

PRINCIPLES OF ORGANIZATIONAL GOAL SETTING

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Introduction

Most operational planning processes require that organizational goals be set as a starting point for fiscal year planning and budgeting. The development of the operating plan triggers the onset of the performance management system by which individuals set their personal objectives and plan their activities which, collectively, mobilize employees' efforts in the achievement of organizational goals. I encourage managers to use the term "goals" for **group** or **organizational unit** direction setting and "objectives" for **individual** direction setting. This terminology simply distinguishes between the individual and the organization and raises a consciousness about the need to do direction setting at both levels. Individual objectives which are set without the context of organization goals can lead to busy, motivated individuals who achieve their separate objectives yet leave the organization, in spite of all the well intended individual effort, falling short of its aims.

The purpose of this paper is to provide some information and, perhaps, some

reminders about direction setting processes. Better understanding of organizational goal setting should result in greater achievement of those goals and increased organizational performance. The first section is a review of what is meant by the term "goals". A brief discussion on "Why set goals?" is followed by a section where the importance of setting goals in the context of larger organization aims is discussed. The cascading or typical "top-down" sequence of organizational goal setting is the subject of the last section where the "neatness" of the concept of top down direction setting is modified to reflect what truly happens in the back and forth discussions required for effective goal setting.

It is hoped that this paper will stimulate discussion among peers and between bosses and their employees in order to understand some principles of organization behavior in general and goal setting in particular. Too often, managers interpret procedures as principles. Procedures change as needed according to the situational requirements, but principles are reliable and steady guides. Given the rapid change within most organizations today, you can increase your confidence as a manager if you become grounded in the principles. Kurt Lewin, the father of applied behavioral science,

once said "Nothing is so practical as a good theory." With this as an orientation to managing in a rapidly changing environment, one can accept frequent

procedure changes because the principles remain intact, thus taking some of the trauma out of change.

What are Goals?

Goals, are a statement of **what** the **organization** (e.g. the corporation) or sub-unit of the organization (e.g. a function or department) wishes to do. Goals state the end toward which effort is directed. They are usually a reflection of an organizational (or sub-unit) problem or of a desire to capture an opportunity to improve or advance the organization. They should be specific, measurable and time bounded. These are the same criteria used for individual objectives. As goals are accomplished, they are replaced by new statements of what needs to be done to increase the organization's effectiveness.

Action Plans are neither goals nor objectives. Goals and objectives state what the end point of the effort is (e.g. to increase market share by 3 percent in the next

operating period), whereas action plans describe the specific steps to be taken in order to achieve the goal.

There are other terms which describe other parts of the direction setting process in organizations. Those terms are sometimes confused with goals and warrant mention here.

A **mission**, is an organization's purpose or reason for being. The mission answers the question "What business are we in?" As you may have experienced, this is sometimes a very profound question to answer. The mission is ongoing and does not change unless the core business changes such as the introduction of new products. A mission statement may be rather broad although a danger with mission statements is that they may be too broad and not provide adequate definition of the organization. The mission does not change or get replaced as problems are solved, and it is not as time bounded the way goals are, such as within an operating plan or fiscal year period.

A **vision** is an ideal image of a possible and desirable future state of the organization as it carries out its mission. Values are a part of a vision statement either implicitly or

explicitly. The organization vision is necessarily broad and represents an ideal rather than a specific achievement. As such, it should last a long time unless there is a significant change in the organization - such as a merger or acquisition with a different kind of organization.

It is commonplace that contemporary organizations have visions, missions and organizational goals, and that employees have objectives. It is less common to find sub-unit goals, below the corporate or function level. In addition, it is commonplace for bosses to hold their managers accountable for accomplishing their individual objectives, hold periodic review meetings, establish feedback mechanisms for them, etc. It is less common that organizational/sub-unit goals, even if they **are** set, receive the same attention. This is unfortunate because the accomplishment of organizational goals does not occur simply as a result of the cumulative accomplishment of individual objectives. Sub-unit goals require the same monitoring and follow-up as individual objectives if organizational goals are to be accomplished.

Why Set Goals?

Much research has been done in the behavioral sciences about the effects of goal setting. As always in any scientific community, there are points of debate. However, it is safe to say that there are some clear principles that have been established about individual objective setting which are of great use to managers. Most of what has been learned about objective setting can also apply to setting organizational goals.

First and foremost, setting goals will greatly increase the likelihood of organization effectiveness. This means that simply **doing** it - no matter how well or how poorly - will be beneficial to the organization. The absence of goals will likely result in lower organization performance. The second principle is that establishing **hard** and **specific** goals will result in better performance than establishing easy and vague goals. There is almost an 80% chance that hard, specific goals will increase organization effectiveness more than easier, less specific goals. This principle is of sufficient importance to suggest that managers have a **responsibility** to require their organizations (and individual employees) to stretch toward more difficult ends and specify those ends

in enough detail to make measurement and accountability more achievable. Of course, goals which are set **too** high will discourage performance, and particular situations in organizations must be taken into account when setting goals. Individuals who are high achievers will establish more **realistically** challenging objectives - not too high or too low - than lower achievers, who are inclined to set either easily achieved objectives or impossible objectives. The same principle applies to organizations.

Job satisfaction is a function of the degree to which stated intentions are achieved. The closer the fit between targeted and actual performance, the greater the employee's job satisfaction. Morale is attributed more to **achievement** than to any other factor such as pay, supervision, work space, etc. Even low performing organizations or unmotivated individuals will respond better to hard, specific goals than easy, vague goals. Goals enable managers to see the achievement between targeted and actual performance. Without the reference point of goals, one cannot so readily see and experience the achievement. The target/actual gap closing also enables more specific feedback and tracking.

Goals need to be time bounded. Research has simply supported Parkinson's law that the volume of work expands to fill the time allowed. Much more productive work can be accomplished when target completion dates are set. Indeed, "we don't have enough time" can be an asset if a manager **requires** shorter time limits than are often requested or assumed. It may be uncomfortable to demand difficult (i.e. 50-50 chance of achieving) goals which are so specific that accomplishment (or lack of it) is clearly visible and to truncate time frames, but remember that these actions are sometimes known to **facilitate** achievement; and achievement enables motivation more than **any** other factor.

Finally, maintaining control of large complex organizations cannot be done without direction setting mechanisms which enable all employees to see the targets and establish plans to reach them. Small, more simple organizations can be controlled by individual managers who, through their daily interaction with all of the key people, can single-handedly steer the organization in the desired direction. As organizations grow in numbers of key people, increased numbers of parts (i.e. functions, departments, and other sub-units) and increased complexity (i.e. market place needs or demands, economic

uncertainties, new technologies, etc.), they can only be controlled through management systems which enable employees to keep focused without the boss being ever present and ever directing. Goal setting is one of those management systems.

Setting Goals in Context

Definitions of context are a useful starting point to understand what is meant by setting goals in context. One definition states that context is "the parts of a conversation that surround a word and can throw light on its meaning." Another definition given is that context is "the interrelated conditions in which something exists". Let us take each of those definitions and explore how they help to understand goal setting.

We have already touched upon the importance of having an organization's mission connected to organization and sub-unit goals which are a link to individual objectives. In this way, individual effort is not dispersed; rather, it is focused in ways that provide for good **organization** performance and not just good **individual** performance. The first definition would suggest that individual targets can only be determined and

understood in the context of the larger organization's desired targets and directions. It is the larger organization's direction that "throws light" on what individuals should commit themselves to through their objectives. This is not to say that individuals necessarily take their organization or sub-unit goals and infer one or two individual objectives from each organizational goal, although that **could** be the case. In such an event, the need for organizational goals as a backdrop for individual objective setting is very clear.

It is often the case, however, that individuals simply **understand** their work problems, opportunities and priorities differently when they know the larger organization's goals. It is much like the figure-ground concept in Gestalt psychology. Perception and understanding of the "figure" or object of observation is altered by the "ground" or context in which it is seen. The glass may be half empty if seen in a pessimistic setting or half full if seen in an optimistic setting. The student's perception of a teacher in the classroom is altered when the teacher is seen sitting in the stands at a school ballgame. The figure hasn't changed - the ground or backdrop has changed, and that results in our seeing it differently. So it is with goal setting. Sometimes it is enough

to say that an individual manager's objectives will be different if set in the context of organization goals - anywhere from being rigidly determined by them to being subtly affected by them. Similarly, department goals are determined or affected by function goals or the goals of the next larger organization unit.

The second definition of context helps us understand goal setting because it focuses on "interrelatedness". When objective setting is not done in context, the work and output of individuals may not be related to others' needs or to the organization and, therefore, do not contribute to increased organization effectiveness. Similarly the work of sub-units of the organization may not contribute to increased organization effectiveness if sub-unit goals are not set in the context of the larger organization's goals.

This principle of understanding things in the context in which they occur is a fundamental principle in managing **any** organizational system and understanding **any** organizational behavior. Referring again to Kurt Lewin, he created a formula to both explain and remind us to **interpret** behavior only in the context in which it occurs. The formula is **B = f (p+e)** where Behavior is a Function of the Person plus the Environment.

Socially acceptable behavior in one culture may be very offensive in another. A Berkeley Resources colleague, Dr. Larney Gump, expressed it as follows in one of his papers: "He took off all his clothes" is interpreted differently if the sentence is completed with (a) "in the

privacy of his own bedroom", (b) "in the middle of a busy street" or (c) "as a stroke patient learning to care for himself."

The concept of events occurring in an **environment**, or a context, is the heart of "open systems theory" which helps us better understand organization behavior as well as management activities such as goal setting.

The Goal Setting "Sequence"

The word sequence in the heading of this section is in quotes because there **is** and **is not** a sequence to organizational goal setting. The "sequence" is neither top-down, nor is it bottom-up. In reality it is a series of back and forth iterations between levels of the organization, between people and between planning processes.

The "parts" involved in the goal setting system are diagrammed below, and most of those parts have already been discussed in a different context.

Mission of the Organization

Vision of the Organization

Strategic Plan (can be any time frame - often long range)

Organization Goals (usually in the time frame of an operating plan, i.e. fiscal year)

Function/Department Goals (operating plan time frame)

Individual Objectives (operating plan time frame)

Essentially, the top-down aspect of goal setting assumes that the mission or purpose of the organization sets the stage for developing a vision and a strategic plan for achieving and/or maintaining the mission and vision. The strategic plan is **usually** long range, but it is a mistake to assume that a long range plan is necessarily strategic or that

an operating plan is necessarily short range. The time frame alone does not determine if the plan is strategic or tactical/operational. Nonetheless, with clarity about the strategic direction, the organization can develop the operational plan or bite sized pieces of work which fit into a fiscal year and enable management to plan activities and allocate resources through budgeting to accomplish the work. The operating planning process requires organization wide goals which are the needed context for establishing sub-unit goals, which provide the needed context for establishing individual objectives. This is a cascading process which looks like a top-down sequence of events.

However, in reality the sequence is not so neat nor is it, in fact, linear from top to bottom. There is much interdependence between the pieces of this system, and each of the pieces looks to the other in order to obtain the information needed for decision making. For example, the longer range strategic plan cannot be rationally constructed in the absence of dealing with shorter range operating problems, even though it must provide the context for setting organizational goals in the operating plan. Suppose the organization needs to expend resources on a physical plant problem. Strategic planners

cannot commit the organization to use these resources for some other purpose or at least they must account for that very real operating problem before deciding upon the strategic commitments to be made that year. So, in reality, operating planners tell strategic planners the "facts" for the operating year and strategic planners do the same with operating planners. This affects the kinds of decisions each makes in his own arena even though they are separate plans. For example, the strategic planners may delay building a new facility by one year in order to free up funds for essential maintenance of current plant. And operating planners may choose to make repairs or plant changes but do so only in ways that prepare for a new facility as well as continue to use current ones on an interim basis..

The goal setting sequence is a series of back and forth iterations between the strategic plan and the operating plan in order to set goals for either one. The department managers have a similar back and forth dialogue with their bosses and the operating planners until goals are clarified at the next level and so on until bosses dialogue with their employees in setting individual objectives. Each needs the other's information

before either can set his objectives even though the objectives of a boss get fixed before those of a subordinate.

This is not as "neat" as a step by step sequence where each part of the system makes its decisions and announces them to the next part or level so that it can then spring into action and do the same. There definitely is a hierarchy. Each level in an organization should be able to "see" and understand things differently from the level below it (or it shouldn't exist!) In this way each level of an organization adds value to it. To ignore that value, i.e. to ignore the hierarchy, would be self defeating. However, it is not simply a linear, authoritative, top-down process. It is a process which requires a great deal of meeting, talking, thinking, setting tentative goals, meeting, talking, thinking, altering the first view of the goals, etc. before the goals are finally fixed.

Conclusion

The assumption behind this paper is that new understandings about some principles of goal setting will enhance participation in the direction setting process at both the organizational and individual levels. As your organization continues to grow in size

and complexity, increasingly sophisticated management systems are required to maintain coherence and control. As more of those management systems are installed, managers will be both better able and increasingly expected to manage through them.

For those who choose to explore the principles that underlie goal setting in more detail, some references are provided below.

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