Modern Management

Concepts and Skills

FIFTEENTH EDITION

Samuel C. Certo • S. Trevis Certo

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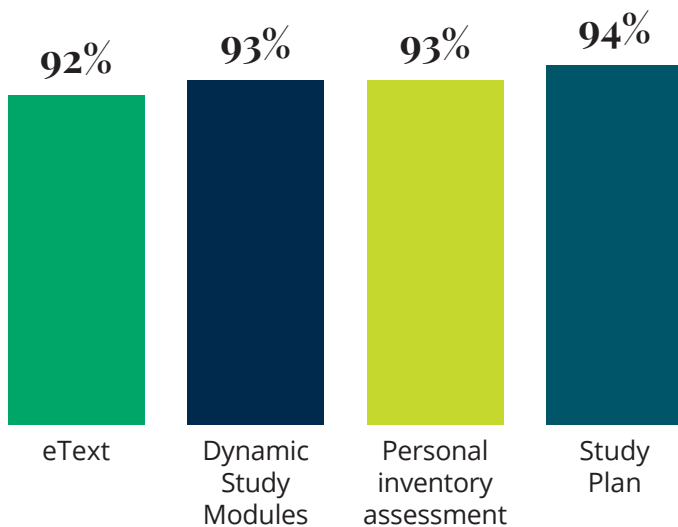
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Plans and Planning Tools

7

PLANNING SKILL AND YOUR CAREER

Planning skill will be of great value to you in enhancing your career. This skill can help you set and achieve objectives. The ability to determine and achieve objectives contributes to organizational success, builds your image as a competent manager, makes you valuable to your organization, and supports promotions as you build your career.

OBJECTIVES

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

7-1 An understanding of the general characteristics of planning

7-2 Knowledge regarding different types of plans

7-3 Insights about the major steps of the planning process

7-4 An understanding of the relationship between planning and organizational objectives

7-5 An appreciation for the potential of a management by objectives (MBO) program

7-6 Knowledge about different types of planning tools

MyLab Management Chapter Warm Up

If your instructor has assigned this activity, go to www.pearson.com/mylab/management to complete the chapter warm up.

Wal-Mart Plans to Have What You Want

Wal-Mart's executives admit that one of the company's biggest problems is running out of popular items. Customers who don't find what they want at Wal-Mart will buy somewhere else. But the problem is not as easily solvable as it might seem. Suppose Wal-Mart orders double what it expects to sell. Stores might never run out of products, but Wal-Mart would have to pay for buying and storing the extra goods. The company eventually would no longer be able to compete based on low price. Therefore, Wal-Mart's managers have become experts in planning exactly what stores will need.

Consider how Wal-Mart prepared after a recent Black Friday, the Friday after Thanksgiving, which launches the year's biggest selling season. At Wal-Mart, planning starts a year in advance. On the Monday after Black Friday, a team of employees under Steve Bratspies, executive vice president of general merchandise, reviewed what worked that Friday and how the company could do better the following year. The team identified its major problem (out-of-stock items) and its major success: one-hour price guarantees for featured items, meaning that shoppers who come to the store for a featured item will receive it at the featured price even if the store runs out of the item and provides it later.

The team determined that next year on Black Friday, Wal-Mart would carry more inventory of items expected to be hot sellers and would expand its one-hour guarantees to cover 21 items, up from 3 in the current year. Also, the planners expected stiffer competition because of the shorter holiday season (Thanksgiving would fall relatively late in the month). They decided to match competitors' Black Friday deals the entire week preceding Black Friday and to open stores the evening of Thanksgiving Day.

Although Black Friday is a big event, satisfying customers is a year-round challenge that requires plans for day-to-day activities. In particular, Wal-Mart managers plan how to minimize the costs of moving products from suppliers to warehouses, to stores, and to online shoppers. A major cost is transportation. Logistics managers have developed a sophisticated network for transportation and storage aimed at more than 95 percent of products being available when desired. Managers are beginning to apply this expertise to the stores by improving plans for staffing stores and creating better procedures for keeping shelves stocked.

Technology helps Wal-Mart meet these planning challenges. Wal-Mart uses a computer system called store-level

Wal-Mart shoppers on Black Friday benefit from the store team's plan to carry more inventory of items they expect to be hot sellers.

distribution resource planning (DRP) in which planners forecast the level of demand they expect at each store, and the system calculates the product amounts needed in each warehouse and from each supplier to meet demand in the months ahead. The DRP system also collects sales data from the stores and, if actual sales differ from the forecasted sales, it adjusts the amounts to be ordered.

Skilled planners and sophisticated planning tools are essential for Wal-Mart. The budget-conscious consumers who shop there are increasingly stressed in today's economy, so Wal-Mart and its competitors are fighting for every dollar they can earn or save.[1]

THE PLANNING CHALLENGE

The Challenge Case focuses on decisions at Wal-Mart. The case ends with the implication that sound planning is necessary to compete in an industry where businesses cannot afford to waste money. Topics in this chapter will help managers like those at Wal-Mart understand why planning is so important not only for ensuring future profitability but also for carrying out day-to-day organizational activities. The fundamentals of planning are described in this chapter, which (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:

7-1   An understanding of the general characteristics of planning

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."[2]

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; they face the same challenge in nonprofit organizations such as libraries as well as in for-profit organizations such as General Motors.[3]

Purposes of Planning

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 types of 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]

Whole Foods Market, a leading provider of natural and organic foods, relies on the affirmative purpose in its planning. The company uses planning to ensure its success, as measured by the systematic opening of new stores. Currently, Whole Foods has approximately 500 stores in the United States, Canada, and the United Kingdom. Whole Foods's CEO, John Mackey, believes that increased company success is not an accident but a direct result of careful planning.[5]

Another purpose of planning is to establish a coordinated effort within the organization. Where planning is absent, coordination and organizational efficiency are also often absent. Still another purpose of planning is to ensure integration among an organization's various business units; otherwise, the managers of these units might seek to maximize their own objectives.[6]

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."[7] 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 to be future-oriented. They are forced to look beyond their everyday problems to forecast what situations may confront them in the future.[8] 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 thus 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.[9]

Overall, planning is advantageous to an organization, particularly in the creation of new ventures.[10] According to an often-cited survey, as many as 65 percent of all newly started
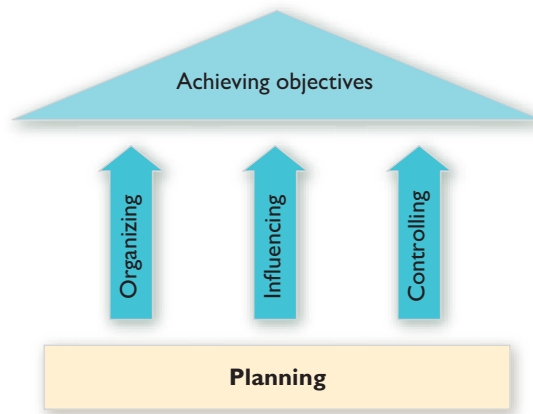
businesses are not around to celebrate a fifth anniversary. This high failure rate seems primarily a consequence of inadequate planning. Successful businesses have an established plan, a formal statement that specifies the objectives the organization is attempting to achieve. Planning does not eliminate risk, of course, but it does help managers identify and deal with organizational problems before they cause havoc in the business.[11]

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.[12]

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, 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.

Types of Plans

7-2 Knowledge regarding different types of plans

With the repetitiveness dimension as a guide, organizational plans are usually divided into two types: standing and single-use. A **standing plan** is used over and over again because it focuses on organizational situations that occur repeatedly. A **single-use plan** is used only once—or, at most, a few times—because it focuses on unique or rare situations within the organization. As **Figure 7.2** illustrates, standing plans can be subdivided into policies, procedures, and rules, and single-use plans can be subdivided into programs and budgets.

Standing Plans: Policies, Procedures, and Rules

A **policy** is a standing plan that furnishes broad guidelines for taking action that is consistent with reaching organizational objectives. For example, an organizational policy relating to personnel might be worded as follows: "Our organization will strive to recruit only the most talented employees." This policy statement is broad, giving managers only a general idea of what to do in the area of recruitment. However, the policy is intended to emphasize the extreme importance management attaches to hiring competent employees and to guide managers' actions accordingly.
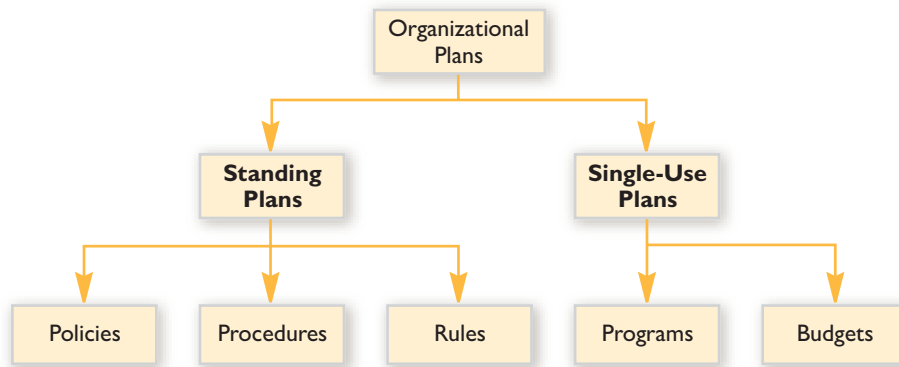
Figure 7.2
Standing plans and single-use plans

As another example of an organizational policy, consider companies' responses to studies showing that one out of every four workers in the United States is attacked, threatened, or harassed on the job during a 12-month operating period. To deal with this problem, many managers are developing weapons policies. A sample policy could be: "Management strongly discourages any employee from bringing a weapon to work." This policy would encourage managers to deal forcefully and punitively with employees who bring weapons into the workplace.[13]

As mentioned in a previous chapter, many organizations today adopt sustainability policies. For example, consider H&M, a discount retailer of men's, women's, and children's fashion apparel. H&M's sustainability policy is closely linked to its business objective, which is to offer fashion and quality at the best price. That means H&M aims to sell only merchandise that has been produced using methods that are environmentally and socially sustainable. In addition, H&M commits to "clean and efficient" transportation as well as environmentally friendly production protocols throughout its global supply chain.[14]

A **procedure** is a standing plan that outlines a series of related actions that must be taken to accomplish a particular task. In general, procedures outline more specific actions than policies do. Organizations usually have many different sets of procedures covering the various tasks to be accomplished. Managers must therefore apply the appropriate organizational procedures carefully and properly for the situations they face.[15]

As an example, Apple changed its manufacturing procedures to integrate green principles into its operations. To eliminate lead in its computer displays, Apple eliminated cathode-ray

STEPS FOR SUCCESS

Tips for Setting a Budget

Whether you're a multibillion-dollar international business or a college student, setting a budget is important. By using the following tips, both as a consumer and a manager, you will understand how to establish a budget:

- Be aware of how much money you make. Know the amount of income you can truly count on, not what you *hope* to make.
- Have a solid grasp on expenses. Keep track of all of the money "going out."
- Be realistic. If you're certain that you'll get an income increase this year, assume it's probably 2 to 3 percent and not 50.

- Determine a savings amount. Set aside a certain percentage or dollar figure to go into savings.
- Pay off debt. Make certain your budget includes figures to pay off any outstanding loans.
- Evaluate your budget. Check the budget each month to ensure that you stay on track.
- Rework your budget, if necessary. Unexpected expenses do occur, so if one month is particularly devastating for expenses, adjust accordingly for the following months.
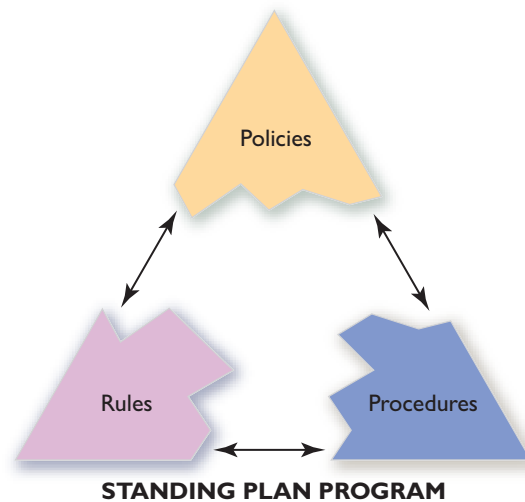
tubes from its designs. Through innovation, the company also managed to eliminate two other deadly chemicals, arsenic and mercury, from its products.[16]

A **rule** is a standing plan that designates specific required actions. In essence, a rule indicates what an organization member should or should not do and allows no room for deviation. An example of a rule that many companies are now establishing is no smoking. The concept of rules may become clearer if one thinks about the purpose and nature of the rules in games such as Scrabble and Monopoly.

Although policies, procedures, and rules are all standing plans, they differ from one another and have different purposes within the organization. As **Figure 7.3** illustrates, however, in order for the standing plans of an organization to be effective, policies, procedures, and rules must be consistent and mutually supportive.

Single-Use Plans: Programs and Budgets

A **program** is a single-use plan that is designed to carry out a special project within an organization. The project itself is not intended to exist over the entire life of the organization. Rather, it exists to achieve a purpose that, if accomplished, will contribute to the organization's long-term success.

A common example is the management development program found in many organizations. This program exists to raise managers' skill levels in one or more of the following areas: technical, conceptual, or human relations skills. Increasing managerial skills, however, is not an end in itself. Instead, the end or purpose of the program is to produce competent managers who are equipped to help the organization be successful over the long term. In fact, once managerial skills have been raised to the desired level, the management development program can be deemphasized. Skills on which modern management development programs commonly focus include understanding and using the computer as a management tool, handling international competition, and planning for a major labor shortage.[17]

A **budget** is a single-use financial plan that covers a specified length of time. It details how funds will be spent on labor, raw materials, capital goods, information systems, marketing, and so on, as well as how the funds will be obtained.[18] Although budgets are planning devices, they are also strategies for organizational control. They are discussed in more detail in Chapter 20.

A stadium costs billions of dollars to build and requires a budget that plans how funds will be obtained and spent.

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