Setting performance goals: How to challenge and motivate employees

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Setting performance goals can be a tightrope act. Set the bar too low and you end up with unmotivated, unproductive employees. Set it too high and you'll create frustration—and the possibility that employees will behave unethically or counterproductively to achieve the goal.

To maximize growth and productivity, each of your employees needs goals to achieve. Here's how to set performance goals that are meaningful, spur employee motivation and give you a solid foundation for an annual performance review.

Establish goals in a face-to-face meeting

Work out a set of goals for each employee. Remember that most people do best when they're working toward three or four goals, and when they've had a hand in setting the goals.

Be sure the goals are measurable and written down

This makes it easy for people to tell how they're doing. Performance improvement (or the lack of it) becomes obvious, and disagreements about performance assessments virtually disappear. Writing the goals down gives them more importance and formalizes the agreement.

State the goals in specific terms

Whenever possible, define each goal as a certain quantity of work to be performed to a certain quality within a certain time frame. For example, "Within the next three months you will process 30 claims a day with an error rate of less than 3%."

Suit goals to the individual

Some people work better with "stretch" goals that are set almost out of reach. Others like to play it safe, setting low-level goals and exceeding them. Though each goal should be realistic, neither too high nor too low, it pays to make allowances to your employees' personalities and set goals at the end of the range where they function best.

Adjust goals that turn out to be unrealistic

Unattainable goals can be worse than having no goals at all. If conditions change and priorities must be rearranged, or if people over- or underestimate their ability, renegotiate the goals you've set.

10 tips on setting goals for your employees

Ask your employees to focus on razor-thin, challenging targets, and they might fail or do something unethical. Instead, use this 10-point checklist, developed by the Harvard Business School.

1. Are the goals too specific? In the race to meet a specific goal, Ford created a car that had serious flaws—the Pinto. Be sure your goals include all critical components for success (both quantity and quality).

2. Are they too challenging? Offer training if skills are lacking. And avoid harsh punishment for failure to reach a goal.

3. Who sets goals? People who set their own goals are more committed.

4. Is the time horizon appropriate or does it foster short-termism? Consider eliminating quarterly reports, as Coca-Cola did.

5. Have you articulated acceptable levels of risk?

6. How might the goals promote corrupt behavior? *Example:* Sears set challenging sales goals of $147 per hour for its auto repair staff. That prompted staff to overcharge for work. Set up multiple safeguards to keep employees from rationalizing unethical behavior.

7. Can they be tailored to individual abilities? Strive to set goals that use common standards and account for individual variation.

8. How will they affect culture? If cooperation is essential, consider setting team-based goals.

9. Do affected staff have an intrinsic motivation?

10. Consider whether learning would be a better target than performance?