



## 'Goals Gone Wild': How Goal Setting Can Lead to Disaster

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In early 1969, just as the U.S. was preparing to reach John F. Kennedy's lofty goal of sending Americans to the moon, the famed Ford executive Lee Iacocca gave a similarly ambitious mandate to his team of engineers.

Faced for the first time with competition from low-cost, high-mileage foreign imports, Iacocca set a specific target: Ford would design a new automobile that weighed less than 2,000 pounds and sold for under \$2,000, and it would be on the showroom floor in time for the 1971 model year. What resulted was a mad dash to create the Ford Pinto.

The rush to roll out the Pinto had lethal consequences. Common-sense safety checks took a backseat to meeting Iacocca's deadline. In particular, engineers failed to examine the decision to place the Pinto's fuel tank only 10 inches behind the rear axle. When the Pinto was rear-ended, it often went up in flames. Fiery rear-end crashes caused 53 deaths, numerous injuries and a string of costly lawsuits.

It was a valuable lesson about the hazards of setting goals. In pursuit of such mandates, employees will ignore sound business practices, risk the company's reputation and violate ethical standards. This lesson, however, has not been absorbed by corporate America. To the contrary, ambitious goal setting has become endemic in American business practice and scholarship over the last half-century. Goals have pervaded industries as diverse as automotive repair, banking and information systems, even spilling over to the debate on how to improve America's public schools.

Yet new research by Wharton operations and information management professor [Maurice Schweitzer](#) and three colleagues documents how corporate goal setting can cause more harm than good. The paper, titled "Goals Gone Wild: The Systematic Side Effects of Over-Prescribing Goal Setting," was co-authored by Lisa D. Ordóñez from the Eller College of Management, University of Arizona; Adam D. Galinsky of the Kellogg School of Management at Northwestern University, and Max H. Bazerman from the Harvard Business School. Their work appears in the February issue of the *Academy of Management Perspectives*.

"We take a strong stand in this article, because we are pushing against the pervasive use of goal setting in practice and a very large body of literature that has endorsed goal setting. We argue that managers and scholars have grown complacent in their endorsement of goal setting ... often [neglecting] the harmful effects," Schweitzer says. "We argue that goal setting is wildly over-prescribed."

The paper is full of cases in which goal setting had negative and sometimes disastrous consequences for a company. Indeed, executives and business experts in those cases frequently failed to realize the prominent role that overly ambitious targets played in causing the eventual problem. One famous case that Schweitzer and his co-authors relate is the storied 2002 collapse of the energy-trading giant Enron. They cite literature noting that the once high-flying Houston-based firm used goals and an incentive system for its salesmen that was based solely on the volume of revenue that they generated -- and not whether the actual trades were sound or profitable -- which became a key factor in Enron's implosion.

The authors found that goal setting has become practically institutionalized in American corporations, backed up by a persuasive body of literature over four decades arguing that employees perform better when challenged to meet specific targets as opposed to asking them to simply "do their best." The leaders of this movement are two renowned organizational psychology experts, Edwin Locke of the University of Maryland and Gary Latham of the University of Toronto, who wrote: "So long as a person is committed



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to the goal, has the requisite ability to attain it, and does not have conflicting goals, there is a positive, linear relationship between goal difficulty and task performance."

Schweitzer suggests that goal setting has become so ingrained that the practice is greatly overused. "We argue that there are some contexts where goal setting is appropriate, such as when tasks are routine, easy to monitor and very easy to measure. In practice, many domains are ill suited for goal setting."

### 'Mistakes Did Occur'

One well-known example took place at Sears, which in the early 1990s set a specific sales target for its auto repair staff of \$147 per hour. In order to meet management's goal, however, mechanics began to perform unnecessary repairs or overcharge customers, which triggered a major customer-relations crisis for the giant retailer. Edward Brennan, chairman of Sears at the time, later admitted that the "goal setting process for service advisers created an environment where mistakes did occur."

Why does this happen? Schweitzer and his co-authors identify a series of problems that they say are linked to the overuse of goal setting, especially when the targets are either too specific or too challenging. For example:

- Goals that are too specific often lead employees to develop such a narrow focus that they fail to recognize obvious problems unrelated to the target. According to the authors, highly specific goals may cause workers to sacrifice safety for speed -- as in the case of the Ford Pinto -- or pursue misguided end results, as was the case at Enron. A typical problem is the sacrifice of quality in the interest of quantity, they note, citing the example of universities that require tenured professors to publish a certain number of research papers in particular journals, but without careful scrutiny of the quality of the work.
- Likewise, too many goals have what the authors consider an inappropriate time horizon. They refer to the well-known example of managers who are pressured to meet quarterly earnings goals, causing them to ignore long-term strategic problems. The reverse side of this practice is that employees also have a tendency to ease up when goal horizons are set too low. The paper cites a 1997 study of New York City cabdrivers who found that on rainy days, taxis tended to disappear from the congested streets because drivers met their fare target early in the day and went home, rather than working longer hours to make additional income.
- Workers with highly specific and ambitious targets will engage in risky practices in order to meet them. The authors note the case of one of the nation's largest banks at the time, Continental Illinois, where in 1976 the CEO issued a mandate to dramatically expand the loan portfolios to match those of some rival banks. The bank aggressively pursued new loan customers and even bought packages of high-risk mortgages from smaller banks, which eventually caused Continental Illinois to fail.
- Unethical behavior is one of the more obvious pitfalls of overly ambitious goal setting, with potentially some of the most catastrophic consequences. This can happen in a number of ways -- such as the safety shortcuts at Ford or the bilking of auto-repair customers at Sears. The authors also note incidents where employees offered bogus results to claim that a target was reached, such as when employees falsified sales reports to meet their quota at the vision-products company Bausch & Lomb.

The irony, says Schweitzer, is that a lot of this specific goal setting is unnecessary. Research has shown that employees have a stronger intrinsic motivation to do a good job than their managers tend to give them credit for. He points to research by Stanford University organizational behavior expert Chip Heath, who "found that people tend to think that other people need extrinsic rewards more often than they really do.... To us, our work is interesting and meaningful, but we tend to think that other people come to work

because of money."

### **Beware the 'Hedonic Treadmill'**

In fact, the authors argue that this failure to recognize the value of simply doing a good job can cause managers to instead set goals and rewards that harm intrinsic motivation and place employees on a "hedonic treadmill." The notion of a hedonic treadmill, says Schweitzer, "is that people never 'get' to where they are going. For example, people constantly pursue happiness, but don't get there. They keep thinking that the next promotion, the new car, the salary raise, etc. will make them happy. They get the promotion, and that makes them happy for a time. Then they adapt and mistakenly think that it's the *next* promotion that will make them happy.

"People may be motivated by goals. But these goals can crowd out intrinsic motivation, so they will need more goals to motivate them in the future."

Schweitzer and his co-authors point to other negative consequences from overly specific numeric goals. For example, workers tend to lose their focus on learning new skills in favor of using tried-and-true methods to meet their quotas. In addition, companies that set targets for individual workers can create a culture of competition in which workers tend to shun teamwork in problem solving.

Despite all this, the use of goal setting has spread to other areas outside the corporate world. Arguably the best-known example is the federal education program known as No Child Left Behind that was enacted in 2001; it links government aid to highly specific performance targets for students based upon standardized test scores. Critics of No Child Left Behind say the program forces teachers to focus narrowly on what will be asked on those tests, ignoring other critical skills. There have also been several scandals involving falsified test scores and other forms of cheating. Indeed, the allegations in the classroom are quite similar to the problems that Schweitzer and his colleagues found in the business world.

"The 'No Child Left Behind' idea is compelling -- after all, who wants to leave a child behind?" Schweitzer says. "But the reality of this program is that it is fundamentally flawed. It is very difficult to monitor education, and this program narrows the focus of teachers in a domain that requires cooperation, innovation, broad thinking, high ethical standards and, we would hope, intrinsic motivation."

Schweitzer believes one reason that goals are overused is that we focus too much attention on the individual. When things go wrong -- for example, following the collapse of an Enron -- we tend to blame specific individuals rather than look at the broader culture established by top managers. The best-known example of this problem comes from the U.S. military and the well-documented detainee abuse at the Abu Ghraib prison in Iraq, he says. These cases of abuse were blamed on low-ranking soldiers -- "a few bad apples" -- and not on the broader directives from the Pentagon that created the climate of corruption. "What happens is that people neglect to appreciate the importance of the environment."

The authors suggest that goal setting should be undertaken modestly and carefully, with a focus more on personal rather than financial gain. They also make the case that much more research -- and more skepticism -- is needed about the practice of goal setting. "Rather than dispensing goal setting as a benign, over-the-counter treatment for students of management, experts need to conceptualize goal setting as a prescription-strength medication that requires careful dosing, consideration of harmful side effects, and close supervision," the authors write. "Given the sway of goal setting on intellectual pursuits in management, we call for a more self-critical and less self-congratulatory approach to the study of goal setting."

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