Matsushita has driven its U.S. competitors out of the American market for television sets. Part of its success is due to the company founder's establishment, in the early 1950s, of a long-term plan to dominate the U.S. market for TVs.

Thirty years ago, companies such as RCA, GE, and Zenith dominated the U.S. market for television sets.[1] Not anymore. Using brand names that include Panasonic and Quasar, the largest manufacturer of television sets in the world is a Japanese company called Matsushita. Similarly, if you go out today shopping for a video recorder, you'll see a lot of names that look familiar—Sylvania, Magnavox, Montgomery Ward—but they're all Matsushita-made. Now the largest consumer electronics firm on the globe—its product line runs from cathode ray tubes to inflight communication systems—Matsushita has grown to become the twelfth largest company in the world. In November 1990, the company paid more than $6 billion to buy MCA, the parent company of Universal Studios.

The Matsushita story is a saga of how extensive planning can facilitate the creation of a corporate giant. The company was founded at the end of World War II by Konosuke Matsushita. He committed himself to rebuilding Japan's power among nations by making Japan a leader in the emerging field of electronics. In the early 1950s, Matsushita set his sights on dominating the U.S. TV market. He formed a cartel with other Japanese TV manufacturers and proceeded aggressively to focus his efforts on the U.S. market. In twenty years, he whittled his U.S. competitors down from twenty-five to six. All his U.S. competitors eventually went bankrupt or were acquired by foreign interests.

Through thoughtful, long-term planning, Matsushita has become *the* major player in the consumer electronics industry. Matsushita's management views their company as a very long-term operation. As an illustrative point, the company actually has a 250-year plan! Obviously, Matsushita is a company that is attempting to leave nothing to chance.

This chapter presents the basics of planning. In the following pages, you'll learn the difference between formal and informal planning, why managers plan, the various types of plans that managers use, the key contingency factors that influence the types of plans that managers use in different situations, and the important role that objectives play in planning.

The Definition of Planning

What do we mean by the term *planning*? As we stated in Chapter 1, planning encompasses defining the organization's objectives or goals, establishing an overall strategy for achieving these goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. It is concerned, then, with *ends* (what is to be done) as well as with *means* (how it is to be done).

Planning can be further defined in terms of whether it is informal or formal. All managers engage in planning, but it might be only the informal variety. In informal planning, nothing is written down, and there is little or no sharing of objectives with others in the organization. This describes planning in many small businesses; the owner-manager has a vision of where he or she wants to go and how he or she expects to get there. The planning is general and lacks continuity. Of course, informal planning exists in some large organizations, and some small businesses have very sophisticated formal plans.

When we use the term planning in this book, we are implying *formal* planning. Specific objectives are formulated covering a period of years. These objectives are committed to writing and made available to organization members. Finally, specific action programs exist for the achievement of these objectives; that is, management clearly defines the path it wants to take to get from where it is to where it wants to be.

The Purpose of Planning

Why should managers engage in planning? It gives direction, reduces the impact of change, minimizes waste and redundancy, and sets the standards to facilitate control.

Planning establishes coordinated effort. It gives direction to managers and nonmanagers alike. When all concerned know where the organization is going and what they must contribute to reach the objective, they can begin to coordinate their activities, cooperate with each other, and work in teams. A lack of planning can foster "zigzagging" and thus prevent an organization from moving efficiently toward its objectives.

By forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses, planning reduces uncertainty. It also clarifies the consequences of the actions managers might take in response to change.

Planning also reduces overlapping and wasteful activities. Coordination before the fact is likely to uncover waste and redundancy. Further, when means and ends are clear, inefficiencies become obvious.

Finally, planning establishes objectives or standards that facilitate control. If we are unsure of what we are trying to achieve, how can we determine whether we have achieved it? In planning, we develop the objectives. In the controlling function, we compare actual performance against the objectives, identify any significant deviations, and take the necessary corrective action. Without planning, there can be no control.

Planning and Performance

Do managers and organizations that plan outperform those that don't? Intuitively, you would expect the answer to be a resounding "yes." Reviews of the evidence are generally affirmative, but that shouldn't be interpreted as a blanket endorsement of formal planning. We cannot say that organizations that formally plan *always* outperform those that don't.

Dozens of studies have been undertaken to test the relationship between planning and performance.[2] They allow us to draw the following conclusions. First, generally speaking, formal planning is associated with higher profits, higher return on assets, and other positive financial results. Second, the *quality* of the planning process and the appropriate *implementation* of the plans probably contribute more to high performance than does the *extent* of planning. Finally, in those studies in which formal planning hasn't led to higher performance, the environment is typically the culprit. When government regulations, powerful labor unions, and similar environmental forces constrain management's options, planning will have less of an impact on an organization's performance. Why? Because management will have fewer choices for which planning can propose viable alternatives. For example, planning might suggest that a manufacturing firm produce a number of its key parts in Asia in order to compete effectively against low-cost foreign competitors. But if the firm's contract with its labor union specifically forbids transferring work overseas, the value of the firm's planning effort is significantly reduced. Dramatic shocks from the environment can also undermine the best-laid plans. The stock market crash in October 1987 undermined most of the formal plans previously developed by brokerage firms. In conditions of such environmental uncertainty, there is no reason to expect that planners will necessarily outperform nonplanners.

Myths About Planning

There is no shortage of myths and misconceptions about planning. The following identifies a few common myths and seeks to clarify the misunderstanding behind them.

1. *Planning that proves inaccurate is a waste of management's time.* The end result of planning is only one of its purposes. The process itself can be valuable even if the results miss the target. Planning requires management to think through what it wants to do and how it is going to do it. This clarification can have significant value in and of itself. Management that does a good job of planning will have direction and purpose, and planning is likely to minimize the misdirection of energy. All this is in spite of missing the objectives being sought.

Christie Hefner at Playboy Enterprises

Christie Hefner may be the founder's daughter, but she's proving that she's executive material as she guides Playboy Enterprises through changing times.[3]

Hugh Hefner started *Playboy* magazine in the 1950s. It grew and prospered by promoting a lifestyle for males of guiltless sex and fast living. Christie, a highly intelligent graduate of Brandeis University, became president of Playboy Enterprises in 1982 and CEO in 1988. Her job has been to reshape the company in response to more conservative sexual attitudes and changing views of male and female roles. Her goal? To create an adult Disney.

Christie Hefner's strategy for the company has been focusing on three areas: the magazine, product licensing, and overseas markets. She's remaking *Playboy* into a men's magazine for the 1990s. It is taking a more reflective view of men's lives. For instance, Hefner says the magazine is addressing the widespread interest in how men are handling workplace problems and how they are coping with women. The company's previous strategy of licensing its rabbit head logo to almost any manufacturer willing to pay the licensing fee has been replaced with a new emphasis on quality. Playboy is revoking some licenses and letting others lapse on such products as tacky air fresheners, cheap underwear, and shoddy shoes. Instead, the company is creating its own designs for licensees and trying to get into swankier settings with an upscale clientele. Finally, Hefner is aggressively pursuing opportunities outside North America. Recognizing that the fall of repressive political regimes is invariably followed by a significantly increased interest in sex, Hefner has introduced foreign-licensed editions of *Playboy* into such places as Czechoslovakia, Hungary, and Poland. A Playboy licensee is opening twenty sportswear boutiques in mainland China to be run by the government.

So far, Christie Hefner's planning has paid off. Between 1988 and 1992, Playboy's earnings more than doubled.

2. *Planning can eliminate change.* Planning cannot eliminate change. Changes will happen regardless of what management does. Management engages in planning in order to *anticipate* changes and to develop the most effective response to them.
3. *Planning reduces flexibility.* Planning implies commitments, but it is a constraint only if management stops planning after doing it once. Planning is an ongoing activity. The fact that formal plans have been reasoned out and clearly articulated can make them easier to revise than an ambiguous set of assumptions carried around in some senior executive's head. Some plans, furthermore, can be made to be more flexible than others.

Types of Plans

The most popular ways to describe plans are by their breadth (strategic versus operational), time frame (short- versus long-term), and specificity (specific versus directional). However, these planning classifications are not independent of one

TABLE 7–1 Types of Plans

Categorized by	Types
Breadth	• Strategic • Operational
Time Frame	• Short-term • Long-term
Specificity	• Specific • Directional

another. For instance, there is a close relationship between the short- and long-term categories and the strategic and operational categories. Table 7–1 lists all these types of plans according to category.

Strategic Versus Operational Plans

strategic plans
Plans that are organizationwide, establish overall objectives, and position an organization in terms of its environment.

operational plans
Plans that specify details on how overall objectives are to be achieved.

Plans that apply to the entire organization, that establish the organization's overall objectives, and that seek to position the organization in terms of its environment are called **strategic plans.** Plans that specify the details of how the overall objectives are to be achieved are called **operational plans.** Strategic and operational plans differ in their time frame, their scope, and whether or not they include a known set of organizational objectives.[4] Operational plans tend to cover shorter periods of time. For instance, an organization's monthly, weekly, and day-to-day plans are almost all operational. Strategic plans tend to include an extended time period—usually five years or more. They also cover a broader area and deal less with specifics. Finally, strategic plans include the formulation of objectives, whereas operational plans assume the existence of objectives. Operational plans offer ways of attaining these objectives.

Short-Term Versus Long-Term plans

short-term plans
Plans that cover less than one year.

long-term plans
Plans that extend beyond five years.

Financial analysts traditionally describe investment returns as *short-*, *intermediate-*, and *long-term.* The short term covers less than one year. Any time frame beyond five years is classified as long-term. The intermediate term covers the period in between. Managers have adopted the same terminology to describe plans. For clarity, we'll emphasize **short-term** plans and **long-term** plans in future discussions.

Specific Versus Directional Plans

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

It seems intuitively correct that specific plans are always preferable to directional, or loosely guided, plans. **Specific plans** have clearly defined objectives. There is no ambiguity, no problem with misunderstandings. For example, a manager who seeks to increase his or her firm's sales by 20 percent over a given twelve-month period might establish specific procedures, budget allocations, and schedules of activities to reach that objective. These represent specific plans.

However, specific plans are not without drawbacks. They require clarity and a sense of predictability that often does not exist. When uncertainty is high, which requires management to maintain flexibility in order to respond to unexpected changes, then it is preferable to use directional plans.[5] (See Figure 7–1.)

directional plans
Flexible plans that set out general guidelines.

Directional plans identify general guidelines. They provide focus but do not lock management into specific objectives or specific courses of action. Instead of a manager following a specific plan to cut costs by 4 percent and increase revenues by 6 percent in the next six months, a directional plan might aim at improving corporate profits by 5 to 10 percent during the next six months. The flexibility inherent in directional plans is obvious. This advantage must be weighed against the loss in clarity provided by specific plans.

Contingency Factors in Planning

In some cases, long-term plans make sense, in others they do not. Similarly, in some situations, directional plans are more effective than specific ones. What are these situations? In this section, we identify several contingency factors that affect planning.[6]

Developer Olympia & York's multi-billion dollar Canary Wharf project in London stands only partially finished. O&Y's management failed in their long-range planning to anticipate the dramatic collapse of the commercial real estate market in the early 1990s.

Level in the Organization

Figure 7–2 illustrates the general relationship between managerial level in an organization and the type of planning that is done. For the most part, operational planning dominates the planning activities of lower-level managers. As managers rise in the hierarchy, their planning role becomes more strategy-oriented. The planning effort by the top executives in large organizations is essentially strategic. In a small business, of course, the owner-manager needs to do both.

Life Cycle of the Organization

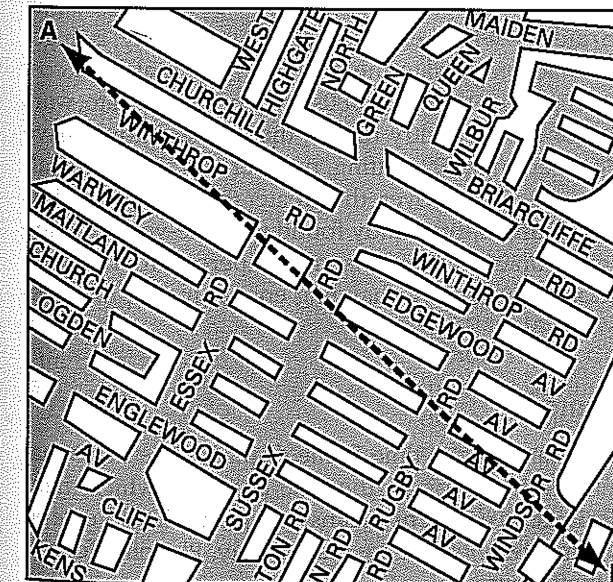
life cycle of the organization
Four stages that organizations go through: formation, growth, maturity, and decline.

Organizations go through a **life cycle.** Beginning with the formative stage, organizations then grow, mature, and eventually decline. Planning is not homogeneous across these stages. As Figure 7–3 on page 193 depicts, the length and specificity of plans should be adjusted at each stage.

If all things were equal, management would undoubtedly benefit most by developing and using specific plans. Not only would this provide the clearest direction, it would also establish the most detailed bench marks against which to compare actual performance. However, all things aren't equal.

When an organization is mature, predictability is greatest. It is at this stage in the life cycle, therefore, when specific plans are most appropriate. Managers should rely more heavily on directional plans in an organization's infancy. It is at precisely this time that high flexibility is desired. Objectives are tentative, resource availability is more uncertain, and the identification of clients or customers is more in doubt. Directional plans, at this stage, allow managers to make changes as necessary. During the growth stage, plans become more specific as objectives become more definite, resources more committed, and loyalty of clients or customers more developed. The pattern reverses itself on the downward swing of the cycle. From maturity to decline, plans need to move from the specific to directional as objectives are reconsidered, resources reallocated, and other adjustments made.

The length of planning should also be related to the life cycle. Short-term plans



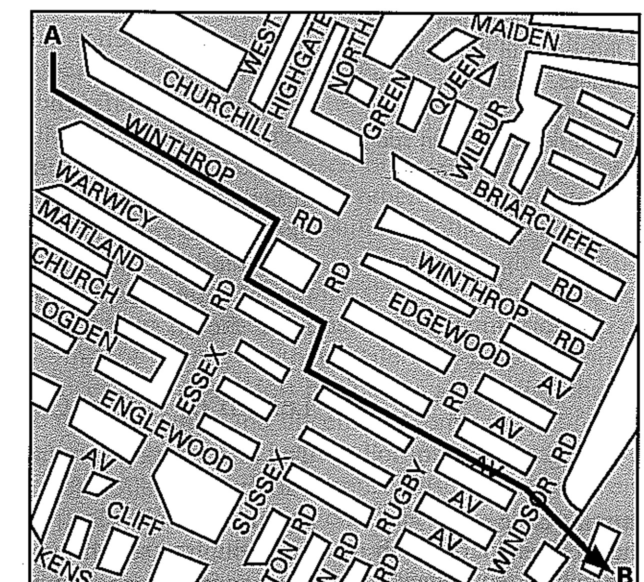
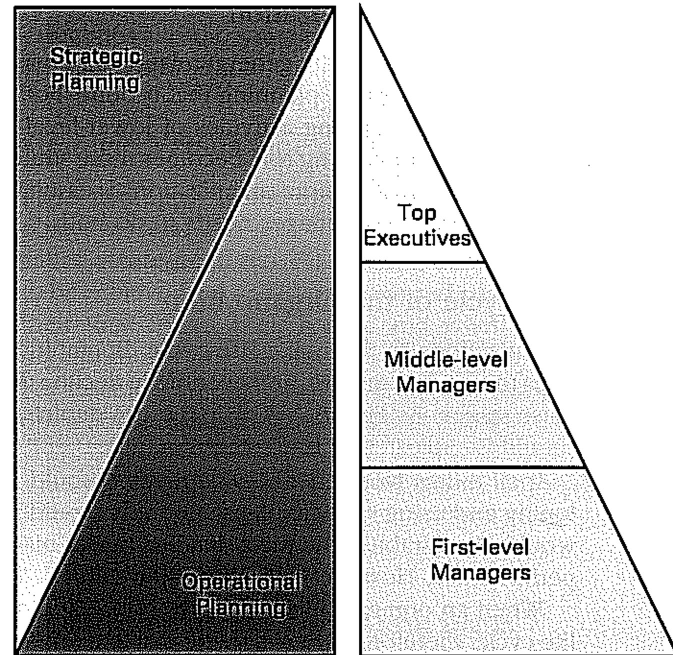


FIGURE 7–1
Specific Versus Directional Plans

FIGURE 7–2
Planning in the Hierarchy of Organizations



offer the greatest flexibility and therefore should be more prevalent during the formative and decline stages. Maturity is the time when stability is greatest and long-term plans can pay the biggest dividends.

Managers of new businesses should rely on directional plans. Why? Because of the high uncertainty at this point in the life cycle of the business, flexibility is most important. And directional plans provide more flexibility than specific plans.

Degree of Environmental Uncertainty

The greater the environmental uncertainty, the more plans should be directional and emphasis placed on the short term.

If rapid or important technological, social, economic, legal, or other changes are taking place, well-defined and precisely charted routes are more likely to hinder an organization's performance than aid it. When environmental uncertainty is high, specific plans have to be altered to accommodate the changes—often at high cost and decreased efficiency. For example, in the late-1980s, when intense rate wars were raging among airlines on major cross-country routes, the airlines should have moved to more directional plans concerning price setting, number and size of aircraft allocated to routes, and operating budgets. Moreover, the greater the change, the less likely plans are to be accurate. For example, one study found that one-year revenue plans tended to achieve 99 percent accuracy in comparison to 84 percent for five-year plans.[7] Therefore, if an organization faces rapidly changing environments, management should seek flexibility.

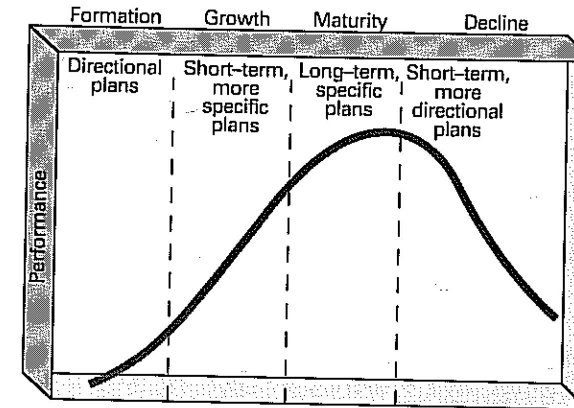
Length of Future Commitments

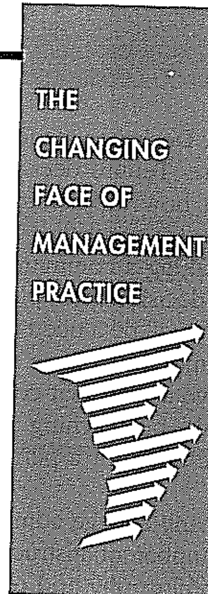
commitment concept
Plans should extend far enough to see through current commitments.

The final contingency factor again relates to the time frame of plans. The more that current plans affect future commitments, the longer the time frame for which management should plan. This **commitment concept** means that plans should extend far enough to see through those commitments that are made today. Planning for too long or for too short a period is inefficient.

Managers are not planning for future decisions. Rather, they are planning for the

FIGURE 7–3
Plans and the Organization's Life Cycle





In a Volatile World, Plans Must Be Flexible

Twenty years ago, the "best managed" corporations had large planning departments.[8] They generated countless five- and ten-year plans, which were updated annually. General Electric, for example, once had a 350-member planning staff that churned out hundreds of meticulously detailed reports. Nowadays, however, planning is increasingly being done by divisional or unit managers as part of their middle management responsibilities, and the plans themselves cover shorter periods of time and are likely to consider a range of options. GE's formal planning group is down to about twenty members and their only role is to advise operating managers. The heads of GE's thirteen businesses now develop five one-page reports each year that identify possible opportunities and obstacles in their industries over the forthcoming two years.

In a volatile world, only the foolish are cocky enough to believe that they can accurately forecast the future. But that doesn't lessen the importance of plans. Thus well-managed organizations are putting less time into highly detailed, quantitative plans and instead are developing multiple scenarios of the future. Southern California Edison, an electric utility serving 3.9 million customers in California, has created twelve possible versions of the future based on an economic boom, a Middle East oil crisis, expanded environmentalism, and other developments. This approach to flexible planning came about after Southern California Edison's management realized that every long-range plan they had painstakingly constructed during the 1970s and 1980s had been rendered virtually useless by unexpected events—from OPEC price-fixing to new restrictions on sulfur emissions to nuclear accidents like Chernobyl. And, of course, Southern California Edison is not unique in facing an increasingly uncertain world. Most businesses are finding that their environment has become more dynamic and uncertain. Moreover, not-for-profit organizations are also experiencing similar changes. For instance, talk with managers in hospitals and colleges. Changing demographics, rising competitiveness, shrinking government support, and skyrocketing costs are examples of forces that are requiring managers in these organizations also to develop more flexible plans.

Weyerhaeuser Co. is planting trees today that won't reach maturity until about the year 2025. The commitment concept indicates that Weyerhaeuser's plans should extend far enough to cover business operations thirty to thirty-five years from now.

future impact of the decisions that they are currently making. Decisions made today become a commitment to some future action or expenditure. Tenure decisions in colleges and universities provide an excellent illustration of how the commitment concept should work.

When a college gives tenure to a faculty member, it is making a commitment to provide life-long employment for that individual. The tenure decision must therefore reflect an assessment by the college's administration that there will be a need for that faculty member's teaching expertise through his or her lifetime. If a college awards tenure to a thirty-year-old sociology instructor, it should have a plan that covers at least the thirty to forty or more years this instructor could be teaching in that institution. Most important, the plan should demonstrate the need for a permanent sociology instructor through that time period.

Interestingly, the commitment concept was ignored by many college administrators in the late 1960s and early 1970s. They tenured a number of instructors in disciplines that were then popular with students, such as philosophy and religion, without considering whether that popularity would continue throughout the period of commitment. As the demand for courses in these areas has declined, many college administrators have found themselves locked in with tenured faculty in low-demand areas. It will be interesting to see whether college administrators have learned from past mistakes.

Objectives: The Foundation of Planning

objectives
Desired outcomes for individuals, groups, or entire organizations.

Objectives are goals. We use the two terms interchangeably. What do these terms mean? They refer to desired outcomes for individuals, groups, or entire organizations.[9] They provide the direction for all management decisions and form the criterion against which actual accomplishments can be measured. It is for these reasons that they are the foundation of planning.

Multiplicity of Objectives

At first glance, it might appear that organizations have a singular objective—for business firms, to make a profit; for nonprofit organizations, to provide a service efficiently. But closer analysis demonstrates that all organizations have multiple

MANAGING FROM A GLOBAL PERSPECTIVE

Planning Under Extreme Uncertainty

In the early 1990s, Serbia was in the midst of a civil war. In Brazil, inflation was running at the rate of more than 1000 percent a year. In Peru, the country's president suspended the constitution and decided to rule by decree. If you were a manager in Serbia, Brazil, or Peru, would war, hyperinflation, changes in governmental control, or similar political or economic instabilities affect your planning practices? You bet they would!

In contrast to many parts of the world, managers in North America operate in an incredibly stable environment. While there may be uncertainty, it is relatively low. Elections are predictable and regular, economic policies are reasonably well managed by the federal government, social unrest is minimal, and when changes come, they tend to be evolutionary rather than revolutionary. This stability allows managers to make forecasts and plans that are far more predictable and concise than those of managers in countries such as Serbia, Brazil, Peru, Iran, Iraq, and Nicaragua.

Our point is not that managers in North America operate in a stable environment, because most don't. Rather the point is that, relative to many parts of the world, managers in North America face a comparatively predictable environment. This, in turn, allows them to develop more comprehensive plans because such plans are likely to be accurate and provide valuable guides for future action. In contrast, in a country like Brazil, which has been struggling with economic instability for years, managers in business firms would tend to minimize long-term planning and maintain flexibility by relying on directional plans.

objectives. Businesses also seek to increase market share and satisfy employee welfare. A church provides a "road to heaven through absolution," but it also assists the underprivileged in its community and acts as a gathering place for church members to congregate socially. No one measure can evaluate effectively whether an organization is performing successfully. Emphasis on one goal, such as profit, ignores other goals that must also be reached if long-term profits are to be achieved. Moreover, as we mentioned in Chapter 5, the use of a single objective almost certainly will result in undesirable practices, because managers will ignore important parts of their jobs in order to look good on the single measure.

Table 7–2 lists the ten most highly rated goals from a study of over eighty of the largest corporations in the United States.[10] The number of goals per company ranged from one to eighteen, the average being five to six. Except for profitability, the goals are applicable to nonprofit as well as business organizations. Notice, too, that although survival is not specifically mentioned by the firms, it is paramount to all organizations. Some of the criteria listed in Table 7–2 contribute directly to profits, but it is obvious that all organizations must survive if other objectives are to be achieved.

Real Versus Stated Objectives

stated objectives
Official statements of what an organization says—and what it wants various publics to believe—are its objectives.

Table 7–2 is a list of stated objectives. **Stated objectives** are official statements of what an organization says—and what it wants various publics to believe—are its objectives. However, stated objectives—which can be found in the organization's charter, annual report, public-relations announcements, or in public statements made by managers—are often conflicting and excessively influenced by what society believes organizations *should* do.

There is no single objective that characterizes an elementary school. Among its many objectives are transmitting basic reading, writing, and mathematics skills; teaching discipline; fostering the value of achievement; and developing good citizenship behaviors.

The conflict in stated goals exists because organizations respond to a vast array of constituencies. Unfortunately, these constituencies frequently evaluate the organization by different criteria. As a result, management is forced to say different things to different audiences. For example, a few years back, TWA was negotiating to get wage concessions from its flight attendants' union.[11] The union, not wanting to give up anything, was threatening to strike. To the union's representatives, TWA's management was saying, "If you strike, we'll dismantle the airline. By selling off aircraft and air routes, the company is worth more dead than alive." At the same time, the management was trying to calm the nerves of travel agents and potential passengers by saying the company was determined to fly and survive, even if its flight attendants struck. To support its intention, management said that it was training 1,500 people to step in if its attendants walked out. TWA's management had explicitly presented itself in one way to the union and in another way to the public. Was one true and the other false? No. Both were true, but they were in conflict.

Did you ever read an organization's objectives as they are stated in its brochures? Allstate says, "Our goal is to be known by consumers as the best insurer in America."[12] Bell Atlantic states that it is "responding to the imperative of global competition with greater personal accountability and the power of teamwork."[13] Southern Illinois University "emphasizes a commitment to quality education."[14] These types of statements are, at best, vague and are more likely representative of management's public relations skills than they are meaningful guides to what the organization is actually seeking to accomplish.

It shouldn't be surprising, then, to find that an organization's stated objectives are often quite irrelevant to what actually goes on in that organization.[15] In a corporation, for instance, one statement of objectives is issued to stockholders, another to customers, and still others to employees and to the public.[16]

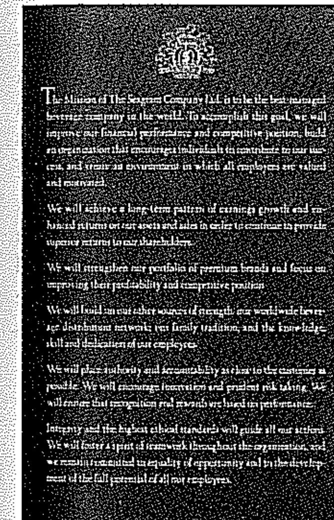
The overall objectives stated by top management should be treated for what they are: "fiction produced by an organization to account for, explain, or rationalize to particular audiences rather than as valid and reliable indications of purpose."[17] The content of objectives is substantially determined by what those audiences want to hear. Moreover, it is simpler for management to state a set of consistent, understandable objectives than to explain a multiplicity of objectives. If you want to know what an organization's **real objectives** are, closely observe what members of the organization actually do. Actions define priorities. The university that proclaims the objectives of limiting class size, facilitating close student–faculty relations, and actively involving students in the learning process, and then puts its students into lecture halls of 300 or

real objectives
Objectives that an organization actually pursues, as defined by the actions of its members.

TABLE 7–2 Stated Objectives from a Survey of Large Corporations

Objective	Percent Acknowledging the Objective
Profitability Absolute dollars of profit or percentage return on invested capital	89
Growth Increase in total revenues, number of employees, and the like	82
Market Share An organization's percentage share of total industry sales	66
Social Responsibility Recognition of the organization's responsibility to the greater society in which it functions to help solve pollution, discrimination, urban, and similar problems	65
Employee Welfare Concern for the satisfaction of employees and the quality of their working life	62
Product Quality and Service Excellence of the product or service that the organization produces	60
Research and Development Success in generating new and innovative products and processes	54
Diversification Ability to identify and move into new markets	51
Efficiency Ability to convert inputs into outputs at the lowest cost	50
Financial Stability Performance on financial criteria void of erratic movements	49

Source: Adapted from Y. K. Shetty, "New Look at Corporate Goals," *California Management Review*, Vol. XVI, No. 2, p. 73. Reprinted by permission of the Regents. © 1978 by the Regents of the University of California.



The Seagram Co. Ltd., is a $6 billion a year company that produces and markets distilled spirits, wines, fruit juices, coolers, and mixers. The above is a statement of the company's mission and goals.

more, is not unusual. Nor is the automobile service center that promotes fast, low-cost repairs and then gives mediocre service at high prices. An awareness that real and stated objectives can deviate is important, if for no other reason than because it can help you to explain what might otherwise seem to be management inconsistencies.

Traditional Objective Setting

The traditional role of objectives is one of control imposed by an organization's top management. The president of a manufacturing firm *tells* the production vice president what he or she expects manufacturing costs to be for the coming year. The president *tells* the marketing vice president what level he or she expects sales to reach for the coming year. The city mayor *tells* his or her chief of police how much the departmental budget will be. Then, at some later point, performance is evaluated to determine whether the assigned objectives have been achieved.

The central theme in **traditional objective setting** is that objectives are set at the

traditional objective setting
Objectives are set at the top and then broken down into subgoals for each level in an organization. The top imposes its standards on everyone below.

top and then broken down into subgoals for each level of an organization. It is a one-way process: The top imposes its standards on everyone below. This traditional perspective assumes that top management knows what's best because only it can see the "big picture."

In addition to being imposed from above, traditional objective setting is often largely nonoperational.[18] If top management defines the organization's objectives in broad terms such as achieving "sufficient profits" or "market leadership," these ambiguities have to be turned into specifics as the objectives filter down through the organization. At each level, managers supply operational meaning to the goals. Specificity is achieved by each manager applying his or her own set of interpretations and biases. The result is that objectives lose clarity and unity as they make their way down from the top. (See Figure 7–4.)

Management By Objectives

L. Perrigo is a Michigan manufacturer of over-the-counter drugs and beauty aids.[19] When William Swaney took over as president, he found that the company relied on traditional objective setting. Managers had vague objectives, including "maintaining client communications" and "reviewing performance periodically." He wanted an objective-setting program that would specify exactly what his managers and employees were expected to accomplish and that would motivate rather than intimidate. What he installed was a system of participatory objective-setting. Each employee identified no more than ten critical changes that would make a difference in his or her job performance. Then each set specific, quantitative objectives for which he or she would be personally responsible. Examples included "submit budgets within two weeks of contract ratification" and "deliver the project within 3 percent of the budgeted cost."

management by objectives (MBO)
A system in which specific performance objectives are jointly determined by subordinates and their superiors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of this progress.

William Swaney is using **management by objectives (MBO)**. It is a system in which specific performance objectives are jointly determined by subordinates and their superiors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of this progress. Rather than using goals to control, MBO uses them to motivate.

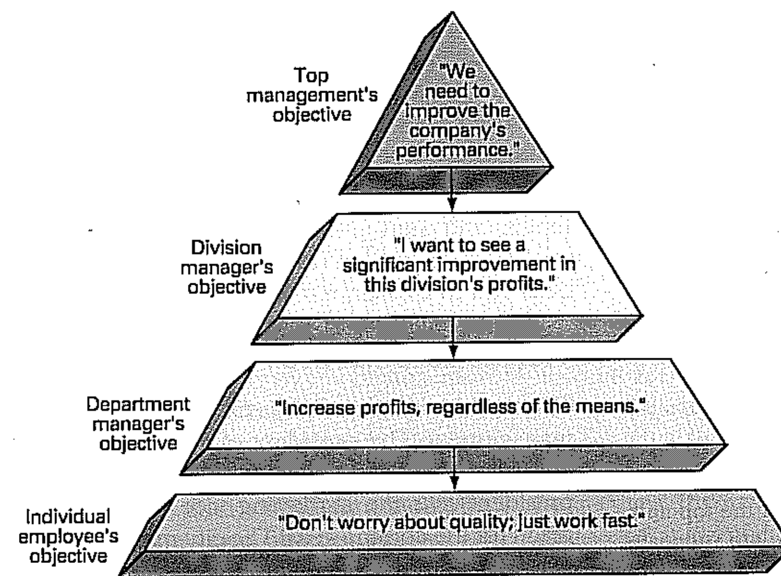


FIGURE 7–4
Traditional Objective Setting

L. Perrigo, a manufacturer of over-the-counter drugs and beauty aids, uses management by objectives (MBO).

What Is MBO? Management by objectives is not new. The concept goes back forty years.[20] Its appeal lies in its emphasis on converting overall objectives into specific objectives for organizational units and individual members.

MBO makes objectives operational by devising a process by which they cascade down through the organization. As depicted in Figure 7–5, the organization's overall objectives are translated into specific objectives for each succeeding level—divisional, departmental, individual—in the organization. Because lower unit managers jointly participate in setting their own goals, MBO works from the "bottom up" as well as from the "top down." The result is a hierarchy that links objectives at one level to those at the next level, For the individual employee, MBO provides specific personal performance objectives. Each person therefore has an identified specific contribution to make to his or her unit's performance. If all the individuals achieve their goals, then their unit's goals will be attained, and the organization's overall objectives will become a reality.

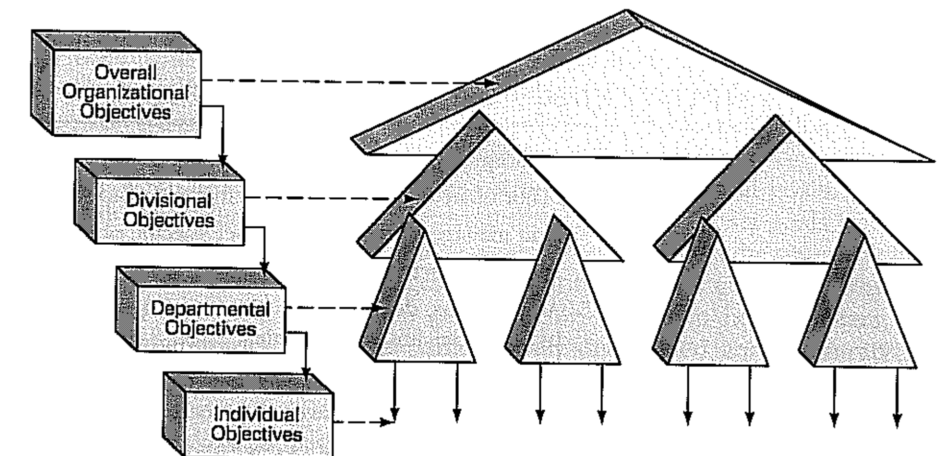


FIGURE 7–5
Cascading of Objectives

MBO's Common Elements There are four ingredients common to MBO programs. These are goal specificity, participative decision making, an explicit time period, and performance feedback.

The objectives in MBO should be concise statements of expected accomplishments. It's not adequate, for example, merely to state a desire to cut costs, improve service, or increase quality. Such desires have to be converted into tangible objectives that can be measured and evaluated. To cut departmental costs *by 7 percent*, to improve service by ensuring that all telephone orders are processed *within twenty-four hours of receipt*, or to increase quality by keeping returns to *less than 1 percent of sales* are examples of specific objectives.

In MBO the objectives are not unilaterally set by the boss and assigned to subordinates, as is characteristic of traditional objective setting. MBO replaces these imposed goals with participatively determined goals. The superior and subordinate jointly choose the goals and agree on how they will be achieved.

Each objective has a concise time period in which it is to be completed. Typically, the time period is three months, six months, or a year.

The final ingredient in an MBO program is feedback on performance. MBO seeks to give continuous feedback on progress toward goals. Ideally, this is accomplished by giving ongoing feedback to individuals so they can monitor and correct their own actions. This is supplemented by periodic formal appraisal meetings in which superiors and subordinates can review progress toward goals and further feedback can be provided.

Table 7–3 summarizes the typical steps in an MBO program.

Does MBO Work? Assessing the effectiveness of MBO is a complex task. Let's begin by briefly reviewing a growing body of literature on the relationship between goals and performance.[21]

If factors such as a person's ability and acceptance of goals are held constant, evidence demonstrates that more *difficult* goals lead to higher performance. Although individuals with very difficult goals achieve them far less often than those with very easy goals, they nevertheless perform at a consistently higher level. Of course, goals can be too hard. If individuals perceive a goal to be impossible instead of challenging, their desire to achieve it decreases, and the likelihood that they will abandon it increases.

Moreover, studies consistently support the finding that *specific* hard goals produce a higher level of output than do no goals or generalized goals such as "do your best." *Feedback* also favorably affects performance. Feedback lets a person know whether his or her level of effort is sufficient or needs to be increased. It can induce a person to raise his or her goal level after attaining a previous goal and can inform a person of ways in which to improve his or her performance.

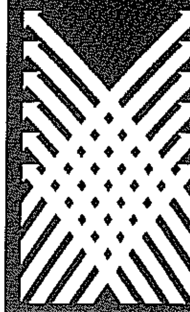
The results cited above are all consistent with MBO's stress on specific goals and feedback. MBO implies, rather than explicitly states, that goals must be perceived as feasible. Research on goal setting indicates that MBO is most effective if the goals are difficult enough to require the person to do some stretching.

But what about participation? MBO strongly advocates that goals be set participatively. Does the research demonstrate that participatively set goals lead to higher performance than those assigned by a superior? Interestingly, the research comparing participatively set and assigned goals on performance has not shown any strong or consistent relationships.[22] When goal difficulty has been held constant, assigned goals frequently do as well as participatively determined goals, contrary to MBO ideology. Therefore it is not possible to argue for the superiority of participation as MBO proponents advocate. One major benefit from participation, however, is that it appears to induce individuals to establish more difficult goals.[23] Thus participation may have a positive impact on performance by increasing one's goal aspiration level.

TABLE 7–3 Steps in a Typical MBO Program

1. The organization's overall objectives and strategies are formulated.
2. Major objectives are allocated among divisional and departmental units.
3. Unit managers collaboratively set specific objectives for their units with their superiors.
4. Specific objectives are collaboratively set for all department members.
5. Action plans, defining how objectives are to be achieved, are specified and agreed upon by managers and subordinates.
6. The action plans are implemented.
7. Progress toward objectives is periodically reviewed, and feedback is provided.
8. Successful achievement of objectives is reinforced by performance-based rewards.

ETHICAL DILEMMAS IN MANAGEMENT



Does MBO Require Manipulation?

A colleague once facetiously suggested that MBO stood for *manipulating by objectives*. He made his argument as follows:

1. Managers frequently have a specific set of goals in mind for an employee before the manager and employee ever sit down to begin the MBO process. These preconceived standards define the minimum goals that the manager is willing to accept.
2. Authentic employee participation therefore does not always take place. What takes place should more appropriately be called "pseudo-participation." That is, there is only the appearance of participation.
3. Nothing in the MBO process clarifies how to arrive at goals if the manager and subordinate are unable to reach agreement.
4. When conflicts exist, managers tend to use the power of their position to impose their goals on the subordinate.
5. This scenario suggests that MBO can be a device that allows managers to appear to be setting goals participatively when, in fact, the goals are really being assigned.

Proponents of MBO would counter that, although the preceding scenario undoubtedly happens, it is not really management by objectives. Moreover, managers must understand that anything less than complete participation by subordinates will undermine any MBO program's credibility and effectiveness. When differences occur, mature individuals can resolve them in a way that meets the needs of both the employee and the organization.

Is it unethical for a manager to enter a participative goal-setting session with a preestablished set of goals that the manager wants the employee to accept? Is it unethical for a manager to use his or her formal position to impose specific goals on an employee? What do *you* think?

Studies of actual MBO programs confirm that MBO effectively increases employee performance and organizational productivity. A review of seventy programs, for example, found organizational productivity gains in sixty-eight out of seventy of them.[24] This same review also identified top management commitment and involvement as important conditions for MBO to reach its potential. When top management had a high commitment to MBO and was personally involved in its implementation, the average gain in productivity was found to be 56 percent. When commitment and involvement were low, the average gain in productivity dropped to only 6 percent.

Summary

This summary is organized by the chapter-opening learning objectives found on page 185.

1. Planning is the process of determining objectives and assessing the way these objectives can best be achieved.
2. Planning gives direction, reduces the impact of change, minimizes waste and redundancy, and sets the standards to facilitate controlling.
3. Strategic plans cover an extensive time period (usually five or more years), cover broad issues, and include the formulation of objectives. Operational plans cover shorter periods of time, focus on specifics, and assume that objectives are already known.
4. Directional plans are preferred over specific plans when uncertainty is high and when the organization is in the formative and decline stages of its life cycle.
5. Four contingency factors in planning include a manager's level in the organization, the life stage of the organization, the degree of environmental uncertainty, and the length of future commitments.
6. A manager should plan just far enough ahead to see through those commitments he or she makes today.
7. An organization's stated objectives might not be its real objectives because management might want to tell people what they want to hear and because it is simpler to state a set of consistent, understandable objectives than to explain a multiplicity of objectives.
8. A typical MBO program includes eight steps: (1) The organization's overall objectives and strategies are formulated; (2) major objectives are allocated among divisions and departmental units; (3) unit managers collaboratively set specific objectives for their units with their superiors; (4) specific objectives are collaboratively set for all department members; (5) action plans are specified and agreed upon by managers and subordinates; (6) the action plans are implemented; (7) progress toward objectives is periodically reviewed, and feedback is provided; and (8) successful achievement of objectives is reinforced by performance-based rewards.
9. MBO establishes goals as motivators by letting people know exactly what is expected of them, getting them to participate in setting their goals, giving them continuous feedback on how well they're progressing toward their goals, and making their rewards contingent upon achieving their goals. Such factors increase motivation.

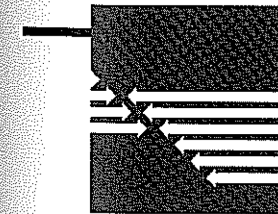
Review Questions

1. Contrast *formal* with *informal* planning.
2. How does planning affect an organization in terms of performance? In terms of eliminating change? Are these effects altered if the planning proves to be inaccurate?

3. Describe the six different types of plans discussed in this chapter.
4. How does the planning done by a top executive differ from that performed by a supervisor?
5. How does environmental uncertainty affect planning?
6. Do business organizations have only one real goal—to make a profit? How does this affect their stated goals?
7. How would you identify an organization's stated objectives? Its real objectives?
8. Contrast traditional objective setting and MBO.
9. What factors influence MBO's effectiveness?

Discussion Questions

1. What relationship do you see between planning and traditional objective setting? Between planning and controlling?
2. What effect do you think decision making (discussed in Chapter 6) has on planning? Discuss.
3. What relationships and overlaps do you see between the six types of plans? How do you think these types of plans can best be integrated?
4. What basic factors in MBO make it a logical technique for setting objectives? Would you expect it to work better in large or small organizations? Why?
5. Management guru W. Edwards Deming argues that management should eliminate numerical goals. He believes that programs like MBO are inconsistent with TQM's concern for continual improvement. According to Deming, MBO-type goals act as ceilings, rather than targets, and therefore limit productivity. Do you think specific, numerical goals can undermine the search for continual improvement? Discuss.



SELF-ASSESSMENT EXERCISE

Are You a Good Planner?

Instructions: Answer either Yes or No to each of the following eight questions:

	Yes	No
1. My personal objectives are clearly spelled out in writing.	______	______
2. Most of my days are hectic and disorderly.	______	______
3. I seldom make any snap decisions and usually study a problem carefully before acting.	______	______
4. I keep a desk calendar or appointment book as an aid.	______	______
5. I make use of "action" and "deferred action" files.	______	______
6. I generally establish starting dates and deadlines for all my projects.	______	______