Living with unrealistic performance targets

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Extended abstract

Purpose: Target setting represents a major activity in most organizations. The prior research on performance targets has mostly addressed issues in the domain of realistic[1] targets (e.g., Fisher, Peffer, Sprinkle, & Williamson, 2015; Merchant & Manzoni, 1989; Webb, Jeffrey, & Schulz, 2010). Relatively little empirical research exists in the domain of unrealistic targets, as Sitkin, See, Miller, Lawless, and Carton (2011, p. 548) observe that "unattainable goals remain outside nearly all of the available scholarly work". The focus of the current study is to examine why and how a firm lives with seemingly unrealistic performance targets.

Methods: This paper builds on a field study conducted in a single organisation – ElectricLtd – in New Zealand. Because this study aimed at understanding a firm's potential to pursue seemingly unrealistic targets intentionally, a field study approach was required. The primary data collection period was between October 2014 and September 2015. Data were collected from three sources. Semi-structured interviews were the first source of data. The following major themes were covered in the interviews: the company and its strategic context, the context of pursuing a specific performance target, measurement and evaluation process of a specific target, achievability of a certain target, target adjustment, and linkage of direct monetary incentives to target attainment. The second data source consists of company documents, including strategy and performance measurement documents. These documents provided a deeper understanding of the company's overall business conditions, strategic contexts, targets,

[1] For simplicity, this study assumes a dichotomous view performance targets: unrealistic and realistic. Unrealistic targets refer to those that are seemingly impossible to achieve – i.e., zero percent probability of attainment. On the other hand, realistic targets refer to those that have a non-zero probability of attainment. Within a realistic domain, a firm can set easy, moderate, or challenging but achievable targets.

and actual performance. The third data source was non-participant observations of several managerial meetings around performance targets.

Findings: The findings of this study indicate that a firm can live with seemingly unrealistic targets in three situations. First, a firm can live with unrealistic targets when it pursues certain targets to comply with regulations imposed by regulatory agencies. In the case of ElectricLtd, the company adopted the regulator imposed SAIDI [system average interruption duration index] limit as its target. Although the SAIDI target was considered unrealistic, the company did not adjust the target downward. This was because pursuing a SAIDI target at a lower performance level than mandated by regulations would be considered as a refusal to comply with regulations. This could result in a huge pecuniary penalty and frequent inspections and warning letters from the Commerce Commission, and damage to company's reputation (c.f. Bansal & Roth, 2000; Hoffman, 1999). To avoid these significant costs of refusal to comply with regulations, the company pursued seemingly unrealistic SAIDI target.

A second situation in which a firm can live with seemingly unrealistic targets is when certain targets are pursued to gain legitimacy. In the case of ElectricLtd, TRIFR [total recordable injury frequency rate] was used as a measure of workplace safety performance. Unlike SAIDI, there were no regulatory minimum standards for TRIFR. In order to gain legitimacy, the company followed the industry norms and benchmarked its TRIFR standard to the utilities industry in New Zealand. Although the TRIFR standard appeared to be unrealistic, the company did not adjust the target downward. This was because pursuing a TRIFR target at a lower performance level than the industry benchmarked level was regarded an unacceptable behaviour by industry forums, which could result in a threat or loss of memberships of industry forums (c.f. Suchman, 1995). This, in turn, could result in sufferings such as increased interrogations, damage to the company's image, and a loss of access to members only industry data (c.f. Bitektine, 2011). In order to avoid these potential sufferings from legitimacy loss, the company rather pursued seemingly unrealistic TRIFR target.

The findings of this study revealed a third situation in which a firm can pursue seemingly unrealistic targets. In the case of ElectricLtd, the company would use overdue actions as a measure of how many corrective actions were overdue regarding high severity employee safety risk incidents. The company adopted a zero defects policy to set a target for overdue actions (i.e., zero overdue actions) (c.f. Wang, 2013). However, senior managers acknowledged that achieving a zero overdue actions target was literally impossible. Despite that, they were not concerned about it. This was because the achievement of zero overdue actions was considered a vision. Rather than achieving the target per se, the main emphasis was to develop a culture for zero defects mindset, which would proactively deal with audit recommended correction actions (c.f. Brunet & New, 2003; Powell, 1995). This observation suggests that when a firm adopts targets to develop a culture for zero defects mindset, a firm can pursue seemingly unrealistic targets.

Originality: This study contributes to the literature on performance targets (e.g., Locke et al., 1981; Merchant & Manzoni, 1989; Webb et al., 2010) by developing and advancing our understandings of when and how a firm can live with seemingly unrealistic performance targets. In particular, the current study suggests that a firm can live with seemingly unrealistic targets in three situations: i) when a firm pursues certain targets to comply with regulations, ii) when a firm pursues certain targets to gain legitimacy, and ii) when a firm pursues certain targets to develop a culture for zero defects mindset.