

Lecture 6.

Topic 4. Planning in the organization

Part 1. Foundations of Planning



LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

What Is Planning?

- Define planning.
- Differentiate between formal and informal planning.
- Describe the purposes of planning.
- Discuss the conclusions from studies of the relationship between planning and performance.

How Do Managers Plan?

- Define goals and plans.
- Describe the types of goals organizations might have.
- Explain why it's important to know an organization's stated and real goals.
- Describe each of the different types of plans.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Establishing Goals and Developing Plans

- **Discuss how traditional goal setting works.**
- **Explain the concept of the means–end chain.**
- **Describe the management by objective (MBO) approach.**
- **Describe the characteristics of well-designed goals.**
- **Explain the steps in setting goals.**
- **Discuss the contingency factors that affect planning.**
- **Describe the approaches to planning.**

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Contemporary Issues in Planning

- **Explain the criticisms of planning and whether they're valid.**
- **Describe how managers can effectively plan in today's dynamic environment.**



***„Rowing harder doesn't help
if the boat is headed in the wrong
direction.“***

What Is Planning?

- Planning is one of the four major functions of management. In doing so, a manager can be certain that he or she is working toward some organization goal.
 - A primary managerial activity that involves:
 - ❖ Defining the organization's goals
 - ❖ Establishing an overall strategy for achieving those goals
 - ❖ Developing plans for organizational work activities.
 - Types of planning
 - ❖ **Informal:** not written down, short-term focus; specific to an organizational unit.
 - ❖ **Formal:** written, specific, and long-term focus, involves shared goals for the organization.

Why Do Managers Plan?

- Purposes of Planning

- Provides direction
- Reduces uncertainty
- Minimizes waste and redundancy
- Sets the standards for controlling



Planning and Performance

- The Relationship Between Planning And Performance
 - Formal planning is associated with:
 - ❖ Higher profits and returns on assets.
 - ❖ Positive financial results.
 - The quality of planning and implementation affects performance more than the extent of planning.
 - The external environment can reduce the impact of planning on performance,
 - Formal planning must be used for several years before planning begins to affect performance.

How Do Managers Plan?

- Elements of Planning

- Goals (also Objectives)

- ❖ Desired outcomes for individuals, groups, or entire organizations
 - ❖ Provide direction and evaluation performance criteria

- Plans

- ❖ Documents that outline how goals are to be accomplished
 - ❖ Describe how resources are to be allocated and establish activity schedules

Types of Goals

- **Financial Goals**

- Are related to the expected internal financial performance of the organization.

- **Strategic Goals**

- Are related to the performance of the firm relative to factors in its external environment (e.g., competitors).

- **Stated Goals versus Real Goals**

- Broadly-worded official statements of the organization (intended for public consumption) that may be irrelevant to its real goals (what actually goes on in the organization).

Exhibit 1 Stated Goals of Large Global Companies

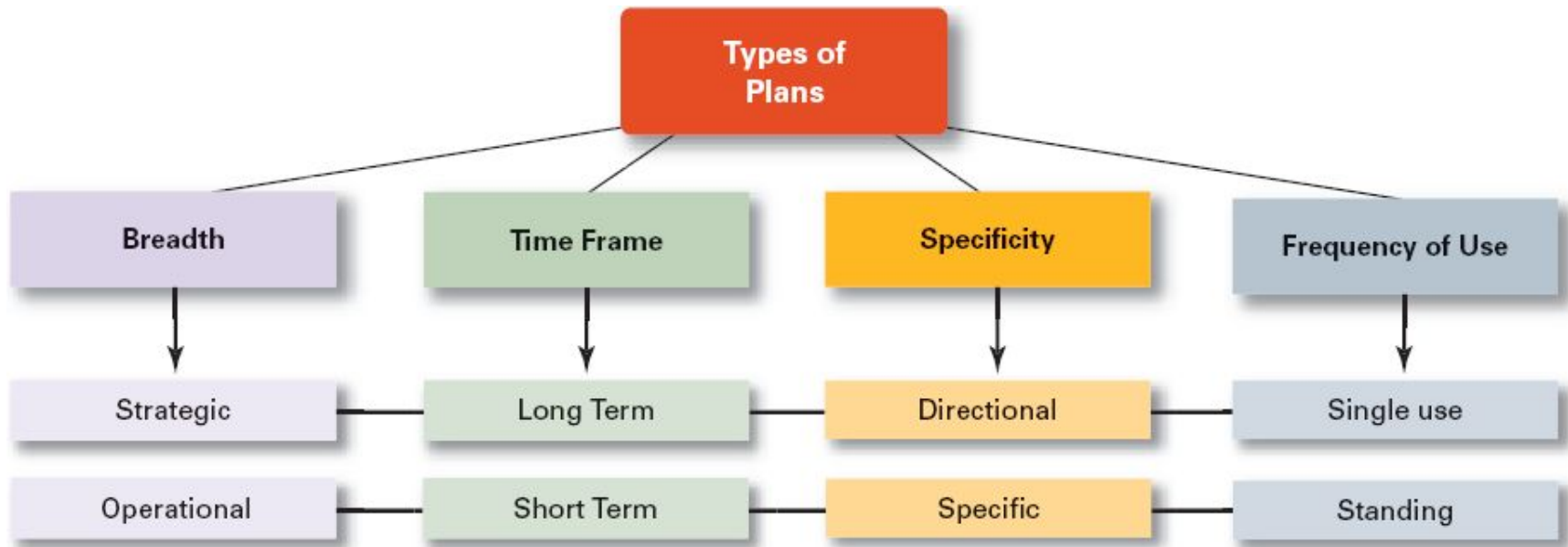
Execute strategic roadmap—“Plan to Win.”
Grow the business profitably.
Identify and develop diverse talent.
Promote balanced, active lifestyles.
(McDonald’s Corporation)

Continue to win market share globally.
Focus on higher-value products.
Reduce production costs.
Lower purchasing costs.
Integrate diversity.
Gain ISO 14001 certification for all factories.
(L’Oreal)

Expand selection of competitively priced products.
Manage inventory carefully.
Continue to improve store format every few years.
Operate 2,000 stores by the end of the decade.
Continue gaining market share.
(Target)

Roll out newly-designed environmentally friendly cup in 2006.
Open approximately 1,800 new stores globally in 2006.
Attain net revenue growth of approximately 20 percent in 2006.
Attain annual EPS growth of between 20 percent to 25 percent for the next 3 to 5 years.
(Starbucks)

Exhibit 2 Types of Plans



Types of Plans

- Strategic Plans

- Apply to the entire organization.
- Establish the organization's overall goals.
- Seek to position the organization in terms of its environment.
- Cover extended periods of time.

- Tactical plans

- are concerned with the responsibility and functionality of lower-level departments to fulfill their parts of the strategic plan.

- Operational Plans

- Specify the details of how the overall goals are to be achieved.
- Cover short time period.

Contingency Plans

- Even the best plans can fail, especially in today's fast-paced, chaotic business environment, and as such, it is important for managers at all levels to engage in contingency planning.
- **Contingency plans** allow a manager to be flexible and change-savvy by providing an alternative course of action, which can be implemented if and when an original plan fails to produce the anticipated result.
- Having a contingency plan might seem like extra work, but much like a reserve parachute when skydiving, it's better to have it and not need it than to need it and not have it.

Types of Plans (cont'd)

- Single-Use Plan

- A one-time plan specifically designed to meet the need of a unique situation.

- Standing Plans

- Ongoing plans that provide guidance for activities performed repeatedly.

- STANDING PLANS are used over and over again because they focus on organizational situations that occur repeatedly.

- SINGLE USER PLANS are used only once, or at most, couple of times, because they focus on unique or rare situations within the organization.

Ongoing plans are typically a policy, procedure or rule.

- **Policies** are general statements, or guidelines, that aid a manager in understanding routine responsibilities of his or her role as a manager.
- A **procedure** details the step-by-step process of carrying out a certain task.
- A **rule** provides managers and employees with specific and explicit guidelines of behavior that is what they should and should not do as a member of the organization.

Types of Plans (cont'd)

- Long-Term Plans

- Plans with time frames extending beyond three years

- Short-Term Plans

- Plans with time frames on one year or less

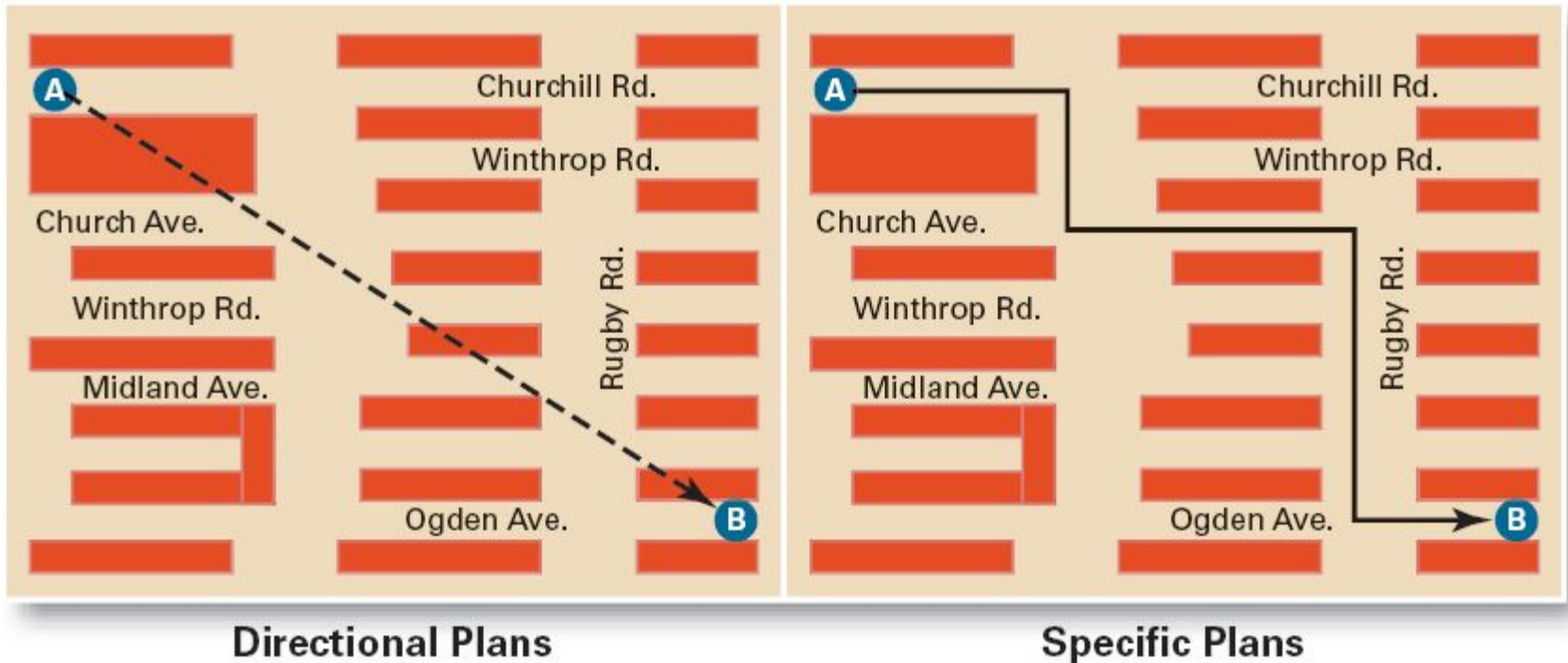
- Specific Plans

- Plans that are clearly defined and leave no room for interpretation

- Directional Plans

- Flexible plans that set out general guidelines, provide focus, yet allow discretion in implementation.

Exhibit 7-3 Specific Versus Directional Plans



Establishing Goals and Developing Plans

- Traditional Goal Setting
 - Broad goals are set at the top of the organization.
 - Goals are then broken into subgoals for each organizational level.
 - Assumes that top management knows best because they can see the “big picture.”
 - Goals are intended to direct, guide, and constrain from above.
 - Goals lose clarity and focus as lower-level managers attempt to interpret and define the goals for their areas of responsibility.

Exhibit 7-4 The Downside of Traditional Goal Setting



Establishing Goals and Developing Plans (cont'd)

- Maintaining the Hierarchy of Goals
 - Means–Ends Chain
 - ❖ The integrated network of goals that results from establishing a clearly-defined hierarchy of organizational goals.
 - ❖ Achievement of lower-level goals is the means by which to reach higher-level goals (ends).

Establishing Goals and Developing Plans (cont'd)

- **Management By Objectives (MBO)**
 - Specific performance goals are jointly determined by employees and managers.
 - Progress toward accomplishing goals is periodically reviewed.
 - Rewards are allocated on the basis of progress towards the goals.
 - Key elements of MBO:
 - ❖ Goal specificity, participative decision making, an explicit performance/evaluation period, feedback

- **Management by objectives (MBO)** is a process of defining objectives is a process of defining objectives within an organization so that management is a process of defining objectives within an organization so that management and employees agree to the objectives and understand what they need to do in the organization in order to achieve them.
- The term "management by objectives" was first popularized by Peter Drucker in his 1954 book 'The Practice of Management'.

Unique features and advantages of the MBO process

The principle behind Management by Objectives (MBO) is for employees to have a clear understanding of the roles and responsibilities expected of them. They can then understand how their activities relate to the achievement of the organization's goal. MBO also places importance on fulfilling the personal goals of each employee.

Some of the important features and advantages of MBO are:

- Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.
- Better communication and coordination – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the organization and also to solve many problems.
- Clarity of goals
- Subordinates tend to have a higher commitment to objectives they set for themselves than those imposed on them by another person.
- Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

Exhibit 7–5 Steps in a Typical MBO Program

1. The organization's ***overall objectives and strategies*** are formulated.
2. Major objectives are allocated among ***divisional and departmental units***.
3. Unit managers ***collaboratively set specific objectives*** for their units with their managers.
4. Specific objectives are collaboratively set with ***all department members***.
5. ***Action plans***, defining how objectives are to be achieved, are specified and agreed upon by managers and employees.
6. The action plans are ***implemented***.
7. Progress toward objectives is ***periodically reviewed***, and ***feedback*** is provided.
8. Successful achievement of objectives is reinforced by ***performance-based rewards***.

Arguments against

MBO has its detractors (W. Edwards Deming)

- argued that a lack of understanding of systems commonly results in the misapplication of objectives.
- stated that setting production targets will encourage resources to meet those targets through whatever means necessary, which usually results in poor quality.

Does MBO Work?

- Reason for MBO Success

- Top management commitment and involvement

- Potential Problems with MBO Programs

- Not as effective in dynamic environments that require constant resetting of goals.
- Overemphasis on individual accomplishment may create problems with teamwork.
- Allowing the MBO program to become an annual paperwork shuffle.

Exhibit 7–6 Characteristics of Well-Designed Goals

- **Written in terms of outcomes, not actions**
 - Focuses on the ends, not the means.
- **Measurable and quantifiable**
 - Specifically defines how the outcome is to be measured and how much is expected.
- **Clear as to time frame**
 - How long before measuring accomplishment.
- **Challenging yet attainable**
 - Low goals do not motivate.
 - High goals motivate if they can be achieved.
- **Written down**
 - Focuses, defines, and makes goals visible.
- **Communicated to all necessary organizational members**
 - Puts everybody “on the same page.”

Create SMART Goals

- Specific: Do you know exactly what you want to accomplish with all the details?
- Measurable: Are you able to assess your progress?
- Attainable: Is your goal within your reach given your current situation?
- Relevant: Is your goal relevant towards your purpose in life?
- Time-Sensitive: What is the deadline for completing your goal?

- Examples of SMART Business Goals:
 1. Reduce overall budget costs by 10% by 20xx
 2. Increase market share by 5% by 20xx
 3. Increase revenues by 20% by 20xx
 4. Increase customer satisfaction by 5 pts by 20xx

Steps in Goal Setting

1. Review the organization's mission statement.

Do goals reflect the mission?

2. Evaluate available resources.

Are resources sufficient to accomplish the mission?

3. Determine goals individually or with others.

Are goals specific, measurable, and timely?

4. Write down the goals and communicate them.

Is everybody on the same page?

5. Review results and whether goals are being met.

What changes are needed in mission, resources, or goals?

Developing Plans

- Contingency Factors in A Manager's Planning
 - Manager's level in the organization
 - ❖ Strategic plans at higher levels
 - ❖ Operational plans at lower levels
 - Degree of environmental uncertainty
 - ❖ Stable environment: specific plans
 - ❖ Dynamic environment: specific but flexible plans
 - Length of future commitments
 - ❖ **Commitment Concept:** current plans affecting future commitments must be sufficiently long-term to meet those commitments.

Exhibit 7–7 Planning in the Hierarchy of Organizations



Approaches to Planning

- Establishing a formal planning department
 - A group of planning specialists who *help* managers write organizational plans.
 - Planning is a function of management; it should never become the sole responsibility of planners.
- Involving organizational members in the process
 - Plans are developed by members of organizational units at various levels and then coordinated with other units across the organization.

Contemporary Issues in Planning

- Criticisms of Planning

- Planning may create rigidity.
- Plans cannot be developed for dynamic environments.
- Formal plans cannot replace intuition and creativity.
- Planning focuses managers' attention on today's competition not tomorrow's survival.
- Formal planning reinforces today's success, which may lead to tomorrow's failure.

Contemporary Issues in Planning (cont'd)

- Effective Planning in Dynamic Environments
 - Develop plans that are specific but flexible.
 - Understand that planning is an ongoing process.
 - Change plans when conditions warrant.
 - Persistence in planning eventually pay off.
 - Flatten the organizational hierarchy to foster the development of planning skills at all organizational levels.

Terms to Know

- planning
- goals
- plans
- stated goals
- real goals
- framing
- strategic plans
- operational plans
- long-term plans
- short-term plans
- specific plans
- directional plans
- single-use plan
- standing plans
- traditional goal setting
- means-ends chain
- management by objectives (MBO)
- mission
- commitment concept
- formal planning department