Moving Targets: How Organizations Set Performance Goals as They Grow

Effective target-setting is a learning process. For more learning inputs, managers might be wise to think like they did in their organization's entrepreneurial stage, according to research by Antonio Dávila.



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What gets measured gets done, the old saying goes. Setting specific targets — aka key performance indicators (KPIs) — can motivate teams and align interests to firm goals.

But how should management come up with annual targets to motivate peak performance? From the organization's own past performances? When is outside information from other

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businesses factored in?

Setting Effective Targets

To learn about real-world inputs for target-setting, Carmen Aranda, Javier Arellano and IESE's Antonio Dávila analyze data from a large travel agency over a four-year period of rapid expansion. During this period, the company opened many new regional offices that operated comparably to existing branches. The detailed data from 421 branches shows how newer units, still in their entrepreneurial stage, combine different ways of learning when setting their goals.

The study found that managers of more recently opened branches tend to focus on learning from the current performance of other, comparable business units, which they combine with information from their own organization's history. But as the branch grows over time, managers become more likely to focus inwards. The study finds mature units often discount information from outside, using their own past performance as the benchmark instead.

What's more, the study shows managers think differently about how to learn from surprising successes and failures, based on whether their organization is young or old. That means targets are both set differently *and* adjusted differently by company units at different stages.

Learning Through Success and Failure

When organizations deviate from their own performance norms — whether this is a positive deviation (success) or negative deviation (failure) — management must decide how much to adjust future targets. After all, when targets are off, managers run the risk of leaving sales staff unchallenged by lowball objectives or overwhelmed by unattainable figures.

Here, young units learning from others (vicarious learning) as well as from their own past performances (experiential learning) can benefit from having more learning inputs. More information can lead to better target-setting. Why, then, do organizations stop combining knowledge, and start focusing on their own past performance when setting targets later in their lifecycle? The authors say that this is an important question for future research.

Effective target-setting is a learning process, the authors note. For more learning inputs, managers could make more efforts to think more like they did in their organization's entrepreneurial stage.

See also "**The Tao of Target Setting**"

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Methodology, Very Briefly

The authors collected data from a large European travel agency over a four-year period of rapid expansion. Tracking performance targets set at 421 branches, the authors compare how managers of newer units and more mature units use knowledge to set targets. More specifically, they look at how managers learn from extrapolating from other similar agencies (vicarious learning) and how they learn from their own experiences when setting targets, while controlling for other factors which could explain this difference (like increased resources as the organization matures). They also measure correlations between branches' deviations from performance norms and their sources of learning in target setting over time.

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