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New study shows setting stretch goals can undermine organizational performance

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While the general consensus regarding stretch goals is that they boost drive, innovation, and improve organizational performance, new research in the INFORMS journal *Organization Science* shows that this is the exception, and not the rule. For many organizations, stretch goals can serve to undermine performance.

The study, "Stretch Goals and the Distribution of Organizational Performance," was conducted by Michael Shayne Gary of UNSW Business School in Sydney, Miles Yang of Curtin University, Philip Yetton of Deakin University, and John Sterman of the Sloan School of Management at MIT. They examined the impact of assigning stretch or moderate goals to managers. Study participants were assigned moderate or stretch goals to manage the widely used interactive, computer-based People Express business simulation.

The researchers found that about 80 percent of participants failed to reach the assigned stretch goals. Compared with moderate goals, stretch goals improved performance for a few, but many abandoned the stretch goals in favor of lower self-set goals or adopted a survival goal when faced with the threat of bankruptcy. Consequently, stretch goals generated higher variation in performance across organizations, created large performance shortfalls that increased risk taking, undermined goal commitment, and generated lower risk-adjusted performance.

"We find that stretch goals are not a rule for riches for all organizations. Instead, they lead to riches for a few organizations," said Gary. "Instead of being evidence that organizations should adopt stretch goals, the small number of successful cases is evidence that stretch goals do not benefit most organizations. Many organizations do not benefit and may even suffer from adopting stretch goals."

The authors suggest that whether boards or top management should adopt stretch goals in their organization depends on their attitudes toward risk. Those with large appetites for risk may still prefer stretch goals. In venture capital or private equity, the value created by "big winners" can more than offset the poor returns or losses on the majority of organizations in the portfolio. These organizations may also be more able to absorb the poor returns or losses created by aggressive goals. However, for those who are risk neutral or risk averse, stretch goals may not be desirable because of the lower expected risk-adjusted returns. For example, stretch goals may not be appropriate for medium-sized or family-owned businesses that may not be positioned to recover from potential losses.

More information: Michael Shayne Gary et al. Stretch Goals and the Distribution of Organizational Performance, *Organization Science* (2017). DOI: 10.1287/orsc.2017.1131

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