How do I make plans to carry out decisions?

1. What is planning?
2. How do managers set goals and develop plans?
3. What are the challenges in planning?

As we stated in Chapter 1, **planning** involves defining goals, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans to integrate and coordinate the work needed to achieve the goals. It's concerned with both ends (what's to be done) and means (how it's to be done). For instance, you and your classmates may want to organize a large graduation dinner dance. To do so, you would consider the goals, the strategy, the plans, and assign committees to get the work done.

Planning can either be formal or informal. In informal planning, nothing is written down, and there is little or no sharing of goals with others. Informal planning is general and lacks continuity. Although it's more common in smaller organizations, where the owner-manager has a vision of where he or she wants the business to go and how to get there, informal planning does exist in some large organizations as well. Some small businesses may have very sophisticated planning processes and formal plans. (For a look at your response to planning, see *Self-Assessment—How Good Am I at Personal Planning?*, page 231, in Chapter 8.)

Purposes of Planning

Are you a planner or a doer? Do you prefer to make plans or just act?

We can identify at least four reasons for planning:

- *Planning provides direction to managers and nonmanagers alike.* When employees know where the organization or work unit is going and what they must contribute to reach goals, they can coordinate their activities, cooperate with each other, and do what it takes to accomplish those goals. Without planning, departments and individuals might work at cross purposes, preventing the organization from moving efficiently toward its goals. This would also be true if you and your friends were planning your grad party—if you didn't coordinate and cooperate, you might not actually get the party organized in time.
- *Planning reduces uncertainty by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses.* Even though planning can't eliminate change or uncertainty, managers plan in order to anticipate change and develop the most effective response to it. Similarly, by planning a grad party ahead of time, you can make sure that it's held at a desired location, rather than at the only one that was left because you waited until the last minute.
- *Planning reduces overlapping and wasteful activities.* When work activities are coordinated around established plans, redundancy can be minimized. Furthermore, when means and ends are made clear through planning, inefficiencies become obvious and can be corrected or eliminated.
- *Planning establishes the goals or standards that are used in controlling.* If we're unsure of what we're trying to accomplish, how can we determine whether we've actually achieved it? In planning, we develop the goals and the plans. Then, through con-

Approaches to Establishing Goals

Every organization has some purpose for being in business. This purpose is generally derived from an organization's mission statement, which answers the question: What is our reason for being in business? We describe mission statements more thoroughly in Chapter 7 when we discuss strategic management. For now, it is important to note that the organization's mission helps managers determine the organization's goals. Goals provide the direction for all management decisions and actions and form the criteria against which actual accomplishments are measured. Everything organizational members do should be oriented toward helping their work units and the organization achieve its goals. These goals can be established through a process of traditional goal setting or management by objectives.

Traditional Goal Setting

In **traditional goal setting**, goals are set at the top of the organization and then broken into subgoals for each organizational level. For example, the president of a manufacturing business tells the vice-president of production what he expects manufacturing costs to be for the coming year and tells the marketing vice-president what level he expects sales to reach for the year. These goals then are passed down to the next organizational level and written to reflect the work responsibilities of that level, passed down to the next level, and so forth. Then, at some later point, performance is evaluated to determine whether the assigned goals have been achieved. This traditional perspective assumes that top managers know what's best because they see the "big picture." Thus, the goals that are established and passed down to each succeeding level serve to direct and guide, and in some ways constrain, individual employees' work behaviours. Employees work to meet the goals that have been assigned in their areas of responsibility.

One of the problems with this traditional approach is that if top managers define the organization's goals in broad terms—achieving "sufficient" profits or increasing "market leadership"—these ambiguous goals have to be made more specific as they flow down through the organization. At each level, managers define the goals, applying their own interpretations and biases as they make them more specific. However, what often happens is that goals lose clarity and unity as they make their way down from the top of the organization to lower levels. Exhibit 6–1 illustrates what can happen in this situation.

When the hierarchy of organizational goals *is* clearly defined, however, it forms an integrated network of goals, or a **means-ends chain**. This means that higher-level goals (or ends) are linked to lower-level goals, which serve as the means for their accomplishment. In other words, the achievement of goals at lower levels becomes the means to reach the goals at the next level (ends), and the accomplishment of goals at that level becomes the means to achieve the goals at the next level (ends), and so forth and so on, up through the different levels of the organization. That's how the traditional goal-setting approach is supposed to work. For instance, if top management wants to increase sales by 10 percent for the year, the marketing and sales departments need to develop action plans that will yield these results. The manufacturing division needs to develop plans for how to produce more product. An individual salesperson may need to make more calls to new clients, or convince current clients that they need more product. Thus, each of the lower levels (individual employee, sales, marketing, production) becomes means to achieving the corporate end of increasing sales.

Management by Objectives

Instead of traditional goal setting, many organizations use **management by objectives (MBO)**, an approach in which specific performance goals are jointly determined by employees

Exhibit 6–1

The Downside of Traditional Objective Setting

and their managers, progress toward accomplishing these goals is periodically reviewed, and rewards are allocated on the basis of this progress. Rather than using goals only as controls, MBO uses them to motivate employees as well. Employees will be more committed to goals that they help set.

Management by objectives consists of four elements: goal specificity, participative decision making, an explicit time period, and performance feedback.[7] Its appeal lies in its focus on the accomplishment of participatively set objectives as the reason for and motivation behind individuals' work efforts. Exhibit 6–2 lists the steps in a typical MBO program.

Do MBO programs work? Studies of actual MBO programs confirm that MBO increases employee performance and organizational productivity. A review of 70 programs, for example, found organizational productivity gains in 68 of them.[8] This same review also identified top management commitment and involvement as important conditions for MBO to succeed.

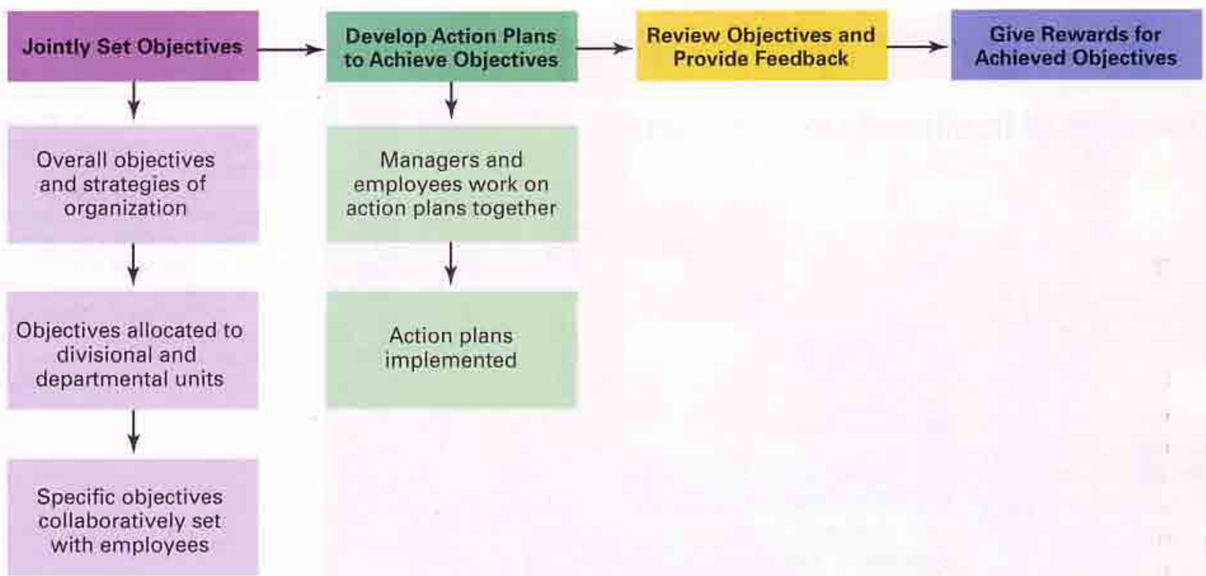
One problem of MBO programs is that they may not be as effective in times of dynamic environmental change. An MBO program needs some stability for employees to work toward accomplishing the set goals. If new goals must be set every few weeks, there's no time for employees to work on accomplishing the goals and measuring that accomplishment. Another problem of MBO programs is that an employee's overemphasis on accomplishing his or her goals without regard to others in the work unit can be counterproductive. A manager must work closely with all members of the work unit to ensure that employees aren't working at cross purposes. Finally, if MBO is viewed simply as an annual exercise in filling out paperwork, employees won't be motivated to accomplish the goals.

Characteristics of Well-Designed Goals

Goals are not all created equal! Some goals are better than others. How do you tell the difference? What makes a "well-designed" goal?[9] Exhibit 6–3 outlines the characteristics of well-designed goals.

A well-designed goal should be *written in terms of outcomes* rather than actions. The desired end result is the most important element of any goal and, therefore, the goal should be written to reflect this. Next, a goal should be *measurable and quantifiable*. It's

Steps in a Typical MBO Program



Characteristics of Well-Designed Goals

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

Have you occasionally failed at your goals? How can you develop more achievable goals?

much easier to determine if a goal has been met if it's measurable. For instance, suppose one of your goals is to "produce a high-quality product." What exactly do you mean by high quality? Because there are numerous ways to define quality, the goal should state specifically how you will measure whether or not the product is high quality. This means that even in areas where it may be difficult to quantify your intent, you should try to find some specific way or ways to measure whether that goal is accomplished. Why have the goal if you can't measure whether it's been met? In addition to specifying a quantifiable measure of accomplishment, a well-designed goal should also be *clear as to a time frame*. Open-ended goals may seem preferable because of their flexibility. However, goals without a time frame make an organization less flexible because you're never sure when the goal has been met or when you should call it quits because the goal will never be met regardless of how long you work at it. A well-designed goal will specify a time frame for accomplishment. Next, a well-designed goal should be *challenging but attainable*. Goals that are too easy to accomplish are not motivating and neither are goals that are not attainable even with exceptional effort. Next, well-designed goals should be *written down*. Although actually writing down goals may seem too time-consuming, the process of writing the goals forces people to think them through. In addition, the written goals become visible and tangible evidence of the importance of working toward something. Finally, well-designed goals are *communicated to all organization members* who need to know the goals. Why? Making people aware of the goals ensures that they're all "on the same page" and working in ways to secure the accomplishment of the organizational goals. The following *Management Reflection* shows what can happen when an organization doesn't set goals and targets that match its overall plans.

Steps in Goal Setting

What steps should managers follow in setting goals? The goal-setting process consists of five steps.

1. *Review the organization's mission.* The **mission** is the purpose of an organization. The broad statement of what the organization's purpose is and what it hopes to accomplish provides an overall guide to what organizational members think is important. (We'll look more closely at organizational mission in Chapter 7.) It's important to review these statements before writing goals because the goals should reflect what the mission statement says. Provincial Fisheries and Aquaculture Minister Trevor Taylor has suggested that the government has to decide whether it is serious about aquaculture in Newfoundland and Labrador. In making that decision, the government will have to examine its mission with regards to fisheries.

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, that goal shouldn't be set. 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. Likewise, for Newfoundland and Labrador to commit to aquaculture, the government has to determine what resources are available to strengthen the industry, and whether this is the best use of government resources.

3. *Determine the goals individually or with input from others.* These goals reflect desired outcomes and should be consistent with the organization's mission and goals in other organizational areas. These goals should be measurable, specific, and include a time frame for accomplishment. To develop a healthy aquaculture industry, the government of Newfoundland and Labrador needs to work with those in the farmed fish business to set goals for what should be done, and by what timeline. This would require creating compatible goals between government and industry.

4. *Write down the goals and communicate them to all who need to know.* We've already explained the benefit of writing down and communicating goals. After arriving at goals for the growth of the aquaculture industry, the government of Newfoundland and Labrador should communicate them to the industry and provide information on what support they will offer for increasing the availability of aquaculture products.

5. *Review results and whether goals are being met.* Make changes, as needed. For any plan to be effective, reviews need to be done, and this would be expected for the aquaculture industry as well.

short-term plans
Plans with a time frame of one year or less.

specific plans
Plans that are clearly defined and that leave no room for interpretation.

directional plans
Plans that are flexible and that set out general guidelines.

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.

Criticisms of Planning

What if you really don't like to make plans?

Formalized organizational planning became popular in the 1960s and, for the most part, it is still popular today. It makes sense for an organization to establish some direction. But critics have challenged some of the basic assumptions underlying planning. What are the primary criticisms directed at formal planning?

- *Planning may create rigidity.*[18] Formal planning efforts can lock an organization into specific goals to be achieved within specific timetables. When these goals are set, the assumption may be that the environment won't change during the time period the goals cover. If that assumption is faulty, managers who follow a plan may face trouble. Rather than remaining flexible—and possibly throwing out the plan—managers who continue to do the things required to achieve the original goals may not be able to cope with the changed environment. Forcing a course of action when the environment is fluid can be a recipe for disaster.

- *Plans can't be developed for a dynamic environment.*[19] Most organizations today face dynamic environments. If a basic assumption of making plans—that the environment won't change—is faulty, then how can you make plans at all? Today's business environment is often chaotic at best. By definition. that means random and unpredictable. Managing under those conditions requires flexibility, and that may mean not being tied to formal plans.
- *Formal plans can't replace intuition and creativity.*[20] Successful organizations are typically the result of someone's innovative vision. But visions have a tendency to become formalized as they evolve. Formal planning efforts typically involve a thorough investigation of the organization's capabilities and opportunities and a mechanical analysis that reduces the vision to some type of programmed routine. That approach can spell disaster for an organization. Apple Computer learned this the hard way. In the late 1970s and throughout the 1980s Apple's success was attributed, in part, to the innovative and creative approaches of co-founder Steve Jobs. Eventually, Jobs was forced to leave, and with his departure came increased organizational formality, including detailed planning—the same things that Jobs despised so much because he felt that they hampered creativity. During the 1990s, the situation at Apple became so bad that Jobs was brought back as CEO to get Apple back on track. The company's renewed focus on innovation led to the debut of the iMac in 1998, the iPod in 2001, a radically new look for the iMac in 2002, and an online music store in 2003.
- *Planning focuses managers' attention on today's competition, not on tomorrow's survival.*[21] Formal planning has a tendency to focus on how to capitalize on existing business opportunities within an industry. It often doesn't allow managers to consider creating or reinventing an industry. Consequently, formal plans may result in costly blunders and high catch-up costs when other competitors take the lead. On the other hand, companies such as Intel, General Electric, Nokia, and Sony have found success forging into uncharted waters, spawning new industries as they go.

- *Formal planning reinforces success, which may lead to failure.*[22] It's hard to change or discard previously successful plans—to leave the comfort of what works for the anxiety of the unknown. Successful plans, however, may provide a false sense of security, generating more confidence in the formal plans than is warranted. Many managers will not face the unknown until they're forced to do so by environmental changes. By then, it may be too late!

Working Together: Team-Based Exercise

People Power[2], a training company that markets its human resource programs to corporations around the globe, has had several requests to design a training program to teach employees how to use the Internet for researching information. This training program will then be marketed to potential corporate customers. Your team is spearheading this important project. There are three stages to the project: (1) researching corporate customer needs, (2) researching the Internet for specific information sources and techniques that could be used in the training module, and (3) designing and writing a specific training module. The first thing your team has to do is identify at least three goals for each stage. As you proceed with this task, you don't need to come up with specifics about "how" to proceed with these activities; just think about "what" you want to accomplish in each stage.

Form small groups of three or four individuals. Complete your assigned work as described above. Be sure that your goals are well designed. Be prepared to share your team's goals with the rest of the class.

Lend Lease Corporation

"Every project we take on starts with a question: How can we do what's never been done before?" That's the guiding philosophy of Australia's Lend Lease Corporation (**www.lendlease.com**). And it's done some pretty spectacular projects, including building the foundations for the Sydney Opera House, the Newington Olympic Village for the 2000 Summer Olympics, and soundstages for *The Matrix* and *Mission: Impossible 2*. But building isn't the company's only business. It's also a market leader in terms of being a global, integrated real estate business with expertise in real estate investment, project management and construction, and property development. It currently has more than $81 billion of global real estate assets that it manages.

Lend Lease is an Australian business success story and is seen as one of the most exciting companies to work for in Australia. Recently, two Lend Lease executives—Stuart Hornery and director of special projects Malcolm Latham—stood at the edge of an abandoned limestone quarry about 32 kilometres outside London, surveying the barren landscape. Instead of seeing what most people would—an industrial wasteland—they envisioned a dramatic and unique civic space that would be a community gathering place in addition to a popular retail shopping centre. They made the decision to purchase the site from Blue Circle Industries, a British cement company that had been trying to develop it for more than eight years. Upon signing the deal, Lend Lease got a preapproved development plan that was in place for the site. However, company executives chose to abandon everything in this plan but the project's name: Bluewater.

Less than three weeks after that initial visit to the site, a team of Lend Lease employees, including Hornery, Latham, and six of the company's best retail, property, and project-management experts, met with Eric Kuhne, a well-respected US architect. The team's goal was to bring to life Hornery and Latham's vision for the Bluewater site. What they developed was an innovative, break-the-mold plan, simply titled The Bluewater Factors. The team's plan outlined a shopping complex featuring a glowing white roofscape; over 148 644 square metres of retail space; a 13 000-car parking garage; and more than 20 hectares of parks, seven lakes, and more than 1 million trees and shrubs. The project's scale would be an enormous undertaking.

Managing Director and Chief Executive Officer Greg Clarke recognizes that effective managerial planning plays an important role in developing successful projects. He is considering using a project-control group (PCG) to help advise Hornery, Latham, and Kuhne on the project. Members of the PCG wouldn't work on the project day-to-day, but would be accountable for it. Clarke has heard that PCGs can include as few as three people or as many as fifteen who are chosen with consideration for a diverse mix of skills, intuition, and experiences of people from both inside *and* outside the company. They meet every six or seven weeks during a project's duration. Clarke thinks that having a PCG could be a good idea, but also worries that if the group became too seriously involved in giving advice, it could lead to pulling the plug on Bluewater and moving on if the group can't reach agreement on what should be done.

Clarke is trying to decide whether to put together a PCG for this project, and has come to you for advice. Would this level of planning help the project? What kind of team should he consider putting together for the PCG and why? What might be the downsides of using a PCG?

Sources: Information on Lend Lease comes from Hoover's Online, http://www.hoovers.com (accessed November 8, 2004); the Lend Lease website, http://www.lendlease.com (accessed November 8, 2004); P. LaBarre, "A Company Without Limits," *Fast Company*, September 1999, pp. 160-86; and "Lend Lease Building on Its Success," *Business Asia*, March 15, 1999, p. 11.