# Management

ELEVENTH EDITION

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**LEARNING OUTCOMES**

- **Define** the nature and purpose of planning

- **Classify** the types of goals organizations might have and the plans they use

- **Compare** and **contrast** approaches to goal-setting and planning

- **Discuss** contemporary issues in planning

# What Is Planning?

- Planning - 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

# Formal Planning

- Formal planning
  - Specific goals covering a specific time period
  - Written and shared with organizational members

# Why Do Managers Plan?

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

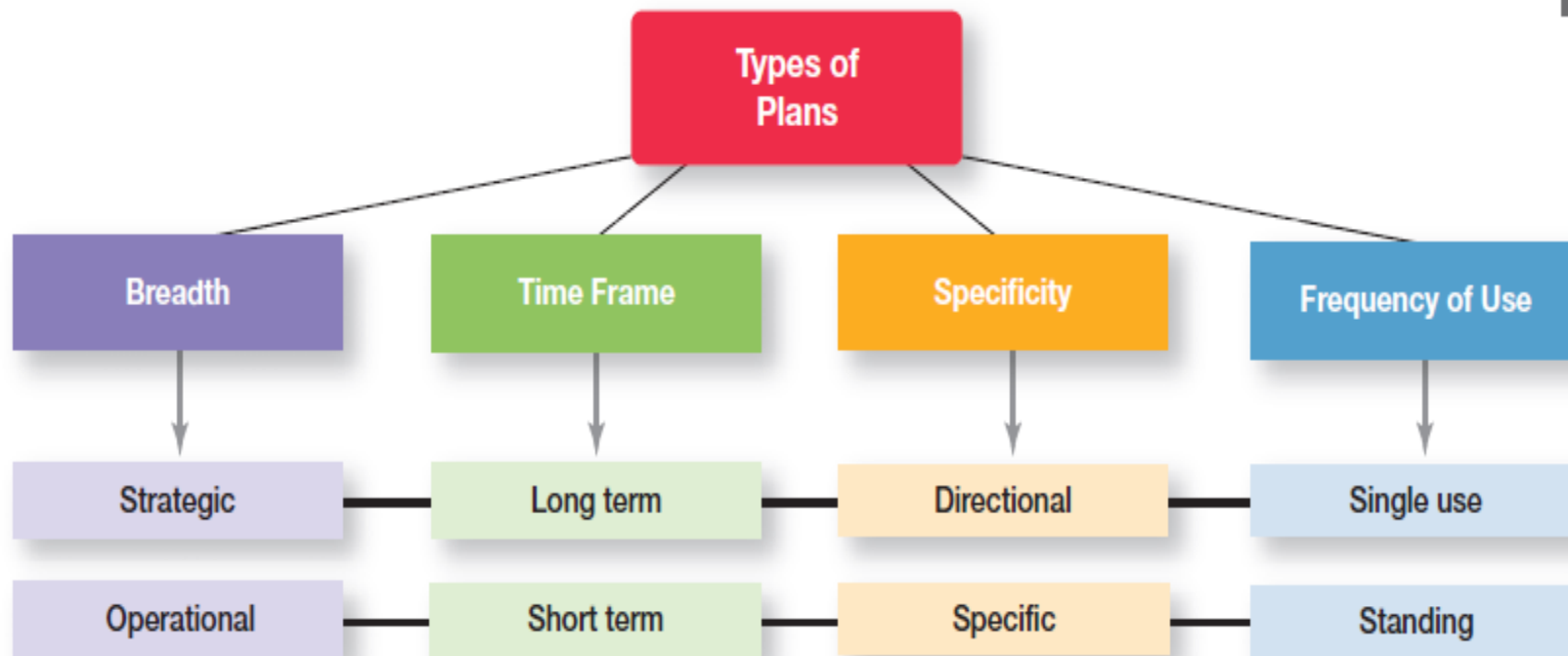# Planning and Performance

- 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

# 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** - related to the expected internal financial performance of the organization.

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

EXHIBIT 8-1
Types of Plans

Exhibit 8-1: Types of Plans

| Breadth | Time Frame | Specificity | Frequency of Use |
|---|---|---|---|
| Strategic | Long term | Directional | Single use |
| Operational | Short term | Specific | Standing |

# Types of Plans

- **Strategic Plans**
  - Establish the organization's overall goals
  - Seek to position the organization in terms of its environment
  - Cover extended periods of time

- **Operational Plans**
  - Specify the details of how the overall goals are to be achieved
  - Cover a short time period

# Types of Plans

- **Long-Term Plans**

    - Time frames extending beyond three years.

- **Short-Term Plans**

    - Time frames of one year or less.

# Types of Plans

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

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

# Types of Plans

- **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.

# Traditional Goal Setting

- Broad goals are set at the top of the organization.

- Goals are then broken into sub-goals for each organizational level.

- 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 8-2: The Downside of Traditional Goal Setting
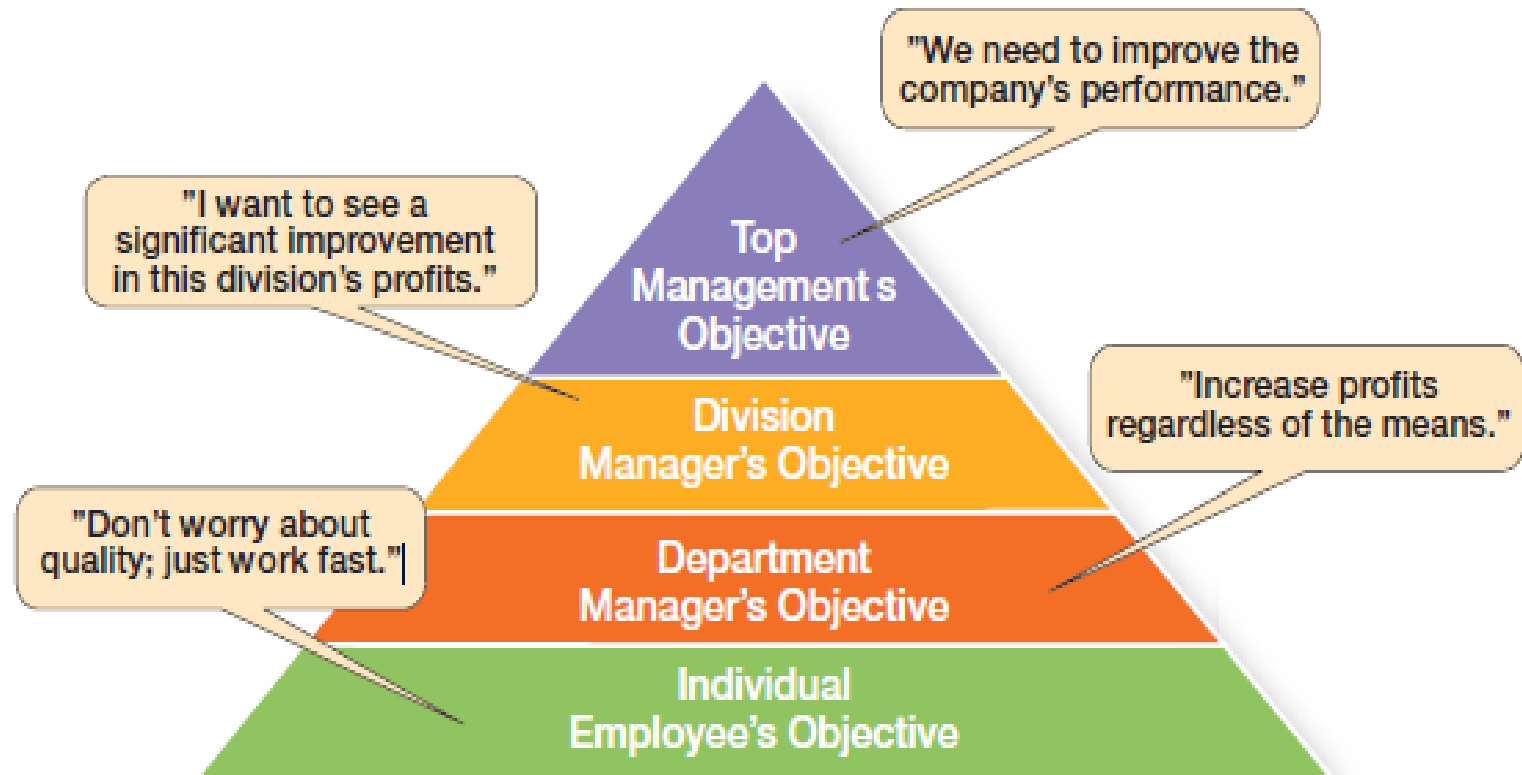
# Maintaining the Hierarchy of Goals

- **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).

# 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.

# Management By Objectives (MBO)

- Key elements of MBO:
    - goal specificity
    - participative decision making
    - an explicit performance/evaluation period
    - feedback

# Exhibit 8-3:
# 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.*

# Does MBO Work?

- **Reason for MBO Success**
  - Top management commitment and involvement

- **Potential Problems with MBO Programs**
  - Are less 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 8-4:
# Well-Written Goals

- Written in terms of outcomes rather than actions
- Measurable and quantifiable
- Clear as to a time frame
- Challenging yet attainable
- Written down
- Communicated to all necessary organizational members

# 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?*

# Steps in Goal Setting

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?*

# Contingency Factors in 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

# Exhibit 8-5:
# Planning in the Hierarchy Organizations

# Approaches to Planning

- Establishing a formal planning department

  – Create a group of planning specialists that *help* managers write organizational plans.

  – Planning is a function of management; it should never become the sole responsibility of planners.

# Approaches to Planning

- 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.

# Criticisms of Planning

- Planning may create rigidity.

- Plans cannot be developed for dynamic environments.

- Formal plans cannot replace intuition and creativity.

# Criticisms of Planning

- 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.

- Planning isn't enough.

# Planning in Dynamic Environments

- Develop plans that are specific but flexible.

- Understand that planning is an ongoing process.

- Change plans when conditions warrant alterations.

# Planning in Dynamic Environments

- Persistence in planning eventually pays 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