into goal-setting approaches, employees are better positioned to support the organization's strategic needs. As HR leaders and professionals look to drive cohesion and enhance employee performance, they can turn to the following examples for effective goal-setting strategies:

- Rich's bottom-up linkages (alignment and transparency)
- Salesforce's bidirectional goal visibility (alignment, agility and transparency)
- Delhaize Group's [4] horizontal goal alignment (alignment and collaboration)
- GFG's accountable collaboration (alignment, collaboration and transparency)

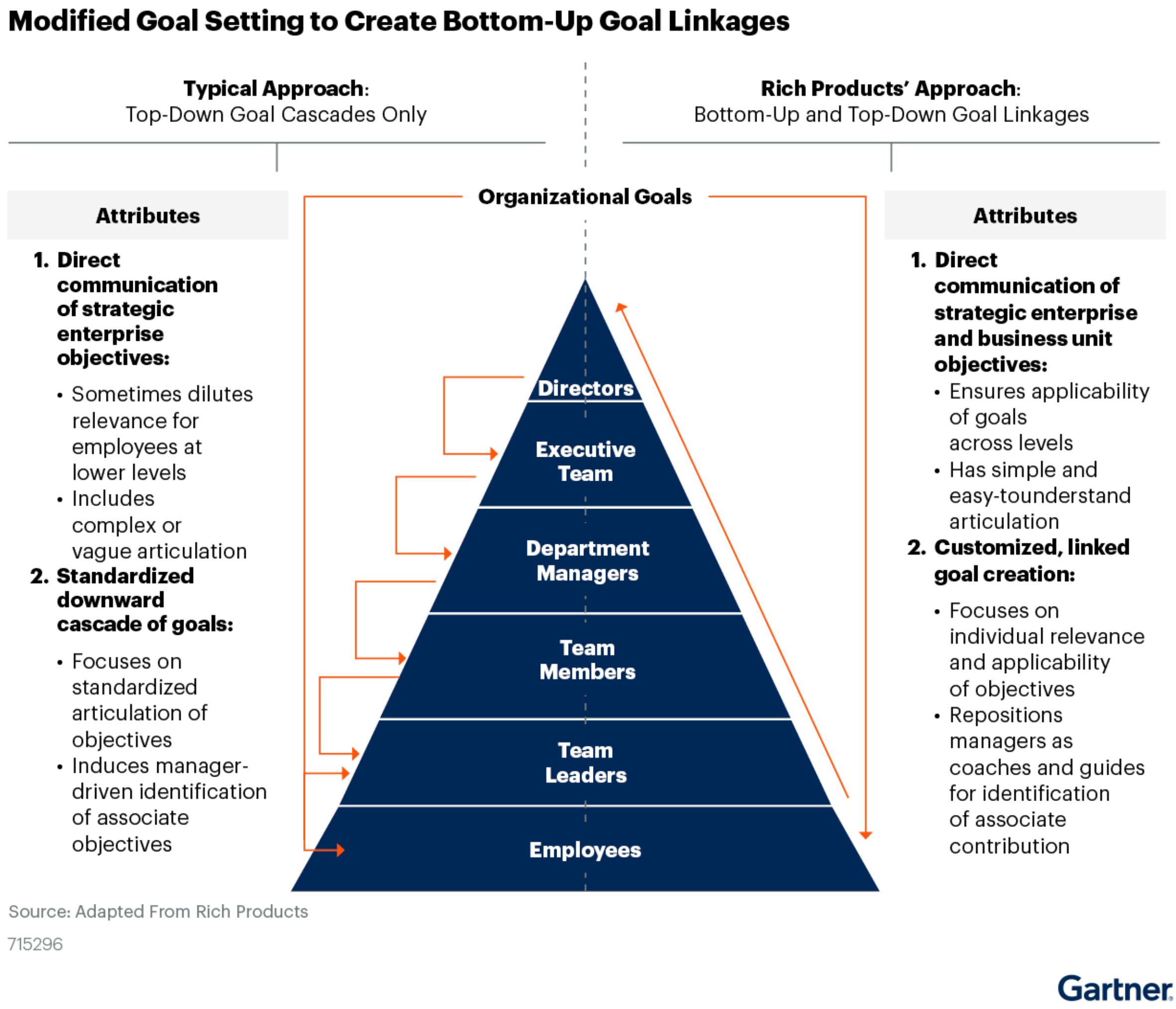
Rich: Bottom-Up Goal Linkages

Traditionally, organizations have understood goal setting to be a top-down endeavor, often cascading strategic enterprise objectives hierarchically throughout the company. However, with this approach, the relevance for employees at lower levels is sometimes diluted, as top-down communications of goals and priorities are seen as too complex or vague. Top-down approaches also tend to standardize employees' articulation of objectives and create manager-driven development of employee objectives.

To avoid these pitfalls and ensure employee buy-in, Rich overhauled its goal-setting approach by encouraging employees to create bottom-up goal linkages (see Figure 1). The company sought to strengthen employee ownership and accountability in its goal-setting approach, which it achieved by:

- Enabling employees to identify the contributions they personally made to the organization by "linking up" individual goals to organizational priorities
- Providing employees with an organizational priorities sheet that directly communicated enterprise, business unit and geographic objectives

Figure 1: Modified Goal Setting to Create Bottom-Up Goal Linkages



A Flexible and Employee-Centric Approach

For this change to work, Rich needed to update its goal-setting process by making it more flexible and employee-centric. To do so, the company empowered its employees to set their own individual objectives based on the priorities put forth by the executive team. This ensured employees understood how their performance contributed to the success of the overall organization. Rather than asking employees to articulate their goals in a specific way, Rich provided workers with the flexibility to communicate performance goals however they saw fit. Specifically, the company deemphasized how goals were written and instead focused on the content and quality of the goals being set. Managers were encouraged to offer direct reports guidance on goal content but discouraged from identifying or writing goals themselves.

Additionally, employees were also tasked with leading regular check-in conversations with their managers. During these discussions, they were asked to identify important performance milestones — based primarily on individual projects and workflows — to reframe these conversations from perfunctory goal updates to meaningful performance challenges. This change allowed for additional flexibility and relevance in the goal-setting process by encouraging discussions about goals and performance that aligned with employees' workflows throughout the year. Though quarterly discussions were left intact, the new system encouraged employees to seek more informal check-in conversations.

Ultimately, this approach enabled employee ownership of objectives by reframing which aspects of the goal-setting process were emphasized. The company used customized, linked-up goal creation, ensuring the individual relevance and applicability of company objectives and positioning managers as coaches meant to guide and support rather than create employee goals. This resulted in the following shifts:

- Goals shifted from well-written to relevant.
- Employee objectives shifted from manager prescribed to manager guided.
- Performance conversations shifted from cyclical- to workflow-based.

Simple Communications of Strategic Objectives

Another important aspect of Rich's goal-setting transformation centered on communication of its strategy to the organization at large. Employees were provided with a priorities sheet that directly communicated enterprise, business unit and geographic objectives. This simple one-pager enabled Rich to share concisely articulated goals directly with each employee, enhancing the degree of trust and transparency between company leadership and employees. This also facilitated employees' creation of individual goals that were more closely aligned with broader organizational priorities, while avoiding a lengthy and unnecessarily complex cascade process.

The company's organizational priorities worksheet produced several benefits for staff, as well as members of the leadership and HR teams. This became an easy reference sheet for employees to access as they designed their individual goals. Additionally, it identified and distinguished key objectives, whether enterprisewide, regional or divisional, ensuring employees were able to differentiate how they could contribute to these. It also proved useful by simply and concisely articulating all priorities as action statements, making it easier for employees to understand and incorporate goals into their future development. Finally, the worksheet was directly addressed to employees improving transparency and understanding throughout the organization.

Though the company focused on employees with its updated approach, managers still played an important role. This group was asked to contextualize organizational decisions to help employees better navigate the new performance management process. Rich recognized employees were operating in an increasingly interconnected work environment and likely needed additional insight into how corporate decisions could influence their day-to-day operations. In tapping managers to take on more of a coaching or guiding role, individuals in these positions were discouraged from overly filtering information and instead were asked to answer employees' questions and clarify any confusion. By contextualizing individual goals relative to corporate strategy and decision making, employees were able to understand how their goals supported broader organizational strategy.

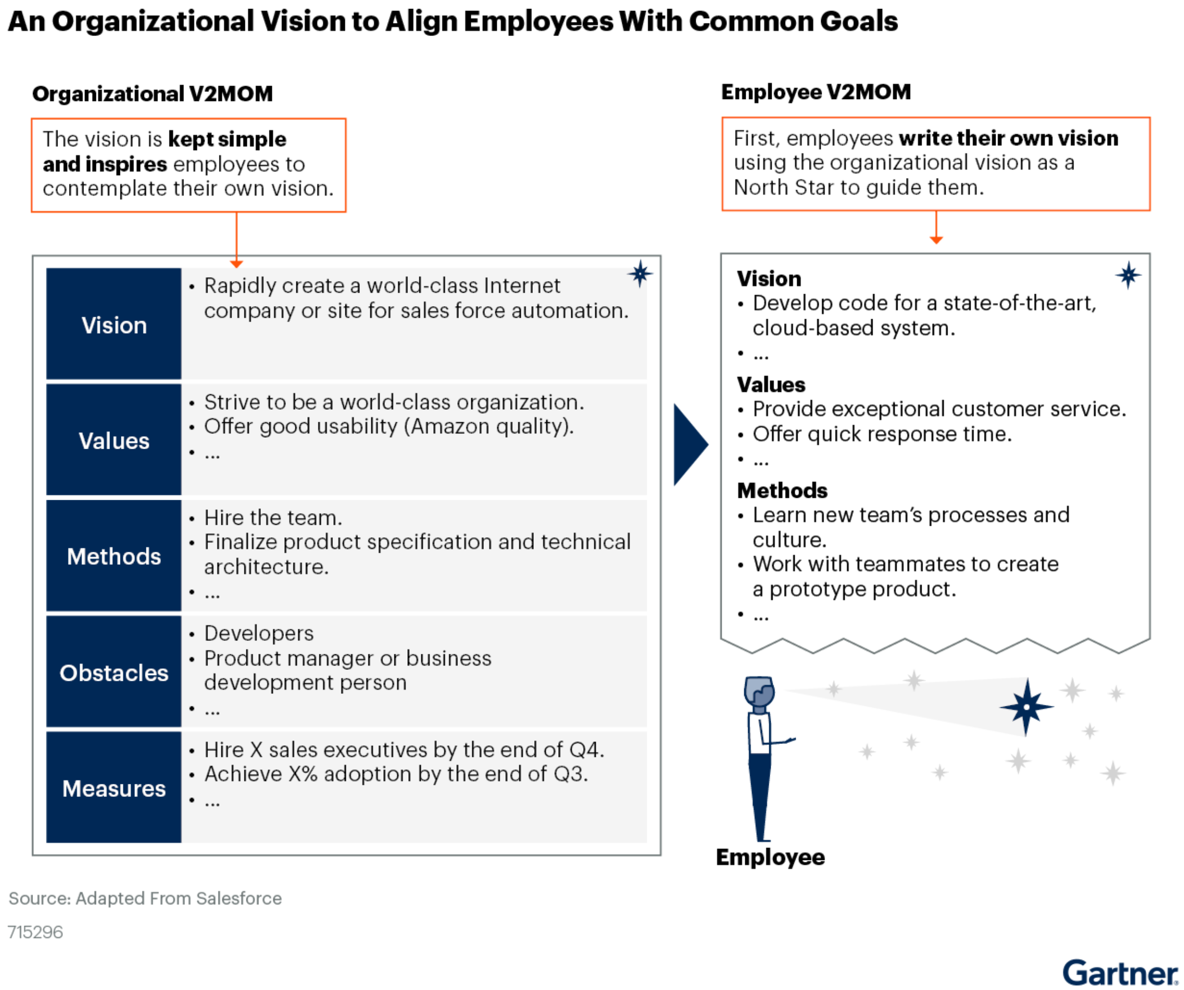
Salesforce: Bidirectional Goal Visibility

Salesforce initiated changes to its goal-setting approach when its leaders saw a need to improve organizational goal alignment, flexibility and transparency. To address pervasive and costly goal misalignment issues, Salesforce encouraged upward and downward goal visibility and created a culture in which goals were flexible enough for employees to adjust in response to changing priorities. The technology company met this challenge by crafting its vision, values, methods, obstacles and measures (V2MOM) tool, which sought to help employees design individual objectives in line with the organization's strategic vision (see Figure 2).

Salesforce's goal redesign had the following results:

- Employees were empowered to develop their own goals aligned with those of the organization.
- Individual and team goals maintained relevance, evolving alongside business priorities.
- Transparency was reinforced at the company due to a feedback loop between employees and the organization.

Figure 2: An Organizational Vision to Align Employees With Common Goals



Connect Individual and Organizational Goals

To facilitate this process for its workforce and ensure enterprisewide goal alignment, Salesforce executives cascaded the company's V2MOMs throughout the organization, so all employees could see how their work contributed to this larger goal. Employees were then asked to develop their own goals, keeping the organizational focus and priorities in mind. Lastly, Salesforce employees were encouraged to refine and adjust their goals as necessary, in response to consequential or material changes in the business environment, thereby enhancing organizational agility.

Maintain Relevance Through Goal Recalibration

Once V2MOMs were finalized, employees shared and collaborated with peers inside and outside of their teams to reinforce alignment. Teams internally reviewed team members' V2MOMs, discussing any potential obstacles or newfound opportunities. Managers also shared their team's V2MOMs with external peer managers; if misalignments or other challenges were uncovered, those that couldn't be resolved among managers were elevated to leaders.

V2MOMs tracking, reporting and regular reviews facilitated the updating process and helped recalibrate goal alignment if adjustments were made. Throughout this process, there was full visibility from the top down and bottom up to ensure complete goal transparency. Notably, the company did not use other strategy documents, making V2MOMs the only reference point for employees as they navigated day-to-day decision making as well as ongoing performance discussions.

Reinforce Transparency at All Levels of the Organization

Once set at the executive level, V2MOMs were cascaded through the organization, for all employees to embed in their individual goals. Responsibility for goal setting and alignment rested with each individual, with managers acting as guardrails to ensure goals were properly aligned. Salesforce also stressed upward and downward goal transparency for employees. The company's intranet enabled workers to view superiors' goals all the way up to those of the CEO's. This further illustrated to employees the link between corporate strategy and individual goals, while also offering examples of how to set effective and aligned individual goals.

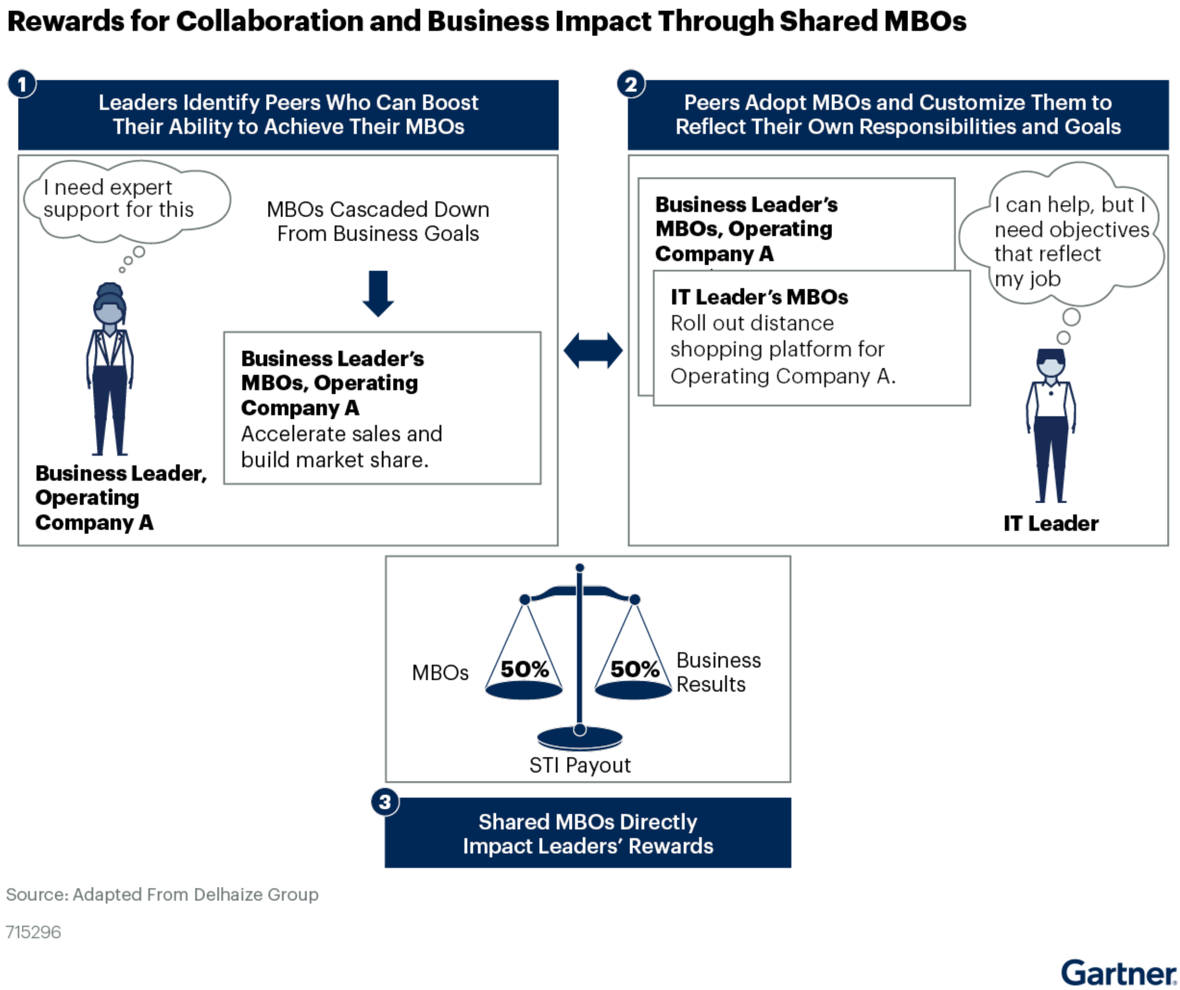
Delhaize Group: Horizontal Goal Alignment

Organizations can often struggle to effectively incentivize collaboration because leaders — and their teams — are rewarded for achieving specific business outcomes. In fact, goal setting at three in four organizations remains a one- or at best two-person activity, usually only involving employees and/or their managers. [1] This approach emphasizes the achievement of goals, while giving less consideration to how these outcomes are realized. To combat this, Delhaize Group opted to rethink its goal-alignment strategy by focusing on misaligned objectives. While collaboration at the organization was consistently rated as important, this behavior was inconsistently incentivized. Counterintuitively, at the same time cooperation between different business units and functions was becoming increasingly important throughout the organization, there were no standard rewards to drive collaborative behavior.

After Delhaize implemented its new approach, leaders were rewarded for their specific contributions in identifying business-critical opportunities for collaboration and shared management by objectives (MBOs) (see Figure 3). Incentivizing leaders to work together on specific projects or activities, rather than a generic encouragement to collaborate, focused collaboration on productive outcomes to drive business success. To incentivize collaboration while maintaining a line of sight between leaders' activities and rewards, Delhaize asked leaders to identify business-critical opportunities to collaborate with peers and ensured leaders' MBOs reflected the nature of each person's contribution. Delhaize's horizontal goal cascade involved:

- Leaders identifying peers to boost their ability to achieve their MBOs
- Peers adopting MBOs and customizing them to reflect their own responsibilities and goals
- Shared MBOs directly influencing leaders' rewards

Figure 3: Rewards for Collaboration and Business Impact Through Shared MBOs



Design MBOs to Directly Tie Leader Activities to Rewards

Delhaize instituted checks on leaders' MBOs to establish an explicit connection between leaders' performance and compensation. Each leader was allotted no more than five MBOs per year, though these could be any combination of individual and joint MBOs. Managers, the owners of the shared MBOs, all served as checks to ensure the MBOs were appropriate and leaders had the proper balance of individual and shared MBOs. Performance against each leader's specific MBOs determined individual performance and 50% of the leader's short-term incentives (STI) payouts, serving as an explicit link between collaboration and pay. Increased collaborative behavior in the form of shared MBOs helped work get done more effectively and ultimately drove better business results. Additionally, increased cooperation throughout the company resulted in a shift from a siloed mentality to one of productive teamwork.

Identify Stakeholders to Achieve Specific Outcomes

Delhaize facilitated collaboration by asking leaders to identify and prioritize business-relevant opportunities to work with peers. Leaders identified peers who could impact their ability to achieve their own objectives and persuaded these peers to share their MBOs. The company's shared MBOs were based on a vertical cascade — leaders wrote their MBOs based on business goals that were cascaded down from the CEO. Leaders then identified collaboration partners who were most likely to impact their ability to achieve their stated MBOs; after this, they could then consider which of their peers' MBOs to adopt. The last step required leaders to persuade one another to adopt their created MBOS. To avoid creating overly complex sets of MBOs, peers were only allowed to adopt MBOs if they could demonstrate collaboration would have a positive business impact.

Reward Collaboration and Business Impact Through Shared MBOs

Finally, leaders identified business-critical opportunities for collaboration and shared MBOs that rewarded each leader for specific collaborative contributions. The company facilitated cooperation by asking leaders to identify and prioritize business-relevant opportunities to work with peers. Leaders also customized peers' MBOs to tie them directly to outcomes they could impact and that were relevant to their function. Finally, Delhaize reinforced the link between collaborative outputs and reward by having these MBOs determine half of leaders' STI payouts.

Leaders customized peers' MBOs when they took them on as their own, making them applicable to their roles and tying them to outcomes they could personally impact. When leaders shared MBOs, they identified the parts of the original MBO they could affect and modified their equivalent MBO to focus on those parts. Customization, rather than simple duplication of peers' original MBOs ensured leaders also reinforced the links between their actions and rewards.

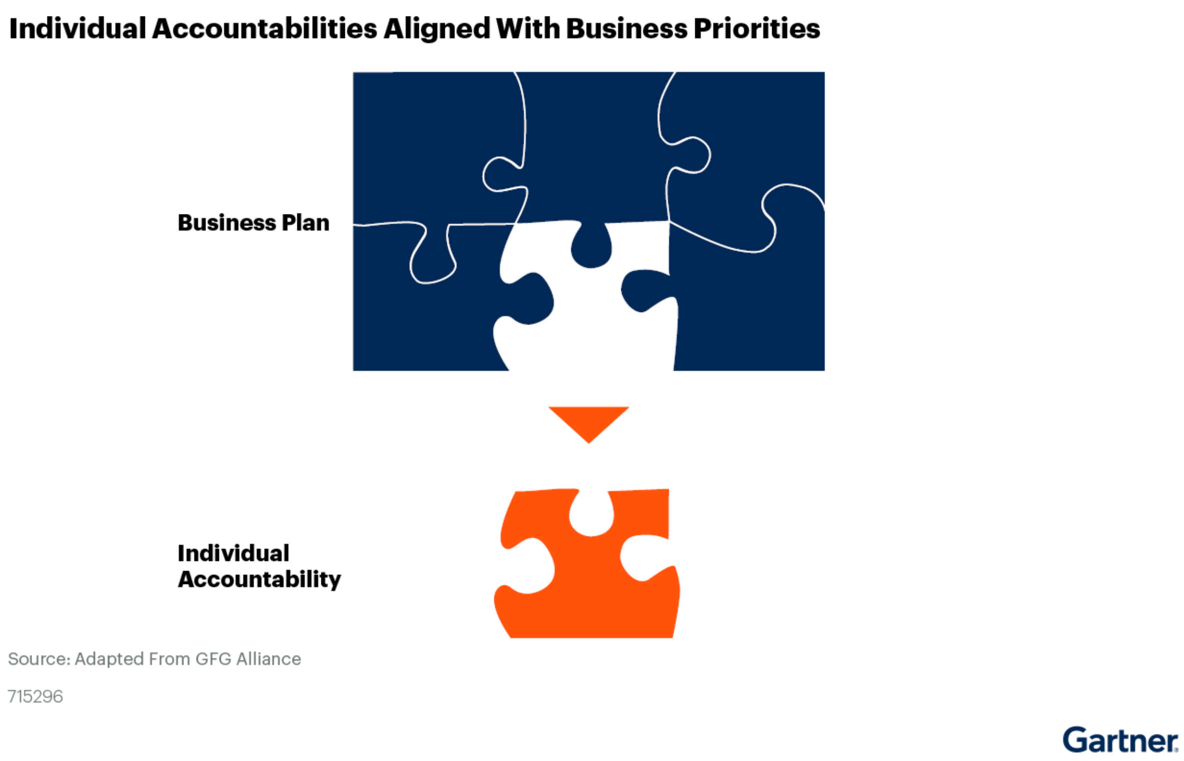
GFG Alliance: Accountable Collaboration

At GFG Alliance, performance was suffering because employees did not understand their role in executing business priorities and therefore, felt no personal accountability for them. By using a traditional goal cascade, GFG found employees passively received cascaded business priorities and key performance indicators (KPIs) and failed to identify the outcomes they were individually accountable for delivering. Consequently, employees felt little or no ownership for designated KPIs. Employees also did not see the need to meaningfully understand the areas where their efforts overlapped or conflicted with priorities throughout the business. This hampered collaboration efforts at different levels of the organization and resulted in employees prioritizing individual performance — occasionally at the expense of team, business unit and function, and enterprisewide objectives.

To drive business performance, GFG developed a new approach to help employees establish the outcomes they were accountable for delivering and see how these outcomes fit into the priorities of their team and the business (see Figure 4). The company encouraged employees to map their objectives against those of peers, direct reports and others. This helped them better understand how their contributions fit into the organization and why they needed to collaborate to overcome challenges and achieve better outcomes aligned to the business plan. GFG's approach increased accountable collaboration by:

- Defining accountability individually
- Developing accountability transparently
- Mapping collaboration throughout the business
- Uncovering collaboration risks and opportunities

Figure 4: Individual Accountabilities Aligned With Business Priorities



Define Individual Employee Accountabilities

Part of GFG's new approach entailed employees explicitly outlining which objectives each would be held accountable for delivering and how those supported the priorities of their team and the business. An important aspect of the approach was thinking about employee objectives as "accountabilities." Employees were asked to define the key outcomes they would be accountable for meeting. Primary outcomes or accountabilities could not exceed four, and secondary accountabilities were limited to three.

Embed Transparency in the Process

After employees had individually defined their accountabilities, they shared them with their teams and peers to solicit feedback. These discussions ensured employees had visibility into who on their team was accountable for inputs into business unit strategy. This also enabled managers and team members to shift accountabilities as necessary in response to redundancies or gaps in coverage. By embedding transparency in the process in this way, GFG discouraged employees from setting their objectives solely with input from their managers, in isolation from the rest of the team. Team leaders then led their teams in guided accountability-setting sessions. In these sessions, team members and peers collectively discussed each other's accountabilities, challenged one another on the relevance and ambition of accountabilities, and deliberated on whether these addressed priorities established in the broader business plan.

Map Employee Collaboration Throughout the Business

After defining and testing their individual accountabilities, employees mapped out the collaboration they needed to achieve those accountabilities. Although accountabilities were defined individually, most employees depended on contributions from others to achieve their stated objectives. To help employees meaningfully consider the importance of these contributions, GFG created a simple worksheet for employees to write out — for each of their accountabilities — who they needed help from and what inputs were necessary from that person. Employees were encouraged to look beyond those they worked with directly when identifying collaboration networks.

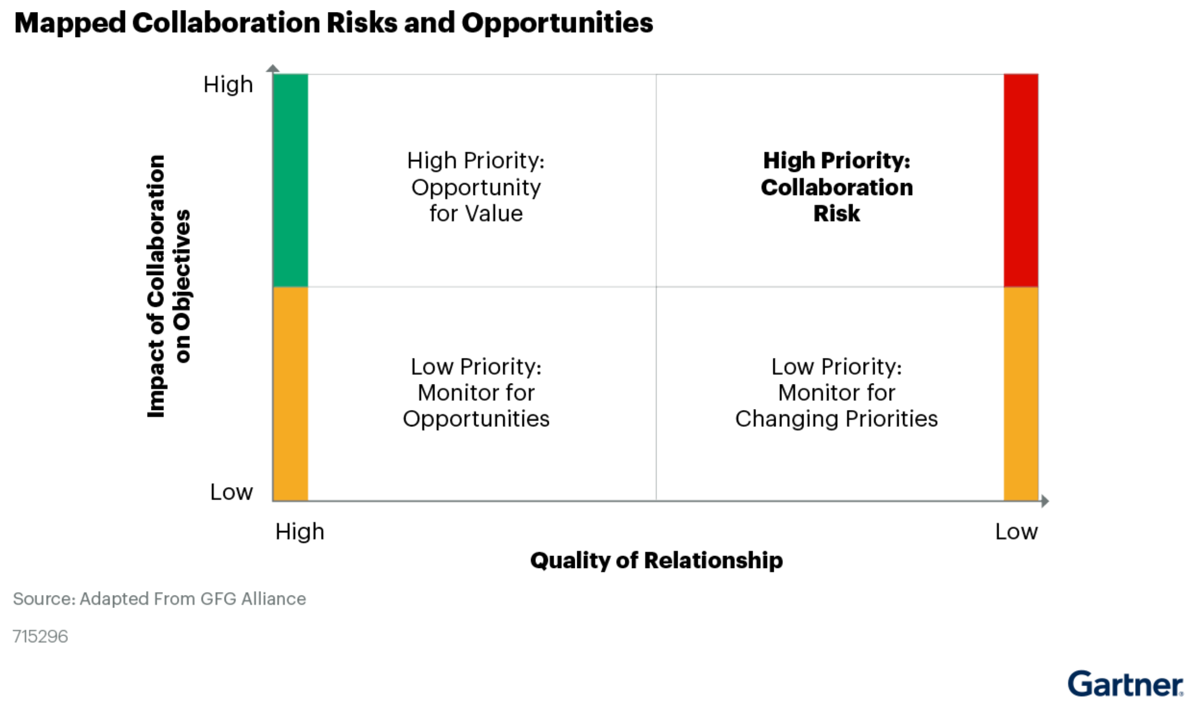
In mapping their accountabilities against peers, direct reports and others in the organization, employees gained a better understanding of how their individual contributions fit within the broader organization. This process also helped employees contextualize how to best collaborate with one another, identify critical stakeholders to collaborate with and anticipate potential challenges to collaborative behavior.

Identify Potential Risks and Opportunities

Lastly, employees were tasked with identifying how cooperation could produce unforeseen risks to the delivery of their objectives or generate opportunities for value creation. In addition to raising employees' awareness of how their work was connected to that of their peers, GFG sought to increase employee assessment of business risks and opportunities created by a more matrixed network.

For each of the connections in their collaboration-mapping worksheet, employees identified high-risk dependencies and new collaboration opportunities by rating the quality of their relationship with specific individuals on a one-to-five scale. These rankings incorporated factors such as interpersonal relationships, geographic proximity and siloed organizational structures. Employees also rated the impact of the success or failure of the collaboration on their ability to achieve their accountabilities. Assessing the impact of the quality and magnitude of their collaboration connections on their objectives helped employees prioritize and anticipate challenges where relationship quality was low and collaboration failure was consequential. Employees were also encouraged to identify opportunities to create additional value from high-quality but underutilized collaboration (see Figure 5).

Figure 5: Mapped Collaboration Risks and Opportunities



Take-Aways

Though all four companies profiled above implemented different goal-setting strategies, there were common themes linking their various approaches — alignment, agility, collaboration and transparency. As companies look to refine or wholly reinvent their goal-setting strategies, they would be wise to embed the following variables into their processes (see Figure 6):

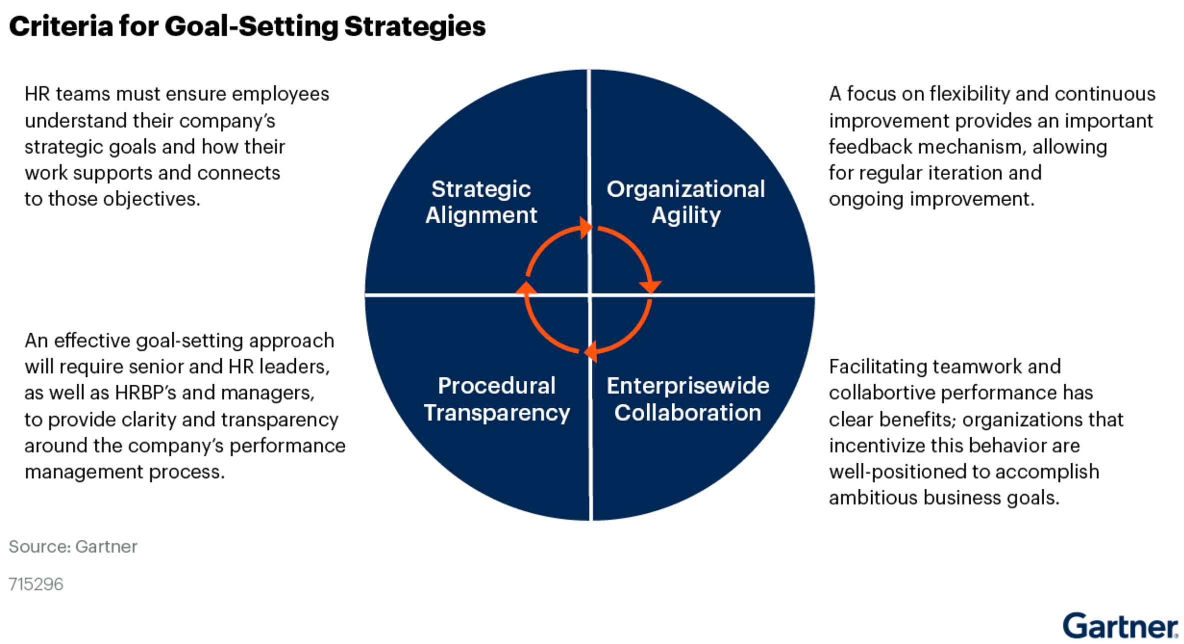
- **Alignment —** One of the biggest drivers of discretionary effort is employees' ability to align their individual goals with larger organizational success. [5] Additionally, high-performing employees who exert extra effort — that is, those who are willing to go above and beyond baseline duties — are more likely than their low-performing counterparts to understand how their role and responsibilities align with company strategy. [6] As these data show, when employees become active owners, rather than passive consumers of performance management, they are better positioned to deliver against their goals. To engender better individual and organizational goal alignment, HR leaders and professionals can encourage management teams to clearly and concisely communicate business strategy across all ranks in their organizations. HR teams can also work with managers to empower employees to feel enough ownership over their goals to be able to contextualize how they can individually contribute to delivering against broader business priorities.

- **Agility —** Agile should no longer be a concept relegated only to IT methodology. Across all functions of an organization, including HR, business leaders are recognizing a focus on flexibility and continuous improvement provides an important feedback mechanism, allowing for regular iteration and ongoing improvement. Unfortunately, only 16% of performance management systems lean toward more flexibility, rather than standardization. [1] As HR leaders and professionals reexamine their performance management and goal-setting processes, they should aim to develop a nimble workforce that can effectively respond to significant changes in its operating environment. They can also encourage employees to customize and tailor their goal-setting experiences to their specific needs.

- **Collaboration —** Facilitating teamwork and collaborative performance has clear benefits. Our data shows organizations that drive team performance increase the likelihood of surpassing revenue and profitability goals by twofold. [7] Additionally, employees on teams that collaborate effectively show a 20% increase in individual performance. [8] As organizations become more matrixed, people are increasingly working with and through one another to accomplish ambitious business goals. In this environment, higher-performing employees will no longer be evaluated solely on their individual performance but rather, on their individual contributions, in addition to those that further team, business function and enterprisewide objectives. As the value of these enterprise contributors increase, performance evaluation systems should evolve accordingly. To keep up, HR leaders and business professionals should implement performance expectations and reviews that clearly reward collaborative and networked behavior. They can also work with managers and team leads to emphasize the importance of collaboration in achieving critical objectives.

- **Transparency —** An organization's strategy should not be a mystery to its employees. Enterprise goals should be clearly communicated throughout all levels of the organization. Clarity and transparency of goals and the performance management process will enhance employee investment in, alignment with and accountability to organizational success. It will also encourage trust in the validity and legitimacy of the performance management process, as all employees will have visibility into specific organizational ambitions, why these objectives were identified and how they should be obtained. HR teams should work with senior leaders to make sure the company's overarching priorities are shared vertically and horizontally throughout the enterprise, and the workforce understands the rationale behind these goals. They should also equip managers to engage employees in performance conversations in a way that clarifies the link between employees' responsibilities and organizational goals.

Figure 6: Criteria for Goal-Setting Strategies



Conclusion

The business case for an effective goal-setting approach, as well as performance management more broadly, is well-documented. Our research finds high employee engagement, trust in the fairness and accuracy of performance management, and belief in the value of performance correlate with positive business outcomes. [1] Companies that fail to adequately design and implement an effective program will not be well-positioned to achieve ambitious strategic objectives.

Recommended by the Authors

"Ignition Guide to Goal Setting and Alignment" — This guide will help talent management leaders implement a goal-setting process that aligns employees' performance with changing business needs and the unique demands of team-based work.

"Accountable Collaboration (GFG Alliance)" — This case study explores GFG Alliance drove business performance through collaboration, reframing employee focus from individual contribution to business unit or function performance.

"Performance Management Strategies for Collaborative Work" — This research examines organizations that have implemented performance management strategies for collaborative work and highlights lessons CHROs can learn and implement themselves.

"Salesforce: V2MOM Tool" — Organizations struggle to align employees' tasks and priorities to the organization's goal during times of continuous change, resulting in wasted time and effort. Salesforce created the V2MOM goal-setting tool (that stands for vision, values, methods, obstacles, and measures), to allow employees to....

About This Research

This research was developed using leading practice case studies on the four organizations profiled herein.

Endnotes

[1] 2019 Gartner Performance Management Benchmarking Survey.

[2] 2014 Gartner Enterprise Contribution Workforce Survey.

[3] "The Performance Management Revolution," Harvard Business Review.

[4] Delhaize Group merged with Ahold in 2016; the current name of the company is Ahold Delhaize.

[5] 2016 Gartner Aligning Employees with Company Strategy.

[6] 2012 Gartner Communications Employee Performance Survey.

[7] 2019 Gartner Leader Effectiveness Survey for Leaders.

[8] 2019 Gartner Performance Management Employee Survey.