The tyranny of forecasts, targets and budgets

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Anyone can set forecasts, budgets and targets.

Even a laptop can do this without human intervention.

Without a market-based strategy, targets just cause chaos.

Targets force people to concentrate on the target instead of customers.

The good thing about not having a strategy is that failure comes as a complete surprise and is not preceded by a long period of worry and depression. (John Perton, Boston College)

Don't be fooled into thinking those words by John Perton of Boston College just represent an academic trying to score points by being clever. It is amazing to me how many major organisations go under because they have little more than sales forecasts and budgets for the following year. How surprised they are when their customers abandon them in favour of another supplier who has taken the trouble to work out a longer term strategy for understanding and really meeting their needs.

Almost every UK company achieving high returns on investment up to 1990, either subsequently went bankrupt, or got into serious trouble. The best performing companies up to 2000 fared little better, with the likes of Marks & Spencer, ICI, GEC et al., either going out of business, or systematically destroying shareholder funds. Some of these companies have since partially recovered, such as M & S, BT and BA. The first decade of the 21st century has seen a continuation of the demise of erstwhile famous companies, too numerous to mention. The lessons to be learned from those decades are still highly relevant for companies currently enjoying high growth today. (McDonald, 2016)

Let us dismiss once and for all the puerile belief that all directors and senior managers need to do is to write down some numbers that can become targets and eventually translate into budgets. This only ever works in growth markets with little competition. Such behaviour has consequences. Of Tom Peters' original 43 so-called 'excellent companies' back in 1982, very few survived. They had a fixation with tactics at the expense of strategy. (Richard T. Pascale, 1990)

Here are some quotes from well-known sources:

> *Improvements in a short-term financial measure such as economic profit can be achieved through postponing capital investments, reducing marketing and training expenditures, or by divesting assets, each of which may have a positive effect on near term performance but could adversely affect long term value creation performance. Nevertheless, when incentivised with bonuses to 'manage for the measure' this is exactly what many managers will do irrespective of the consequences on shareholder value.* (Simon Caulkin 2002)

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The tyranny of forecasts, targets and budgets (continued)

Simon Caulkin (2005) also wrote:

> *"90% of USA and European firms think budgets are cumbersome and unreliable, providing neither predictability nor control. Budgets are backward-looking and inflexible. Instead of focusing managers' time on the customers, the real source of income, attention in focused on satisfying the boss; that is, the budget becomes the purpose.*
>
> *Cheating is endemic in all budget regimes. The result is fear, inefficiency, sub-optimisation and waste. In companies like Enron, the pressure to make the numbers was so great that managers didn't just doctor a few numbers, they* ***broke the law****. People with targets and jobs dependent on meeting them will probably meet the targets, even if they have to destroy the enterprise to do it."*

Research into the banking sector in the UK back in 2005 threw up the following interesting observation:

> *"In this company, value creation was merely a matter of protecting market share and managing costs. The data shows that the company's business model is in effect a 'money printing' machine, therefore the challenge for strategists lies in how they can act as responsible stewards of a resilient business model."* (Cranfield Doctoral Thesis)

Well before the 2008 banking crash, another major bank was criticised for its contribution of £1 trillion to personal debt in the UK. Employees had been set tough targets for selling loans and to double their low salaries with commission, all encouraging system abuse and leaving many borrowers facing ruin. Banks were no longer there to help customers find the most suitable solution.

> "*We have a target-driven culture that staff must hit targets."* (a major bank, 10 May 2005)

That same bank announced to the British press in February 2013 that it was scrapping all targets because it had led to misselling, for which it had been fined millions of pounds.

Many economic commentators and politicians have remarked on the destructive nature of targets set by government for public services such as the police, the health service, social services and so on. For example, the impact of financial incentives for adoptions caused a genuine fear in society that children were being unjustifiably removed from their natural parents in order to meet targets which earned a financial reward from the government. The police are another example which attracts criticism. With targets for arrests, and with careers and promotion dependent on meeting them, many police officers ignore their real duty to society by avoiding tackling serious crimes and tick their target boxes with petty and insubstantial crimes. Indeed, a policeman who resigned said openly on his web site "An obsession with targets and box ticking mean we get exactly the same points for cautioning a girl for pulling another girl's hair as we get for a robbery". Finally, it is well known that the British National Health Service change definitions of illness and accidents to meet queue reduction quotas, often with a devastating impact on those patients affected.

On 8th February 2013, the results of the official enquiry into the acute failure of the UK Staffordshire Hospital in the UK (by Robert Francis QC) reported on the controversial " target culture " that fatally undermined the ethos of care that has traditionally been a hallmark of the NHS.

> *"Management only want to know about meeting the government's target. They do not care about staff or patients. A focus on targets was to blame for the appalling and unnecessary suffering of NHS patients. The Mid Staffordshire Trust prioritised meeting waiting time targets over patient care."*

The common thread running through these and countless other examples is that members of the public ceased to be the focus of the organisation. The majority of police, doctors, nurses, teachers and government officers and so on now complain about the way their skills and time are being subverted by the culture of targets. They long to put the "customer" back at the centre of their working lives.

One last comment by Ross (2007) about the tyranny of annual forecasts, targets and budgets:

> *"Leadership is burdened with passive resistance and corporate gaming in the traditional annual planning model. Many have personal bonuses based on fixed annual targets and static measures. Forecasting processes frustrate the 'right' behaviours and drive the 'wrong' ones. The desire for HQ control often drives inappropriate and suboptimal behaviour."*

Consider now the often puerile and backward-looking process by which quantitative objectives are set. It has been consistently shown over the past fifty years that sales people sell the products they find easiest to sell, often at the maximum discount, to the customers who treat them nicest. Such sales go into the database and form the basis of forward projection for forecast purposes.

However, there is a different and more professional way of setting an objective for the following year. If addressing a growth market, a legitimate strategic objective might be "to be market leader in three years time". In order to achieve such an objective, the marketing director would need to assess market size three years hence. He might then consider what market leadership might be, say 25%. So, extrapolating backwards from this future target, he could establish what sales he needed to achieve next year and the years following to reach the attainable goal of market leadership.

Then we have the kind of knee-jerk, macho management-by-objective targets that are often set by senior managers without considering the unintended consequences. A classic example of this is the desire to cut costs by reducing working capital, such as inventory. If the logistics manager is paid a bonus to make such reductions, then they will no doubt be made. So the poor unfortunate customer asking for one hundred widgets and two hundred widgets, on being told they can only have fifty of each, changes supplier. The circumstance of the forgone sale is lost in the system, the logistics manager has achieved the objective set and so has the finance director. The database on which the next year's forecast is made is impervious to all this.

Even the great Unilever, when losing market share to Proctor and Gamble, realised that their forecasting and budgeting system was holding them back. In a presentation in 2006 at Cranfield, a senior financial manager said:

> *"We used to spend £½ billion out of a £50 billion turnover just on budgeting. All it led to was setting the* ***lowest*** *sales/profit target (and under no circumstances exceed it) and the* ***highest*** *marketing budget (and under no circumstances underspend it). The consequence was appallingly bad behaviour on the part of everybody. We were boxed in by too many targets, defined 'success' in the wrong way, were too inward and backward looking and set the wrong performance targets."*

Unilever's new system is more about helping people win than holding them to account. Now, when you meet people, you can't tell what function they're from, because they are just talking about the customer and the business".

This particular professor has little patience with managers who believe that forecasts, targets and budgets are all they need, and that using them to put the fear of God into their subordinates somehow constitutes good management. You can get away with it for a while in times of growth, but sooner or later you will be found out as a mental midget.

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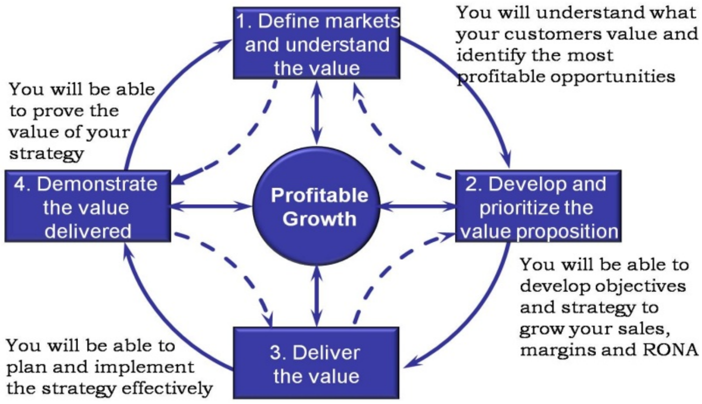
About Malcolm McDonald Consulting

Malcolm McDonald Consulting Ltd. is a strategic sales and marketing consulting business.



With our end-to-end interactions, from Board level to internal project team, we help companies create value through getting the fundamentals right in strategic sales and marketing, all within budget and the agreed deadline.

Professor McDonald and his team of consultants work with the Boards and internal teams of executives from a number of the world's leading multi-nationals on all continents.

Malcolm McDonald is Emeritus Professor of Marketing at Cranfield University, and Visiting Professor at Henley, Warwick, Aston and Bradford Business Schools. He authored over 40 books on marketing and key account management.

Coming from a background in business which included a number of years as Marketing Director of Canada Dry, Malcolm has successfully maintained a close link between academic rigour and commercial application. He has consulted to major companies from the UK, Europe, USA, Far East, South-East Asia, and Africa, in the areas of strategic marketing and marketing planning, market segmentation, key account management, international marketing and marketing accountability.

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