

Shooting at goals –

Why setting performance targets can backfire

SEVERAL years ago, employees at General Motors (GM) began sporting badges with the number 29 on them. That figure was not a prescient estimate of the billions of dollars that the giant car company would ultimately pocket from the American taxpayer in the form of government handouts. Instead, it represented the percentage share of the American car market that GM's bosses aspired to. Fixated on this target, the firm went on to make decision after disastrous decision that helped drag it to the brink of bankruptcy.

Admittedly, many different things have contributed to the shocking downfall of GM, which now has less than 20% of the US car market. But an emphasis on building market share rather than profitable vehicles is certainly one of them. Like GM's leaders, managers everywhere love to set targets for their staff. Budgeting and planning meetings assign financial and non-financial goals at a corporate level, as well as "stretch goals" for individual units. These targets are then translated into personal goals that senior executives and other employees are expected to achieve.

Such goal setting is widely considered to be a powerful way to motivate employees and boost their productivity. But some management researchers have given warning recently that the practice can have dire consequences which are often ignored by executives. A new paper* in the *Academy of Management Perspectives* notes that goal setting is widely considered to be "a benign, over-the-counter treatment" for improving corporate performance when in fact it is "a prescription-strength medication" that should be used sparingly and with great care because of its potentially harmful side-effects.

Among these is the risk that narrow goals can produce narrow-minded workers whose focus on achieving a particular target blinds them to other issues affecting a company's success. The researchers cite a simple experiment conducted with a class of students who were asked to proofread a paragraph of text destined for a marketing brochure that would promote their business college. The text contained both grammatical errors and blatant content errors. Some students were asked just to "do their best" in correcting the text, while others were asked to look for either grammar or content errors. The exercise showed that members of the first group were more likely than those in the other groups to correct both the factual and grammatical mistakes.

As well as discouraging staff from considering the bigger picture, specific performance goals can also encourage unethical behaviour. For instance, in the early 1990s Sears, an American retailer, discovered that mechanics at its car-servicing business had been telling customers they needed repairs even when these were not necessary and overcharging for some work to meet stretch revenue targets set by management. Sears' experience shows that sometimes the ends that companies set can be interpreted by employees as an excuse to use any means to achieve them. So firms need to monitor carefully the ways in which people are working towards their goals.

A third pernicious effect of goal setting is that it can encourage too much risk-taking. Many past studies have shown that people who are given specific, challenging targets are more likely to take big risks to achieve them than those who have been assigned less concrete goals. Employees who are close to achieving a tough target are especially prone to taking

rash gambles. Such behaviour may partly explain the wild bets on credit default swaps and other fancy financial instruments taken by some global investment banks and insurers who have come a cropper in recent months.

But perhaps the biggest problem with setting goals is choosing the right targets in the first place. GM isn't the only firm that has tripped up over this. After Enron, a giant energy company, failed spectacularly in late 2001 it emerged that the firm had placed huge emphasis on driving revenues, often at the expense of profitability. Even during Enron's final days, executives were trousering huge bonuses for meeting or beating specific revenue goals that they had been set, irrespective of the amount of profit these deals actually generated.

All these warnings may sound odd given that there are hundreds of academic studies which show that establishing goals for employees can produce outstanding results. According to many managers, there is nothing like a BHAG—or Big, Hairy, Audacious Goal—to get the competitive juices of a company flowing. Yet this paper's authors argue that the problems associated with such targets are far more serious and pervasive than previous studies have suggested. And they take a swipe at the most fervent advocates of goal-setting who, they claim, "have met their specific, challenging goal of becoming publishing juggernauts, at the expense of the broader objectives of providing scientific rigour and sound managerial advice."

This reminder of the perils of using specific targets as a management tool is timely. Faced with a brutal economic downturn, companies may be tempted to set employees even more goals than ever as they strive to cut costs fast and generate enough cash to ride out tough times. Unless they think carefully about the possible consequences, they could end up scoring some horrifying own goals.

*"Goals Gone Wild: The Systematic Side Effects of Overprescribing Goal Setting". By Lisa Ordóñez, Maurice Schweitzer, Adam Galinsky and Max Bazerman. *Academy of Management Perspectives*, February-April 2009.