# AN EMPIRICAL STUDY ON CORPORATE GOAL FORMULATION

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Purpose of the Study: This research attempts to provide some insights as to what types of goals are adopted and how these goals are established in small and large companies.

Findings and Conclusions: The major findings of this study are briefly as follows: (1) large companies set their corporate goals after broad involvement of divisional managers, whereas small companies have owner-established goals, (2) the different functional departments are quite receptive to the corporate goals adopted, and (3) profit is the most important and most frequently adopted goal in small and large companies

ADVISER'S APPROVAL ______________________

AN EMPIRICAL STUDY ON CORPORATE
GOAL FORMULATION

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# CHAPTER I

# INTRODUCTION

## Background of the Problem

A turbulent business environment has emerged over the past decades, characterized by massive technological changes, increasing consumer awareness (Kotler, 1980), and a multitude of government regulations to be complied with (Naylor, 1979). This has resulted in a larger-sized average organization in terms of personnel employed. Organizations have heavily staffed R & D, legal, public relations and information systems departments to enable them to adapt to the environmental changes mentioned above. One of the most glaring problems that has emerged as a result of larger numbers of people (of differing educational backgrounds, beliefs, and values) in today's organizations is the conflict of goals. Literature in the fields of Strategic Management and Organization Theory reveals various approaches and explanations for the goal formulation and goal conflict settlement processes. Traditional theories of the firm, especially those in economics, all rest on the heroic assumption that the system under study has only one goal, or a set of somehow commensurate ones.

However, with the pathbreaking work of Cyert and March (1963), this assumption was first removed. Several other works like, Hill (1969), Karrass (1970), Mintzberg (1979), Perrow (1961), and Thompson (1958), explain the goal formation process more realistically. These theoretical and empirical studies provide differing views on the goal formation and goal-conflict settlement processes. Very few studies have been conducted to test these different views and theoretical explanations. The present study attempts to make a contribution by testing some of the more important hypotheses extracted from the literature. The hypotheses relevant to this study are set out in the next section of this chapter, followed by definitions and explanations of key terms used in the study.

## Research Hypotheses

The first set of hypotheses below refer to the question of goal formulation and the second set refer to the goal-conflict-settlement process. To simplify reference to these two sets of hypotheses we refer to the former as "Process" hypotheses and the latter as "Goal Conflict" hypotheses.

## Process Hypotheses

H-1: The goals of any coalition (organization) are determined through the bargaining process between groups in and outside the coalition OR in the case of small owner-operated businesses, are set by the Chief Executive Officer (CEO)/Owner.

Goal-Conflict Hypotheses

H-2: In terms of conflict between broad organizational goals and personal (or specific group) goals/interests, group/personal goals are pursued by the "interest" group even at the expense of broad goals.

H-3: The profit goal is accorded most importance by managers of large businesses, while the goal of survival is stressed by owner-operators of small businesses.

H-4: Larger unionized firms place stronger emphasis on employee satisfaction than smaller firms and non-unionized ones.

## Definition of Terms

Interest Groups: A broad term that includes all individuals or groups of individuals that have a stake, direct or indirect, in the survival and/or successful operation of the coalition.

Coalitional Bargaining: Is a process whereby the various interests, goals and needs of an organization's different groups are attempted to be resolved through such interactions as bargaining, discussion, concessions and coercion. Through coalition bargaining, organizational-level goals are synthesized in an attempt to reflect the overall organizational configuration of different preferences for resolving conflict and future courses of directions (Godiwalla, forthcoming 1982).

Goals: Are short-term , specific and quantifiable aims of the organization or of any part thereof (viz., a division, profit-center, department and so on). Lorange and Vancil (1977, p 33) have very succinctly defined goals as specific statements of the achievements targeted for certain deadlines. At the corporate level these statements are likely to include such aspects as sales, profits and E.P.S. targets.

Chief Executive Officer (C.E.O.): The C.E.O. is responsible for defining what business the firm is in, matching the best product/market opportunities with the best use of the enterprise's resources (Glueck, 1980, p 44). In large organizations this responsibility is usually associated with the President or the Chairman of the Board of Directors.

# CHAPTER II

## REVIEW OF LITERATURE

### Theoretical and Empirical Support for the Hypothesis

The literature on Business Policy and Organization Theory reveals the importance of the goal formulation process. However, very few studies have examined this very crucial process from a wholistic viewpoint. This is not to say that the latter is an easy task for even the best researchers or that this is the attempt made in this study; the point is, many studies have examined this topic from a narrow point of view. This study, therefore, makes an attempt, albeit a very modest one, to shed some light on the overall corporate goal formulation process. Mentioned below are some of the studies that describe this process and provide empirical support for it.

### Process Hypothesis, H-1

Cyert and March (1963), give explicit recognition to the existence of several, possibly conflicting goals within any organization. They consider five important goals viz., production, inventory, sales, market share and profit. The variations in these goal levels and their satisfaction is explained in terms of the differences in the bargaining position of the different participants in the coalition. The authors explain the goal formation process as one which implies the use of coalitional bargaining.

Mintzberg (1979), in his theory on goal formulation speaks of the power transfusion to several "internal coalition" groups via the CEO and, thus, implies the possibility of goal formulation through bargaining discussion between these different groups. Mintzberg's theory has an important implication for small businesses. He notes that the CEO in large organizations is vested with a great deal of power which he has to pass down to internal coalition groups, since he alone cannot possibly make every decision and take every action. On the other hand, in small enterprises power may remain with the CEO and the goal formulation and goal conflict settlement processes may then involve a top-down approach, wherein goals are set by the CEO and passed down to operating levels as targets for the budgeting horizon.

Thompson (1958), and Hill (1969), suggest that goals adopted by any organization are a function of its environment, internal social system, motives of individual participants who possess organizational power, and the bargaining process through which these people coalesce in order to marshall sufficient resources to determine the goals. Again, the stress is on the bargaining process as the medium of goal formation. The above different influences bring various, often conflicting, goals to bear on the organization. Such conflicting interests, Thompson (1967) suggests, are settled by adopting either a competitive, bargaining, co-operation, or coalition strategy.

All the above theoretical studies, though very strong conceptually and logic-wise, lack the empirical support essential to validate and verify the propositions and implications they contain. However, some very specific and narrow aspects have been subjected to empirical testing.

## Goal Conflict Hypothesis, H-3 and H-4

James Dent (1959), conducted a study of 145 firms and found that larger unionized firms had stronger emphasis on employee satisfaction than smaller firms and non-unionized ones. Also, the most frequently mentioned and adopted goal in large businesses is the profit goal, while managers or small businesses cited survival as most important.

Karrass (1977), conducted a study of 120 professional negotiators from four major aerospace companies and found that power and skill were the key determinants of superior performance under conflicting situations. Perrow (1961), too, recognizes the role that power plays in the goal formulation process. "If we know something about the major tasks of an organization and the characteristics of its controlling elite, we can predict its goals in general terms" (p 856). In this classic study he explains why power in hospital administration changed hands from trustees to doctors in the early part of this century, and later from doctors to professional administrators. He concludes that power is obtained by these people because of certain unique skills/expertise possessed by them.

Goal Conflict Hypothesis, H-2

The study by Balke, et.al. (1973), based on the Social Judgement Theory and the "Policy 3" computer program, both developed by Hammond, et.al. (1978), provides an insight into labor management conflict resolutions.

The authors, Balke, et.al., approached the Dow Chemical Company management at the Rocky Flats Plant and requested the re-enactment of labor management negotiations that had actually transpired five months or so prior to the study. Three of the labor negotiators and three of the management negotiators agreed to participate in the re-enactment. It was found that labor was most interested (placed greatest subjective weight) on the issue of how many workers (from strikers) should be recalled to work, whereas management stressed the issue of wage increases. This is an instance of labor subordinating wage goals to achieve an emotional union-principle goal.

Another study carried out by some students at the Harvard Business School and described by Aguilar (1971), shows that the most important factor influencing goals was Financial Considerations (34% of respondents designated this factor). Financial considerations were defined to include the expectation of shareholders and the financial community. This result also implies that group goals are very important in the goal formulation process.

## Brief Perspective on the Two Processes

Both the goal formulation and goal-conflict settlement processes are resolved through either coalition bargaining (Cyert and March, 1963), or through the CEO's subjective and/or rational judgement (Mintzberg, 1979). The former process is employed when several parties/groups in and outside the coalition with a stake therein have power vested in them. The latter process is more of a "top-down" approach and is employed when the CEO is vested with the power of several groups or when all attempts at coalitional bargaining fail.

If the process of coalitional bargaining is adopted, then power and skill of the negotiators representing the different groups in the coalitional bargaining process are important determinants of which goals are established as the "operating" goals of the organization (Karrass, 1970).

The methodology for analyzing and testing the hypotheses stated in Chapter I and supported in this chapter is described in detail in the following chapter.

# CHAPTER III

# METHODOLOGY OF STUDY

## Instrumentation

For purposes of this study, personal interviews were conducted with the CEO's/Owners of ten companies in Oklahoma. The sample includes companies from different industries and of different sizes. The industries range from banks, to utility companies to retail stores and service companies. The size, based on total dollar sales for fiscal 1980, ranges from small owner-operated businesses with less than $1 million in sales to large multi-divisional corporations with sales of over $500 million. Tables I and II present further details on the characteristics of the companies included in our sample.

TABLE I

NATURE OF SAMPLE

| Industry Type | Number of Companies |
|---|---|
| Manufacturing | 2 |
| Utility | 1 |
| Bank | 3 |
| Retail Outlets | 2 |
| Service | 2 |
| Total | 10 |

TABLE II

SIZE BREAKDOWN OF SAMPLE

| Size (total dollar sales for 1980) | Number of Companies |
|---|---|
| Below $10 million | 5 |
| $10 million-$100 million | 1 |
| $100 million-$500 million | 1 |
| Over $500 million | 3 |
| Total | 10 |

More specifically in Table I and II manufacturing companies include one company involved in oil refining and marketing and the other is a large diversified company. The utility and bank companies are self-explanatory. Retail outlets include one company engaged in fast foods and another in selling stereophonic equipment. Finally, the "service" category includes one travel agency and one electrical contracting company.

As regards Table II, size of company, we compress the four different categories into two more general ones. We refer to companies and those in the first two categories (less than $100 million sales) as small companies and those in the last two categories (over $100 million in sales) as large companies. We do this for two reasons: (1) our sample does not include enough companies in the two medium categories to get any useful insights into the medium-sized companies; (2) the major hypotheses included in the study deal more with the differences in goal formulation between only small and large companies. Therefore, it was deemed fit to include the two medium size categories with the other two categories, as described before.

The questionnaire used in this study (Appendix A) attempts to provide insights into the following broad areas of goal formulation:

1. How each company's goals are established, (Questions 1 and 1A).

2. How the goals are received by different functional management areas (Question 2).

3. The goals most recently adopted for the company as a whole, viz., the overall corporate goals (Question 3).

4. The reason(s) for adopting the goals mentioned. In other words the factor(s) most influencing the adoption of the major goals (Question 4).

5. The size of the company in terms of total dollar sales and total dollar value of assets for fiscal year 1980 (Questions 5 and 6).

For purposes of reference we cite below the original sources from which each of the questions used in our questionnaire have been taken or adapted. Question 1, 3 and 4 have been adapted from a research report about the process of setting corporate goals conducted by a group of students at the Harvard Business School and described by Aguilar (1971).

It should be noted that all the questions in the original studies were followed by multiple choice answers. But, for this study we have kept the questions "open-ended" since our purpose is to gain further insights into the goal formulation process. Moreover, no rigid structure exists for the range of possible answers to each question. Hence, providing a limited number of multiple choices to the respondents might bias the true essence of the answers.

## Nature of the Analysis

A simple cross-tabulation between size of company and the process of establishing the company's goals (Question 1) and between size and the types of goals adopted, like earnings per share, profitability, employee satisfaction and so on (Question 3), will indicate whether our Hypotheses 1 and 4 are valid or null.

Responses to Question 2 give an indication of the goal orientation of different functional management areas, i.e., whether a particular area is highly corporate goal oriented or highly oriented towards departmental goals (Hypothesis 3). The former means that the department is "highly committed to corporate goals, even if it calls for subordinating functional management/departmental goals to corporate goals" (Godiwalla, et.al., 1979, p 129). Of course, such a situation arises only when the corporate goals adopted are not compatible or conflict with the departmental goals, thus creating the need for a trade-off between achievement of both reasonably. The data gathered for this question is analyzed to show how each type of functional management area (e.g. marketing) for all companies reacted to (or received) the overall corporate goals established for the year in question.

Question 4 addresses the area of why the particular goals mentioned in response to Question 3 were adopted or, the factors most influencing the adoption of the goals. Here again a cross tabulation between size of company, factors influencing the adoption of the goals, and the actual goals adopted should provide some additional information on what smaller companies stress vs. larger companies in adopting certain goals. For example, small sized companies may stress the goal of profitability to convey their image to the financial community so that they may establish good credit with financial institutions. However, large companies may stress profitability, perhaps as a means to measure performance, i.e., to calculate the variances between budgeted/planned figures and actual performance.

By far, however, the most informative and insightful responses are those related to Question 3. This question is analyzed in great detail using the concepts imbedded in the Social Judgement Theory and operating the "Policy 3" computer program, both developed by Hammond (1965 and 1971). The methodology of analysis for Question 3 using "Policy 3" is described in detail a little later on. But first, we describe the significance and content of Question 3. The CEO's/Owners are asked to recapitulate the major goals that played an important role in the most recent major decision made on behalf of the company. If they list too many goals (greater than seven) it could lead to unnecessary complication and ambiguity in the results of our analysis. Thus, they are asked to narrow down the number to the three to seven most important goals. Then the respondents are asked to estimate subjective weights that they placed on each of these goals. The weight assigned to each goal is a function of one or more factors considered important by the respondent under those circumstances. However, the ultimate objective of Question 3 is to reveal the actual policy of the respondent in handling each of the component goals as well as the consistency of his/her judgements. This is accomplished through the use of the "Policy 3" computer program, described below.

## A Brief Note on Social Judgement Theory and the "Policy 3" Program

The revolutionary idea imbedded in the Social Judgement Theory (Hammond, 1965), and tested by Balke, et.al., (1973), indicates that very often executives/managers think they are emphasizing a particular cue (goal or issue), when in fact, the actual cue emphasized is different. This lack of self-knowledge is revealed by analysis obtained from the "Policy 3" program. The program generates 25 to 40 different "goal packages". Each goal package represents a realistic interval for the feasible range provided for each goal. The multiple regression analysis performed by the program on the CEO's judgements generates the different values for the weights implicit in the decision. These weights are then compared with the subjective estimates/weights assigned by the respondent initially. The analysis, thus, reveals consistency of policy and judgements.

To illustrate the description let us consider the following example. Suppose the goals mentioned for Company XYZ are net after tax profits and return on assets; the subjective weights placed on these two goals are 60% and 40% respectively and the feasible ranges for each goal are as follows:

| | |
|---|---|
| Net After Tax | $4,000,000 to $4,500,000 |
| Return on Assets | 2% to 6% |

The inputs to the computer program are:

1. Break up of the range for each goal into "realistic" intervals. "Realistic" refers to what may be considered reasonable to the CEO, i.e., points to which he is not "indifferent".

In our example the intervals for the two goals may appear as shown on the scales below:

| | |
|---|---|
| Net Profit After Tax | 4.0 4.1 4.2 4.3 4.4 4.5<br>(Millions of dollars) |
| Return on Assets | 1 2 3 4 5 6<br>(Net profits as a % of total dollar sales) |

2. The number of goal packages to be generated for company XYZ's goals, say, 25. Each package would have a different combination of the goal intervals. In our example a goal package may be diagramitically represented as follows:

| | | | | |
|---|---|---|---|---|
| 4.1 | 4.2 | 4.3 | 4.4 | 4.5 |
| 2 | 3 | 4 | 5 | 6 |

The particular combination in this package involves consideration of a net after tax profit of $4.3 million along with a return on assets of 4%. Twenty-five such different combinations are generated exhausting all the possible combinations of the five intervals of each of the two goals. In case of a large number of intervals and/or goals the maximum possible combinations may be a very high number. In such a case, the program "Policy 3" would automatically randomly generate the required number of combinations.

3. The first run of "Policy 3" yields the different goal packages. The CEO's are then contacted again and asked

to place a judgement on each of these packages. They are asked on a scale from Negative Ten (indicating disagreement) to Positive Ten (indicating agreement) to accept or reject each package.

The program then provides a multiple regression analysis using the values of each goal as the independent variables. The parameters for the regression equation viz. the slope of the function form is then calculated by the program. Consider the following equation:

$$J = a + b_p C_p = b_r C_r$$

where:

$b_p$, $b_r$ are the parameters (weights implicit in decision) calculated by the program for profits and return on assets.

$C_p$, $C_r$ are the values of the goals (profit and return on assets, respectively imputed to the model.

a is the intercept of the function also calculated.

J is the subjective value for acceptance/rejection of each goal package.

All the above analyses provide valuable insights into the five areas of goal formulation mentioned at the beginning of this chapter. However, the limitations of this study, as felt by the author, are made explicit in the following section. The main limitations are those of sample size and subjectivity of responses.

## Limitations of the Study

This study, like any other research study based on empirical surveys, must be carefully examined and interpreted to draw any meaningful implications for strategic management. Firstly, the sample of firms ranges from small owner-operated businesses to large multi-divisional corporations covering a large variety of industries. Unfortunately, resource constraints have limited the number of companies in each size category to very few. This is especially important when trying to generalize the results. The goal formulation process is a complex one and may differ from company to company. The small sample size is not very suitable for strictly upholding the rule of external validity, and, therefore, must be taken into consideration when generalizing results of this study, and their implications for corporate strategy.

Secondly, the respondents' recall regarding the last major decision of his/her company may be distorted to a certain extent due to time lapse. This point is especially noteworthy in case of the smaller companies where major decisions are infrequent and time lapses between them quite large. However, it is likely that reference to some records or documents will serve to freshen the respondents' recall about details.

Thirdly, the instrument used here has not been tested before as a whole, though each individual part thereof has been. Therefore, as a guide for the reliability of the instrument we have established a simple rule of thumb. The total $R^2$ (coefficient of determination) value for the response of each executive, indicating his consistency in decision-making, must be more than 0.8 in order to avoid the necessity of making any revisions in methodology or design of the study.

A very important limitation of the study deals with the question of bias. Question 2 appears to be the candidate most vulnerable to bias problems. The goal-orientations of different functional management areas are viewed from only one viewpoint, viz. that of the CEO. Since this is a highly subjective question the viewpoint of only one person may not be adequate or truly reflective even though the CEO has the best overall perspective on the company's different departments. Moreover, very often personality conflicts may be involved. The departmental managers may be the ones trying to stress departmental goals to an extent where achievement of overall corporate goals becomes very difficult. The respondents (CEO's) may not wish to involve the personalities of the managers in question and may, very understandably, be inclined to ignore that aspect. Any of the above factors may cause bias in the responses to Question 2.

The point of personality conflicts was anticipated by the researchers and, thus, the respondents were asked to designate such personality conflicts as part of the tradeoff between corporate and departmental goals, if such was the case. This eliminated the necessity for any respondents to mention or involve any particular people (departmental managers).

In view of the above limitations of this study we wish to re-emphasize the "caveat" mentioned earlier. The reader must carefully consider each of the limitations when trying to use, quote or interpret any of the results discussed in Chapter IV.

# CHAPTER IV

## ANALYSIS OF RESULTS

This chapter tests the four hypotheses on the basis of the methodology for testing described in Chapter III. The hypotheses are tested one by one and additional comments, discussion, and analysis relevant to each one has been provided. Summary tables of findings relevant to each hypothesis are also provided. A conclusion, following the discussion, and analyses of each hypothesis, indicates whether the hypothesis in question is valid or null. Finally, the implications of the results for research and corporate strategy in practice are discussed in the following chapter.

### Hypothesis 1

> The goals of any coalition (organization) are determined through the bargaining process between groups in and outside the coalition or, in the case of small owner-operated businesses, are set by the owner.

### Testing of Hypothesis 1

Analysis of the data gathered for Question 1 is summarized in Table III. The companies in the sample are divided, as mentioned in Chapter III, into two categories, small and large. Of the large companies, seventy-five percent, three out of four, established the goals through extensive involvement of the divisional managers indicating a "bottom up" approach to the goal formulation process. The fourth company's management adopts a consensus process of eight top executives to establish the corporate goals for the year.

TABLE III

BREAKDOWN OF SAMPLE ON BASIS OF THE GOAL SETTING PROCESS ADOPTED

| Size of Company (total $ sales) | Process by which Goals Are Set: Top Mgmt, | After Broad Inv. of D.M.* | By Owner |
|---|---|---|---|
| 1. Small (below $100 million) | - | 2 | 4 |
| 2. Large ($100 million or more) | 1 | 3 | - |

*After Broad Involvement of Divisional Managers.

The sample of small companies (total six) indicates a reverse trend in the setting of goals vis-a-vis the large companies. Sixty-seven percent of the small companies, viz, four out of six, have owner-established goals. The other thirty-three percent (two companies) adopted goals only after fairly broad involvement of their divisional/departmental managers. It should be noted, however, that the latter two companies were considerably larger than the former four. These two companies had sales of $8.4 million and $45 million respectively, whereas, the other four had sales of less than $1 million each. Moreover, the four smaller companies had no departments or divisions. These factors relative to size and structural complexity are apparently the reasons for owner established goals rather than adopting the process of involving divisional managers.

The above findings support Hypothesis 1. More specifically, most large companies do establish their goals after thoroughly consulting with and involving divisional managers in the process. In addition the goals of small companies are set by the owners.

Hypothesis 2

> In times of conflict between broad organizational goals and departmental goals, the departmental goals are pursued by the 'interest" group even at the expense of broad goals.

<u>Testing of Hypothesis 2</u>

The total sample included only six companies which had formal departments and/or divisions. Hence, only these six companies are considered relevant to this hypothesis. The results of the analysis for Question 2 reveal that five out of the six companies' Chief Executive officers mentioned that all their departments readily espoused the overall corporate goals. The departments were highly corporate goal oriented.

The sixth company's (a savings and loan association) CEO indicated that the marketing and lending divisions of the company were more oriented towards their departmental goals. It is necessary to point out the nature of the disagreement between the two departments and top management. The marketing and lending departments are perceived by top management as being "over optimistic" despite the stringent monetary conditions, high interest rates, and the ensuing low demand for housing during 1979-1980. Such over-optimism was not compatible with the modest targets set by top management, which is interested in examining realistic alternatives, and, therefore, is reluctant to input the excessively optimistic figures suggested by the two departments in question.

The above results, prima facie, indicate that Hypothesis 2 is null and void. Of the six respondents five indicated that in time of conflict between broad organizational goals and departmental goals the former are pursued even at the expense of the latter. However, the process of goal setting had built-in checks to ensure that the overall corporate goals are received and achieved by different departments. The broad corporate goals are passed down by top management in most of these companies, and within the framswork of these goals the departments are permitted to adopt their own goals/targets. This process works well for the following reason. As noted in the analysis relating to Hypothesis 1, the overall goals are established, in most cases, after extensive involvement of the divisional managers. This sheds new light on the question of goal-orientation of different departments within each company. In conclusion, the degree of freedom allowed each department in adopting its own goals cannot be easily determined, but it must be considered, in making any meaningful conclusion as to the validity of Hypothesis 2.

## Hypothesis 3

> The profit goal is accorded most importance by managers of large businesses, while the goal of survival is stressed by owner-operators of small businesses.

### Testing of Hypothesis 3

The analysis of Question 3 is performed by cross tabulating size (small or large) of company against type of goal most emphasized for each company. Here again only three of the four large companies are considered because one of them uses only the different departmental goals to measure planned versus actual performance. Table IV reveals that all three of the large companies used some form of profit measurement as the goal for the budgeting period. This result is commensurate with and supports the first part of Hypothesis 3, viz., that profit goal is accorded most importance by managers of large businesses.

TABLE IV

CROSS TABULATION BETWEEN SIZE AND TYPE OF GOAL

| Types of Goals | Size Small | Large |
|---|---|---|
| 1. Profit Maximization | 4 | 3 |
| 2. Sales Maximization | 1 | - |
| 3. Cost Minimization | 1 | - |
| | 6 | 3 |

On the other hand, the same table reveals that four out of the six small companies adopted profit as their major goal, the fifth one stressed sales maximization, and the last one cost minimization. This result is contrary to the second part of our hypothesis which states that the goal of survival is stressed by owner operators of small businesses. In fact, survival was not mentioned by any of the owners even as a secondary goal.

When considering the sample as a whole, i.e., large and small companies together, it is noted that seven of the nine companies give profit the maximum importance. The subjective weights estimated by the CEO's/Owners on the profit goal ranged from 60% to 100%. Just as a corrolary, Table V shows the types of goals adopted and the range (lowest to highest) of subjective weights placed on each of these goals. Only one company mentioned sales as a major goal and the owner placed a 50% weight on this goal. Cost was adopted as a goal by three companies; their respective subjective estimates for this goal were 20%, 50% and 100%. It is clear that the profit goal is accorded highest subjective weights. It is most frequently adopted as the major goal for a company, small or large.

TABLE V

RANGE OF WEIGHTS PLACED ON

EACH TYPE OF GOAL

| Types of Goals | Range of Weights Placed |
|---|---|
| 1. Profits | 60% to 100% |
| 2. Sales | 50% |
| 3. Cost | 20% to 100% |

Hypothesis 4

Larger unionized firms place stronger emphasis on employee satisfaction than smaller firms and non-unionized ones.

Testing of Hypothesis 4

This hypothesis could not be satisfactorily tested because only two of the companies in the sample had union affiliation. Besides, only one of the ten companies in the sample adopted employee satisfaction as a goal, and that too, accorded this goal only secondary importance. No meaningful conclusion can, therefore, be provided as to the validity of this hypothesis.

This chapter has provided some very important insights into the goal formulation process. Very briefly, the findings of this study are recapitulated below:

1. Large companies set their corporate goals after broad involvement of divisional managers whereas, small companies have owner-established goals.

2. The different functional departments are quite receptive to the corporate goals adopted.

3. The most important goal mentioned by the respondents is profit or some variation thereof, (like profitability, and profit margin).

The above findings have several interesting implications for strategic management in practices and for further research. These are mentioned briefly and discussed in Chapter V.

# CHAPTER V

## SUMMARY AND CONCLUSION

Most text books on strategic management (e.g., Glueck, 1980), point out that the first step in the strategic management process is the establishment of overall corporate goals. Certain strategies are then developed and implemented to accomplish these goals and measure variations between actual and budgeted/planned figures. The importance of establishing goals is very strongly brought out in the strategic management process. In fact, all companies, small and large, have goals, formal or informal, against which they measure their actual performance. Having stressed the importance of goal formulation we now turn attention to some of the implications of our results for corporate strategy.

### Implications for Strategic Management

The most important implication of the analysis is the advantage of involving lower levels of management and labor in the goal setting process. The companies adopting this process reveal a high level of acceptability of corporate goals by the departments. Involvement of lower levels of management and employees in the goal formulation process gives top management a realistic picture of actual operations and, thus enables it to set realistic, achievable targets. In fact, the management of one of the large companies in our sample has recently adopted a unique approach to goal setting. Top management set only long-term (five year) strategic objectives. The first two years of this five-year plan are projected by divisional and operating managers and adopted as the Operating Plan. The goals for each of these two years of the Operating Plan are set by planning groups of each operating unit and then sent up to the Strategic Planning Committee for approval. The importance of involving lower levels of management in the whole strategic management process is vividly emphasized in the above case.

Most of the respondents indicated that achievement of the profit goal automatically reflects the satisfaction of other goals such as efficiency (cost minimization) and sales maximization. But theories have been propounded in the economic literature that, in fact, imply tradeoffs between profit maximization and each of the other two goals (Baumol, 1977). Therefore, it is essential for managers to note that profit maximization is not a panacea for all corporate objectives. These implications raise the question as to how managers may be made to realize their fallacies and misconceptions. Further research in these areas suggests itself as one possible alternative which is discussed in greater detail below.

## Implications for Further Research

An effort was made in the course of this study to prompt the respondents to consciously bring out the range of goals set for their respective companies. However, the overriding importance attributed to the profit goal seemed to underplay the role that other goals may have played in the strategic management process. Unfortunately, the attempt to externalize the CEO's policies and judgements was not successful because of a technical problem in the structure of the "policy" computer program. Future effort in this area would considerably enhance the understanding by academicians and business managers of the real tradeoffs involved in adopting certain goals. This is very important when considered from the viewpoint of the chief stockholders in the large companies, viz., the shareholders. Maximization of their wealth requires explicit recognition and incorporation of tradeoffs between different goals. To illustrate this point more clearly consider the following case. Profit maximization, if adopted as a major goal does not necessarily lead to the maximization of shareholder's wealth. The latter entails consideration of more subtle criteria such as adjustments for inflation and cost efficiency, which lead to real growth and optimum value for the shareholder's wealth.

Very few researchers gain access to top management of large companies. The author had the privilege of conducting personal interviews with the CEOs of five large companies, and therefore, feels it quite appropriate to mention a few interesting points here. Undoubtedly, the most beneficial aspect of the personal interviews is the opportunity to probe into the subconscious thought process of top managers. Such thought processes are, very often, the key to the logic behind many major decisions made by top managers. Had this study been conducted via mail questionnaires it would have been almost impossible to gain insights into areas such as departmental attitudes toward corporate goals and the unique nature of the goal setting process in certain companies.

Further interaction between students and company executives will open up new avenues for research in the field of strategic management. An area of special interest related to the present study is mentioned here. Further research that attempts to examine the effectiveness of particular strategies in meeting certain goals may provide very important clues to strategic planners. Careful planning is required to formulate appropriate strategies, for achieving corporate goals. Therefore, any favorable link between strategies and goals, through more research, may help to reduce, and ultimately eliminate, the scepticism of "anti-planners"!

As a final note of conclusion the following quote from Schendel and Hofer (1979), succinctly recapitulates the importance of the goal formulation process which was emphasized throughout this study:

> There are a variety of goal formulation processes that can be proposed, some based on power and bargaining, some on competition and economic survival, and still others on a combination of these approaches. But whether the process is a rational/ deductive one or a social/political one, goal structures do arise and are used to manage the affaires of organizations (p 519).

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APPENDIX 1

QUESTIONNAIRE

Serial No. _____

QUESTIONNAIRE

Please describe briefly the part that goals played in your last major decision.

QUESTION 1-A

Please briefly describe the process by which your organization's goals, incorporated in your last major decision, were established.

A. _____ By the President (or Chief Executive Officer), more or less by himself.

B. _____ Primarily by the Board of Directors.

C. _____ As a result of deliberation by the top management group.

D. _____ Largely on the basis of special staff studies and/or with the advice of consultants.

E. _____ After farily broad involvement of Divisional Managers.

F. _____ By more or less maintaining a traditional goal.

G. _____ Other (please specify) ______________________________

______________________________________________________

______________________________________________________

## QUESTION 2

A Note for Question 2: A firm often appears to be a combination of dissimilar Functional Managements (FM's), comprised of people with different disciplines and backgrounds. These people may or may not subordinate the overall corporate goals to their own FM/Departmental or personal goals. Thus, people of different FM's can display varying nature of goal orientation which can be noted on the scale explained below.

#1. Highly Corporate Goal Oriented — Highly FM/Dept. Goal Oriented

High Medium Low Neutral Low Medium High

#2. Highly Corporate Goal Oriented — Highly Personal Goal Oriented

High Medium Low Neutral Low Medium High

Question 2: Please indicate the nature of goal orientation of the people of different FM's during the year 1980 on the following scale:

| | #1 | #2 |
|---|---|---|
| A. Marketing | H M L N L M H | H M L N L M H |
| B. Sales | H M L N L M H | H M L N L M H |
| C. R and D | H M L N L M H | H M L N L M H |
| D. Engineering | H M L N L M H | H M L N L M H |
| E. Production | H M L N L M H | H M L N L M H |
| F. Procurement | H M L N L M H | H M L N L M H |
| G. Labor Relations | H M L N L M H | H M L N L M H |
| H. Finance & Control | H M L N L M H | H M L N L M H |
| I. Institutional Relations | H M L N L M H | H M L N L M H |
| J. Other (Specify) | H M L N L M H | H M L N L M H |

## QUESTION 3

Please specify the goals most recently established for your company.

| Goals | Subjective Weights for Each Goal | Feasible Range Considered for Each Goal |
|---|---|---|

## QUESTION 4

Please indicate the reason most influencing the adoption of the goal with the highest subjective weight in Question 3.

1. _____ Measure performance.
2. _____ Guide extent and direction of new business activities.
3. _____ To communicate company image and intent to public and financial community.
4. _____ To provide a basis for coordinating and integrating corporate activities.
5. _____ Other (specify) ________________________________________

________________________________________________________

QUESTION 5

Please indicate the appropriate category for the total dollar sales of your company during fiscal 1980.

A. _____ Below $10 million

B. _____ $10 million to $100 million

C. _____ $100 million to $500 million

D. _____ Over $500 million

QUESTION 6

Please indicate the appropriate category for the total dollar assets of your company as of the end of fiscal 1980.

A. _____ Below $10 million

B. _____ $10 million to $100 million

C. _____ $100 million to $500 million

D. _____ Over $500 million

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