

# 7

## FUNDAMENTALS OF PLANNING

*After studying this chapter, you should be able to:*

- A Identify organizational conditions that increase the need to coordinate activities through plans.
- A Identify four levels of management that contribute to the planning process.
- A Describe the role that a planning staff plays in an organization.
- A Distinguish between single-use plans and standing plans.
- A Describe the various planning horizons and tell how they are integrated by levels of management.
- A Identify the conditions that lead to the need for contingency planning.
- A Describe the steps of the planning process.
- A Discuss the various barriers to planning.
- A Describe the methods and techniques managers can use for overcoming planning barriers.
- A Cite reasons why planning sometimes fails in organizations.

With operating losses averaging \$1.7 million per club in 1983, threats of player and umpire strikes, headlines announcing drug arrests, and major disagreements among club owners, Peter Ueberroth stepped into the job of commissioner of baseball. Why would Mr. Ueberroth accept a job that most would consider to be a guarantee of successive failures? Mr. Ueberroth believes he has a game plan that can turn operating losses into operating profits. This plan includes the following:

- A Getting owners and players to understand that they are partners with equal interests in the future of the game;
- A Developing a system where owners share the revenues from television broadcasts of games more equitably;
- A Increasing attendance from 42 percent to an average of two-thirds of stadium capacity per game without increasing ticket prices;
- A Improving the family atmosphere at ball parks by offering low-alcohol beer, improving medical facilities, monitoring restrooms and parking lots, and providing family sections;
- A Encouraging corporations to sponsor special sections of the ball park that they could design and administer themselves; and
- A Consolidating some costs on a league basis for travel, scouting, and the minor leagues.<sup>1</sup>

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1. T. Moore, "Baseball's New Game Plan," *Fortune* [April 1985], 17-21.

To succeed, Peter Ueberroth is relying on it comprehensive plan that hopefully will guide major league baseball franchises back into profitable conditions.

The previous chapter discussed approaches to formulating a strategic plan. However, formulating a strategy that will lead to the accomplishment of organizational goals is only half the picture. Implementing a plan successfully, such as that outlined by the new commissioner of baseball, is a critical activity of organization managers. Successful implementation requires managers at all levels of the organization to understand the specific tasks and responsibilities they need to perform to carry out the strategy and achieve the goals of the organization. In this regard, Mr. Ueberroth's success will depend largely on his ability to communicate his plan to both team owners and players.

This chapter is concerned with the methods and techniques for implementing a plan in support of a selected strategy. We will discuss the importance and benefits of a well-developed plan and identify the responsibilities that managers have at various levels of the organization for implementing the plan. Next, we will examine the techniques and time horizons for implementing plans. This examination is followed by a presentation of contingency planning—an important technique used by managers for planning organization activities in an uncertain and turbulent environment. The final section of the chapter is concerned with barriers to planning which managers must often confront and how these barriers can be overcome.

## INTEGRATING THE PLANNING PROCESS

A plan is a framework that details the methods and tasks that must be implemented in order to achieve a designated goal. Plans are developed once managers have selected a strategy that they believe will direct the organization toward a goal. As defined in Chapter 1, planning is the process of identifying the methods to be used, tasks to be performed, and time horizons for sequencing the implementation of methods and tasks in the organization. Ultimately, a plan is designed to coordinate activities to enhance achievement of goals.

### The Need to Coordinate Activities

The need to plan increases when managers must respond to uncertainty in the environment. Suppose that an organization were to operate

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2. P. F. Drucker, *Managing in Turbulent Times* (New York: Harper and Row, 198

in an environment that is highly certain; that is, very little change in the environment has occurred or is expected to occur. In this case, minimal planning is necessary. Members of the organization need only learn the tasks that are required to achieve organizational goals and simply repeat those tasks in the future. However, certainty in the environment is a luxury that few if any organizations enjoy. Indeed, it is because environments of organizations have become more uncertain that planning has become a very critical activity for organization managers.

The need to coordinate organization activities through plans increases as an organization's environment becomes more uncertain. Coordination of organization activities requires that managers devise frameworks for integrating subunit activities (e.g., production with research and development) and linking organization activities with the environment (e.g., acquiring resources from suppliers and distributing products or services to buyers). Plans help specify the contribution of each subunit to the quantity, quality, cost, and timing of the production of outputs. Managers who fail to develop plans that will coordinate organization activities increase the chances of the organization's failure.

Planning is a function of management that must be attended to at all levels of the organization. Its purpose is to coordinate the activities of subunits and members within the organization and with the organization's environment. Whereas a strategic plan leads to the selection of a strategy to be implemented, a plan is a process that leads to the implementation of a strategy that has been selected.

## Levels of Planning

All managers participate in and contribute to the planning process to some degree. Variations in the degree of contribution to the planning process will depend on the size and goal of the firm and the specific function of the manager. Some organizations, such as a manufacturer of goods for space exploration, may have plans that extend far into the future. A company producing a weekly series for television may have plans that only extend for three months. A production manager of a goods manufacturer for space exploration may have a detailed plan for producing a gyroscope two years from now. A casting director for a television series may make a major contribution to the development phase of the series (i.e., selecting the cast) but have little input once the cast has been selected.

Four distinct levels of management can be identified that contribute to the planning process: boards of directors, executive officers, division heads, and first-line managers [we will be using the terms first-line managers and lower management interchangeably].<sup>3</sup> These levels are not

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3. R. F. Vancil and P. Lorang, "Strategic Planning in Diversified Companies," *Harvard Business Review* (January-February 1975), 81-90.

universal for all organizations. Small shops, such as local clothing stores, may not have divisional heads. However,, identification of these four levels of management can be applied to most large organizations.

**Boards of Directors.** Boards of directors are made up of individuals who are either appointed or elected to oversee the activities of the organization. Boards may be active in the planning process or delegate planning to executive officers. When planning is delegated to executive officers, the board of directors will serve as a committee that reviews and evaluates the plans once they have been formalized by executive officers. Members of the board of directors may be elected by stockholders or, in the case of a social service organization, by other members of the board. Generally, the board evaluates formalized plans to determine if they will help to achieve the organization's official goal. If so, approval is granted, and executive officers proceed to implement the plans.

**Executive Officers.** Executive officers are referred to as the top, or upper, management of the organization as discussed in Chapter 1. In many organizations, executive officers are led by the chief executive officer (CEO) who is hired by the board of directors to manage the overall operations of the organization. Where the board of directors is an active participant in the planning process, the CEO will work closely with the board in the development of the plans. Where the board assumes a role of overseeing the formalized plan, the responsibility for planning rests with the CEO and other executive officers. Either way, executive officers play a critical role in the development and implementation of plans as they oversee the day-to-day operations of the organization.

**Division Heads.** Division heads are individuals who manage a subunit or a division in an organization. In some organizations, they may be executive officers and participate in planning at that level. As a middle manager, a division head is responsible for developing plans that will guide division activities toward the completion of operative goals. For instance, at Chrysler Corporation, division heads would be the individuals appointed to run the Chrysler, Plymouth, and Dodge divisions. Division heads will consult with executive officers during the planning process to share information about the operations of their divisions. Division heads also contribute to the formulation of the plan that will directly affect the manner in which their division operates during the implementation phase.

**First-Line Management.** First-line managers are those individuals who oversee specific tasks within the organization. A first-line manager in General Motors may be the head of production or the head of marketing for the Saturn division. First-line managers work with division heads in the planning process by providing information about their needs!

and requirements to operate effectively once the plans are implemented. First-line managers play a critical role in the execution of activities that support the plan and lead to the accomplishment of operational goals.

These four levels of an organization's management serve as a mechanism for developing and implementing effective plans that will direct the organisation toward the accomplishment of goals. The integration of these four levels, from top to bottom, is often referred to as the hierarchy of plans. Figure 7-1 illustrates these relationships. Not all organizations use this approach to planning. Some organizations, such as General Electric, 3M, and Johnson & Johnson, place a greater burden of responsibility for planning at middle and lower levels of management. This is done in the belief that middle and lower level managers have a better understanding of the direction their divisions and departments need to pursue and thus should be given more decision power in the implementation of plans. Top management in these companies serves to review and authorize the plans upon submission by middle and lower level managers.

| THE HIERARCHY OF PLANS    |                                                                                                                                                                                                                 |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level in the Organization | Responsibilities                                                                                                                                                                                                |
| Board of Directors        | Reviews and evaluates plans when formulating is delegated to executive officers. May assume direct responsibility for formulating plans,                                                                        |
| Executive                 | CEO and other officers assume major responsibility for formulating plans and overseeing the implementation of plans directed toward the accomplishment of; official goals.                                      |
| Division Heads            | Contribute to the formulation of plans and assume responsibility for the implementation of plans directed toward the accomplishment of operative goals within their divisions;                                  |
| First-Line Management     | Contributes to the formulation of plans by providing specific information regarding its task activities. Responsible for the implementation of plans that will lead to the accomplishment of operational goals. |

## The Planning Staff

In some instances, top management of an organization may create and develop a planning staff.<sup>4</sup> A planning staff is a group of individuals whose sole responsibility is the formulation of plans. The creation of a planning staff to advise managers in the organization is useful when managers need to devote more time to other activities, lack the expertise to solve particular problems, or are dispersed across the country or around the world, thereby reducing contact with headquarters. Under these conditions, as is the case with many large multinational corporations, planning is best conducted by a staff of individuals who can work exclusively on the formulation of plans.

A planning staff is usually composed of individuals who have attained expertise in areas that are critical to the planning process. This expertise may be in the form of developing statistical models to gauge environmental trends, knowing consumer behavior, training in sophisticated financial analysis, applying production models, or having experience in industry analysis. In most instances, the planning staff is composed of individuals who have prior professional training in a specialized field. It is not uncommon for the planning staff to have a large number of its members who have obtained an MBA degree and prior experience in their chosen field.

When establishing a planning staff, upper management must make decisions about the amount of responsibility for planning the staff will assume. In some organizations, all planning is done by the planning staff. Upper management reviews and evaluates the plans that have been formulated. In other organizations, the planning staff is assigned responsibilities for collecting information that is needed for planning. The information is assimilated and upper management, such as the executive officers, uses that information to formulate plans. Yet another method for managers to make use of a planning staff is to assign smaller units of staff to specific divisions and have them report to middle managers, or division heads, rather than to upper management.

Regardless of how a planning staff is utilized in an organization, it should be recognized that the formation of the unit has several important purposes. First, the planning staff can assist management in developing goals and strategies for the organization by scanning the environment for important trends that may affect the organization. Second, the planning staff can work to ensure that the plans of various subunits in the organization are coordinated. If production is planning to increase the output of a product by 500 units in the month of May, then sales should have plans to increase the promotion of the product. Finally, the planning staff can

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4. W. H. Newman, *Administrative Action: The Techniques of Organization and Management* (Englewood Cliffs, NJ: Prentice-Hall, 1963)

serve as a valuable source of information to managers at all levels of the organization in matters concerning the formulation or implementation of plans.

#### FROM THE FIELD: Corporate Objectives

In early 1986, we surveyed corporate planners from a wide variety of industries to learn what corporate objectives they felt were important to the planning process. We asked each planner, "How would you rate each of the following corporate objectives in terms of their overall importance to the development of plans for your organization?" Planners rated each objective on a scale of 1 to 5, with possible responses including 1 (very unimportant), 3 (neither important nor unimportant), and 5 (very important). Here are the results, ranked from most important to least important.

| Rank | Corporate Objective                         | Average Rating |
|------|---------------------------------------------|----------------|
| 1    | Increase market share                       | 4.60           |
| 2    | Improve return on investment                | 4.55           |
| 3    | Reduce production inefficiencies            | 4.18           |
| 4    | Improve cash flow                           | 4.05           |
| 5    | Improve relations with buyers and suppliers | 3.79           |

These results indicate that planners responding to the survey identify improvements in market share and return on investment as the most important corporate objectives to consider in the development of plans. Of interest is the importance that planners place on the reduction of production inefficiencies, only slightly ahead of the objective to improve cash flows. This may be the result of a new vigor to improve production in many firms due to increased domestic and foreign competition.

## ACTION PLANS

In Chapter 6, we discussed the process that managers use in formulating strategic plans. Strategic plans are those that identify a general framework for accomplishing the organization's mission and official goals. In this section, we will examine **action** plans which are plans that identify day-to-day activities in support of the strategic plan of the organization. Action plans provide the details on how the strategic plan will lead the organization to the accomplishment of its goals.

Action plans can be classified into two types. **Single-use plans** are used to direct activities in the achievement of a specific goal and will not be repeated in the future. **Standing plans** are developed for guiding activities toward achievement of goals when they are of a recurring nature. Both types of action plans assist members in coordinating and directing

their activities toward goal accomplishment. In this way, the development and implementation of action plans can prove to be the difference between success and failure in the implementation process.

### Single-Use Plans

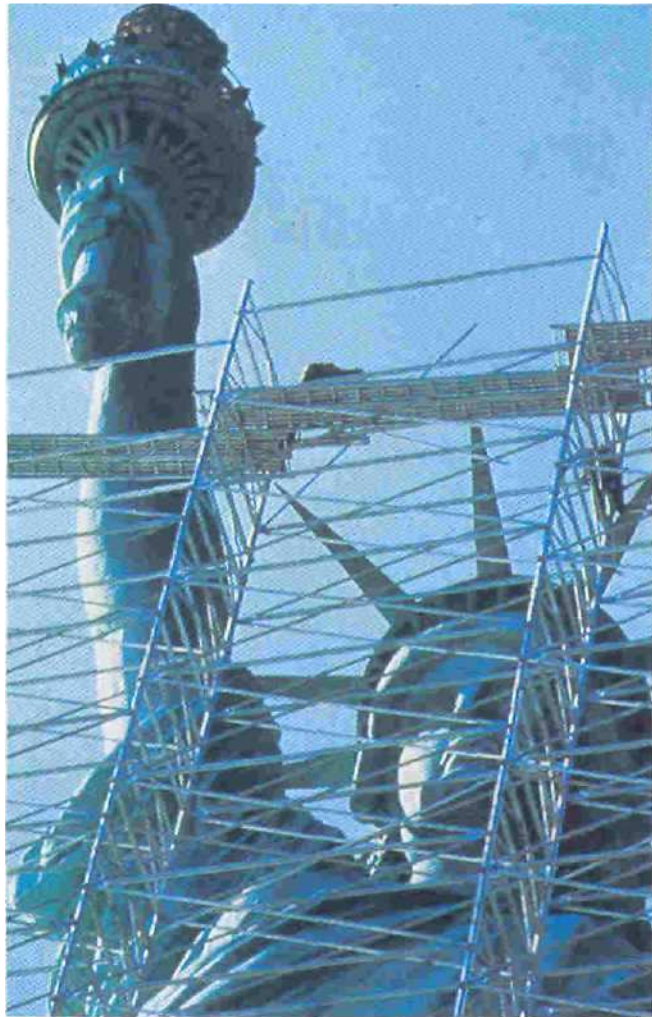
Single-use plans are developed under conditions where the likelihood of repeating activities is low. Construction of new plant facilities would exemplify a single-use plan as, once the plant has been built, it is unlikely that a new plant will be built on the same location (unless the first one burns down). Managers may also develop single-use plans when a one-time promotion for a product needs to be implemented. The three types of single-use plans are programs, projects, and budgets.

**Programs.** A **program** is designed to coordinate a large set of activities. As a single-use plan, a program contains a set of guidelines that identify (1) the goal to be achieved, (2) the major steps that are needed to attain the goal, (3) members or subunits that will be responsible for implementing each step, (4) a schedule that orders and times the implementation of each step, and (5) an estimate of the cost associated with the implementation of each step.

Programs may be developed that involve the entire membership of an organization or may be limited to a few members only in the implementation process. For instance, the Statue of Liberty-Ellis Island Centennial Commission was established to raise funds for the refurbishing of perhaps the most famous monument in the United States. The commission coordinated its activities through a program that required soliciting and collecting funds, locating and employing skilled workers, and developing public relations events. The success of this program was dependent on explicit goals, identification and sequencing of major steps to be performed, assignment of responsibility, and detailed estimates of costs. Programs that may be limited to a few members but are large in scope would be represented by a company's effort to engage in a corporate merger. Activities are extensive, but the program designed to implement the activities may include only a small handful of senior management. The program is terminated once the merger has been completed.

**Projects.** A **project** is a single-use plan that is usually more limited in scope than a program. A project may be developed in support of a program when a specific set of activities to be conducted at one time is required to complete a step in the program. However, a project may also be a self-contained activity by not having any links with other programs in the organization. In reference to our example of the commission for refurbishing the Statue of Liberty, a project that is linked to the program would be the organization of a gala event to celebrate the completion of work on the statue.

*The successful completion of the restoration program was celebrated on July 4, 1986.*



A project can also be self-contained in that it is not linked to a program and is to occur only once. A personnel manager may be required to review the salaries and benefits of all employees in the firm to determine whether allegations of inadvertent discrimination based on age or sex of employees is true.

**Budgets.** A budget is a single-use plan that specifies allocations of financial resources required to support specific activities within a given time period. Budgets also prescribe methods by which financial resources are to be distributed in a project or program. Budgets are important devices for controlling activities by setting limits on the amounts of expenditures.

Depending on the level of financial resources committed to a program or project, budgets can have a powerful impact on how tasks are carried out in the organization. If budgets are inadequate for support of a program or project, managers must identify ways to shorten steps and may in the process jeopardize the successful accomplishment of the goal. If budgets are overly generous, managers may include many unnecessary steps in the implementation process of a program or project in order to use up the funds.

## Standing Plans

In many instances, managers must plan for activities in the organization that recur continuously. In these situations, standing plans are developed that can be recycled for as long as they are believed to be appropriate for coordinating member activities. Standing plans are useful to managers because they allow managers to conserve time and energy by focusing attention on activities or events that do not recur continuously. The three types of standing plans are policies, standard operating procedures, and rules and regulations.

**Policies.** A policy is a standing plan that provides managers with a general guideline for decision making. As such, a policy designates boundaries or limits that are to be followed by managers when decisions are required. A policy is implemented within an organization in order to increase the chances that managers will respond uniformly to problems or situations that require their attention. A policy also provides guidelines concerning the methods managers are to employ to attain the objectives they are working toward.

In some organizations, policies are developed to provide managers with guidelines for hiring employees. Policies such as "All employees of the organization must have a college degree" provide managers with a guideline in making decisions about hiring. However, note that the policy as stated does not provide the manager with a guideline for discriminating among applicants who do have a college degree. If further limits or boundaries are believed important, additional policies can be implemented such as "All employees must have three years of prior work experience."

Generally, policies are established by the top management of the organization. Policies reduce the need for close supervision among subordinates and further express the intentions of organizational strategies and goals. In the implementation of a policy, top management can direct behaviors and decisions toward the attainment of organizational goals, express values and ideas that are believed to be important, and serve to reduce confusion or conflict about issues or concerns that subordinates may have in carrying out their tasks.

are internally consistent and direct activities toward desired goals. As the environment of organizations changes and with it come changes in goals, the modification or removal of older policies is sometimes necessary. This is particularly important concerning policies about hiring and promotion of employees. Many older policies in organizations have been found to be discriminatory toward women, racial and ethnic minorities, and the handicapped and thus can expose the organization to lengthy and costly litigation.

**Standard Operating Procedures.** A **standard operating procedure (SOP)** is another form of a standing plan. An SOP governs specific actions that members of the organization are required to perform under certain circumstances. Normally, an SOP is more explicit and detailed than a policy. An SOP is usually developed to guide an employee through a series of tasks identifying the appropriate methods to be performed at each step of the activity. Thus, an SOP is useful when employees first confront a situation or circumstance on a regular basis. Once the SOP has been established, employees need learn only the steps and new employees **can** be trained easily in the procedures.

An example of a standard operating procedure would be one instituted for a floor salesperson in a retail store. When customers are dissatisfied with a product they have purchased and seek a refund for their purchase, many retail stores have implemented an SOP to direct the employee in the steps that are necessary to give the customer a refund. For instance, an SOP may direct the employee to (1) request a receipt from the customer; (2) fill out a form indicating the date of purchase and reason for exchange; (3) attach the receipt to the form; (4) contact the immediate supervisor for approval of a refund; (5) take the approved form and receipt to the refund department; (6) obtain a refund and have the customer sign the form noting receipt of cash; (7) provide the customer with the yellow copy of the form, submit the blue copy of the form to the refund department, and keep the white copy of the form in the employee's assigned cash register; and (8) submit all refund forms to the supervisor at the end of the day. The detail of the instructions contained in this example of an SOP guides employees with a method for performing the task in a consistent manner over time.

**Rules and Regulations.** Where policies and standard operating procedures provide guidelines for decision making, **rules and regulations** are statements that designate specific required action. Rules and regulations are the most explicit and specific form of a standing plan. While SOPs are explicit, they differ from rules and regulations in that they designate the specific steps one is to perform in a situation. On the other hand, rules and regulations are directives that either permit or forbid a certain action. A typical rule or regulation may be "No smoking at an employee's desk" or "All employees must be at their desks at 8:00 in the

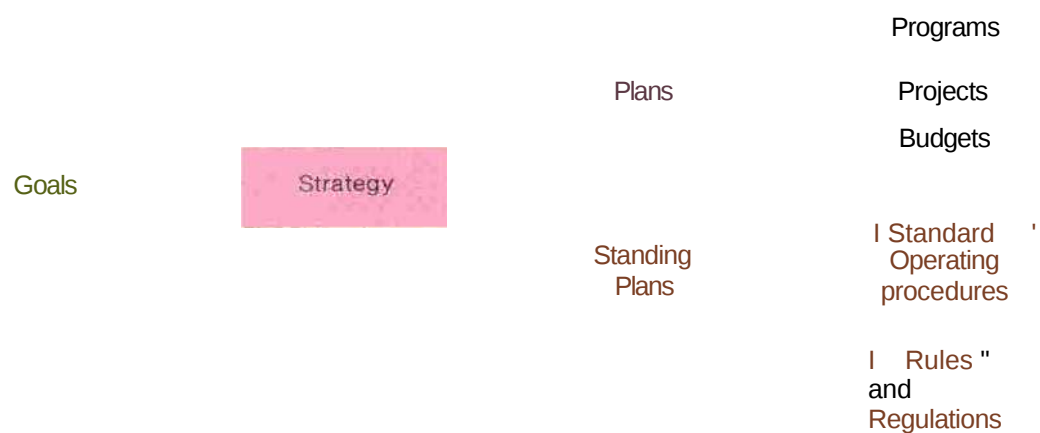
morning." Note that SOPs may be developed around a rule or regulation such as a directive to supervisors concerning the procedures they are to follow should a rule or regulation be violated.

While rules and regulations serve to substitute for decisions by either permitting or forbidding certain activities, they can also be suspended. A manager may, for instance, suspend the rule of having to be at one's desk at 8:00 in the morning if the employee must attend a funeral because of a death in the family. Rules and regulations can actually stifle members of an organization in their efforts to attain goals by becoming too excessive or by being enforced too rigidly. Likewise, if one or several rules and regulations are continually violated, members of the organization may believe that no rule or regulation must be adhered to. In either situation, rules and regulations may defeat management's purpose of planning organizational activities in a way that will maximize the chances of attaining organizational goals.

Action plans in the form of single-use or standing plans are important organizational mechanisms for coordinating and directing activities toward the implementation of organizational strategies and attainment of organizational goals. Figure 7-2 depicts the relationship that action plans have with the goals and strategy of the organization. It is crucial for managers who formulate and implement action plans to make sure that the plans will focus member activities on tasks that are critical for overall success.

Figure 7-2

#### THE RELATIONSHIP OF ACTION PLANS WITH ORGANIZATIONAL GOALS AND STRATEGY



## PLANNING HORIZONS

An important component of any plan is the planning horizon, the length of time the plan specifies for activities to be implemented. Three planning horizons can be identified for classifying plans: long-range, intermediate, and short-range.

### Long-Range Planning

Long-range planning involves identifying those activities to be performed over an extended period of time. In some cases, long-range plans may extend for several decades though the length of any planning horizon will vary from one organization to another. For instance, a firm in the forestry industry may have long-range plans that extend over a century in order to reforest cut timberland and guarantee a continual supply of resources long after present managers of the company have retired. Large corporations such as Dow Chemical and General Motors engage in long-range planning that covers several decades. An organization created to plan a gala event for a prominent world figure may establish long-range plans that extend for several months only (at which time the event occurs and planning is no longer necessary). As a general rule, we identify any plan that extends beyond five years as a long-range plan. Table 7-1 identifies variations in planning horizons for firms in various industries.

Table 7-1 **PLANNING HORIZONS FOR FIRMS IN SELECTED**

| Industry     | TIME      |    |            |    |               |    |       |    | Life |
|--------------|-----------|----|------------|----|---------------|----|-------|----|------|
|              | 3-5 Years |    | 6-10 Years |    | Over 10 Years |    | Other |    |      |
|              | No.       | %  | No.        | %  | No.           | %, | No.   | %  |      |
| Food         | 22        | 84 | 3          | 11 | 0             | 0  | 1     | 4  | 26   |
| Chemicals    | 40        | 87 | 5          | 10 | 0             | 0  | 1     | 2  | 46   |
| Oil          | 10        | 58 | 5          | 19 | 1             | 6  | 1     | 6  | 17   |
| Steel        | 7         | 31 | 2          | 23 | 0             | 0  | 2     | 18 | 11   |
| Machinery    | 16        | 91 |            | 3  | 0             | 0  | 1     | 3  | 28   |
| Electronics  | 34        | 91 | 1          | 10 | 0             | 0  | 2     | 5  | 37   |
| Retail sales | 25        | 89 | 3          | 10 | 0             | 0  | 0     | 0  | 28   |
| Total        | 164       | 84 | 20         | 10 |               |    |       |    | 193  |

Source; Copyright 1973 by the Foundation for the School of Business at Indiana University. Reprinted by permission.

Long-range planning is different from strategic planning, which was discussed in Chapter 6. Strategic planning is primarily concerned with how the organization will position itself among competing concerns in a market. Long-range planning evolves from strategic planning. It specifies and designates the activities to be performed and thus serves to implement the selected strategy. In addition, a long-range plan encompasses all levels of activities in the organization whereas a strategic plan provides a direction to those activities. For example, the strategic planning process would evaluate the current strengths and weaknesses of the organization and then forecast probable opportunities and threats in the environment. Based on this evaluation, the strategic plan would identify a strategy that is most likely to be successful. A long-range plan would then be developed with an emphasis on directing and coordinating activities that will accomplish the intent of the selected strategy. The long-range plan, therefore, serves to implement activities that will support the strategic plan and ultimately enable the organization to attain its goals.

There is one feature of a long-range plan that is different from plans with shorter planning horizons. Specificity of activities to be implemented will decrease the closer one gets to the planning horizon. In a 20-year plan, knowledge of the environment, financial position, and goals of the organization are rather uncertain. Attempts to be specific about activities to be implemented in the year 2010 would be unproductive for most organization managers. Hence, it is more useful to develop plans further away from the present that provide managers with guidelines. Over the course of time, managers can add specifics that will be suitable to current conditions.

## Intermediate Planning

Intermediate planning is critical in most cases to the success of the organization. Intermediate plans generally extend from one to five years and are designed to implement activities among middle or divisional levels of the organization. For instance, a long-range plan may identify several points in time when the organization is to consider the introduction of new products. In three years, a new product is to reach the market. Six years hence, or three years after its introduction, the new product is to be modified based on consumer feedback gathered from surveys, and so on. In this situation, an intermediate plan would focus on the introduction of the new product, specifying the necessary financial and material resources, and time horizons for completing necessary tasks in support of the new product. Whereas long-range planning must cope with highly uncertain conditions in the future, intermediate planning is focused more on the activities that have to be implemented within a planning horizon that contains fewer uncertainties.

## Short-Range Planning

When plans are developed for implementation within a planning horizon of less than one year, we refer to this as **short-range planning**. Short-range plans are those that are mostly pertinent to first-line managers and general employees of the organization. Short-range plans may specify activities to be implemented that will achieve certain production levels each week. The aggregation of these weekly production levels will then serve to meet the goals of production for the year. While short-range plans are necessary for most organizations, they can have drawbacks. Many times, managers become so focused on short-range plans because of the immediate attention they require that they lose sight of the intermediate and long-range plans and ultimately, the selected strategy and mission of the organization.

## Integrating Planning Horizons

A critical concern of managers engaged in the planning process is the integration and balancing of organizational goals and strategies with long-range, intermediate, and short-range plans. Short-range plans, for instance, should be supportive of intermediate plans and intermediate plans supportive of long-range plans. Long-range plans support the selected strategy of the organization which in turn leads to attainment of organizational goals. Recall our discussion in Chapter 5 of the hierarchy of goals. We can use that framework for depicting the relationship between goals, managers, and planning horizons. Figure 7-3 portrays these relationships.

Managers at various levels of the organization assume responsibility for the implementation of plans. First-line managers oversee the activities designated in the short-range plans which seek the attainment of operational goals. Divisional managers guide activities identified in the intermediate plans which serve to accomplish operative goals. Executive management focuses on activities in long-range plans that are directed toward official goals of the organization and are derived from the selected strategy.

Suppose top management, after conducting a SWOT analysis, believes that the best strategy for the organization over the next ten years is to expand production capacity in order to enter new markets. This strategy could be derived from the official goal of the organization to seek long-term growth and greater profits. The long-range plan would identify at specified intervals of time the construction of new plants located close to markets that the organization seeks to enter. Intermediate plans would be developed to focus activities on the construction of the plants, which requires managing capital flows, contracting with construction companies, and purchasing machinery to be used in the new plants. Short-range

## Managerial Profile

### DONALD B. NEWTON



Donald B. Newton became plant manager of Hoosier Racing Tire Corporation in 1979. He joined the company in 1974, and prior to that he taught biology in the public school systems in California. Hoosier Racing Tire Corporation, located in South Bend, Indiana, manufactures and distributes specialty tires for automobile racing. In 1985, its gross sales were approximately \$7 million through a nationwide distribution network. Since 1979, the growth of sales has increased nearly 25 percent a year. The company is vertically integrated from manufacturing its own rubber to retail selling; it has two manufacturing plants and corporate offices in Indiana employing 123 people, with regional warehouses nationwide. Production is cyclical due to the seasonality of the sport and the constant obsolescence of the product; product mix consists of over 250 models of racing tires produced on a shift-run basis. Models are undergoing continuous modification in response to the competitive pressures exacted by auto racing and by other racing tire manufacturers. Mr. Newton received an M.B.A. in administration from Indiana University.

Q: How would you describe the approach to planning that takes place at Hoosier Racing Tire?

A: Planning takes several forms at Hoosier. The organization is small enough that the president has daily communication with all department heads. Usually the president spends mornings with the sales and administrative people, often on a one-to-one basis. He has a structured sales meeting weekly. Afternoons are spent talking with manufacturing personnel including the designer, plant manager, and compounder. It is through daily contact that short-range plans emerge, are altered, and are implemented. Often, one department is informed only about that portion of the plan it is involved in, thus at times leaving a fragmented view of the whole picture. Problems arise when the president thinks he has informed all vital personnel but has left a key person out. On the other hand, this unstructured daily contact allows for fast response to product and schedule changes, thus avoiding the time-consuming nature of structured meetings. Q: Is the short-term focus for planning purposive or simply necessary because of the nature of your market?

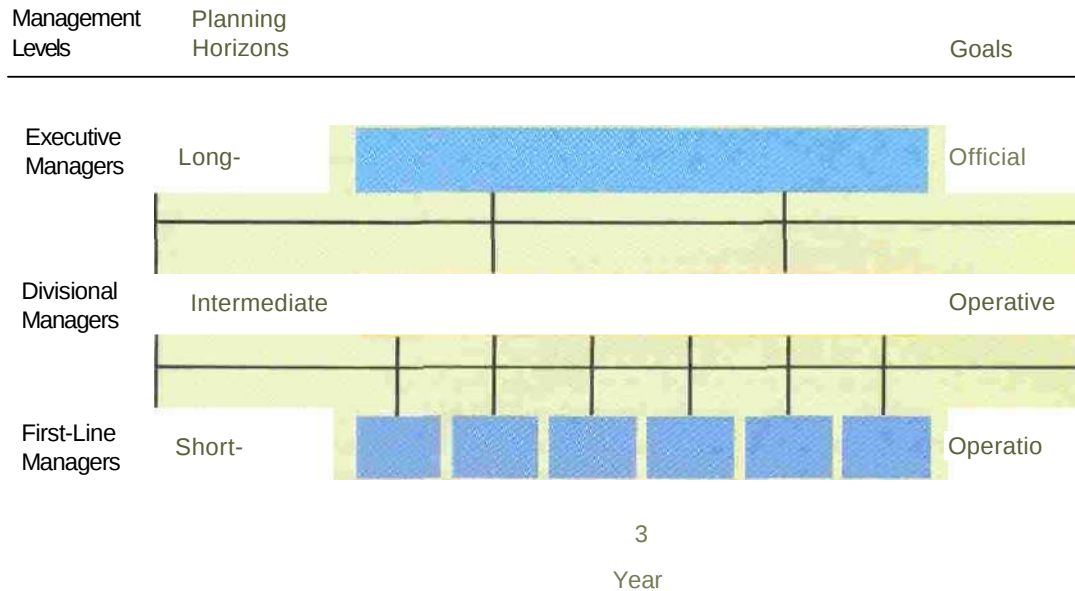
A: Our inability to engage in long-range planning stems primarily from a lack of information about our market. We have yet to define our market concretely. We know there are other areas like drag racing and off-road racing that we don't even provide a product for. However, we're running at capacity, in spite of the aggressive expansion of production by competitors, just to meet the demand for oval car racing. We feel our market is like digging in a coal mine; we do not know the extent or size of the coal vein or in which direction it will take us. Ideally, I would like to know the total sales of all my competi-

tors, which would give us an understanding of market size and definition. Because of the undermined nature of the market, we practice what we call incremental planning—adding foreseeable information to our short-range plans. Another feature of the market that disrupts the planning process is the constant obsolescence of racing tires. Most people not in the business have a hard time understanding this. Competitors are constantly changing the design and composition of the product, which can occur as often as weekly. Because of this, we're unable to create large inventories for fear of having an outdated product.

Q: For someone seeking a job in your industry, managerial skills do you believe are important in order to be effective?

A: I would suggest to anyone who wants to enter this industry that communication skills are necessary. I have a policy of no verbal orders. By that I mean that any instructions or orders should always be in written form—not in any formal sense—but rather, a few words scratched on a pad and handed to a subordinate along with verbal instructions, will always produce better results than a verbal instruction alone. Personal organization is an important skill. I always carry a pocket spiral notebook in which I constantly write notes to myself and others. I begin my day by reading my notebook, moving ideas to a sheet on my desk which is divided into today's projects (items such as phone calls that can be handled quickly) and long-term [items such as sales forecasts, machinery, and so forth]. At the end of the day, I tell daily production, scrap and maintenance rejections, quality control, and personal reports, in an attempt to identify problem areas.

figure 7-3

**INTEGRATING PLANNING HORIZONS  
WITH ORGANIZATIONAL GOALS**

plans would then be developed to train workers, stock inventories, set targets for production levels, and designate budgets necessary to achieve the operational goal of increased production.

Once the plans have been developed for the three types of planning horizons, managers must balance the plans depending on the degree of success that is achieved in completing activities within certain time frames. It would not be useful, for instance, to train workers if for some reason the construction of a plant is delayed for several years due to a downturn in the economy, forcing managers of the organization to engage in cost-cutting procedures. Thus, integration of the three planning horizons is an important task of management.

Where many adjustments are necessary in the overall plans, many organizations elect to develop a planning staff that will not only make a major contribution to the development of plans, but also monitor the implementation process and make adjustments to plans when necessary.

**CONTINGENCY PLANNING**

In Chapter 6 we indicated that the need for strategic planning has increased for many organization managers due to the increase in environ-

mental uncertainty. Environmental uncertainty is problematic to the implementation of plans because it makes it more difficult for managers to project critical conditions in the future. Under these conditions, managers of organizations will attempt to develop contingency plans.

Contingency planning involves identifying alternative courses of action in advance of implementation in order to meet possible conditions in the future. Contingency plans, therefore, add an element of flexibility that assists managers in the anticipation of changes that may occur suddenly. For instance, an organization that seeks to expand its production levels in order to enter new markets can establish a contingency plan to respond to a sudden downturn in the economy which may increase the cost of borrowed money and lower the demand for the product. If this is believed by management to be a possibility, contingency plans can be developed which will shift activities to respond to this event. Instead of building new plants, the contingency plan may be to reduce production levels and curtail the hiring of new employees.

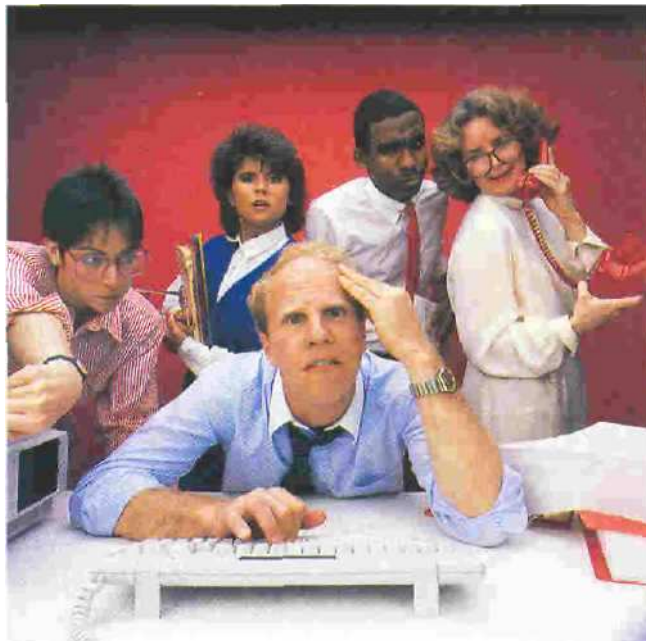
In highly uncertain conditions, management may also believe there is a possibility for accelerated demand for the product which would require expanded production levels beyond the original plan. That is, demand may be twice that originally forecasted, thereby requiring an even greater increase in production facilities over the next ten years. Thus, management may include another contingency plan that calls for subcontracting with other firms to produce the product. Hence, under contingency planning, management can be prepared to implement plans that will respond to a decline in demand or an acceleration in demand, and a plan that will meet demand under the original expectations. Through contingency planning, managers can respond to both optimistic and pessimistic scenarios of future conditions in the environment.

Contingency planning provides several benefits to managers in the organization. First, contingency planning can reduce the occurrence of crisis management, which is the scramble for answers to problems within a very short time frame. In many instances, crisis management produces decisions that are ineffective or actually damage the chances of the organization achieving its desired goals. Second, contingency planning further develops managerial skills by requiring managers to understand the dynamics of their environment. And third, it enables managers to engage in a variety of decision-making techniques that are useful for developing more effective decisions.

The process of contingency planning is best understood through the identification of action points. Action points are designated times in the plan that signal managers that conditions are moving in a direction which requires the abandonment of the original plan. Action points are incorporated into the original plan at intervals in the implementation process that managers feel are critical stages for committing resources. Action points are established and monitored in a plan by the following methods:

- ▲ In the development of the plan, managers examine each step in the implementation process and pose a "what if" question concerning each step to be completed. Managers assign probabilities to the event actually occurring and then identify alternative plans to be implemented should the event actually occur. Not all possible outcomes can be included, as this could be an infinite number. The assignment of probabilities enables managers to discriminate between possible events occurring and thus narrow the number of contingency plans required. For example, management may decide that any event that has less than a 25 percent probability of happening will not have a set of contingency plans developed for the occurrence of that event.
- A During the implementation process, information is gathered to identify trends that may lead to one of the possible events identified in the contingency plan. For instance, management may believe that a decline in the gross national product (GNP) of more than 2 percent will lead to a severe decline in demand for the organization's product. Thus, if GNP has been declining over several quarters, managers may have good reason to believe that a contingency event may occur in that year.
- A If a decision is made that a contingency event is likely to occur, implementation of the contingency plan takes place. This may be a withdrawal of further construction on new plants and a

Contingency planning can reduce the need for crisis management.



discontinuance of programs designed to train new employees. Action points are continually monitored in order to assess the probability of further contingency events taking place.

## STEPS IN PLANNING

While we have discussed various aspects of planning in previous sections, it is useful to identify the procedures managers use in planning and conditions that lead to planning effectiveness. Though the sequencing and implementation of steps in planning may vary among organizations, identification of a general process helps in understanding the planning function.

### Planning Steps

The five steps in planning include the following;

1. *Identify goals.* Organizational goals are the starting point for the planning process. As noted in Chapter 5, official goals can be abstract. When this is the case, managers must strive to understand how the official goals encompass and exclude certain activities in the organization.
2. *Conduct a SWOT analysis.* Conducting a SWOT analysis, as discussed in Chapter 6, provides managers with an awareness of present and future environmental opportunities and threats to their organization. SWOT analysis further informs managers as to the specific strengths and weaknesses of their organization. Such an analysis provides management with a better understanding of the organization's current situation and forecasts future situations that the organization will have to confront.
3. *Select a strategy.* Once managers have a clear understanding of organizational goals and have assessed the organization's current and future situation, a strategy can be selected that will exploit external opportunities and support the strengths of the organization. The selection of a strategy provides managers with a general plan for coordinating and controlling activities in the organization.
4. *Establish a plan.* Managers need to identify specific activities that will be implemented in support of the strategy that has been selected. This involves the establishment of operative and operational goals, action plans, and planning horizons.
5. *Implement the plan.* Finally, the plan is implemented. Coordination and control of activities are achieved through programs, projects, and budgets for single-use plans that are implemented and policies, start

dard operating procedures, and rules and regulations for standing plans that are implemented.

### Making Planning Effective

There are several considerations managers should attend to in the planning process in order to make planning effective. These considerations are as follows:

- ▲ *Attempt to use established technique's and systems in the organization to implement the plans.* While, some changes may need to be made, the more change introduced to members of the organization, the greater the probability that mistakes in adopting the new system will result. In some cases, managers have focused too much on applying new techniques that were in fact appropriate, but failed to attain their goals due to time spent having to learn and adapt to a new system.
- A *Planning should be participative.* The more members of the organization are involved in the planning process, the deeper the level of commitment and understanding of the final plan. Also, the greater the number of people involved, the greater the number of perspectives, information, and viewpoints that can be brought into consideration. This often requires the involvement of lower level managers, as well as top and middle management, in the planning process.
- A *Communicate to subordinates the reasons why specific activities are being implemented.* Fostering understanding of how the activities relate to goals and strategies of the organisation enables subordinates to make a greater contribution toward the achievement of goals.
- A *Plans should be simple.* While planning can be a complicated process and deals with complex issues, the plan itself should strive to simplify the operations to be performed and the goals to be attained. This will lead to greater understanding of the activities to be performed in support of the plan.
- A *Plans should be flexible.* Plans should not require, strict adherence. It is important to communicate to managers of the organization that plans may require alteration in order to adapt to new situations that may have been unforeseen. On the other hand, it is important not to give managers the impression that they can change plans without communicating their intent to do so with top management.
- A *Monitor implemented activities.* Managers have to go beyond directing subordinates as to what has to be done. They must also monitor the implementation of those activities to make

sure they are being done correctly and assist in solving problems that may occur.

Situation 1 describes what Robert A. Bandeen, the chairman and president of Crown Life Insurance Company, believes to be the key concepts for effective planning in any organization.

## SITUATION 1

### Making Planning Effective

The key concepts for effective planning are as follows:

A Planning must be a continuous activity—a fundamental and ongoing responsibility of the individual in charge of a profit center, and at the corporate level by the chief executive officer.

I

A Close attention must be given to the changing environment in which we are operating, be it economic, social, or regulatory, and both the short- and long-term implications must be considered.

J

A We must accept that we have moved from the industrial age into the<sup>1</sup> information age.

A We must recognize that we are operating in a worldwide marketplace. North America no longer is insulated from international developments.

A We must recognize that organizational planning is the creative, future-oriented use of our human resources ... and that employees will give the same kind of importance to planning that is demonstrated by the individuals in charge of the business.

A We should look to our lean centralized planning staff to be motivators—needlers, if you will—to management to get the job done effectively. Use them as a consulting service to broaden the scope of the individual manager's thinking.

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A Planning is worth the investment only if it achieves results. To measure the results, management must have a measuring stick—a feedback mechanism. The standard should be concise, consistent, and readily understood.

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Source: Reproduced with permission from *Managerial Planning*, "Strategic Planning at Crown Life" by Robert A. Bandeen (May-June, 1984). 4-7, 51

## MANAGING THE PLANNING PROCESS

Creating a comprehensive plan for guiding organizational activities toward the achievement of desired goals does not guarantee that it

## Academic Profile

### PETER LORANGE



Peter Lorange [D.B.A., Harvard University] is Professor of Management at The Wharton School at the University of Pennsylvania and Director of Wharton's Center for International Business Studies. A specialist in strategic planning systems and processes, he has completed extensive surveys of U.S.-based and international corporations, studying how to design and revise planning systems so that they might become more effective. Professor Lorange has written extensively on the subject of corporate planning and strategic management. His books include *Strategic Planning Systems*, *Corporate Planning: An Executive Viewpoint*, *Implementation of Strategic Planning*, and *Strategic Control*. A new book, *The C.E.O.'s Perspective on Strategic Planning*, is scheduled to be published soon. He has also published more than 50 articles on his subjects of expertise. Professor Lorange is a strategic management consultant to major corporations in the United States, Europe, South America, and the Far East. He is a faculty principal of MAC, Inc., a Cambridge, Massachusetts-based consulting firm.

Q: What do you believe are the key criteria for successfully implementing a strategic plan?

A: I believe that the key criteria are as follows; [1] the strategic plan truly sets a clear direction of where it wants to take the business; [2] the plan should add a clear set of programs or action plans regarding how to make the selected strategic direction happen; [3] these strategic programs or action plans should be spelled out in terms of who is responsible for what tasks, and it should be ascertained that the organisation has the resources to carry out these programs; and (4) it is necessary to be sure that specific competencies of management and sufficient time and financial resources are available to carry out these programs. Q: What do you see as the most difficult problems associated with the implementation of a strategic plan?

A: The most difficult problems have to do with the communication of the strategic plans to a broader set of managers as a team. Strategic plans can often look very straightforward from a purely rational point of view. When it comes to making sure that the various managers have in fact committed themselves to the strategic plan, it is, however, more difficult. This may partly be a matter of a lack of common understanding regarding what the strategic plan involves. More seriously, however, it may also be a problem of lack of fundamental agreement. Often strategic plans call for changes in the direction of the firm. This may imply that certain managers feel threatened by the strategic plan, while other managers feel that they can "benefit" from the strategic plan. This protection of turf can often lead to a

lack of commitment to the strategic plan. Q: Some managers have argued that with increased environmental uncertainty, the need for strategic planning diminishes. Do you agree with this view?

A: I do not agree with this view at all, I feel that with increased environmental uncertainty, strategic planning has a more important role. The issue, however, is how strategic planning is understood and practiced. I believe that a good way of practicing strategic planning in an uncertain environment is to emphasize heavily the critical underlying assumptions of a given strategy, and then attempt to monitor the developments of these assumptions so that there may be an "early warning" that a new opportunity or threat might be emerging. Such critical underlying assumptions might have to do with changes in growth rates, raw material supplies, competitive strengths, customers' reactions, and strategic moves and countermoves of competitors. In total, I feel that a strategic planning process which highlights and emphasizes the critical underlying assumptions and how these assumptions can be better understood and followed up on will create a responsive, flexible vehicle for adapting to environmental opportunities and threats. It follows, however, that the strategic plan as such can never be expected to last forever as stated. The plan is always a vehicle for further development, learning, and improvement. I believe that an important philosophical dimension of strategic planning in a time of uncertainty is to see the strategic planning process as a learning process.

implementation of the plan will be without problems. In most cases, managers discover that several barriers to planning must be overcome in order for their plans to be effective. This section discusses the major barriers to planning, techniques for overcoming planning barriers, and reasons why planning has failed in some organizations.

## Barriers to Planning

Barriers to planning include the environment, reluctance to establish goals, an inadequate reward system, resistance to change, and time and expense.

**Environment.** The environment of an organization can take many forms. Where the environment is very unstable and complex, planning becomes highly difficult. Many managers may feel that planning diverts their attention from other important matters because they are unable to predict changes in the future. When the environment changes rapidly, plans can become obsolete and useless in the near future. Many managers in firms that are engaged in advancing bioengineering techniques, such as the cloning of plant and animal cells to produce hybrids, find that new knowledge and techniques evolve daily. As a result, it is difficult to predict how the new knowledge and techniques will affect current research activities. In many cases, plans have to be radically changed and managers may become reluctant to expend the effort and put forth the means to develop a comprehensive and complete plan for the organization.

**Reluctance to Establish Goals.** Setting goals is the essential first step in the planning process. In some instances, managers are reluctant to set goals for themselves and their subunits that are meaningful for directing activities. Several reasons for this reluctance can be identified:

A *Unwillingness to give up alternative goals.* In developing a plan, managers consider multiple goal alternatives. Some managers may prefer one goal over alternative goals. They may feel a particular goal is more important or better suited to their skills. However, once a specific goal has been selected to direct activities in the organization, some managers may be reluctant to commit all of their effort to the selected goal. As a result, their performance may be less than necessary to complete the goal successfully.

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5. D. A. Kolb, I. M. Rubin, and J. M. Mcrityre, *Organizational Psychology: An Experiential Approach to Organizational Behavior* (Englewood Cliffs, NJ: Prentice-Hall, 1994).

A *feat of failure*. Goals identify outcomes of activities that are to be achieved over a period of time. With the designation of a goal come expected levels of performance. Some managers may be reluctant to establish a goal because of risk of failure. Failure can be a threat to one's job security, loss of support among other workers, and a loss of self-esteem for the manager. Thus, the fear of failure may influence managers to establish only those goals that do not involve risk.

A *Luck of organizational knowledge*. Successful planning requires ■the integration of activities within and across subunits of the organisation. Some managers, particularly those who are new or have failed to develop information networks within the organization, may lack sufficient knowledge about the organization to understand how their goals integrate with other goals in the organization. When this occurs, managers may avoid establishing goals because they are unsure the necessary activities to complete the goals will be supported by the organization,

A *Lack of confidence*. Managers may believe the organization does not have the resources or commitment to follow through in successfully completing a goal. Thus, they are unwilling to spend the time in the planning process to develop goals that will be meaningful and lead the organization to potential success in the future.

**Inadequate Reward System.** Managers of the organisation engage in varied activities with varied reward systems. Reward systems, either monetary or in the form of prestige or other outcomes, may emphasize some activities more than others depending on what top management believes to be the most important activities in the organization. Planning may be one activity that managers are not rewarded for adequately. This could be due to an overemphasis on rewarding activities that increase efficiency or activities that increase profits. However, a change in the environment or a change in strategy may require greater emphasis on planning. If activities related to planning are not adequately rewarded, managers may be reluctant to develop and implement meaningful plans.

**Resistance to Change.** Resistance to change is a fourth barrier to the planning process. Planning is much more than timing activities to be performed. Planning implies that some change is to occur in the organization. As a result, some managers may resist change due to insecurity about what the change will bring in the future, about their role in the organization, or about their prestige or other job outcomes. Planning, therefore, may be avoided in order to prevent change in the organization. Further discussion of organizational change and various forms of resistance will be found in Chapter 11.

**Time and Expense.** Planning may be avoided by some managers because it involves too much time and expense. Effective planning often requires working in committees in order to coordinate the plans throughout the organization as well as to assess various options. For many managers, committees are viewed as too time consuming. They would prefer to engage in tasks that have more immediate results. Managers may also avoid the planning process because they feel there is a lack of funds available to acquire the necessary resources to engage in effective planning. The development and implementation of an effective plan may require additional expense for hiring experts, expanding data bases, or purchasing new equipment. If managers believe the funds are not available, they may elect not to engage in the planning process.

## Overcoming Barriers to Planning

Having identified barriers to the planning process, we can turn our attention to several techniques that can be used for overcoming planning barriers.

**Support from Upper Management.** For planning to be effective throughout the organization, support from upper management must exist. Upper management can express and display this support by taking the initiative in clarifying the mission and official goals of the organization and by selecting a strategy that will guide activities toward their attainment. In addition, upper management should encourage middle and lower level managers to engage in the planning process by establishing rewards for planning and allocating adequate time and expense to planning.

**Communication.** Throughout the planning process, the intent of the strategy to be implemented and the methods for integrating and coordinating plans should be communicated to all participants. Communication enables managers and workers of the organization to maintain an accurate understanding of the direction they are to pursue. Managers should continually attempt to specify goals to be attained and encourage others to direct their activities toward those goals.

**Participation.** Planning should not be exclusive. That is, planning should not be confined to any one subunit or level of management in the organization. Rather, it should encompass all those members, managers and workers alike who will have an effect on the activities to be implemented through the plan.

**Review and Up-Dates.** Reviewing and updating plans are important activities in the implementation process. Determining if sudden changes in the environment call for a change in the plan should be an<sup>1</sup>

ongoing task. If reviews and updates **are not** performed and important environmental shifts have taken place, managers may abandon planning altogether. As we discussed earlier, contingency plans should be developed if managers suspect a change in the environment is possible within the time horizons of the plan.

**Information Exchanges.** Managers **at** all levels of the organization should receive information about the successes and failures of activities in other subunits of the organization. This information is not only useful for adjusting one's own activities if necessary, but enables managers to identify problems and provide solutions to other areas of the organization. Exchanges of information can help reduce resistance to change as managers are informed that change is occurring not only in their subunits, but throughout the organization. Hence, a greater awareness of the purpose of the change is achieved.

Situation 2 describes one unusual technique that is used to help executives overcome barriers to effective planning.

## SITUATION 2 How

### to Draw a Plan

Take a metaphorical leap. Imagine your company as a vehicle. Any kind of vehicle. Now draw it on a piece of paper and describe it in a few words. The result might make you a better manager.

Since 1979, The Wharton Applied Research Center at the University of Pennsylvania has given seminars on strategic management and leadership to more than 1,000 senior executives. The seminars are designed to help executives set long-term goals and deploy resources to achieve those goals. Drawing a picture is one part of the executives' training. The seminar's director, Peter Davis, says the exercise forces the participants to think of their company as a whole, which is essential to productive corporate planning. "Corporations go through transitions, and you need to reexamine the nature of the company periodically," Mr. Davis says. The drawings, he says, "express a holistic sense of where the company is and where it is going."

Or not going. One executive pictured his company as a bicycle with two sets of handlebars. The ones on the front wheel faced backward, and the ones on the back wheel faced forward—an outfit that didn't know if it was coming or going. Such depictions are typical of fast-growing firms, Mr. Davis notes. When an organization expands rapidly, he says, "directional issues are important," and managers often feel that the company isn't on a steady course.

People often reveal more in a drawing than in words, Mr. Davis says. Expressions of anger, helplessness and frustration are common. For example, one executive who drew a fierce aircraft doesn't think kindly of his employer, a large baking company. His description of the concern: "Fast, mean,

sleek, aggressive, doesn't turn back, ruthless." The company apparently is not one to be trifled with or one that is prone to failure.

Executives draw automobiles more than any other kind of vehicle. But some of the renderings look like a car designer's nightmare. Imagine trying to get to work in a car that has the front end of a race car joined to the front end of a Model-T. Travel might be difficult, but the art is revealing. The vehicle was drawn by an executive at a company "struggling to get into another field," Mr. Davis says. Obviously, the old phase of the business is a drag on the new one.

Psychologists don't agree on the usefulness of such pictures in making executives more effective managers. Chris Argyris, a professor of organizational behavior at Harvard University, says pictures will disclose someone's feelings of helplessness, anger, and frustration, but not show the situation that creates those feelings. One of Mr. Davis's favorite pictures was done by a son in the family's business. He drew an armored vehicle without doors or windows, explaining that there was no way for outsiders to get inside the company and no way for an insider like himself to get out.

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## Reasons for Planning Failure

A survey of managers in 350 American and European corporations suggests that planning failures are the result of one or more of the following factors:<sup>6</sup>

- A Strategic plans are not integrated into the total management system.
- ▲ Planning is done haphazardly; there is a lack of systematic procedures for the formulation and implementation of plans.
- ▲ Planning does not encompass all of the members of the organization who will be affected by the plans.
- A Departments of planning are created with the sole responsibility of formulating plans rather than sharing responsibility with managers.
- A Management assumes that a formulated plan is a substitute for an implemented plan.
- A Plans attempt to do everything at once.
- A Management "plans its work but fails to work its plan."
- A There is an overemphasis on forecasting trends and an underemphasis on developing plans to respond to trends.
- A There is a lack of adequate information.
- A Too much emphasis is placed on one area of the plan.

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6. K. A. Ringbakk, "Why Planning Fails," *European Business* [Spring 1971], 15-26.

## IMPLICATIONS FOR MANAGEMENT

Planning is a process that all managers are involved in. As a manager, you will need to determine what task activities are necessary for the implementation of a plan. These task activities are to be formulated so that they support the selected strategy of upper management. It is important to remember that all planning is related to the mission and goals of the organization. Task activities that do not lead to the attainment of the organisation's mission and goals should be avoided.

Several types of plans should be considered by managers. Single-use plans are useful when a manager believes the task activity will not be repeated in the future. When implementing a single-use plan, managers should make sure that the program or project has identified all of the necessary tasks to be performed. Special consideration should be given to the budget that has been assigned to your program or project. Sometimes the budget may not include all of the funds that are necessary to complete every task. When this occurs, managers must reevaluate their single-use plan and identify those tasks that can be eliminated or modified to meet the budget constraints. Standing plans should be continually modified to meet the requirements of the organization. Sometimes managers must change procedures or rules, because external change has made them obsolete. Standing plans should be understood as mechanisms for guiding tasks and directing them toward desirable goals.

Plans can be classified into three planning horizons. It is important that short-range plans support intermediate plans and that intermediate plans support long-range plans. If working with a short-range plan, managers should report any problems they have in implementing the plan to upper management. Managers responsible for the next level of the planning horizon will need to know if delays or inadequate levels of performance occur" in order to adjust their own plans.

Increasingly, organizations are using contingency planning. As external conditions become more volatile, it is necessary to ask "what if" at each step of the planning process. When participating in the planning process, you should consider events that may require a change in the plan. Those that seem to have a high probability of occurrence should be expressed and a contingency plan developed.

You may find yourself in an organisation where planning is not done in a consistent manner. Attempt to locate the reason why managers are not engaged in planning. Do they feel that the environment is too uncertain? Is there a reluctance to establish clear goals; Are some managers fearful of change in the organization; Are rewards absent for managers who plan? Do they lack the time to plan? If the answer is "yes" to any of these questions, the organization is not taking full advantage of the planning process. These barriers to planning should be overcome. This may be accomplished by having upper management express its support for planning, increasing communication about the goals to be achieved, involving

more members of the organization in the planning process, having managers review and update their plans, and setting up a system of information sharing which will lead to greater integration of plans within the organization.

### KEY TERMS AND CONCEPTS

|                       |                              |
|-----------------------|------------------------------|
| action plans          | planning staff               |
| action points         | policy                       |
| budget                | program                      |
| contingency planning  | project                      |
| crisis management     | rules and regulations        |
| hierarchy of plans    | short-range planning         |
| intermediate planning | single-use plans             |
| long-range planning   | standard operating procedure |
| plan                  | (SOPI                        |
| planning horizon      | standing plans               |

### REVIEW QUESTIONS

1. Describe the difference between a plan and planning.
2. When does the need to coordinate activities increase? How do plans assist in the coordination of activities?
3. What are the four levels of planning? What is meant by the hierarchy of plans?
4. Under what conditions would managers want to create a planning staff? What type of people would comprise a planning staff?
5. Describe the differences between a single-use plan and a standing plan. What are the three types of single-use plans? What are the three types of standing plans?
6. Identify the three, planning horizons and describe how they are integrated.
7. What is contingency planning? What benefits can it provide for managers?
8. What are the five planning steps?
9. Identify the six considerations managers should make in the planning process to make planning effective.
10. Describe the major barriers to planning. Discuss how these barriers can be overcome.
11. What factors lead to planning failure?

### CASE 7 A Planning at Thousand Trails

C. Jarnes Jensen bristles at any comparison between his outdoor recreation company and land-scam developers in the 1960s and

1970s. Some people "see us out here in a puppet, ready to pull the stake the first time creditors come around/" observes Mr. Jen=

sen, chairman of Seattle-based Thousand Trails, Inc. The perception, he says, is unfounded and unfair.

But a close look at Thousand Trails—its financial structure, accounting methods, and sales approach—indeed raises questions about the company's ability to withstand any setback in its ambitious master plan. Should the company get into trouble, it could portend trouble not only for stockholders—who at least in theory understand the risks they are taking—but also for Thousand Trails' tens of thousands of members, who probably don't. Thousand Trails isn't a fly-by-night operator. Founded in 1969, the company helped pioneer a new industry—private membership campgrounds—and says it will sell more than \$110 million in family memberships this year alone. Along with its membership roster, the company's popularity on Wall Street has grown consistently since going public in 1979.

But Thousand Trails' success could become its undoing. The company has already developed a voracious appetite for new members. With so much of its success dependent upon numerical growth, any shortfall could affect every aspect of the company, from its financial performance to its ability to maintain services at existing campgrounds. If memberships fall far short of projections, it would create "a lot of difficulties," acknowledges Melvyn R. Kays, a director and chief financial officer. Conversely, he says, if new memberships exceed projections, the company will do better than expected.

By adding new campgrounds and campsites rapidly, Thousand Trails has

increased company-wide memberships to about 66,000 currently, with more than 50 percent of those joining in the last three years. But the company needs to sell about 170,000 additional memberships at campgrounds already in existence to be consistent with its current accounting procedures for amortizing existing and planned land and improvement costs. Based on its current success rate in selling memberships, Thousand Trails would need to attract more than 2 million new prospects to its sales centers. At Thousand Trails, an unlimited membership (a lifetime fee of \$6500 plus annual dues) offers holders access to a nationwide chain of 42 well-maintained, scenically located campgrounds, which the company dubs "preserves," "resorts" and sometimes, "the poor man's country club."

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1. How would you describe the planning, horizons at Thousand Trails? Do you feel these horizons are appropriate for this company? Why or why not;
2. It appears that management at Thousand Trails has not developed a contingency plan. Why do you think this would be the case; Could you identify important "action points" that management should include in a contingency plan?
3. Would management of Thousand Trails benefit from a planning staff- If so, what specific tasks would you want the planning staff to perform?

### PART 3 CASE ▲ Sears Roebuck's Struggling Financial Empire

Executives at Sears Roebuck and Co. have been spending a lot of time lately assuring the press, the public, and Wall Street that

the mammoth retailer's bold plan to sell financial products to middle-class consumers is coming off with nary a hitch. "The

implementation of our strategy is on course," Edward A. Brennan, 51, president and chief operating officer of Sears, told a group of security analysts this year. "There are no strategic surprises."

Despite Brennan's assurances, the road to becoming the premier purveyor of stocks, insurance, and loans to the great American public has been a lot bumpier than Sears would like the world to think. Sears financial centers, which were supposed to offer one-stop financial shopping to Sears' store customers, have been a disappointment. Synergies that were to spring from the combination of Dean Witter Reynolds, Sears' brokerage firm; Allstate Insurance, its property and casualty insurer; and Coldwell Banker, its real estate company, have been slow to materialize. Dean Witter has been debilitated by huge operating losses and a continuing exodus of talent. And Sears is still missing the linchpin of its grand scheme, a banking network to enable it to take deposits and make loans nationwide.

For now, Sears' major pipeline to carry financial services to the middle-class customer is its stores. And again Sears executives are reassuring. Robert M. Gardiner, 62, chairman and chief executive of Dean Witter Financial Services Group, which oversees the Sears financial centers, says that Sears is "very, very pleased" with the in-store financial boutiques. Adds Philip J. Purcell, 42, president and chief operating officer of the group, "Our objectives for the kinds of clients and the assets we wanted to attract and the commissions we wanted to generate have been exceeded."

But the appeal of one-stop financial shopping is more limited than Sears expected. The original plan was to put financial centers in larger stores and major markets, covering about half the company's 800 stores. During 1983 and 1984, Sears opened financial boutiques in 312 stores, planting various combinations of Allstate sales-

people, Dean Witter brokers, and Coldwell Banker agents among the kitchen sinks, garden hoses, and lamps. But it has closed five of those centers so far this year, and will add new ones, says Brennan, only "where we see opportunities for growth." Business at the financial centers has been on the upswing this year, but the centers remain unprofitable.

Skeptics who predicted that consumers would turn up their noses at the idea of buying stocks where they buy socks have proved only partly right. Dean Witter brokers who staff Sears' financial centers tell many tales about walk-in customers with accounts of \$1 million or more. But according to Brennan, most of what Dean Witter brokers sell to Sears customers are "packaged products"—mutual funds, individual retirement accounts, certificates of deposit, and money market accounts. Since 1983, Dean Witter has increased assets under management in its mutual funds 81 percent, to \$14 billion, and assets under management in individual retirement accounts have more than quadrupled to \$5.1 billion. But the heftiest profits in the brokerage business are in stocks and bonds, not so much in the commissions charged for buying and selling, but rather in interest gained on margin accounts, those in which a broker lends a customer the money to buy stock. Sears watchers believe that the company can still do nicely selling packaged products, but, says Stuart Feldstein, president of SMR Research (a Budd Lake, New Jersey, firm that has studied the company's strategy), "Sears will have to do tremendous volume and be sharp on costs to make money."

An expansion of Dean Witter's sales force has helped build volume. Since 1982, Dean Witter has increased its sales force 40 percent, hiring and training 2,000 new brokers. Seventeen hundred of them are what Sears calls "metro brokers," who work two or three days a week in Sears stores and the

rest of the time in nearby Dean Witter offices. In total, Dean Witter has about 6,600 on the payroll, making it the second largest securities firm in number of brokers behind Merrill Lynch, which employs 11,000. The brokers pulled in 154,000 new accounts from Sears stores in 1984 and 115,000 in the first six months of 1985.

Still, the productivity of Dean Witter's sales force has been steadily declining. In 1983, its brokers earned an average of \$97,400 in securities commissions, 86 percent of the average commission earned by brokers at New York Stock Exchange member firms. Last year its brokers earned an average of \$68,300, only 70 percent of the industry average. Acknowledges Robert Gardiner, "When you bring so many people on stream at one time, it's harder to have the quality selection you'd get by expanding more slowly. . . ."

While much of Dean Witter's poor performance can be blamed on overambitious expansion and a stock market gone boring in 1984, Chairman Gardiner and President Purcell did little to reduce overhead and streamline back-office operations—at least not until they saw the tides of red ink becoming a flood. Purcell then ordered department heads to reduce staff. In the view of disaffected insiders, the cuts were carried out with little regard for the effect on Dean Witter's everyday operations and the health of its investment banking businesses, not to mention the morale of its employees.

As an example of indiscriminate cost cutting, critics cite Bondline, a service Dean Witter started in 1983 to furnish bond salespeople with information about bond prices and market conditions. Late last year, Dean Witter suddenly fired Bondline's entire 19-member staff. The result was immediate chaos in the bond-trading department, as traders were flooded with phone calls from salespeople seeking information. A few days

later some who had been dismissed received a note from Purcell asking them to come back. . . .

... Critics wonder if Dean **Witter** is committed to staying in investment banking. Gardiner's experience is in the retail side of the business, and Purcell had no Wall Street experience before coming to Dean Witter. After receiving both a master's, degree in economics from the London School of Economics and an MBA from **the** University of Chicago in 1967, he went to work at the McKinsey & Co. management consulting firm. While at McKinsey, Purcell helped cook up Sears' financial services strategy and so impressed Chairman Edward Telling that Telling hired him in 1978 to help implement the plan. Purcell toiled as a Sears corporate planner for four years until Telling installed him as president of Dean Witter.

Gardiner says that Purcell—to whom he fondly refers as "Philsy"—is "probably one of the brightest young men I have ever met." But Dean Witter watchers question whether Purcell's flair for planning extends to managing. The answer is important because Dean Witter is the command center for Sears' consumer finance push, and Purcell is likely to succeed Gardiner when he retires at the end of 1987—"or in 1986, if I feel like it," the chairman says.

Sears' other financial subsidiaries are in good shape. Allstate Insurance, which Sears has owned since 1931, has outperformed its competitors by keeping costs low and has helped offset its parent's declining profits from this year's downturn in retail sales. The year 1984 was a disaster for property and casualty insurers, but Allstate had earnings of \$660.7 million on revenues of \$9 billion, providing 45 percent of Sears' profits.

Coldwell Banker is apparently doing fine, though it too is experiencing executive turnover. The largest broker of U.S. com-

mercial real estate, the firm has also made impressive inroads into the residential real estate market. Coldwell Banker held just 1.3 percent of the U.S. residential resale market when Sears completed its purchase of the firm in 1981 for \$202 million. Since then, by buying 18 local real estate firms, selling 672 franchises, and adding nearly 8,400 agents, it has increased its share of houses sold to 7.5 percent. Coldwell Banker is now the second largest residential brokerage firm in the United States, behind Century 21, which commands 11 percent of the market.

Coldwell Banker's goal is to broker 28 percent of U.S. residential resales by the mid-1990s. If it does, Sears figures it can become the largest mortgage originator in the country by writing mortgages through Coldwell Banker, Allstate Enterprises Mortgage Corp., and one of its banking subsidiaries, and by insuring them through Allstate's PM1 Corp. Then Sears could pool the mortgages and sell them as securities through Dean Witter. . . .

At the core of Sears' financial services strategy is the goal of collecting deposits and making loans to the store's 128 million customers; in the jargon of the banking industry, Sears believes that by establishing basic banking relationships with its customers, it will have a leg up on competitors in selling them loans, insurance, stocks, bonds, and other financial products. In the late 1970s, when Sears formulated its financial services plans, banking deregulation looked imminent, and Sears' plan to create a banking network seemed plausible. But because of a recent string of bank failures, government pressure for deregulation has eased. . . .

In the meantime, Sears is trying to jerry-build a national deposit-taking system with its new Discover card, a hybrid credit and financial services card. Launched this fall in Atlanta and San Diego, Discover represents Sears' riskiest, most expensive gamble yet. Building a base of customers to use a

credit card and recruiting the merchants to accept it is a slow, arduous process that can take years. Sears won't say how much it expects to spend on Discover, but competitors in the credit card business estimate that it will cost Sears at least \$30 million to establish the card. . . .

American Airlines, the Holiday Inn chain, Budget Rent a Car, and Hospital Corp. of America were among the first to agree to honor the Discover card. When it comes to signing up merchants, however, Sears needs a particularly appealing pitch, since the big retailers that can offer Sears the largest volume of credit purchases will be unlikely to aid one of their most powerful competitors. Sears boasts it has already signed up 50,000 retailers nationwide for the card, and says it is recruiting new ones at the rate of 1,200 a day. But in Atlanta, where the Discover card made its debut, two of the largest retailers, Davison's/Macy's, owned by R.H. Macy, and Rich's, a division of Federated Department Stores, refused to accept the new card.

Sears hopes to overcome resistance by undercutting the fees competitors charge merchants to settle credit card transactions. Banks usually charge merchants 2 to 3 percent of a credit purchase to process Visa and MasterCard bills; American Express charges 3 to 5 percent. So far, Sears is charging merchants an average of 1.25 percent to process purchases made with the Discover card.

Sears' main aim with Discover is to sell products from Dean Witter and Sears Savings Bank. It has started by offering a so-called family savings account with Sears Savings Bank, which collects deposits by mail. To help consumers overcome misgivings about entrusting their checks to the U.S. Postal Service, Sears offers tiered interest rates: The greater the deposit, the higher the interest rate. Sears is also offering individual retirement accounts. . . .

The man at Sears who finally will have to complete the construction of the

company's financial empire is probably Ed Brennan. Chairman Edward Telling, 66, who set the company upon its monumentally ambitious course, is to retire at the end of the year. His replacement will almost certainly be Brennan.

Like Telling, Brennan is a merchandising man: He got his start in Sears selling ties, underwear, and pajamas in the men's furnishings department, rose to become president of Sears' merchandising group in 1980, and became president of Sears Roebuck last year. For all his imperturbability in the face of the financial group's problems, Brennan has a reputation as a fixer, an operating man with an eye for trouble spots and a knack for cleaning them up. Considering the load of troubles Sears is encountering as it tries to make its financial services strategy work, that may be just what the company needs.

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- I. Identify and describe the official goal(s) of Sears, Roebuck. Identify and describe the operative goals for Dean Witter, Allstate Insurance, and Coldwell Banker.
2. Are the operative goals consistent and supportive of the official goals?
2. Which of the four approaches for assessing organizational effectiveness do the executives at Sears seem concerned with most? Which approach for assessing effectiveness seems to be emphasized least? Does this seem to be posing problems for the corporation?
3. Based on evidence in the case regarding Sears' strategic plan, tell how management has answered the three basic questions: (1) What will we do and for whom will we do it? (2) What goals do we want to achieve? and (3) How are we going to manage the organization's activities so as to achieve the chosen goal?
4. What evidence does the case provide to suggest that Sears has appropriate internal "strengths" to exploit external "opportunities"? What external "threats" and internal "weaknesses" should the management of Sears consider in selecting its strategy?
5. Describe how Porter's competitive model might be applied to the industry in which Sears operates. What strategic model seems best suited for analyzing and understanding the strategy Sears is attempting to implement?

