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STRATEGIC PLANNING

The Stretch Goal Paradox

by Sim B. Sitkin, C. Chet Miller, and Kelly E. See

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When Marissa Mayer was named CEO of Yahoo, in July 2012, the media couldn't get enough of her candid assessments of the ailing company's strengths and weaknesses—and her ambitious goals to put the internet giant back on track. Can Marissa Mayer save Yahoo? wondered the *New Yorker*, the *Guardian*, and *Fortune*. Yahoo's annual revenues had dropped from \$7.2 billion to \$4.9 billion in the previous four years, employees were demoralized, and the culture was far from vibrant. In short, Yahoo had been on an extended losing streak. Mayer's answer to this checkered performance was to bullishly proclaim that her goal was to return Yahoo to the level of the Big Four—"to bring an iconic company back to greatness." She articulated the exceptionally difficult aim of achieving double-digit annual growth in five years and eight additional highly challenging targets.

By the summer of 2016, Mayer had fallen far short on six of the eight targets—and on the goal of double-digit growth. Not only had Yahoo's revenues remained flat, at around $4.9 billion, but the firm had reported a 2015 loss of $4.4 billion. In July, Verizon agreed to take over the struggling company (though the deal hadn't closed at the time of this writing). That brought an unceremonious end to Mayer's bold plans.

What executive hasn't dreamed of transforming an organization by achieving seemingly impossible goals through the sheer force of will? We're not talking about merely challenging goals. We're talking about management moon shots—goals that appear unattainable given current practices, skills, and knowledge. In the parlance of the business world, these are often referred to as stretch goals, and that's exactly what Mayer outlined when she first joined Yahoo.

Mayer is hardly alone. Stretch goals are often viewed as truly important sources of individual and organizational motivation and achievement. Google has perhaps become the modern face of stretch goals with its X unit and its clear philosophy: "More often than not, [daring] goals can tend to attract the best people and create the most exciting work environments...stretch goals are the building blocks for remarkable achievements in the long term." Numerous organizations—including 3M, Apple, Boeing, CSX, Fujifilm, Mead, and Oticon—have eagerly reported success with wildly ambitious objectives. Jim Collins and Jerry Porras's 1990s business best seller *Built to Last,* which famously preached the virtue of setting "big, hairy, audacious goals," was filled with such stories. No wonder many executives conclude that stretch goals are a great way to magically resuscitate or transform an ailing innovation strategy.

But that's not the case. Our research, which we first outlined in a 2011 award-winning *Academy of Management Review* article with Michael Lawless and Andrew Carton, has shown that stretch goals are not only widely misunderstood but widely misused. Organizations that would most benefit from them seldom employ them, and organizations for which stretch goals are probably not a good strategy often turn to them in a desperate attempt to generate breakthroughs. Neither approach is likely to be successful. This is what we call "the stretch goal paradox."

So What Is a Stretch Goal, Anyway?

True stretch goals differ from ordinary challenging goals in two important respects:

Extreme difficulty.

Stretch goals involve radical expectations that go beyond current capabilities and performance. Consider Southwest Airlines' early stretch goal of achieving a 10-minute turnaround at airport gates. A familiar task was involved, but the target was a drastic departure from the industry standard at the time, which was close to one hour.

Extreme novelty.

Brand-new paths and approaches must be found to bring a stretch goal within reach. In other words, working differently, not simply working harder, is required. To get gate turnarounds down to 10 minutes, Southwest had to completely overhaul its staff's work practices and reimagine the behavior of customers. The airline did, however, famously figure out how to reach this goal.

Our research suggests that though the use of stretch goals is quite common, successful use is not. And many executives set far too many stretch goals. In the past five years, for example, Tesla failed to meet more than 20 of founder Elon Musk's ambitious projections and missed half of them by nearly a year, according to the *Wall Street Journal.* So it's perhaps not a surprise that the market reacted with skepticism when Musk declared in early 2016 that Tesla would produce half a million cars in 2018—two years ahead of the previously announced lightning-fast schedule—and would double that volume by 2020.

Many organizations have experienced noteworthy failures with stretch goals. Examples include Walmart's 2005 aim of getting 100% of its energy from renewable sources, Blue Whale Moving Company's 1991 plan to expand from one city to 100 in nine years, and Ontario Hydro's 1993 objective of increasing revenue derived through internally developed technology from $22,000 to $22 million in five years. Some organizations, like General Motors' Opel division, have even failed numerous times with stretch initiatives. The consequences of setting and then missing stretch goals can be profound. Failures can foster employee fear and helplessness, kill motivation, and ultimately damage performance.

So, before launching stretch goals in sales, production, quality, or any other realm, how can you be confident that your grand aspirations will trigger positive attitudes and actions rather than negative ones? When facing radically out-of-the-box opportunities or threats, you can't just rely on intuition. You need clear guidelines for assessing and addressing risk. You have to know when stretch goals do and do not make sense, and when to employ them rather than set more achievable objectives.

Predicting the Outcome of Stretch Goal Use

Two critical factors consistently seem to determine success at meeting stretch goals. Though they appear straightforward, often managers ignore them or don't appreciate how they'll affect a firm's abilities.

Recent performance.

Is your organization coming off a win or rebounding from a loss? If a company has just surpassed an important benchmark in the industry or in its own recent history, it's *well positioned to tackle a stretch goal.* Why? Winning affects attitudes and behaviors positively. When confronting an extremely challenging task, the employees of recent winners are more likely to see an opportunity, systematically search for and process information, exhibit optimism, and demonstrate strategic flexibility. Companies experiencing weak results, however, are not well positioned. Their employees are more likely to see a stretch goal as a threat, grasp for externally sourced quick fixes, exhibit fear or defensiveness, and launch new initiatives in a chaotic and ultimately self-defeating fashion.

The effects of recent performance are often seen in sports, where exceptionally difficult contests are viewed in an entirely different light when athletes and teams have been doing well rather than poorly. In a baseball game, for instance, players who are at bat are more likely to see opportunity if their recent turns at the plate have produced hits rather than strikeouts.

The same thing happens in the corporate world. For instance, when Nypro, a world-class plastic-injection molding company, was developing the molds to manufacture the world's first disposable contact lenses in 1985, it had an upbeat outlook. Though its customer was demanding unheard-of cost points and precision levels, Nypro had just pulled off a couple of challenging projects, such as developing a revolutionary process for producing Swiftach, a price-tag attachment system now used by almost all major retailers. So the staffers felt a sense of opportunity and determination rather than worry over possible failure. They tackled the needed experiments and overall discovery process with unprecedented intensity, interacting with the customer on a level that was remarkable for the 1980s, and succeeded in meeting the customer's extraordinary requirements.

A great deal of other anecdotal evidence from sports, business, and government, as well as systematic evidence from the fields of psychology and organizational science, suggests that organizations should take bold, risky actions when they are strong rather than weak. That may sound intuitive, but our research indicates that it is not obvious to most organizations.

Slack resources.

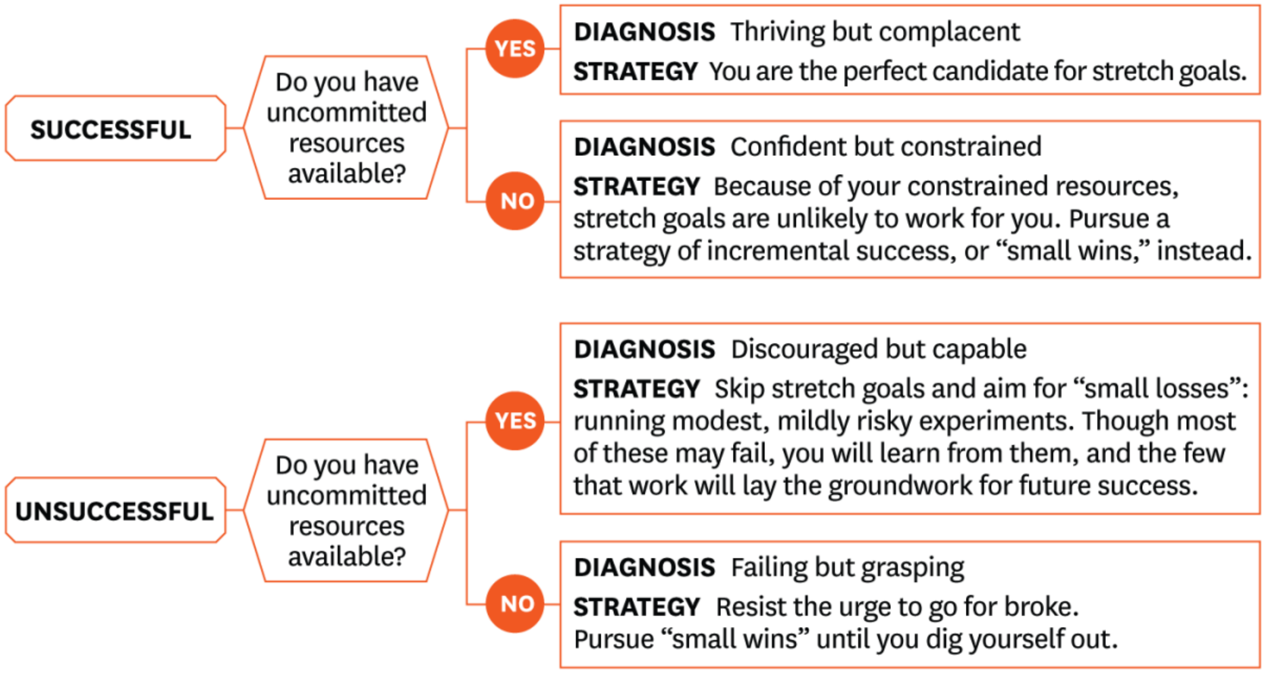
The second and even more critical factor is the availability of resources in an organization. If the supply of money, knowledge and experience, people, equipment, and so on exceeds a firm's needs, the surplus can be used in a discretionary way. It can help organizations search broadly for ideas, experiment with them, and remain committed in the face of setbacks. Well-resourced organizations are better positioned to absorb failures that come with trying a variety of new ideas—not just because they have funds to move forward but also because they have emotional reservoirs that increase their resilience. On the other hand, in organizations that are strapped, managers have a harder time conducting and sustaining experiments and may jump at Band-Aid approaches that rarely succeed and are hard to learn from.

Extra resources give organizations the freedom to try various tacks, including parallel initiatives in different groups and units. At Toyota, for example, slack resources allowed the Prius development team to rapidly execute scores of experiments after the company's executives raised the team's target for increasing fuel efficiency from 50% to 100%—and gave it just a year to develop a concept car. The team tried out 80 hybrid technologies before narrowing the list to four and then settling on a final choice.

By examining recent performance and resources, executives can assess how feasible stretch goals are for their organizations. We have developed an analytical framework to help them do this. It breaks all organizations down into four distinct categories on the basis of where they stand on these two factors. Understanding which category their company falls into will give managers insight into whether they ought to try for a long shot.

Are Stretch Goals Right for You?

How would you describe your organization's recent performance?



FROM "THE STRETCH GOAL PARADOX," BY SIM B. SITKIN, C. CHET MILLER, AND KELLY E. SEE, JANUARY–FEBRUARY 2017

Opel, the European carmaker, is a vivid example. Its poor financial performance since the turn of the millennium prompted one commentator to say: "The darkest cloud on GM's horizon is Opel, the biggest contributor to GM's $14.7 billion in European operating losses since 1999." In 2001 alone, Opel lost more than half a billion dollars. As it struggled with uninspiring car designs, product reliability problems, and a very competitive market, Opel's losses mounted, sowing doubt and hesitation among the staff. Meanwhile its limited resources allowed little margin for error. Even so, that year the company predictably adopted a stretch goal—a return to the black in only two years. Despite some advances, Opel did not even come close to meeting that target, and its failure just served to deepen its morale problems. For those rooted in the proud Opel tradition dating back to the 1800s, it was a very difficult period. Opel's performance continued to flounder for so long that GM briefly considered selling the division, which did not post a profit for 14 years.

When Stretch Goals Should Be Avoided: **Failing But Grasping**

Organizations

Unfortunately, the organizations most poorly positioned to succeed with the use of stretch goals—those without recent success and slack resources—are, paradoxically, the ones that are most likely to pursue them.

As Daniel Kahneman and Amos Tversky's Nobel Prize-winning research has shown, failure puts decision makers in a risk-seeking frame of mind. When choosing between bold action and playing it safe, firms that are struggling usually favor the aggressive path, as studies of railroads, radio broadcasters, and many other industries have shown. We call these organizations *failing but grasping*. With disappointing track records and resource constraints, they lack the capability, momentum, and resilience needed to pursue stretch goals.

When organizations pursue stretch goals as a way of overcoming recent failure ("going for broke") while ignoring their tight resource constraints, they're asking for trouble. They should resist the temptation to "fly to the sun," because their patched-together efforts are most likely doomed.

When Stretch Goals Should Be Pursued: **Thriving but Complacent Organizations**

Our framework clearly suggests that organizations with strong recent performance and slack resources are in the best position to benefit from stretch goals. Yet such organizations are unlikely to reach for the seemingly impossible, because success tends to create risk aversion. If things are going really well, why undertake bold action or change? Why not stick with what has been working? Similarly, organizations with ample resources tend to become conservative because they want to preserve their gains. By promoting complacency and inertia, excess money and time can undermine an organization's ability to respond to risky but high-potential opportunities. As Alabama coach Nick Saban, one of the most successful college football coaches of all time, pointed out in an Associated Press interview:

"It's basically the human condition to get satisfied with success. There's a lot of books written on how to be successful. There's not a lot of books written on how to stay successful."

Complacency has caused many firms to stumble and even die, particularly in the face of disruptive technologies and business models. Blockbuster, Digital Equipment, Kodak, Smith Corona, Wang, and Woolworth are among the many companies that were once well positioned to make leaps but instead rested on their laurels, even in the face of strong challenges from new entrants.

On rare occasions, however, successful and well-resourced organizations have recognized the need to explore dramatic changes by setting stretch goals. DaVita, which provides kidney care and manages and operates independent medical groups, exemplifies this ideal. In 2011 it was in a very strong position, with growing revenues, profits, and working capital. Among its many accolades, it had been named one of the world's most-admired companies by *Fortune* for several years running. But because 90% of its patients were in government programs that do not fully cover the cost of care, DaVita decided to radically improve the efficiency and effectiveness of an array of processes. It created a new unit, the Pioneer Team, and charged it with producing an unimaginable $60 million to $80 million in savings within four years, while improving both patient outcomes and employee satisfaction. According to team leader Rebecca Griggs, "We had no idea how to achieve such large savings in such a short time frame. In fact, we had no idea if it was even possible." But by 2015 the team's savings had reached $60 million and were projected to hit $75 million the following year. More important, patient hospitalization rates and employee satisfaction had both improved significantly.

DaVita's achievement was predicated on several key factors: With a track record of recent success, sufficient resources, and a confident, proud workforce, the organization had the cultural and financial wherewithal to handle occasional setbacks. The Pioneer Team could get unfettered access to several dozen operating units (such as clinics) for testing new ideas because those units had the capacity to absorb the disruption of experiments. As a result, the team could put frontline employees side-by-side with engineers, Six Sigma experts, and project managers and "community design" each solution. The risk of stretch goal adoption was mitigated by DaVita's capabilities and momentum.

Pursuing stretch goals at your peak actually may be the best way to stay on top—but only if the complacency of success can be overcome. One tactic for doing that is to frame the situation in terms of potential losses, emphasizing what could happen if the organization stands still while others are on the move. That works because people feel losses much more intensely than gains. Talking about potential hits to market share, jobs, and bonuses will have a much greater impact than talking about possible advances in product quality, sales, and competitive advantage, as Kahneman and Tversky's research suggests.

CEO Kenneth Frazier demonstrated an understanding of this when urging the executives at Merck to come up with radical competitor-trouncing innovations. He asked them to imagine they were Merck's rivals and brainstorm what they would do to beat Merck. This focused them on what they had to lose. Then he asked them to put their Merck hats back on and address those challenges. It worked: Complacency melted away, and the managers eagerly embraced their new stretch targets.

Alternatives to Stretch Goals

What if your organization is neither flush and successful nor floundering and strapped? That means it falls into one of the two other categories in our framework: *confident but constrained* (recently successful but tight on resources) or *discouraged but capable* (recently unsuccessful but resource-rich). Are stretch goals completely off the table for such organizations? Not necessarily.

Our guidance for them—as well as for organizations in the failing but grasping category—is to take small steps rather than big, audacious leaps. Our research suggests three approaches, which can help companies lay the groundwork for effective use of stretch goals down the line.

Pursue small wins.

When Charlotte Beers took over as CEO at Ogilvy & Mather, in 1992, the storied firm had fallen from its leadership perch in the advertising world. With confidence inside the firm at a low ebb and disagreements over how to proceed at a high, she decided to initially concentrate on simple goals in the areas of client security, better everyday work practices, and financial discipline. “We must activate the assets we already have,” she declared as she focused on numerous incremental improvements. Beers then leveraged success with those modest goals to return the firm to its former glory. In her five years as chief executive, she helped Ogilvy regain accounts and increase billings by $2 billion.

> The vast majority of firms should not aim for the moon.

Bear in mind that although they’re very useful, small wins are not an automatic gateway to a predetermined stretch goal. By its very nature, a stretch goal requires novel approaches. Because the path to it is uncertain, organizations cannot map out a series of simple, intermediate milestones. Karl Weick, a psychologist noted for his insights into organizational behavior, put it this way: “Small wins do not combine in a neat, linear, serial form with each step being a demonstrable step closer to some predetermined goal.” Bottom line: Don’t overestimate your planning ability or expect an incremental success strategy to have an immediate, dramatic impact. Small wins work by building momentum, energy, and resources, and fostering learning that will allow a firm to take on bigger, more ambitious goals later.

Consciously build slack resources.

Strategies for this include spinning off inefficient, resource-consuming units and pursuing a potential merger or alliance with a better-endowed partner. Floating equity or debt could be expensive, but its feasibility also should be examined.

Another way to build slack is to focus on learning that will enhance existing resources. Because learning goals target knowledge and capability generation rather than near-term upgrades to performance, they can feel less threatening. These goals, however, can helpfully leverage untapped expertise and skills that might, in turn, result in better performance downstream.

Coca-Cola provides a good example of how small steps can eventually lead to the successful use of stretch goals. Dan Vermeer, Coca-Cola's former director of the Global Water Initiative, points to the company's 2007 goal of offsetting 100% of manufacturing water use through wastewater treatment and community partnerships within 13 years. "It had never been done before, and we had no idea if it was possible," Vermeer recalls. Thus it was a pleasant surprise when Coke achieved 115% of its target in 2015, five years early. How did it hit—and actually exceed—its goal so quickly? The effort was initially propelled by a water-related crisis in the Kerala region of India, where the company's bottling plant had come under fire. But rather than immediately announcing a PR-driven strategy to try to overcome its stumble, Coke spent three years building resources and infrastructure and testing options and learning from trial and error. Only when it had a string of incremental successes under its belt did it launch the stretch goal effort, which led to an early and dramatic success.

Pursue small losses.

If you have ample resources but have not been successful of late—and fall into the discouraged but capable category—you can hunker down, hoard your money, and hope the bad times will pass. Or you might feel driven to take undue risks to prove yourself. Neither is the right path.

Instead, use your resources to experiment with new ways of doing things that turn those recent losses into steps forward. This approach has been referred to (in previous works by coauthor Sim Sitkin) as the “strategy of small losses.” It entails running rapid, modest, mildly risky but informative experiments, knowing full well that many will not succeed. But the idea is that the one or two that do work will sow the seeds for longer-term gains. As Soichiro Honda, founder of Honda Motor, once explained, “Success can only be achieved through repeated failure and introspection. In fact, success represents the 1% of your work that results from the 99% that is called failure.”

A strategy of small losses is not merely a culture of experimentation. It involves actively pursuing risky projects for which there is a strong possibility of failure. The value of this approach is twofold: First, what is being tried will be distinct from what is already well known, but close enough that you can easily learn from what did not work, fix it, and try again. Second, it builds resilience and confidence; organizations see that they can survive small failures and can achieve success even after encountering a few stumbles. Pursuing small losses also naturally lessens the temptation to go for the big risk.

CONCLUSION

As we have suggested in this article, no solution is ideal for all organizations. To identify the best strategy for yours, a deeper and more nuanced understanding of when stretch goals are viable is required. They are effective only in certain circumstances. Companies lucky enough to be surfing a wave of success with stockpiles of cash should get up the courage to take a shot at risky, ambitious targets that might benefit their business and the world, rather than default to stock buybacks or plush bonuses for executives. The vast majority of companies, however, should not aim for the moon.

So why do so many companies still try to throw heroic Hail Marys? It could be that the widely circulated business success narratives have overlooked important details about the organizations involved. Take a look at IBM in the 1960s, GE in the

1980s, Toyota in the 1990s, and Apple in the 2000s, and you'll see that those companies had the qualities required to pursue stretch goals effectively: rich resources and strong performance. Their strategies cannot necessarily be applied to companies in weaker positions.

Even in the best-case scenarios, you need to keep sight of how challenging true stretch goals really are. Consider the British alcoholic beverages company Diageo, which in 2008 articulated ambitious environmental targets, including a 50% reduction in global carbon by 2015, because its executives "wanted to do something big." They were criticized when they fell short on seven of their eight main goals. Yet their 33% reduction in carbon emissions and 45% reduction in wastewater were actually significant milestones to be celebrated and, according to Diageo's global sustainability director, David Croft, would have been unlikely if the company had "set targets that are readily achieved." It is easy to forget that stretch goals are, by their very definition, extremely difficult.

Let us be clear. We support the pursuit of stretch goals, but only when they are appropriate. We are not advocating stagnation or risk aversion; to the contrary, we understand that the next Panama Canal, moon landing, and iPhone cannot be produced without bold ambitions. But attempts at such outcomes should not be ill-advised lottery bets. Savvy strategic choices are better by far.

Shoot for greatness. But greatness doesn't always come from dramatic leaps. Sometimes it comes from small, persistent steps.

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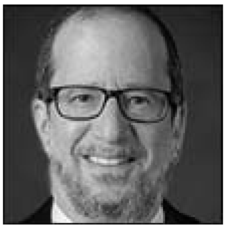

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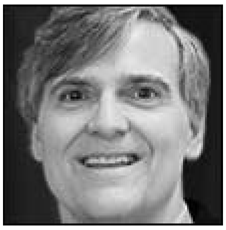

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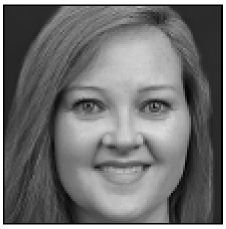

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