Moderate performance goals let workers adapt to turbulent marketplaces, research suggests

January 19 2024, by David Danelski

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When companies set challenging performance goals for their employees, the strategy may work well when their marketplace is stable or when the company wants fast results, but perhaps not as well when workers need to adapt to turbulent times.

These are some of the findings of new research by Marlo Raveendran, an associate professor of management in UC Riverside's School of Business. The research probed how employees respond when faced with either challenging or moderate work performance goals and provides insights on how supervisors may more effectively manage their employees.

The study, "How Do Performance Goals Influence Exploration-Exploitation Choices?," was published in the journal *Organizational Science*.

So what strategy works better? Well, it depends on the circumstances, Raveendran said.

"If you're trying to get your employees to explore more options that they haven't tried before, give them moderate performance goals," Raveendran said. "If you want them to find a good solution fast, give them higher performance goals."

Workers with challenging goals will tend to see a greater number of possible tasks as failures and will focus instead on tasks that have shown to produce good results in the past, Raveendran said. For a salesperson, this could mean trying to increase sales to existing customers rather than making cold calls to find new ones.

Setting more challenging work goals benefits employers the most when they compete in more stable and reliable marketplaces, where tried-and-true strategies remain effective, Raveendran said.

Challenging goals are also effective in situations where time is of the essence to capitalize on new market demands, she said.

For example, when the COVID-19 pandemic began, the Johnson & Johnson pharmaceutical company set a goal to develop a vaccine with 90% efficacy. This ambitious goal compelled the company's research and development teams to disregard a lot of options with uncertain potential and focus instead on only the most promising biotechnologies. Had the company set a less ambitious goal, say 70% efficacy, its R&D

teams would have been freer to explore more pathways for vaccine development, likely resulting in a longer development time, Raveendran said.

But challenging work goals may be detrimental in times of rapid change or market disruption, such as when legacy news media companies, such as The New York Times or CNN, faced new competition from social media and thousands of websites during the rise of the Internet. This is because challenging performance goals can make workers blind to newly arising options by limiting their search space.

More moderate performance goals give workers more time and freedom do what Raveendran described as "broader search"—efforts that may or may not have more immediate payoff and that allow workers to learn more about the payoff of a wider variety of options. Such tasks could include learning new software programs, starting up social media promotions, attending professional conferences, or looking for customers in previously overlooked sociodemographic groups.

"If you give your employees moderate performance goals, they will keep exploring a lot more," Raveendran said. "So, they'll keep trying different things."

Raveendran's study had hundreds of participants play the role of managers who set either challenging or moderate earning goals over 50 rounds of a fictitious R&D investment game.

Each participant had to choose among three fictitious R&D teams named on a screen, and after they made their choice, they would see how much money their choice brought back to the company, and be credited for those earnings. They would repeat the process over the 50 rounds, each with the same R&D teams, but the participant would only improve their knowledge of the different R&D teams if they chose to invest in them.

To simulate a stable marketplace, the average earnings of each R&D team remained the same through the 50 rounds. In these trials, the participants would soon learn which team was the top earner, choose it most often, and they would easily meet their performance goals. Those with the more challenging goals brought in more money.

"With challenging goals, they stopped exploring the worst options much faster than when under the moderate goal, and that was great when the environment was stable," Raveendran said.

To simulate a turbulent marketplace, the first 30 rounds were the same as in the stable environment, but after round 30, the worst and best team switched their payoffs, unbeknownst to the participants.

"It threw them off after the shock occurred, and it took those with higher performance goals longer to reach their goal again," she said.

More information: Marlo Raveendran et al, How Do Performance Goals Influence Exploration-Exploitation Choices?, *Organization Science* (2023). DOI: 10.1287/orsc.2019.13311

Provided by University of California - Riverside