

INTRODUCTION

'I arise each morning torn between the desire to improve the world and the desire to enjoy the world. It makes it difficult to plan the day.' (E. B. White)

'One of the nice things about not planning is that failure comes as a complete surprise, and is not preceded by a long period of anxiety and worry.' (Anon)

'Failing to plan is planning to fail.' (Anon)

This dry humour points to the significance of planning. It is a major part of the work of many managers, and an essential function in the responsibilities of every manager. For various reasons, we humans engage in planning. We may do it to feel more certain of future outcomes in uncertain situations, to be ready to cope with undesirable events. We also plan so that we can organise and coordinate our activities, acquisition of raw materials and deployment of our resources to produce goods and deliver services to meet market needs and stakeholder expectations.

Sometimes we get it right and our planning pays off, because we are better prepared for something that happens. Other times, our planning is inadequate or inaccurate, and we miss valuable opportunities because we did not prepare for them, or we suffer failure or accident because we 'did not expect it would happen to us'. Tragically, all too often we learn too late that time spent planning is rarely time wasted, and, after the event, we wish naively that we had been less reckless and more thoughtful.

Strategic management researcher Gary Hamel believes many of today's companies aren't going to make it for the long term. Why? 'Organisations that succeed in this new century will be as different from industrial-era organisations as those companies themselves were different from craft-based industries,' he says. 'Companies are going to have to re-invent themselves much more frequently than before.'² His book, *Leading the Revolution*,³ became something of a classic when it was published in 2000, and it is still a standard reference book in many Western business schools.

The global financial crisis gave way to an economic downturn, which, in turn, gave way to widespread caution and organisational restructuring. The 'Arab spring' saw governments fall amidst violence and terror. Financial upheavals in Greece, Spain and other countries brought massive unemployment and a heightened sense of vulnerability that such enormous change could happen so quickly. Tunisia, then Egypt, Turkey and Syria all experienced revolution of varying severity. Now, companies are trying to figure out what might lie ahead, and how they can prepare for it. As economies and domestic demand slowly recover, and share markets return to pre-downturn values, optimism is oscillating with pessimism. The pessimistic viewpoint is that unemployment might continue to rise, that manufacturing capacity may remain under-utilised, and that endemic problems have been cushioned by governmental fiscal stimulus — propping up a financial system with deep, difficult-to-solve problems.

For example, the United States is seen by some to be living on borrowed funds, and borrowed time. As the world's largest debtor nation — reliant on China to carry its debt as it continues like a national equivalent of GM — the US is recovering from the GFC more slowly than expected. It continues to produce expensive products that markets don't want, and continues to overpay itself in dollars that are being progressively devalued. In recent times, already-indebted US consumers have cut their spending and have imported less. The US\$11 trillion debt is 40 per cent of its GDP, and it is expected to go even higher. Policymakers have to balance keeping demand up and growth in unemployment (still a gloomy 8 per cent) down, while encouraging innovation and trade — the engines of economic growth.

All this they must do in an international environment where reforms are likely to bring a stronger currency in China (and thus increased prices for goods produced there), hopefully accompanied by a stronger domestic market with increased exports to the growth nations of Indonesia and Malaysia, and to the 'sleeping giant' economy of India, which may become the world's greatest consumer market. As the world's private sector recovers and ~~tax~~ takes improve, governments can afford to repair their balance sheets with spending cuts, and possibly with taxes on carbon and consumption. This will be of great interest to managers everywhere. Added to this is the imperative that governments need to encourage the development of new and sustainable industries and work together to offer global policy reform.

To ensure that regional and national interests are adequately served by companies in newly privatised industries, all governments must legislate planning and strategy obligations. All organisations need to be able to look ahead, make good plans, and then help others work effectively to best meet the challenges ahead. Organisations need to do this knowing that things will probably never get back to 'normal'; rather, there may be a shift to a world of lower consumer spending and increased cost of capital. However, with the future uncertain, the likelihood is that even the best of plans made today may have to be changed tomorrow, in spite of improvements in economic forecasting software. Thus, managers also need the courage to be flexible in response to new circumstances, and the discipline to maintain control even as situations become hectic and the performance pressures are unrelenting.

How and why managers plan

In chapter 1 the management process was described as planning, organising, leading and controlling the use of resources to achieve performance objectives. The first of these functions, **planning**, sets the stage for the others. Planning involves deciding exactly what you want to accomplish and the best way to go about it.

As interesting as it is to examine why organisations plan, it is equally fascinating, if embarrassing, to examine why they do not. Indeed, with the benefit of hindsight, what is amazing is the resistance to planning in organisations. As recently as 1977, the president of leading IT company Digital Equipment Corporation, Ken Olsen, opined 'there is no reason for any individual to have a computer in their home'.⁴ It might be observed that these experts were not keen on planning — or, at least, did not have an open mind about planning for possible developments in technology.

Imagine the different course of history if General Motors had anticipated and planned for a future where energy used for transport had to come from sources other than hydrocarbons. Perhaps the first requirement for being a good planner is an open mind, to be able to free oneself from prejudice to contemplate new ways of solving problems old and new. This is why planning the right answer demands that we first ask the right question. Setting the right objective is critical to good planning.

Importance of planning

Although many management gurus and senior managers consider setting **objectives** and planning to be an old-fashioned practice, there is still considerable support for long-term planning in many large and small organisations. The Flight Centre example at the start of the chapter illustrates how important this is when planning how to structure an organisation to compete with retail services in turbulent and fast-moving markets. What has changed in many companies is that planning is not so rigidly tied to a complex series of five- or ten-year

Planning is the process of setting objectives and determining how to accomplish them.

Objectives are specific results usually expressed in measurable indices that someone wishes to achieve and may relate to the individual, a group or the whole organisation.

plans produced by senior corporate managers. It is a process that generates a series of 'what if' scenarios. This **scenario planning** process is used to get general managers at all levels of the organisation to think about the environment in which they operate, so that they can be better prepared for 'shocks' to their industry. These may be caused by the introduction of revolutionary new technologies; major terrorist events such as the attack on the World Trade Center in 2001; or the outbreak of wars such as those in Afghanistan and Iraq, in addition to ongoing tensions in Pakistan and Iran. As dramatic as these conflicts have been, and as significant as they are for the regions concerned, it is the global financial downturn, the Eurozone crisis, and the continuing financial and structural reforms involved in their wake that are likely to have the greatest impact on organisations worldwide.

When scenario planning is used properly it produces a solid base from which further managerial actions can emanate. These include: *organising* — allocating and arranging organisational resources to achieve key tasks; *leading* — guiding the efforts of the organisation's staff to ensure high levels of task accomplishment; and *controlling* — monitoring and assessing task accomplishment and taking necessary corrective action.

The importance of planning in the management process is illustrated in figure 8.1 — it provides the guiding direction for the other important management functions of organising, controlling and leading. Planning may involve strategies for obtaining and maintaining an organisation's competitive edge over other organisations in its industry, but it may equally involve joint ventures and cooperative arrangements with competitors. Daimler-Chrysler is an example of a partnership that has led to the capture of a sustainable market share in a highly competitive and volatile market. The German-based car manufacturer purchased a majority shareholding in Japanese competitor Mitsubishi in order to increase its presence in the Asian market. It was particularly interested in exploiting the rapidly-expanding Chinese domestic market for cars that its German rival Volkswagen has achieved through establishing two new assembly plants in the increasingly liberal communist state.

Scenario planning identifies alternative future scenarios and makes plans to deal with each. In a fast-changing and unpredictable world, it is often necessary to have multiple scenarios for planning purposes.

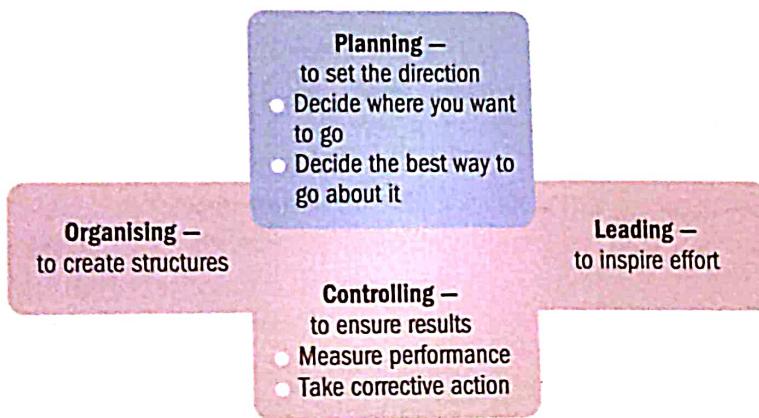


FIGURE 8.1 The role of the planning function in the management process

Where market conditions prove too turbulent, or capital costs are too high, firms move to secure a foothold using alliance relationships to share associated costs and risks. For example, huge gas deposits off Australia's north-west coast are currently being developed by a consortium of companies, including 'competitors' Exxon Mobil, Chevron and Royal Dutch Shell.

Defending or improving an organisation's market position is likely to involve a combination of competitive strategies that mean that the organisation must become more effective at its core tasks and must cooperate with other organisations to share costs. Planning should identify these possibilities, based on likely future environmental conditions, and guide the necessary decisions to allow the organisation to fully exploit any opportunities.

There are several ways managers in organisations try to gain a competitive advantage over other organisations. First, they can survey customers about their product or service requirements. This can be in terms of both prospecting for new customers, and surveying existing customers about how the company's products and services can be improved.

Second, they can scan the environment searching for technologies, techniques or methods from their own industry or from other sectors that they can modify or apply. For example, a boat-building firm in Melbourne, ARF Marine, adopted computer-aided design and testing software developed for the aerospace industry to design faster and more stable yachts.

Third, managers can search for joint-venture partners to strengthen their current market position or to diversify into other markets. For example, the merger between Australia's BHP and the United Kingdom's Billiton to form BHP Billiton, the world's largest resource company, was designed to create a stronger company with a greater resource and knowledge base. Through the planning process, both companies had identified merging as the most effective way to secure their long-term future. The outcome has been little short of spectacular, with BHP Billiton now regarded as one of the world's strongest companies. It has massive assets and skilful top management, with a resilient and powerful future almost assured.

Thus, planning is a core management task that is integrated with environmental analysis, control and leadership. The launch of the Apple iPad is an example of an innovative product introduced after extensive market analysis, product development and corporate strategy for distribution and sale worldwide. It was a game move — and proved to be a game changer — all on the basis of detailed planning.

Social responsibility

is important for professionals, who face ethical challenges, allocating resources in crisis, and balancing the importance of treating 'the common good' with the safeguarding of their own

Planning for better health

Healthcare professionals responsible for planning for influenza pandemics, with complex issues of scale and consequences, face special ethical challenges. Any plan needs to be assessed in terms of its alignment with competing values and priorities. Planners are required to deal with the necessary limitations on personal liberty imposed by quarantine, and the unavoidable demand to prioritise healthcare resources, such as anti-viral drugs, in what would be a time of crisis. Questions of fairness should be discussed beforehand — to determine obligations for providing preventive measures for healthcare workers, other emergency workers, able-bodied adults, the elderly and more vulnerable members of the population.

The ethical standard of treating for 'the common good' needs to be debated as to moral value and application in particular situations (such as when an individual healthcare worker refuses to work in a

pandemic because of a perceived risk to themselves or their dependants). Guidelines are that any intervention should be both necessary and effective, that decision-making should be transparent, and that public health officials should be flexible and responsive. This is no easy task, as planners do their work in the midst of ethical examination of scenarios that call into question a broad range of moral issues. It is likely that planning needs to be done with a diversity of inputs.⁵

Question

The ethical dialectic of utilitarianism ('the greatest good for the greatest number') and duty to the individual makes planning difficult in the individual healthcare case. Should we plan for the many while treating the individual? Justify your answer.



The planning process

The planning process begins with an organisation identifying specific outcomes that it wishes to achieve. It may set different targets depending on the environment it encounters, especially where the environment is uncertain or changing rapidly. This 'what-if' or scenario planning is practised by an increasing number of organisations. Organisations may also include in their plans action to help shape or stabilise the environment. Such action could include lobbying governments locally and overseas, creating industry networks, or philanthropy. The organisation's **plan** is a statement of the actual steps required to achieve its objectives. There are five sequential action steps in the systematic planning process:

SMART model
specific
measurable
attainable
relevant
time-based

A **plan** is a statement of intended means for accomplishing objectives.

1. **Define your objectives.** Identify desired outcomes or results in very specific ways. Know where you want to go; be specific enough that you will know you have arrived when you get there or know how far off the mark you are at various points along the way.
2. **Determine where you stand in relation to objectives.** Evaluate current accomplishments relative to the desired results. Know where you stand in reaching the objectives; know what strengths work in your favour and what weaknesses may hold you back.
3. **Develop premises regarding future conditions.** Try to anticipate future events. Generate alternative 'scenarios' for what may happen; identify for each scenario things that may help or hinder progress towards your objectives.
4. **Analyse and choose among action alternatives.** List and carefully evaluate the possible actions that may be taken. Choose the alternative(s) most likely to accomplish your objectives; describe step by step what must be done to follow the chosen course of action.
5. **Implement the plan and evaluate results.** Take action and carefully measure your progress towards objectives. Do what the plan requires; evaluate results; take corrective action, and revise plans as needed.

The planning process just described is an application of the decision-making process introduced in the chapter on information and decision-making. It is a systematic way to approach two important tasks: setting performance objectives, and deciding how to best achieve them. Importantly, in the complex setting of the modern workplace this is not a process that managers do while working alone in quiet rooms, free from distractions, and at scheduled times. Rather, planning should be part of a manager's everyday work routine. It should be an ongoing activity that is done continuously even while dealing with an otherwise hectic and demanding work setting.⁶ Importantly, the best planning always involves those people whose work efforts will eventually determine whether the objectives are accomplished.

It is important that the objectives for any organisational plan be clearly articulated. Table 8.1 outlines the **SMART model** for establishing objectives, in which an effective objective needs to possess five characteristics — being specific, measurable, actionable, reasonable and timetabled. For example, an objective to 'increase revenue' would not be classified as an effective objective under the SMART model. For this objective to be 'SMART', it would need to be made more specific and measurable, and be timetabled (assuming too that it is actionable and reasonable). An objective to 'Increase 2016 calendar year revenue by 5 per cent over 2015 calendar year revenue, with progress towards this measured and reported to management quarterly', would be an example of a SMART objective.

The **SMART model** is an approach to determining effective organisational objectives that requires that they be specific, measurable, actionable, reasonable and timetabled.

TABLE 8.1 The SMART model of establishing effective organisational objectives

CHARACTERISTIC	EXPLANATION
S Specific	Objectives need to be clearly defined so that it is easy to understand what is to be achieved and what will be considered successful.
M Measurable	The exact measure must be stated and the objective must be able to be measured through some means.
A Actionable	An organisation needs to ensure that its business-unit managers have the authority and resources to take the actions necessary to attempt to achieve the objectives that are set.
R Reasonable	There is no point setting unrealistic objectives. Unrealistic objectives are a disincentive for both managers and their employees.
T Timetabled	Objectives should have milestone dates or deadlines at which progress towards achieving them will be measured.

It is one thing to set effective objectives as the basis of a plan. It is quite another, particularly in larger organisations, to make sure that objectives and plans are well integrated among people at an individual level, in work units and across levels of an organisation as a whole. Objectives set anywhere in the organisation should ideally help advance its overall mission or purpose. Yet, we sometimes work very hard to accomplish things that simply don't make much of a difference in organisational performance. This is why the *alignment* of organisational objectives is an important part of managerial planning.

sustainability

BP plans for a greener future

Having specific and measurable objectives to achieve was an essential part of the success of BP's water minimisation program at its Kwinana refinery.

While occasionally beset by flooding rains, much of Australia is, for most of the time, a wide brown land afflicted by drought – with water shortages increasing in city and country areas alike. Water restrictions have become all too familiar, and the cost of water is increasing. Management at BP's Kwinana refinery in Western Australia realised more than a decade ago that they could not use more fresh water than their region could replenish. The plant needed water as fresh ('potable' or drinking-quality), steam (purchased from a third party supplier) and reclaimed ('grey') water for its various processes. BP set itself SMART goals to bring into effect a water minimisation program, using reverse osmosis to produce industrial-grade grey water. It thereby greatly reduced its use of potable water for cooling. The cost of building the plant to recycle the water was initially expensive, but the benefits have been both financial – equating to savings of over \$1 million annually – and environmental. Recently, the refinery reported it had met all its programs, objectives and targets for its water use. Having specific and measurable objectives to achieve was an essential part of the success of this plan.



Question

Local governments have been successful in encouraging households to use less water and less electricity, providing consumption comparisons with 'same period last year' and with average use by other consumers. How could this approach be applied to industrial organisations? What kind of feedback would be most helpful?

Critical analysis

- Given the rate of change in organisational environments, how far should planning go? Can the planning process actually impede our ability to respond to changes? Why or why not?
- Leaving out our inability to think of all possible likely and unlikely scenarios, what are the limits to scenario analysis? How would you run a scenario planning workshop?

Types of plans used by managers

Managers face different planning challenges in the flow of activity in organisations. In some cases the planning environment is stable and quite predictable; in others it is more dynamic and uncertain. In all cases managers must understand the different types of plans and be able to use them effectively.

Short-range and long-range plans

Organisations require plans that cover different time horizons. A rule of thumb is that *short-range plans* cover one year or less, *intermediate-range plans* cover one to two years and *long-range plans* look three or more years into the future. Top management is most likely to be involved in setting long-range plans and directions for the organisation as a whole, and lower management levels focus more on intermediate and short-range plans that serve the long-term objectives. Importantly, all levels should understand the organisation's long-range plans. In the absence of an integrated hierarchy of objectives and a long-range plan, there is always risk that the pressures of daily events may create confusion and divert attention from important tasks. In other words, we may be working hard but without achieving sustainable and clear long-term results.

The late organisational psychologist and management researcher Elliott Jaques suggested that people vary in their capability to think out, organise and work through events of different time horizons.⁷ In fact, he believed that most people work comfortably with only three-month time spans; a smaller group works well with a one-year span; and only about one person in several million can handle a 20-year time frame. Although Jaques's unscientific research may lead us to dispute these exact figures, they are nonetheless provocative ideas. It is true that individuals have different capacities for long-range planning, but all people can improve their range through education and training. Surprisingly, this important intervention was not considered by Jaques. Although a team leader's planning challenges may rest mainly in the weekly, monthly or quarterly range, a chief executive is expected to have a vision extending five or more years into the future. Career progress to higher management levels requires the conceptual skills to work well with longer range time frames.⁸ Today, many organisations assist their staff in developing enhanced time horizon planning as part of a more strategic approach to organisational sustainability.⁹

Complexities and uncertainties in today's environments are putting pressure on these planning horizons. In an increasingly global economy, planning opportunities and challenges are often worldwide in scope, not just local. And, of course, the information age is ever present in its planning implications. We now talk about planning in internet time or in real time, where businesses are continually changing and updating plans. Even top managers must now face the reality that internet time keeps making the 'long' range of planning shorter and shorter. The virtual organisation is an important response to the pressures

of continual change in a globalised economy. It allows businesses to more quickly establish new enterprises and to change them in response to rapid shifts in the external environment. The virtual organisation can be fine-tuned, restructured or re-born in response to such changes at a global or local level. In many respects, they are the 'Special Forces' of business organisations, allowing quick and agile responses to threatening and unfamiliar situations in order to maximise future opportunities.¹⁰ Not all businesses are well suited to the virtual environment. Retailers such as David Jones and Myer are finding that, while some customers will shop online, most Australians and New Zealanders prefer to inspect items before purchase. The most successful e-retailers sell services, where there is less need to inspect before buying. The success of online service retailing and airline ticket sales, such as at Flight Centre, illustrates this important point.

Strategic and tactical plans

Plans define long-term needs and set action for the organisation. Plans are developed to implement plans.

Plans differ not only in time horizons but also in scope. **Strategic plans** define long-term needs and set comprehensive directions for an organisation or subunit. Top management planning of this scope involves determining objectives for the entire organisation and then deciding on the actions and resource allocations to achieve them. There was a time, for example, when many large businesses sought to diversify into unrelated areas. A successful oil firm might have acquired an office products company, or a successful cereal manufacturer might have acquired a clothing company. These decisions represent strategic choices regarding future directions for these companies and their use of scarce resources. Instead of reinvesting in areas of core competency, they were spending available monies on unrelated and probably unfamiliar areas of business activity. In the chapter on strategic management we examine the process through which such strategic choices are made and how they can be analysed. For now, it is enough to say that diversification strategies haven't always proved successful. Many companies following them have since reversed course, divesting themselves of unrelated businesses and following the alternative strategy of focusing on their core areas of expertise.

Globalisation

Innovation and emerging markets in Asia

The 1960s saw the advent of cars with odd foreign names. Marques such as Chevrolet, Pontiac, Riley and Austin faded in favour of the now ubiquitous Toyota and Honda. Stunned Western executives visited Japan to investigate the source of the miracle that had unseated their automotive dominance. They learned that it was not cheap labour but, rather, lean manufacturing principles and quality management that, while they slept, had revolutionised the world as they knew it. Now, business processes everywhere are being redesigned to do everything better, faster, and cheaper. Where previously the West innovated and Asia manufactured, now research and development is universal, and innovation is as front-of-mind in India and China as it is in Silicon Valley.

In India, Tata built the world's cheapest car, the \$2200 Nano, by using cost-saving methods (just after it also paradoxically bought the English iconic luxury firms of Jaguar and Landrover). Wave after wave of low-cost disruptive 'frugal innovation' have seen radical applications of economies of scale and division of labour to out-produce (and, in many cases, out-class) the West. Each year, China graduates 75 000 higher degrees in engineering, and India 60 000. The investment in the future is already paying off for the economies in the emerging world, just as the 'old economies' of Europe are being dragged down by sovereign debt. Western retailers' customers have reduced spending power and see 'frugal' as fashionable; emerging economies with large volumes of increasingly wealthy consumers see frugal as the pathway to profit.

Innovation is being universalised, from designing and manufacturing cheap and durable mobile phones to meet robots in value-conscious markets, to \$70 battery-powered refrigerators for people who've never owned appliances before. Even old yet familiar technology is being used in innovative ways, such as connecting television sets to the internet via mobile phones, in places where computers are scarce but mobiles are common. Healthcare – increasingly the crippling burden in Western economies – is being provided with efficiency and cost effectiveness that is the envy of Western medicine. Jokes about standards are wearing thin; open heart surgery is a fraction of the cost in India, and results are as good. Meticulous, detailed planning is shaving waste out of supply chains, keeping costs and prices low, and vast consumer markets are opening to the successful manufacturer. The world's largest steel producer is now Indonesian, and Chinese PC manufacturer Lenovo bought IBM's computer business (now ranking with Hewlett-Packard and Dell). All this points to the role of continuing, relentless innovation.

Consider, however, that while many large innovative companies are diversified conglomerates, many others are state-owned. Russian and Chinese companies enjoy many legal privileges, and companies in Latin America and the Middle East are often of hybrid ownership. Most of the world's large oil companies are state-owned too, offering strategic advantage as well as potent sources of foreign exchange. Innovation has many companies experimenting with novel business models relying on scaling production (sometimes up to gain economies, sometimes out in diversification to address distribution), all to match market demand. The common factor is the innovation that is now a universal phenomenon – and it all comes down to planning.¹¹

Question

Emerging market firms appear to be less interested in cutting costs by synergies and headcounts than in acquiring brands and sophisticated skills and technology from the West. Is even more planning enough to continue the boom times of innovation in emerging markets? Explain your answer.



OPERATIONAL PLANS

Operational plans describe what needs to be done in the short term to progress strategic objectives. Typical operational plans in an organisation include:

- *production plans* — dealing with the methods and technology needed by people in their work
- *financial plans* — dealing with the money required to support various operations
- *facilities plans* — dealing with the facilities and work layouts required to support task activities
- *marketing plans* — dealing with the requirements of selling and distributing goods or services
- *human resource plans* — dealing with the recruitment, selection and placement of people into various jobs.

Operational plans define specific activities to implement strategic plans.

Policies and procedures

Among the many plans in organisations, *standing plans* in the form of organisational policies and procedures are designed for use over and over again. They set guidelines that direct behaviour in uniform directions for certain types of situations, regardless of where

A policy is a standing plan that communicates broad guidelines for decisions and action.

or when they occur in an organisation. A **policy** communicates broad guidelines for making decisions and taking action in specific circumstances. In matters relating to the workforce, for example, typical human resource policies deal with such matters as employee hiring, termination, performance appraisals, pay increases and discipline.

Policies should focus attention on matters of particular importance to the organisation and then direct people in how they are supposed to deal with them. Consider the issue of 'blowing the whistle' on unethical or unlawful activities within an organisation. In recent years, many public sector organisations have established procedures to protect staff who disclose information about wrongdoing within the workplace. State laws in Australia have also assisted. For example, in Queensland there is a Whistleblowers Act that clearly outlines procedures on how information should be disclosed and the protection afforded to those disclosing it. This legislation, together with initiatives taken by individual organisations, has helped to expose corruption and unethical practices in the public and private sectors.

Procedures precisely describe actions that are to be taken in specific situations. They define the recommended sequence of events needed to accomplish a task or a set of tasks.

Rules indicate what is and what is not acceptable behaviour and often specify the outcome of breaking them.

Budgets are plans that commit resources to projects or activities.

Zero-based budget allocates resources to a project or activity as if it were brand new.

Procedures and **rules** are plans that describe exactly what actions are to be taken or not taken in specific situations. Procedures are often found stated in employee handbooks or manuals as 'SOPs' — standard operating procedures. They define the recommended sequence of events needed to accomplish a task or a set of tasks. Rules clearly indicate what is and what is not acceptable behaviour, and often specify the outcome of breaking them. They are often to do with occupational health and safety and anti-discrimination legislation.

Budgets and project schedules

In contrast to standing plans, which remain in place for extended periods of time, **single-use** plans are each used once to meet the needs of well-defined situations in a timely manner. **Budgets** are single-use plans that commit resources to activities, projects or programs. They are powerful tools that allocate scarce resources among multiple and often competing uses. Good managers are able to bargain for and obtain adequate budgets to support the needs of their work units or teams. They are also able to achieve performance objectives while keeping resource expenditures within the allocated budget. A **fixed budget** allocates resources on the basis of a single estimate of costs. The estimate establishes a fixed pool of resources that can be used, but not exceeded, in support of the specified purpose. For example, a manager may have a \$25 000 budget for equipment purchases in a given year. A **flexible budget**, on the other hand, allows the allocation of resources to vary in proportion with various levels of activity. Managers operating under flexible budgets can expect additional resource allocations when activity increases from one estimated level to the next. For example, a manager may have a budget allowance for hiring temporary workers if production orders exceed a certain volume.

In a **zero-based budget**, a project or activity is budgeted as if it were brand new. There is no assumption that resources previously allocated to a project or activity will simply be continued in the future. Instead, all projects compete anew for available funds. The intent is to totally reconsider priorities, objectives and activities at the start of each new budget cycle. For example, ARMS Reliability Engineers offers assistance to large client organisations in Australia, New Zealand and other countries in setting up zero-based budgets to track project management and asset management, especially where the true costs of breakdowns and maintenance need to be incorporated. Businesses, government agencies and other types of organisations use zero-based budgeting to make sure that only the most desirable and timely programs receive funding.

Project schedules are single-use plans that identify the activities required to accomplish a specific major project — for example, the completion of a new student activities building on a campus, the development of a new computer software program, or the implementation of a new advertising campaign for a sports team. In each case, the project schedule would define specific task objectives, activities to be accomplished, due dates and timetables for the activities, and resource requirements. Importantly, a good project schedule sets priorities so that everyone involved knows not only what needs to be done but also in what order so that the entire project gets finished on time.

Project schedules are single-use plans for accomplishing a specific major project.

Critical analysis

1. Budgets are plans expressed in financial terms. Accurate, realistic budgets can function as effective instruments of control. In what situations would budgets be likely to cause problems?
2. How much emphasis should be given to managing changes in budgets in response to changing environments and changing demands? Should managers have to stick to budgets to allow tough decisions to be carried through, no matter what?

Planning tools, techniques and processes

Planning is essential for successful management in any organisation. Planning works best when it is comprehensive, systematic and based on well-established foundations. Today's planners use a broad array of planning tools, techniques and processes. These include forecasting, specific contingency planning, benchmarking, participatory or team-based planning, and staff planners.

Forecasting

A **forecast** is a vision of the future. Forecasting is the process of making assumptions about what will happen in the future.¹² All good plans involve forecasts, either implicit or explicit. Business journals such as *BRW* or *The Economist* regularly report a variety of business and economic forecasts for their readers. These include forecasts of consumer spending, business investment, interest rates, unemployment, balance of payments and inflation. For companies operating on a global scale it is essential to access forecasts for economies outside their immediate region. Journals and financial newspapers such as the *Financial Times*, *The Guardian*, *The Wall Street Journal*, *Fortune* and *Business Week* cover much of North America and Europe, whereas the *The Singapore Business Times*, *China Daily*, *The Straits Times* and *The Asian Wall Street Journal* provide forecasts for the Asia-Pacific region.

A forecast is an attempt to predict future outcomes.

Some forecasts are based on *qualitative forecasting*, which uses expert opinions to predict the future. In this case, a single person of special expertise or reputation or a panel of experts may be consulted. Others involve *quantitative forecasting* that uses mathematical and statistical analysis of data banks to predict future events. Time-series analysis makes predictions by using statistical routines such as regression analysis to project past trends into the future. General economic trends are often forecast by econometric models that simulate events and make predictions based on relationships discovered among variables in the models. Statistical analysis of opinion polls and attitude surveys, such as those reported in newspapers and on television, is typically used to predict future consumer tastes, employee preferences and political choices, among other issues.

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2. How much emphasis should be given to managing changes in budgets in response to changing environments and changing demands? Should managers have to stick to budgets to allow tough decisions to be carried through, no matter what?

Planning tools, techniques and processes

Planning is essential for successful management in any organisation. Planning works best when it is comprehensive, systematic and based on well-established foundations. Today's planners use a broad array of planning tools, techniques and processes. These include forecasting, specific contingency planning, benchmarking, participatory or team-based planning, and staff planners.

Forecasting

A **forecast** is a vision of the future. Forecasting is the process of making assumptions about what will happen in the future.¹² All good plans involve forecasts, either implicit or explicit. Business journals such as *BRW* or *The Economist* regularly report a variety of business and economic forecasts for their readers. These include forecasts of consumer spending, business investment, interest rates, unemployment, balance of payments and inflation. For companies operating on a global scale it is essential to access forecasts for economies outside their immediate region. Journals and financial newspapers such as the *Financial Times*, *The Guardian*, *The Wall Street Journal*, *Fortune* and *Business Week* cover much of North America and Europe, whereas the *The Singapore Business Times*, *China Daily*, *The Straits Times* and *The Asian Wall Street Journal* provide forecasts for the Asia-Pacific region.

A **forecast** is an attempt to predict future outcomes.

Some forecasts are based on *qualitative forecasting*, which uses expert opinions to predict the future. In this case, a single person of special expertise or reputation or a panel of experts may be consulted. Others involve *quantitative forecasting* that uses mathematical and statistical analysis of data banks to predict future events. Time-series analysis makes predictions by using statistical routines such as regression analysis to project past trends into the future. General economic trends are often forecast by econometric models that simulate events and make predictions based on relationships discovered among variables in the models. Statistical analysis of opinion polls and attitude surveys, such as those reported in newspapers and on television, is typically used to predict future consumer tastes, employee preferences and political choices, among other issues.

In the final analysis, forecasting always relies on human judgement. Even the results of highly sophisticated quantitative approaches still require interpretation. Forecasts should always be viewed as subject to error and therefore treated cautiously. Managers should remember that forecasting is not planning; planning is a more comprehensive activity that involves deciding what to do about the implications of forecasts once they are made. Large multinational corporations such as Sony, Pfizer, AEG, Ford, BHP Billiton and News Corporation analyse economic and business forecasts for each region and country. They must ascertain the correct mix of products and services and the correct marketing strategies before committing to an investment plan. Although some requirements may be generic in an increasingly standardised global economy, there are still substantial regional or country-specific differences that need to be considered. Many US-based multinational corporations have assumed that what works in the United States will be successful elsewhere. They have not taken into account important social, cultural, historical and religious differences between nations.

Contingency planning

Planning, by definition, involves thinking ahead. But, the more uncertain the planning environment, the more likely the original assumptions, predictions and intentions may prove to be incorrect. Even the most carefully prepared projections may prove inadequate as experience develops. Unexpected problems and events frequently occur. When they do, plans may have to be changed. It is best to realise during the planning process that things might not go as expected. Alternatives to the existing plan can then be developed and readied for use when and if circumstances make them appropriate. The attacks on New York City and Washington on 11 September 2001 and the explosion on the Macondo Deepwater Horizon oil well in 2010 are extreme examples of the type of events to be taken into account when planning for the unexpected.

This is the process of **contingency planning**, identifying alternative courses of action that can be implemented if and when an original plan proves inadequate because of changing circumstances. Of course, changes in the planning environment must be detected as early as possible. 'Trigger points' that indicate that an existing plan is no longer desirable must be preselected and then monitored. Sometimes this is accomplished simply by good forward thinking on the part of managers and staff planners. At other times, it can be assisted by a 'devil's advocate' method, in which planners are formally assigned to develop worst-case forecasts of future events.

Scenario planning and contingency planning

Scenario planning is the long-term version of contingency planning. As we have seen earlier in this chapter, recognition of the need to identify and plan for a variety of possible future scenarios or situations should be at the heart of all planning. Identifying a range of different possible future scenarios helps organisations operate more flexibly and respond more rapidly in uncertain and changing environments. In Asia, the Taiwanese information technology manufacturer Acer has adopted a flexible and dynamic approach to corporate planning because of the uncertainty of the markets for personal computers and other IT-based products, such as mobile telephones, coupled with concerns about Taiwan's long-term relationship with mainland China. Whereas the mainland China market is critical for Acer to become a global company, it also injects 'uncertainty' into the equation because of the political tensions between the two nations.

Although recognising that planning scenarios can never be inclusive of all future possibilities, a planning coordinator once said that scenarios help 'condition the organisation to think' and remain better prepared than its competitors for 'future shocks'. Among the issues and concerns for scenario planning today are geopolitical change, terrorism, climate change, sustainable development, human rights and biodiversity.

BENEFITS OF SCENARIO PLANNING

Scenario planning is not forecasting what planners think will happen. Rather, it consists of developing possible plausible scenarios of the future, with reference to a particular firm, that make different assumptions about forces driving the market and including different uncertainties.¹³ This allows the manager or planner to consider how these environmental uncertainties might affect the firm's strategy, and thus to plan for such eventualities should they occur.

In today's uncertain and dynamic global economy, organisations are facing pressures from many sources. External pressures include regulations imposed by governments (such as the introduction of the goods and services tax in New Zealand and Australia, and the introduction of carbon emissions trading schemes and taxes); increasingly complex or changing technologies (such as genetic modification and animal cloning); economic uncertainties (such as those exacerbated by the conflicts in the Middle East); and the costs of investment in capital, labour and other supporting resources (such as increasingly scarce natural resources, the escalating costs of office locations in metropolitan areas and highly priced scientific and business consultancy expertise). Internal pressures include the need for operating efficiencies through work practice reforms, new management structures and technologies (such as individual workplace agreements, virtual organisations and project management structures), increased workplace diversity, heightened job expectations from an increasingly tertiary-educated workforce, and related managerial challenges.

Given the growing uncertainty and complexity of the environment, scenario planning offers a number of benefits. Typically undertaken by experienced managers in a workshop setting, it allows organisations to plan for the most likely course of events, but also allows for other scenarios that may occur. Many organisations now include multiple scenarios (all of which are plausible) in their planning, with different high-impact, high-uncertainty environmental variables (avoiding highly improbable values) that are weighted for degree of criticality to the organisation. Interaction between variables can be considered as potentially relevant in preparing for the impact of various scenarios.

The aim in scenario planning is not to predict the most probable future and adapt to it, but to enable strategic decisions to be made around all plausible futures. Therefore, scenarios are not the end products of a predictive or forecasting exercise, but the foundation for rethinking afresh the strategy formulation needs of the organisation.

- Briefly, scenario planning involves some variation on the following steps.
1. Identify the driving forces that represent game changers in any plot or scenario. This may require thinking the unthinkable to shake free of past 'certainties'.
 2. Build a scenario where these drivers change significantly. Systematically vary the drivers to create new scenarios.
 3. Consider options available within the scenarios, however unlikely. Check for interaction effects between the drivers.
 4. Generate new options, products, processes or services to address the requirements inherent in the scenario.

5. Examine implications of these scenarios for outcomes in relation to existing strategies.
6. Develop an action plan to manage differently as a result of these considerations. Such a plan ought to include an early warning system to monitor whether the drivers are changing in the manner contemplated.

Scenario planning improves focus and flexibility

Thorough scenario planning improves organisational focus and flexibility, both of which are essential for successful individual and group performance in highly competitive and dynamic environments. An *organisation with focus* knows what it does best, knows the needs of its customers and knows how to serve them well. An *individual with focus* knows where he or she wants to go in a career or situation and is able to retain that objective even when difficulties or setbacks arise. An *organisation with flexibility* is willing and able to change and adapt to shifting circumstances, and operates with an orientation towards the future rather than the past or present. An *individual with flexibility* factors into career plans the problems and opportunities posed by new and developing situations — personal and organisational. The challenges and opportunities presented by the emergence of virtual organisations is a good example of the impact of external changes on the individual.

Scenario planning improves action orientation

Scenario planning helps individuals and organisations weather difficult circumstances and stay ahead of the competition. It places organisations in a state of readiness for a variety of situations and counters tendencies towards complacency, both in individuals and in the organisation. It also keeps the future visible as a performance target and reminds us that the best decisions are often made before events force them upon us. Management consultant Stephen R. Covey, points out that the most successful executives ‘zero in on what they do that “adds value” to an organisation’. Instead of working on too many things, Covey advises us to step back and identify the most important things to do.¹⁴ Indeed, planning helps us to take the initiative rather than be reactive in our approach to things. It does so because it makes us more:

- *results oriented* — creating a performance-oriented sense of direction
- *priority oriented* — making sure the most important things get first attention
- *advantage oriented* — ensuring that all resources are used to best advantage
- *change oriented* — anticipating problems and opportunities so they can be dealt with in the best way.¹⁵

Scenario planning improves coordination

The many different individuals, groups and subsystems in organisations are each doing many different things at the same time. But even as they pursue their specific tasks and objectives, their accomplishments must add up to meaningful contributions towards the needs of the organisation as a whole. Good planning throughout an organisation creates a *hierarchy of aims* in which objectives at each level of work are linked together in means–ends fashion. Higher level objectives as ends are directly tied to lower level objectives as the *means* for their accomplishment.

Figure 8.2 uses the example of quality management to show how a hierarchy of objectives can guide and integrate efforts within a large manufacturing firm. The corporate-level quality objective is ‘Deliver error-free products that meet customer requirements 100 per cent of the time’. This translates down the hierarchy in means–ends fashion as a series of supporting objectives at each level. For one of the team leaders, it finally becomes a formal commitment to ‘assess capabilities of machine operators and provide/arrange

appropriate training. Good planning helps ensure that the team leader's hard work in this example will make a positive contribution to the corporate-level quality objective.

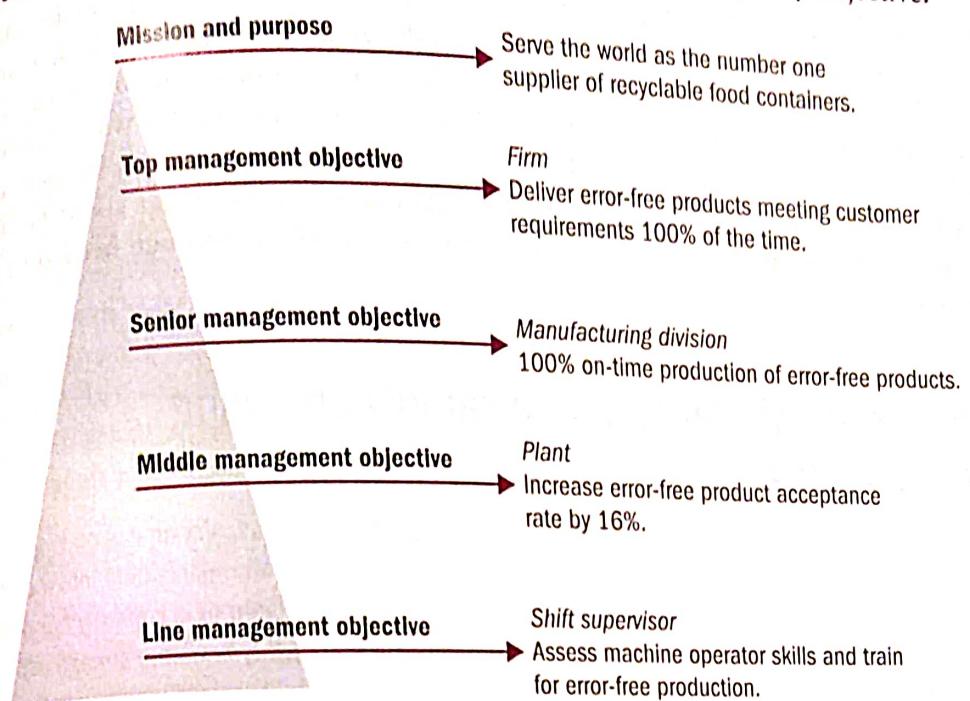


FIGURE 8.2 A sample hierarchy of objectives for total quality management

Scenario planning improves time management

One of the side benefits that planning offers is better time management. Lewis Platt, former chairman of Hewlett-Packard, says: 'Basically, the whole day is a series of choices.'¹⁶ These choices have to be made in ways that allocate your time to the most important priorities. Platt says that he is 'ruthless about priorities' and that you 'have to continually work to optimise your time'. Most of us have experienced the difficulties of balancing available time with the many commitments and opportunities we would like to fulfil. Each day, we are bombarded by a multitude of tasks and demands in a setting of frequent interruptions, crises and unexpected events — the manager's job is especially subject to such complications. It is easy to lose track of time and fall prey to what consultants identify as 'time wasters'. In the process, too many of us allow our time to be dominated by other people and/or by what can be considered non-essential activities.¹⁷ 'To do' lists can help, but it is important to determine which 'to dos' are the priorities, and then deal with them.¹⁸ Some additional tips on how to manage your time are included in Manager's notepad 8.1.



Manager's notepad 8.1

Tips on how to manage your time

- Do say 'No' to requests that divert you from work you should be doing.
- Don't get bogged down in details that should be left to others.
- Do establish a system for screening telephone calls and email.
- Don't let 'drop-in' visitors use too much of your time.
- Do prioritise work tasks in order of importance and urgency.
- Don't become 'calendar bound' by losing control of your schedule.
- Do work tasks in priority order.

Scenario planning improves control

When planning is done well, it is easier to exercise control by measuring performance results and taking action to improve things as necessary. Planning helps make this possible by defining the objectives along with the specific actions through which they are to be pursued. If results are less than expected, either the objectives or the action being taken, or both, can be evaluated and then adjusted in the control process. In this way, planning and controlling work closely together in the management process. Without planning, control lacks a framework for measuring how well things are going and what could be done to make them go better. Without control, planning lacks the follow-through needed to ensure that things work out as intended.

erpoint

The absurdity of planning in a rapidly changing global economy

In the new globalised economy in which uncertainty and change is continuous, planning is no longer a guarantee of long-term survival. In fact, traditional planning is likely to turn an organisation into a dinosaur because by its very nature it lays down sets of actions based on what has been or is currently happening rather than future circumstances. To survive, organisations must develop agility and core strengths to allow rapid responses to continuous and sudden changes in the globalised business landscape. Rather than developing 5-, 10- and 20-year business plans, organisations should establish flexible management structures, use the latest technologies, and develop in all their staff key skills and the ability to deal with continuous change. Virtual organisations are one such response to this new business environment. They exist only for the sustainable length of a project, after which they can be modified, restructured or reinvented to suit changing market imperatives. They are an agile and responsive solution to the inertia that exists in 'planned organisations'. These are the politically correct control methods of the modern, profit-maximising company.

Question

Given the rate of change in organisational environments, how far should planning go? Can the planning process actually impede our ability to respond to changes? Why or why not?

Benchmarking

Another important influence on the success or failure of planning involves the frame of reference used as a starting point. All too often planners have only a limited awareness of what is happening outside the immediate work setting. Successful planning must challenge the status quo; it cannot simply accept things the way they are. One way to do this is through benchmarking, a technique that makes use of external comparisons to better evaluate an organisation's current performance and identify possible actions for the future.¹⁹ The purpose of benchmarking is to find out what other people and organisations are doing very well and then to plan how to incorporate these ideas into your organisation's operations. This powerful planning technique is increasingly popular in today's competitive business world. It is a way for progressive companies to learn from other 'excellent' companies, not just competitors. It allows them to analyse and thoroughly compare all systems and processes for efficiencies and opportunities for innovation.

Staff planners

As the planning needs of organisations grow, there is a corresponding need to increase the sophistication of the overall planning system itself. In some cases, staff planners are employed to help coordinate planning for the organisation as a whole or for one of its major components. These planners should be skilled in all steps of the formal planning process, including the benchmarking and scenario-planning approaches just discussed. They should also understand the advisory nature of their roles. Given clear responsibilities and their special planning expertise, staff planners can bring focus to efforts to accomplish important planning tasks. But one risk is a tendency for a communication 'gap' to develop between staff planners and line managers. This can cause a great deal of difficulty. Resulting plans may lack relevance, and line personnel may lack commitment to implement them even if they are relevant. One trend in organisations today is to de-emphasise the role of large staff planning groups and to place much greater emphasis on the participation and involvement of line managers in the planning process.

Management by objectives

A useful planning technique that helps integrate planning and controlling is **management by objectives**, or just **MBO**. This is a structured process of regular communication in which a manager or team leader works with staff or team members to jointly set performance objectives and review results accomplished.²⁰ As shown in figure 8.3, MBO creates an agreement between the two parties regarding

1. performance objectives for a given time period
2. plans through which they will be accomplished
3. standards for measuring whether they have been accomplished
4. procedures for reviewing performance results.

Of course, both parties in any MBO agreement are supposed to work closely together to fulfil the terms of the agreement.

Management by objectives or MBO is a process of joint objective-setting between a manager and a staff member.

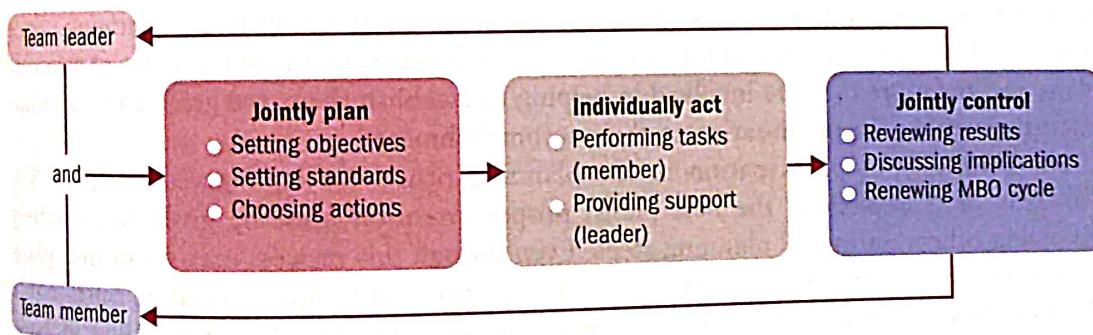


FIGURE 8.3 Performance objectives in MBO

Three types of objectives may be specified in an MBO contract:

1. Improvement objectives document intentions for improving performance in a specific way. An example is 'To reduce quality rejects by 10 per cent'.
2. Personal development objectives pertain to personal growth activities; often those resulting in expanded job knowledge or skills. An example is 'To learn the latest version of a computer software package'.
3. Some MBO contracts also include maintenance objectives that formally express intentions to maintain performance at an existing level.

One of the more challenging aspects of MBO is the need to make performance objectives as measurable as possible. Ideally there is agreement on a measurable objective; for example, 'To reduce travel expenses by 5 per cent by the end of the fiscal year'. But performance in some jobs, particularly managerial ones, is sometimes hard to quantify. Rather than abandon MBO in such cases, it is often possible to agree on performance objectives that are stated as *verifiable work activities*. The accomplishment of the activities serves as an indicator of performance progress. An example is 'To improve communications with my team in the next three months by holding weekly team meetings'. Whereas it can be difficult to measure 'improved communications', it is easy to document whether the 'weekly team meetings' have been held.

MBO PROS AND CONS

MBO is one of the most talked about and debated management concepts.²¹ As a result, advice is available. Common mistakes to avoid include focusing too much attention on 'easy' objectives, requiring excessive paperwork, and having managers simply tell employees their objectives. The advantages of MBO are that it can focus workers on the most important tasks and objectives, and focus managers on areas of support that can truly help their employees meet the agreed-upon objectives. Because of the direct face-to-face communication, MBO can also contribute to relationship building. Further, by giving people the opportunity to participate in decisions that affect their work, MBO encourages self-management.²²

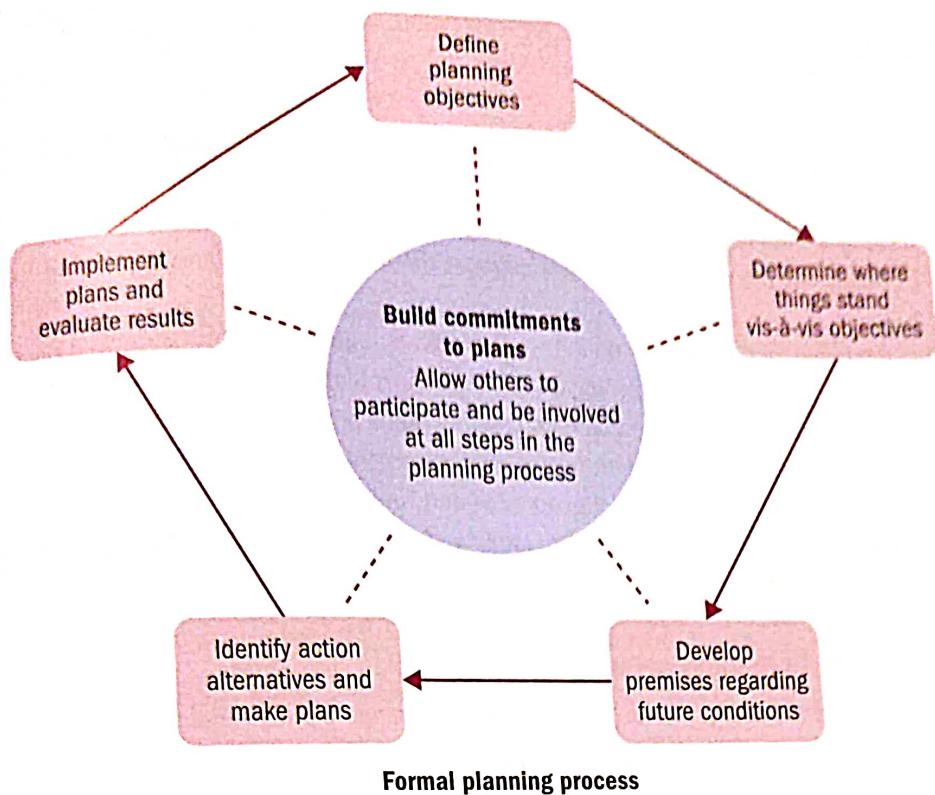
Participation and involvement

Planning
people who will be
plans and/or whose
led to implement

Planning is a process, not an event, and 'participation' is a key component of the planning process. **Participatory planning** means that the process includes people who will be affected by the resulting plans and/or who will be asked to help implement them. This brings to the organisation many benefits. Participation can increase the creativity and information available for planning. It can also increase the understanding, acceptance and commitment of people to final plans. Indeed, planning should be organised and accomplished in a participatory manner that includes the contributions of many people representing diverse responsibilities and vantage points. This includes the level of strategic planning, once considered only the province of top management. The more aware all levels are of strategic plans and the more they are involved in helping to establish them, the greater the commitment throughout the organisation to their accomplishment.

The centrality of participation in the planning process is highlighted in figure 8.4. To create and implement the best plans, proper attention must be given to genuinely involving others during all planning steps. Even though this process may mean that planning takes more time, it can improve results by improving implementation. Sustainable Futures Australia is a small multidisciplinary organisation based in Byron Bay in New South Wales. With a strong and upfront philosophy of sustainability, they work with local government and regional communities to facilitate genuinely participative planning, working on implementation of plans for policy and governance applications. They emphasise solutions that are practical, environmentally appropriate, economically viable and socially acceptable. To enable this, the firm has developed a planning web tool related to key elements of sustainability, which incorporates the values of group participants.²³

FIGURE 8.4 How participation and involvement help build commitments to plans



Critical analysis

1. Is MBO too limiting in terms of emergent issues and personal creativity? How might you ensure that it does not become so?
2. How can participatory planning be used in organisations? What resistance might it potentially create, and how would you deal with this?