

***Managerial and Leadership
Think-Work Functions***

***and
Associated Concepts and Practices***

Goal Setting

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GOAL SETTING

Basic Perspectives

Definitions

The terms “goals” and “objectives” are often used interchangeably. Here, however, we will use these definitions:

Objectives: broad aims or desired ends that continue year after year with little change. An organization’s long-term objectives should be expressed in its Mission Statement. (See **Exhibit J** on page GS-22.)

Example: “Achieve sufficient profit to finance organizational growth and to provide the resources needed to achieve its other objectives.”

Goals: (statements of) specific aims or desired ends. A particular goal statement is very specific as to the type of result desired, the magnitude of the result desired, and the time frame in which the result is to be achieved.

Example: “Decrease total operating (production) costs by \$100,000 (or by 5%) by the end of the fiscal year on December 31, 2012.”

Some management authors distinguish between “official” and “operative” goals or objectives.²³

Official goals/objectives: those that an organization professes publicly (in its Charter, annual reports, and public statements).

Operative goals/objectives: those that reflect the actual (versus professed) intentions of an organization.

Purposes/Benefits of Goal Setting

1. To influence groups’ and individuals’ attitudes, behavior, and performance in some preconceived, desired manner.
 - a. To goal-orient activities. Goals state what results are to be accomplished. They provide targets that help channel groups’ and individuals’ behavior in the right directions (toward desired ends or results that are functional for organizational success). Without having goals, people can tend to behave somewhat aimlessly and ineffectually.
 - b. To integrate activities. Formulating coordinated, mutually compatible, synergistic group and individual goals guides people’s behavior in the same direction(s), thereby helping them to perform in a concerted or team-oriented manner.
 - c. To establish standards of performance. Goals also state the desired level or magnitude of results. Thus, they provide guidelines as to how well groups and individuals are expected to perform.
 - d. To influence people’s motivation (and, therefore, level of effort). Several aspects of goal setting influence people’s motivation. Knowing what is being expected of them helps to increase their job satisfaction and morale—and, thus, their work motivation. Standards of performance (should) challenge groups and individuals to perform up to their potentials. People’s participation in the goal-setting process helps to increase their job satisfaction, morale, work motivation, and effort.
 - e. To prescribe constraints. Inasmuch as goals prescribe what should be done or accomplished, they also imply (if not prescribe) what should not be done or accomplished.
2. To provide a target or “end point” for planning purposes. Pinpointing the desired destination (point B) enables groups and individuals to formulate effective, efficient plans for getting from point A (where they are now) to point B (where they want to be). Unless point B is identified, there can be no real plan.
3. To establish legitimacy. Goals/objectives serve to justify an organization’s activities—not only to its personnel, but also to customers, suppliers, stockholders, and other parties.
4. To identify the end results at which organizing, staffing, and the guidance of activities will be aimed.

5. To establish bases for controlling operations. The control function involves reporting results, comparing actual results with planned results, evaluating results, and identifying problems and opportunities to improve operations.
6. To establish contexts and criteria for solving problems and making decisions during the time frame with which goals deal.

Types of Goals / Objectives In Terms of the Matters With Which They Deal

Goals and objectives can be categorized in a number of ways. They can, of course, be typed in terms of the time period they cover—e.g., long-range, intermediate-term, and short-term (annual). They can also be typed in terms of (a) the basic matters with which they deal, and (b) to whom and what they apply.

Note: From this point on, we will often use the word “goals” to refer to both goals and objectives.

Goals can deal with several basic or general matters, several more specific matters, and several additional matters.

General / Basic Matters

All goals deal with at least one of the following general or basic matters, each of which involves some sort of change:

- A. Solutions to problems — A solution-oriented goal states desired end results in a manner which describes the conditions that should exist once the problem has been solved. For example: A properly stated solution-oriented goal might say, “Increase sales to 10,000 units (or by 20%) by the end of the fiscal year on December 31, 20__.” This goal statement describes the specific end result brought about by solving a problem with languishing sales. An improper statement, “Solve the problem with sales,” may state a goal, but it does not describe specific end results. Goals involving solutions to problems may also involve improving or innovating something.
- B. Improvements to be made — Even where a significant problem does not exist, improvements can generally be made in factors that affect end results. Like solution-oriented goals, improvement-oriented goals essentially state desired end results in a manner which describes the conditions that should exist once the improvement has been made (e.g., some factor has been changed for the better or has been fine-tuned). Improvement goals can be considered “problem prevention goals.” Such goals may involve innovations.
- C. Innovations to be introduced — Similarly, innovation-oriented goals essentially state desired end results in a manner which describes the conditions that should exist once something new (e.g., some product, system, process, or procedure) has been successfully introduced, established, or implemented. Such goals generally reflect improvements and may help solve problems.
- D. On-going activities — In this case, goals state desired end results in a manner which describes the conditions that should exist when previously-planned programs/projects, activities, or procedures are continued.

Specific Matters

Many goals deal more specifically with the following matters, which can also involve some sort of change (resulting from a desire to solve or improve something):

- A. Performance — of the organization, a unit, or an individual
- B. Development — of the organization, a unit, or an individual
- C. Job satisfaction (and morale) — of the organization, a unit, or an individual

Performance, development, and satisfaction goals are highly interrelated, interdependent, and mutually reinforcing. Better individual and team development contribute to higher individual and team performance. Higher individual

and team performance contribute to higher job satisfaction and morale. Higher job satisfaction and morale contribute to better performance and development.

As we will discuss below, the goals written for individuals should include at least one of each of these three types of goals.

Other Matters

Some goals deal specifically with these matters, which also involve some sort of change (often due to improvements, solutions, or innovations):

- A. Structure — of the organization or its units
- B. Staffing — of the organization or its units
- C. Guidance of activities — of units and individuals
- D. Control of performance/results — of the organization, its units, or its personnel

Types of Goals / Objectives In Terms of to Whom and to What They Apply

Below are three broad types of goals: organizational; unit; and individual. Each broad type can be broken down into more specific types.

Organizational Goals

Peter Drucker²⁴ once identified eight Key Results Areas in which organizational goals should be written: profitability; market standing; innovation; productivity; physical and financial resources; managerial performance and development; worker performance and development; and social responsibility. We have organized his list into the two groups below: operating/performance goals and resources/structural goals. We have also provided examples of each type of goal.

Note: The time frames of the sample goals can cover the coming fiscal year (for annual goal-setting and planning purposes), or they can cover five, ten, or more years (for strategic/long-range goal-setting and planning purposes).

Organizational/Corporate Operating/Performance Goals

These deal with the performance of (or end results to be achieved by) the organization as a whole.

A. (Organizational) Profitability (or other “bottom line”) Goals — *Examples:*

- * Increase after-tax profitability to \$X (or by Y%) by the end of fiscal year 20__.
- * Achieve an X% pre-tax rate of return on investment by the end of fiscal 20__.
- * Achieve a 100% student pass rate by the end of fiscal 20__.

B. (Organizational) Market Standing/Performance Goals — *Examples:*

- * Increase total units sold to X units (or by Y%) by the end of fiscal year 20__.
- * Increase total sales revenue to \$X (or by Y%) by the end of fiscal 20__.
- * Increase market share from X% to Y% (or by Z%) by the end of fiscal 20__.
- * Increase sales to (a specific market segment) to X units (or by Y%) by the end of fiscal 20__.

C. (Organizational) Innovation Goals — *Examples:*

- * Achieve technological leadership in the industry by the end of fiscal year 20__.
- * Derive X% of total sales from new products by the end of fiscal 20__.
- * Fully develop X number of new products by the end of fiscal 20__.
- * Fully adopt technology Z by the end of fiscal 20__.

D. (Organizational) Productivity Goals (which deal with various measures of operational or productive effectiveness, efficiency, and cost-effectiveness) — *Examples:*

- * Increase annual unit output to X units (or by Y%) by the end of fiscal year 20__.
- * Decrease production costs per unit to \$X (or by Y%) by the end of fiscal 20__.
- * Decrease employment costs as a percent of total product/service costs to Z% by the end of fiscal 20__.
- * Achieve a defect/reject rate of X% by the end of fiscal 20__.

E. **(Organizational) Social Responsibility Goals**

(which deal with organizational activities and practices that benefit the community and/or society as a whole)

— *Examples:*

- * Become and remain a 100% contributor to the United Fund through fiscal year 20__.
- * Sponsor three community projects each year through fiscal 20__.
- * Increase employment of the handicapped and disadvantaged to X% of the workforce by the end of fiscal 20__.

Organizational/Corporate Resources/Structural Goals

These deal with the resources, structures, and systems necessary to conduct and sustain planned operations. Thus, they can be considered supporting or subsidiary goals.

A. **(Organizational) Physical Resources (Facilities/Equipment) Goals** — *Examples:*

- * Increase production capacity to X units per year by the end of fiscal 20__.
- * Increase plant space (or office or warehouse space) by X,000 square feet by the end of fiscal 20__.
- * Establish new sales offices/outlets (or manufacturing/service facilities) at five new locations by the end of fiscal 20__.
- * Install a new production process (and associated equipment) by the end of fiscal 20__.
- * Install an up-to-date computer system by the end of fiscal 20__.

B. **(Organizational) Structural/Systems Goals** (which deal with these areas: an organization's formal and informal structures; management systems; and managerial approaches and practices, which affect how well an organizational structure works) — *Examples:*

- * Establish three decentralized profit center divisions by the end of fiscal year 20__.
- * Integrate departments X and Y by the end of fiscal 20__.
- * Establish a new incentive/evaluation/compensation system (or a new goal-setting/planning/budgeting system) by the end of fiscal 20__.
- * Establish participative/team management practices by the end of fiscal 20__.

C. **(Organizational) Human Resources Goals** (which deal with organizational composition and staffing; management performance, development, and attitudes; workforce performance, development, and attitudes; and employees' welfare) — *Examples:*

- * Increase organizational staffing by X employees (or by Y%) by the end of fiscal 20__.
- * Increase handicapped/disadvantaged/female/minority employment to X% of all personnel by the end of fiscal year 20__.
- * Increase managers'/supervisors' technical and managerial training time to X hours per year by the end of fiscal 20__.
- * Certify 100% of technicians by the end of fiscal 20__.
- * Increase/reduce managerial/supervisory staff by X% by the end of fiscal 20__.
- * Increase personnel's technical/professional training to X hours per year by the end of fiscal 20__.
- * Reduce employee turnover to X% by the end of fiscal year 20__.
- * Reduce employee absenteeism (or tardiness) by Y% by the end of fiscal 20__.
- * Increase employee benefit programs by \$X (or Y%) by the end of fiscal 20__.

D. **(Organizational) Financial Goals** (which deal with assets, liabilities, cash flows, stock, shareholders, and other financial matters) — *Examples:*

- * Increase the inventory turnover rate by X times by the end of fiscal year 20__.
- * Increase working capital by \$X (or by Y%) by the end of fiscal 20__.
- * Reduce total outstanding debt to \$X (or by Y%) by the end of fiscal 20__.
- * Increase the price/earnings ratio (of stock) to X:1 by the end of fiscal 20__.

- * Increase the earnings per share (of stock) by X% by the end of fiscal 20__.
- * Increase the dividend payout rate by \$X per share by the end of fiscal 20__.

Perspectives on Performance Goals Established for an Entire Organization/Corporation:

- a. The most common organizational goals revolve around profitability, growth, and market share. Following close behind are goals that revolve around product or service quality, employee welfare, and social responsibility.²⁵
- b. Virtually all organizations have goals that conflict to some extent. An example is the conflict between profitability and growth in sales. Sales can be increased by lowering prices and outselling the competition. However, lowering prices can also reduce profit margins—and even total profitability (if unit sales do not increase substantially).

Perspectives on Goal-Setting Methodology at the Organizational/Corporate Level:

In general, goal-setting—especially in business organizations—should revolve around competitive (market) considerations and market-related goals.

- a. Strategic/Long-Range Goal Setting: The statement above particularly applies to this type of goal-setting. While “primary” goals normally deal with bottom line business concerns such as profitability, strategic market-related goals should generally be the bases for formulating long-range goals in the other areas (innovation, production/operations, facilities, structure, human resources, and finances). The reasons: First, strategic market-related goals are meant to take account of long-term opportunities and conditions in the marketplace. In most cases, these factors are the major influences on an organization’s long-term viability, successfulness, and profitability. Second, while factors relating to the other areas definitely affect an organization’s successfulness in the marketplace, they are variable over the long term. In other words, given sufficient time, they can (and should) be influenced or modified in ways that help to (a) take advantage of market opportunities, (b) respond to competitive conditions, (c) support marketing efforts, and (d) minimize constraints on marketing efforts.

Therefore, the “standard” strategic goal-setting approach is to (1) determine what may be possible to achieve in the marketplace over the long term (in terms of sales); (2) formulate profitability (or other bottom line) goals; (3) translate those goals into market-related goals; and then, based on market-related goals, (4) formulate other operational goals and resources/structural goals that will support organizational activities in the marketplace.

It should be noted that this “standard approach” has not always been taken by many organizations in capital-intensive industries. Because of the large capital expenditures required to install technologically up-to-date, large-scale, efficient production facilities and equipment, there has been a tendency to formulate profitability and production-related goals first, and then formulate market-related and other types of goals. This approach more or less amounts to letting “the tail wag the dog.” As a result of not putting greater emphasis on market-related factors and market-oriented goals, many organizations in capital-intensive industries have experienced (a) declining sales (in the face of stiff price competition from foreign firms and domestic start-ups), (b) excess capacity, (c) rising costs, and (d) declining profits.

- b. Short-Term (Annual) Goal Setting: In general, the standard approach should also be applied during annual goal setting. It must be acknowledged, however, that there are often short-term problems/constraints in innovation, production, facilities, human resources, and financial areas that prompt management to formulate goals in one of these areas first, and then use them as the bases for formulating market-related and other goals. (This practice is not necessarily dysfunctional if the various goals are formulated within the context of more market-oriented strategic goals.) For example: A short-term decrease in the price of an organization’s stock may prompt management to set short-term financial goals that involve increasing earnings per share and maintaining the current dividend payout rate, and then base the formulation of market-related and other goals on those goals. Similarly, a short-term excess in production capacity may prompt management to formulate production-related goals first, and then base the formulation of market-related and other goals on those goals. (One market-related goal might be to

sell all that the organization can produce—which could be an unrealistic goal.)

The chances of deviating from the standard approach during annual goal setting are increased when an organization has not previously set strategic/long-range goals (based on market considerations). Without having longer-range goals to (a) serve as contexts for formulating short-term goals/plans, and (b) guide activities over time, an organization is more likely to find itself confronted with market, innovation, production, facilities, structural, human resources, and financial problems or constraints.

Figure 7-A on page PP-4 illustrates a common organizational goal-setting scenario — for both strategic and short-term goal setting at the organizational level.

1. As shown by the solid bold arrow in the top panel, the primary or overall organizational operating goals (such as profitability and ROI) initially “drive” the formulation of market-related goals. For example: In order to meet a particular profitability goal, market-related goals might include: “Increase total sales revenues to \$X (or by Y%)”; and “Increase market share by X%.”

As shown by the dashed bold arrows, the overall operating goals may also drive the formulation of certain other operating goals. For example: In order to reduce costs (and thereby help to increase profits), a major production-related goal might be: “Decrease unit costs by \$X (or Y%).”

As shown by the single dashed bold arrow from overall operating goals to financial goals, certain financial goals may be directly influenced by, for example, profitability and return on investment (ROI) goals. However, especially within the context of annual goal setting, financial goals involving earnings per share, dividends, and the (stock) price/earnings may affect the formulation of a profitability goal.

2. As shown by the light arrows in the upper middle portion of the same panel, market-oriented goals largely drive the formulation of operating goals in other areas. For example:
 - a. So that an appropriate product mix will help stimulate sales and increase market share, an

innovation goal might be: “Develop X number of new products.”

- b. So that the desired volume can be sold at a competitive unit price, two production-related goals might be: “Increase total unit output to X units (or by Y%)”; and “Reduce unit cost to \$X (or by Y%).”

The light dashed arrow from market-related goals to social responsibility goals indicates that profit motives as well as altruistic motives may be involved in the formulation of social responsibility goals. In the view of some top managers, socially beneficial activities should help pay for themselves by enhancing an organization’s public relations image and helping to increase sales.

Note that the light arrows in the upper middle area of the panel also point from other operating goals to each other. These arrows indicate the following: that innovation goals can affect the formulation of production-related goals and market-related goals; and that production-related goals can affect the formulation of innovation and market-related goals. It is always advisable to make sure that operating goals support, and are compatible with, each other. For example: Especially in the short term, an organization would probably not set a sales volume goal that exceeded its ability to expand productive capacity during the year and produce at that level—unless perhaps it intended to reduce inventory and/or purchase additional units for resale.

3. As shown by light arrows in the lower middle portion of the panel, market-related, innovation, production-related, and social responsibility goals together drive the formulation of resources/structural goals. For example:
 - a. So that there are the necessary facilities and machines to meet market-related, production, and innovation goals, facilities goals might include: “Establish five additional sales/distribution facilities”; “Increase production capacity to X units per year”; and “Install Y-type R&D equipment.”
 - b. So that these various operating goals can be met, structural/systems goals might include: “Create two new product divisions”; and “Es-

establish a decentralized profit center structure.”

- c. So that market-related, production, innovation, and social goals can be met, human resources goals might include: “Increase the number of personnel in the marketing, production, and R&D areas by X%”; “Increase technical/professional training of personnel to 50 hours per year”; and “Increase the percentage of disadvantaged, handicapped, female, and/or minority personnel by X%.”
4. As shown by light arrows in the lowest portion of the panel, goals in all of the previously mentioned areas influence the formulation of financial goals—especially those relating to sources and uses of funds. [While certain financial goals are formulated during the organizational goal-setting process, those relating to sources and uses of funds tend to be “tentatively formulated” during the goal-setting process, but “finalized” following the budgeting process. It is during the budgeting process that (a) (sales) revenues, operating costs, and capital expenditures are projected (based on programs and projects), and (b) (additional) funding requirements can be identified.]

For example: So that facilities goals (which require capital expenditures) can be met, human resources goals (which involve payroll expenses) can be met, and operations in all areas can be funded, financial goals might include: “Reduce inventories by \$X” (in order to free up funds); “Increase working capital by \$X”; and/or “Increase long-term debt by, and/or sell shares of stock in the amount of, \$X” (in order to procure additional funds).

Unit and Sub-Unit Goals (Functional Goals)

Since most organizations are structured into units or departments that perform specialized functions (e.g., marketing, production, finance), these are commonly called “functional goals.”

- * Unit/sub-unit goals should all be based on organizational goals.

- * In organizations that use the top-down/bottom-up goal-setting and planning approach described on pages PP-8 to PP-11, these goals are not fully developed by units and their sub-units until after organizational goals (and supporting organizational plans, budgets, and policies/procedures/rules) have all been . . .

1. tentatively formulated for the organization as a whole; and
2. translated into guideline goals (and supporting plans, budgets, and policies/procedures/rules) for the appropriate units or responsibility centers [who revise and fully develop them into more detailed, unit-specific goals (and plans)].

- * While it is recommended that such goals be formulated for the long term, it is most highly recommended that they at least be formulated for the short term (for the coming year).

- * As we discuss these goals, we will be referring to **Figure 7-B**, page PP-5, and **Figure 8**, page PP-6.

Unit/Sub-Unit (Functional) Operating Goals

Whether they are line units (operating units such as the marketing and production/service departments) or staff units (such as the finance and human resources departments), all units should have operating goals.

- * Unit/sub-unit operating goals normally emphasize performance goals. However, as indicated in **Figure 7-B** by the letters “P,” “I,” and “SR” underneath the departmental boxes, they can include innovation goals and social responsibility goals.

A. Unit/Sub-Unit Performance/Productivity Goals:

These goals deal with the effectiveness and efficiency of units’ and sub-units’ performance or productivity with respect to their primary specialized functions and responsibilities. The effectiveness of their performance revolves around the quality of their outputs or results. The efficiency of their performance revolves around the quantity of their outputs or results.

As shown in Figure 7-B, several units’ performance goals are based on (derived from) organizational operating goals. *For example:*

1. Marketing Department Performance Goals: In most organizations, organizational market-related goals are made the responsibilities of the marketing or sales department.

- a. As indicated by the light arrows in Figure 7-B, these goals should not only be influenced by guideline translations of an organization's market-related goals, but should also be influenced by and coordinated with the unit-specific performance goals being developed in other major units.
- b. As indicated by the bold, downward-pointing arrows in Figure 7-B, the marketing department's performance goals will be translated into marketing (department) strategies/tactics, programs/projects, budgets, and policies/procedures/rules.
- c. In turn, as shown in Figure 8, these goals (and plans) will be translated into guideline goals (and plans) for sub-units such as the advertising and sales departments.

2. Production/Service Department Performance Goals: While organizational productivity goals involving operational effectiveness and efficiency are generally incorporated into all units' and sub-units' performance or productivity goals, the more production- or service-oriented productivity goals are usually made the responsibilities of the production, operations, manufacturing, or service department. The following points apply to the latter goals:

- a. As indicated by the light arrows in Figure 7-B, these goals should not only be influenced by guideline translations of an organization's production-related goals, but should also be influenced by and coordinated with the unit-specific productivity goals being developed in other major units.
- b. As indicated by the bold, downward-pointing arrows in Figure 7-B, the production or service department performance goals will be translated into production/ service (department) strategies/tactics, programs/projects, budgets, and policies/procedures/rules.
- c. In turn, as shown in Figure 8, these goals (and plans) will be translated into guideline goals (and plans) for sub-units such as the purchasing, engineering, maintenance, production, warehousing, shipping, and service departments.

3. Research and Development (R&D) Department Performance Goals: While organizational innovation goals involving new/improved methods and procedures are often incorporated into various units' performance goals, those involving pure and applied research and the development of new technologies, products, and processes are generally made the responsibilities of the R&D department.

- a. As indicated by the light arrows in Figure 7-B, these goals should not only be influenced by guideline translations of an organization's innovation goals, but should also be influenced by and coordinated with the unit-specific innovation goals being developed in other major units.
- b. As indicated by the bold, downward-pointing arrows in Figure 7-B, the R&D department performance goals will be translated into R&D (department) strategies/tactics, programs/projects, budgets, and policies/procedures/rules.
- c. In turn, as shown in Figure 8, these goals (and plans) will be translated into guideline goals (and plans) for sub-units such as the pure research, applied research, product research, and product development departments.

4. Practices vary with respect to Social Responsibility Goals. In some organizations, organizational social responsibility goals are simply made the responsibilities of the personnel or human resources department. In others, they are divided among units, with community service and fund-raising goals being incorporated into all units' operating goals, and with socially-beneficial staffing goals being made the responsibilities of the human resources department. In still other organizations, all types of organizational social responsibility goals are made the responsibilities of all units.

As also shown in Figure 7-B, several other units' performance goals are based on (derived from) organizational resources/structural goals. For example:

5. Practices also vary with respect to Organizational Facilities/Equipment Goals. In some organizations, these goals are simply made the responsibilities of the engineering department. In others, they are divided among two units, with those involving facilities/equipment design being made the responsibilities of the engineering department, and those involving facilities/equipment procurement being made the responsibilities of the purchasing department. In still other organizations, organizational facilities/equipment goals are translated into guideline facilities/equipment goals for the particular units to which they apply, giving the individual units overall responsibilities for coordinating activities involving design, procurement, and installation of their facilities and equipment.

6. **Human Resources (or Personnel) Department Performance Goals:** In some organizations, organizational human resources goals are translated into guideline human resources goals for each major unit. Later in the goal-setting and planning process, units' human resources goals may be consolidated, and the human resources department may be given responsibilities for coordinating and administering consolidated human resources goals (and plans, budgets, and policies/procedures/rules). In many other organizations (especially smaller organizations), organizational human resources goals are simply made the responsibilities of the human resources department (i.e., they are made that department's guideline operating/performance goals). The following points apply to the latter case:

- a. As indicated by the light arrows in Figure 7-B, the human resources department's goals should not only be influenced by guideline translations of organizational human resources goals, but should also be influenced by and coordinated with any unit-specific human resources goals being developed in other major units.
- b. As indicated by the bold, downward-pointing arrows in Figure 7-B, the human resources department performance goals will be translated into human resources (department) strategies/tactics, programs/projects, budgets, and policies/procedures/rules.
- c. In turn, as shown in Figure 8, these goals (and plans) will be translated into guideline goals (and plans) for sub-units such as the employment, compensation/benefits, training/development, and labor relations departments.

7. **Finance Department Performance Goals:** In most organizations, organizational financial goals are essentially made the responsibilities of the finance department.

- a. As indicated by the light arrows in Figure 7-B, these goals should be influenced not only by guideline translations of organizational financial goals, but also by any unit-specific, finance-related goals being developed in other units.
- b. As indicated by the bold, downward-pointing arrows in Figure 7-B, the financial department performance goals will be translated into financial (department) strategies/tactics, programs/projects, budgets, and policies/procedures/rules.
- c. In turn, as shown in Figure 8, these goals (and plans) will be translated into guideline goals (and plans) for sub-units such as the accounting and data processing departments.

- B. **Unit/Sub-Unit Innovation Goals:** As mentioned above, units and sub-units may be made responsible for certain organizational innovation goals. In some organizations, they may develop their own more detailed and unit-specific innovation goals (based on guideline translations of organizational innovation goals and other unit performance goals).
- C. **Unit/Sub-Unit Social Responsibility Goals:** As mentioned above, units and sub-units may be made responsible for certain organizational social responsibility goals. In some organizations, they may develop their own more detailed and unit-specific social responsibility goals (based on guideline translations of organizational social responsibility goals and other unit performance goals).

Unit/Sub-Unit Resources/Structural Goals

Especially in the more sophisticated organizations that emphasize (a) involving lower levels in goal-setting and planning processes, and (b) making units responsible for planning and controlling their usage of resources, units and sub-units are encouraged to develop their own more detailed and unit-specific goals concerning resources and structure.

- * Figures 7-B and 8 illustrate the basic methodologies and processes utilized by such organizations. Unit/sub-unit goals in the areas of facilities/equipment, structure/systems, human resources, and finances are denoted in Figure 7-B by the letters "FE," "SS," "HR," and "F" beneath the departmental boxes.

The following scenarios apply in these situations:

A. Unit/Sub-Unit Physical Resources (Facilities/Equipment) Goals:

1. Organizational facilities/equipment goals are grouped by the functional areas to which they apply (e.g., marketing facilities/equipment, R&D facilities/equipment, and production facilities/equipment).
2. They are then translated into guideline facilities/equipment goals for the functional areas (units/sub-units) to which they apply.
3. The units and sub-units revise and further develop the guideline facilities/equipment goals for their areas into more detailed and unit-specific facilities/

equipment goals. (These efforts may be assisted by the engineering and purchasing departments.)

4. Toward the end of the goal-setting and planning process, units' and sub-units' facilities/equipment goals may be consolidated, coordinated, and revised in order to develop, for example, overall organizational engineering, procurement, and construction goals.
5. Following the goal-setting and planning process:
 - a. Overall responsibility for achieving unit-specific facilities/equipment goals is assigned to the individual units (and sub-units).
 - b. The engineering and purchasing departments may be made responsible for consolidated organizational facilities/equipment goals in the areas of facilities/equipment design and procurement.

B. Unit/Sub-Unit Structural/Systems Goals:

1. Organizational structural/systems goals are translated into compatible, coordinated guideline structural/systems goals for the particular units/sub-units to which they apply.
2. The units and sub-units revise and further develop the guideline goals for their areas into more detailed and unit-specific structural/systems goals. (These efforts may be assisted and coordinated by upper management.)
3. Toward the end of the goal-setting and planning process, units' and sub-units' structural/systems goals are consolidated, coordinated, and revised in order to assure that they (a) are compatible, and (b) will enable effective, efficient, systemic vertical and horizontal integration of activities throughout the organization.
4. Following the goal-setting and planning process:
 - a. Overall responsibility for achieving organization-wide or systemic organizational structural/systems goals is assigned to top management.
 - b. Responsibilities for achieving certain unit-specific structural/systems goals and certain aspects of organization-wide/systemic structural/systems goals is assigned to managers of units and sub-units.

C. Unit/Sub-Unit Human Resources Goals:

1. Organizational human resources goals are translated into guideline human resources goals for the areas (units/sub-units) to which they apply.
2. The units and sub-units revise and further develop the guideline human resources goals for their areas into more detailed and unit-specific human resources goals. (These efforts may be assisted by the human resources department.)
3. Toward the end of the goal-setting and planning process, units'/sub-units' human resources goals may be consolidated, coordinated, and revised in order to (a) make certain that they are compatible, and (b) develop consolidated organizational human resources goals in areas such as recruiting employees and organization-wide training.
4. Following the goal-setting and planning process:
 - a. Overall responsibility for achieving unit- and sub-unit-specific human resources goals is assigned to the appropriate units and sub-units.
 - b. Responsibilities for organizational human resources goals in areas such as recruiting and training will usually be assigned to the human resources department.

D. Unit/Sub-Unit Financial Goals:

In smaller organizations, units and sub-units generally do not have their own unit-specific financial goals. However, in large organizations such as General Motors, the large (profit center) divisions do have their own profitability and financial goals.

Because an organization, its units, and its sub-units can all have the same types of goals, personnel often become confused when someone simply says "organizational goals," "facilities goals," or "unit goals." Therefore, to avoid confusion, individuals should name goals clearly, specifying (1) the level, unit, or sub-unit first, and then (2) the type of goal(s). For example, one should say, "Production department human resources goals" in order to distinguish them from . . .

Production department performance/productivity goals
 Organizational human resources goals
 Marketing department human resources goals
 Maintenance department human resources goals

Here we have made a number of generalizations concerning which units are made responsible for which goals. The discussion has been complicated by the fact that units' functions can differ from industry to industry and organization to organization. One key to effective goal setting is to clarify the functions for which each unit and sub-unit is responsible, and then assign goals to units and sub-units based on their functions. A final generalization: Which units are made responsible for which aspects of organizational goals is usually influenced by factors such as these: (a) organizational size; (b) organizational structure (i.e., the specific functions of specialized units and sub-units); (c) the approach to goal setting and planning being used by the organization; and (d) managers' levels of sophistication.

Individual Goals

Individual goals should be written in all three of these major areas: performance/productivity; development; and satisfaction.

As illustrated in **Figure 8** on page PP-6 and mentioned in Step 18 on page PP-9, the formulation of individuals' goals should be based on the goals (and plans) formulated at the next higher level.

Individual Performance Goals

These essentially deal with increasing/improving the quality and/or quantity of an individual's outputs or results. While they can revolve around a worker's, salesperson's, clerk's, or other specialized individual's outputs or results, they can also involve a manager's or supervisor's technical/professional and managerial/supervisory performance or results. *Examples:*

- * Increase (your) total annual sales to X units (or to \$X or by Y%) for fiscal year 20__.
- * Increase (your) total annual number of units produced to X units (or by Y%) in 20__.
- * Decrease (your) average monthly output rejection rate to X Units during fiscal 20__.
- * Reduce (your) clerical mistakes by X% during fiscal 20__.
- * Reduce (your unit's) total annual operating expenses to \$X (or by Y%) in fiscal 20__.

Individual Development Goals

These essentially deal with developing (increasing/improving) an individual's (a) technical/professional knowledge, skills, and experience, and/or (b) managerial/supervisory knowledge, integrative and interpersonal skills, and experience—so that the individual will become fully capable of attaining his/her performance goals. *Examples:*

- * Increase (your) formal technical training to 5 hours per month during fiscal 20__.
- * Increase (your) formal managerial/supervisory training to a total of 10 days during fiscal 20__.
- * Receive (your) technical/professional certification or license by the end of fiscal 20__.

Individual Satisfaction Goals

These essentially deal with increasing or improving an individual's job satisfaction (job-related attitudes and morale). *Examples:*

- * Originate at least two ideas per month concerning ways to improve (your) job performance and working conditions (during fiscal 20__).
- * Win the organization's 20__ outstanding performance/achievement award.

See **Table 3** (page GS-13) and **Exhibit I** (page GS-14) for additional examples.

Individuals should have a total of about five to seven goals: Three to five goals should deal with the individual's performance or productivity. Of these, one or two should deal with the quality of outputs or results, and one or two should deal with the quantity of outputs or results. At least one goal should be written for each of the other two areas—job-related personal development and job-related personal satisfaction.

In general, the performance, development, and satisfaction goals established for a unit or sub-unit become the performance goals of the unit/sub-unit manager (or supervisor). In addition to these goals, a unit or sub-unit manager (or supervisor) should have at least one (personal) development goal and one (personal) job satisfaction goal.

Again, individual performance, development, and satisfaction goals are all interrelated, interdependent, and mutually reinforcing. All three contribute to each of the others.

Individual goals should be formulated with individuals — not for them. Their participation in the goal-setting process (a) improves the quality of their goals, (b) increases their job satisfaction and work motivation, and (c) increases their commitment to goals.

In all organizations, performance, development, and satisfaction goals should be formulated with individuals for the short term (the coming year). Although most organizations do not conduct long-range goal setting for individuals, it is nonetheless advisable for an organization to formulate such goals for a period of two to five years. Intermediate- and long-term performance, development, and satisfaction are significantly influenced by short- and intermediate-term performance, development, and satisfaction.

Formulating Effective Goals

Properly Stating Goals

Since goals have extremely important influences on people's motivation and behavior, they should be (a) stated properly, and (b) stated in written form. Improperly stated goals often influence groups and individuals to behave in dysfunctional or undesirable ways. Unwritten goals tend to be vague and ambiguous. It is necessary to write down goals in order to clarify them, state them properly, and make them understandable.

The Three Basic Elements of A Well-Written Goal

A well-written goal explicitly states the specific results desired in terms of three basic elements: a performance parameter; a performance standard; and a time frame.

1. An Appropriate Performance (End Result) Parameter, Criterion, or "Measurement Yardstick"

In most cases, an organizational, unit, or individual performance goal should be written around some factor that is key to the organization's, unit's, or individual's success (a "key element of success").

Performance parameters can be either quantitative or qualitative.

- a. Quantitative parameters involve numbers and are readily subject to measurement.

Examples: the number or dollar value of sales; units of output per year/hour; total operating costs; cost per unit of output; number of service calls; number of client cases processed; return on investment; dollar amount of orders per sales call; hours of employee absenteeism; training hours successfully completed; employee turnover rate

- b. Qualitative parameters do not involve numbers and require subjective evaluation.

Examples: employee satisfaction and morale; customer satisfaction; organizational reputation; severity of customer complaints

Since qualitative parameters are difficult to measure and evaluate, individuals often choose to use quantitative parameters that provide an indication of subjective results. For example, instead of using "employee job satisfaction," a manager might use one or more of these quantitative indicators of employee satisfaction and morale: absenteeism rate; tardiness rate; and/or turnover rate.

Additional examples of organizational and unit performance parameters are provided in **Table 3** (GS-13).

2. The Desired Performance Standard, Level of Results, or "Benchmark on the Yardstick"

This part of a goal statement specifies the exact number, dollar value, or percentage increase or decrease desired.

Examples of these alternative ways to word a performance standard are provided in **Exhibit I** (GS-14).

3. The Time Frame

This states the period of time in which the desired results are to be achieved—i.e., the specific day, month, and year by which or during which the desired results are to be achieved.

See **Exhibit I** for several ways to word a time frame.

Table 3: Examples of Organizational and Unit Performance Parameters (Criteria/"Yardsticks")

TYPES OF ORGANIZATIONS	Quantitative Parameters	Qualitative Parameters
All organizations	Total operating costs (or expenses) Assets and liabilities Growth rate (size, sales, output) Units' or personnel's quantifiable outputs	Organization's reputation; Customer attitudes; Employees' attitudes
Profit-making organizations	Total sales (\$ or #) Market share (%) Profit (before and/or after tax) Net worth (retained earnings) Return on investment	
Product-oriented	Production volume (# units) Increase in units of output (# or %)	
Service-oriented	Amount of services sold (# or \$) Increase in service capacity (# or %)	
Non-profit organizations	Value of Services (\$) Amount of services delivered (# or \$) Total revenues (\$ income, grants, gifts)	
TYPES OF UNITS		
All types of units	Total operating costs (\$) Operating improvements recommended (#) Operating improvements approved (#) Recommendations approved (%) Personnel receiving training (#) Training hours (#) Personnel improving performance (# or %) Absenteeism, tardiness, turnover rates Absenteeism, tardiness, turnover costs Increase or decrease in the above (%)	Attitudes of other units toward unit Personnel's attitudes
Clerical or accounting	Reports or cases processed (#) Backlog of reports or cases (#) Processing time per report or case Reports completed on time (# or %) Errorless reports/cases completed (# or %) Filing or clerical errors (#) Increase or decrease in the above (%)	
Sales	Total sales (\$ or units) Sales Calls (#) Sales or orders per call (\$ or #) Cost of sales (total \$ or \$ per unit) Cost per sale, order, or call (\$) Orders filled correctly (# or %) Orders filled on time (# or %) Customer complaints (#) Increase or decrease in the above (%)	Severity of customer complaints Customer attitudes
Production (For service-providing units, one might replace "units output" with "service calls")	Total Units Output Workhours per unit produced or sold Costs of payroll, materials, maintenance, equipment replacement (\$) Costs per unit (total, payroll, materials) (\$) Units of backlog (#) Rejection rate (%) Cost of materials waste (\$) Product life Units returned for exchange or repair (#, %) Customer Complaints (#) Increase or decrease in the above (%)	Severity of customer complaints

Exhibit I: Examples of Properly Stated (Annual) Goals

- [] Bracketed phrases denote the three elements of a goal, and are not actually included in goal statements. They are used here for instructional purposes.
- () Phrases bound by parentheses may be used to establish reference numbers for greater clarity -- for example, this year's performance benchmark compared to last year's.

FOR:**PERFORMANCE GOALS**

- | | |
|------------|---|
| Org/unit | * Increase total annual sales [the parameter] by 10% (from 10,000 to |
| Unit mgr. | 11,000 units) [the benchmark or performance standard] for the Fiscal Year |
| Individual | ending on December 31, 20__ [the time period]. |
| Org/unit | * Increase the total annual number of units produced [the yardstick] |
| Unit mgr. | by 10% (from 5,000 to 5,500 units) [the benchmark or performance |
| Individual | standard] during the coming Fiscal Year, 20__ [the time frame]. |
| Org/unit | * Reduce total annual operating expenses [the parameter] to \$95,000 |
| Unit mgr. | (from \$100,000, or by 5%) [the benchmark or performance standard] for |
| | the Year ending December 31, 20__ [the time period]. |
| Unit | * Increase the average annual dollar amount of orders per sales call |
| Unit mgr. | [the criterion] by 10% (from \$2,000 to \$2,200) [the benchmark or |
| Individual | performance standard] for FY 20__ [the time frame]. |

FINANCIAL, FACILITIES, AND HUMAN RESOURCES GOALS

- | | |
|-----------|--|
| Org/unit | * Increase working capital [the parameter] to \$96,000 (from \$80,000, or |
| Unit mgr. | by 20%) [the benchmark or performance standard] by the Fiscal Year's |
| | end on December 31, 20__ [the time period]. |
| Org/unit | * Increase annual plant/production capacity [the yardstick] to 88,000 |
| Unit mgr. | units (from 80,000 units, or by 10%) [the benchmark of performance |
| | standard] by Year's end on December 31, 20__ [the time period]. |
| Org/unit | * Increase the total workforce [the parameter] by 10% (from 500 to |
| Unit mgr. | 550) [the benchmark] by the end of Fiscal 20__ [the time period]. |

DEVELOPMENT & SATISFACTION GOALS (Types of Human Res.Goals)

- | | |
|------------|---|
| Org/unit | * Increase formal training hours in {some specified area} [the yardstick] |
| Unit mgr. | to 5 per month (from 2 per month) [the benchmark or performance stand- |
| Individual | ard] during each of the next 12 months of Fiscal 20__ [the time frame]. |
| Org/unit | * Obtain/receive professional certification [the criterion] for 50% of person- |
| Unit mgr. | nel (up by 100% from 25%) [the benchmark or performance standard] |
| | during Fiscal 20__ [the time frame]. |
| Org/unit | * Reduce the average monthly grievance—or absenteeism, tardiness, |
| Unit mgr. | or turnover—rate [the yardstick] by 50% (from 10 per month to 5 per |
| | month) [the benchmark] during all twelve months of Fiscal 20__ [the time |
| | frame]. |

Other Characteristics of a Well-Written Goal

A well-written goal has several other important characteristics.

1. It begins with an action verb — e.g., increase, decrease, achieve, derive, develop, or modify.
2. It does, in fact, state the desired end result — not simply the completion of some activity.

Especially in bureaucratic organizations, we often find people writing organizational, unit, and individual performance goals that can more accurately be called “organizational/administrative” or “housekeeping” goals. They may say, for example: “Revise all job descriptions by (a specific date);” “Restructure the (unit) by (a given date);” or “Revise the policies and procedures manual by (a particular date).” Such statements, while specifying some result, do not really specify the end results that the activities involved are meant to help accomplish. Therefore, these goals should either be (a) included among organizational goals, or (b) treated as projects, which are normally outlined during a later stage of the planning process (i.e., the planning stage, in which goals are translated into programs, projects, and plans of action for achieving end results).

We also see performance goals that are essentially job descriptions rather than statements of desired end results. These specify what a group or individual is to do—not what the group or individual is to accomplish or achieve.

3. It is specific, simply stated, and clear — and is therefore easily understood by the persons or person to whom it applies.
4. It does not explain “why.” An explanation should not be necessary if the group or individual to whom the goal applies has participated in its formulation.
5. It does not specify “how” the goal is to be achieved. It leaves the “how to” to the group or individual to whom it applies. This encourages and enables the individual(s) to plan and be creative and resourceful.
6. It makes use of a quantitative parameter when possible—so that performance can be more easily measured and effectively evaluated by both the organization and the individual(s).

7. It expresses the performance parameter in dollar terms (when appropriate). Dollars are a “common, bottom-line denominator”—especially in business organizations.

Examples of properly written goals, which have the three necessary elements and other characteristics mentioned above, are provided in **Exhibit I**.

Analytic Considerations in Formulating Effective Goals

Because goals exert significant influences on people’s motivation and behavior, it is extremely important that they contain the right parameters, performance benchmarks, and time frames. If they do not, they may elicit attitudes and behavior that are actually dysfunctional for organizational, unit, and/or individual performance.

As shown in **Figure 1** on page I-2, analysis is an important part of goal setting. In order to write effective goals, a number of factors and issues should be carefully considered.

Three major questions should be asked when considering the following factors and issues:

1. “How will this goal—as it is tentatively being formulated—actually get the group or individual to behave?”
2. “Will that behavior be functional or dysfunctional for the organization’s, unit’s, or individual’s success?”
3. “If it could be dysfunctional, what other parameter, performance level, or time frame would be better to use?”

Answering these questions insightfully involves (re)considering cause and effect relationships between individuals’ characteristics (capabilities, drives, values, personality traits, attitudes, goals, and expectations) and the internal and external socio-technical factors that influence their attitudes, behavior, and performance.

In effect, the following amount to additional DOs and DON’Ts for formulating goals.

Parameter/"Yardstick" Considerations

1. **Key Elements of Success** — The parameters used should involve elements or factors that are key to the organization's, unit's, or individual's success. If a parameter being considered is not a key to effective, efficient performance, a more appropriate parameter should be chosen.
2. **Quantifiable vs. Subjective Parameters** — In general, quantitative (numerically expressed) parameters should be used whenever possible. However, a qualitative (subjective) parameter should be used if (a) it is more key to an organization's, unit's, or individual's success than some alternative quantitative parameter, and (b) there is no quantitative parameter that would be a good indicator of subjective results.
3. **Quantity vs. Quality** — Two important points should be made here:
 - A. Because both quantity and quality of performance are key to organizational, unit, and individual success, performance/productivity goals (particularly for units and individuals) should include one or two quality-related goals and one or two quantity-related goals. Without at least one quality-related goal, people tend to sacrifice quality for the quantity of output. On the other hand, without at least one quantity-related goal, people tend to sacrifice efficiency and cost minimization for quality.
 - B. Because there are trade-offs between the quality and the quantity of outputs/results (i.e., one is generally increased at some expense to the other), and because one is generally somewhat more key to success than the other, the trade-offs and relative "keyness" of the two types of parameters should be considered very carefully before quality-related and quantity-related goals are finalized.

Examples of Quantity-Related Performance Parameters (which are almost always expressed in quantitative terms): number of units produced; dollar amount or number of sales; total operating costs; total net profit; and return on investment

Examples of Quality-Related Performance Parameters (which can be expressed in either quantitative or subjective terms): the quality assurance

rejection rate; the number of errors made; product lifetime; consumers' average repair and maintenance costs; the number of product returns; customer attitudes (subjective); and the severity of customer complaints (subjective)

4. **Short-Term vs. Long-Term Implications** — Given that short-term goals should contribute to long-range goals (and should therefore be formulated within the context of long-range goals), the parameters chosen for short-term (e.g., annual) goals should not elicit behavior that will significantly jeopardize performance and success over the longer term. Although this can apply to a single goal (parameter), it particularly applies to the whole group of (short-term) goals for an organization, a unit, or an individual.

For example: When annual profitability and cost reduction goals are not influenced by longer term goals in these areas, managers can tend to do one or more of the following: (a) substantially reduce expenditures on such items as equipment maintenance and repair; (b) purchase cheaper, lower quality raw materials or parts; and (c) significantly increase product prices. As a result, equipment deteriorates rapidly, product quality declines, and the organization loses customers to competitors. Consequently, in a matter of a few years, profitability can be diminished due to major equipment repair/replacement costs and dwindling sales.

Another example, this one involving quality and quantity: When quality-related goals (parameters) are not balanced by appropriate quantity-related goals, people can tend to work more carefully and with fewer errors, thereby increasing quality, but also increasing unit costs. As product costs increase, prices may be increased—and sales and profits may be reduced over time. Similarly, when quantity-related goals (parameters) are not balanced by appropriate quality-related goals, people can tend to work faster and make more errors, thereby reducing costs, but also reducing output quality. As quality declines, sales may tend to dwindle—and profits may also diminish over time.

5. **Ability to Control or Influence the Parameter (Results)** — A unit (a "responsibility center") or an individual should not be held responsible (or accountable) for a performance parameter (or end result) that it/he/she cannot control—or at least influence. An in-

ability to influence if not control results usually leads to frustration, resentment, a decrease in motivation, and performance problems. Therefore, if it is determined that the parameter under consideration cannot at least be influenced, one should analyze the parameter and try to identify some aspect of that parameter (or some related parameter) that can be controlled or influenced. If this effort is unsuccessful, one should select some more controllable parameter.

Responsibility Centers: Although the issue of responsibility centers is normally considered during the budgeting stage of the planning process, it should be given initial consideration here. The following are the basic types of responsibility centers. Each can be defined as follows: An organizational unit with a well-defined mission or function, headed by a manager who is responsible for insuring that the unit accomplishes its mission and goals in an efficient manner, and is accountable in some way for the unit's performance (usually monetary results).

- A. **Expense Centers:** These centers, which constitute the largest group, are responsible only for managing the costs of their inputs (materials, labor, etc.). This is because expense centers do not control (or significantly influence) the prices charged for their outputs. Thus, although expense centers **contribute to profitability** by keeping costs under control, they **do not actually make a profit**. Therefore, managers of expense centers can be held responsible for managing their expenses, but they should not be held responsible or accountable for profitability.
- B. **Revenue Centers:** In these, the managers are held responsible for the (sales) revenue generated. (Revenue equals unit price times unit sales volume.) However, if managers are being held responsible for the revenues being generated by their units, they must be able to control or at least significantly influence the prices being charged for the products or services being sold.
- C. **Profit Centers:** In true profit centers, the managers are able to control both input expenses and the prices charged for outputs. This means that they can control (or largely influence) both elements of profitability—revenues and expenses. Therefore, they can be held responsible and accountable for profitability.
- D. **Investment Centers:** In these, the managers can control input expenses, output prices and revenues, and, thus, profits. They also have control over (have authority to make decisions concerning) the physical and financial assets being utilized to sustain operations. Therefore, they can also be held responsible/accountable not only for profits, but also for some specified relationship between profits and assets employed (e.g., return on investment).

Given the discussion above, we can make the following generalizations:

- A. In many if not most small and medium-size organizations, the organization itself (and the top executive) is the profit center and investment center. The major units or departments—marketing, production, finance, etc.—are usually expense centers. So are their sub-units—e.g., advertising, sales, purchasing, maintenance, engineering, production, shipping, accounting, data processing, etc. Thus, organizational goals can be written around parameters such as profitability and return on investment. On the other hand, units, sub-units, their managers, and other lower-level individuals should not ordinarily be held responsible for goals that revolve around profitability and related financial parameters. [There are, however, circumstances that sometimes warrant doing so. For example: If a production division is “selling” its output to the marketing division for (re)sale to customers (and is doing so based on “interdivisional pricing” over which it has control or influence), and if it is also free to sell output to other organizations for prices that it establishes, then that unit and its manager might properly be held responsible for profitability. Similarly, if a marketing division is buying product from the production division at some negotiated interdivisional price, and if it is also free to purchase similar product from sources outside the organization, then the marketing division and its manager might also be held responsible/accountable for profitability. In general, however, the smaller the percentage of product being sold to the outside by the production division, or the smaller the percentage of product being purchased from the outside by the marketing division, the less appropriate it is to hold either division responsible for profitability.]

- B. Most large profit-making organizations are both profit and investment centers. If they have large, autonomous divisions (as does General Motors), those divisions are generally both profit and investment centers, also. The units and sub-units of these divisions, however, are usually expense centers.

Individual employees are also affected by their ability (or inability) to control or at least influence the results-related parameters on which their performance is being evaluated. For example: If a worker is being held responsible for a quality-related parameter, but is receiving defective parts or materials inputs and is working on an old, imprecise, improperly calibrated machine, it can be more appropriate to write goals based only on the specific quality-related parameters that he or she can actually control. Similarly, if an individual in data processing is always receiving erroneous data and is using bug-filled programs, it can be more appropriate to write his or her performance goals around specific parameters over which he or she does actually have some control.

6. **Number of Goals** — The number of goals written for an organization, unit, or individual should be neither too many nor too few. In effect, each performance parameter/criterion is meant to point or lead someone in a certain direction. Too many goals (parameters) lead people in too many directions at once, often creating confusion, frustration, and problems. Too few goals (parameters) lead people in too few of the right (necessary) directions, which can also cause problems.

While organizations can have anywhere from one to eighteen goals, the average business firm has about five or six. A better number is about nine or ten, so that an organization has at least one goal in each of the key areas identified by Drucker. Ten (long-range or annual) goals are not too many for an organization as a whole, because they will be divided up among major units (responsibility centers) as they are being translated into guideline goals for those units.

Units and sub-units should have at least five or six goals, two of which should deal with increasing the development and job satisfaction of unit members.

Individuals are given anywhere from one to ten goals. One is definitely too few. Ten are definitely too many. Individuals should have approximately five to seven,

three or four of which should deal with key or critical performance parameters, and two of which should deal with job-related development and satisfaction.

7. **Priorities Among Goals** — Organizational, unit, and individual goals should be prioritized—that is, ranked in their order of relative importance (from most important down to least important). Priorities are usually based on the performance parameters involved, rather than on the performance standards and time frames involved.

Groups and individuals need to be aware of the relative importance that is being attached to the results-related parameters on which their performance will be evaluated. Also, they should understand why certain parameters (results) are considered more important than others—which is largely a matter of understanding the trade-offs among them. [They will understand the relative importance and trade-offs if they have been involved in a participative, top-down/bottom-up goal-setting process.] This awareness and understanding helps people to (a) resolve conflicts that are often inherent among goals, (b) determine where to allocate the most time and effort, and (c) make decisions and solve problems within the most appropriate contexts.

Prioritizing goals usually amounts to “making adjustments” for the trade-offs or conflicts that can exist among parameters. *For example:*

Although units and individuals should have both quality- and quantity-related goals, one type is generally determined to be somewhat more important than the other. (The relative importance of each type can differ from unit to unit and individual to individual.) Thus, the most important type (for a particular group or individual) should be given a higher priority in order to (a) make the relative importance clear; (b) place the greatest emphasis on the most important, while also emphasizing the other; and, as a result, (c) achieve the desired relationship between the quality and quantity of results/output.

Prioritizing goals can also help adjust for short-term vs. long-term trade-offs and conflicts. Say, for instance, that one important short-term goal is as functional for the long term as for the short term; but a second, which is also considered important for the short term, has some dysfunctional

implications for the long term. In such a case, it could be advisable to give the first goal a higher priority than the second, thereby achieving an appropriate balance between the two.

Performance Standard (“Benchmark”)

Considerations

1. **Job Description** — A performance standard should be based on an accurate and up-to-date description of a unit’s mission or an individual’s job. It should never be applied to a task that is not a current (or planned) part of a mission statement or a job description.

2. **Type of Standard** — The appropriate type of standard should be used. These are the three basic types of performance standards:

Engineered Standards — These objective (quantitative) standards are usually established for jobs where the work and outputs involved can be measured effectively. They are most often applied to jobs (and units) where the operation of machinery is involved, but they can also be applied to some clerical jobs. Engineered standards should be determined by industrial engineers through work measurement, time and motion studies, analysis of motion economy to routine, and analysis of repetitive work operations. Engineers should develop a standard that an average, well-trained group or individual can meet during a specified time period.

Non-Engineered Standards — These more subjective standards are usually established for jobs that are varied, diversified, and not subject to effective measurement. Such jobs are found in management, research and development, engineering, marketing, sales, customer service, professional occupations, and creative occupations. Although these standards are not as precise as engineered standards, they should nonetheless be stated in numerical terms (raw numbers, percentages, ratios) whenever possible. If a task/job cannot be quantified, some qualitative statement that describes effective results should be developed. Managers should develop these standards based on experience and on discussions with their subordinates.

Historical Standards (Data) — Although it is easy and often useful to consider past levels of performance when developing standards for the coming period, future standards should not be based solely on past per-

formance. Past performance is not necessarily a good indicator of future performance. There are two main reasons: First, past performance could have been either (a) below what it could/should have been, or (b) above what it was expected to be. Second, things change. The factors that affected performance in the past may have changed, and, as a result, may affect performance differently in the future. Nevertheless, historical performance data should at least be considered. It can help to identify the “ball park” in which future standards should be set.

3. **New Parameters** — If previously-used performance parameters are determined to be inappropriate, and if goals are written around new (different) parameters, it may be necessary to . . .

- a. establish a new engineered standard (for a quantifiable parameter); or
- b. develop a new non-engineered standard (for a subjective parameter).

Especially in the case of non-engineered standards (for new parameters), it is often useful to record performance data over a period of time in order to establish a basis for determining reasonable standards (given existing internal and external influences on performance). This is particularly true when data regarding some new or different parameter has not previously been kept.

4. **Performance Standards of Other Units/Individuals**

— Because jobs are often interrelated and interdependent, the performance standard for one unit or individual should be formulated based on some consideration of the standards being formulated for other units or individuals. For example: If marketing is to increase sales by X%, then production must manufacture a commensurate level of output. Similarly, if worker X is to produce a certain amount of output, and if worker Y uses worker X’s output as input, then X’s and Y’s performance standards should be coordinated.

5. **Effectiveness of (Measurement) Statements** —

Performance benchmarks should be stated in the most specific and effective terms possible. The following are several means for expressing standards (“benchmarks”) and subsequently measuring performance:

- A. Using raw numbers (such as dollars, number of units, or percentages) is generally considered to be the most effective means.

- B. Using ratios or indices is generally considered to be the next most effective means.
 - C. Using scales (such as 10 down to 1, or outstanding/excellent/average/poor) is generally considered to be the third most effective means.
 - D. Using descriptions of results is generally considered to be the least effective means.
6. **Challenge vs. Probability/Expectation of Attainment** — In order to maximize performance, managers should set high but reasonable standards. These “high standards” should be high enough to challenge personnel. If they offer too little challenge, personnel may achieve them too easily. Consequently, any positive feedback they experience as a result of their easy success will not be especially gratifying and will do little to enhance their motivation and morale. On the other hand, these “high standards” should not be so high that personnel cannot expect to achieve them even if they put forth maximum effort and use their capabilities to the fullest. Personnel’s motivation to do their best is undermined by having little expectation of achievement. Therefore, high standards should reflect a rational balance between the degree of challenge and the probability of achievement—so that, by doing their best, personnel have a reasonable chance to experience the meaningful positive feedback that increases fulfillment, morale, and motivation.

People’s expectation of attainment is influenced by their perceptions regarding these and other matters:

- a. their ability to control or at least influence the factors that affect their performance/results (e.g., their authority to make decisions, and their ability to influence both internal and external factors or forces);
- b. whether or not they have the financial and physical resources necessary to achieve the desired results;
- c. their capabilities (skills, knowledge, and experience);
- d. the abilities, knowledge, and experience of those on whom they rely for the informational, material, and service inputs to their jobs;
- e. their workload (i.e., whether or not they will have time to achieve the desired results during the specified time frame).
- f. how much cooperation and help they can expect from coworkers, superiors, subordinates.

Other Important Considerations and Issues

1. **Compatibility/Synergy Among Goals** — It would be preferable if the goals written for a particular unit or individual were both compatible and synergistic. Goals are compatible when they do not work against (conflict with) each other. In many if not most cases, however, certain conflicts do exist—especially between quality-related and quantity-related goals. Therefore, it is important to assure that the goals written for a unit or individual are at least synergistic. Goals are synergistic when . . .
 - a. the incompatibilities or conflicts among them are “balanced” through prioritization; and
 - b. all the (prioritized) goals work together to maximize the overall performance of the unit or individual.

Equally as important, the goals of one unit or individual should be compatible (coordinated) and synergistic with the goals of other units or individuals—especially where the units’ missions or individuals’ responsibilities are interrelated and interdependent.

Compatibility and synergy among units’ and individuals’ goals is increased where a participative goal setting and planning process is used. Such a process, which starts at the top and works downward through an organization, enables managers at each successively lower level to translate guideline goals established by higher levels into a coordinated (and balanced) set of goals for their own level.

2. **Congruence with Personal Goals** — Goals established for an organization, a unit, or an individual should be more or less congruent with the personal goals of the individuals to whom they apply. People in general are more inclined to put forth maximum effort if they perceive that achieving organizational goals will help them achieve their own.

Organizational, unit, and individual goals can be made more congruent with personal goals when individuals actually take part in the goal setting process. This not only gives them an opportunity to contribute their knowledge and experience to the formulation of goals, but it also enables them to influence parameters and performance standards in ways that can enhance their personal goal fulfillment. Also, during participative goal-setting sessions, managers have an opportunity to

show subordinates how achieving organizational goals can contribute to their achieving personal goals.

3. **Incentives** — Although incentives are often considered separately during the formulation of compensation systems, they should also be considered during the goal-setting phase of the (annual) planning process. Incentives can be described as follows:

- A. They are essentially (organizational or “extrinsic”) rewards for performance that surpasses some set standard or benchmark level of performance. The amount of reward is usually proportional to the degree to which the performance standard has been exceeded.

- B. They are aimed at increasing people’s “motive strength” (level of motivation/desire)—and therefore effort—based on this behavioral formula:

Goals + Expectation of Attainment + Incentives =
Increased Motive Strength

- C. Incentives can be either monetary or non-monetary, both of which should be considered when incentives are being designed. Monetary incentives include: bonuses; profit-sharing; wage or salary increases; and stock options. Non-monetary incentives include various means for conferring recognition: privileges; awards; greater responsibility or authority; promotions; and positions or titles having higher status. [Since people are actually motivated by their own needs, drives, values, interests, and goals, but are only influenced by organizational goals and incentives, the selection of monetary and/or non-monetary incentives should be based on an analysis of the motivational characteristics of the individual(s) involved.]

- D. They can be based on (a) some computational formula (wherein the performance factors in the formula may be weighted), (b) subjective judgments concerning performance, or (c) some combination of (a) and (b).

- E. They can be applied to either groups or individuals.

Incentives should motivate people to work harder in the right directions. Although the parameters around which goals are written are aimed at leading people in the right directions, and although the incentives tied to

the performance standards associated with those parameters are basically aimed at increasing the degree of motivation and effort, the incentives themselves may adversely influence direction. This can be the case when incentives are tied to the wrong parameters, tend to muddle or even override priorities, and, as a result, influence people to work harder in the wrong or less appropriate direction(s). For example: If the highest priority goal is written around a quality-related parameter, but an incentive is based on the performance standard associated with a lower priority or less “key” quantity-related parameter, an individual or group can tend to put forth much more effort to increase quantity—at the expense of quality.

Since an incentive is tied to a performance standard, the level of that standard largely determines the potential amount of reward. Consequently, if the standard is too low and too easy to achieve, the organization may pay more for performance than it should. On the other hand, if the standard is too high and is perceived as being out of reach or too difficult to achieve, it may actually act as a motivational disincentive. Thus, especially when an incentive is tied to a performance standard, that standard should be reasonable as well as challenging.

Although incentives can be designed for either individuals or groups, keep the following in mind: Individual standards are usually most appropriate when the performance of one individual does not significantly affect, and is not significantly affected by, the performance of other individuals. However, in general, the greater the rewards for individual performance, the more that competitiveness is increased and cooperation and teamwork are decreased. Therefore, especially where the jobs involved are highly interdependent, it is usually appropriate to establish at least some group performance goals (parameters) and incentives. In fact, in order to achieve a desirable balance between individual and group performance, it can be most advisable to base incentives on some combination of individual and group performance parameters and standards.

Given the discussion above, it should be apparent that formulating appropriate, effective sets of goals is much more difficult than simply stating those goals properly.

Before finalizing goals, remember to ask this most important question: How might this (alternative) goal (or set of goals) actually get the group or person to behave?

Exhibit J: Sample Organizational/Corporate Mission Statement

XYZ Company Mission

(Strategic/Long-Range Objectives)

Profit

To achieve sufficient profit to finance company growth and to provide the resources necessary to achieve other company objectives.

Customers

To provide products and services of the highest quality and the greatest possible value to our customers, thereby gaining and maintaining their respect and loyalty.

Fields of Interest

To build on strengths in the company's traditional fields of interest, and to enter new fields when it is consistent with the basic purpose of the business and when we can be assured of making a needed and profitable contribution to the field.

Growth

To let our growth be limited only by our profits and our ability to develop and produce innovative products that satisfy real customer needs.

Human Resources

To help company personnel share in the company's success, which they make possible; to provide job security based on their performance; to assure them a safe and pleasant working environment; to recognize their individual achievements; and to help them gain a sense of accomplishment and satisfaction from their work.

Management

To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined goals.

Public Responsibility

To honor our obligations to society by being an economic, intellectual, and social asset to each community or nation in which we operate.

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