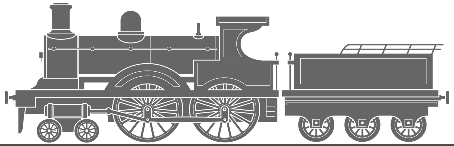

Objectives And The Club Of Rome

Understanding the mechanics of success is the foundation of success.

Most of us know the Club of Rome – usually from their original 1972 report "The Limits To Growth" and the 1992 and 2004 follow-ups to it. At its heart, the report presented a mathematical model of the global economy, and it used this model to extrapolate existing economic and environmental trends into the future. The result was an illustration of where the world was heading, which in turn prompted media coverage along the lines of "Oil will run out in the 1990s. We are all doomed."

This is not the place to rehash the heated debates about "The Limits To Growth" but it is worth picking out two aspects:

(1) The predictions were not intended to be an accurate description of the future. In fact, the members of the Club of Rome were hoping that publishing these predictions would have enough impact to actually render them wrong. The annoying paradox that knowing the future inevitably changes it – this paradox was essential to the report's relevance.

(2) The intellectual core of "The Limits To Growth" did not lie in its predictions but in creating a mathematical model of the world and thus in pinning down certain cause-effect relationships. The model may have been far from perfect but it formed a useful starting point for discussing how the global economy hangs together.

Today, more recent reports feature in the economic and political debate. One of them is the "peak oil" model which asserts that, although oil has obviously not run out yet, its production has started an irreversible decline. Again, the true value of such "predictions" is not their accuracy (or lack thereof) but their power to change the future once current trends and dependencies are understood.

Let's draw a parallel to "The Limits To Growth" that may be surprising at first but is actually rather fruitful. First of all, let's condense "The Limits To Growth" into the smallest possible nutshell:

> *Here is a model of how the world works.*
> *The model predicts nasty consequences if we (continue to) do X.*

Less headline-friendly but more positive, we could rephrase the second half:

> *The model predicts a nice future if we do Y.*

Does this ring a bell? – Every quarter or every year most companies go through setting team and individual objectives. Future bonuses and pay rises depend on performance against those objectives, and therefore people endure this exercise even though few really enjoy it. In a nutshell, objectives in a corporate environment simply state this:

> *The set of objectives predicts a nice (financial) future for you if you do Y.*

Superficially, this is remarkably similar to the second half of Club-Of-Rome-In-A-Nutshell. We could even flip the objectives statement into its negative version and still draw the parallel.

But what is really instructive is a closer look at where this simple analogy breaks down, and – most importantly – an exploration of how an objectives system would look like that *properly* mirrors the Club Of Rome approach.

As stated above, the greatest value of "The Limits To Growth" was that it presented an explicit model of how certain actions affect the well-being of humanity. The authors realised that it is pointless to argue over economic or political changes unless there is agreement about the underlying mechanics that determine and predict the effect of such changes. We can see a broadly similar approach in action over global warming: While some succumb to the temptation of haggling over CO_2 reduction commitments straight away most experts and indeed politicians realise that such discussions only make sense on the basis of a broadly accepted model. Hence the high profile of the IPCC panel conclusions and the heated controversies surrounding them.

And yet – this is exactly what tends to be missing when objectives are set in a corporate context. We all know situations where agreeing objectives for the coming quarter is essentially a haggling effort. What is "Achievable" when formulating a "SMART" objective? New sales of £10m? £12m? £15m? A customer satisfaction score of B+? Staff turnover below 8%? Or 6%? Or 6.3%?

Setting objectives like this is somehow not a satisfactory exercise. The reason is that we skip discussing, and agreeing on, the model. What are the mechanics that determine whether an individual's actions have a positive or negative impact on the organisation? - Take a system administrator tucked away in the server room. How does the company benefit or suffer from his actions? The easy answer ("make sure all systems are running all the time") is much too simple. How about the flexibility of the infrastructure? How about response times, collaboration with other departments (especially the non-IT ones) in the company? In what ways does e.g. this system administrator's work affect the success of the sales force and hence turnover and hence the bottom line?

Take a COO. Keeping the business running smoothly and efficiently is her responsibility, and the more smoothly and efficiently the better. But it would be a distraction to try and squeeze "smoothly and efficiently" into numerical benchmarks. It is much more useful to understand – or, in other words, create a model of – how exactly she influences the success of the company. The value of setting objectives lies in brainstorming and agreeing on the model. This is the foundation for genuine commitment to the organisation, not meeting artificially SMARTified targets.

This is perhaps most obvious when looking at objectives for sales people. Of course, a crude objective of "sell at least £50m of product X in the Asian market" does imply that securing those deals is good for the company. A more sophisticated model, however, would include aspects like these:

- How does the company's profitability depend on the timing of sales (think of reporting periods, of the credit rating impact of turnover volatility, etc.)?
- Which role does the stickiness of clients play? How relevant is the fraction of repeat business?
- What are the limits of growing one particular account? Which parts of the company loose sleep when one account gets too big – is it the finance director fearing that the health of the organisation hinges on a single client, is it the customer services department having to cope with large spikes of work, is it the compliance officer worried about regulations getting in the way?

If there is consensus over the model the actual objectives become a side issue. In fact, one could argue that they might not even be necessary at all although this is an extreme view. What is more, an understanding of the model allows people to react intelligently to problems as well as opportunities that were not anticipated many months earlier when objectives were set. (You may recall a similar thought from February's "Overcoming The Cult Of Action" article.)

The choice is whether we see objectives as a contract or as a method of communication. There are managers who spend hours constructing numerical benchmarks that later give an easy black-and-white picture of an employee's performance. This is simply a contract ("If you do XYZ we reward you financially"), and while it does make it clear to the employee what the company expects of her it still misses the point.

Treating objectives as an exercise in communication is much more powerful. When setting objectives, we can benefit from taking a leaf out of the Club Of Rome's "The Limits To Growth". The proper analogy is this:

> *Here is a model of how you impact the organisation.*
> *The model predicts a nice future for the company (and hence a financial reward for you) if you do XYZ.*

It is worth keeping the Club Of Rome in mind at the beginning of the next quarterly or yearly review cycle.

Finally: The idea of understanding and agreeing on a model is of course neither unique to economic reports nor to objectives in the corporate world. You may e.g. already have spotted the parallel to non-positional negotiation techniques where haggling is avoided in favour of, amongst others, establishing agreed principles. The seminal "Getting To Yes" by leaders of the Harvard Negotiation Project is an inspiration in its own right but it is also a great source of insights that can be transferred into the world of people management.

Sebastian Hallensleben is a specialist coach, facilitator, and writer. Prior to this, he worked in a variety of technology management and technical leadership roles in telecoms and financial services. He can be contacted by phone on +44 (0) 203 051 3349 or by email on sebastian@solysis.com. More details are available on the web at www.solysis.com.

More articles in the series are available at http://www.solysis.com/Home/articles