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ORIGINAL PAPER

On Establishing Legitimate Goals and Their Performance Impact

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Abstract We investigate the role of legitimacy in setting organizational goals as a way to address the potential "dark," unethical side of organizational goal setting. Coupling qualitative and quantitative research methods to better understand legitimacy in goal setting, we first induce novel hypotheses based on observed practice and then provide survey evidence to test the performance implications. Study 1 reports findings based on interviews with twenty-two company executives. We identify attention to goal credibility, prioritization of stakeholders directly involved in the goal's attainment when setting goals, and communication openness regarding goals, as well as their combination, as being important to organizational performance outcomes. Study 2 determines whether these three practices and their interaction predict performance using a survey conducted with 522 companies across four countries. Among other findings, we contribute to the organizational goal setting literature by showing that higher organizational performance is associated with the amount of priority given to the key actors (typically employees) directly involved with the goal's attainment. We also find a positive interaction between attention to goal credibility, key actor (employee) importance, and communication openness on financial performance and non-financial goal attainment. Our work takes an initial step toward understanding how organizations can better shape the legitimacy of organizational goals for improved organizational performance and reduced unethical behavior.

Keywords Organizational goal setting · Goal targets · Legitimacy · Ethics in goal setting

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Introduction

Organizational goal setting is widely accepted as a way to improve organizational performance by directing attention and effort toward desired outcomes (e.g., Cyert and March 1963; Thompson and McEwen 1958; Fiegenbaum et al. 1996). However, several studies have recently suggested a dark side to goal setting—that is, goal setting has been associated with unethical behavior due to its dominant focus on the bottom line (e.g., Niven and Healy 2016; Greve et al. 2010; Greenbaum et al. 2012). Even though there is contrary debate (Latham and Locke 2009), studies have linked goals to financial misrepresentation (Harris and Bromiley 2007), self-serving short-term management (Miller and Xu 2017), incentives to cheat (Schweitzer et al. 2004), and social undermining (Greenbaum et al. 2012). In response, it has been suggested that organizational members may have reduced incentive to behave unethically when they view the organization's goals as "legitimate" (cf. Niven and Healy 2016; Greve et al. 2010; Zhang and Jia 2013; Welsh and Ordóñez 2014). The logic for this assertion is that a legitimate goal reduces the potential for moral disengagement (Bandura 1999), thereby reducing the propensity for unethical behavior (Barsky 2011). Yet, little is understood about legitimacy in organizational goal setting.

Our aim in this research is to address two questions related to organizational goal setting. First, given that we know little about goal setting at the organizational level in practice (Washburn and Bromiley 2012; Labianca et al. 2009; Shinkle 2012), our investigation seeks to increase understanding of the organizational goal setting phenomenon and the factors in play. While maintaining focus on goal legitimacy, we ask how are business leaders currently setting organizational goals and what is working well and not so well. Our second, more specific question derives from the fact that the prior literature does not address the issue of how to improve the legitimacy of organizational goals or provide guidance on which stakeholders' perceptions are most salient for goals to be fulfilled. To address this theoretical omission, we seek to better understand the role of legitimacy in organizational goal setting and to examine whether, and how, legitimacy regarding goals is associated with organizational performance.

We define an organizational goal as a desired organization-level outcome usually established by top management (top executives or leaders) to direct organizational effort and/or assess organizational performance (Thompson and McEwen 1958). For example, an organization's profit goal (e.g., return on equity) reflects an organization's target, and the degree to which the target is subsequently met reflects organizational performance. Building on previous definitions, we characterize the legitimacy of an organizational goal as the extent to which the goal's performance target (also called aspiration, indicator, or metric) is perceived as appropriate within the prevailing system of norms (Suchman 1995)—thereby signifying the goal's *acceptability* (Locke et al. 1981; Locke 1968) to the intended audience (the audience is likely to be diverse as will be described in more detail shortly). Specifically, we focus on the legitimacy of a targeted performance level (e.g., goal target level of 5% profit increase per annum) rather than the legitimacy of the goal domain (e.g., profit or environment). Hereafter, we use the term "goal" rather than goal target for brevity.

Importantly, the focus in this research is on *organizational* goal setting (e.g., Cyert and March 1963) rather than *individual* goal setting (e.g., Locke and Latham 1990). However, we draw on concepts from the psychology-grounded, individual goal setting literature following others who have bridged this difference between organizational and individual levels (e.g., Porter and Latham 2013; Heslin et al. 2013). A critical distinction in this difference is that individual goals have a single actor (the person assigned the goal) and often a small audience that is interested in the goal (e.g., sometimes only the person assigning the actor's goal such as a supervisor in a performance appraisal). In contrast, an organizational goal most frequently has multiple diverse actors and more diverse audiences. Diverse actors consist of the people who must often work together to attain an organizational goal. Diverse audiences consist of multiple stakeholders, each with potentially valid claims regarding the legitimacy of a goal because they may affect or be affected by the goal's achievement (Neville et al. 2011; Freeman 1984). Stakeholders for organizational goals may include Boards of Directors, top managers, shareholders, analysts, customers, employees, and external groups—each with heterogeneous interests and requirements. Yet, existing literature provides little guidance on how to improve the legitimacy of organizational goals, nor does it address the issue of which stakeholders' perceptions are most salient for fulfillment of organizational goals.

While the individual-level goal setting literature has a high focus on characteristics such as goal difficulty, commitment, and acceptance (Locke and Latham 1990; Locke et al. 1988) that can help specify a legitimate goal for individuals, work on organization-level goal setting has a limited focus on goal legitimacy. Research has addressed related concepts of goal achievability (e.g., Stringer and Shantapriyan 2012) and stretch goals (e.g., Sitkin et al. 2011; Ordóñez et al. 2009; Kerr and LePelley 2013); furthermore, research indicates that an assigned goal (i.e., an organizational goal assigned to an individual) can be effective in performance enhancement when it has a strong rationale (Latham et al. 1988). The limited focus on goal legitimacy is surprising given the widely publicized and infamous exemplars of unethical outcomes of organizational goals such as the accounting scandals at Enron and WorldCom and the overcharging of customers at Sears, Roebuck and Company (Niven and Healy 2016; Ordóñez et al. 2009).[1] This is not to suggest that general guidance on organizational goal setting is limited; rather, numerous perspectives provide different advice including: stretch (seemingly impossible) goals (Sitkin et al. 2011), small incremental increases over past performance (Cyert and March 1963; Greve 2003), goals that will be achieved 80–90% of the time (Merchant and Manzoni 1989), goals

[1] We note that the study by Ordóñez et al. (2009) is based on anecdotal evidence from public press sources rather than systematic research.

that will be achieved 50% of the time (email communication with E.A. Locke regarding field studies), benchmark best-in-class organizations (Kaplan and Norton 1996a, b), "demanding" goals (Beer 2009; Saari 2013), goals that achieve and sustain competitive advantage (Fiegenbaum et al. 1996), and there is a broad array of concepts in the practitioner literature (e.g., Atkinson et al. 1997; Shinkle et al. 2004; Franco-Santos et al. 2010). Across these theoretical perspectives, goals are generally set in a top-level managerial decision process with only limited attention to legitimacy of the goals or diverse stakeholders. Unsurprisingly, due to this divergence in perspectives, there are multiple calls for scholarly research on goal setting in practice (Washburn and Bromiley 2012; Labianca et al. 2009).

In summary, our review of the literature suggests that little is understood about the role of legitimacy in organizational goal setting, it is unclear which stakeholders deserve more or less attention (priority) regarding organizational goals, and understanding of goal setting practices as well as their relationship with organizational performance is lacking. Accordingly, our investigation utilizes the often-employed, mixed-method approach that couples qualitative and quantitative research methods (Jick 1979; Shah and Corley 2006). Specifically, we first collected interview data to induce hypotheses that we subsequently test with survey data. To foreshadow our findings, three practices emerged from the qualitative study: attention to goal credibility, attention to multiple stakeholders with key actors (those directly involved in the goal's attainment) receiving priority, and attention to communication openness regarding goals. In more successful organizations, these three practices were utilized at high levels and were discussed as working in conjunction with each other to achieve higher financial performance and goal attainment. The underpinning logic described by these organizations was that these practices were intended to shape perceptions of the goals to gain "buy-in" (acceptance). In other words, these three practices are similarly focused on enhancing perceptions that the goals are legitimate, in order to build motivation, primarily from the key actors, to achieve high-performance outcomes.

Our research makes multiple contributions to the organizational goal setting literature and its practice through enhanced understanding of the role of legitimacy in goal setting and performance. First, we build theory based on qualitative observations of how leaders go about the activity of organizational goal setting to better shape the legitimacy of organizational goals. Consequently, we identify practices and performance relationships that have been limitedly explored in the extant literature. Second, we gather and analyze survey data to provide evidence that the practices are associated with organizational performance outcomes. Third, we apply these findings to explore the managerial implications of our work. In addition to the role of legitimacy, we believe that a core contribution of this work is improving theory on the issue of which stakeholders warrant priority in setting organizational goals. In contrast to the prior literature that proposes organizations set goals primarily to satisfy shareholders, Boards of Directors, or top managers (cf. Jensen and Meckling 1976), our research indicates that more successful organizations utilize practices that give high attention to the credibility of goals with the key actors who must expend effort to deliver the desired outcomes—specifically, in our investigation, employees. By investigating stakeholder importance and prioritization, our work answers calls from both the stakeholder (Neville et al. 2011) and ethics literatures (Mishina et al. 2010). Overall, by integrating prior literature on the negative relationship between the perceived legitimacy of a goal and unethical behavior (e.g., Niven and Healy 2016; Greve et al. 2010; Zhang and Jia 2013; Welsh and Ordóñez 2014; Ordóñez et al. 2009) with our examination of goal legitimacy, we shed light on how organizational goals may be established to achieve higher performance while simultaneously reducing the propensity for unethical behavior.

The Current Research

Our investigation couples qualitative and quantitative research methods (mixed-method approach) by collecting interview data in Study 1 and survey data in Study 2. In Study 1, we use grounded theory as our investigatory approach (Glaser and Strauss 1967). Grounded theory is recommended by Shah and Corley (2006) where new areas are being explored (organizational goal legitimacy in our case), to understand poorly understood phenomenon (stakeholder priority in establishing the legitimacy of goals in our case), and to uncover processes (here: organizational goal setting practices). Further, Gioia and colleagues (Gioia and Thomas 1996; Gioia and Pitre 1990) have suggested that grounded theory is beneficial where theoretical paradigms may need to be bridged (organizational and individual goal setting theories in our case).

In Study 1, we investigate how top executives (we also use the term leader, interchangeably) engage in the process of setting organizational goals in practice. We interview top executives, strategists of firms, and strategy consultants regarding their approach to setting organizational goals. The qualitative investigation is framed with a macro-question: How are business leaders currently setting organizational goals and what is working well and not so well? Within this question, we explored sub-questions regarding whether and how organizations strive to make their goals more legitimate to a multi-stakeholder audience. The results from Study 1 are used to induce hypotheses that are tested in Study 2. In Study 2, we use a survey methodology to determine whether and how the factors identified in Study 1 affect organizational financial performance and goal attainment. Finally, we integrate the results of Studies 1 and 2 to provide implications for research and for managerial practice.

Study 1: Interviews with Top Executives

Participants and Investigation Approach

Following the logic of theoretical sampling, we identified a diverse set of organizations to encompass sources of possible variance in environmental dynamism, organizational size, and level of technology (Eisenhardt 1989; Siggelkow 2007). From these organizations, we identified key managers responsible for setting goals, strategy development and/or strategy implementation in their respective organizations. In total, 22 executives from 18 organizations participated including four consulting firms (consulting firms are relevant because many organizations use consultants to aid the development of their goals). Some interviews were accomplished jointly, resulting in over 18 h of total interview time with an average interview time of 50 min. The organizations are Australian-owned organizations or Australian business units of multi-national corporations. The interviewees self-selected into the research pool through a posted request to the alumni of a prominent Australian University Business School. The organizations cover an array of industries including finance and banking, resources and mining, FMCG (fast-moving consumer goods), construction and property management, telecommunications, and professional services.

We used a semi-structured interview technique and followed accepted procedures to reduce social desirability and retrospective bias (Podsakoff et al. 2003). Our open-ended questions covered the organization's business situation, its goals, how it determines its goals, and how it manages the accomplishment of its goals. We included both "strategic goals" and "key performance indicators" (KPIs) in our questions since our interviews indicated both terms were used in practice. The large scope and openness of our questions was prescribed by grounded theory process (Glaser and Strauss 1967). Grounded theory process necessarily allows each informant some control over deciding what aspects of the phenomenon are most important, opening the possibility for the researcher to observe new facets for theory building (Shah and Corley 2006). Our interviews were guided by the questions shown in the Appendix.

Results

The overall results of our investigation are codified in Table 1 and representative quotes from our interviews are exhibited in Table 2. Table 1 shows the level of success in goal setting (to be defined shortly) to aid interpretation. All interviews were undertaken by a single researcher on our team for consistency and all interviews were transcribed for analysis and comparison by the researcher team. While some interviewees directly addressed the points in our post hoc coding scheme (categorizations), others required interpretation, and some were missing from the discussion (see Table 1).

For Study 1, we define goal setting *success* as leaders reporting high personal satisfaction with the process of setting goals and reporting a strong belief that through their approaches they achieved higher performance—without creating high incentive for misconduct. Coding across observations was enabled by bracketing the extreme cases (Gubrium and Holstein 1997). As an example, our coding of success was bracketed by:

> Upper bracket: *"And so that's what comes, if your people are happy and they're inspired and you're all aligned in the same direction going for a goal, or the goals…"* (Research Executive) Lower bracket: *"…we've got too many goals so we're unclear what the priority is. People can choose their own goal … alignment around the goals. I think that's something that we've done very poorly."* (Banking Executive).

This bracketing approach allowed us to code high, medium, and low success in goal setting.

Using the constant comparison method (Glaser and Strauss 1967), we analyzed and compared our interview data with existing research-based knowledge. We were interested in factors or practices that led to higher performance, so we strived to understand what the interviewed mangers viewed as important in goal setting. Three practices (as qualitative themes) emerged from our analysis: attention to goal credibility, attention to stakeholder importance, and attention to communication openness—and all emerged as practices intended to increase stakeholder perceptions of goal legitimacy in order to improve performance. These practices were observed across the interviews, but they were discussed as being related to successful goal setting by some interviewees and were less mentioned in unsuccessful goal setting. The construction of Table 1 allowed us to distinguish levels of these practices and associate them with performance outcomes. The detailed insight on these three practices follows.

The first practice that we identified is attention to the credibility of goals. Relevant quotes are presented in Table 2a and codings are listed in Table 1. Executives used

Table 1 Interview data of 18 firms

Industry	Org. size	Performance relative to goals	Success of goal setting process	Information on goal setting practices				
				Importance of credibility	Important stakeholders		Importance of communication	Practices work together?
					1st response	2nd/3rd response		
Research[a]	*M*	Above	H	H	Employees	Top managers	H	Yes
Financial services	*L*	Above	*H*	H	Employees	Top managers	H	Yes
Pharmaceutical	*L*	Above	H	H	Employees	Top managers	H	Yes
FMCG	*M*	Moving to above	H	H	Top managers	Employees/BOD	H	Yes
Technology distributor	*S*	Above	H	H	Employees	~	~	No
Construction[a]	*L*	Prior—below Now—above	*M*	M	Shareholders	Top managers/BOD	L	No
Medical devices[a]	*S*	*At*	*M*	M	Shareholder (owner)	Employees	H	No
Telecom	*L*	*At*	*M*	H	Customers	BOD Employees	M	No
Minerals	*L*	*At*	*M*	H	Shareholder	Top managers	~	No
Back office services	*L*	*At*	*M*	*M*	BOD	Employees	H	No
Consulting A[a]	*L*	*At*	*M*	~ ~	Partners Analysts	~ Shareholders	H ~	No
Consulting B	*S*	*At*	*M*	M	Owners	~	~	No
Consumer products (furniture)	*M*	Above	*L*	H	BOD (owner)	Top managers	L	No
Energy	*L*	At	*L*	L	BOD	Shareholder	M	No
Consulting C	*M*	*At*	*L*	*M*	BOD	Top managers/customer	H	No
Banking[a]	*L*	Below	L	M/*L*	BOD	Top managers	L/*M*	No
Infrastructure	*L*	*Below*	*L*	M	Top managers	BOD	~	No
Consulting D	*L*	*Below*	*L*	~	Top managers	~	H	No

Italicized font is an interpretation of the discussion that was coded by the researchers rather than a precise statement

Organizational size is small, medium, large

Credibility and communication are coded high, moderate, and low levels of this practice

"~" Indicates limited mention of this topic

[a] Two respondents per firm

various terms for credibility, including achievability, acceptability, and reasonableness. Across these terms, we infer the meaning of credibility to be worthy of confidence or valid. Organizations in our sample had variance in two dimensions. First, the primary audience for attention varied and some firms talked about the balance of credibility across various stakeholders. Second, some organizations did not indicate a concern for credibility when setting goals, in contrast to others that were keenly focused on attending to goal credibility. Most interestingly, the organizations that stressed the importance of credible goals, even with various stakeholders, generally reported higher success of their goal setting process. This is perhaps expected since knowing the audience for credibility provides clarity to the process and outcomes. Our interviews also revealed practices with undesirable outcomes. For example, when organizations fail to attend to credibility or set goals that lack credibility, there are issues in reaching the goal and the future of the organization may be harmed by the strategy to achieve the goal (i.e., misconduct). A construction management company executive explained the critical nature of attention to credibility:

> And keeping [goals] credible so that you don't have to revise them in the future as otherwise you can set any goals, but if you're not able to deliver them, they

Table 2 Representative quotes from Study 1 regarding: (a) Importance of credibility, (b) recognizing multiple stakeholders in the goal setting process and (c) open communication and socializing

(a)

"So, you can <explicative—highly irritate> staff and disenfranchise them if you put ridiculous targets on them, so you have to get that balance right. There is not an equation where you just dig in and out comes support ..." Telecom Executive

"... People are smart enough these days to know that companies do that. They set stupidly big goals to try and stretch you further knowing that you won't actually hit the goal and I think everyone's a bit <explicative—BS> proof these days" Research Company Executive

"We will do the modeling to say, and challenge all the businesses to say, "Well, the market's doing this. You've been doing this historically. You've spent all this investment to get X cost out of Y additional revenue. Here's the number we think you should be going to. And then we have a bit of a good old-fashioned bid offer discussion" Banking Executive (Top down legitimacy through a credible social comparison)

Informal interview (not precisely quoted):

"HQ wants goals high as possible. The division leader wants goals as low as possible—because his and his team's bonuses are dependent on meeting the goals. The division wants the sales goal number realistic so that managers and staff will be willing to strive for it. Further, achievability is important ..." Financial Executive

(b)

"So consensus is important. ... So we form, as a team, an expectation of what we think that the business can do. We do a combination of top-down and of bottom-up—so top-down's my enterprise view, then bottom-up is where the businesses say, "Well, if I need that number, here is how that can be diced," and typically there's a stretch at the end" Banking Executive

"Well, I think it has to be the three constituents: The customer, the stakeholders, and staff. So it is no use the stakeholders saying "look, we want revenues through the roof"—well that could screw customers, that is one way of getting it, and you could screw the staff in getting it. So it has to be...each of them has to be comfortable with the other. The board has to be very comfortable, and the market, in terms of the communication with them, has to be comfortable with those financial goals; that they are achievable, that they are not going to burn advocacy, they are not going to burn staff, because that will be a short rather than a medium or long term gain if we were to do that. So we need the three constituents to be happy with the three areas not just their own specific interest area, if that makes sense" Telecom Executive

"There is a lot difference between aggressive and conservative managers, and also either they are autocratic or they are collaborative managers. So, I do think collaborative executives will actually generally tend to be of the nature that they'll incorporate everybody's views and then agree on a goal and make sure that the organization is being set up to achieve that goal" Consulting Executive (C)

(c)

"It's—there's always that little tension between understanding "Guys, once you've socialized it and put it in writing, you're going to be held accountable for delivering," so they'll pull back a little bit of what they think may be achievable whether it be operational excellence or whether it be client retention or staff turnover. So it needs to be realistic that they believe they can achieve it and it's realistic that I believe it too. And the division executive must think it is realistic and it's not been low-balled or highballed, it's going to add value to the business, and is in line with where he wants to take the division" FMCG Executive

"But I was saying the more (I don't want to use the word lowball) ... the more sand we put in our forecasting it will have an impact on our P&L, because we have to have an OPEX to revenue ratio which is acceptable and the lower we put our revenue the lower our OPEX will be. And what that means is; it may mean heads, it may mean you can't do this, and you can't do that. So this approach actually gave people the concept "OK well the forecast I set will have an impact on the OPEX that our business will set to invest in the following year. I shouldn't lowball. So that was an example where I gave my team as much clarity as I could around the implications of the accuracy of our forecasting and I think that sort of concept is very useful when it comes to goal setting. I think the more you can provide that clarity and that connectivity of 'what this person does rolls up to the final number'—it gives people a sense of purpose" Pharmaceutical Executive

"So the senior management team—all the direct reports to the CEO. We see everyone's goals. Everyone sees everyone's goals. If someone's being soft, we'll all know" Infrastructure Executive

"Keep communicating because you're trying to change the culture—so these things will never be ended. So you can fool yourself sometimes—like with a single gunshot [one-time event] that you're done. It actually doesn't work that way and so I think you're just going to keep emphasising tacking. "Hey, we've got that bit done. Now, where do we go from here?" all the time" Consulting Executive (A1)

"I do really like the whole socialising piece because it helps drive that accountability and it helps make them <goals> something that's not just stuck on my wall until I get to the end of the year" FMCG Executive

> won't be taken seriously in the future... if we set [overly high] targets managers have an excuse later on why they can't deliver or they shift a lot of things just to deliver it, but then hurt the business in few years' time.

Importantly, those organizations giving high attention to goal credibility tended to set goals with some stretch (moderately difficult) rather than easily accomplishable. For example, executives said:

> ... a goal; it should be optimistic but realistic,"; "you clearly want your plans to be achievable but you absolutely want them to stretch..."; and "... a tangible, reachable – not necessarily easily reachable – but yet reachable target.

The second practice that we identified is attention to the relative importance of multiple stakeholders with key actors (those directly involved in the goal's attainment) receiving priority in the organization's process for setting goals. Relevant quotes are presented in Table 2b and are further supported by quotes in Table 2a; for example, consider the following FMCG Executive describing the need to address multiple stakeholders:

> Interviewer: So, please allow me to summarize that great story.... you're trying to make it <the goal> acceptable to the employee group who go, "Yeah, that's realistic." And you're trying to get it satisfactory to the board to say, "Yeah, that's got enough stretch in it. It's high enough." And you and your executive team say, "Is this realistic ... but not be low-balling?".
> Interviewee: "Yeah, exactly."

In the interviews, we asked: As the organization sets its goals, what is the level of consideration about what others may think? This question typically instigated the interviewed executives to consider who they were concerned about when setting goals. If not raised spontaneously, we sometimes prompted by explaining others can include shareholders, customers, and employees. In Table 1, we identify the first stakeholder mentioned in the response, followed by second and third. Most interestingly, organizations that stressed the importance of employees (while not ignoring other stakeholders) generally reported higher performance and success in their goal setting process. This contrasts to organizations reporting a lack of success where attention was focused on Boards of Directors or top managers (see Table 1). This is an unexpected finding because it contrasts with the existing organization-level literature that tends to focus on the importance of Boards of Directors, shareholders, and top managers (cf. Jensen and Meckling 1976). Comparing successful versus less successful organizations across the interviews, we conclude that it is particularly important to focus attention on the key actors who accomplish goals, that is, those who are needed to take action to achieve the outcomes.

The third practice that we identified is attention to communication openness regarding organizational goals. Codings for this practice are listed in Table 1 and relevant quotes are presented in Table 2c where we focus on what executives say about the necessity of transparently balancing organizational pressures on goal setting with their process of socializing and communicating goals. Most importantly, the first three quotes include approaches to create transparent, balancing forces to bring the goal negotiation process into a wider view of the organization. This balancing process was discussed as a means to build understanding of the forces at play with the aim of fostering organizational support and buy-in. Transparency was also described as helping result in a "more appropriate" (i.e., less biased and more legitimate) goal while simultaneously adding peer pressure as a governance mechanism. The last two quotes in Table 2c add further credence to the importance of communicating and socializing goals.

An overall observation is that only a few executives reported high satisfaction with the process of setting organizational goals (see Table 1). Those reporting high satisfaction described an understanding of the important stakeholders, how they strived to assure that the goals were credible especially with the key actors, and their approach to "socialize" their goals through open communication with the important stakeholders. They also indicated that transparent processes build awareness of the logic for having particular goals—gaining buy-in and support. In other words, in the organizations reporting success in goal setting (satisfaction with the process and higher-performance outcomes), the three practices were performed in conjunction with each other rather than in isolation. In contrast, we largely did not observe these practices at high levels in organizations that reported not achieving their goals or striving to meet industry norms (meaning their performance was below average). Instead, less successful organizations tended to mostly focus on Boards of Directors in their goal setting. Further, attention to the credibility of goals with the key actors or the broader set of stakeholders was less often observed in these discussions.

The notion that the three practices may work in conjunction with each other was strongly observed in the first four firms in Table 1. This interpretation was made by drawing across what the interviewed leaders said in response to different questions and how they talked about communication with employees (as observed in Table 2c). Since this interpretation was not explicit, we presented, post hoc, the results of our analysis and thinking about the three practices to the four firms from Study 1 that strongly aligned with its insights. We sought to confirm that our interpretation was a valid representation of their practices. All four firms responded with confirmatory comments such as:

> ...captures a representation of our view how to motivate the organization to achieve high performance- Pharmaceutical Executive.
> ... the ideas of setting legitimate targets and communicating really resonate with what we now successfully do- FMCG Executive.
> The authors of this research have accurately captured our process around strategy and goal setting. This process has been extremely successful for our firm. – Research Company Executive.

Table 3 Goal credibility, actor (employee) importance, and communication openness (post hoc re-evaluation of Study 1 perspectives)

"We spend a lot of time communicating the reason for the strategy and its target and why it is important in order, to get buy in... There is constant repetition of the importance of the strategy and target through formal and informal communication and a regular process of feedback about how we are going" Financial Executive
"... we set goals that the majority of the internal, local organization thought were achievable, yet a good stretch from where we were currently. We did this because we believe that in our business, employee motivation is critical to achieving high targets. We indeed set the targets to be viewed as reasonable by the people who would do the work. Of course, our regular and transparent two-way communication helped us understand what was viewed as reasonable and helped our workforce better understand the business necessity of our targets" Research Company Executive

In response to our questioning, two of the executives provided more detail, which we present in Table 3. These quotes provide strength to the notion that the three practices work in conjunction rather than in isolation. Across these perspectives, more successful organizations used these three practices in combination, to enhance the legitimacy perceptions of the goals and therefore improve performance.

Discussion and Hypothesis Development for Study 2

Overall, Study 1 provides insights into how successful organizations work to build perceptions of goal legitimacy—recall success for Study 1 was defined as satisfaction with the goal setting process and higher-performance outcomes. Three organizational practices were identified as vital in setting goals and subsequently attaining performance outcomes: attention to goal credibility, attention to key actor (employee) importance in setting goals, and attention to communication openness. Interestingly, these three practices were each intended to influence the legitimacy perceptions of the goals in order to heighten motivation for goal attainment. Looking across the coding of the interviews in Table 1, we identify two interesting findings. First, while successful organizations viewed multiple stakeholders as important, they viewed key actors for goal attainment as the most important to consider when setting goals. Yet, research tends to overlook the role of multiple stakeholders in selecting organizational goals and provides limited guidance on which stakeholders should be given higher priority in goal setting. Second, successful organizations discussed how the three practices work in conjunction with each other rather than in isolation to achieve higher-performance outcomes. This is salient because the extant literature has limited understanding of the possible complementarity of these practices.

Study 1 provides much needed additional theoretical and practical insight that goes beyond the existing literature regarding effective organizational goal setting. Nevertheless, its findings are based on a self-selected, small sample, and qualitative research methods. We therefore decided to undertake an empirical investigation with a large sample in Study 2 to determine whether the insights regarding the three practices are more broadly generalizable. To direct this study, we next induce hypotheses from our Study 1 findings, additionally triangulating with evidence from the goal setting literatures at the organizational level (e.g., Cyert and March 1963) and individual level (e.g., Locke and Latham 1990).

Attention to Goal Credibility

The first practice is attention to goal credibility, which reflects the extent to which organizations devote attention to setting organizational goals that are credible, i.e., worthy of confidence, with the broad stakeholder audience for goals. More successful organizations tended to strive to understand their stakeholders' requirements and preferences and then set credible goals. While some organizations only focused on one stakeholder (usually the Board of Directors), most focused on multiple stakeholders (e.g., operating managers, shareholders, and social interest groups). This multiple stakeholder perspective suggests that organizations are concerned with credibility across a broad range of stakeholders, although this concern may be more directed toward different specific or different combinations of stakeholders. The opposing perspective is that organizational decision makers can set goals, rather unilaterally, with little attention to the credibility of the goal with stakeholders. For example, decision makers could set goals based solely on their individual assessments or via consideration of only external factors (e.g., industry norms or competitor performance) while paying no attention to how stakeholders might assess these decisions. The organizations in our study that emphasized attention to setting credible goals also generally reported high performance and/or high goal attainment (see Table 1). These organizations also emphasized that their goals had some stretch and were not easily accomplishable, indicating that low goals were also not credible.

The practice of focusing attention on goal credibility is generally consistent with the literature on stakeholders (Freeman 1984) and the managerial literature that suggests considering stakeholder expectations and customers when setting goals (Franco-Santos et al. 2010; Kenny 2014). Furthermore, there are indications in the literature that attention to goal credibility may be associated with achievement of those goals. This is seen in prior studies showing that the achievability of a goal increases performance. For example, Merchant and Manzoni (1989) argue that setting goals that will be achieved 80–90% of the time promotes positive performance attitudes and avoids a sense of failure. Predicting a relationship between organizational attention to goal credibility and performance is also consistent with the idea of managing goal difficulty at the individual level, where goal acceptance and commitment have been indicated as positively related to performance (e.g., Locke and Latham 1990). Relatedly, the literature indicates that some stretch is beneficial to performance when it has a strong rationale or compelling purpose (Heslin et al. 2013) and that the effectiveness of assigned goals depends on whether they include the logic or rationale of the goal selection (Latham et al. 1988). Even though organizations are frequently recommended to set stretch (or set seemingly impossible) goals (Sitkin et al. 2011; Kerr and LePelley 2013), the literature acknowledges the negative ramifications of overly difficult or impossible goals on both motivation and misconduct (Greve et al. 2010; Locke and Latham 1990). We infer from these perspectives that highly difficult goals are viewed as lacking credibility and that achievable goals with some stretch are more credible.

In sum, our evidence and inferences from Study 1, with support from the literature, suggest organizations that give higher attention to goal credibility will achieve higher performance as well as higher goal attainment. This is largely because the more attention (higher importance) an organization gives goal credibility, the more likely the goal will be perceived as legitimate by the involved stakeholders. Goals that are perceived as legitimate will result in higher performance because they promote higher levels of acceptance and consequent motivation (Locke and Latham 1990, 2002; Merchant and Manzoni 1989) while also reducing the incentive for misconduct and cheating of overly difficult goals (Mishina et al. 2010; Barsky 2011; Zhang and Jia 2013; Niven and Healy 2016). Consequently, our first hypothesis is:

Hypothesis 1 In setting organizational goals, a higher level of importance of goal credibility is associated with higher organizational goal attainment and performance.

Stakeholder Importance

The second practice identified in our interviews relates to the relative importance of multiple stakeholders who are directly involved in the goal's attainment. Our interview findings suggest that not all stakeholders matter equally in the goal setting process and it is beneficial to place high relative importance on goal attainment actors (key actors) when setting goals. In our study, the four organizations reporting highest success made this consideration explicit in their description of the goal setting process. These organizations were striving to manage motivation and performance effectiveness by the selection of goals that would be perceived as legitimate by the actors who work to achieve the goals—the employees. While the underlying notion of this practice, enhancing motivation, is consistent with the individual-level literature (e.g., Locke and Latham 1990), we are unaware of any research that suggests that goal attainment actors be given high attention in organizational goal setting. Further, the view that key actors (stakeholders who take direct action) are the most important stakeholders to consider is also inconsistent with the literature on stakeholder importance (e.g., Mitchell et al. 1997; Neville et al. 2011). In contrast to this literature, our interviewees emphasized that employees (excluding top managers) are key actors in goal attainment activity as they frequently perform direct activities to attain goals (Kaplan and Norton 1996b). While top managers may provide direction or allocate resources, and while they may be financially incentivized following agency theory (Jensen and Meckling 1976), they are frequently less directly involved in goal attainment activity than general employees.

The underlying logic of this practice, for the relationship between goal setting and organizational performance as well as goal attainment, is that perceptions of goal legitimacy can motivate stakeholders and that motivating those specific stakeholders *who need to act* for goal attainment, results in high-performance outcomes. While this prioritization seems intuitive, the organization-level goal setting literature tends to focus attention on the importance of Boards of Directors, shareholders, and top managers (cf. Jensen and Meckling 1976) while only a limited few suggest other stakeholders, e.g., customers and broader stakeholders, be given some level of importance (e.g., Franco-Santos et al. 2012). Likewise, stakeholder theory suggests that the relevant stakeholders are those groups or individuals "who can affect or [are] affected by the achievement of the organization's objectives" (Freeman 1984: 46). Since organization-level goals are often incentivized for top managers so that they work to "affect" and are subsequently "affected" through an award, one interpretation is that top management are most important among other stakeholders. This does not preclude that employees also affect the outcome of many goals by their daily activity; rather, the literature indicates that top managers are expected to work to align employees' actions to the goals that are established with priority going to top managers.

In sum, we infer that higher-performance outcomes will be achieved by organizations that devote higher levels of attention to the legitimacy perceptions of the goal attainment actors when setting goals. By devoting higher attention to these key actors (frequently employees), the legitimacy of the goal is heightened for those needing to directly act—resulting in higher performance due to higher goal acceptance and consequent performance motivation, as previously explained (e.g., Locke and Latham 1990, 2002). Based on the results of Study 1 and the above reasoning, two hypotheses emerge. The first concerns the direct relationship between key actor (employee) importance in goal setting and performance, and the second concerns key actor importance in comparison with other stakeholders:

Hypothesis 2a In setting organizational goals, a higher level of key actor (employee) importance is associated with higher organizational goal attainment and performance.

Hypothesis 2b Compared to the importance of other stakeholders, key actor (employee) importance in setting organizational goals is associated with a stronger positive relationship with organizational goal attainment and performance.

Communication Openness

The third practice identified from Study 1 is attention to communication openness regarding goals. The idea that goals are in tension from stakeholders wanting either higher, lower, or different goals was persistent across organizations and is consistent with the view that goals frequently evolve out of a negotiation process of powerful coalitions (Cyert and March 1963). For example, Boards of Directors typically require high-performance goals, yet operating managers and employees desire goals that are *achievable*—particularly when linked to financial incentives (Stringer and Shantapriyan 2012). To reduce the view that this process is purely political and can be inappropriately or unethically manipulated, several higher performing organizations in our study reported a transparent, open communication process. The descriptor "communication openness" simplifies a complex topic, as our interviews indicated an array of activities such as one-way communication of information, socialization, negotiating, and sharing perspectives on the forces in play, among others.

Furthermore, the executives in Study 1 recognized their need to strategically shape perceptions of the goals' legitimacy through communication. The open communication process was described as intending to influence the support (buy-in) for the goals in order to heighten acceptance and thus motivation for attainment. The idea that legitimacy perceptions are malleable through communication openness is consistent with the communication (e.g., Cialdini 2009; De Blasio 2007) and strategic legitimacy literatures (e.g., Suchman 1995). Such open and transparent communication approaches can drive legitimacy perceptions by building trust, ownership, and a participative culture (Harshman and Harshman 1999; Ruppel and Harrington 2000). Importantly, research also indicates that transparent communication reduces the probability for stakeholders to behave unethically or negatively, thereby reducing the potential "dark side" of goals (Halter et al. 2009). All this leads to:

Hypothesis 3 In setting organizational goals, a higher level of communication openness is associated with higher organizational goal attainment and performance.

Interaction of Goal Credibility, Key Actor Importance, and Communication Openness

Study 1 provides evidence that the three practices work in conjunction with each other rather than in isolation. Specifically, satisfaction with the goal setting process and higher-performance outcomes were related to simultaneous use of the three practices. The benefit of simultaneous use of the practices is not surprising as they each contribute to enhancing the legitimacy perceptions of the goals and such legitimacy perceptions are expected to lead to higher goal acceptance and thus higher-performance outcomes (Locke and Latham 2002, 1990). From an ethical perspective, goals that are perceived as legitimate are also anticipated to reduce the incentive for misconduct and cheating compared to overly difficult goals (Ordóñez et al. 2009; Welsh and Ordóñez 2014). While the precise relationship between goal legitimacy and unethical behavior lacks direct research attention, a variety of empirical evidence provides strong indications regarding goal legitimacy. For example; unethical behavior has been associated with "excessively optimistic" goals (Mishina et al. 2010), lack of fair treatment (lack of participation in goal setting) (Barsky 2011), low informational justice climates (Zhang and Jia 2013), and with high goals compared to do-your-best goals (Niven and Healy 2016). While our investigation and hypothesizing examine organizational performance, the prior literature provides an indication that goals that are perceived as more legitimate will reduce unethical behavior.

We contend that a higher degree of using the three practices may enhance the positive effects of each individually and mitigate potential negative effects or unintended consequences of each practice. For example, the communication practice may result in high managerial and time costs. However, by narrowing the focus of attention to goal credibility and to understanding stakeholder importance (who to prioritize in this process), the duration and cost of this communication practice will likely be reduced—increasing efficiency. The notion that the three practices may be complementary, synergistic, and mutually reinforcing is broadly consistent with several academic literatures that show how benefits accrue from aligning multiple processes or systems. This view is generally consistent with configuration theory that advances a more holistic view of organizations wherein combinations of factors matter (Meyer et al. 1993), the human resources literature where bundles of practices may be mutually reinforcing and may collectively motivate employees to behave in ways that support organizational goals (Becker et al. 1997; Huselid 1995), the literature on communication transparency (openness) and legitimacy (De Blasio 2007; Vaccaro and Echeverri 2010) as well as the literature on building legitimacy with multiple stakeholders (Neville et al. 2011; Mele and Schepers 2013).

The perspective that these three practices work in conjunction with each other to achieve higher performance or accomplish goals suggests an interaction effect, and hence:

Hypothesis 4 Goal credibility, key actor (employee) importance, and communication openness exhibit a mutually reinforcing relationship with organizational goal attainment and performance, such that higher-performance benefits are associated with organizations that perform all three of the practices at higher levels.

Study 2: Survey of Top Executives

The Survey and Participants

To procure data to test these hypotheses, we developed a survey that we sent to top executives knowledgeable on goal setting and goal implementation in their business organizations (e.g., CEO's, Vice President, Managing Directors, and Strategy Directors) in 2015. A pilot test of the survey was administered to 27 Executive MBA students (minor modifications were made based on feedback). Informed by Study 1 and the pilot test, we used common managerial terms in our survey (as suggested by our interviews) rather than the academic equivalent (e.g., goals were described as performance targets or metrics). Using the key informant approach (Kumar et al. 1993), our survey was administered in large and medium sized organizations across the USA, Australia, China, and Israel operating in various industries. The samples in the USA and Australia were collected through a third-party panel of research subjects through a partner survey–administration company [following the approach in Long et al. (2011)]. Besides rigorous screening on job position by our partner, the expertise of the informants in this sample was further verified by asking the respondents to indicate their knowledge regarding setting top-level (strategic) goals, determining strategy, and strategy implementation process on a 7-point Likert scale [strongly disagree (1) to strongly agree (7) with neutral midpoint (4)] (Conant et al. 1990). Respondents below 4 in any one of the three areas were omitted from the analysis and the average level of knowledge in these three areas reported in the sample is above 5.5. This sample was supplemented in Australia with top executives of organizations in the university alumni network (36 firms provided full data). We collected the responses in China in collaboration with local government agents and the responses in Israel with the support of a bilateral international Chamber of Commerce. Translation and back-translation were implemented for the Chinese version of the survey. Standardized protocols were followed to ensure a uniform survey experience across the collection methods, largely in person in China and online otherwise.

Overall, we obtained responses from 555 organizations in diverse industry sectors across four countries with 522 organizations providing full data for our analysis (196 in Australia, 203 in USA, 95 in China, 28 in Israel).

Criterion Variables

Our criterion variables measure organizational performance. Performance is frequently evaluated relative to goal attainment or relative to competition (Cyert and March 1963), and therefore, we evaluate two multi-item indicators of goal attainment and one multi-item indicator of performance relative to competition. Our goal attainment indicators measured lead (non-financial) and lag (financial) goals, which are widely recognized as exemplar indicators of performance (Kaplan and Norton 1996a).

First, *financial performance* relative to competitors over the past year is based on three items regarding return on capital (assets, investment, equity), relative market share, and sales revenue growth that are rated on a 7-point scale from "Far below average" to "Far above average." These items load on one factor with a Cronbach alpha of 0.87.

Second, *organizational financial goal attainment* (a lag measure) assesses how well the organization accomplished its performance goals over the past year on four items: profit, sales revenue, return on capital, and market growth. This goal attainment indicator, and the one which follows, was evaluated using a 10-point scale showing one decimal place with the midpoint being "Meets target" and the extremes being "Far short of target" and "Far exceeds target." These two indicators are grouped based on factor analyses as well as theory (lead versus lag measures). These four items load on one factor with a Cronbach alpha of 0.91.

Third, *organizational non-financial goal attainment* (a lead measure) assesses how well the organization accomplished its performance goals over the past year on seven items: social (stakeholder and community satisfaction), customer (retention, satisfaction), human capital (employee recruitment, retention, satisfaction), organizational learning (developing new capabilities), business process improvement (quality), environmental ("green"), and innovation. These items load on one factor with a Cronbach alpha of 0.90.

Predictor Variables

Goal Credibility

Our survey asks a question: Credibility with key stakeholders is important when our organization selects goal metrics (targets): This item is rated on a 7-point scale from "Strongly disagree" to "Strongly agree."

Stakeholder Importance

Our survey asks: How important are the following stakeholders when your organization sets goals? Each item (stakeholder category) is rated on a 7-point scale from "Not important at all" to "Extremely important." The categories include: Boards of Directors, top managers, owners or shareholders, market analysts, customers, employees, and external audiences (such as social groups, environmental groups, or government). These seven different stakeholder importance measures were used independently in our analyses to test Hypothesis 2b. In our model to test Hypothesis 2a, we use the importance of *Employees* as our measure of the key actor stakeholders.

Communication Openness

Our measure of communication openness regarding goals is based on three items rated on a 7-point scale from "Strongly disagree" to "Strongly agree." Item 1: The top management sets our strategic goals without collaboration in the organization (reverse coded). Item 2: There is a lot of communication about organizational goals and strategy. Item 3: The process for setting organizational goals is visible (transparent) to employees. These items are aggregated based on factor analysis as well as theory with a Cronbach alpha of 0.76.

Control Variables

We also include control variables in our models to address alternative explanations. We include: *firm size* (measured as the number employees), *firm age*, *firm ownership* (measured as the percentage of state ownership and foreign ownership), and organization type: *business unit, single business, or corporation* (omitted variable), *listed company*, and *formerly state owned*. Our model additionally includes industry and country fixed effects.

Results and Discussion

Descriptive statistics and correlations are shown in Table 4. We observe that goal credibility is positively correlated with the three measures of organizational performance, which provides preliminary evidence in support of Hypothesis 1. We also observe that various stakeholders receive different importance levels when organizations set goals (see means for stakeholders, variables 4–10). Top managers received the highest average rating and employees were ahead of analysts (lowest rated) and external audiences. The top manager–employee difference is statistically significant ($p < 0.001$) in a t test of means. In general, organizations therefore considered employees as relatively less important in goal setting. However, the univariate correlations between the employee importance and the three performance measures (including goal attainment) were at least as high or higher compared to the other stakeholder categories. Consistent with Hypotheses 2a and 2b, this provides suggestive evidence that employee importance is relevant in achieving high organizational performance. Communication openness is also positively correlated with the three measures of organizational performance, which provides preliminary evidence in support of Hypothesis 3. As we observe here, and will see again later, on average employees are considered less important relative to other stakeholders in goal setting and yet our results indicate that attention to employees is important in predicting organizational outcomes.

We next used multivariate regression analysis to more rigorously test our hypotheses. We begin by testing Hypothesis 2b. We regressed the indicators of performance and goal attainment on the importance of different stakeholders to test Hypothesis 2b in Table 5. There is a positive association between employee importance ratings and all performance outcomes including goal attainment ($b = 0.20$; $p < 0.001$ for financial performance, $b = 0.25$; $p < 0.01$ for organizational financial goal attainment, $b = 0.51$; $p < 0.001$ for organizational non-financial goal attainment). Except for the importance of customers in financial goal attainment ($b = 0.19$, $p < 0.05$), only employee importance predicted organizational outcomes. This provides support for Hypothesis 2b and suggests that employees, as the key actors in accomplishing goals, are critically important in setting goals. As a further evaluation, we tested whether the differences in coefficients shown in Table 5 between the effect of employees and the

Table 4 Descriptive statistics and correlations

	1	2	3	4	5	6	7	8	9	10	11	12
1. Financial performance												
2. Financial goal attainment	0.66***											
3. Non-financial goal attainment	0.48***	0.61***										
4. Board of Directors	0.05	0.06	0.11*									
5. Top managers	0.14**	0.10*	0.16***	0.39***								
6. Owners or shareholders	0.15***	0.13**	0.15***	0.21***	0.16***							
7. Market analysts	0.13**	0.14***	0.21***	0.38***	0.24***	0.23***						
8. Customers	0.25***	0.24***	0.37***	0.14***	0.17***	0.20***	0.28***					
9. Employees	0.30***	0.24***	0.48***	0.10*	0.23***	0.17***	0.21***	0.61***				
10. External audiences	0.10*	0.12**	0.28***	0.20***	0.12**	0.09*	0.39***	0.34***	0.39***			
11. Goal credibility	0.13**	0.10*	0.15***	0.24***	0.31***	0.21***	0.18***	0.25***	0.29***	0.22***		
12. Communication	0.28***	0.24***	0.39***	0.10*	0.22***	0.13**	0.21***	0.29***	0.51***	0.24***	0.30***	
Descriptive												
Mean	4.80	6.07	5.93	5.59	5.83	5.71	4.38	5.56	4.93	4.31	5.69	4.47
SD	1.10	1.90	1.74	1.45	0.98	1.28	1.51	1.22	1.34	1.55	0.99	1.32
Min	1	0	0	1	1	1	1	1	1	1	1	1
Max	7	10	10	7	7	7	7	7	7	7	7	7

$N = 522$, * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

effects of other individual stakeholder groups were statistically significant. Wald tests are generally quite supportive of Hypothesis 2b. For non-financial goal attainment, the difference between the employee effect compared to each of the other stakeholder effects is significant (all p values ≤ 0.001). For financial goal attainment, the differences are significant for Board of Directors ($p = 0.0123$) and marginally significant for top managers ($p = 0.088$) and market analysts ($p = 0.072$). Finally, for financial performance, the differences are significant for Board of Directors ($p < 0.001$), owners or shareholders ($p = 0.045$), market analysts ($p = 0.006$). We note that the difference between the effect of employees and of customers is not statistically significant for two of the criterion variables, suggesting that support for our claim of the relative importance of employees is slightly weaker when comparing them to customers. A pertinent observation is that the importance of employees as noted in the regression analysis (Table 5) contrasts with the apparent lack of importance given to employees in terms of their mean importance rating (Table 4). Overall, our evidence generally suggests that organizations will benefit from allocating a high relative importance, and therefore high attention, on key actor stakeholders—those who undertake the activities to accomplish goals (who are usually, but not exclusively, employees).

As shown in Table 6a–c, we regressed the three predictor variables—goal credibility, employee importance, and communication openness—against each of the criterion variables to test Hypotheses 1, 2a, and 3, respectively. We begin by observing that the correlations between predictor variables in Table 4 are all below the accepted threshold of 0.70 for reduced multi-collinearity concerns in regression models. Results in Models B, C, and D indicate that each of our predictor variables is significantly associated with our indicators of organizational performance and goal attainment. In Model E, goal credibility is not significant when the practices are simultaneously included. In Model G, we test Hypothesis 4—the three-way interaction of goal credibility, employee importance, and communication openness. Results show that this interaction is positively significant, and thus predicts performance outcomes, for financial performance ($b = 0.04$, $p < 0.01$) and organizational non-financial goal attainment ($b = 0.05$, $p < 0.05$).

To further understand this three-way interaction, we evaluate simple slopes (Dawson and Richter 2006). Simple slopes of the three-way interaction for financial

Table 5 Regression results relating financial performance and goal attainment to stakeholder importance

	Financial performance		Financial goal attainment		Non-financial goal attainment	
	Model 1: Controls	Model 2: Full model	Model 3: Controls	Model 4: Full model	Model 5: Controls	Model 6: Full model
Intercepts	4.92***	2.77***	6.51***	3.54***	6.82***	2.64***
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Controls						
Size	−0.01	−0.00	0.04	0.03	−0.00	−0.02
Age	0.02	0.03	−0.02	0.01	−0.01	0.03
State owned	0.00	0.01	0.04	0.05	0.05	0.05
Foreign owned	0.00	0.01	−0.07^{+}	−0.06	−0.04	−0.01
Business unit	−0.23	−0.14	−0.36	−0.28	−0.37^{+}	−0.16
Single business	−0.02	0.02	−0.15	−0.12	−0.07	−0.01
Listed	0.09	0.06	0.45*	0.41*	0.35^{+}	0.31^{+}
Formerly state owned	−0.08	−0.09	−0.33	−0.31	0.08	−0.01
Stakeholder importance						
Board of Directors		−0.04		−0.00		0.02
Top managers		0.09		0.02		−0.01
Owners or shareholders		0.07^{+}		0.09		0.07
Market analysts		0.04		0.06		0.07
Customers		0.09^{+}		0.19*		0.13^{+}
Employees		0.20***		0.25**		0.51***
External audiences		−0.04		0.01		0.10^{+}
F value	0.62	3.09***	2.14**	3.58***	1.9*	9.07***
Adjusted R^2	−0.01	0.10	0.04	0.12	0.03	0.29
ΔAdjusted R^2		0.11		0.08		0.26

$N = 522$, $^{+}$ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$; two-tailed tests

performance are shown in Fig. 1a. Results suggest, as predicted, when one factor is at a high level, there is positive interaction of the other two factors. Specifically, this analysis indicates there is a fully significant difference between the high employee importance/high communication openness combination and the high employee importance/low communication openness combination ($t = 2.642$; $p = 0.008$). In addition, we also found a marginally significant difference between the high employee importance/high communication openness combination and the low employee importance/high communication openness combination ($t = 1.694$; $p = 0.091$). Simple slopes of the three-way interaction for non-financial goal attainment are shown in Fig. 1b. The simple slopes analysis indicates the difference between high employee importance/high communication openness combination and low employee importance/high communication openness combination is marginally significant ($t = 1.672$; $p = 0.095$). By demonstrating significant simple slope differences, we offer further support for Hypothesis 4—a higher level of performance is achieved by a higher level of attention to goal credibility, employee importance, and communication openness in combination.

We did not find a significant result for the three-way interaction regarding financial goal attainment; however, employee importance and open communication are highly significant in this relationship while goal credibility is also significant when tested individually. We believe the lack of support for the three-way interaction may be due to the contentiousness of financial goals which are subjected to high levels of scrutiny from multiple stakeholders. Our interviews indicate that this high level of scrutiny is largely due to the prevalence of financial incentives, typically for top managers. Financial incentives are frequently weighted more heavily (or exclusively) toward financial goal attainment rather than other goals—making financial goals more contentious. We believe that this high level of contentiousness reduces the ability to achieve complementarity

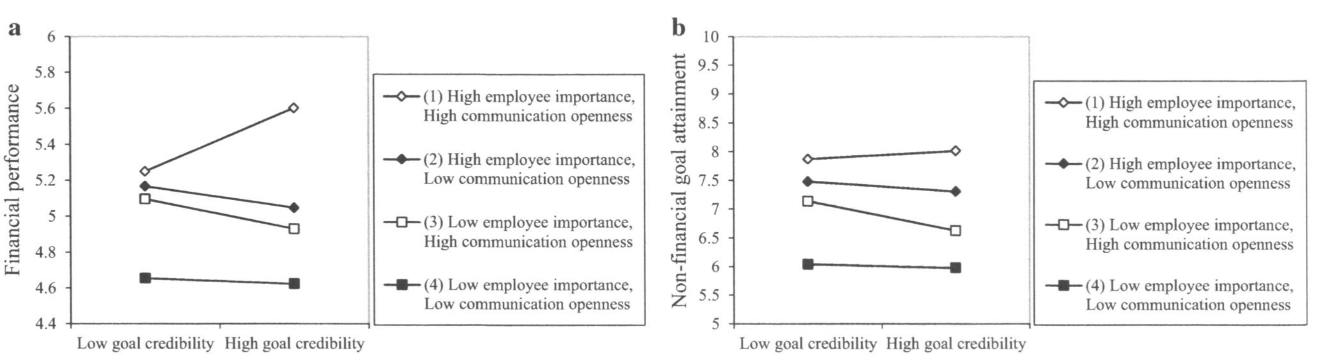
Table 6 Regression results for (a) financial performance, (b) financial goal attainment, and (c) non-financial goal attainment

	A	*B*	*C*	*D*	*E*	*F*	*G*
(a) Financial performance							
Intercepts	4.92***	5.16***	4.91***	5.07***	5.07***	5.09***	5.05***
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Controls							
Size	−0.01	−0.02	0.00	−0.00	−0.01	−0.01	−0.01
Age	0.02	0.02	0.03	0.01	0.03	0.03	0.03
State owned	0.00	0.00	0.00	−0.01	−0.00	0.00	−0.00
Foreign owned	0.00	0.00	0.01	0.01	0.01	0.01	0.01
Business unit	−0.23	−0.22	−0.13	−0.16	−0.11	−0.10	−0.07
Single business	−0.02	−0.01	0.01	−0.01	0.02	0.02	0.03
Listed	0.09	0.05	0.07	0.05	0.05	0.06	0.04
Formerly state owned	−0.08	−0.02	−0.08	−0.05	−0.02	−0.02	−0.02
Goal credibility (GC)		0.16**			0.03	0.04	0.00
Employees (EM)			0.27***		0.20***	0.18***	0.16***
Communication (CO)				0.25***	0.14**	0.14**	0.13**
GC*EM						−0.02	0.04
EM*CO						−0.02	−0.01
GC*CO						0.03	0.03
GC*EM*CO							0.04**
F value	0.62	1.1	3.29***	2.78***	3.66***	3.29***	3.45***
Adjusted R^2	−0.01	0.04	0.08	0.07	0.10	0.10	0.11
ΔAdjusted R^2		0.05	0.04	−0.01	0.03	0.00	0.01
(b) Financial goal attainment							
Intercepts	6.51***	6.84***	6.49***	6.74***	6.68***	6.66***	6.64***
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Controls							
Size	0.04	0.02	0.06	0.05	0.04	0.04	0.04
Age	−0.02	−0.01	0.01	−0.02	0.00	0.00	0.00
State owned	0.04	0.04	0.04	0.02	0.03	0.03	0.03
Foreign owned	−0.07^{+}	−0.07^{+}	−0.06	−0.06	−0.05	−0.05	−0.05
Business unit	−0.36	−0.33	−0.25	−0.23	−0.19	−0.19	−0.18
Single business	−0.15	−0.12	−0.12	−0.12	−0.10	−0.09	−0.09
Listed	0.45*	0.40*	0.43*	0.40*	0.40*	0.40*	0.39*
Formerly state owned	−0.33	−0.25	−0.26	−0.30	−0.21	−0.21	−0.21
Goal credibility (GC)		0.23*			0.00	0.02	0.00
Employees (EM)			0.39***		0.27***	0.27***	0.27***
Communication (CO)				0.39***	0.24**	0.24**	0.23**
GC*EM						0.04	0.05
EM*CO						−0.01	−0.01
GC*CO						−0.01	−0.00
GC*EM*CO							0.01
F value	2.14**	2.32***	4.1***	4.01***	4.25***	3.76***	3.62***
Adjusted R^2	0.04	0.05	0.11	0.11	0.12	0.12	0.12
ΔAdjusted R^2		0.01	0.06	0.00	0.01	0.00	0.00

Table 6 continued

	A	*B*	*C*	*D*	*E*	*F*	*G*
(c) Non-financial goal attainment							
Intercepts	6.82***	7.82***	6.77***	7.13***	6.96***	7.11***	7.06***
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Controls							
Size	−0.00	−0.02	0.02	0.01	0.01	0.01	0.01
Age	−0.01	−0.00	0.03	−0.01	0.02	0.02	0.02
State owned	0.05	0.05	0.05	0.03	0.04	0.04	0.04
Foreign owned	−0.04	−0.04	−0.02	−0.02	−0.02	−0.02	−0.02
Business unit	−0.37	−0.37	−0.12	−0.20	−0.09	−0.07	−0.07
Single business	−0.07	−0.08	0.01	−0.05	0.01	−0.01	−0.01
Listed	0.35^{+}	0.28	0.32*	0.28^{+}	0.30	0.28^{+}	0.28^{+}
Formerly state owned	0.08	0.13	0.08	0.15	0.12	0.11	0.11
Goal credibility (GC)		0.33***			−0.01	−0.03	−0.08
Employees (EM)			0.66***		0.52***	0.48***	0.46***
Communication (CO)				0.54***	0.28***	0.28***	0.27***
GC*EM						−0.03	0.05
EM*CO						−0.05	−0.05
GC*CO						−0.01	−0.01
GC*EM*CO							0.05*
F value	1.9*	2.69***	10.74***	6.97***	11.22***	10.19***	10.11***
Adjusted R^2	0.03	0.06	0.28	0.19	0.31	0.31	0.32
ΔAdjusted R^2		0.03	0.22	−0.09	0.12	0.00	0.01

$N = 522$, $^{+}p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$; two-tailed tests



Slope difference tests:

Pair of slopes	t-value for slope difference	p-value for slope difference
(1) and (2)	2.642	0.008**
(1) and (3)	1.694	0.091^{+}
(1) and (4)	1.847	0.065^{+}
(2) and (3)	0.138	0.890
(2) and (4)	-0.514	0.608
(3) and (4)	-0.577	0.564

Note: $^{+}p<0.1$, *$p<0.05$, **$p < 0.01$, ***$p < 0.001$

Slope difference tests:

Pair of slopes	t-value for slope difference	p-value for slope difference
(1) and (2)	0.945	0.345
(1) and (3)	1.672	0.095^{+}
(1) and (4)	0.791	0.429
(2) and (3)	0.708	0.479
(2) and (4)	-0.376	0.707
(3) and (4)	-1.992	0.047*

Note: $^{+}p<0.1$, *$p<0.05$, **$p < 0.01$, ***$p < 0.001$

Fig. 1 Three-way interaction plots. **a** Three-way interaction for financial performance. **b** Three-way interaction for non-financial goal attainment

across the practices in a way that enhances perceptions of legitimacy because it constrains the ability to establish credible goals that are accepted across stakeholders, to give the key actors priority (at least significantly so, relative to other stakeholders), and to communicate openly. Even with these constraints, the three practices are beneficial individually; however, the underlying contentiousness of financial goals may limit the ability for the practices to be mutually reinforcing and consequently reduces the significance of the interaction effect.

We performed a number of tests to investigate the potential for common method bias, which is a concern in studies like ours where the criterion and predictor variables are drawn from the same instrument. Even though we designed the survey to reduce common method issues (e.g., proximal separation of predictor and criterion variables, different response formats), we undertook three empirical approaches to address this potential concern following advice from Podsakoff et al. (2003). First, we performed Harman's single factor test (Harman 1967). A factor analysis of all the perceptual measures (as a robust test in which objective measures were excluded) in each of the three models did not load on one factor, and the common method variance was estimated to be below the threshold of 50% (41%—financial performance, 42%—financial goal, 46%—non-financial goal) (Eichhorn 2014). We also performed the marker variable test (Lindell and Whitney 2001) by including a variable that is theoretically unrelated to at least one variable in the study. We used a two-item measure of organizational autonomy (autonomy to determine goals and how to accomplish them) as a marker variable. A partial correlation technique indicated the correlation with our measure of credibility was 0.074. Lindell and Whitney (2001) suggested that this correlation value is a reasonable proxy for the level of common method variance (and its value in our study is well below the suggested threshold of 0.50). As an additional evaluation, we followed the marker variable calculation procedure suggested by Eichhorn (2014) and calculated a common method variance value of 18.9%—financial performance, 18.0%—financial goal, 18.1%—non-financial goal (again these values are well below the 50% threshold). Regarding Hypothesis 4, the literature indicates that an interaction effect in a regression is less likely to be an artifact of common method bias (Evans 1985). This is because the respondents are unlikely to have the theorized interaction relationship in mind when they responded to the survey.

Lastly, we obtained revenue data on sixty-one of our examined firms (10 Israel, 25 Australia, and 26 China) from secondary sources including annual reports and subscription data sets such as ORBIS from Bureau van Dijk. Since revenue growth is a frequently used financial indicator in the literature, we examine revenue change (expressed as a percentage) between 2013 and 2014 as an indicator of financial performance in 2014 which is the reported year of performance in our survey. Even though revenue growth is a coarse proxy for our other indicators of organizational performance (that are relative to competitors and relative to goals), we assessed its correlation with our financial criterion variables. We observe significant and positive correlations between revenue change and financial performance (0.32, $p = 0.013$) and between revenue change and financial goal attainment (0.30, $p = 0.018$). These significant, positive correlations add further evidence for our findings and arguments.[2] Overall, these tests suggest that common method variance does not pose a serious concern in our analysis.

Overall Discussion

We set out to investigate how business leaders set organizational goals and to understand what is working well and not so well. We specifically sought to understand whether and how organizations strive to make their goals more legitimate considering a multi-stakeholder audience. Our investigation accessed the rich insights and theory building power of qualitative interviews in Study 1 and the testing power of large-scale survey-based, quantitative methods in Study 2. We induced hypotheses from the insights of Study 1 and more rigorously tested them in Study 2. The convergence of results from different methods enhances confidence in the results. Specifically, our study indicates that organizations achieve higher performance (financial performance and non-financial goal attainment) by building perceptions of goal legitimacy through the practices of giving high attention to goal credibility, satisfying multiple stakeholders while giving priority to key actors who achieve the goals (i.e., employees), and openly communicating regarding goals. Our analysis suggests that when all three of the practices are at a higher level, financial performance and non-financial goal attainment are higher (we did not find support for financial goal attainment). And, if one or more of the practices is in limited use, then performance tends to suffer. Importantly, we identified how prior empirical research suggests that a goal that is perceived legitimate by specific actors can reduce the probability of unethical behavior from these actors (Niven and Healy 2016; Zhang and Jia 2013; Mishina et al. 2010). In so doing, our work indicates practices that can lead to higher performance *and* more ethical behavior.

Our research contributes to the literature on setting legitimate organizational goals (e.g., Niven and Healy 2016; Welsh and Ordóñez 2014) and thereby helps improve knowledge on both the setting and achieving of organizational goals. For example, we improve clarity on which stakeholders to prioritize in determining organizational

[2] The small sample size of the secondary data precluded testing our full model against for revenue change as a criterion variable due to inadequate statistical power (Cohen 1992).

goals that will result in higher performance. In contrast to the prior literature, our investigation identified that more successful organizations utilize practices that cultivate goal legitimacy with the key actors (employees) required to directly deliver performance outcomes. A related conjecture is that achieving legitimacy with the key actors may also result in legitimacy with the broader set of stakeholders, in two ways. First, we observed leaders using the idea of maintaining key actor motivation as a means to mitigate the Board of Directors general desire for higher goals. This approach may also be applied with other stakeholders to gain wider buy-in. Second, top managers who oversee the key actors who must expend effort to deliver the results will have reason to view the goal as more legitimate because the probability of goal attainment will be higher. For example, a top manager who may be tempted to cheat will have lower incentive to do so when the goals are legitimate with the key actors because such a goal will likely have a higher attainment probability and will thus be morally engaging (Bandura 1999) for both the key actors and the top manager.

Overall, by investigating goal setting in situ and examining it as a process that considers multiple stakeholders, we address several scholarly calls for research. First, we address calls in the organizational goal setting literature to examine goal setting in practice (Washburn and Bromiley 2012; Labianca et al. 2009; Shinkle 2012). Second, we address the call to investigate stakeholder importance and prioritization in the stakeholder literature (Neville et al. 2011). Third, we respond to Mishina et al. (2010: 718) in the ethics literature who requested: "Future research should continue to examine the manner in which particular governance mechanisms affect firm behaviors by prioritizing different stakeholder interests."

Limitations and Future Research

Our investigation has limitations that provide future research opportunity. First, we examined macro-goal categories (financial and non-financial). Future research into more fine-grained types of goal categories may prove fruitful since different goals may have different influence on perceptions of legitimacy and thus different motivational influences (e.g., environmental versus profit goals). Second, we considered stakeholders by category and did not include the possibility of stakeholder interactions and social networks (Neville and Menguc 2006). Such interactions may affect for example perceptions of goal legitimacy and the effectiveness of communication processes. Third, our measure of credibility could be more fine-grained and applied to distinct goal categories. This may provide insight on motivation and performance variance across goal categories (e.g., environmental, learning, or profit). Fourth, our empirical examination considers employees as the critical actors to motivate, but other stakeholders were also indicated as important. Certainly, different types of industries and cultures could possibly influence who the key actors are. Assessing who the key actors are in different contingencies could lead to important insights. Fifth, our predictor and criterion variables in Study 2 lack clear temporal separation; that is, they have potential to be contemporaneous. We acknowledge this limitation but also refer to Study 1 to provide guidance on causality. Sixth, our study was not designed to investigate differences across countries, and post hoc empirical analyses revealed few differences in the main effects across countries. These results, however, may be associated with the particular countries we studied. We invite future research to consider cross-country variance in the relationships we examined. Seventh, our study does not directly test the relationship between goal legitimacy and unethical behavior. We encourage scholars to directly investigate this relationship.

Future research may also investigate dynamic environments and goal setting processes over time. The interviews of Study 1 indicate that environmental dynamism may influence goal setting practices. The suggestion was that goals are even more important in dynamic environments than stable ones. Organizational members may, for example, be less clear on what to do in more dynamic environments, which may make clarity in direction and goals more important to maintain focus and motivation. Frequency of goal setting, communication practices, and credibility of goals may also need to be reconsidered in dynamic environments for organizations to respond effectively and rapidly. We encourage research in dynamic environments because it may provide insight, as time pressure may also influence the role of legitimacy given that the practices to build legitimacy take time.

Managerial Implications

We believe our investigation offers several managerial implications regarding setting organizational goals. Importantly, our results provide insight that many organizations miss an opportunity to enhance performance as well as reduce the likelihood of unethical or negative behavior through practices that enhance the legitimacy of organizational goals. Our investigation suggests organizations should devote attention to goal credibility, multiple stakeholders with key actors receiving priority, and communication openness regarding goals.

First, leaders may want to give more attention to the credibility of goals with the broad stakeholder audience.

Second, organizations will likely do well if they prioritize the interests of the key actors who must take action to achieve the goals (most frequently the employees) over other stakeholders in setting organizational goals. While leaders may carefully assess the importance of various stakeholders, and the importance may vary by specific goal, the motivation of the key actors required to achieve the goal should be given due consideration. Other stakeholders should not be ignored as they may be important to provide support or resources. Third, leaders should carefully choose an appropriate communication style for their organization to reap the rewards from the third practice. The communication challenge for leaders in organizational goal setting is to manage a divergent set of stakeholders with different interests and perspectives to build legitimacy, thereby achieving high motivation and high performance. Our results provide guidance on communication content: we observed successful leaders working to build stakeholder understanding through "socializing" the organizational goals and the goal setting process, thereby enhancing legitimacy.[3] Fourth, our results suggest that leaders should manage these three practices simultaneously at high levels to attain higher-performance outcomes.

Summary

Regarding the role of legitimacy in goal setting, our core insight for the goal setting literature is that organizations will achieve higher outcomes if they (1) set goals that are perceived as legitimate by the key actors required to deliver the outcomes and (2) communicate goals openly with the aim of cultivating high motivation of these key actors by enhancing perceptions that the goals are legitimate. While there are numerous possible ways to establish an organization's goals, we believe our findings provide important implications. In contrast to the previously mentioned alternatives, the approach revealed by our research is more likely to stimulate higher organizational performance, result in stakeholders (especially employees) who are positively motivated, and reduce the probability that organizational members will behave unethically.

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[3] While there is a large literature on communication, practical ways of improving communication style can be obtained from the work of Cialdini (2009) and Sundie et al. (2012) who focus on social influence techniques to enhance motivation.

Compliance with Ethical Standards

Conflict of interest The authors declare that they have no conflict of interest.

Ethical Approval All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki Declaration and its later amendments or comparable ethical standards.

Informed Consent Informed consent was obtained from all individual participants included in the study.

Appendix: Interview Questions

Our interviews used a semi-structured interview technique. Pertinent example questions include:

1. How are your strategic goals and KPIs (key performance indicators) determined?
2. What factors (inputs) guide the choice of KPIs and strategic goals?
3. As the organization sets its goals, what is the level of consideration about what others may think (others can include shareholders, customers, and employees)?
4. What other actions does the organization take to improve goal achievement (for example, do you use any special communication processes)?
5. What aspects about setting goals are most important in achieving higher performance?

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