

Chapter 17: Organizational Planning and Controlling

Learning Outcomes:

1. Understand the importance of planning and why organizations need to plan and control.
2. Outline the planning and controlling processes.
3. Identify different types of plans and control systems employed by organizations.
4. Explain the individual and organizational effects associated with goal setting and planning.
5. Understand how planning occurs in today's organizations.
6. Discuss the impact that control has on organizational members.
7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.
8. Differentiate between the execution of the planning and controlling activities under control and involvement-oriented management practices.

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process by which managers establish goals and specify how these goals are to be attained. Plans have two basic components: outcome or goal statements and action statements.

Outcome or goal statements represent the end state—the targets and outcomes managers hope to attain. **Action statements** reflect the means by which organizations move forward to attain their goals. **Planning is an intellectual activity.** It is difficult to see managers plan, because most of this activity unfolds in the mind of those doing the planning. While planning, managers have to think about what has to be done, who is going to do it, and how and when they will do it. Planners think both retrospectively (about past events) and prospectively (about future opportunities and impending threats). Planning involves thinking about organizational strengths and weaknesses, as well as making decisions about desired states and ways to achieve them.

Planning for organizational events, whether in the internal or external environment, should be an **ongoing process**—part of a manager's daily, weekly, and monthly duties and a routine task for all members of high-involvement organizations. Plans should be continually monitored. Managers and other organizational members should check to see if their plans need to be modified to accommodate changing conditions, new information, or new situations that will affect the organization's future. Plans need to be administered with flexibility, as organizations learn about new and changing conditions. By thinking of planning as a continuous activity, methods can be formulated for handling emerging and unforeseen opportunities and threats. Planning is one process through which organizational activity can be given meaning and direction.

Why Should Managers Plan?

- (1) to offset uncertainty and change;
- (2) to focus organizational activity on a set of objectives;

- (3) to provide a coordinated, systematic road map for future activities;
- (4) to increase economic efficiency;
- (5) to facilitate control by establishing a standard for later activity.

Several forces contribute to the necessity for organizational planning. First, in the internal environment, as organizations become larger and more complex, the task of managing becomes increasingly complex. Planning maps out future activities in relation to other activities in the organization. Second, as the external environment becomes increasingly complex and turbulent, the amount of uncertainty faced by a manager increases. Planning enables organizations to approach their environment systematically.

Do Managers Really Plan?

The job of managing does not breed reflective planners; the manager is a real-time responder to stimuli. Managers often are very busy people. Some act without a systematic plan of action; however, many managers do plan systematically.

2. Outline the planning and controlling processes.

Planning is a process. Ideally it is future oriented, comprehensive, systematic, integrated, and negotiated. It involves an extensive search for alternatives and analyzes relevant information, is systematic in nature, and is commonly participative.

The planning process:

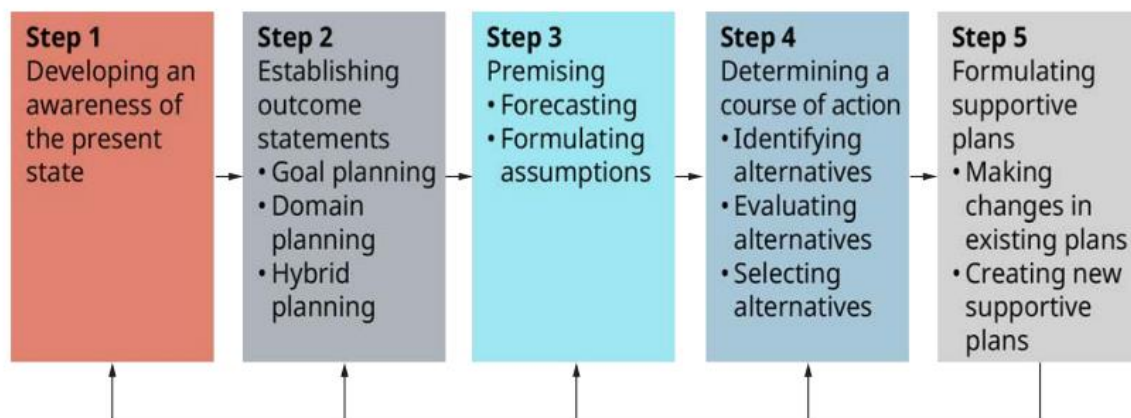


Exhibit 17.3 The Planning Process Source: Adapted from H. Koontz and C. O'Donnell, 1972. *Principles of management: An analysis of managerial functions*. New York: McGraw-Hill, 113.

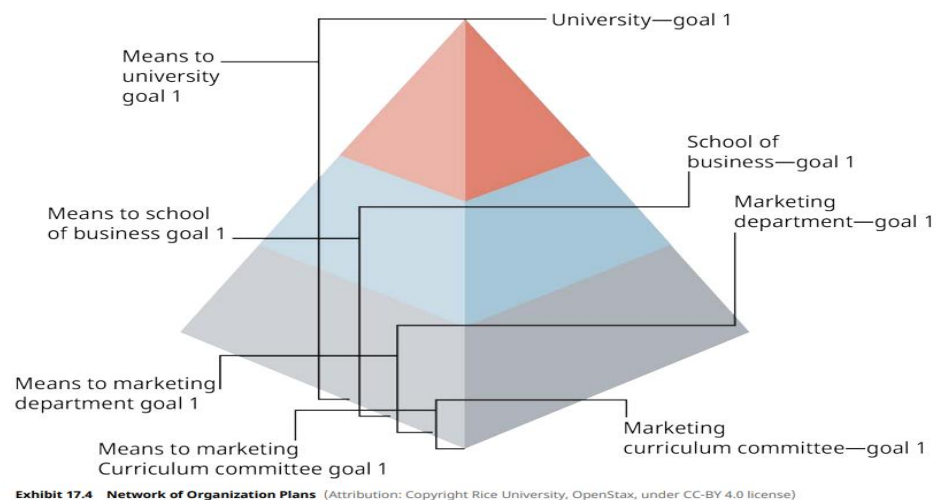
Step 1: Developing an Awareness of the Present State

It is at this step that managers build the foundation on which they will develop their plans. This foundation specifies an organization's current status, pinpoints its commitments, recognizes its strengths and weaknesses, and sets forth a vision of the future. Because the past is instrumental in determining where an organization expects to go in the future, managers at this point must understand their organization and its history

Step 2: Establishing Outcome Statements

The second step in the planning process consists of deciding "where the organization is headed, or is going to end up." Ideally, this involves establishing goals. managers at various levels in an organization's hierarchy set goals. Managers therefore develop an elaborate network of

organizational plans, such as that shown in Exhibit 17.4, to achieve the overall goals of their organization.



Goal vs. Domain Planning:

Outcome statements can be constructed around specific goals or framed in terms of moving in a particular direction toward a viable set of outcomes. In **goal planning**, people set specific goals and then create action statements.

Another approach to planning is **domain/directional planning**, in which managers develop a course of action that moves an organization toward one identified domain (and therefore away from other domains). Within the chosen domain may lie a number of acceptable and specific goals.

Situations in which managers are likely to engage in domain planning include (1) when there is a recognized need for flexibility, (2) when people cannot agree on goals, (3) when an organization's external environment is unstable and highly uncertain, and (4) when an organization is starting up or is in a transitional period. In addition, domain planning is likely to prevail at upper levels in an organization, where managers are responsible for dealing with the external environment and when task uncertainty is high. Goal planning (formulating goals compatible with the chosen domain) is likely to prevail in the technical core, where there is less uncertainty.

Hybrid Planning:

Occasionally, coupling of domain and goal planning occurs, creating a third approach, called hybrid planning. In this approach, managers begin with the more general domain planning and commit to moving in a particular direction. As time passes, learning occurs, uncertainty is reduced, preferences sharpen, and managers are able to make the transition to goal planning as they identify increasingly specific targets in the selected domain.

Step 3: Premising

In this step of the planning process, managers establish the premises, or assumptions, on which they will build their action statements. The quality and success of any plan depends on the quality of its underlying assumptions. Throughout the planning process, assumptions about future events must be brought to the surface, monitored, and updated.

Step 4: Determining a Course of Action (Action Statements)

In this stage of the planning process, managers decide how to move from their current position toward their goal (or toward their domain). They develop an action statement that details what needs to be done, when, how, and by whom. The course of action determines how an organization will get from its current position to its desired future position.

Step 5: Formulating Supportive Plans

The planning process seldom stops with the adoption of a general plan. Managers often need to develop one or more supportive or derivative plans to bolster and explain their basic plan.

Planning, Implementation, and Controlling:

The Deming cycle, shown in Exhibit 17.6, helps managers assess the effects of planned action by integrating organizational learning into the planning process. The cycle consists of four key stages: (1) Plan—create the plan using the model discussed earlier. (2) Do—implement the plan. (3) Check—monitor the results of the planned course of action; organizational learning about the effectiveness of the plan occurs at this stage. (4) Act—act on what was learned, modify the plan, and return to the first stage in the cycle, and the cycle begins again as the organization strives for continuous learning and improvement.

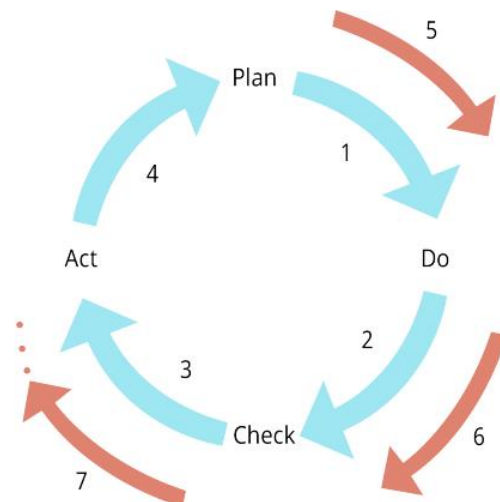


Exhibit 17.6 The Deming (Shewhart) Cycle (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

3. Identify different types of plans and control systems employed by organizations.

Types of Plans:

Hierarchical Plans:

- **Strategic plans (institutional)**—define the organization's long-term vision; articulate the organization's mission and value statements; define what business the organization is in or hopes to be in; articulate how the organization will integrate itself into its general and task environments.
- **Administrative plans**—specify the allocation of organizational resources to internal units of the organization; address the integration of the institutional level of the organization (for example, vision formulation) with the technical core (vision implementation); address the integration of the diverse units of the organization.

- **Operating plans (technical core)**—cover the day-to-day operations of the organization.

Frequency-of-Use Plans:

Standing Plans

- **Policies**—general statements of understanding or intent; guide decision-making, permitting the exercise of some discretion; guide behavior (for example, no employee shall accept favors and/or entertainment from an outside organization that are substantial enough in value to cause undue influence over one's decisions on behalf of the organization).
- **Rules**—guides to action that do not permit discretion in interpretation; specify what is permissible and what is not permissible.
- **Procedures**—like rules, they guide action; specify a series of steps that must be taken in the performance of a particular task.

Single-Use Plans

- **Programs**—a complex set of policies, rules, and procedures necessary to carry out a course of action.
- **Projects**—specific action plans often created to complete various aspects of a program.
- **Budgets**—plans expressed in numerical terms.

Time-Frame Plans:

- Short-, medium-, and long-range plans—differ in the distance into the future projected:
 - Short-range—several hours to a year
 - Medium-range—one to five years
 - Long-range—more than five years

Organizational Scope Plans

- **Business/divisional-level plans**—focus on one of the organization's businesses (or divisions) and its competitive position.
- **Unit/functional-level plans**—focus on the day-to-day operations of lower-level organization units; marketing, human resources, accounting, and operations plans (production).
- **Tactical plans**—division-level or unit-level plans designed to help an organization accomplish its strategic plans.

Contingency Plans:

- Plans created to deal with events that might come to confront the organization (e.g., natural disasters, terrorist threats); alternative courses of action that are to be implemented if events disrupt a planned course of action.

4. Explain the individual and organizational effects associated with goal setting and planning.

Official goals are an organization's general aims as expressed in public statements, in its annual report, and in its charter. Official goals are usually ambiguous and oriented toward achieving acceptance by an organization's constituencies.

Operational goals reflect management's specific intentions. These are the concrete goals that organization members are to pursue.

Importance of goals:

- (1) Successful goals guide and direct the efforts of individuals and groups;
- (2) motivate individuals and groups, thereby affecting their efficiency and effectiveness;
- (3) influence the nature and content of the planning process;
- (4) provide a standard by which to judge and control organizational activity

Hewlett-Packard's Corporate Goals
Profit. To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.
Customers. To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.
Field of Interest. To enter new fields only when the ideas we have, together with our technical, manufacturing and marketing skills, assure that we can make a needed and profitable contribution to the field.
Growth. To let our growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs.
People. To help our own people share in the company's success, which they make possible: to provide job security based on their performance, to recognize their individual achievements, and to help them gain a sense of satisfaction and accomplishment from their work.
Management. To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.
Citizenship. To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate.

5. Understand how planning occurs in today's organizations.

Encouraging Planning

- Develop an organizational climate that encourages planning.
- Top managers support lower-level managers' planning activities—for example, by providing such resources as personnel, computers, and funds—and serve as role models through their own planning activities.
- Train people in planning.
- Create a reward system that encourages and supports planning activity and carefully avoids punishment for failure to achieve newly set goals.
- Use plans once they are created.

Effective organizational goals should be:

- (1) difficult but reachable with effort
- (2) specific and clearly identify what is desired
- (3) accepted by and have the commitment of those who will help achieve them
- (4) developed by employees if such participation will improve the quality of the goals and their acceptance
- (5) monitored for progress regularly.

6. Discuss the impact that control has on organizational members.

Goal theory highlights several important goal attributes—**goal difficulty**, **goal specificity**, **goal acceptance and commitment**, and **goal feedback**. As Exhibit 17.9 shows, workers who have a goal, even if it is quite general, usually perform better than those with no goals. Yet certain types of goals are more effective than others. Two primary characteristics of goals that enhance their motivating potential are **goal specificity** and **goal difficulty**. With regard to goal specificity, a goal that states “improve your performance” or “do your best” is generally not very effective because it is too general. The second component of an effective goal is **goal difficulty**. People with difficult goals perform better than those with easy goals (note the third and fourth bars in Exhibit 17.9). If goals are perceived as too difficult or impossible, however, they lose their motivating effectiveness. Ideally, goals will be both specific and difficult. Thus, setting specific and challenging goals contributes more to planning effectiveness and organizational performance than does working under “no-goal” or “do your best” goal conditions. Even a goal that is both difficult and specific, however, is not going to be effective unless it is accepted by the person who is expected to achieve it. **Goal acceptance** is the degree to which people accept a goal as their own. **Goal commitment** is more inclusive, referring to our level of attachment to or determination to reach a goal. Goals sometimes fail to motivate people when managers assign them without making sure that workers have accepted or committed to the goals. Exhibit 17.10 summarizes the conditions necessary to maximize goal-directed effort (motivation \times direction \times intensity), a major contributor to subsequent performance, while Exhibit 17.11 summarizes the three sets of factors that facilitate goal commitment.

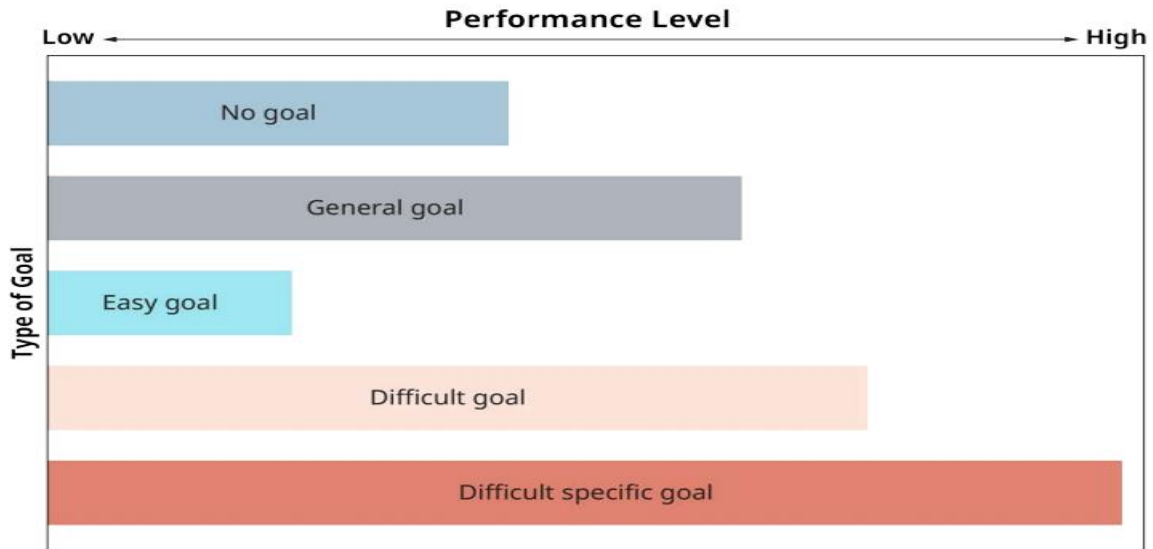


Exhibit 17.9 The Effects of Goals on Performance (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

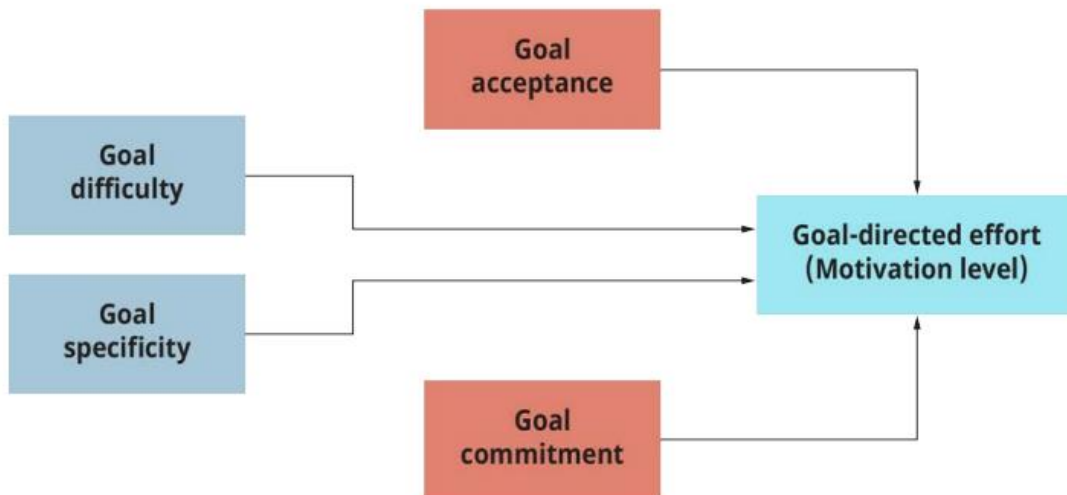


Exhibit 17.10 A Model of Goal Setting

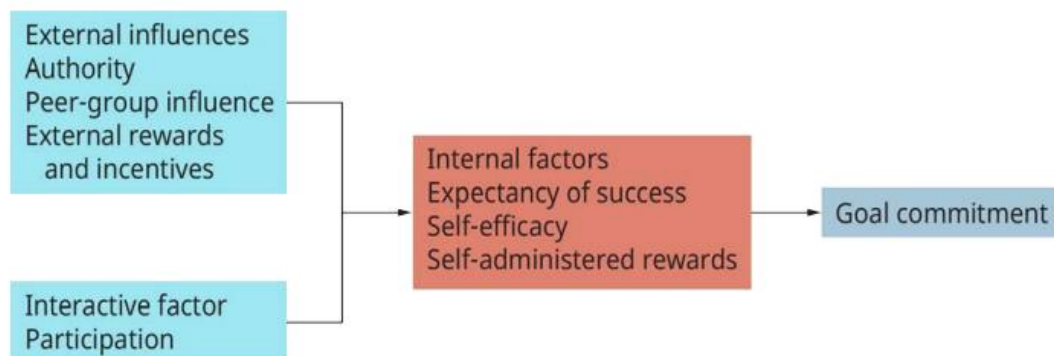


Exhibit 17.11 Determinants of Goal Commitment Source: Adapted from E. A. Locke, G. P. Latham, and M. Erez, 1988. The determinants of goal commitment. *Academy of Management Review* 13:28. Copyright 1998 by Academy of Management. Reproduced with permission of Academy of Management in the format Textbook via Copyright Clearance Center; and from E. Erez and P. C. Earley, 1987. Comparative analysis of goal setting across cultures. *Journal of Applied Psychology* 72:658-665.

Goal feedback is the last important goal attribute. Goal feedback provides us with knowledge about the results of our efforts. This information can come from a variety of sources, such as supervisors, peers, subordinates, customers, inanimate performance monitoring systems, and self-assessment. Regardless of the source, the right kind of feedback serves two important functions: **directional** and **effort**. Directionally, good feedback tells employees whether they are on the right path and on target or suggests the need for redirection. In addition, it should provide information that suggests the adequacy or inadequacy of the employee's level of effort. Thus, feedback is of critical importance!

Goal Setting and Employee Job Satisfaction

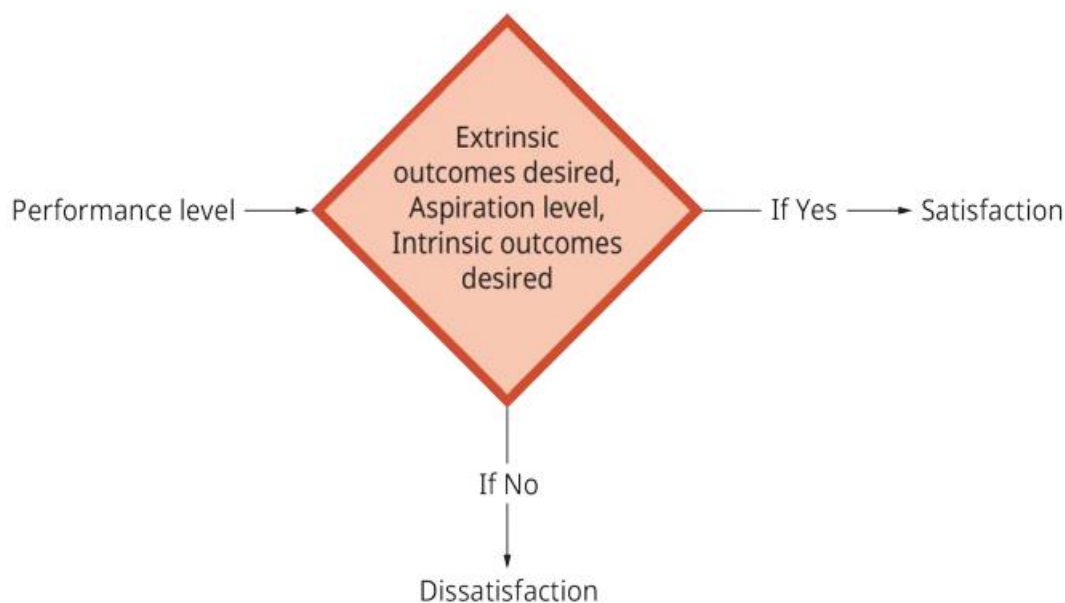


Exhibit 17.12 Performance, Aspiration Level, and Satisfaction (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Controlling:

Controlling is a managing activity. **Controlling** is defined as the process of monitoring and evaluating organizational effectiveness and initiating the actions needed to maintain or improve effectiveness. Thus, managers who engage in the controlling activity watch, evaluate, and when needed, suggest corrective action. Like the managerial functions of planning, organizing, and directing, controlling is a complex activity that is performed at many organizational levels. Upper-level managers, for example, monitor their organization's overall strategic plans, which can be implemented only if middle-level managers control the organization's divisional and departmental plans, which, in turn, rely on lower-level managers' control of groups and individual employees.

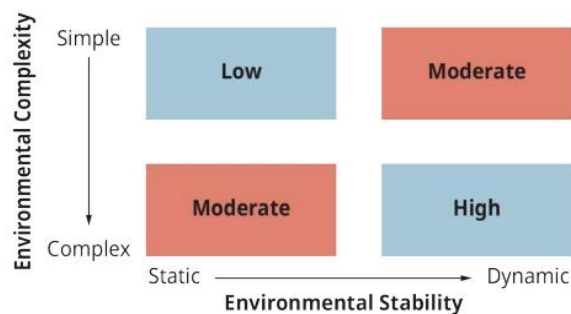


Exhibit 17.13 Need for Control (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A Control Model:

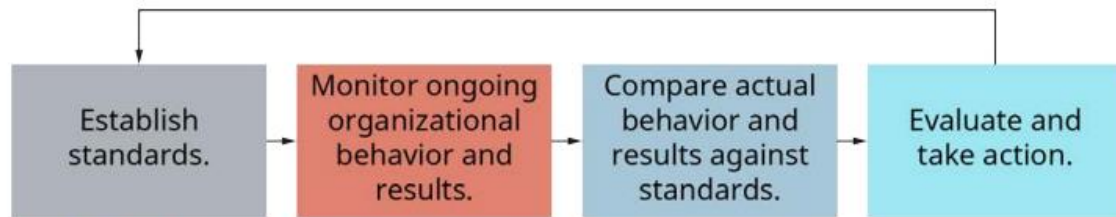


Exhibit 17.14 The Traditional Control Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Cybernetic and Noncybernetic Systems:

Cybernetic control are based on self-regulating procedures that automatically detect and correct deviations from planned activities and effectiveness levels. To be classified as a cybernetic system, a work system must have built-in automatic control capabilities, although the built-in control need not be machine-based. A group of workers who control their own activities without outside assistance constitute a cybernetic system.

Noncybernetic control systems are operated completely independently from the work system itself. Cybernetic control systems automatically detect and correct deviations, but automating a control system does not mean it is cybernetic. This technician is adjusting the mixture in the vat, so this system is not self-regulating and thus is not cybernetic.

The Impact of Control on Organization Members

Potential Positive Effects of Control

Clarifies expectations

Reduces ambiguity

Provides feedback

Facilitates goal setting

Enhances satisfaction

Enhances performance

Potential Negative Effects of Control

Consumes resources

Creates feelings of frustration and helplessness

Creates red tape

The Impact of Control on Organization Members

- Creates inappropriate goals
- Fosters inappropriate behavior
- Decreases satisfaction
- Increases absenteeism
- Increases turnover
- Creates stress

7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

Management by objectives (MBO) is a philosophy of management, a planning and controlling technique, and an employee-involvement program. As a management philosophy, MBO stems from the human resource model and Theory Y's assumption that employees are capable of self-direction and self-control. MBO also is anchored in Maslow's need theory. The reasoning is that employee involvement in the planning and control processes provides opportunities for the employee to immerse the self in work-related activities, to experience work as more meaningful, and to satisfy higher-order needs (such as self-esteem), which leads to increased motivation and job performance (see Exhibit 17.16). It is hypothesized that, through involvement, employee commitment to a planned course of action will be enhanced and job satisfaction will be increased.

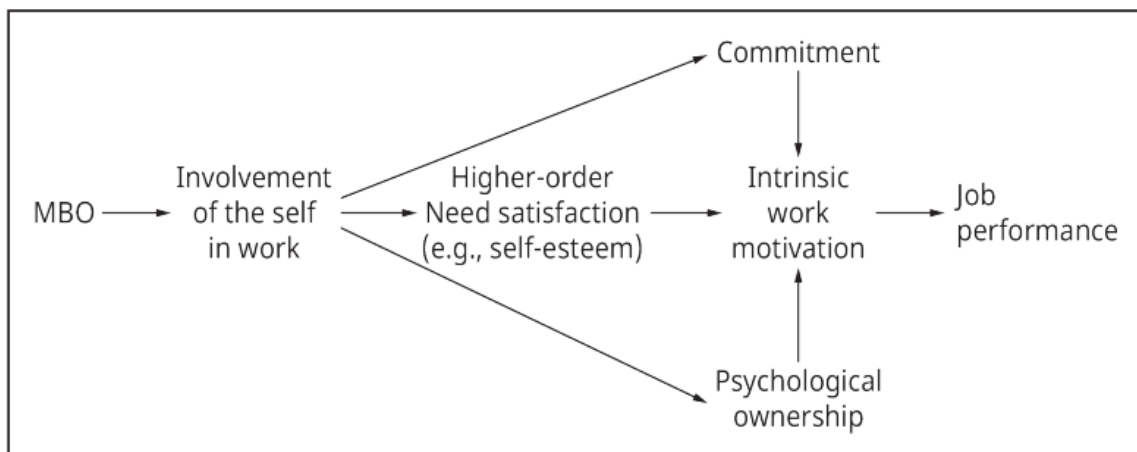


Exhibit 17.16 MBO and Its Effect on Employees (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

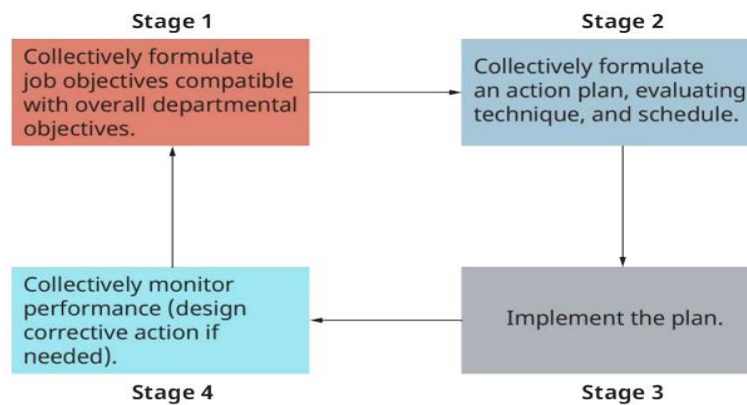


Exhibit 17.17 The Management by Objective (MBO) Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Effectiveness of MBO:

- (1) setting specific goals;
- (2) setting realistic and acceptable goals;
- (3) joint participation in goal setting, planning, and controlling;
- (4) feedback.

Key Terms

action statements The means by which an organization moves forward to attain its goals.

administrative plans Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

concurrent controls Controls intended to prevent deviation from a planned course of action while work is in progress.

contingency plans Plans that deal with alternative courses of action.

controlling Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.

cybernetic control Self-regulating control procedures.

Deming cycle A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).

domain/directional planning The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).

goal hierarchy The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.

goal planning Development of action statements to move toward the attainment of a specific goal.

hybrid control system Control system that exercises control prior to, during, and after the performance of a work activity.

hybrid planning The coupling of domain and goal planning.

management by objectives (MBO) A philosophy of management, a planning and controlling technique, and an employee involvement program.

noncybernetic control Control systems that operate independently from the work system that is being monitored; a monitoring system that is external to the target of control.

official goals The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.

operating plans Direction and action statements for activities in the organization's technical core.

operational goals The aims of an organization that reflect management's specific intentions.

outcome or goal statements End states—the targets and outcomes that managers hope to attain.

planning The process by which managers establish goals and specify how these goals are to be attained.

postaction controls Controls employed after a product or service is complete.

precontrols Controls designed to prevent deviation from a desired plan of action before work actually begins.

single-use plans Plans developed for unique situations or problems and one-time use.

standing plans Rules, policies, and procedures about how to deal with issues that managers face repeatedly.

strategic plans Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.