Chapter Seven

Basic Elements of Planning and Decision Making

Learning Objectives

After studying this chapter, you should be able to:

1. Summarize the function of decision making and the planning process.

2. Discuss the purpose of organizational goals, identify different kinds of goals, discuss who sets goals, and describe how to manage multiple goals.

3. Identify different kinds of organizational plans, note the time frames for planning, discuss who plans, and describe contingency planning.

4. Discuss how tactical plans are developed and executed.

5. Describe the basic types of operational plans used by organizations.

6. Identify the major barriers to goal setting and planning, how organizations overcome those barriers, and how to use goals to implement plans.

Decision Making and the Planning Process

- Decision making
  - Is the cornerstone of planning.
  - Is the catalyst that drives the planning process.
  - Underlies every aspect of setting goals and formulating plans.

- Planning
  - All organizations plan, but not in the same fashion.
  - All planning occurs within an environmental context.
  - All goals require plans to guide in their achievement.
  - All goals are tied higher goals and plans

Figure 7.1: The Planning Process

Figure 7.1

THE PLANNING PROCESS

The planning process takes place within an environmental context. Managers must develop a complete and thorough understanding of this context to determine the organization's mission and to develop its strategic, tactical, and operational goals and plans.

The Environmental Context

The organization's mission
- Purpose
- Premises
- Values
- Directions

Strategic goals → Strategic plans

Tactical goals → Tactical plans

Operational goals → Operational plans

Organizational Goals

- Purposes of Goals

  - Provide guidance and a unified direction for people in the organization.

  - Strongly affect on the quality of other aspects of planning.

  - Serve as a source of motivation for employees.

  - Provide a mechanism for evaluation and control of the organization.

Kinds of Goals

- **By Level**
  - Mission statement
  - Strategic goals
  - Tactical goals
  - Operational goals

- **By Area**
  - Different functional areas of the organization.

- **By Time Frame**
  - Long-term, intermediate-term, or short-term time frames and explicit time frames or open-ended.

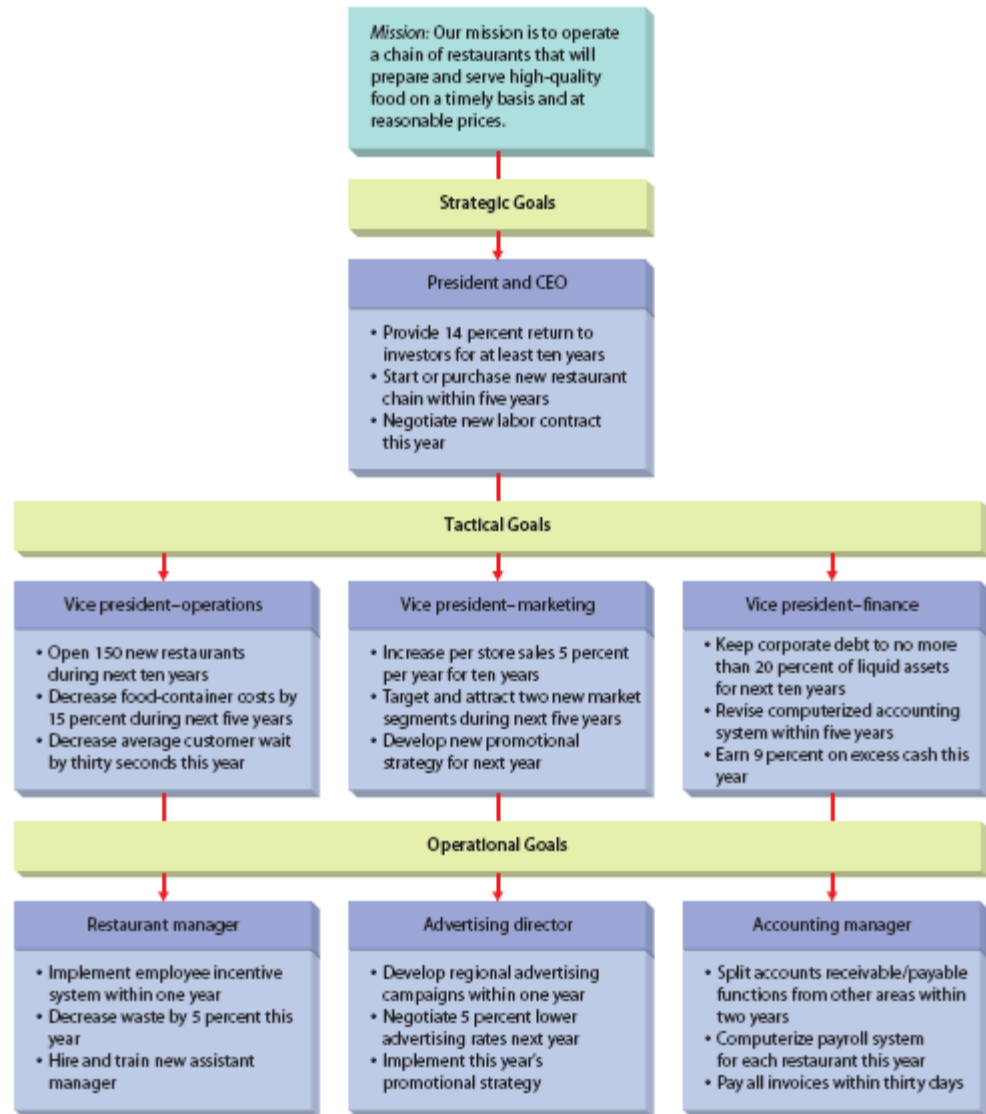# Figure 7.2: Kinds of Organizational Goals for a Regional Fast-Food Chain

Mission: Our mission is to operate a chain of restaurants that will prepare and serve high-quality food on a timely basis and at reasonable prices.

Strategic Goals

President and CEO
- Provide 14 percent return to investors for at least ten years
- Start or purchase new restaurant chain within five years
- Negotiate new labor contract this year

Tactical Goals

Vice president–operations
- Open 150 new restaurants during next ten years
- Decrease food-container costs by 15 percent during next five years
- Decrease average customer wait by thirty seconds this year

Vice president–marketing
- Increase per store sales 5 percent per year for ten years
- Target and attract two new market segments during next five years
- Develop new promotional strategy for next year

Vice president–finance
- Keep corporate debt to no more than 20 percent of liquid assets for next ten years
- Revise computerized accounting system within five years
- Earn 9 percent on excess cash this year

Operational Goals

Restaurant manager
- Implement employee incentive system within one year
- Decrease waste by 5 percent this year
- Hire and train new assistant manager

Advertising director
- Develop regional advertising campaigns within one year
- Negotiate 5 percent lower advertising rates next year
- Implement this year's promotional strategy

Accounting manager
- Split accounts receivable/payable functions from other areas within two years
- Computerize payroll system for each restaurant this year
- Pay all invoices within thirty days

Figure 7.2
KINDS OF ORGANIZATIONAL GOALS FOR A REGIONAL FAST-FOOD CHAIN

Organizations develop many different types of goals. A regional fast-food chain, for example, might develop goals at several different levels and for several different areas.

Responsibilities of Setting Goals

- ## Who Sets Goals?
  - All managers: managerial responsibility for goal setting should correspond to the manager's level in the organization.

- ## Managing Multiple Goals
  - **Optimizing** allows managers to balance and reconcile inconsistent or conflicting goals.
    - Managers can choose to pursue one goal and exclude all others or to seek a mid-range goal.

Kinds of Organizational Plans

- Strategic Plans
  - A general plan set by and for top management that outlines resource allocation, priorities, and action steps to achieve strategic goals.

- Tactical Plans
  - A plan aimed at achieving the tactical goals set by and for middle management.

- Operational Plans
  - Short-term focus plans that are set by and for lower-level managers.

Time Frames for Planning

- The Time Dimension of Planning
  - Planning must provide sufficient time to fulfill the managerial commitments involved.

- Long-range Plans
  - Cover present and future strategic issues extending beyond five years in the future.

- Intermediate Plans
  - Cover from 1 to 5 years and parallel tactical plans.
  - Are the principal focus of organizational planning efforts.

- Short-range Plans
  - Are action plans and reaction (contingency) plans that have a time frame of one year or less.

Responsibilities for Planning

- Planning Staff
  - Gather information, coordinate planning activities, and take a broader view than individual managers.

- Planning Task Force
  - Created when the organization wants a special circumstance addressed.

- Board of Directors
  - Establishes corporate mission and strategy.
  - May engage in strategic planning.

- Chief Executive Officer
  - May serve as president or board chair; has a major role in planning and implementing the strategy.

Responsibilities for Planning (cont'd)

- Executive Committee
  - Composed of top executives.
  - Meets regularly with the CEO to review strategic plans.
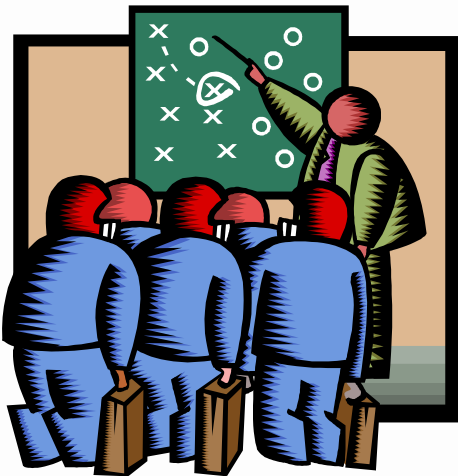
- Line Management
  - Have formal authority and responsibility for management of the organization.
  - Help to formulate strategy by providing information.
  - Responsible for executing the plans of top management.

Contingency Planning and Crisis Management

- Contingency Planning
  - The determination of alternative courses of action to be taken if an intended plan is unexpectedly disrupted or rendered inappropriate.
  - These plans help managers to cope with uncertainty and change.

- Crisis Management
  - The set of procedures the organization uses in the event of a disaster or other unexpected calamity.
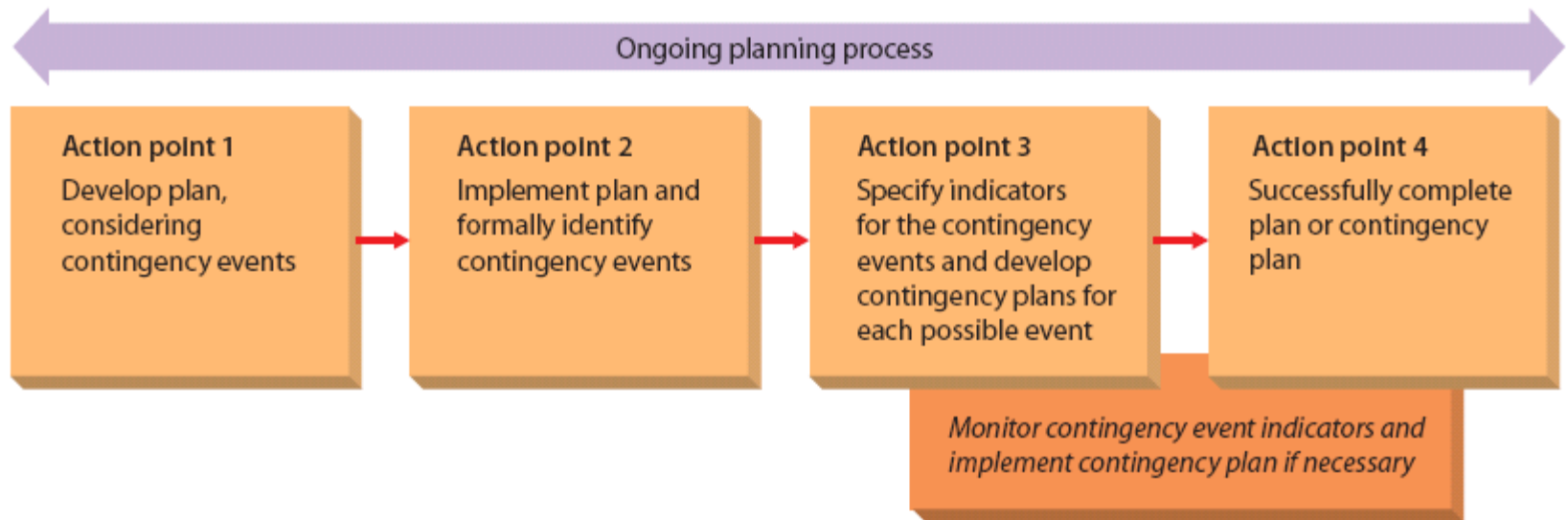
Figure 7.3: Contingency Planning

Figure 7.3
CONTINGENCY PLANNING

Most organizations develop contingency plans. These plans specify alternative courses of action to be taken if an intended plan is unexpectedly disrupted or rendered inappropriate.

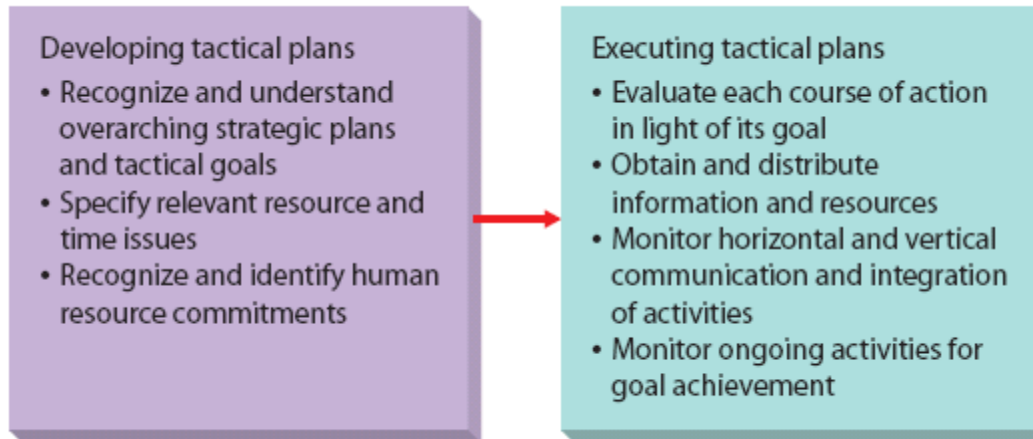# Figure 7.4: Developing and Executing Tactical Plans

Developing tactical plans
- Recognize and understand overarching strategic plans and tactical goals
- Specify relevant resource and time issues
- Recognize and identify human resource commitments

Executing tactical plans
- Evaluate each course of action in light of its goal
- Obtain and distribute information and resources
- Monitor horizontal and vertical communication and integration of activities
- Monitor ongoing activities for goal achievement

Figure 7.4
DEVELOPING AND EXECUTING TACTICAL PLANS

Tactical plans are used to accomplish specific parts of a strategic plan. Each strategic plan is generally implemented through several tactical plans. Effective tactical planning involves both development and execution.

Table 7.1: Types of Operational Plans

Organizations develop various operational plans to help achieve operational goals. In general, there are two types of single-use plans and three types of standing plans.

PLAN	Description
Single-use plan	Developed to carry out a course of action not likely to be repeated in the future
Program	Single-use plan for a large set of activities
Project	Single-use plan of less scope and complexity than a program
Standing plan	Developed for activities that recur regularly over a period of time
Policy	Standing plan specifying the organization's general response to a designated problem or situation
Standard operating procedure	Standing plan outlining steps to be followed in particular circumstances
Rules and regulations	Standing plans describing exactly how specific activities are to be carried out

Table 7.1
TYPES OF OPERATIONAL PLANS

Managing Goal-Setting and Planning Processes

- Barriers to Goal Setting and Planning
  - As part of managing the goal-setting and planning process, managers must understand the barriers that can disrupt them.
  - Managers must also know how to overcome them.

Table 7.2: Barriers to Goal Setting and Planning

Table 7.2

BARRIERS TO GOAL SETTING AND PLANNING

As part of managing the goal-setting and planning processes, managers must understand the barriers that can disrupt them. Managers must also know how to overcome the barriers.

Major barriers	Inappropriate goals
	Improper reward system
	Dynamic and complex environment
	Reluctance to establish goals
	Resistance to change
	Constraints
Overcoming the barriers	Understanding the purposes of goals and planning
	Communication and participation
	Consistency, revision, and updating
	Effective reward system

Figure 7.5: The Formal Goal-setting Process

Figure 7.5

THE FORMAL GOAL-SETTING PROCESS

Formal goal setting is an effective technique for integrating goal setting and planning. This figure portrays the general steps that most organizations use when they adopt formal goal setting. Of course, most organizations adapt this general process to fit their own unique needs and circumstances.

Using Goals to Implement Plans: The Effectiveness of Formal Goal Setting

- Strengths (Success)
  - Improved employee motivation
  - Enhances communication
  - Fosters more objective performance appraisals
  - Focuses attention on appropriate goals and plans
  - Helps identify managerial talent
  - Provides a systematic management philosophy
  - Facilitates control of the organization

- Weaknesses (Failure)
  - Poor implementation of the goal setting process
  - Lack of top-management support for goal setting
  - Delegation of the goal-setting process to lower levels
  - Overemphasis on quantitative goals
  - Too much paperwork and record keeping
  - Managerial resistance to goal setting

Key Terms

- mission
- strategic goal
- tactical goal
- operational goal
- optimizing
- strategic plan
- tactical plan
- operational plan
- reaction plan
- long-range plan
- intermediate plan

- short-range plan
- crisis management
- single-use plan
- program
- project
- standing plan
- policy
- rules and regulations
- management by objectives (MBO)