

Public Management Report

An occasional (and maybe insightful) examination of the issues, dilemmas, challenges, and opportunities in leadership, governance, management, and performance in public agencies.

On the management challenge of:

Beating Expectations

A while back, *The New York Times* announced across the front page of its business section: "Hewlett-Packard Beats Wall St. Expectations." HP had reported quarterly profits of 24¢ per share—8¢ above its earnings for the same quarter in the previous year and 2¢ above expectations. And this good news created a 9-percent bounce in HP's stock price.

HP had not, however, miraculously solved the slump that plagues the high-tech sector. The unit that makes its acclaimed printers produced quarterly profits nearly equal to those for the previous year. But earnings for HP's Services Group slipped, while the other groups again reported quarterly losses. Collectively, however, these losses were less than the year before.

Hewlett-Packard had not turned itself—and all of its units—completely around. But it had accomplished something that was, even more important: HP had beaten expectations.

While Carleton Fiorina, HP's chief executive, was announcing this success, she was simultaneously managing expectations for the next quarter. HP wasn't expecting much growth in corporate spending on information technology, she warned. Neither was it expecting much growth in the consumer sector.

Thus, HP cautioned Wall Street not to raise its expectations for the firm's profits during

the next quarter. HP was on track, Fiorina told the investment community that evaluates management progress, rates corporate stocks, and establishes expectations. They should expect steady yet slow improvement but not get too exuberant.



Fiorina's performance was masterful. She claimed success for beating past expectations while simultaneously dampening future expectations so that she could beat them again.

Indeed, in business, beating expectations is the name of the game. It isn't how much you earned during the last quarter or the last year. Rather, you and your organization are evaluated in comparison with expectations. If earnings are up, but not up to the expected level, you lose. If your earnings are negative, but those losses aren't as big as expected, you win. Thus, the challenge facing corporate leadership is to establish realistic expectations—expectations that are significant enough to suggest that the firm will make progress but modest enough to be beaten.

The same applies in politics. Don't forget: Senator Eugene McCarthy did *not* beat President Lyndon Johnson in the 1968 New Hampshire primary. McCarthy actually lost. But, in winning 42% of the vote to Johnson's 50%, McCarthy beat expectations. Indeed, he hammered expectations. Politically, McCarthy "won" and Johnson dropped out of the race.

In 1968, McCarthy didn't need to dampen expectations. None of the pundits—politics' equivalent of Wall Street analysts—expected this unknown, poetry-spouting, senator to capture anything but the anti-war, fringe vote against one of the master politicians of the age. For McCarthy, just getting 21% would have beaten expectations.

To win at politics, as every presidential campaign reminds us, the first step is to manage expectations. During the 2000 election, when George Bush debated Al Gore, the Bush team repeatedly reminded journalists that Gore was an excellent debater while their candidate often had trouble with his syntax. When Gore and Bush debated on television and appeared to be equally articulate, Bush beat expectations, and thus he won.

This same challenge—establishing, then beating, expectations—faces the leadership team of every public agency from the Department of Defense to the local school district. All public agencies have to beat expectations. Before they can do that, however, they have to create these expectations.

For if they don't establish—or, at least, influence—expectations, they are doomed. They will have to match the expectations established by others. And these others—stakeholders, journalists, legislators—have little interest in creating expectations that can be easily met. In fact, they usually have the opposite incentive. Because such outsiders want the agency to accomplish even more, even faster, they inevitably set expectations as high as possible. They do not see creating reasonable expectations as in their interest.

"If we can put a man on the moon, we can certainly . . ." See: There is no reason not to create outlandish expectations. The U.S. military is expected to beat any enemy quickly

and without any loss of American lives. After all, we are the sole remaining superpower. Amtrak is expected to run the trains on time and at a profit over tracks owned and maintained by other railroads and through the districts of every influential member of Congress. The Centers for Disease Control is expected to prevent the outbreak of any contagion, even though it can't control the behavior of individual carriers.

Nevertheless, the leaders of public agencies can use performance targets to mobilize and focus resources. By creating one or two goals that require the agency to significantly ratchet up performance, leaders clearly signal what is important. A performance target gives people something significant to accomplish—a real reason to work both hard and smart. And it rewards people with a clear triumph when they achieve their goal.

The agency's leaders need not, however, announce these targets to the world. The leadership challenge is to set big expectations for internal achievement while creating modest expectations among outside observers. Then, by meeting—indeed beating—expectations, the agency can establish a reputation for effectiveness that can earn it additional flexibility and perhaps even some additional resources. **B**

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