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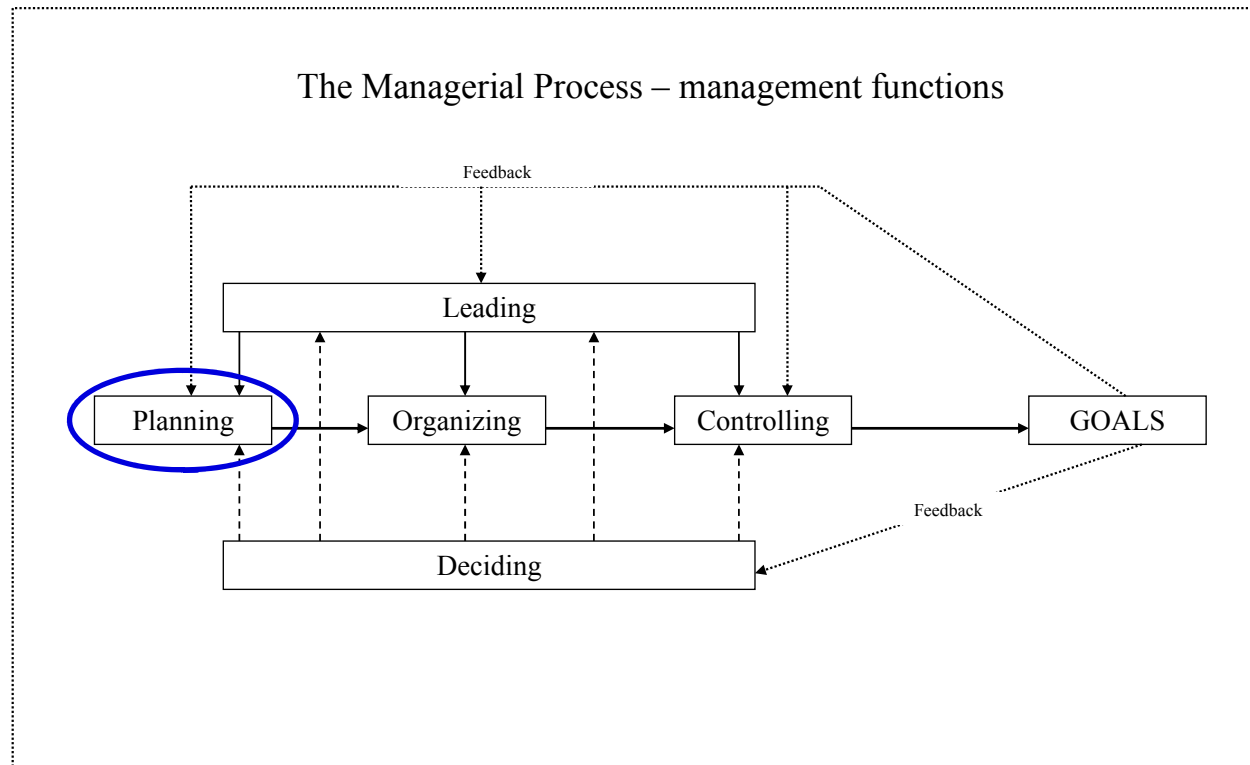
# **Planning**

Lecture 4

# Agenda for today

- What is planning?
- Goals (objectives) and plans
- Planning process
- Planning tools and techniques

# Where are we?



# What is planning?

- A primary managerial activity that involves:

  - Defining the organization's goals

  - Establishing an overall strategy for achieving those goals

  - Developing plans for organizational work activities.

- Types of planning

  - Informal:** not written down, short-term focus; specific to an organizational unit.

  - Formal:** written, specific, and long-term focus, involves shared goals for the organization.

# Why do managers plan?

## Purposes of planning

- Provides direction
- Reduces uncertainty
- Minimizes waste and redundancy
- Sets the standards for controlling

## Planning vs. Performance

- Formal planning is associated with:
  - => Higher profits and returns on assets.
  - => Positive financial results.
- 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,
- Formal planning must be used for several years before planning begins to affect performance.

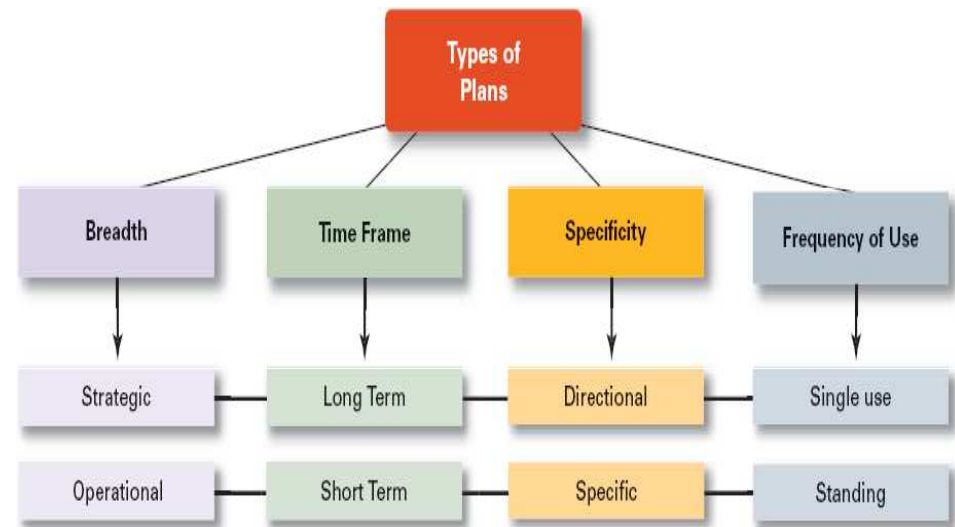
# Elements of planning

## GOALS (Objectives)

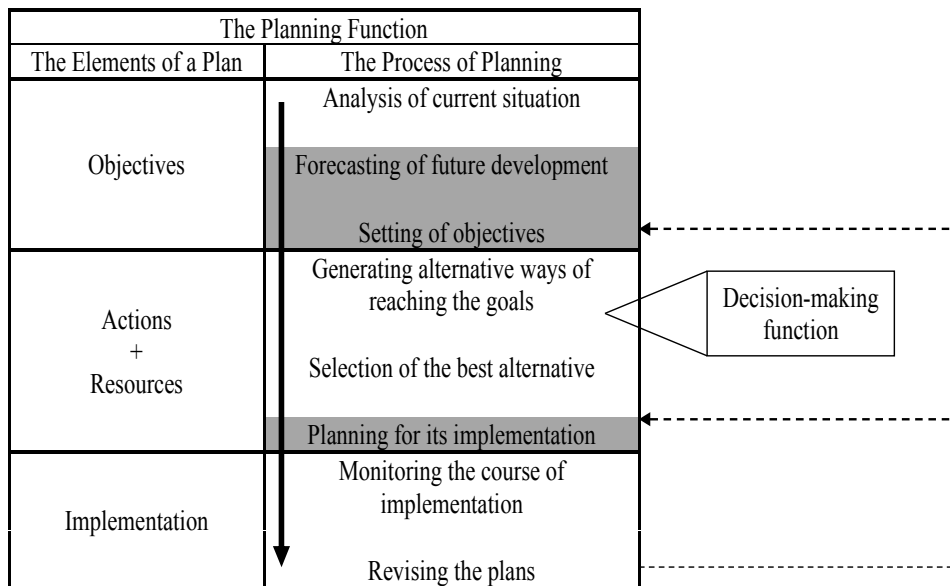
- Desired outcomes for individuals, groups, or entire organizations
- Provide direction and evaluation performance criteria
- they specify future conditions that are deemed satisfactory (by the organization itself and also by the environment).
- objectives should be *measurable* (S.M.A.R.T.);
- management initiates planning to determine the *priority* and *timing* of objectives;

## PLANS

- Documents that outline how goals are to be accomplished
- Describe how resources are to be allocated and establish activity schedules



# The planning process



# Setting objectives

You can make better plans if you can predict the future.

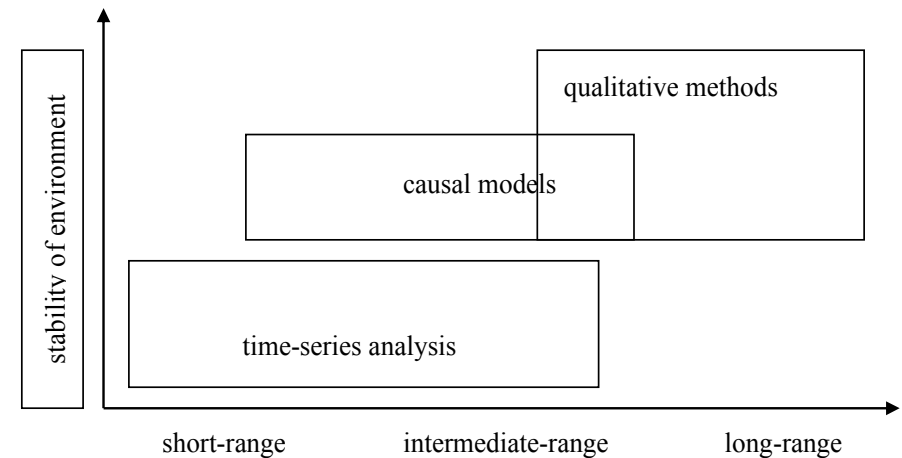
- realistic objectives can be set;
  - feasible course of action can be planned;
  - resource costs can be minimized;
- ⇒ no major corrections will be needed in the future.

## Qualitative approach to forecasting

- Delphi method
- estimates of salespeople
- consumer panels
- historical analogy

## Quantitative approach to forecasting

- time series analysis = extrapolative methods
  - naïve model
  - averages
  - exponential smoothing
- causal methods = to suggest causes of behavior of independent variables
  - regression
  - econometric models



- You must balance the cost of obtaining better forecasts against the benefit of the improved decision.



# Traditional goal setting vs. MBO

## Traditional goal setting

- Broad goals are set at the top of the organization.
- Goals are then broken into subgoals for each organizational level.
- Assumes that top management knows best because they can see the “big picture.”
- Goals are intended to direct, guide, and constrain from above.
- Goals lose clarity and focus as lower-level managers attempt to interpret and define the goals for their areas of responsibility.



## Management By Objectives

- Specific performance goals are **jointly** determined by employees and managers.
- Rewards are allocated on the basis of periodically reviewed **progress** towards the goals.
  - Goal specificity, participative decision making, an explicit performance/evaluation period, feedback
- Top management commitment and involvement
- Potential Problems with MBO Programs
  - Not as effective in dynamic environments that require constant resetting of goals.
  - Overemphasis on individual accomplishment may create problems with teamwork.

# Goals are interrelated...

## Means – ends chain

- The integrated network of goals that results from establishing a clearly-defined hierarchy of organizational goals.
  - Supportive goals
- Achievement of lower-level goals is the means by which to reach higher-level goals (ends).
  - Conflicting goals (=> trade-off)
  - Independent goals

# Planning tools and techniques (1/2)

## Assessing the environment

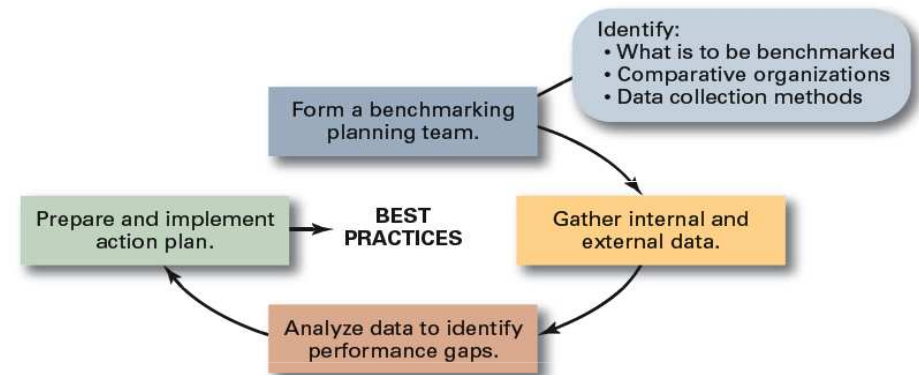
### – Environmental Scanning

- The screening of large amounts of information to anticipate and interpret change in the environment.
- **Competitor Intelligence** = The process of gathering information about competitors — who they are; what they are doing = but rather careful attention to readily accessible information from employees, customers, suppliers, the Internet, and competitors themselves (=>NOT spying)
- May involve **reverse engineering** of competing products to discover technical innovations.

### – Forecasting (see slide no. 8)

### – Benchmarking

- The search for the best practices among competitors and noncompetitors that lead to their superior performance.
- By analyzing and copying these practices, firms can improve their performance.



# Planning tools and techniques (2/2)

## Allocating Resources

- Resources are assets of the organization
  - **Financial:** debt, equity, and retained earnings
  - **Physical:** buildings, equipment, and raw materials
  - **Human:** experiences, skills, knowledge, and competencies
  - **Intangible:** brand names, patents, reputation, trademarks, copyrights, and databases
- are constraints on the courses of action
- Budgeting
- Capacity planning
- Production planning
- Materials (inventory) planning
- Scheduling
- Human Resources Planning

# Planning within an organizational setting

## Organizational approaches to planning



- Establishing a formal planning department
  - A group of planning specialists who **help** managers write organizational plans.
  - Planning is a function of management; it should never become the sole responsibility of planners.
- Involving organizational members in the process
  - Plans are developed by members of organizational units at various levels and then coordinated with other units across the organization.

# Contemporary Issues in Planning

## Effective Planning in Dynamic Environments

- Develop plans that are specific but flexible.
- Understand that planning is an ongoing process.
- Change plans when conditions warrant.
- Persistence in planning eventually pay off.
- Flatten the organizational hierarchy to foster the development of planning skills at all organizational levels.

## Criticisms of Planning

- Planning may create rigidity.
- Plans cannot be developed for dynamic environments.
- Formal plans cannot replace intuition and creativity.
- Planning focuses managers' attention on today's competition not tomorrow's survival.
- Formal planning reinforces today's success, which may lead to tomorrow's failure.

# Must know - keywords

- planning
- goals
- plans
- strategic plans
- operational plans
- long-term plans
- short-term plans
- specific plans
- traditional goal setting
- means-ends chain
- management by objectives (MBO)
- commitment concept
- benchmarking
- reverse engineering
- competitor intelligence
- environmental scanning
- forecasting