

Changing the goal-setting process at Microsoft

Karyll N. Shaw

Microsoft Corporation has a long tradition of emphasizing individual goals in its performance management system to support its performance-based culture. As happens at many companies, each year employees draft performance goals and have them approved by their managers. At the end of the year, these goals form the basis of the performance review documentation and discussion process.¹ All employees are trained in how to set goals, and managers are trained to assist in the goal-setting process, including how to provide relevant performance feedback throughout the review period.

Goal-setting training stipulates the use of "SMART" criteria or attributes (i.e., Specific, Measurable, Achievable, Results-based, and Time-specific) in writing goals. The attributes of specific and time-specific obviously refer to the attribute of specificity mentioned by Latham in his article for this Executives Ask feature. The measurable attribute implies the ability to get feedback. The achievable attribute is intended to promote commitment. The results-based attribute is important but does not rule out setting goals for actions that lead to outcomes as well as for the outcomes themselves.

Colorful stories that are part of the company's folklore depict the results-oriented culture and focus on specific, measurable goals that Microsoft has relied on historically to drive toward success. For example, in the late 1990s a senior vice president was pressuring the recruiting team that supported his organization to increase its hiring goals to meet business needs. The recruiting director, knowing that all the VPs supported by his team wanted similar goal increases and concluding that his team would not be able to meet all of these goal increases, sent his team member—a recruiting manager—into the meeting with the senior VP. He warned her over and over, "Whatever he says, do not agree to a specific number of new hires for next year." The recruiting director planned to listen to all of the VP requests for his team and come

back to them to agree on a target range of new hires for each organization. Just as the recruiting director predicted, during the meeting the Senior VP—obviously a believer in specific and very difficult goals—kept pushing the recruiting manager to provide a specific number of new hires for the next year, and grew more and more frustrated as she continued to resist agreeing to any specific goal. Finally, he insisted, "If you won't give me a number, then I'm going to give you one." The vice president, switching to a positive incentive, also told the recruiting manager that if she achieved the hiring goal, he would throw a huge party for the team at his home.

The goal that the VP set was twice the current year's hiring goal and much more than the recruiting team thought possible to attain, yet by the end of that year, the recruiting team had exceeded the VP's goal by almost a third. The VP followed through on his promise to throw a fabulous party at his home, and at the celebration the recruiting team presented a huge cake, with the VP's hiring goal and the actual new-hire total achieved printed on the cake in bright red frosting.

As has been documented extensively in the media, Microsoft has grown rapidly even though many companies in its industry have been in decline, almost doubling the number of its employees since 1999. Aside from economic and competitive pressures in the past few years, since 1999 the company also has been involved in several exhaustive legal challenges to its business practices. CEO Steve Ballmer has an unwavering belief in the company's continued success and has instituted several changes in the organization's structure and processes to ensure that future.

The performance management system is one of the several organizational processes that have been reviewed recently to determine what changes might be needed in order to meet the current and future needs of Microsoft's complex business model. Below is a description of the changes Microsoft is making to its goal-setting process within

the performance management (PM) system so that a culture based on business focus, disciplined execution, and accountability can be assured.

Findings From the Performance Management System Review

The PM system review team conducted an audit of over 1500 employee annual performance review forms using the SMART criteria to assess the quality of employee goals. The annual performance review form includes each employee's goals for the year along with the employee's and the manager's review of goal success and the official employee performance rating submitted for the year. The audit of the review forms resulted in startling surprises. While the company's leaders suspected that the rigor of the goal-setting process had diminished somewhat, the audit indicated that almost one-quarter of all employees had not included "specific" goals on their annual review form. In addition, when assessing specific goals that were provided against other SMART criteria, only about 40 per cent were deemed measurable, in terms of having included some reasonable way to assess whether the goal had been achieved. The goals were more activity-focused than focused on results, and it was hard to see alignment with broader organizational or company goals.

To more fully explore the reasons why the goal-setting process had lost its earlier rigor, the PM review team conducted focus groups with employees and managers at all levels and in all regions in its worldwide population. The themes that emerged from the focus-group discussions included the following:

- The rate of change in the company makes it difficult to set specific goals that actually fit the business needs for an entire year.
- We need a consistent process for goal alignment/cascading. Some groups are setting up their own processes to do this.
- Managers need more training in setting SMART goals.
- Managers and employees need to meet more regularly to update progress toward achieving goals.
- We need consistent calibration processes company-wide to ensure that performance ratings take into account differences in goal difficulty among employees. [Note: Performance ratings are finalized through an employee-to-employee calibration that management teams conduct, and final ratings must meet rating guidelines. Unless goal-difficulty differences are accounted for in calibration processes, employees who

achieve easy goals might receive a higher rating than employees who almost achieve very difficult goals. In addition, for non-sales employees, performance bonuses are based on these ratings (Method 4 as discussed by Locke in his Executives Ask article), emphasizing the importance of a consistent calibration process.]

- In some groups, goals are assigned from the top, with little or no discussion or explanation by managers.

The PM review team's findings indicated that several of the causal mechanisms and conditions needed for goals to positively impact performance, discussed by Gary Latham in his Executives Ask article, were not present for many employees at Microsoft. Goals direct attention, energize people, and influence persistence, effort, and work pace. They often motivate people to discover new ways to achieve the goal. With so many employees lacking specific (SMART) goals, it was difficult to know what directed their attention, energy, and efforts. In terms of the conditions for effectiveness that Latham discussed, many of these rely on the skill and support of the manager so that goal commitment is enhanced and feedback on goal progress is provided. Microsoft employees generally work on complex tasks and in an extremely dynamic environment, enhancing the need for regular feedback, goal progress review, and the support of managers in attaining needed resources and removing obstacles. According to the PM review, many of these conditions were not being met.

The Changes: From Goals to Commitments

In analyzing the PM review results, Microsoft's leaders concluded that goals had begun to be viewed as aspirations (hopes) rather than as genuine commitments. We know from goal-setting theory that goals without commitment do not work. Thus the first change that was made was to combine the two by changing the actual language from 'goals' to 'commitments.' The commitment terminology came directly from leaders who believed that when an employee makes a commitment, there is a greater level of accountability to meet that commitment. To support the CEO's plan to drive a culture of accountability, this language change was important. In addition it was agreed that managers would:

- Discuss and document the commitments of all employees;
- Revisit and refresh commitments over time;
- Agree to success metrics for each commitment, including the "How?" behind execution (e.g., the

plans to be used to attain the commitments), not just the "What?"

- Align commitments across the company by cascading commitments, beginning with Microsoft's commitments and connecting to organizational, team, and ultimately individual commitments;
- Drive management team calibration discussions so interdependencies and metrics are vetted across individuals.

These changes reflect the leaders' renewed commitment to basic tenets of goal-setting theory, ensuring that the various causal mechanisms and conditions for goal success are part of the PM system going forward. The executive team set to work to define Microsoft's commitments and distribute them to all employees, so the cascading alignment process could begin. The company's commitments focus on driving shareholder value through innovation, customer responsiveness, and the development of talent. The PM team went to work to build the communications and training programs needed to prepare employees and managers for the changes.

The company's commitments focus on driving shareholder value through innovation, customer responsiveness, and the development of talent.

The communications to and training for employees stress that the commitment-setting process is most powerful when there is alignment between individual, team, organizational, and Microsoft commitments. The alignment process starts by getting clear on Microsoft's business focus and the company-wide commitments. With that focus in mind, employees next examine the commitments of their own organizations, followed by their team commitments. Finally, employees define their own individual commitments so that everyone will be successful.

The new commitment-setting process was rolled out for use during the 2004 annual performance review process. Various templates and tools were provided to all employees and managers for use in the commitment-setting process, including a new section in the annual review form and training on commitment-setting for all employees and managers. Figure 1 illustrates the section of the annual performance review form in which employees and managers include commitments, the execution plan, and accountabilities.

The training included guidance for each of the

section's segments and contained the following information:

Commitments—Identify the five to seven high-level commitments for the employees and insure that they are aligned to the business commitments. Microsoft expects commitments to exist at a higher level of challenge than goals have been in the past. Whereas goals attempted to capture activities, commitments capture the end results they are trying to achieve and, to final completion, may extend across multiple fiscal years.

Disciplined Execution—The employee's execution plan will identify how the employee plans to deliver on the overall commitment. The execution plan is intended to identify significant milestones that the employee will accomplish during the fiscal year, in addition to identifying groups with which the employee has interdependencies for successful completion of milestones. Throughout the fiscal year, the company expects a well-documented execution plan to be a great coaching tool for managers to use with employees to note progress and deliver feedback.

Accountability—The accountability section is intended to clearly and consistently set expectations for both employees and managers as to what success will look like at the end of the fiscal year. This is a significant area of concern for employees in today's goal-setting process that the company believes will be addressed through commitment setting. Accountabilities will capture the specific success measures and metrics that a manager will use to determine whether the results that an employee delivers meet expectations. Having clearly articulated accountabilities will establish a strong foundation upon which an appropriate employee rating can be given, through which meaningful calibration discussions can take place, and upon which more clearly linked rewards can be distributed.

As noted above, Microsoft used Locke's Method 4 approach (based on Latham's idea): Managers take account of various contextual factors during the calibration process to determine final ratings and related incentive rewards. So the increased focus on metrics and accountabilities should strengthen the performance-reward link.

Commitments, Execution, and Accountability

To ensure a culture focused on business commitments and execution and accountability to achieve those commitments, Microsoft embarked on a thorough review of its performance-management system and implemented its new, more robust commitment-setting process. These changes reflect a

Part 2: FY05 Commitment Setting

Define your commitments for the next review period.

Commitments should be:

- Specific, Measurable, Achievable, Results-based, and Time-specific.
- Aligned with the commitments of your manager, organization, and *Microsoft Commitments*.
- Supported with *customer-centric actions and measures* aligned with divisional business plans.

People Managers must include at least one People Management Commitment.

For additional assistance visit: *Commitment Setting*.

Reviewer and employee, edit this section to create a prioritized list of commitments.

Commitments Identify 5-7 areas of focus which are aligned with commitments of your manager, organization, and <i>Microsoft Commitments</i> .	Execution Plan Identify how you will achieve your commitments (key milestones and dependencies).	Accountabilities Define success measures and metrics to evaluate the realization of your commitments.
Empty space for commitments	Empty space for execution plan	Empty space for accountabilities

FIGURE 1
Goal-Setting Section of Microsoft's Annual Performance Review Form

return to basic and necessary goal-setting practices after the company determined that the rigor in its goal-setting processes had diminished. Over the course of the next year, the PM team will monitor and evaluate the initial implementation and continue to provide guidance for ongoing review and revision processes as the system is fully implemented. Given the renewed focus on specific, measurable goals (commitments at Microsoft), aligned throughout the company and supported by management review and action, the company has reinforced goal-setting theory's causal mechanisms and conditions for success and should achieve the intended outcomes of these changes: the overall achievement of the Microsoft commitments.

Endnotes

¹Until 2002, performance reviews occurred twice during each year (February and August) rather than once and included

formal ratings and bonus distributions at both reviews, with raises and stock-option distributions occurring at the end-of-year (August) review only. In 2002, the 'mid-year review' was re-focused on career development goals and issues and included a performance checkpoint discussion only, with no performance ratings or bonus rewards allocated.



Karyll N. Shaw is an independent consultant. From 1998 until 2004 she worked for Microsoft Corporation, designing leadership development processes and supporting strategic planning and change efforts there. She received her Ph.D. in organizational behavior and theory from the Robert H. Smith School of Business, University of Maryland. She also has served on several business school faculties. Contact: karyllshaw@yahoo.com.

Copyright of Academy of Management Executive is the property of Academy of Management and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.