

# Chapter 2

## Fundamentals of Planning

### Brief Outline

#### Some Important Points about Planning

- Basic Steps Involved in Planning
- Planning Is Most Closely Related to Controlling
- Many Managers Tend to Neglect Planning
- Contingency Planning Anticipates Problems

#### Planning Differs at Different Management Levels

#### Importance of Setting Objectives

- What Are Objectives?
- Objectives Serve as a Stimulus for Motivation and Effort
- Hierarchy of Objectives
- Unified Planning through Objectives
- Guidelines for Setting Objectives

#### Types of Plans

- Standing Plans
- Single-Use Plans

### Learning Objectives

After reading and studying this chapter, the student should be able to:

- 1 Discuss some of the more important points about planning.
- 2 Explain the steps involved in planning.
- 3 Explain how planning differs at top, middle, and supervisory management levels.
- 4 Explain how the hierarchy of objectives works.
- 5 Discuss some important guidelines in setting objectives.
- 6 Differentiate the various kinds of standing and single-use plans.
- 7 Apply scheduling techniques.

## Preview

### Effective Planning: A Nonprofit Perspective

The profile at the beginning of this chapter focuses on Casi Callaway, Director of Mobile Baykeeper (MBK), an affiliate of Waterkeeper Alliance. During the early days, Casi's primary goals were to affiliate with a larger, recognized organization and develop a strong, active board. In addition to WA's assistance, Casi recognized the need for a knowledgeable, connected, and active board. Ms. Callaway was a tenacious and intelligent young woman with quite a bit of energy who adeptly analyzed the situation and chose to focus on commonalities that could ultimately align environmental and conservative interests alike. Ms. Callaway played an instrumental role in transforming the organization from a loosely organized coalition to an operationally sound community stakeholder. Tremendous strides are being made in all key performance areas.

## Lecture Outline

### I. Some Important Points about Planning

- *Planning* involves selecting future courses of action for your organization and deciding how to achieve the desired results.
- Supervisors do planning—both routine and detailed—as an ongoing part of their jobs.

#### A. Basic Steps Involved in Planning

- Planning covers a wide variety of activities, from simple to complex, and from short to long term. In all cases, however, the three basic planning steps are as follows:
  - Setting an objective or goal
  - Identifying and assessing present and future conditions affecting the objective
  - Developing a systematic approach by which to achieve the objective (the *plan*)
- Three additional steps must also be taken to achieve effectively the objective or goal established in step 1, although they are not exactly planning steps. These include the following:
  - Implementing the plan (organizing, leading, staffing)
  - Monitoring the plan's implementation (controlling)
  - Evaluating the plan's effectiveness (controlling)
- These last three steps illustrate how closely planning is related to the other managerial functions, especially controlling.
- The *first step in planning—setting an objective or goal*—addresses the issue of what one hopes to achieve.
- The *second planning step—identifying and assessing present and future conditions affecting the objective*—recognizes important variables that can influence objectives.
- The *third step of planning is developing a systematic approach to achieve the objective*.

- This third step becomes the *plan*.
- It addresses such issues as the how, when, who, and where of the plan.

### **B. Planning Is Most Closely Related to Controlling**

- Of the managerial functions, planning is probably most closely related to controlling.
- The steps in controlling are as follows:
  - Setting performance goals, or norms
  - Measuring performance
  - Comparing performance with goals
  - Analyzing results
  - Taking corrective action as needed

### **C. Many Managers Tend to Neglect Planning**

- Poor planning results in disorganized and uncoordinated activities.
- Many of the short-run crises that confront supervisors could be greatly eased by proper planning.

### **D. Contingency Planning Anticipates Problems**

- **Contingency planning** means having anticipated solutions in advance for problems or changes that may arise and being prepared to deal with them smoothly when they do arise.
- Proper anticipation of a problem may prevent it from happening.
- A variation of contingency planning is **scenario planning**, which involves anticipating alternative future situations, and developing courses of action for each alternative.
  - Scenario planning has a long-term focus and is typically associated with planning at upper levels within organizations.
  - Scenario planning is a necessary tool for most managers today.

## **II. Planning Differs at Different Management Levels**

- Top managers are more involved in **strategic planning**, which has longer time horizons, affects the entire organization, and deals with the organization's interaction with its external environment.
- Strategic plans include the following:
  - The **mission**, which defines the purpose the organization serves and identifies its services, products, and customers.
  - The overall **objectives** that drive the organization, such as profitability, customer satisfaction, employee relationships, environmental protection, or other critically important ends to be sought.
  - **Strategies**, the activities by which the organization adapts to the important factors that comprise its external environment, including consumers, customers, suppliers, competitors, and social, political, economic, and technological conditions.
- Middle- and supervisory level managers are more concerned with operational planning.

- **Operational planning** consists of intermediate- and short-term planning that facilitates achievement of the long-term strategic plans set at higher levels.
- Although planning at the supervisory level generally is less complex and involves less uncertainty than planning at higher levels, it is still crucial that such planning be done effectively.

### III. Importance of Setting Objectives

- Objectives are crucial to effective planning.

#### A. What Are Objectives?

- Objectives are the goals that provide the desired purposes and results for an organization and its parts.
- Management experts disagree on whether there is a difference between an *objective* and a *goal*.
  - Some say that goals are broad and nonspecific, whereas objectives are narrow and specific.
  - Others reverse the distinction.
  - Still others do not distinguish between the two.
  - Because the terms *goal* and *objective* are often used interchangeably, this book treats them as synonyms.

#### B. Objectives Serve as a Stimulus for Motivation and Effort

- Objectives provide a stimulus for effort; they give people something to strive for.

#### C. Hierarchy of Objectives

- In any organization, objectives are first needed at the top management level.
- Once top management has determined broad objectives or goals, other levels of the organization, including supervisory management, reflect these in objectives or goals of their own, thus creating a **hierarchy of objectives**.

#### D. Unified Planning Through Objectives

- A major advantage of organizational objectives is that they give managers at lower levels guidance in developing their own operational plans and coordinating their own activities.
- Ideally, top management's objectives should give tactical plans at lower levels unity of purpose.
  - **Unified planning** means ensuring that plans at all organizational levels are in harmony, rather than at cross-purposes, with one another.
- Other types of plans may also be established to aid in unified planning at lower levels.
  - These other types of plans—policies, procedures, and rules—are more specific than objectives and spell out the methods used at lower levels.

#### E. Guidelines for Setting Objectives

- Objectives set out for employees what they must do to make their performance acceptable.
- Because all supervisors should set objectives in their departments, the following guidelines should prove helpful to managers at all levels:
  - Select key performance areas for objectives.
  - Be specific, if possible.
  - Set challenging objectives.
  - Keep objective area in balance.
  - Objectives should be measurable.
  - Involve employees in setting objectives.
  - Follow up.

#### IV. Types of Plans

- Once objectives have been set to determine *what* needs to be accomplished, plans can be developed to outline *how* the objectives can be attained.
- The plans fall into two categories—*standing plans* and *single-use plans*.

##### A. Standing Plans

- **Standing plans**, or **repeat-use plans**, are those that are used repeatedly over a period of time.
- The three most popular types of standing plans are *policies*, *rules*, and *procedures*.

##### 1. Policies

- A **policy** is a guide to decision making—a sort of boundary on a supervisor’s freedom of action.
  - That is, it is a way to provide consistency among decision makers.
- Supervisory managers fit into the policy picture in two key ways.
  - They play an important part in implementing organizational policies that have been established by higher management.
  - They create policies within their departments as guides for their own work groups.
- *Policies established by upper-level managers should be put into writing, because they must be enforced at operating levels by supervisors.*
  - Also, they often form the basis for legal proceedings against the organization and its management.
- Some policies may be unwritten, implied, or based on past practices.
- Supervisors must keep in mind that action or even inaction may be thought of as policy by employees and serve as a guide to their behavior.
- Policies are relatively permanent but should not be set in stone. Circumstances change, and management must from time to time reexamine the appropriateness of its policies.

##### 2. Rules

- Like policies, rules provide guidance.
  - But a **rule** is stronger than a policy in that the guidance given by a rule is final and definite.
- Although rules have an important place in organizations, their overuse can lead to problems.
  - When there are too many rules, supervisors lose their individualism and may use the rules as crutches.
  - Or they may offer weak, apologetic reasons when they enforce the rules.

### 3. Procedures

- The need for procedures arises when an organization or a department requires a high degree of consistency in activities that occur frequently.
- A **procedure** outlines the steps to be performed when a particular course of action is taken.

## B. Single-Use Plans

- **Single-use plans** are developed to accomplish a specific purpose and then discarded.
- Unlike policies, rules, and procedures, single-use plans detail courses of action that won't be performed on a repetitive basis.

### 1. Programs

- A **program** is a large-scale plan that involves a mix of objectives, policies, rules, and projects.
- A program outlines the specific steps to be taken to achieve its objectives and the time, money, and human resources required to complete it.

### 2. Projects

- A **project** is a distinct, smaller part of a program.
- Each project has its own objectives and becomes the responsibility of personnel assigned to oversee it.

### 3. Budgets

- A well-planned budget serves as both a planning and a controlling tool.
- A **budget** is a forecast of expected financial performance over time.

### 4. Schedules

- A **schedule** is a plan showing activities to be performed and their timing.
- Two scheduling approaches with which students should be familiar are the Gantt chart and critical path method.

- The **Gantt chart** is a visual progress report that identifies work stages or activities on a vertical axis and scheduled completion dates horizontally.
  - While the Gantt chart is helpful as a planning tool, it does not show directly how the various activities involved in a job depend on one another.
- The **critical path method** is a management scheduling tool that identifies the activities needed to complete a task or project, specifies the time each activity will take, and shows the relationships among the network of activities to determine the total completion time of the task or project.
  - The critical path method is used on highly complex, one-time projects, such as building a skyscraper or completing the prototype of a new jet aircraft.
  - However, its principles are relevant for many supervisors, especially in planning and scheduling various aspects of their jobs.
  - The total time to complete a job is obtained by adding the hours necessary to complete the series of activities that comprise the *longest* route, in terms of time, to complete the job.
    - This route is called the **critical path**.
  - A major advantage of the critical path method, even for simple problems, is that they graphically display the dependent parts of a total job.
    - The supervisor thus has a better grasp of the total job to be completed.

## Visual Resources

The PowerPoint slides correlated with the Lecture Outline above are available on the Instructors CD-ROM and on the product support website.

<b>PowerPoint Slide 2-1</b>	Chapter 2 Title
<b>PowerPoint Slide 2-2</b>	Learning Objectives
<b>PowerPoint Slide 2-3</b>	Learning Objectives
<b>PowerPoint Slide 2-4</b>	Supervisory Planning
<b>PowerPoint Slide 2-5</b>	The Three Planning Steps (Text Exhibit 2-1)
<b>PowerPoint Slide 2-6</b>	Steps To Achieve the Objective or Goal
<b>PowerPoint Slide 2-7</b>	Steps in Controlling
<b>PowerPoint Slide 2-8</b>	The Nonplanner's Cycle (Text Exhibit 2-2)
<b>PowerPoint Slide 2-9</b>	Contingency Planning
<b>PowerPoint Slide 2-10</b>	Scenario Planning
<b>PowerPoint Slide 2-11</b>	Planning at Three Management Levels (Text Exhibit 2-3)
<b>PowerPoint Slide 2-12</b>	Strategic Planning
<b>PowerPoint Slide 2-13</b>	Elements of Strategic Plans
<b>PowerPoint Slide 2-14</b>	Operational Planning
<b>PowerPoint Slide 2-15</b>	Objectives
<b>PowerPoint Slide 2-16</b>	Hierarchy of Objectives for Computronix
<b>PowerPoint Slide 2-17</b>	Unified Planning

<b>PowerPoint Slide 2-18</b>	Guidelines for Setting Objectives
<b>PowerPoint Slide 2-19</b>	Standing Plans or Repeat-Use Plans
<b>PowerPoint Slide 2-20</b>	Policy
<b>PowerPoint Slide 2-21</b>	Rule
<b>PowerPoint Slide 2-22</b>	Procedure
<b>PowerPoint Slide 2-23</b>	Single-Use Plans
<b>PowerPoint Slide 2-24</b>	Program and Project
<b>PowerPoint Slide 2-25</b>	Budget and Schedule
<b>PowerPoint Slide 2-26</b>	Example of Gantt Chart Showing Activities Needed in Production Start-Up (Text Exhibit 2-6)
<b>PowerPoint Slide 2-27</b>	Critical Path Method
<b>PowerPoint Slide 2-28</b>	Critical Path for Completing Machine Overhaul (Text Exhibit 2-7)
<b>PowerPoint Slide 2-29</b>	Important Terms

## Solutions to the Questions for Review and Discussion

1. *What are the three basic steps in planning? Why do supervisors tend to slight the planning function?*

The three steps of planning are:

- Setting an objective, or goal
- Identifying and assessing present and future conditions affecting the goal
- Developing a systematic approach by which to achieve the goal

Supervisors tend to slight the planning function since thinking is often more difficult than doing. Therefore, it becomes tempting to forgo thinking about the future in order to get busy performing a task or solving present work problems.

2. *How does planning differ among top, intermediate, and supervisory management levels?*

Top managers are more involved with strategic planning, which has longer time horizons, affects the entire organization, and deals with the organization's interface with its external environments. Intermediate and supervisory level managers are more concerned with operational planning. This consists of intermediate and short term planning that facilitates achievement of the long-term strategic plans set at higher levels.

3. *What are some guidelines for setting performance objectives?*

The following are some guidelines that supervisors may use for setting performance objectives:

- Select key performance areas for objectives.
- Be specific in defining objectives.
- Set challenging, yet attainable objectives.
- Keep objective areas in balance.



- Objectives should be measurable.
- Involve subordinates in setting objectives.
- Follow up on results.

4. *What is meant by a hierarchy of objectives? Explain.*

A hierarchy of objectives is a network with broad goals at the top level of the organization and narrower goals for individual divisions, departments, or employees. A hierarchy of objectives reflects the fact that, once top management determines broad objectives, other organizational levels reflect these with objectives of their own. Thus, when one level attains its own objectives, it helps accomplish the objectives of the next higher level, and so forth.

5. *What is the difference between a policy, a rule, and a procedure?*

A policy is a guide to decision-making, a general statement of what is needed to achieve an objective.

A rule is a policy that is invariably enforced. They are stronger than policies, and the guidance given is final and definite.

Procedures outline the steps to be performed when taking a particular course of action.

6. *What is a Gantt chart? How does it differ from a critical path method?*

The Gantt chart is a visual progress report that identifies work stages and scheduled completion dates. This chart is a helpful planning tool, but it does not show how the various activities in a job depend on one another as the critical part method.

7. *What is contingency planning? Explain.*

Contingency planning is thinking in advance about possible problems or changes that might arise and having anticipated solutions available. The proper anticipation of a crisis may prevent it from happening.

8. *Distinguish between objectives and strategies.*

Objectives are the purposes, goals, and desired results for the organization and its parts. Strategies are the activities by which the organization adapts to its environment in order to achieve its objectives.

## Solutions to the Skill Builders

### Skill Builder 2-1

#### Testing Your Planning Skills

Works with SCANS competencies: Resources and Interpersonal Skill

This is a group exercise extending the example of Marshall Biscuit Division of Lancaster Colony. The premise is that the manager has been named as the chairperson of the annual blood drive. The groups must develop objectives and an operating plan for the blood drive.

*Instructions:*

- Make a list of what you consider the key planning issues that should be identified by the committee at this initial planning meeting.

At this meeting, some basic goals must be set. How many units should be targeted? What percent participation should be expected? Other planning issues—When will the blood drive occur? How will it be scheduled to attract the most donors and conflict least with oncoming operations? What facility arrangements will be needed? Where? Who will be responsible for each part of the program? How can the committee overcome resistance from employees to donating blood and attract the most donors? How should donations be scheduled? Which blood service to use? How to publicize the event?

- Of the items on your list, which two or three do you believe are the most crucial? Why?

The most critical items will be attracting donors and overcoming resistance and fear. Other elements can be worked around, but you have to have donors.

- Identify major problems that could prevent accomplishment of your objective. What contingency planning could be done to avert them or minimize their impact?

Numerous things can and will go wrong. As Murphy's Law says—"If it can go wrong, it will." However, most things can be handled with a little foresight. If you are going to use the company cafeteria, make certain that food service schedules can be accommodated. If the president is to give a pep talk, check with his or her assistant to make certain there isn't a scheduling conflict. But most important, have some procedures for getting donors to the blood drive. Set up an e-mail reminder system, have supervisors give employees time off to come, phone the unit if donors do not come at their scheduled time, and so on.

- To help in your preparation for the planning meeting, identify 6 to 10 steps that you feel will be needed to achieve a successful blood drive. These steps might be such things as:

- Determine a date.
- Identify a location.
- Secure commitment from Red Cross, etc.

Perform a critical path analysis and draw a chart that shows the sequence and relationship of the activities identified. (You need not be concerned with the length of time needed for each activity.)

Students' answers will vary.

- Compare your responses to questions 1, 2, 3, and 4 with those of other students. To what extent do they agree with you?

There will be various opinions among students. Look for responses in common.

### **Skill Builder 2-2**

#### **Determining Priorities: Put Savings First**

Works with SCANS competencies: Resources, Interpersonal Skill, and Information

Students must take a moment to test their personal planning skills with the following personal budgeting activity.

#### *Instructions:*

- For one month, track your personal income and expenses using a pocket-sized notebook and pen or a personal electronic device. Regardless of how small the purchase price is, be sure to track ALL expenditures for one month. Record all items and break them into categories. For example, your income may possibly be categorized as follows: money earned waiting tables, monthly student loan income, and money provided by family. Some common expense categories would include rent, car insurance, and gas.
- Analyze your monthly habits to determine where your money is going. Do you have money left over at the end of the month, spend all that you make, or finance your current lifestyle with unsecured debt (credit cards)? Begin to think about ways to reduce your expenses or increase income stream(s).
- Set a savings goal for yourself; remember to use the goal-setting principles you learned about in this chapter to guide your efforts. For example, you want to be realistic about what you can achieve, and if you are not currently a saver, look for discretionary expenses you could eliminate to free up even small amounts. For example, just finding an extra \$30 per month equals \$360 per year. As you become a savvy saver, you can create a more challenging goal.
- Think about alternative ways to achieve your goal. Pick one that will work for you and stick to it! One suggestion is to visit various financial planning Web sites, such as <http://www.suzeorman.com/>, to benchmark plans that have worked for others. One strategy shared by some financial advisors, including Suze Orman, is to have your local bank or credit union electronically transfer your savings goal each month from your checking to your savings account. This strategy ensures that you pay yourself first, and in most cases, if you don't see the money in your account, you won't miss it!

## Solutions to the Case

### **Case 2-1**

**Island Shades**

1. Analyze Terry's goal and plan based on the concepts you learned in this chapter. Are there additional key performance areas that Terry could identify for action? Is her goal realistic?

Students' answers will vary widely, especially their opinions of how realistic her goal is. Students should recognize that Terry has done a good job of analyzing her operational planning. However, she could set clearer objectives, such as how she will distinguish her business from other similar businesses. She also needs to strategize how she will promote and grow her business. Although Terry has been working with her budgets and schedules, she probably has further work to do on policies and procedures for her suppliers, employees, and customers.

2. *Do you agree with Terry's view that Island Shades will be successful? Why or why not?*

Students' answers will vary but should demonstrate a thoughtful answer using critical thinking skills.

3. *Would you recommend any changes or modifications to her goal or plan?*

Students' answers may vary. Some of them may say that Terry's plan to open both a bricks-and-mortar operation along with an online operation simultaneously could be seen as smart or overly ambitious. Some may feel that she is trying to appeal to too broad of a customer base, while others may feel that she will attract more business by being so broadly diversified. A significant gap in her plan is marketing and promotions, which need to be addressed.

4. *Present a summary of your analysis and recommendations to the class.*

Students' answers will vary.