Management

tenth edition

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Chapter
7

Foundations of Planning

Learning Outcomes

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

7.1 The What And Why Of Planning

- Define planning.

- Describe the purposes of planning.

- Explain what studies have shown about the relationship between planning and performance.

7.2 Goals And Plans

- Define goals and plans.

- Describe the types of goals organizations might have.

- Describe each of the different types of plans.

Learning Outcomes

7.3 Setting Goals and Developing Plans

- Discuss how traditional goal setting and MBO work.

- Describe well written goals and explain hw to set them.

- Discuss the contingency factors that affect planning.

- Describe the approaches to planning.

7.4 Contemporary Issues in Planning

- Explain the criticisms of planning.

- Describe how managers can effectively plan in today's dynamic environment.

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
    - ✤ 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

- **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 7–1 Types of Plans
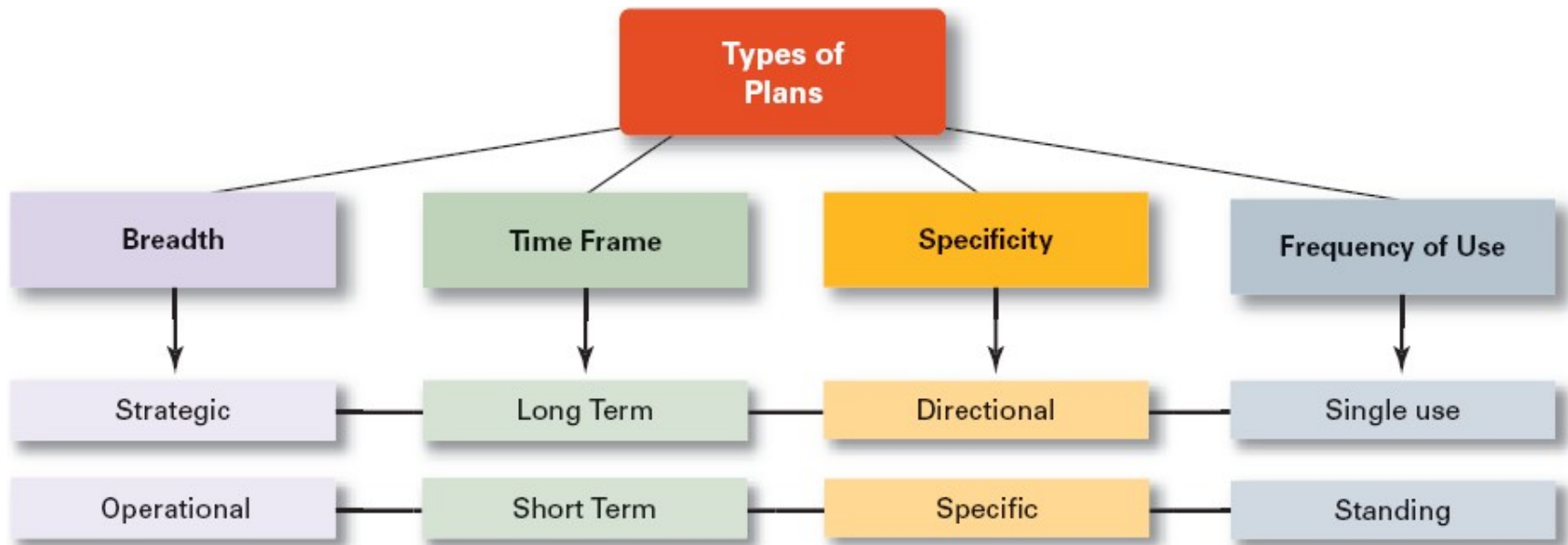
Types of Plans

- **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.

- **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**
  - Plans with time frames extending beyond three years

- **Short-Term Plans**
  - Plans with time frames of 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 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.

Setting Goals and Developing Plans

- **Traditional Goal Setting**
  - Broad goals are set at the top of the organization.
  - Goals are then broken into sub-goals 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 7–2   The Downside of Traditional Goal Setting

"We need to improve the company's performance."

"I want to see a significant improvement in this division's profits."

"Increase profits regardless of the means."

"Don't worry about quality; just work fast."

Top Management's Objective

Division Manager's Objective

Department Manager's Objective

Individual Employee's Objective

Setting Goals and Developing Plans

- **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).

Setting Goals and Developing Plans

- **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

Exhibit 7–3   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**

  ➢ 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 7–4   Well-Written 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."

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 7–5   Planning in the Hierarchy of Organizations
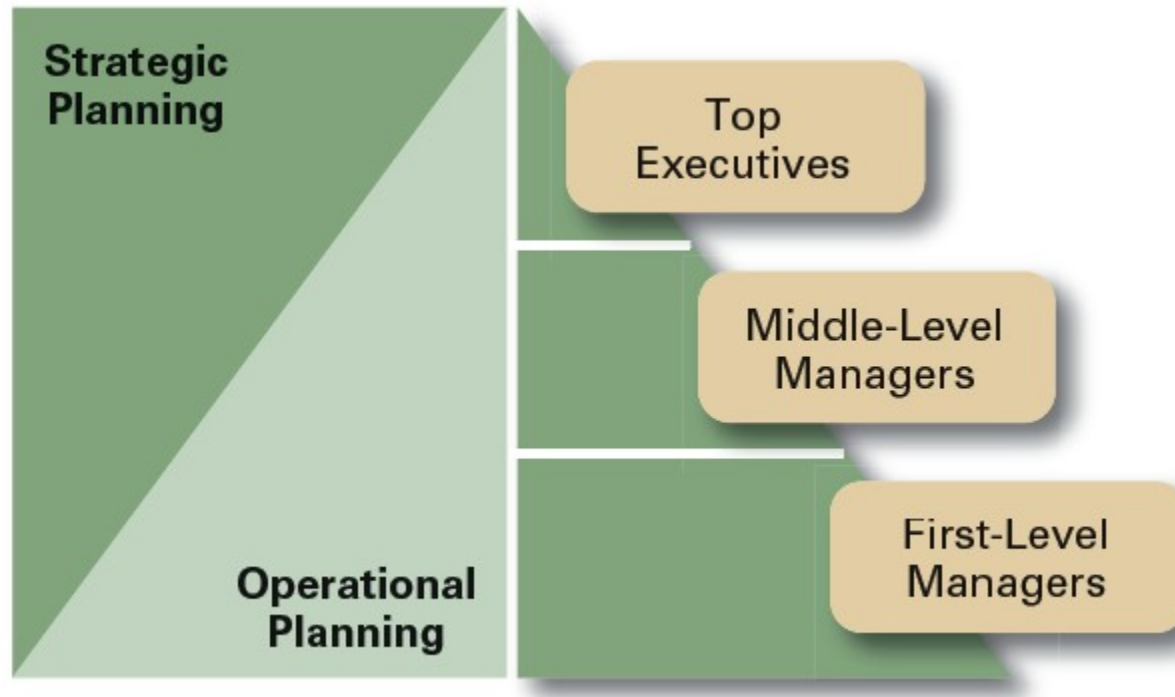
Approaches to Planning

- 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
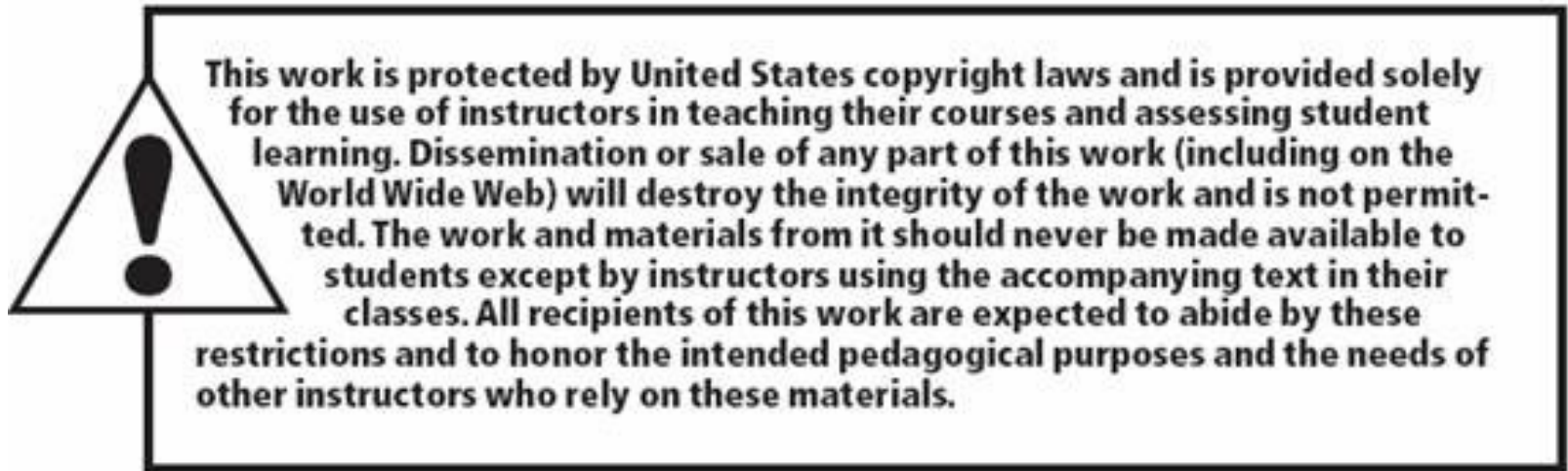
- **Criticisms of Planning**

  ➢ 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.

  ➢ Just planning isn't enough.

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