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Two Budget Targets

In the three years since he had been appointed manager of the Mobile Communications Division (MCD) of Advanced Technologies Corporation (ATC), Joe supervised the preparation of two sets of annual budget numbers. When ATC's bottom-up budgeting process began, Joe instructed his subordinates to set aggressive performance targets because he believed such targets would push everyone to perform at their best.

Then, before Joe presented his budget to his superiors, he added some "management judgment." He made the forecasts of the future more pessimistic, and he added some allowances for "performance contingencies" to create what he called the "easy plan." Sometimes the corporate managers questioned some of Joe's forecasts and ask him to raise his sales and profit targets somewhat. However, MCD operated in a rapidly growing, uncertain market which Joe understood better than did his superiors, and Joe was a skillful and forceful negotiator. In each of the past three years, the end result was that the targets in the official budget for MCD were highly achievable. MCD's performance had exceeded the targets in the easy plan by an average of 40%, and Joe earned large bonuses. Joe did not show his superiors the targets his subordinates were working toward, but some of Joe's direct reports were aware of the existence of the easy plan.

In his subjective evaluations of his subordinates' performances for the purposes of assigning bonuses and merit raises, Joe compared actual performance with the aggressive targets. In the last three years, only approximately 25% of the aggressive targets had been achieved. Joe did not fire any of his managers for failing to achieve their targets, but he reserved the vast majority of the discretionary rewards for the managers who had achieved their targets.

Professor Kenneth A. Merchant wrote this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.