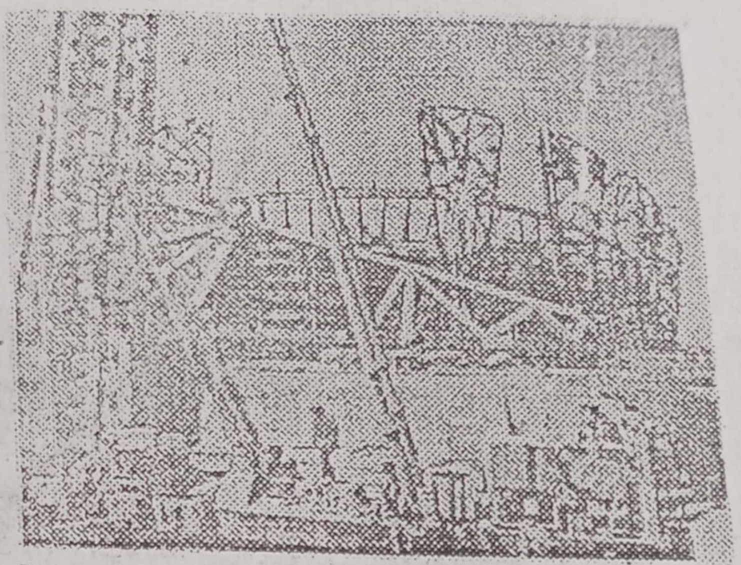
Citigroup's Charles Prince took over a firm badly in need of an overhaul. To jump-start his efforts, he made several critical decisions as to how the firm's performance could be improved. For instance, he has worked to overhaul how the company develops plans and to focus on the broad strategic goals of enhancing ethical conduct and growing the business through expansion of current operations. Operationally, this has translated into more aggressive responses to unethical practices, a halt to acquisitions, and a focus on efficiency. As we note in Chapter 1, planning and decision making comprise the first managerial functions that organizations must address. This chapter is the first of four that explore the planning process in detail. We begin by briefly relating decision making and planning, and then explaining the planning process that most organizations follow. We then discuss the nature of organizational goals and introduce the basic concepts of planning. Next we discuss tactical and operational planning more fully. Finally, we conclude with a discussion of how to manage the goal-setting and planning processes.



Decision making and planning are vital processes in any organization. For instance, consider the myriad decisions and planning activities that go into preparations for hosting the Olympic Games. This is National Stadium, which will host several events in the 2008 Olympics in Beijing, China. Work on this single venue requires the efforts of dozens of managers and hundreds of workers. Moreover, the work must be coordinated so that the stadium is completed on time and within its budget. Complicating things even further for China's Olympic officials is the fact that this is only 1 of 31 competition venues that must be completed.

Decision Making and the Planning Process

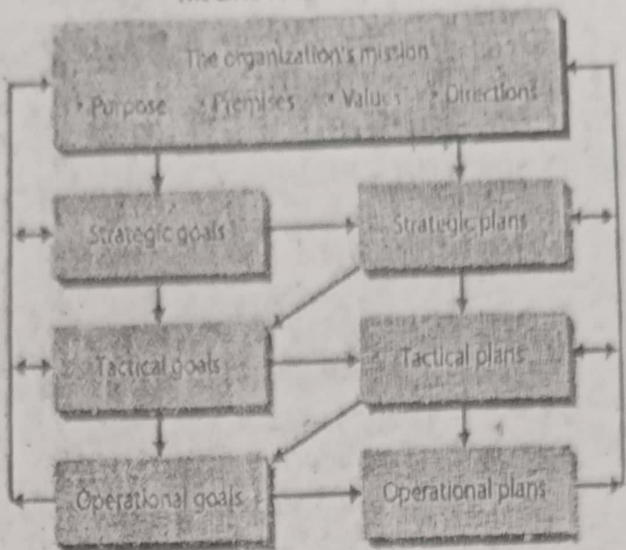
Decision making is the cornerstone of planning. A few years ago, Procter & Gamble (P&G) set a goal of doubling its revenues over a ten-year period. The firm's top managers could have adopted an array of alternative options, including increasing revenues by only 25 percent or increasing revenues threefold. The time frame for the projected revenue growth could also have been somewhat shorter or longer than the ten-year period that was actually specified. Alternatively, the goal could have included diversifying into new markets, cutting costs, or buying competing businesses. Thus P&G's exact mix of goals and plans for growth rate and time frame reflected choices from among a variety of alternatives.

Clearly, then, decision making is the catalyst that drives the planning process. An organization's goals follow from decisions made by various managers. Likewise, deciding on the best plan for achieving particular goals also reflects a decision to adopt one course of action as opposed to others. We discuss decision making per se in Chapter 9. Our focus here is on the planning process itself. As we discuss goal setting and planning, however, keep in mind that decision making underlies every aspect of setting goals and formulating plans.[2]

The planning process itself can best be thought of as a generic activity. All organizations engage in planning activities, but no two organizations plan in exactly the same fashion. Figure 7.1 is a general representation of the planning

Figure 7.1
THE PLANNING PROCESS

The planning process takes place within an environmental context. Managers must develop a complete and thorough understanding of this context to determine the organization's mission and to develop its strategic, tactical, and operational goals and plans.



process that many organizations attempt to follow. But, although most firms follow this general framework, each also has its own nuances and variations.[3]

As Figure 7.1 shows, all planning occurs within an environmental context. If managers do not understand this context, they will be unable to develop effective plans. Thus understanding the environment is essentially the first step in planning. The four previous chapters cover many of the basic environmental issues that affect organizations and how they plan. With this understanding as a foundation, managers must then establish the organization's mission. The mission outlines the organization's purpose, premises, values, and directions. Flowing from the mission are parallel streams of goals and plans. Directly following the mission are strategic goals. These goals and the mission help determine strategic plans. Strategic goals and plans are primary inputs for developing tactical goals. Tactical goals and the original strategic plans help shape tactical plans. Tactical plans, in turn, combine with the tactical goals to shape operational goals. These goals and the appropriate tactical plans determine operational plans. Finally, goals and plans at each level can also be used as input for future activities at all levels. This chapter discusses goals and tactical and operational plans. Chapter 8 covers strategic plans.

concept CHECK

What is the relationship between decision making and planning?

Which do you think is easier for a top manager—making a decision or developing a plan?

Organizational Goals

Goals are critical to organizational effectiveness, and they serve a number of purposes. Organizations can also have several different kinds of goals, all of which must be appropriately managed. And a number of different kinds of managers must be involved in setting goals.

Purposes of Goals

Goals serve four important purposes.[4] First, they provide guidance and a unified direction for people in the organization. Goals can help everyone understand where the organization is going and why getting there is important.[5] Top managers at General Electric have set a goal that every business owned by the firm will be either number one or number two in its industry. This goal helps set the tone for decisions made by GE managers as it competes with other firms like Whirlpool and Electrolux.[6] Likewise, P&G's goal of doubling revenues, discussed in the section above, helps everyone in the firm recognize the strong emphasis on growth and expansion that is driving the firm.

Second, goal-setting practices strongly affect other aspects of planning. Effective goal setting promotes good planning, and good planning facilitates future goal setting. For example, the ambitious revenue goal set for P&G demonstrates how setting goals and developing plans to reach them should be seen as complementary activities. The strong growth goal should encourage managers to plan for expansion by looking for new market opportunities, for example. Similarly, they must also always be alert for competitive threats and new ideas that will help facilitate future expansion.

Third, goals can serve as a source of motivation for employees of the organization. Goals that are specific and moderately difficult can motivate people to work harder, especially if attaining the goal is likely to result in rewards.[7] The Italian furniture manufacturer Industrie Natuzzi SpA uses goals to motivate its workers. Each craftsperson has a goal for how long it should take to perform her or his job, such as sewing leather sheets together to make a sofa cushion or building wooden frames for chair arms. At the completion of assigned tasks, workers enter their ID numbers and job numbers into the firm's computer system. If they get a job done faster than their goal, a bonus is automatically added to their paycheck.[8]

Finally, goals provide an effective mechanism for evaluation and control. This means that performance can be assessed in the future in terms of how successfully today's goals are accomplished. For example, suppose that officials of the United Way of America set a goal of collecting $250,000 from a particular small community. If, midway through the campaign, they have raised only $50,000, they know that they need to change or intensify their efforts. If they raise only $100,000 by the end of their drive, they will need to carefully study why they did not reach their goal and what they need to do differently next year. On the other hand, if they succeed in raising $265,000, evaluations of their efforts will take on an entirely different character.

Kinds of Goals

Organizations establish many different kinds of goals. In general, these goals vary by level, area, and time frame.[9] Figure 7.2 provides examples of each type of goal for a fast-food chain.

Level

Goals are set for and by different levels within an organization. As we noted earlier, the four basic levels of goals are the mission and strategic, tactical, and operational goals. An organization's ***mission*** is a statement of its "fundamental, unique purpose that sets a business apart from other firms of its

mission
A statement of an organization's fundamental purpose

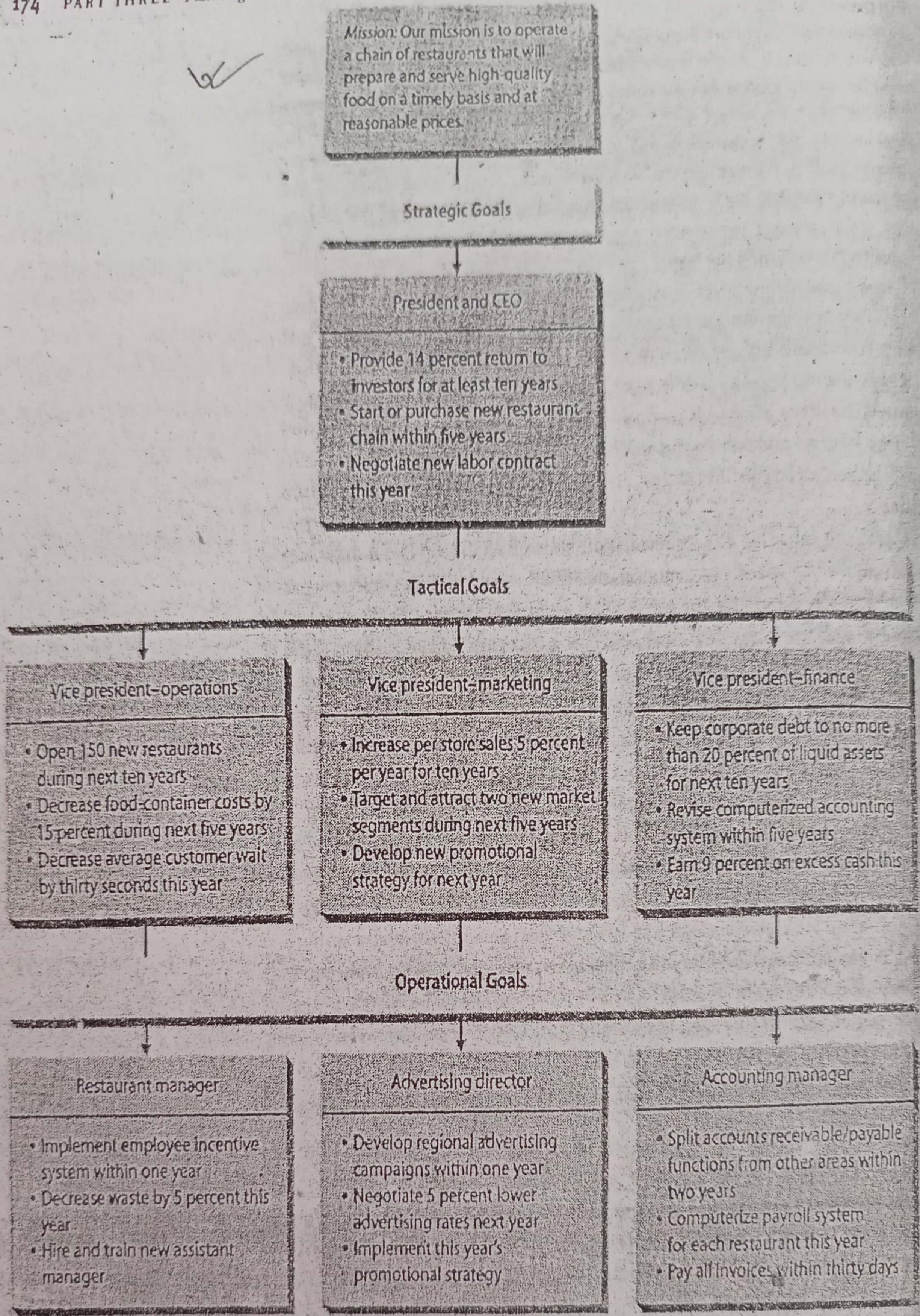


Figure 7.2

KINDS OF ORGANIZATIONAL GOALS FOR A REGIONAL FAST-FOOD CHAIN

Organizations develop many different types of goals. A regional fast-food chain, for example, might develop goals at several different levels and for several different areas.

type and identifies the scope of the business's operations in product and market terms."[10] For instance, Starbucks' mission statement is to be "the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow." The principles referred to in the mission statement include: Provide a great work environment and treat each other with respect and dignity.

- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.[11]

Hence, the mission statement and basic principles help managers at Starbucks make decisions and direct resources in clear and specific ways.

Strategic goals are goals set by and for top management of the organization. They focus on broad, general issues. For example, Starbucks has a strategic goal of increasing its number of worldwide retail outlets from around 10,000 today to 30,000.[12] ***Tactical goals*** are set by and for middle managers. Their focus is on how to operationalize actions necessary to achieve the strategic goals. To achieve Starbucks' goal of tripling its number of retail outlets, managers are working on tactical goals related to company-owned versus licensed stores and the global distribution of stores in different countries.

strategic goal
A goal set by and for top management of the organization

tactical goal
A goal set by and for middle managers of the organization

Operational goals are set by and for lower-level managers. Their concern is with shorter-term issues associated with the tactical goals. An operational goal for Starbucks might be a target number of new stores to open in each of the next five years. (Some managers use the words *objective* and *goal* interchangeably. When they are differentiated, however, the term *objective* is usually used instead of *operational goal*.)

operational goal
A goal set by and for lower-level managers of the organization

Area Organizations also set goals for different areas. The restaurant chain shown in Figure 7.2 has goals for operations, marketing, and finance. Hewlett-Packard (HP) routinely sets production goals for quality, productivity, and so forth. By keeping activities focused on these important areas, HP has managed to remain competitive against organizations from around the world. Human resource goals might be set for employee turnover and absenteeism. 3M and Rubbermaid set goals for product innovation. Similarly, Bath & Body Works has a goal that 30 percent of the products sold in its retail outlets each year will be new. In addition to its growth goals, Starbucks also has financial goals of maintaining a 20 percent annual growth rate in both revenues and profits.

Time Frame Organizations also set goals across different time frames. In Figure 7.2, three goals are listed at the strategic, tactical, and operational levels. The first is a long-term goal, the second an intermediate-term goal, and the third a short-term goal. Some goals have an explicit time frame (open 150 new restaurants during the next ten years), and others have an open-ended time horizon (maintain 10 percent annual growth). Finally, we should also note that the meaning of different time frames varies by level. For example, at the strategic level, "long term" often means ten years or longer, "intermediate term" around five years or so, and "short term" around one year. But two or three years may be long term at the operational level, and short term may mean a matter of weeks or even days.

Responsibilities for Setting Goals

Who sets goals? The answer is actually quite simple: All managers should be involved in the goal-setting process. Each manager, however, generally has responsibilities for setting goals that correspond to his or her level in the organization. The mission and strategic goals are generally determined by the board of directors and top managers. Top and middle managers then work together to establish tactical goals. Finally, middle and lower-level managers are jointly responsible for operational goals. Many managers also set individual goals for themselves. These goals may involve career paths, informal work-related goals outside the normal array of official goals, or just about anything of interest or concern to the manager.

Managing Multiple Goals

Organizations set many different kinds of goals and sometimes experience conflicts or contradictions among goals. Nike had problems with inconsistent goals a few years ago. The firm was producing high-quality shoes (a manufacturing goal), but they were not particularly stylish (a marketing goal). As a result, the company lost substantial market share when Reebok and Adidas started making shoes that were both high quality and fashionable. When Nike management recognized and corrected the inconsistencies, Nike regained its industry standing.

optimizing
Balancing and reconciling possible conflicts among goals

To address such problems, managers must understand the concept of optimizing. ***Optimizing*** involves balancing and reconciling possible conflicts among goals. Because goals may conflict with one another, the manager must look for inconsistencies and decide whether to pursue one goal to the exclusion of another or to find a midrange target between the extremes. For example, Home Depot has achieved dramatic success in the retailing industry by offering do-it-yourselfers high-quality home improvement products at low prices and with good service. Now the firm is pursuing a goal of doubling its revenues from professional contractors. Among its plans have been to set up separate checkout areas and provide special products for contractors. The challenge, however, is to keep loyal individual customers while also satisfying professional contractors.[13] Home Depot's biggest competitor is also optimizing, but among different alternatives—trying to retain its core customer group while also appealing more to women.[14] Starbucks faces optimization challenges as it attempts to maintain its cache as an upscale purveyor of fine coffees while also opening roadside drive-through stores. And the airlines almost always seem to face a classic optimizing question—carrying more passengers for lower prices or fewer passengers for higher prices.[15]

"If you explain to your subordinates the end state you want, and the timeline you'd like to get there, you can observe progress, provide resources, and know they're going to do things to get you to the goal."
U.S. Marines General Peter Pace
(*Fortune*, June 27, 2005, p. 56)

concept CHECK

What are the four fundamental purposes of goals in an organization?

Identify a recent situation in which you had to optimize among conflicting goals.

Organizational Planning

Given the clear link between organizational goals and plans, we now turn our attention to various concepts and issues associated with planning itself. In particular, this section identifies kinds of plans, time frames for planning, who is responsible for planning, and contingency planning.

Kinds of Organizational Plans

Organizations establish many different kinds of plans. At a general level, these include strategic, tactical, and operational plans.

Strategic Plans Strategic plans are the plans developed to achieve strategic goals. More precisely, a ***strategic plan*** is a general plan outlining decisions of resource allocation, priorities, and action steps necessary to reach strategic goals.[16] These plans are set by the board of directors and top management, generally have an extended time horizon, and address questions of scope, resource deployment, competitive advantage, and synergy. We discuss strategic planning further in Chapter 8.

strategic plan
A general plan outlining decisions of resource allocation, priorities, and action steps necessary to reach strategic goals

Tactical Plans A ***tactical plan***, aimed at achieving tactical goals, is developed to implement specific parts of a strategic plan. Tactical plans typically involve upper and middle management and, compared with strategic plans, have a somewhat shorter time horizon and a more specific and concrete focus. Thus tactical plans are concerned more with actually getting things done than with deciding what to do. Tactical planning is covered in detail in a later section.

tactical plan
A plan aimed at achieving tactical goals and developed to implement parts of a strategic plan

Operational Plans An ***operational plan*** focuses on carrying out tactical plans to achieve operational goals. Developed by middle and lower-level managers, operational plans have a short-term focus and are relatively narrow in scope. Each one deals with a fairly small set of activities. We also cover operational planning in more detail later.

operational plan
Focuses on carrying out tactical plans to achieve operational goals

Time Frames for Planning

As we previously noted, strategic plans tend to have a long-term focus, tactical plans an intermediate-term focus, and operational plans a short-term focus. The sections that follow address these time frames in more detail. Of course, we should also remember that time frames vary widely from industry to industry.

Long-Range Plans A ***long-range plan*** covers many years, perhaps even decades. The founder of Matsushita Electric (maker of Panasonic and JVC electronic products), Konosuke Matsushita, once wrote a 250-year plan for his company![17] Today, however, most managers recognize that environmental change makes it unfeasible to plan too far ahead, but large firms like General Motors and ExxonMobil still routinely develop plans for five- to ten-year intervals. GM executives, for example, have a pretty good idea today about new car models that they plan to introduce during the next decade. The time span for long-range planning varies from one organization to another. For our purposes, we regard any plan that extends beyond five years as long range. Managers of organizations in complex, volatile environments face a special dilemma. These organizations probably need a longer time horizon than do organizations in less dynamic environments, yet the complexity of their environment makes long-range planning difficult. Managers at these companies therefore develop long-range plans but also must constantly monitor their environment for possible changes.

long-range plan
A plan that covers many years, perhaps even decades; common long-range plans are for five years or more

intermediate plan
A plan that generally covers from one to five years

Intermediate Plans An ***intermediate plan*** is somewhat less tentative and subject to change than is a long-range plan. Intermediate plans usually cover periods from one to five years and are especially important for middle and first-line managers. Thus they generally parallel tactical plans. For many organizations, intermediate planning has become the central focus of planning activities. Nissan, for example, fell behind its domestic rivals Toyota and Honda in profitability and productivity. To turn things around, the firm developed several plans ranging in duration from two to four years, each intended to improve some part of the company's operations. One plan (three years in duration) involved updating the manufacturing technology used in each Nissan assembly factory. Another (four years in duration) called for shifting more production to foreign plants to lower labor costs. And the successful implementation of these plans helped turn things around for Nissan.

short-range plan
A plan that generally covers a span of one year or less

action plan
A plan used to operationalize any other kind of plan

reaction plan
A plan developed to react to an unforeseen circumstance

Short-Range Plans Managers also develop ***short-range plans***, which have a time frame of one year or less. Short-range plans greatly affect the manager's day-to-day activities. There are two basic kinds of short-range plans. An ***action plan*** operationalizes any other kind of plan. When a specific Nissan plant was ready to have its technology overhauled, its managers focused their attention on replacing the existing equipment with new equipment as quickly and as efficiently as possible, to minimize lost production time. In most cases, this was done in a matter of a few months, with actual production halted for only a few weeks. An action plan thus coordinates the actual changes at a given factory. A ***reaction plan***, in turn, is a plan designed to allow the company to react to an unforeseen circumstance. At one Nissan factory, the new equipment arrived earlier than expected, and plant managers had to shut down production more quickly than expected. These managers thus had to react to events beyond their control in ways that still allowed their goals to be achieved. In fact, reacting to any form of environmental turbulence, as described in Chapter 3, is a form of reaction planning.

Responsibilities for Planning

We earlier noted briefly who is responsible for setting goals. We can now expand that initial perspective and examine more fully how different parts of the organization participate in the overall planning process. All managers engage in planning to some degree. Marketing sales managers develop plans for target markets, market penetration, and sales increases. Operations managers plan cost-cutting programs and better inventory control methods. As a general rule, however, the larger an organization becomes, the more the primary planning activities become associated with groups of managers rather than with individual managers.

Planning Staff Some large organizations maintain a professional planning staff. General Motors, Caterpillar, Raytheon, NCR, Ford, and Boeing all have planning staffs. And although the planning staff was pioneered in the United States, foreign firms like Nippon Telegraph and Telephone also started using them. Organizations might use a planning staff for a variety of reasons. In particular, a planning staff can reduce the workload of individual managers, help coordinate the planning activities of individual managers, bring to a particular problem many different tools and techniques, take a broader view than individual managers, and go beyond pet projects and particular departments. In recent years, though, some businesses have realized that they can plan more effectively by diffusing planning responsibility throughout it on to others who might make use of it. Coca-Cola executives have been inter sively involved in planning the new plants, setting up the new bottling ventu noted earlier, and exploring a joint venture with Cadbury Schweppes in the Unite Kingdom. Each activity has required considerable time and effort from dozens c managers. One manager, for example, crossed the Atlantic 12 times while negotiat ing the Cadbury deal.

Executing Tactical Plans

Regardless of how well a tactical plan is formulated, its ultimate success depends on the way it is carried out. Successful implementation, in turn, depends on the astute use of resources, effective decision making, and insightful steps to ensure that the right things are done at the right times and in the right ways. A manager can see an absolutely brilliant idea fail because of improper execution.

Proper execution depends on a number of important factors. First, the manager needs to evaluate every possible course of action in light of the goal it is intended to reach. Next, he or she needs to make sure that each decision maker has the information and resources necessary to get the job done. Vertical and horizontal communication and integration of activities must be present to minimize conflict and inconsistent activities. And, finally, the manager must monitor ongoing activities derived from the plan to make sure they are achieving the desired results. This monitoring typically takes place within the context of the organization's ongoing control systems.

For example, managers at Walt Disney Company recently developed a new strategic plan aimed at spurring growth in and profits from foreign markets. One tactical plan developed to stimulate growth involves expanding the cable Disney Channel into more and more foreign markets; another involved building the new theme park near Hong Kong that opened in 2006. Although expanding cable television and building a new theme park are big undertakings in their own right, they are still tactical plans within the overall strategic plan focusing on international growth.[28]

concept CHECK

How are tactical plans developed?

Which do you think is easier—developing tactical plans or implementing them? Why?

Operational Planning

Another critical element in effective organizational planning is the development and implementation of operational plans. Operational plans are derived from tactical plans and are aimed at achieving operational goals. Thus operational plans tend to be narrowly focused, have relatively short time horizons, and involve lower-level managers. The two most basic forms of operational plans and specific types of each are summarized in Table 7.1.

Single-Use Plans

single-use plan
Developed to carry out a course of action that is not likely to be repeated in the future

A ***single-use plan*** is developed to carry out a course of action that is not likely to be repeated in the future. As Disney planned its newest theme park in Hong Kong, it developed numerous single-use plans for individual rides, attractions, and hotels. The two most common forms of single-use plans are programs and projects.

Table 7.1

TYPES OF OPERATIONAL PLANS

Organizations develop various operational plans to help achieve operational goals. In general, there are two types of single-use plans and three types of standing plans.

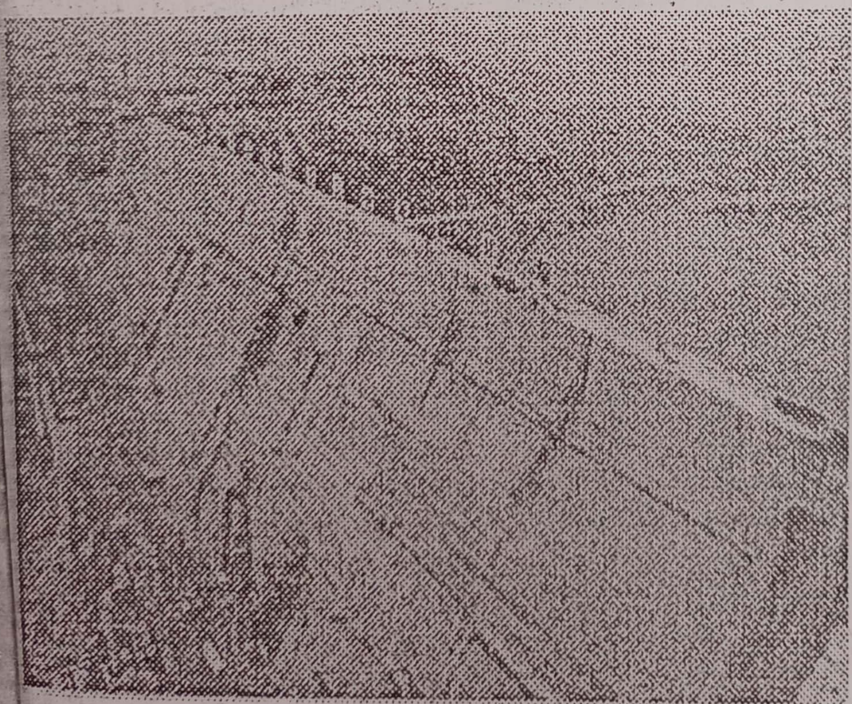
PLAN	Description
Single-use plan	Developed to carry out a course of action not likely to be repeated in the future
Program	Single-use plan for a large set of activities
Project	Single-use plan of less scope and complexity than a program
Standing plan	Developed for activities that recur regularly over a period of time
Policy	Standing plan specifying the organization's general response to a designated problem or situation
Standard operating procedure	Standing plan outlining steps to be followed in particular circumstances
Rules and regulations	Standing plans describing exactly how specific activities are to be carried out

Programs A ***program*** is a single-use plan for a large set of activities. It might consist of identifying procedures for introducing a new product line, opening a new facility, or changing the organization's mission. As part of its own strategic plans for growth, Black & Decker bought General Electric's small-appliance business. The deal involved the largest brand-name switch in history: 150 products were converted from the GE to the Black & Decker label. Each product was carefully studied, redesigned, and reintroduced with an extended warranty. A total of 140 steps were used for each product. It took three years to convert all 150 products over to Black & Decker. The total conversion of the product line was a program.

program
A single-use plan for a large set of activities

Projects A ***project*** is similar to a program but is generally of less scope and complexity. A project may be a part of a broader program, or it may be a self-contained single-use plan. For Black & Decker, the conversion of each of the 150 products was

project
A single-use plan of less scope and complexity than a program



A program is a single-use plan for a large set of activities. Construction of the Three Gorges Dam in China certainly qualifies as a program! One of the largest construction programs ever undertaken, the Three Gorges Dam has taken years to complete, relied on the talents of hundreds of thousands of people, required millions of tons of concrete, and forced the displacement of thousands of people. Still, officials hope that the dam will help eliminate centuries-old flooding problems and provide a valuable and reliable source of electricity.

a separate project in its own right. Each product had its own manager, its own schedule, and so forth. Projects are also used to introduce a new product within an existing product line or to add a new benefit option to an existing salary package.

Standing Plans

standing plan
Developed for activities that recur regularly over a period of time

Whereas single-use plans are developed for nonrecurring situations, a ***standing plan*** is used for activities that recur regularly over a period of time. Standing plans can greatly enhance efficiency by making decision making routine. Policies, standard operating procedures, and rules and regulations are three kinds of standing plans.

policy
A standing plan that specifies the organization's general response to a designated problem or situation

Policies As a general guide for action, a policy is the most general form of standing plan. A ***policy*** specifies the organization's general response to a designated problem or situation. For example, McDonald's has a policy that it will not grant a franchise to an individual who already owns another fast-food restaurant. Similarly, Starbucks has a policy that it will not franchise at all, instead retaining ownership of all Starbucks coffee shops. Likewise, a university admissions office might establish a policy that admission will be granted only to applicants with a minimum SAT score of 1200 and a ranking in the top quarter of their high school class. Admissions officers may routinely deny admission to applicants who fail to reach these minimums. A policy is also likely to describe how exceptions are to be handled. The university's policy statement, for example, might create an admissions appeals committee to evaluate applicants who do not meet minimum requirements but may warrant special consideration.

standard operating procedure (SOP)
A standing plan that outlines the steps to be followed in particular circumstances

rules and regulations
Describe exactly how specific activities are to be carried out

Standard Operating Procedures Another type of standing plan is the ***standard operating procedure***, or ***SOP***. An SOP is more specific than a policy, in that it outlines the steps to be followed in particular circumstances. The admissions clerk at the university, for example, might be told that, when an application is received, he or she should (1) set up an electronic file for the applicant; (2) merge test-score records, transcripts, and letters of reference to the electronic file as they are received; and (3) forward the electronic file to the appropriate admissions director when it is complete. Gallo Vineyards in California has a 300-page manual of SOPs. This planning manual is credited with making Gallo one of the most efficient wine operations in the United States. McDonald's has SOPs explaining exactly how Big Macs are to be cooked, how long they can stay in the warming rack, and so forth.

Rules and regulations are used to govern a variety of activities. California raisin farmers are subject to several rules and regulations created to help control raisin supply and demand. Raisin farmer Marvin Horne stands in a field of grapevines planted in 1918 next to his home in Kerman, California. Horne and other farmers are required to set aside a percentage of their crops to avoid a surplus. Unfortunately, Horne was recently accused of violating this rule by selling his entire crop.

Rules and Regulations The narrowest of the standing plans, ***rules and regulations***, describe exactly how specific activities are to be carried out. Rather than guiding decision making, rules and regulations actually take the place of decision making in various situations. Each McDonald's restaurant has a rule prohibiting customers from using its telephones, for example quickly increase expertise so he turned to hiring from competitors. He hand-picked top performers from rivals, while at the same time letting go of under-performing workers. Diamond enjoys working in Barclays' meritocracy, saying that that system is "where we are all in competition with the same information and where the guy who works hardest or works smartest wins." Diamond is notorious for his competitive nature and his reliance on teamwork, developed during his days as a high school football star.

Once a good staff was in place, Diamond shifted focus to emphasize teamwork. "My style has been to spend an awful lot of time with the business until I have tremendous confidence that I have the right people, who understand the plan," Diamond states. "At that point, it is equally important to step away and delegate." Diamond delegates many decisions to his team of executives, including the choice of who will make managing director. Thirty senior managers consider each candidate, anonymously voting on each via electronic buttons. Candidates must score at least 85 percent to be chosen, ensuring that every managing director has the support of the rest of the team.

Another innovation in group decision making is Diamond's approach to Barclays' customers, bond issuers such as large corporations or government entities. While many banks allow employees from each product-related subunit to work directly with a client, Diamond feels that approach can be overwhelming. "We don't unleash everyone on a client—the loan salespeople, the debt capital market team, the commercial paper team, the institutional sales," says Diamond. Instead, the workers form into client-based teams that focus on understanding each organization's needs. Workers self-select for the teams where they can bring the most value.

Barclays' diversified teams, with members' varying backgrounds, help to boost creativity and improve the quality of decisions. Team decisions have led to the creation of a number of innovative products, including unique derivatives, securitizations, and convertible bonds. The new products are key to the success of the division. Barclays Capital is now the top bank in five of its most important products and is in the top five in an additional five categories. From being "the rump" in 1997, Barclays Capital today dominates capital raising for corporations. Diamond is a success too and was promoted to president of Barclays in June 2005. Yet it is the Barclays Capital employees who make the most significant contribution to Barclays' success, working together to make the decisions that guide the organization.[1]

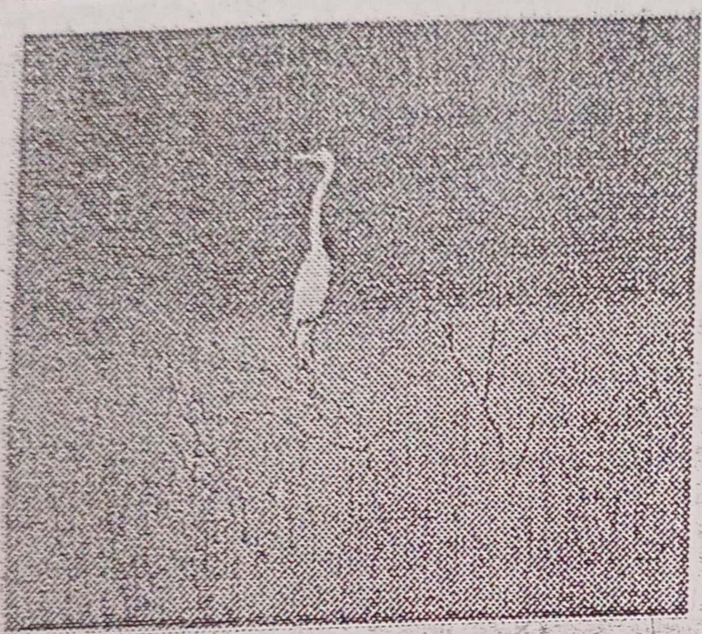
Bob Diamond made several important decisions to get his division at Barclays turned around. And he continues to infuse effective decision-making methods in the business today. Making effective decisions, as well as recognizing when a bad decision has been made and quickly responding to mistakes, is a key ingredient in organizational effectiveness. Indeed, some experts believe that decision making is the most basic and fundamental of all managerial activities.[2] Thus we discuss it here, in the context of the first management function, planning. Keep in mind, however, that although decision making is perhaps most closely linked to the planning function, it is also part of organizing, leading, and controlling.

State engineers in Florida have been struggling with decisions about how to best protect the endangered Everglades ecosystem. One option under consideration is storing polluted water on farmland until it can be cleaned and then pushed into the Everglades. Engineers believe that a consistent influx of clean water would help reduce phosphorous pollution that is choking wetlands life.

We begin our discussion by exploring the nature of decision making. We then describe rational perspectives on decision making. Behavioral aspects of decision making are then introduced and described. We conclude with a discussion of group and team decision making.

The Nature of Decision Making

Managers at Disney recently made the decision to buy Pixar Animation for $7.4 billion.[3] At about the same time, the general manager of the Ford dealership in Bryan, Texas, made a decision to sponsor a local youth soccer team for $200. Each of these examples reflects a decision, but the decisions differ in many ways. Thus, as a starting point in understanding decision making, we must first explore the meaning of decision making as well as types of decisions and conditions under which decisions are made.[4]



Decision Making Defined

Decision making can refer to either a specific act or a general process. ***Decision making*** per se is the act of choosing one alternative from among a set of alternatives. The decision-making process, however, is much more than this. One step of the process, for example, is that the person making the decision must both recognize that a decision is necessary and identify the set of feasible alternatives before selecting one. Hence, the ***decision-making process*** includes recognizing and defining the nature of a decision situation, identifying alternatives, choosing the "best" alternative, and putting it into practice.[5]

decision making
The act of choosing one alternative from among a set of alternatives

decision-making process
Recognizing and defining the nature of a decision situation, identifying alternatives, choosing the "best" alternative, and putting it into practice

The word *best*, of course, implies effectiveness. Effective decision making requires that the decision maker understand the situation driving the decision. Most people would consider an effective decision to be one that optimizes some set of factors, such as profits, sales, employee welfare, and market share. In some situations, though, an effective decision may be one that minimizes loss, expenses, or employee turnover. It may even mean selecting the best method for going out of business, laying off employees, or terminating a strategic alliance.

We should also note that managers make decisions about both problems and opportunities. For example, making decisions about how to cut costs by 10 percent reflects a problem—an undesirable situation that requires a solution. But decisions are also necessary in situations of opportunity. Learning that the firm is earning higher-than-projected profits, for example, requires a subsequent decision. Should the extra funds be used to increase shareholder dividends, reinvest in current operations, or expand into new markets?

"The dumbest thing to do is sit on too much cash. It's not a good return on shareholder's capital."
Bryant Riley, market analyst
(*USA Today*, March 2, 2004, p. 1B)

Of course, it may take a long time before a manager can know if the right decision was made. For example, the top management team at Eastman Kodak has made several major decisions that will affect the company for decades. Among other things, for example, it sold off several chemical- and health-related businesses, reduced the firm's debt by $7 billion in the process, launched a major new line of advanced cameras and film called Advantix, and made major new investments in new and emerging technology, such as digital photography. But analysts believe that the payoffs from these decisions will not be known for several years.[6]

Types of Decisions

Managers must make many different types of decisions. In general, however, most decisions fall into one of two categories: programmed and nonprogrammed.[7] A ***programmed decision*** is one that is relatively structured or recurs with some frequency (or both). Starbucks uses programmed decisions to purchase new supplies of coffee beans, cups, and napkins, and Starbucks employees are trained in exact procedures for brewing coffee. Likewise, the Bryan Ford dealer made a decision that he will sponsor a youth soccer team each year. Thus, when the soccer club president calls, the dealer already knows what he will do. Many decisions regarding basic operating systems and procedures and standard organizational transactions are of this variety and can therefore be programmed.[8]

programmed decision
A decision that is fairly structured or recurs with some frequency (or both)

Nonprogrammed decisions, on the other hand, are relatively unstructured and occur much less often. Disney's decision to buy Pixar was a nonprogrammed decision. Managers faced with such decisions must treat each one as unique, investing enormous amounts of time, energy, and resources into exploring the situation from all perspectives. Intuition and experience are major factors in nonprogrammed decisions. Most of the decisions made by top managers involving strategy (including mergers, acquisitions, and takeovers) and organization design are nonprogrammed. So are decisions about new facilities, new products, labor contracts, and legal issues.

nonprogrammed decision
A decision that is relatively unstructured and occurs much less often than a programmed decision

Decision-Making Conditions

Just as there are different kinds of decisions, there are also different conditions in which decisions must be made. Managers sometimes have an almost perfect understanding of conditions surrounding a decision, but at other times they have few clues about those conditions. In general, as shown in Figure 9.1, the circumstances that exist for the decision maker are conditions of certainty, risk, or uncertainty.[9]

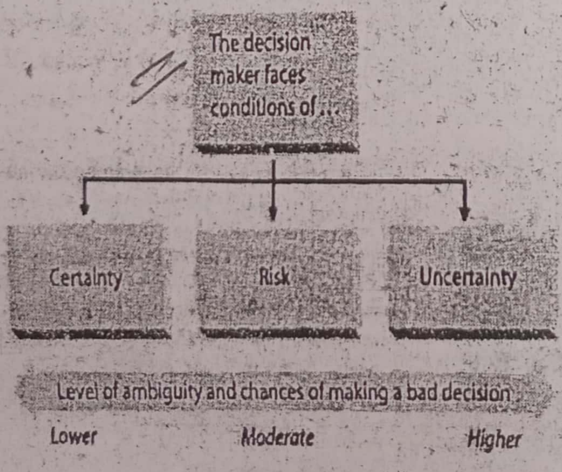


Figure 9.1
DECISION-MAKING CONDITIONS
Most major decisions in organizations today are made under a state of uncertainty. Managers making decisions in these circumstances must be sure to learn as much as possible about the situation and approach the decision from a logical and rational perspective.

Decision Making Under Certainty When the decision maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative, a ***state of certainty*** exists. Suppose, for example, that managers at Singapore Airlines make a decision to buy five new jumbo jets. Their next decision is from whom to buy them. Because there are only two companies in the world that make jumbo jets, Boeing and Airbus, Singapore Airlines knows its options exactly. Each has proven products and will guarantee prices and delivery dates. The airline thus knows the alternative conditions associated with each. There is little ambiguity and relatively little chance of making a bad decision.

state of certainty
A condition in which the decision maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative

Few organizational decisions, however, are made under conditions of true certainty. The complexity and turbulence of the contemporary business world make such situations rare. Even the airplane purchase decision we just considered has less certainty than it appears. The aircraft companies may not be able to really guarantee delivery dates, so they may write cost-increase or inflation clauses into contracts. Thus the airline may be only partially certain of the conditions surrounding each alternative.

The Business of Ethics

Speeding Up Drug R&D

On the one hand, drug makers must ensure that products are thoroughly tested and safe. On the other hand, they also must take risks. If they do not, patients suffer from a lack of innovative new treatments. Robert Ruffolo, chief of research and development (R&D) at pharmaceutical maker Wyeth, is well aware of this dual nature of risk. He is changing the culture at Wyeth's laboratories to encourage more risk taking and creativity without undermining safety processes.

When Ruffolo assumed leadership of Wyeth's R&D in 2002, he established minimum quotas for new product creation. He began a first-ever review of every compound in development. Ruffolo wanted to increase innovation, but paradoxically, many of Wyeth's scientists feared that this approach would stifle creativity. "There was a lot of fear and loathing about going through that process," says researcher Steven Projan. "Everybody was convinced that this was a tool to kill off their favorite project."

As they examined project outcomes, Ruffolo and the 70 R&D scientists noted one fact. Development projects that appeared to be failing often received the most resources. Scientists were willing to starve more promising drugs to rescue those with the lowest chances of success. The best drugs were sometimes abandoned as resources were diverted elsewhere.

Ruffolo instituted annual reviews, examining costs, likelihood of success, and expected sales. In 2004 a group of scientists decided to stop development of a new drug that had disappointing results. Ruffolo gave the group an award, encouraging more review teams to do the same. Instead of advancing projects to the next stage based on one scientist's say-so, that decision is now made by a team that includes R&D and marketing specialists.

Scientists have learned that Ruffolo's tactics can work. They now deliver 12 new drugs annually, up from just 4 in 2002. Increased emphasis on speed and greater standardization of processes have cut trial periods from 18 months to just 6.

Will Ruffolo's approach increase new drug releases? It's too early to tell, but it has increased the number of drugs in the research pipeline, upping the odds of success. The entire pharmaceutical industry is suffering from a sharp decline in new product approvals. Maybe Ruffolo's strategy will help drug manufacturers get more products more quickly to those anxiously awaiting the next miracle drug.

References: Amy Barrett, "Cracking the Whip at Wyeth," *BusinessWeek*, February 6, 2006, pp. 70–71; Aaron Smith, "Drug Industry Could Use a Face Lift," *Money*, August 19, 2005, www.cnnmoney.com on April 10, 2006; "Wyeth's Profit Rises on Higher Drug Sales," *Fortune*, April 21, 2006, www.fortune.com on April 25, 2006