

CHAPTER

8

PLANNING & GOAL SETTING



Planning

and Goal-Setting

8.1

Define the nature and purposes of planning.

8.2

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

8.3

Compare and contrast approaches to goal setting and planning.

8.4

Discuss contemporary issues in planning.

LEARNING OUTCOMES

WHAT IS PLANNING?

- Planning – defining the organization's goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate work activities.
- Formal planning
 - Specific goals covering a specific time period
 - Written and shared with organizational members

WHY DO MANAGERS PLAN?

- ▶ Four reasons for planning
 - Provides direction
 - Reduces uncertainty
 - Minimizes waste and redundancy
 - Sets the standards for controlling

PLANNING AND PERFORMANCE

- ▶ Formal planning is associated with:
 - Positive financial results – higher profits, higher return on assets, and so forth.
 - 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.
 - The planning-performance relationship seems to be influenced by the planning time frame.

GOALS AND PLANS

- ▶ **Goals (objectives)** – desired outcomes or targets.
- **Plans** – documents that outline how goals are going to be met.

TYPES OF GOALS

- **Financial goals-** are related to the financial performance of the organization.

For instance, McDonald's states that its financial targets are 3 to 5 percent average annual sales and revenue growth, 6 to 7 percent average annual operating income growth, and returns on invested capital in the high teens.

- **Strategic goals-** are related to all other areas of an organization's performance.

Example of a strategic goal from Bloomberg L.P.: "We want to be the world's most influential news organization."

TYPES OF GOALS Cont...

- **Stated goals**—official statements of what an organization says, and what it wants its stakeholders to believe, its goals are.

However, stated goals— which can be found in an organization's charter, annual report, public relations announcements, or in public statements made by managers—are often conflicting and influenced by what various stakeholders think organizations should do.

Such statements are vague and probably better represent management's public relations skills than being meaningful guides to what the organization is actually trying to accomplish. It shouldn't be surprising then to find that an organization's stated goals are often irrelevant to what actually goes on.

- **Real goals**—these goals an organization actually pursues—observe what organizational members are doing. Actions define priorities.

For example, universities may say their goal is limiting class sizes, facilitating close student-faculty relations, and actively involving students in the learning process, but then they put students into 300+ student lecture classes! Knowing that real and stated goals may differ is important for recognizing what you might otherwise think are inconsistencies.

TYPES OF PLANS

- ▶ **Strategic plans** – plans that apply to the entire organization and establish the organization's overall goals.
- ▶ **Operational plans** – plans that encompass a particular operational area of the organization.

TYPES OF PLANS (CONT.)

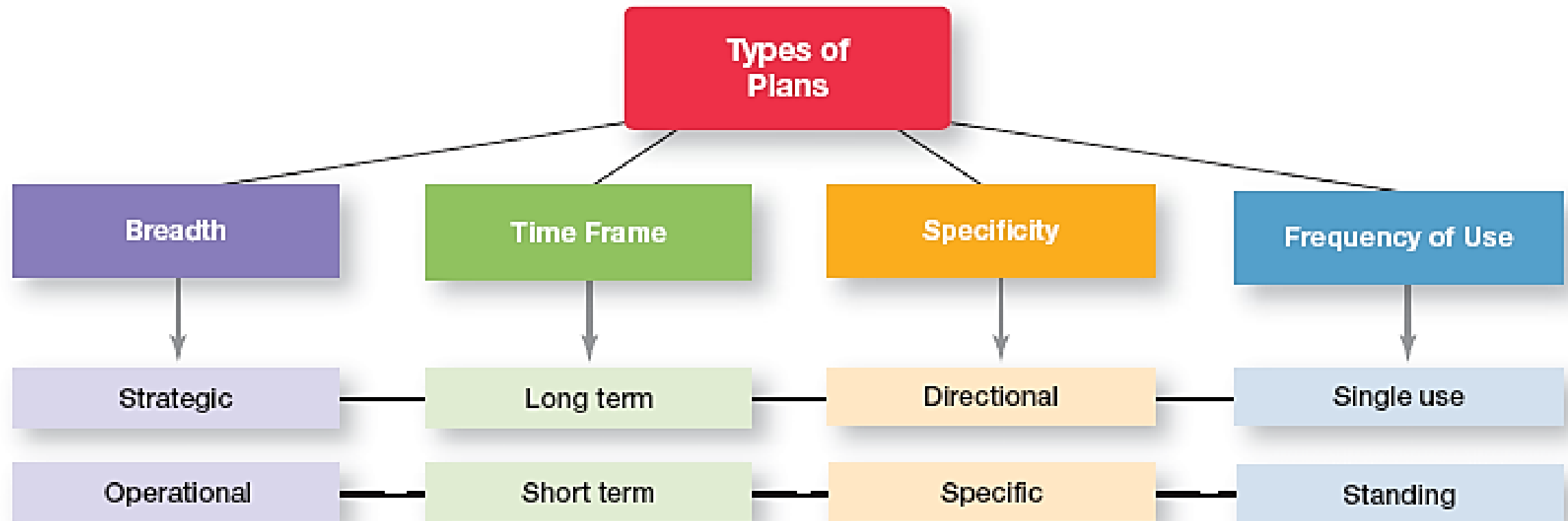
- ▶ **Long-term plans** – plans with a time frame beyond three years.
- ▶ **Short-term plans** – plans covering one year or less.
- ▶ **Specific plans** – plans that are clearly defined and leave no room for interpretation.
- ▶ **Directional plans** – plans that are flexible and set out general guidelines.

TYPES OF PLANS (CONT.)

- ▶ **Single-use plan** – a one-time plan specifically designed to meet the needs of a unique situation.
- ▶ **Standing plans** – ongoing plans that provide guidance for activities performed repeatedly.

EXHIBIT 8-1

Types of Plans



APPROACHES TO SETTING GOALS

- ▶ **Traditional goal-setting** – an approach to setting goals in which top managers set goals that then flow down through the organization and become subgoals for each organizational area.
- ▶ **Means-ends chain** – an integrated network of goals in which the accomplishment of goals at one level serves as the means for achieving the goals, or ends, at the next level.

EXHIBIT 8-2

The Downside of Traditional Goal Setting



APPROACHES TO SETTING GOALS (CONT.)

- ▶ **Management by objectives (MBO)** – a process of setting mutually agreed upon goals and using those goals to evaluate employee performance.

EXHIBIT 8-3

Steps in MBO

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*.

EXHIBIT 8-4

Well-Written Goals

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

STEPS IN GOAL SETTING. Managers should follow five steps when setting goals.

1. *Review the organization's mission, or purpose.* A mission is a broad statement of an organization's purpose that provides an overall guide to what organizational members think is important. Managers should review the mission before writing goals because goals should reflect that mission.
2. *Evaluate available resources.* You don't want to set goals that are impossible to achieve given your available resources. Even though goals should be challenging, they should be realistic. After all, if the resources you have to work with won't allow you to achieve a goal no matter how hard you try or how much effort is exerted, you shouldn't set that goal. That would be like the person with a \$50,000 annual income and no other financial resources setting a goal of building an investment portfolio worth \$1 million in three years. No matter how hard he or she works at it, it's not going to happen.
3. *Determine the goals individually or with input from others.* The goals reflect desired outcomes and should be congruent with the organizational mission and goals in other organizational areas. These goals should be measurable, specific, and include a time frame for accomplishment.

4. *Write down the goals and communicate them to all who need to know.* Writing down and communicating goals forces people to think them through. The written goals also become visible evidence of the importance of working toward something.
5. *Review results and whether goals are being met.* If goals aren't being met, change them as needed.

Once the goals have been established, written down, and communicated, a manager is ready to develop plans for pursuing the goals.

CONTINGENCY FACTORS IN PLANNING.

Three contingency factors affect the choice of plans:

- ◆ Organizational level,
- ◆ Degree of environmental uncertainty
and
- ◆ Length of future commitments.

CONTINGENCY FACTORS IN PLANNING Cont ...

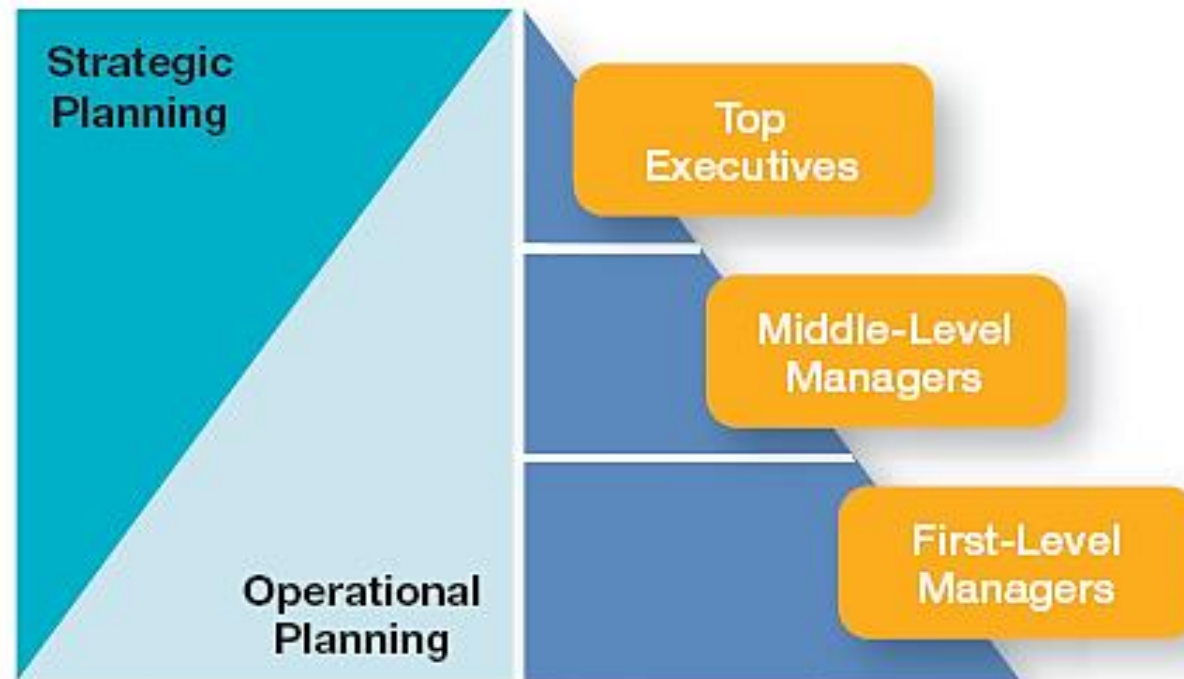
How the managerial levels in an organization affect the choice of plans?

- Organizational level,

Exhibit 8-5 shows the relationship between a manager's level in the organization and the type of planning done. For the most part, lower-level managers do operational planning while upper-level managers do strategic planning.

EXHIBIT 8-5

Planning and Organizational Level



CONTINGENCY FACTORS IN PLANNING_{Cont ...}

How the degree of environmental uncertainty affects the choice of plans?

- Degree of environmental uncertainty
- When uncertainty is high, plans should be specific, but flexible.
- Managers must be prepared to change or amend plans as they're implemented.
- At times, they may even have to abandon the plans.

CONTINGENCY FACTORS IN PLANNING^{Cont ...}

How the commitment concept in an organization affects the choice of plans?

- ◆ Length of future commitments.

The last contingency factor also is related to the time frame of plans. The **commitment concept** says that plans should extend far enough to meet those commitments made when the plans were developed. Planning for too long or too short a time period is inefficient and ineffective.

The company is “committed” to whatever future expenses are generated by that planned decision. And they have to live with the decision and its consequences, good and bad.

APPROACHES TO PLANNING

- ▶ In the traditional approach, planning is done entirely by top-level managers, often assisted by a formal planning department.
 - **Formal planning department** – a group of planning specialists whose sole responsibility is helping to write organizational plans.

CONTEMPORARY ISSUES IN PLANNING

- ▶ How Can Managers Plan Effectively in Dynamic Environments?
 - In an uncertain environment, managers should develop plans that are specific, but flexible.
 - Managers need to recognize that planning is an ongoing process.

CONTEMPORARY ISSUES IN PLANNING (CONT.)

- How Can Managers Use Environmental Scanning?
 - **Environmental scanning** – screening information to detect emerging trends.
 - **Competitor intelligence** – gathering information about competitors that allows managers to anticipate competitors' actions rather than merely reacting to them.

Thank You!