

EXAM 2 MANAGEMENT PRINCIPLES

CHAPTER 5: PLANNING – THE FOUNDATION OF SUCCESSFUL MANAGEMENT

OBJECTIVES

- LO 5-1 Discuss the role of strategic management.
- LO 5-2 Compare mission, vision, and value statements.
- LO 5-3 Discuss the types and purposes of goals and plans.
- LO 5-4 Describe SMART goals and their implementation.
- LO 5-5 Outline the planning/control cycle.

LO 5-1 Planning and Strategy

Planning: Coping with Uncertainty

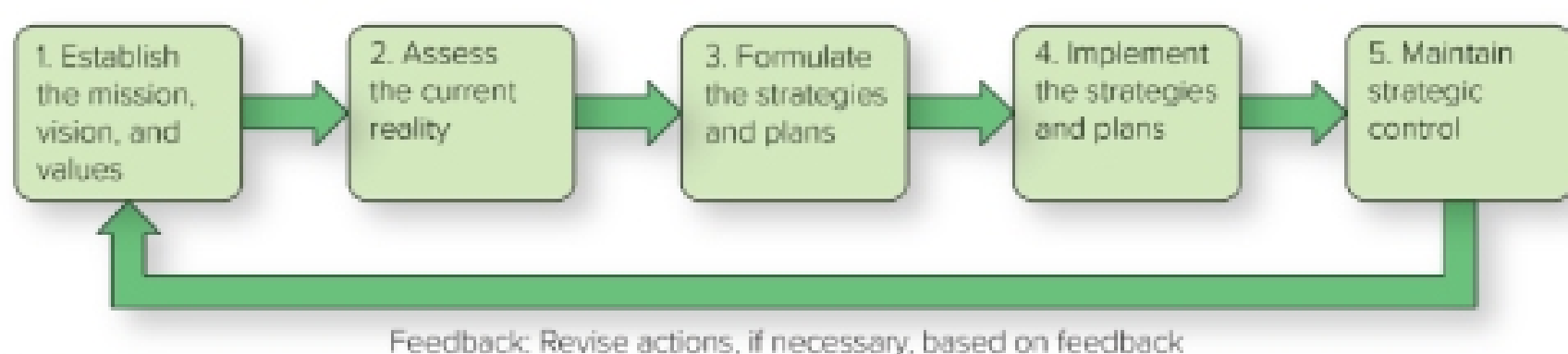
- Planning is **IMPORTANT** for organizational success. Poor planning is one of the top reasons why small businesses fail. According to the U.S. Bureau of Labor Statistics, the failure rate for new businesses is 50% within the first 5 years and 66% within 10 years.
- **Planning**, setting goals and deciding how to achieve them, is a broad term used in relation with *strategy* and *strategic management*.
 - Planning helps managers plan how their business is going to survive, grow, and thrive into the future to avoid joining the two out of three businesses that fail within 10 years.
- A **plan** is a document that outlines how goals are going to be met. It is the product of the planning process that serves as a roadmap for future actions.
 - One important type of plan is a **business plan** – a document that outline's a company's goals, the strategy for achieving them, and the standards for measuring success.

Strategy: Setting Long-Term Direction

- A **strategy** sets the long-term goals and directions for an organization – it represents an "educated guess" about what long-term goals or direction to pursue for the survival of the organization.
 1. Strategy requires adjustments yearly because of ever-changing business conditions; strategy is not something that can be decided on just once.

Strategic Management: Involving All Managers in Strategy

- Late 1940s: most U.S. companies were organized around a single idea or product line.
- By the 1970s: 500 companies were operating in more than one industry and expanded overseas. Companies began to take a strategic management approach to measure their growth and focus their operations.
- **Strategic management** is a process involving managers from all parts of the organization to come together to **formulate and implement strategies and strategic goals.**
 1. Middle managers are responsible to formulating strategies with top managers, because middle are the ones who actually have to understand and implement these strategies with people lower in the organization.
 2. In strategic management, top managers, middle managers, first-line managers, and team leaders **FORMULATE, IMPLEMENT, and EXECUTE** strategies and strategic goals to advance the organization.
 - Planning covers strategic planning, tactical planning, and operational planning:
 - **Strategic Planning:** done by TOP MANAGERS
 - **Tactical Planning:** done by MIDDLE MANAGERS
 - **Operational Planning:** done by FIRST-LINE MANAGERS and TEAM LEADERS.
- Planning and strategic management flow from an organization's mission and vision:



Why Planning and Strategic Management Are Important

- An organization should adopt planning and strategic management for three reasons:
 1. Provide direction and momentum
 2. Encourage new ideas
 3. Develop a sustainable competitive advantage.

Let's consider these three benefits in more detail.

1. Provide direction and momentum.

- With planning and strategic management, managers can take long-range view of things and respond more quickly to changes; focus on the most critical short-term and long-term problems.
- **SUCCESS:** Research shows that businesses are more successful when they formulate a business plan, and founders benefit most from business planning **6 to 12 months after launching the business.**
- **FAILURE:** Poor planning can send a business in the wrong direction. Bad planning usually results from **not understanding the problem, poor assessment of an organization's capabilities, ineffective group dynamics, faulty assumptions about the future, and failure to use management control as a feedback mechanism.**
- **A detailed plan may be comforting, but it's not necessarily a strategy.**

2. Encourage new ideas.

- Strategic planning encourages new ideas by stressing the importance of innovation in achieving long-range success.
- For example, a research study of 227 technology-related businesses found that firms that supported and rewarded risk taking in their strategic planning achieved high returns and a high level of innovative activity.

3. Develop a sustainable competitive advantage.

- Strategic management can provide a sustainable advantage by providing effective goods and services that outperform competitors.

LO 5-2 Fundamentals of Planning

Mission, Vision, and Value Statements

- People who have a goal don't just "wish for it to happen", they have a strategy to achieve it and the motivation to implement their plan. Organizations must determine their mission, vision, and value statements.
 - **The first this an organization must do is determine its PURPOSE—which is known as its *mission*.**
 - **Second, managers must have an IDEA of where they want their organization to go – the *vision*.**
 - **Lastly, both mission and vision what is most important to the organization – it's *values*.**
- **Top managers must formulate: MISSION STATEMENT → VISION STATEMENT → VALUE STATEMENT**

Planning Process Begins with Three Attributes: *The mission statement, vision statement, and values statement.*

The Mission Statement – “What is Our Reason for Being?”

- **Mission** – an organization's purpose or reason for being.
 - A mission is *present-focused* and defines “who we are and what we do”.
 - Who is responsible for determining the mission statement? Top management and the board of directors.
 - **Mission statement** – statement that expresses the purpose of the organization.

The Vision Statement – “What Do We Want to Become?”

- **Vision** – a long-term goal describing “what” an organization wants to become. It casts a *clear and motivational picture* of the ultimate goal the organization wants to pursue.
 - “The vision should motivate the team to make a difference and be part of something bigger than themselves” – Paige Arnof-Fenn
 - Research has found that vision statements exhibiting the following characteristics are most effective:
 - **Clarity:** employees understand the vision statement.

- **Future focus:** the vision statement describes the future, not the current state.
 - **Abstractness and challenge:** the future is described as hypothetical and difficult, but achievable.
 - **Idealism:** the future is portrayed as being highly desirable.
- After formulating the mission statement, top managers need to develop a **vision statement**, which expresses what the organization should become, where it wants to go strategically.

The Values Statement – “What Values Do We Want to Emphasize?”

- **Values** – reflect the qualities that represent an organization’s deeply held beliefs, highest priorities, and core guiding principles.
 - *Shared values* are the glue that keep employees working together to achieve a common goal.
- After formulating a vision statement, top managers are encouraged to develop a **values statement**, which expresses what the company stands for, its core priorities, the values its employees embody, and what its products contribute to the world.

Three Types of Planning for Three Levels of Management: Strategic, Tactical, and Operational

- **Strategic Planning → Top Management**
 - A process that determines organization’s long-term goals for the 1-5 years.
 - Strategic planning begins once the mission and value are established.
 - Strategic plans communicate general goals about growth and profits but also ways to achieve them.
 - A company’s strategic planning should be reviewed every year.
- **Tactical Planning → Middle Management**
 - The plans from top management are then passed down to middle management who must do **tactical planning** – determining what contributions departments or similar work units can make with their given resources during the next 6-24 months.
- **Operational Planning → First-Line Management and Team Leaders**
 - Middle managers pass these plans along to first-line management and team leaders to do **operational planning** – determine how to accomplish specific tasks within the next 1-52 weeks.

LO 5.3 Goals and Plans

Long-Term and Short-Term Goals

- A **goal** is a commitment to achieve a measurable result within a stated period of time.
 - Goals may be **LONG TERM** or **SHORT TERM**.
- **Long-term goals** – generally referred to as *strategic goals*, within 1-5 years, and focus on achieving the strategies identified in a company’s strategic plan.
- **Short-term goals** – sometimes referred to as *tactical or operational goals*, within 12 months, and are connected to strategic goals in a hierarchy known as a *means-end-chain*.
 - **Means-end-chain** shows how goals are connected and linked across an organization.
 - For example: a low-level goal such as responding to a customer inquiry in less than 24 hours is the means to accomplishing a higher-level goal of achieving 90% customer satisfaction.

Plans Are Great, But...

- Plans are made based on predictions about the future that may or may not happen. However, unforeseen circumstances can arise and threaten a company’s survival if it doesn’t have a plan to adapt to these emergencies.
- **Contingency plans** are responses to possible future events that could threaten a company’s operations.