To help build my planning skill, when studying this chapter, I will attempt to acquire:

1. A definition of planning and an understanding of the purposes of planning
2. Insights into how the major steps of the planning process are related
3. An understanding of the relationship between planning and organizational objectives
4. A knowledge of the areas in which managers should set organizational objectives
5. An appreciation for the potential of a management-by-objectives (MBO) program
6. A knowledge of how the chief executive relates to the planning process
7. An understanding of the qualifications and duties of planners and how planners can be evaluated
CHALLENGE CASE

QUALITY BICYCLE PRODUCTS PLANS FOR THE FUTURE

BLOOMINGTON, MINN.-BASED QUALITY BICYCLE Products (QBP) was riding high. A leading distributor for over 5,000 independent bicycle dealers across the United States, QBP supplies bicycles, bicycle parts and accessories, and even apparel. Its family of bicycle brands includes All City, Civia, Salsa Cycles, and Surly. In addition, QBP is the exclusive U.S. distributor of Ridley, the Belgian manufacturer of road, mountain, and cyclocross bikes. It offers a comprehensive array of products and services, including a 1,700-page catalog, an online ordering system, merchandising programs for retail stores, a custom-wheel service, and a program for building specialty bikes.

QBP’s business in the Southwest and Pacific Northwest was growing rapidly. Senior leadership saw that an expansion strategy was a critical element of QBP’s business planning. In considering locations for that expansion, the company soon recognized that Ogden, Utah would represent an ideal location for its next facility.

With a population of more than 82,000, Ogden, Utah is a popular destination for sports enthusiasts and anyone else with a passion for the great outdoors. Located a short drive from Salt Lake City, the northwestern Utah city serves as a gateway to several ski resorts. Besides skiing and snowboarding, Ogden offers a full array of outdoor pleasures ranging from camping, hiking, and biking to horseback riding and golf.

Building its next facility—an 85,000-square-foot warehouse—in Ogden, would allow QBP to offer enhanced customer service in the form of speedy ground-based shipping to customers in the western United States. While building the warehouse, QBP leased building space nearby and engaged about 50 workers to run the business. After the warehouse is completed, the company plans to double the size of its staff. QBP offered a generous relocation package to those considering a move to Ogden and made a commitment to Ogden’s city government to pay 125 percent of the county’s average wage.

Ogden’s dedication to the environment struck a chord with QBP, whose commitment to sustainability played a prominent role in the company’s decision to build its warehouse according to standards set by Leadership in Energy and Environmental Design (LEED). The design of the new warehouse makes optimal use of such environmental elements as storm runoff, drought-resistant native plantings, and natural light. Other features include innovative wastewater technologies, high-efficiency appliances, and energy generation from a solar panel array.

QBP president Steve Flagg said the company chose Ogden because of the wide variety of recreational opportunities it offered. “The city attracted us with its core group of recreational industries and its strong commitment to bikes for commuting and...
recreation. We’re really excited about getting to know the people of Ogden and being an active member of the community.”

Locating the new facility in Ogden required a great deal of planning for QBP’s top managers.

EXPLORING YOUR MANAGEMENT SKILL
You can explore your level of planning skill before studying the chapter by completing the exercise “Exploring Your Management Skill: Part 1” on page 174 and after studying this chapter by completing the exercise “Exploring Your Management Skill: Part 2” on page 175.

THE PLANNING CHALLENGE
The Challenge Case focuses on events at Quality Bicycle Products (QBP). The case ends with the implication that sound planning is necessary to successfully resolve the issues associated with managing the ongoing growth of the business. Material in this chapter will help managers like those at QBP understand why planning is so important not only for ensuring future successful business growth but for carrying out any other organizational activity. The fundamentals of planning are described in this chapter. More specifically, this chapter (1) outlines the general characteristics of planning, (2) discusses steps in the planning process, (3) describes the planning subsystem, (4) elaborates on the relationship between organizational objectives and planning, (5) discusses the relationship between planning and the chief executive, and (6) summarizes the qualifications of planners and explains how planners can be evaluated.

GENERAL CHARACTERISTICS OF PLANNING
The first part of this chapter is a general introduction to planning. The sections in this part discuss the following topics:

1. Definition of planning
2. Purposes of planning
3. Advantages and potential disadvantages of planning
4. Primacy of planning

Defining Planning
Planning is the process of determining how the organization can get where it wants to go, and what it will do to accomplish its objectives. In more formal terms, planning is “the systematic development of action programs aimed at reaching agreed-upon business objectives by the process of analyzing, evaluating, and selecting among the opportunities which are foreseen.”

Planning is a critical management activity regardless of the type of organization being managed. Modern managers face the challenge of sound planning in small and relatively simple organizations as well as in large, more complex ones, and in nonprofit organizations such as libraries as well as in for-profit organizations such as General Motors.

Purposes of Planning
Over the next several years, these managers will learn whether the plans in Ogden will reach the organization’s objectives.¹

Over the years, management writers have presented several different purposes of planning. For example, a classic article by C. W. Roney indicates that organizational planning has two purposes: protective and affirmative. The protective purpose of planning is to minimize risk by reducing the uncertainties surrounding business conditions and clarifying the consequences of related management actions. The affirmative purpose is to increase the degree of organizational success.⁴
The fundamental purpose of planning, however, is to help the organization reach its objectives. As Koontz and O’Donnell put it, the primary purpose of planning is “to facilitate the accomplishment of enterprise and objectives.” All other purposes of planning are spin-offs of this fundamental purpose.

Planning: Advantages and Potential Disadvantages

A vigorous planning program produces many benefits. First, it helps managers be future-oriented. They are forced to look beyond their everyday problems to project what situations may confront them in the future. Second, a sound planning program enhances decision coordination. No decision should be made today without some idea of how it will affect a decision that might have to be made tomorrow. The planning function pushes managers to coordinate their decisions. Third, planning emphasizes organizational objectives. Because organizational objectives are the starting points for planning, managers are continually reminded of exactly what their organization is trying to accomplish.

Overall, planning is advantageous to an organization, particularly in the creation of new ventures. According to an often-cited survey, as many as 65 percent of all newly started businesses are not around to celebrate a fifth anniversary. This high failure rate seems primarily a consequence of inadequate planning. Successful businesses have an established plan, a formal statement that outlines the objectives the organization is attempting to achieve. Planning does not eliminate risk, of course, but it does help managers identify and deal with organizational problems before they cause havoc in a business.

The downside is that if the planning function is not well executed, planning can have several disadvantages for the organization. For example, an overemphasized planning program can take up too much managerial time. Managers must strike an appropriate balance between time spent on planning and time spent on organizing, influencing, and controlling. If they don’t, some activities that are extremely important to the success of the organization may be neglected.

Overall, the advantages of planning definitely outweigh the disadvantages. Usually, the disadvantages of planning result from using the planning function incorrectly.

Primacy of Planning

Planning is the primary management function—the one that precedes and is the basis for the organizing, influencing, and controlling functions of managers. Only after managers have developed their plans can they determine how they want to structure their organization, place their people, and establish organizational controls. As discussed in Chapter 1, planning, organizing, influencing,
MODERN RESEARCH AND PLANNING SKILL

The Influence of Team Plans

A recent study by Mathieu and Schulze examined the influence of planning skills on performance in the team context. The study’s authors used teams of business school students to better understand the influence of planning skills on team performance. Specifically, the teams all took part in a simulation that helped determine their grade in a course. In this particular simulation, each group represented a simulated firm’s top management team. Team members occupied different functional roles (i.e., marketing, accounting, etc.), and the team collectively made decisions. Presumably, the better the decisions each team made, the better would be the team’s performance in the simulation as compared to the other student teams.

Prior to the simulation, each team created a formal plan outlining the steps needed to ensure success in the simulation. The authors then examined the relationship between the quality of the pre-simulation plan and the group’s performance in the simulation. The authors then attempted to find a relationship between the quality of the plan and performance in the simulation. Do you think the study’s results suggest that quality of the plan helped in understanding team performance? Why? Assuming that you are correct, what guidance can this research give you about developing your planning skill?

Source: This exercise was based on J. E. Mathieu and W. Schulze, 2006, “The influence of team knowledge and formal plans on episodic team process—performance relationships,” Academy of Management Journal 3, 605–619.

and controlling are interrelated. Planning is the foundation function and the first one to be performed. Organizing, influencing, and controlling are all based on the results of planning. Figure 7.1 shows this interrelationship.

FIGURE 7.1
Planning as the foundation for organizing, influencing, and controlling
2. **List alternative ways of reaching objectives**—Once organizational objectives have been clearly stated, a manager should list as many available alternatives as possible for reaching those objectives.

3. **Develop premises on which to base each alternative**—To a large extent, the feasibility of using any one alternative to reach organizational objectives is determined by the premises, or assumptions, on which the alternative is based. For example, two alternatives a manager could generate to reach the organizational objective of increasing profit might be to (a) increase the sale of products presently being produced, or (b) produce and sell a completely new product. Alternative (a) is based on the premise that the organization can gain a larger share of the existing market. Alternative (b) is based on the premise that a new product would capture a significant portion of a new market. A manager should list all of the premises for each alternative.

4. **Choose the best alternative for reaching objectives**—An evaluation of alternatives must include an evaluation of the premises on which the alternatives are based. A manager usually finds that some premises are unreasonable and can therefore be excluded from further consideration. This elimination process helps the manager determine which alternative would best accomplish organizational objectives. The decision making required for this step is discussed more fully in Chapter 8.

5. **Develop plans to pursue the chosen alternative**—After an alternative has been chosen, a manager begins to develop strategic (long-range) and tactical (short-range) plans. More information about strategic and tactical planning is presented in Chapters 9 and 10.

6. **Put the plans into action**—Once plans that furnish the organization with both long-range and short-range direction have been developed, they must be implemented. Obviously, the organization cannot directly benefit from the planning process until this step is performed. Figure 7.2 shows the sequencing of the six steps of the planning process.

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**FIGURE 7.2**
Elements of the planning process
Target Corporation is an example of a company that has made charitable giving a significant element in its strategic plan. Since its founding in 1962, Target has allocated 5 percent of company revenues—more than $3 million a week—to programs that serve the communities in which it operates. Consistent with its concern for the health and safety of its communities, Target earmarked $50,000 to aid the National Wildlife Foundation in cleanup efforts following the explosion of the Deepwater Horizon oil rig in the Gulf of Mexico.15

THE PLANNING SUBSYSTEM

Once managers thoroughly understand the basics of planning, they can take steps to implement the planning process in their organization. Implementation is the key to a successful planning process. Even though managers might be experts on facts related to planning and the planning process, if they cannot transform this understanding into appropriate action, they will not be able to generate useful organizational plans.

One way to approach implementation is to view planning activities as an organizational subsystem. A subsystem is a system created as part of the overall management system. Figure 7.3 illustrates the relationship between the overall management system and a subsystem. Subsystems help managers organize the overall system and enhance its success.

Figure 7.4 presents the elements of the planning subsystem. The purpose of this subsystem is to increase the effectiveness of the overall management system by helping managers identify, guide, and direct planning activities within the overall system.16

Obviously, only a portion of organizational resources can be used as input in the planning subsystem. This input is allocated to the planning subsystem and transformed into output through the steps of the planning process.
CHAPTER 7 • Principles of Planning

ORGANIZATIONAL OBJECTIVES: PLANNING’S FOUNDATION

The previous section made the point that managers start planning by stating or formulating organizational objectives. Only after they have a clear view of organizational objectives can they appropriately carry out subsequent steps of the planning process. Organizational objectives serve as the foundation on which all subsequent planning efforts are built. The following sections focus on organizational objectives, a critical component of the planning process:

1. Defining organizational objectives
2. Pinpointing areas in which organizational objectives should be established
3. Illustrating how managers work with organizational objectives
4. Discussing management by objectives, an approach to management based mainly on organizational objectives

Definition of Organizational Objectives

An organizational objective is a target toward which the open management system is directed. Organizational input, process, and output—topics discussed in Chapter 2—all exist to reach organizational objectives (see Figure 7.5). Properly developed organizational objectives reflect the purpose of the organization—that is, they flow naturally from the organization’s mission. The organizational purpose is what the organization exists to do, given a particular group of customers and customer needs. Table 7.1 contains several statements of organizational purpose, or mission, as developed by actual companies. If an organization is accomplishing its objectives, it is accomplishing its purpose and thereby justifying its reason for existence.

Organizations exist for various purposes and thus have various types of objectives. A hospital, for example, may have the primary purpose of providing high-quality medical services to the community. Therefore, its objectives are aimed at furnishing this assistance. The primary purpose of a business organization, in contrast, is usually to make a profit. The objectives of the business organization, therefore, concentrate on ensuring that a profit is made. Some companies, however, assume that if they focus on such organizational objectives as producing a quality product at a competitive price, profits will be inevitable.

Such is the case at Lincoln Electric Company. Although profitability is essential for all profit-oriented businesses, management at Lincoln Electric attracted attention when it seemed to diminish the role of profit in the company’s organizational objectives.18

FIGURE 7.5
How an open management system operates to reach organizational objectives
The goal of the organization must be this—to make a better and better product to be sold at a lower and lower price. Profit cannot be the goal. Profit must be a by-product. This is a state of mind and a philosophy. Actually, an organization doing this job as it can be done will make large profits which must be properly divided between user, worker, and stockholder. This takes ability and character.

In a 1956 article that has become a classic, John F. Mee suggested that organizational objectives for businesses can be summarized in three points:19

1. Profit is the motivating force for managers.
2. Service to customers by the provision of desired economic values (goods and services) justifies the existence of the business.
3. Managers have social responsibilities in accordance with the ethical and moral codes of the society in which the business operates.

Deciding on the objectives for an organization, then, is one of the most important actions managers take. Unrealistically high objectives are frustrating for employees, while objectives that

After suffering financial losses, Jeff Bezos, CEO of Amazon.com, earned a profit by improving customer service—with small changes such as anticipating demands and improving shipping.
are set too low do not push employees to maximize their potential. Managers should establish performance objectives that they know from experience are within reach for employees, but not within easy reach.20

Areas for Organizational Objectives

Peter F. Drucker, one of the most influential management writers of modern times, believed that the survival of a management system was endangered when managers emphasized only the profit objective because this single-objective emphasis encourages managers to take action that will make money today with little regard for how a profit will be made tomorrow.21

Managers should strive to develop and attain a variety of objectives in all areas where activity is critical to the operation and success of the management system. Following are the eight key areas in which Drucker advised managers to set management system objectives:

1. **Market standing**—Management should set objectives indicating where it would like to be in relation to its competitors.
2. **Innovation**—Management should set objectives outlining its commitment to the development of new methods of operation.
3. **Productivity**—Management should set objectives outlining the target levels of production.
4. **Physical and financial resources**—Management should set objectives regarding the use, acquisition, and maintenance of capital and monetary resources.
5. **Profitability**—Management should set objectives that specify the profit the company would like to generate.
6. **Managerial performance and development**—Management should set objectives that specify rates and levels of managerial productivity and growth.
7. **Worker performance and attitude**—Management should set objectives that specify rates of worker productivity as well as desirable attitudes for workers to possess.
8. **Public responsibility**—Management should set objectives that indicate the company’s responsibilities to its customers and society and the extent to which the company intends to live up to those responsibilities.

According to Drucker, the first five goal areas relate to tangible, impersonal characteristics of organizational operation, and most managers would not dispute their designation as key areas. Designating the last three as key areas, however, could arouse some managerial opposition because these areas are more personal and subjective. Regardless of this potential opposition, an organization should have objectives in all eight areas to maximize its probability of success.

Increasing shareholder value represents an additional planning consideration for many publicly traded companies. For example, global oil producer ConocoPhillips recently unveiled plans to sell $10 billion in assets over a two-year period. Proceeds from the sale, the company said, would be used to pay down debt and increase shareholder value.22

Working with Organizational Objectives

Appropriate objectives are fundamental to the success of any organization. Theodore Levitt noted that some leading U.S. industries could be facing the same financial disaster as the railroads faced years earlier because their objectives were inappropriate for their organizations.23

Managers should approach the development, use, and modification of organizational objectives with the utmost seriousness. In general, an organization should set three types of objectives:24

1. **Short-term objectives**—targets to be achieved in one year or less
2. **Intermediate-term objectives**—targets to be achieved in one to five years
3. **Long-term objectives**—targets to be achieved in five to seven years

The necessity of predetermining appropriate organizational objectives has led to the development of a management guideline called the principle of the objective. This principle holds that before managers initiate any action, they should clearly determine, understand, and state organizational objectives.
Developing a Hierarchy of Objectives. In practice, an organizational objective must be broken down into subobjectives so that individuals at different levels and sections of the organization know what they must do to help reach the overall organizational objective. An organizational objective is attained only after the subobjectives have been reached.

The overall organizational objective and the subobjectives assigned to the various people or units of the organization are referred to as a hierarchy of objectives. Figure 7.6 presents a sample hierarchy of objectives for a medium-sized company.

Suboptimization is a condition wherein subobjectives are conflicting or not directly aimed at accomplishing the overall organizational objective. Suboptimization is possible within the company whose hierarchy of objectives is depicted in Figure 7.6 if the first subobjective for Planning for the future often requires an organization to revisit its original objectives. For example, consider recent planning efforts at MySpace. The social networking site once led the industry but has recently experienced a decline in users. In charting a new path, MySpace management revisited the site’s original business objectives and its key differentiator—self-expression—to make a comeback. As a result, MySpace dropped portal-like features such as horoscopes, job boards, and the weather and returned the emphasis to entertainment, with MySpace users sharing their thoughts and interests.25

### Developing a Hierarchy of Objectives

- **TOP MANAGEMENT**
  1. Represent stockholders’ interests—net profits of 10% or more
  2. Provide service to consumers—provide reliable products
  3. Maintain growth of assets and sales—double each decade
  4. Provide continuity of employment for company, personnel—no involuntary layoffs
  5. Develop favorable image with public

- **SALES DEPARTMENT**
  1. Introduce new products so that over a 10-year period, 70% will be new
  2. Maintain a market share of 15%
  3. Seek new market areas so that sales will grow at a 15% annual rate
  4. Maintain advertising costs at 4% of sales

- **PRODUCTION DEPARTMENT**
  1. Keep cost of goods no more than 50% of sales
  2. Increase productivity of labor by 3% per year
  3. Maintain rejects at less than 2%
  4. Maintain inventory at 6 months of sales
  5. Keep production rate stable with no more than 20% variability from yearly average

- **FINANCE AND ACCOUNTING DEPARTMENT**
  1. Borrowing should not exceed 50% of assets
  2. Maximize tax write-offs
  3. Provide monthly statements to operating departments by 10th of following month
  4. Pay dividends at rate of 50% of net earnings

- **OFFICE MANAGERS**
  1. Maintain cycle billing within 3 days of target date
  2. Prepare special reports within 1 week of request

- **SUPERVISORS**
  1. Handle employee grievances within 24 hours
  2. Maintain production to standard or above
  3. Keep scrappage to 2% of materials usage

- **DISTRICT SALES MANAGER**
  1. Meet weekly sales quotas
  2. Visit each large customer once each month
  3. Provide sales representatives with immediate follow-up support

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**FIGURE 7.6** Hierarchy of objectives for a medium-sized organization
the finance and accounting department clashes with the second subobjective for the supervisors. This conflict would occur if supervisors needed new equipment to maintain production and the finance and accounting department couldn’t approve the loan without the company’s borrowing surpassing 50 percent of company assets. In such a situation, in which established subobjectives are aimed in different directions, a manager would have to choose which subobjective would better contribute to obtaining overall objectives and should therefore take precedence.

Controlling suboptimization in organizations is part of a manager’s job. Managers can minimize suboptimization by developing a thorough understanding of how various parts of the organization relate to one another and by ensuring that subobjectives properly reflect these relations.

**Guidelines for Establishing Quality Objectives**

The quality of goal statements, like that of all humanly developed commodities, can vary drastically. Here are some general guidelines that managers can use to increase the quality of their objectives:

1. **Let the people responsible for attaining the objectives have a voice in setting them**—Often the people responsible for attaining the objectives know their job situation better than managers do and can therefore help make the objectives more realistic. They will also be better motivated to achieve objectives that they have had a say in establishing. Work-related problems that these people face should be thoroughly considered when objectives are being developed.

2. **State objectives as specifically as possible**—Precise statements minimize confusion and ensure that employees have explicit directions for what they should do. Research shows that when objectives are not specific, the productivity of individuals attempting to reach those objectives tends to fluctuate significantly over time.

3. **Relate objectives to specific actions whenever necessary**—In this way, employees do not have to infer what they should do to accomplish their goals.

4. **Pinpoint expected results**—Employees should know exactly how managers will determine whether an objective has been reached.

5. **Set goals high enough that employees will have to strive to meet them, but not so high that employees give up trying to meet them**—Managers want employees to work hard but not to become frustrated.

6. **Specify when goals are expected to be achieved**—Employees must have a time frame for accomplishing their objectives. They then can pace themselves accordingly.

7. **Set objectives only in relation to other organizational objectives**—In this way, suboptimization can be kept to a minimum.

8. **State objectives clearly and simply**—The written or spoken word should not impede communicating a goal to organization members.

**MANAGEMENT BY OBJECTIVES (MBO)**

Some managers find organizational objectives such an important and fundamental part of management that they use a management approach based exclusively on them. This approach, called management by objectives (MBO), was popularized mainly through the writings of Peter Drucker. Although mostly discussed in the context of profit-oriented companies, MBO is also a valuable management tool for nonprofit organizations such as libraries and community clubs. The MBO strategy has three basic parts:

1. **All individuals within an organization are assigned a specialized set of objectives that they try to reach during a normal operating period. These objectives are mutually set and agreed upon by individuals and their managers.**

2. **Performance reviews are conducted periodically to determine how close individuals are to attaining their objectives.**

3. **Rewards are given to individuals on the basis of how close they come to reaching their goals.**
The MBO process consists of five steps (see Figure 7.7):

1. **Review organizational objectives**—The manager gains a clear understanding of the organization’s overall objectives.
2. **Set worker objectives**—The manager and worker meet to agree on worker objectives to be reached by the end of the normal operating period.
3. **Monitor progress**—At intervals during the normal operating period, the manager and worker check to see whether the objectives are being reached.
4. **Evaluate performance**—At the end of the normal operating period, the worker’s performance is judged by the extent to which the worker reached the objectives.
5. **Give rewards**—Rewards given to the worker are based on the extent to which the objectives were reached.

**Factors Necessary for a Successful MBO Program**

Certain key factors are essential to the success of an MBO program. First, top management must be committed to the MBO process and set appropriate objectives for the organization. Because all individual MBO goals will be based on these overall objectives, if the overall objectives are inappropriate, individual MBO objectives will also be inappropriate and related individual work activity will be nonproductive. Second, managers and subordinates together must develop and agree on each individual’s goals. Both managers and subordinates must feel that the individual objectives are just and appropriate if each party is to seriously regard them as a guide for action. Third, employee performance should be conscientiously evaluated against established objectives. This evaluation helps determine whether the objectives are fair and if appropriate means are being used to attain them. Fourth, management must follow through on employee performance evaluations by rewarding employees accordingly.

If employees are to continue striving to reach their MBO program objectives, managers must reward those who do reach, or surpass, their objectives more than those whose performance falls short of their objectives. It goes without saying that such rewards must be given out fairly and honestly. Managers must be careful, though, not to conclude automatically that employees have produced at an acceptable level simply because they have reached their objectives. The objectives may have been set too low in the first place, and managers may have failed to recognize it at the time.32

**MBO Programs: Advantages and Disadvantages**

Experienced MBO managers claim that the MBO approach has two advantages. First, MBO programs continually emphasize what should be done in an organization to achieve organizational goals. Second, the MBO process secures employee commitment to attaining organizational
goals. Because managers and subordinates have developed objectives together, both parties are sincerely interested in reaching those goals.

MBO managers also admit that MBO has certain disadvantages. One is that the development of objectives can be time consuming, leaving both managers and employees less time to do their actual work. Another is that the elaborate written goals, careful communication of goals, and detailed performance evaluations required in an MBO program increase the volume of paperwork in an organization.

On balance, however, most managers believe that MBO’s advantages outweigh its disadvantages. Therefore, they find MBO programs beneficial.33

PLANNING AND THE CHIEF EXECUTIVE

More than two decades ago, Henry Mintzberg pointed out that the top managers—the chief executives—of organizations have many different roles to perform.34 As organizational figureheads, they must represent their organizations in a variety of social, legal, and ceremonial situations. As leaders, they must ensure that organization members are properly guided toward achieving organizational goals. As liaisons, they must establish themselves as links between their organizations and factors outside their organizations. As monitors, they must assess organizational progress. As disturbance handlers, they must settle disputes between organization members. And as resource allocators, they must determine where resources should be placed to benefit their organizations best.35

Final Responsibility

In addition to these many varied roles, chief executives have the final responsibility for organizational planning. As the scope of planning broadens to include a larger portion of the management system, it becomes increasingly important for chief executives to get involved in the planning process.

As planners, chief executives seek answers to the following broad questions:36

1. In what direction should the organization be going?
2. In what direction is the organization going now?
3. Should something be done to change this direction?
4. Is the organization continuing in an appropriate direction?

Keeping informed about social, political, and scientific trends is of utmost importance in helping chief executives answer these questions.

Planning Assistance

Given the necessity to participate in organizational planning while performing other time-consuming roles, more and more top managers have established the position of organization planner to obtain the planning assistance they require. Just as managers can ask others for help and advice in making decisions, so can they involve others in formulating organizational plans.37

The chief executive of a substantial organization almost certainly needs planning assistance.38 The remainder of this chapter assumes that the organization planner is an individual who is not the chief executive of the organization, but rather a manager inside the organization who is responsible for assisting the chief executive on organizational planning issues.39 Where the planner and the chief executive are the same person, however, the following discussion of the planner can, with slight modifications, be applied to the chief executive.

THE PLANNER

The planner is probably the most important input in the planning subsystem.40 This individual combines all other inputs and influences the subsystem process so that its output is effective organizational plans. The planner is responsible not only for developing plans but also for advising management on what actions should be taken to implement those plans. Regardless of who
actually does the planning or what organization the planning is being done in, the qualifications, duties, and evaluations of the planner are all important considerations for an effective planning subsystem.

Qualifications of Planners

Planners should have four primary qualifications:

- First, they should have considerable practical experience within their organization. Preferably, they should have been executives in one or more of the organization’s major departments. This experience will help them develop plans that are both practical and tailor-made for the organization.

- Second, planners should be capable of replacing any narrow view of the organization they may have acquired while holding other organizational positions with an understanding of the organization as a whole. They must know how all parts of the organization function and interrelate. In other words, they must possess an abundance of the conceptual skills mentioned in Chapter 1.

- Third, planners should have some knowledge of and interest in the social, political, technical, and economic trends that could affect the future of the organization. They must be skillful in defining those trends and possess the expertise to determine how the organization should react to the trends to maximize its success. This qualification cannot be overemphasized.41

- The fourth and last qualification for planners is that they be able to work well with others. Their position will inevitably require them to work closely with several key members of the organization, so it is essential that they possess the personal characteristics necessary to collaborate and advise effectively. The ability to communicate clearly, both orally and in writing, is one of the most important of these characteristics.42

Evaluation of Planners

Planners, like all other organization members, should be evaluated according to the contribution they make toward helping the organization achieve its objectives.43 The quality and appropriateness of the planning system and the plans that the planner develops for the organization are the primary considerations in this evaluation. Because the organizing, influencing, and controlling functions of managers all vitally depend on the fundamental planning function, an accurate evaluation of the planner is critically important to the organization.

Objective Indicators

Although the assessment of planners is necessarily somewhat subjective, several objective indicators can be used. The use of appropriate techniques is one objective indicator. A planner who uses appropriate techniques is probably doing an acceptable job. The degree of objectivity displayed by the planner is another indicator. The planner’s advice should be largely based on a rational analysis of appropriate information.44 The assessment of this indicator is not to say that planners should abandon subjective judgment altogether, only that their opinions should be based chiefly on specific and appropriate information.

Malik suggests that a planner is doing a reputable job if the following objective criteria are met:45

1. Organizational plan is in writing.
2. Plan is the result of all elements of the management team working together.
3. Plan defines present and possible future business of the organization.
4. Plan specifically mentions organizational objectives.
5. Plan identifies future opportunities and suggests how to take advantage of them.
6. Plan emphasizes both internal and external environments.
7. Plan describes the attainment of objectives in operational terms whenever possible.
8. Plan includes both long- and short-term recommendations.
These eight criteria furnish objective guidelines for evaluating the performance of planners. However, management’s evaluation of planners should never be completely objective. Important subjective considerations include how well planners get along with key members of the organization, the amount of organizational loyalty they display, and their perceived potential.

**CHALLENGE CASE SUMMARY**

It seems apparent from facts in the introductory case that QBP managers must focus heavily on planning if the company’s new strategy is to be successful. Such a process should help determine issues such as what types of new equipment must be purchased to implement the new plan, who maintains the equipment once purchased, and how to change the organization’s culture to focus on the addition of a new location for the company’s operations. This process should also focus on how to maintain the quality of QBP’s service.

Because of the many related benefits of planning, QBP managers should make certain that the planning process is thorough and comprehensive, one particularly notable benefit of which is the probability of increased profits. To gain the benefits of planning, however, QBP managers must be careful that the planning function is well executed and not overemphasized.

QBP management should also keep in mind that planning is the primary management function. Thus managers should not begin to organize, influence, or control until planning for this new strategy is completed. Planning is the foundation management function on which all other management functions at QBP should be based.

Managers like those at QBP who are refocusing their strategies should use their planning process to produce a practical plan for the activities. The process of developing this plan should consist of six steps. It should begin with a statement of an organizational objective to successfully design the plan and end with guidelines for putting the new plans into action. In this case, the ultimate organizational objective involves refocusing the company to build on its historical strengths.

To implement a planning process, managers should view planning as a subsystem that is part of the process of the overall management system. Thus, they should use a portion of all the organizational resources available for the purpose of their planning. In this example, the output of this subsystem would be the actual plans to be used to deliver two-day ground shipping to customers in the Southwest and Pacific Northwest regions. Naturally, a comprehensive planning effort at QBP would focus on many other organizational areas such as obtaining needed funds and improving overall service delivery.

Planning at QBP, as at any other company, begins with a statement of organizational objectives, the targets at which the overall organization is aiming. These targets should be consistent with the purpose of QBP, the reason the company exists. Objectives for a company such as QBP normally include profit targets, service quality targets, and social responsibility targets. Other organizational objectives would normally focus on market standing, innovation, productivity, and worker performance and attitude. Overall objectives for a company such as QBP should be of three basic types: short-term objectives that are to be achieved in a year or less; intermediate objectives to be achieved in one to five years; and long-term objectives to be achieved in five to seven years. Additionally, QBP and companies like it would normally develop a hierarchy of objectives so that individuals at different levels of the organization know what they must do to help reach organizational targets.

Planning for QBP’s entry into this new geography should emphasize how to implement activities to help reach various organizational targets. Overall, QBP’s planning, as it pertains to its product lines, should focus on enhancing the accomplishment of its short-term, intermediate-term, and long-term objectives that exist throughout the company’s hierarchy of objectives.

Planning activities at a company such as QBP tend to be more valuable the higher the quality of the organizational objectives. To increase the quality of objectives at QBP, managers can take steps that allow people responsible for attaining objectives to have a voice in setting them, that state objectives as clearly and simply as possible, and that pinpoint results expected when objectives are achieved.

Management at QBP might be so committed to managing via organizational targets that MBO becomes the primary management approach within the company. Such an approach would involve QBP management monitoring the progress workers are making in reaching established objectives and using rewards and punishments to hold workers accountable for actually reaching the objectives. An MBO program might be advantageous to QBP because it would continually emphasize what needs to be accomplished to reach organizational targets. On the other hand, an MBO program might be disadvantageous to QBP because the process itself can be time-consuming.

Technically, QBP’s president is responsible for planning for the organization as a whole and for performing such related time-consuming functions as keeping abreast of internal and external trends that could affect
the future of the company. Because planning requires so much time, and because QBP's president has many other responsibilities within the company, he might want to consider appointing a director of planning.

The director of planning at QBP would need certain qualities. Ideally, the planner should have some experience at the company, be able to see it as an entire organization, have some ability to gauge and react to major trends that probably will affect the company’s future, and be able to work well with others. The planner must oversee the planning process, evaluate developed plans, and solve planning problems. An evaluation of the QBP organization planner would be based on both objective and subjective appraisals of his or her performance. Perhaps the first issue that a new company planner at QBP should address is the company's entry into Ogden, Utah.

UNDERSTANDING PLANNING CONCEPTS

To check your understanding and to practice using the concepts in this chapter, go to www.mymanagementlab.com and explore the material associated with Chapter 7.

Know Key Terms

Understanding the following key terms is critical to your understanding of chapter material. Define each of these terms. Refer to the page(s) referenced after a term to check your definition or to gain further insight regarding the term.

- planning 160
- organizational objective 165
- organizational purpose 165
- suboptimization 168

Know How Management Concepts Relate

This section is comprised of activities that will further sharpen your understanding of management concepts. Answer essay questions as completely as possible. Also, remember that many additional true/false and multiple choice questions appear online at MyManagementLab.com to help you further refine your understanding of management concepts.

1. Summarize the primary advantages and disadvantages regarding planning. In your opinion, what is the most prominent advantage of planning? What is the largest disadvantage of planning?

2. Describe the various stages involved in the planning process. Use an example to illustrate these stages.

3. Explain the characteristics of effective objectives. Relying on these characteristics, provide an example of an effective objective for a not-for-profit organization of your choice.

4. Describe the relationship between planning and the other general functions of management (organizing, controlling, and influencing). In your opinion, which of the four functions is most important?

5. Describe the concept of a hierarchy of objectives. Why is developing such a hierarchy important for managers?

DEVELOPING MANAGEMENT SKILLS

Learning activities in this section are aimed at helping you to develop diversity skill. Learning activities include Exploring Your Management Skill: Parts 1 and 2, Your Management Skill Portfolio, Experiential Exercises, Cases, and a VideoNet Exercise.

Exploring Your Management Skill: Part 1

Before studying this chapter, respond to the following questions regarding the type of advice that you would give to QBP president Steve Flagg. Then address the concerning planning challenges that he presently faces within the company. You are not expected to be a planning expert at this point. Answering the questions now can help you focus on important points when you study the
chapter. Also, answering the questions again after you study the chapter will give you an idea of how much you have learned.

Record your answers here or online at MyManagementLab.com. Completing the questions at MyManagementLab.com will allow you to get feedback about your answers automatically. If you answer the questions in the book, look up answers in the Exploring Your Management Skill section at the end of the book.

FOR EACH STATEMENT CIRCLE:
• “Y” if you would give the advice to Steve Flagg.
• “N” if you would NOT give the advice to Steve Flagg.
• “NI” if you have no idea whether you would give the advice to Steve Flagg.

Mr. Flagg, in meeting your planning challenges at QBP, you should...

Before Study

After Study

1. understand that there are only advantages—and no disadvantages—to planning at QBP.
   Y, N, NI

2. encourage QBP's employees to spend more time organizing, influencing, and controlling as opposed to planning.
   Y, N, NI

3. establish broad and ambiguous objectives so it will be difficult to tell whether QBP reached the objectives.
   Y, N, NI

4. formulate both alternatives and premises when establishing plans for QBP.
   Y, N, NI

5. begin the planning process by establishing QBP's organizational objectives.
   Y, N, NI

6. focus more on long-term objectives than short-term or intermediate-term objectives.
   Y, N, NI

7. establish objectives that are related only to QBP's profitability rather than those related to areas such as innovation, productivity, and public responsibility.
   Y, N, NI

8. create objectives alone and resist the opinions of other employees in QBP.
   Y, N, NI

9. pinpoint expected results so that QBP employees will understand when an objective is or is not reached.
   Y, N, NI

10. form unreachable objectives, because higher goals always lead to higher performance.
    Y, N, NI

11. specify a timeline for achieving the objectives.
    Y, N, NI

12. realize the potential effectiveness of MBO programs for QBP, because MBO programs work only in for-profit organizations.
    Y, N, NI

13. understand the importance of giving rewards in improving the effectiveness of MBO programs.
    Y, N, NI

14. understand that as QBP's president, you are responsible for determining the overall direction of the firm.
    Y, N, NI

15. appreciate the fact that as QBP's central planner, no one will review your planning performance.
    Y, N, NI

Learning activities in this section are aimed at helping you develop planning skill. Learning activities include Exploring Your Management Skill: Part 2, Experiential Exercises, Cases, and a VideoNet Exercise.

Exploring Your Management Skill: Part 2

As you recall, you completed Exploring Your Management Skill before you started to study this chapter. Your responses gave you an idea of how much you initially knew about planning and helped you focus on important points as you studied the chapter. Answer the Exploring Your Management Skill questions again now and compare your score to the first time you took it. This comparison will give you an idea of how much you learned from studying this chapter and pinpoint areas for further clarification before you start studying the next chapter. Record your answers within the text or online at MyManagementLab.com. Completing the survey at MyManagementLab.com will allow you to grade and compare your test scores automatically. If you complete the test in the book, look up answers in the Exploring Your Management Skill section at the end of the book.

Your Management Skills Portfolio

Your Management Learning Portfolio is a collection of activities especially designed to demonstrate your management knowledge and skill. By completing these activities at MyManagementLab.com, you will be able to print, complete with cover sheet, as many activities as you choose. Be sure to save your work. Taking your printed portfolio to an employment interview could be helpful in obtaining a job.
The portfolio activity for this chapter is Developing Your Planning Skills. Read the following highlight about Darden Restaurants, and answer the questions that follow.

Darden Restaurants Inc., which operates chains such as Red Lobster, Olive Garden, and Bahama Breeze, is one of the largest casual dining restaurant companies in the world. Darden is exploring potential opportunities for growth, and you have been hired to develop a new restaurant concept for the company. Executives at Darden are particularly interested in concepts that are consistent with the company’s mission, which is “To nourish and delight everyone we serve.” Darden has committed the funds necessary to test your new concept restaurant in an area around your school. If the new concept works well in your area, Darden may seek to expand the concept in a larger geographical area.

Your mission involves establishing a plan to introduce this new concept restaurant. After deciding on your new concept restaurant, Darden wants you to work through the first five steps of the planning process: (1) state organizational objectives; (2) list alternative ways of reaching objectives; (3) develop premises on which to base each alternative; (4) choose the best alternative for reaching objectives; and (5) develop plans to pursue the chosen alternative. In the space provided here, respond to the following inquiries regarding the first five steps of the planning process.

1. Briefly describe the most important characteristics of your new concept for Darden.

2. Develop three organizational objectives for your new restaurant.

3. Choose one of the three objectives to explore in more detail. List three alternative ways to reach this objective.

4. Develop premises to evaluate each of these three alternatives.

5. Based on these premises, choose the alternative that is most likely to reach the objective.

6. As you think about this alternative, list the significant steps needed to implement this alternative.
Experiential Exercises

1 Developing Objectives for the Don Cesar

Directions: Read the following scenario and then perform the listed activities. Your instructor may want you to perform the activities as an individual or within groups. Follow all of your instructor's directions carefully.

You have just been hired as the new assistant manager at the Don Cesar Beach Resort (www.doncesar.com) in St. Petersburg, Florida. This resort, which opened in 1928, has a storied history. Nonetheless, the manager of the resort has assigned you and your team the task of identifying new objectives for the resort. He thinks that your fresh perspective might help the organization thrive for the next 100 years. Lead your group by outlining five objectives for the resort. Then, use the “Guidelines for Establishing Quality Objectives” listed on page 169 to better understand the quality of the five objectives your team developed. Based on these guidelines, which objective was the best? Which objective was the worst? Why?

2 You and Your Career

Planning Skill and Your Career

The previous section discusses the role of objectives in the planning process. Understanding the importance of objectives will help you further develop your planning skill. As you think about your academic career thus far, describe the role of your own objectives in determining your course grades. Do you have objectives regarding your course grades? Now, think about your career in the future. Do you think employers will find your planning skills attractive? Thinking longer term, how do you think your planning skills will influence your career progression?

Videonet Exercise

Planning and the Control Process: Kaneva

Video Highlights

Kaneva is a start-up company that has built a virtual world to empower a community of customers to create their own realities. Despite the high-tech sheen, the company still must focus on raising revenue, group decision making, and its control process. Chief revenue officer Jeff Longoria describes how Kaneva monetizes its virtual world. Kaneva is an example of how even an up-to-date technology company depends on revenue to survive. Finally, Longoria describes the role of management by objectives (MBO) in the control process.

Discussion Questions

1. Why would a company ever give any of its product away for free?

2. How does management by objectives impact Kaneva’s planning process? Describe why Kaneva’s daily meeting is a stand-up meeting.

3. At the end of the video, CEO Chris Klaus says that Kaneva employees can spend 20 percent of their time on projects outside of the scope of the “roadmap.” What does this mean? Do you approve or disapprove?

Internet Activity

Browse the Kaneva Web site at www.kaneva.com. Explore the site. Take a look at some of the press releases in the “Press Center” link. One of the articles describes Kaneva by stating “online games meet social networking.” Do you think this statement accurately describes the Kaneva product? Why or why not? While some of Kaneva’s services are free, others are offered at a premium price. Can you name some other examples of Web sites that offer some free usage and then sell premium services?

CASES

1 SOUND PLANNING AT QBP?

“Quality Bicycle Products Plans for the Future” (p. 159) was written to help you better understand the management concepts contained in this chapter. Answer the following discussion questions about the Challenge Case to better understand how principles of planning can be applied in a company like QBP.

1. What special challenges would QBP face in expanding its business by building a warehouse in Ogden, Utah? What steps would you take to meet these challenges?

2. Would you have the QBP president or an appointed planning executive do the planning for the new warehouse? Why?

3. List three criteria that you would use to evaluate the planning for the new QBP warehouse. Explain why you chose each criterion.

2 HSBC PLANS TO MAKE A DIFFERENCE

Read the case and answer the questions that follow. Studying this case will help you better understand how principles of planning can be applied in a company such as HSBC.

Founded as a small Hong Kong bank in 1865, HSBC Holdings has followed a series of growth plans to emerge today as one of the world’s largest financial services firms. The London-based company serves 110 million customers through 9,500 offices in 79 countries, offering an extensive array of banking, investment, insurance, and credit services. Under a five-year strategic plan launched in 1998, HSBC enjoyed a number of outstanding financial accomplishments, including increasing corporate profits by 41 percent between 2002 and 2003. In 2002, the company also introduced a five-year plan to protect the environment by donating $50 million to
conservation causes and lending 2,000 employees to work on ecological projects. Despite careful planning, however, some HSBC divisions weren’t always able to overcome severe economic pressures or other adverse conditions to achieve the intended results throughout the five-year period. For example, the investment banking unit’s performance was so disappointing in 2001 that management did not give bankers and analysts any bonuses that year.

Now Sir John Bond, HSBC’s chairperson, is challenging corporate, division, and unit managers to set more ambitious objectives in line with a five-year “Managing for Growth” strategic plan initiated in 2003. This long-term plan builds on the foundation laid by the previous plan and establishes broad organizational priorities in key areas such as revenues and expenditures, customer service, shareholder return, competitive standing, productivity through teamwork, and corporate responsibility. In turn, these priorities guide objective-setting at all levels so managers can formulate and implement plans that will make a difference in the company’s future, in its communities, and in the natural environment.

In their quest to secure the market leadership position that HSBC’s mission envisions, Bond and his managers are applying each division’s resources and strengths, which include sophisticated technology, human resources talent, customer knowledge, financial and risk management, and enduring business relationships. In the course of the previous strategic plan, corporate planners identified certain markets as especially promising for growth. Now they are coordinating division objectives and plans to make the most of profitable opportunities. For example, HSBC acquired or started banks as part of its lucrative expansion in the United States, Mexico, and France. Looking ahead, management is opening or buying more banks to serve consumers and business customers in these areas.

At the operational level, HSBC’s country managers and branch managers are supporting corporate and divisional objectives by setting objectives for opening new accounts and other banking activities. HSBC Bank Malaysia’s one-year objectives, as an example, are to issue 20 percent more credit cards and increase deposits by 20 percent. Similarly, the Hong Kong unit wants to expand its credit card base by 10 percent within a year—but “It’s not just about competing in terms of the number of cards; profitability is more important,” notes that unit’s general manager. In Thailand, the local HSBC unit is targeting more affluent people in a short-term drive to open 300 new accounts within three months. And in the United States, the corporation applied for a national bank charter as one step in a long-term campaign to open dozens of new branches and bring in millions of dollars in deposits.

In addition, HSBC executives are developing measurement and reporting mechanisms so they can monitor the company’s environmental impact and formulate appropriate long-and short-term objectives for greenhouse gas emissions, water consumption, energy consumption, and recycling. They are also examining interim results of HSBC’s unprecedented $50 million environmental philanthropy project, designed to achieve objectives such as saving endangered plants, battling water pollution, preserving forests, and educating the public about the importance of conservation. Social responsibility objectives and plans are not easy to formulate or achieve, but the HSBC workforce is excited about the commitment. “The environment is something that people feel very strongly about, and the reality is that we can make some difference there because of our scale,” says the HSBC manager in charge.

QUESTIONS

1. What are the arguments for and against HSBC managers making public their short-term and intermediate-term objectives, unit by unit or division by division?

2. Would you recommend that HSBC use the MBO process to reward investment bankers and analysts according to results, even though key factors influencing performance can’t be precisely predicted or controlled? Explain.

3. Which stakeholders might be affected by HSBC’s plan to invest $50 million in environmental conservation? Should the company continue this plan, regardless of short-term financial performance?

Endnotes


8. For an interesting discussion on how the importance of planning relates to even day-to-day operations, see Ters Lamers, “The Custom-Made Day Planner,” Inc. (February 1992): 61–62.


