

LESSON

2

Establishing Goals and Developing Plans

Quick Write



If you are working in a group, is it important to you to have a say in setting its goals? Why or why not?

Katie has just been elected president of the honorary fraternity at her business school. She wants to see the group take a bigger role at the school than it has done so far.

Antonio graduated from a technical university three years ago with a degree in marketing and computer science. He then went to work for a regional consulting services firm. Now he's won a promotion to manager of an eight-member e-business development team. He wants to make the team more of a moneymaker for the company.

Two people in new leadership assignments: What steps do they take next? For both, the first thing is to establish goals. But how? That's what you'll read about in this lesson.

Approaches to Establishing Goals

Goals provide direction for management decisions day by day. They also form the criteria—the yardsticks—against which to measure performance. Ideally, every action of workers and managers within an organization serves its goals. How does an organization set its goals? There are two main approaches:

1. Management by objectives, which you read about in the last lesson.
2. Traditional goal setting.

Traditional goal setting is an approach in which goals are set at the top level of the organization and then broken into subgoals for each level of the organization.

The president of a widget-making business, for instance, tells the company's vice presidents how many widgets he wants to make and sell during the coming year. Those vice presidents translate this goal into more specific subgoals to those below them on the corporate ladder. These lower-level managers, in turn, set goals for those below them, until finally the rank-and-file workers receive their goals. At the end of the year, top

Learn About...



- approaches to establishing goals
- developing plans
- contemporary issues in planning

management will assess how well the company did at meeting the goals.

This traditional top-down approach assumes that the top managers see the “big picture.” It also assumes that this process of passing goals down the corporate ladder works, and works smoothly.

It doesn’t always, though—especially for large global corporations. Trying to keep the goals of individual employees in line with those of the company as a whole is so hard that some firms have launched special initiatives to figure out how to do it better. For example, Seagate Technology, a California firm that makes disk drives, put its chief financial officer in charge of just such an effort.

Another problem with traditional goal setting is that top management often defines goals too broadly. Those down the ladder may have trouble grasping just what top managers want. For example, what does “market leadership” or “quality improvement” mean? Forced to interpret, lower-level managers will explain the goals in terms that make sense to them.

The employees on the shop floor will hear the goals and make their own interpretation of them. In the end, the goal-setting exercise may be like the parlor game of “telephone,” where a message is whispered from person to person around a circle. When the message comes full circle back to the person who first whispered it, it is often unrecognizable (see Figure 2.1).

This doesn’t have to happen, though. Some organizations do manage to communicate goals clearly from top management down to the shop floor. At Orthopedics de Mexico in Tijuana, for instance, employee teams see how their daily work output affects

Vocabulary

- traditional goal setting
- means-end chain
- mission
- commitment concept
- formal planning department

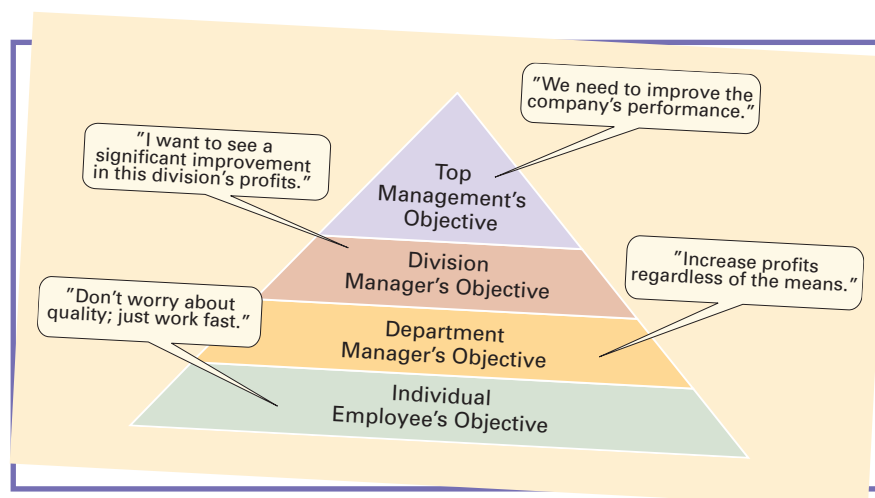


FIGURE 2.1

The Downside of Traditional Goal Setting

company goals. Every day, they know what they are supposed to do, and they know that if they meet their goals, the company as a whole will meet its goals.

Orthopedics de Mexico is an example of a firm with an effective means-end chain. A **means-end chain** is an integrated network of goals in which the accomplishment of goals at one level serves as the means for achieving the goals, or ends, at the next. In other words, each layer within the company builds on the success of the layer below. This is how traditional goal setting is supposed to work.

By now you may realize that traditional goal setting is different from the management by objectives (MBO) approach you read about in the previous lesson. Traditional goal setting happens from the top down. But MBO involves employees and managers working together to set goals. Another difference between the two is that in traditional goal setting, managers use goals to control employees. In MBO, goals are intended to motivate employees.

Research has shown MBO to be an effective approach. One review of 70 MBO programs found that 68 of them resulted in productivity gains.

But MBO may not be all that effective in times of change. The process of setting goals and later evaluating how well employees are meeting them requires some stability. If goals must be reset every few weeks—due to volatile energy prices, currency fluctuations, or even rapid technological change—no one will have time to measure progress made on the original goals.

Another issue with MBO programs is that they can lead to overemphasis on individuals' accomplishing their goals without regard to others in the work group. This can put teammates at cross-purposes unless managers keep a very close eye on them.

A third point about MBO is that it can turn into an annual exercise in paper shuffling that doesn't really motivate anyone.



The goal of Prairie Stone Pharmacy is to use automation to free workers from the routine aspects of their jobs. This speeds work and saves costs. Most important, it lets pharmacists spend time practicing pharmacy—advising their customers on the drugs they are taking.

Courtesy of Adam Friedberg

Steps for Management by Objectives

1. The organization formulates its overall objectives and strategies.
2. Top managers assign major objectives to divisional and departmental units.
3. Unit managers work with the supervisors below them to set their specific objectives.
4. Supervisors work with rank-and-file employees to set their specific objectives.
5. Managers and employees write and agree to action plans that define how to meet the goals.
6. The plans are carried out.
7. Managers up and down the corporate ladder review progress toward objectives. They give feedback as needed.
8. Those who have helped achieve the goal share in some form of reward.

Characteristics of Well-Thought-Out Goals

Some goals are better than others. “Good” goals need to be well thought out. They also must be clearly stated.

When you’re writing down your goals, put them in terms of outcomes rather than actions. You can put a lot of effort into something and still not meet your goal. The *desired result* is the most important element of any goal. Your written statement of goals should reflect this.

Next, you should define your goal in terms of measurable progress. “Improve quality on production line B” is vague. Neither the managers nor the employees will ever be able to say when they have met this goal. “Cut defects on production line B by 20 percent” is much better, because it’s more precise.

A well-thought-out goal includes a time frame as well. “Cut defects on production line B by 20 percent by Labor Day” is better yet.

It may be tempting to leave a goal open-ended, instead of assigning a deadline. But a target date makes people stop and assess progress. If the goal has been met by Labor Day, great. If not, what does that mean? Should the goal be reassessed? Has it become clear that a 10 percent reduction in defects is the best the company can achieve until it installs new machinery later in the fall? Is a change of personnel in order?

A well-thought-out goal should be challenging but attainable. It should be a stretch—but not an impossible one. If the goal is too easy, it won’t motivate anyone. If it’s

impossible, even with everyone putting out maximum effort, the team will just get frustrated and discouraged.

You should write your goals down. Yes, this takes time, and you may feel you can keep your goals in your head with no great effort. But writing your goals down forces you to think them through. Besides, a written statement of goals is itself a “product,” and a reminder of the importance of working toward something.

Finally, everyone on the team needs to know what the goals are. Maybe everyone should have his or her own copy of the written goals statement.

Maybe it works to post the goals on a bulletin board or a website. But however you distribute the goals, everyone needs to be “on the same page.”

Characteristics of Well-Thought-Out Goals

1. They are stated as outcomes (results) rather than inputs (actions or efforts).
2. They are measurable and quantifiable.
3. They have a clear time frame.
4. They are challenging but reachable.
5. They are written down.
6. They are shared with everyone who needs to know about them.

Case Study

A Manager Speaks Out

Jerry Englert is the working chairman of the Bank of Internet USA in San Diego. “My responsibilities give me the ultimate management control of all facets of the bank’s operation and direction. Most of my time is spent on future projects and growth,” he says.

He is directly involved in strategic planning, business planning, technology, and corporate culture and team development. The bank is always looking at new technologies and new market opportunities—including companies to buy or merge with.

Englert is very big on the importance of goals in business planning. “I have seen many a business fail with defined goals. But I have never seen one succeed without a realistic, attainable set of goals,” he says. “Goals serve as the corporate and personal scoreboard.”

He knows the dangers of goals that are unattainable because they are based on incorrect assumptions. A business plan may include unrealistic assumptions about the profit margins possible in a given sector. It may underestimate manufacturing costs. Managers assigned to meet those goals will realize they can’t meet them. This is likely



Jerry Englert
Courtesy of AP Wide World Photos

to send them into a downward spiral of discouragement. And the ripple effects of that will run through the whole organization.

Englert identifies several places where managers get into trouble as they put together a business plan:

1. They fail to understand all the issues.
2. They don't know the ins and outs of the product, the market, costs, and people.
3. When making the plan, they don't involve the people who will have to carry it out. A good planner knows that including the "doers" will make for a better plan. The "doers" will "buy in" to a plan they have helped create.
4. They lack a vision of the completed plan. They don't look far enough forward, and they fail to anticipate the need to make personnel changes or to cope with competition and pricing pressures.

What skills do today's managers need? Here's Englert's list:

- a strong work ethic and ability to lead by example
- people skills
- good manners
- computer skills
- consistency in actions and deeds.

Steps in Goal Setting

Goal setting has five steps:

1. **Review the organization's mission.** The **mission** is the organization's purpose. What is the organization trying to accomplish? What do its members think is important? The goals statement should be in tune with the mission statement.
2. **Evaluate your resources.** If you set a goal your resources can't support, you're setting yourself up for failure. For someone earning \$50,000 a year and having no other resources, developing a million-dollar investment portfolio within three years is an unrealistic goal. It's just not possible.
3. **Determine your goals on your own or with input from others, as needed.** If your goal is to be more punctual at your after-school job, for instance, that may be a goal you can set on your own. But you may need to talk with your parents about getting to use the car more regularly, or maybe even with your boss to ask about starting later and working later into the evening. People setting goals within an organization need to think things through in a similar way. They have to be sure the goals they're developing fit with the mission and with the goals of others in the organization.

4. **Write down the goals and communicate them to all who need to know them.**
5. **Review progress.** Are goals being met? If not, something has to change. It may be the goals themselves. Or it may be the way you're trying to meet them.

Once a manager has goals set, written down, and shared, it's time to make action plans for meeting them.

Developing Plans

As they plan, managers have to consider three contingency factors, or variables:

1. The level within the organization that they're planning for.
2. The degree of uncertainty in the environment.
3. The length of future commitments.

Managers will work differently with different planning approaches, too.

Contingency Factors in Planning

Figure 2.2 shows the first variable: The higher a manager is within an organization, the more his or her planning will be strategic ("big picture") rather than operational (down "where the rubber meets the road").

The second variable to consider in planning is environmental uncertainty. *Environmental* in this sense refers to "the world outside"—all the factors that can affect a business: energy costs, interest rates, labor markets, commodity prices, commercial real estate markets, government regulation; the list goes on. Faced with high environmental uncertainty, managers need to be specific, but flexible, in their planning. They may have to change or amend their plans, or sometimes even abandon them. But that doesn't mean abandoning the goal. Remember what you read in the last lesson about specific versus directional goals? Sometimes a manager needs to zag and zig, instead of zigging and zagging.

For instance, when he was CEO of Continental Airlines, Gordon Bethune set a goal of focusing on on-time flights. This was what the airline's customers most cared about, he and his team knew. Meeting this goal was a way to make the company more competitive.

Even in uncertain environments, organizations should continue formal planning, experts say. Research shows that it can take years—at least four years—for formal goal setting really to take root in an organization. That may be long enough for a number of phases of environmental uncertainty to come and go.

The third variable for managers is time frame. The more that current plans affect future commitments, the more managers need to ensure that their plans extend out into the future. They need to think about the commitment concept as they plan. The **commitment concept** is the idea that plans should extend far enough ahead to meet those commitments made today.

For instance, the Pomona Valley Medical Center in California expanded its data center from 30 to 70 servers. A bigger data center was necessary—expansion was at one point a “current plan.” But the additional servers threw off such heat that they overwhelmed the data center’s air conditioning. That consequence was part of the “commitment” to the expansion of the data center. Managers should have planned for it, but they didn’t.

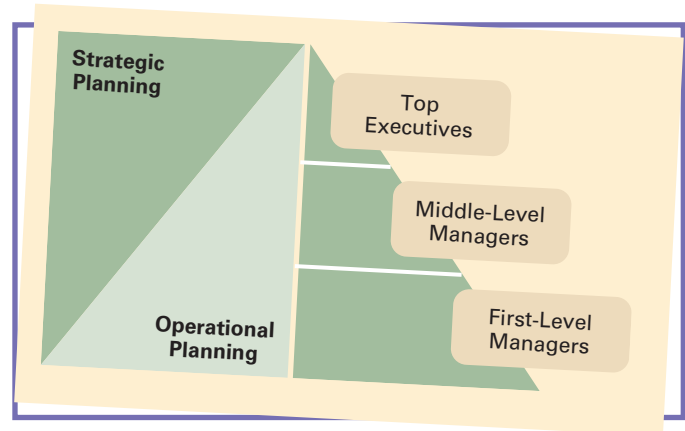


FIGURE 2.2

Planning in the Hierarchy of Organizations

Ethical Dilemma

Planning for a Pandemic

Some multinational companies have been thinking about how they could keep going in case of a bird-flu pandemic. Procter & Gamble asked its company doctors whether it should try to secure a stash of the flu drug Tamiflu for its staff in Asia. But the company’s medical leader in southern Asia asked, “How ethical would it be if we were holding supplies that the general public didn’t have access to but badly needed?”

What do you think? Is it unethical for a company to protect its own employees like this? Why or why not? Are there other ways to think about this?

Approaches to Planning

Here are some examples of large organizations doing formal planning:

- Federal, state, and local government officials are working on a plan to boost populations of salmon in the Pacific Northwest.
- Managers of the Global Fleet Graphics division of the 3M Company are developing plans to satisfy more-demanding customers and battle more-aggressive competitors.
- Emilio Azcárraga Jean, who is chairman, president, and CEO of Grupo Televisa, the Mexican broadcasting company, gets input from many different people and then sits down to work out the company’s goals. He then hands off to various executives the planning to achieve the goals.

The best way to understand how an organization plans is to look at who does the planning. In a traditional system, top-level managers do all the planning. Sometimes

they have a formal planning department to help them. A **formal planning department** is a group of specialists whose sole responsibility is helping to write organizational plans.

Traditional planning, like traditional goal setting, involves handing things down from level to level within the organization. It's systematic and thorough, but all too often results in a lot of heavy ring binders sitting on shelves. The "plan" in such circumstances never really guides anyone's work.

One survey of managers at companies with top-down organizational planning found that 75 percent of them called their system unsatisfactory. "Plans are documents that you prepare for the corporate planning staff and later forget," is the way one manager put it.

A more modern approach is to involve everyone in the planning. This way, managers and employees don't get "hand-me-down" plans from those above them in the company. Rather, individual work units develop the plans that meet their needs.

At Dell Computer in Austin, Texas, for instance, employees from different parts of the company meet weekly to make plans based on current product demand and supply. This planning process involves employees in production, supply management, and channel management. Also, work teams set their own daily schedules and track their progress against those schedules. If a team falls behind, it develops a "recovery" plan to try to get back on schedule. With everyone more actively involved in planning, it becomes clear that plans are more than just something put down on paper. Employees can actually see managers use the plans in directing and coordinating work.

Contemporary Issues in Planning

Two issues in planning are on the minds of experts nowadays. One is whether formal organizational planning really is a good idea. The other is how managers can possibly plan effectively in today's often chaotic business environment.

Criticisms of Planning

As you read in the previous lesson, there are a number of standard criticisms of formal planning—that it's not relevant in today's fast-changing environment, that it stifles creativity, and so on. Some people are still not sure that formal planning is a good idea.

But it may be worth pointing out that planning doesn't mean just "wishing." Good planning offers a realistic path from A to B.

It may also be worth remembering that just planning is never enough. At some point, managers have to start doing!

For instance, when executives at the *Wall Street Journal* decided they had to respond somehow to a long slump in financial and technology ad sales, they developed a plan. But then they went ahead and carried it out. They made some design changes to their newspaper. They added more color to their pages. They redesigned the type and made other format changes as well. They launched a Saturday edition in September 2005. And then they changed the size of the paper they used.

Effective Planning in Dynamic Environments

Today's managers can be effective planners if they understand how to plan in dynamic uncertain environments. How is the world changing? Count the ways:

- Wi-Fi, a wireless networking technology, is transforming industries from airlines and automobiles to consumer electronics.
- Companies are harnessing the power of the Internet in new ways, using it in product design and logistics, for instance.
- Consumers keep eating out more and more, and at home less and less.
- Many countries of the European Union have adopted a new common currency, the euro.
- Experts believe that China and India will transform the global economy of the twenty-first century.

Any one of these could represent a challenge or an opportunity for a corporate manager today.

How should today's managers plan in the dynamic business environment these trends make up? First, "specific but flexible" is the magic phrase here. Managers must recognize that planning is something they must keep doing. They can't go off to a conference room somewhere to spend a week preparing a plan that will last all year.

Second, managers don't just have to learn to plan throughout the year. Experts say they also have to learn to keep planning year after year. Persistence in planning is



The online music industry is one of the most dynamic and challenging sectors there is today. Van Toffler, president of MTV Networks Group, is planning new ways to make both customers and recording artists happy. One idea he is working on: how to revive the "lost art" of album covers with inexpensive Flash animations. "If we do it right," he says, "people will want to spend time with this, not just buy a 99-cent single and leave."

Courtesy of Greg Miller Photography

what contributes most to improvement in performance. Managers learn from experience and eventually get to be better planners.

Third, organizational hierarchies need to be flattened—they need fewer layers. You’ve read how in traditional planning, goals and plans originate at the top of the organization and are handed down from one level to the next. Today there’s less time for goals or plans to be passed down that way. Managers must train their employees to set goals and make plans, and then have to trust that they will.

One company that has obviously learned this is Wipro Limited of Bangalore, India. Just a decade ago, Wipro was a conglomerate with an unlikely combination of business activities: selling cooking oil and personal computers, mostly in India.

Today Wipro is a global company with \$2.3 billion in annual revenues. Some 90 percent of its business is in information technology services. Accenture, EDS, IBM, and the big US accounting firms take Wipro seriously as a competitive threat. The company’s workers are knowledgeable and skilled, and they work for far less than their Western counterparts. They also play big roles in the company’s planning. The information services industry is continually changing, and Wipro employees learn to analyze the situation and define the scale and scope of a client’s problems to offer the best solutions.

The employees, not their managers—and certainly not anyone in a corporate planning department—are on the front lines with the customers. It’s therefore the employees’ responsibility to figure out what to do and how to do it. This approach has positioned Wipro for success, no matter how the industry changes.

Becoming a Manager

Do you think you can’t be a manager because you have no one to manage? Think again. You start by managing yourself.

Here are some steps toward becoming a manager that you can take now.

- Practice setting goals in areas of your life such as your academic work, career preparation, and family life.
- Write out plans for achieving those goals.
- Be prepared to change your goals as circumstances change.
- Write a personal mission statement.
- If you have a job, talk to your managers about the planning they do. Ask their advice on being a better planner.

CHECKPOINTS

Lesson 2 Review

Using complete sentences, answer the following questions on a sheet of paper.

1. What are three potential problems with traditional goal setting?
2. What are three potential problems with management by objectives (MBO)?
3. What are the characteristics of a well-thought-out goal?
4. What are some of the ways Jerry Englert believes managers get into trouble when planning?
5. What are the five steps of goal setting?
6. What three contingency factors should managers keep in mind when planning?
7. What three things do managers have to keep in mind for planning in today's dynamic environment?

Applying Your Learning

8. Using what you've learned about the characteristics of well-thought-out goals, make a list of three to five of your current goals. Who do you think should know about these goals of yours?