

FOURTH EDITION

# FUNDAMENTALS OF MANAGEMENT

ESSENTIAL CONCEPTS AND APPLICATIONS

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Part 2: Planning

## Chapter 3

### Foundations of Planning

PowerPoint Presentation by Mohammed  
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# LEARNING OUTCOMES

*After reading this chapter, I will be able to:*

- 1. Define planning.**
- 2. Explain the potential benefits of planning.**
- 3. Identify potential drawbacks to planning.**
- 4. Distinguish between strategic and tactical plans.**
- 5. Recognize when directional plans are preferred over specific plans.**
- 6. Define management by objectives and identify its common elements.**

# LEARNING OUTCOMES (cont'd)

*After reading this chapter, I will be able to:*

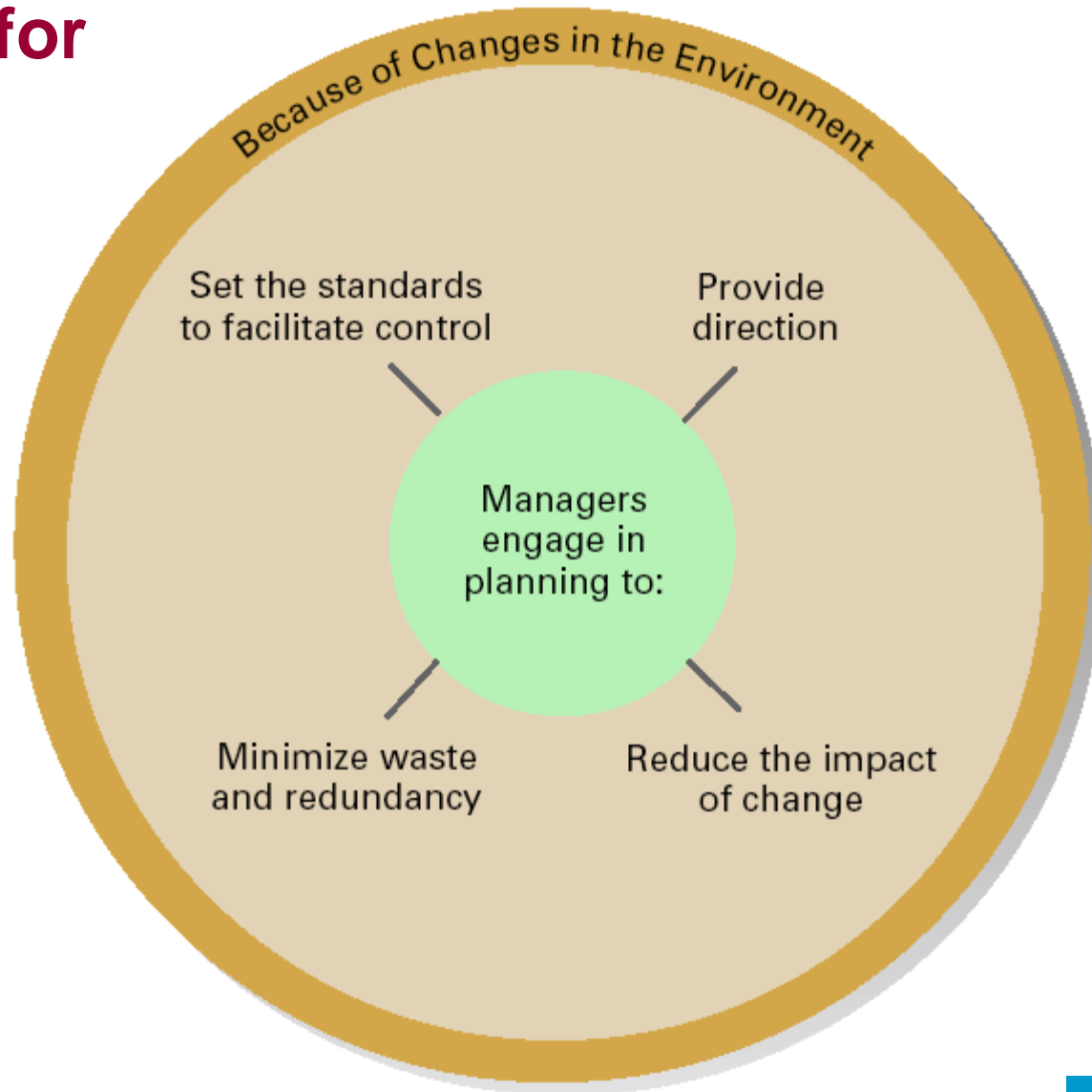
- 7. Outline the steps in the strategic management process.**
- 8. Describe the four grand strategies.**
- 9. Explain SWOT analysis.**
- 10. Describe how entrepreneurs identify a competitive advantage.**

# Planning Defined

- Defining the organization's objectives or goals
- Establishing an overall strategy for achieving those goals
- Developing a comprehensive hierarchy of plans to integrate and coordinate activities

*Planning is concerned with ends (what is to be done) as well as with means (how it is to be done).*

# Reasons for Planning



# Criticisms Of Formal Planning

- Planning may create rigidity.
- Plans can't be developed for a dynamic environment.
- Formal plans can't replace intuition and creativity.
- Planning focuses managers' attention on today's competition, not on tomorrow's survival.
- Formal planning reinforces success, which may lead to failure.

# Planning and Performance

- Formal planning generally means higher profits, higher return on assets, and other positive financial results.
- Planning process quality and implementation probably contribute more to high performance than does the extent of planning.
- When external environment restrictions allowed managers few viable alternatives, planning did not lead to higher performance.

# Types of Plans

BREADTH OF USE	TIME FRAME	SPECIFICITY	FREQUENCY OF USE
Strategic	Long term	Directional	Single use
Tactical	Short term	Specific	Standing



# Planning: Focus and Time

- Strategic plans
  - Plans that are organization-wide, establish overall objectives, and position an organization in terms of its environment
- Tactical plans
  - Plans that specify the details of how an organization's overall objectives are to be achieved
- Short-term plans
  - Plans that cover less than one year
- Long-term plans
  - Plans that extend beyond five years

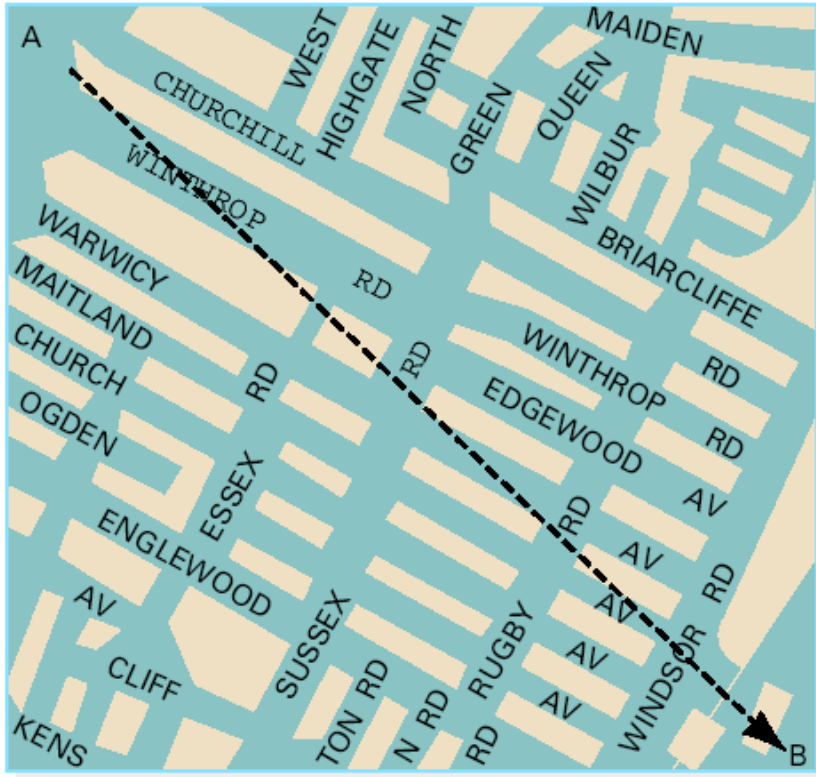
# Strategic Planning

- Strategic plans
  - Apply broadly to the entire organization
  - Establish the organization's overall objectives
  - Seek to position the organization in terms of its environment
  - Provide direction to drive an organization's efforts to achieve its goals.
  - Serve as the basis for the tactical plans.
  - Cover extended periods of time
  - Are less specific in their details

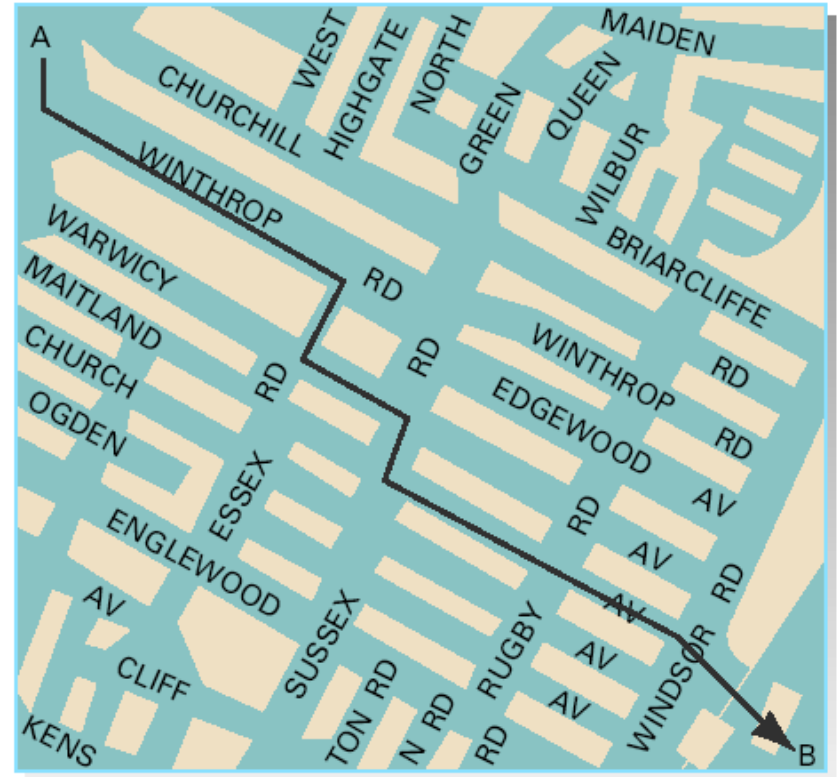
# Tactical Planning

- Tactical plans (operational plans)
  - Apply to specific parts of the organization.
  - Are derived from strategic objectives
  - Specify the details of how the overall objectives are to be achieved.
  - Cover shorter periods of time
  - Must be updated continuously to meet current challenges

# Directional versus Specific Plans



Directional plan



Specific plan

# Specific and Directional Plans

- Specific plans
  - Plans that have clearly defined objectives and leave no room for misinterpretation
    - ❖ “What, when, where, how much, and by whom” (process-focus)
- Directional plans
  - Flexible plans that set out general guidelines
    - ❖ “Go from here to there” (outcome-focus)

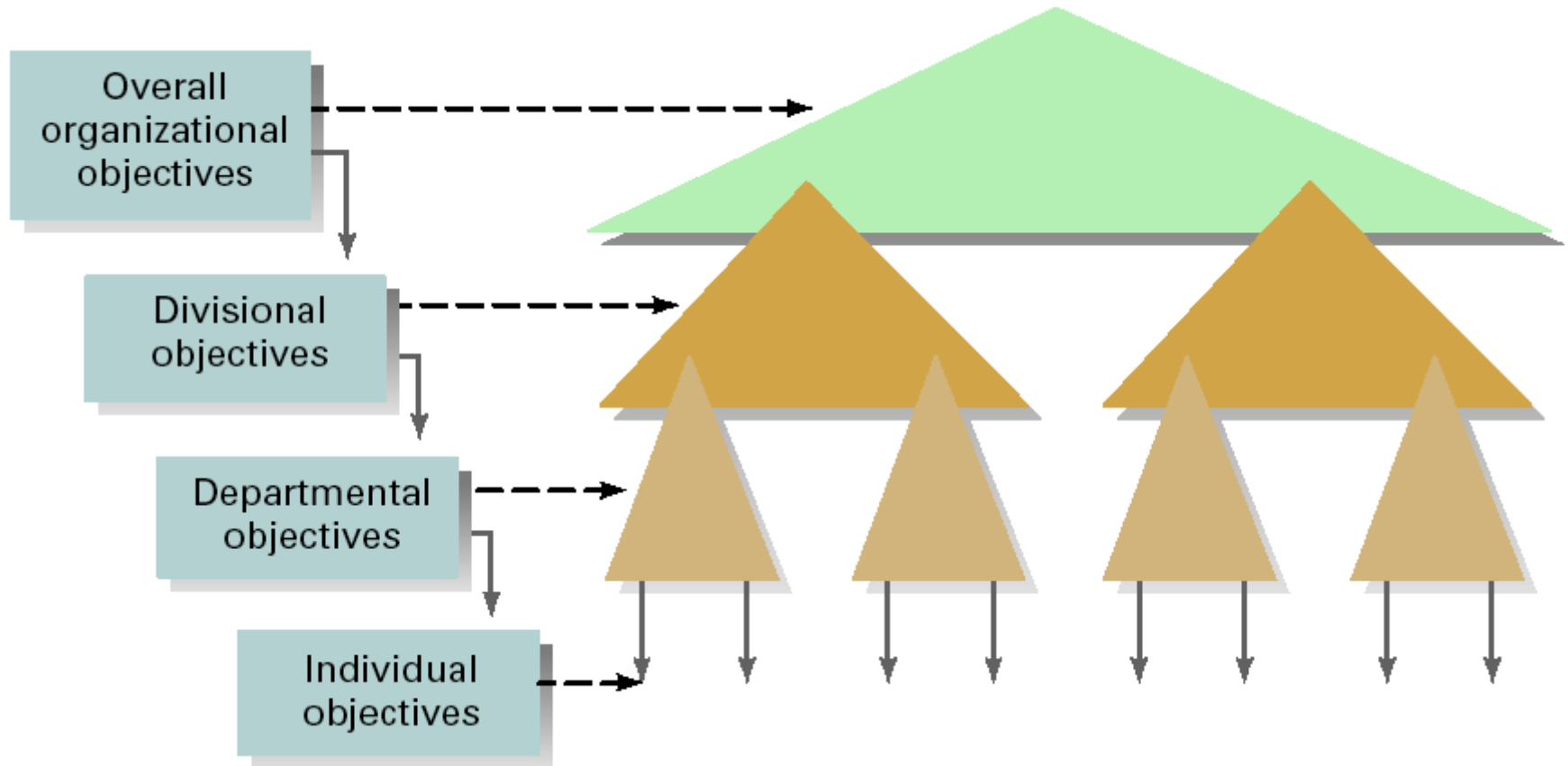
# Single-Use and Standing Plans

- Single-use plans
  - A plan that is used to meet the needs of a particular or unique situation
    - ❖ Single-day sales advertisement
- Standing plan
  - A plan that is ongoing and provides guidance for repeatedly performed actions in an organization
    - ❖ Customer satisfaction policy

# Management by Objectives

- Management by Objectives (MBO)
  - A system in which specific performance objectives are jointly determined by subordinates and their supervisors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of that progress.
  - Links individual and unit performance objectives at all levels with overall organizational objectives
  - Focuses operational efforts on organizationally important results.
  - Motivates rather than controls

# Cascading of Objectives





# Elements of MBO

- Goal specificity
- Participative decision making
- Explicit time period for performance
- Performance feedback



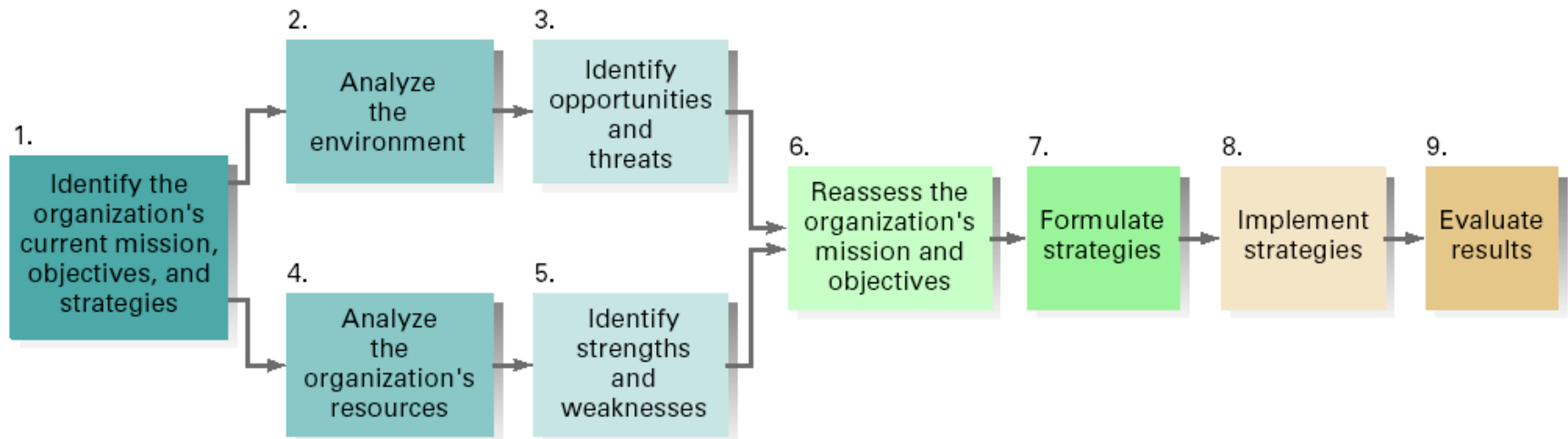
# Setting Employee Objectives

- Identify an employee's key job tasks.
- Establish specific and challenging goals for each key task.
- Allow the employee to actively participate.
- Prioritize goals.
- Build in feedback mechanisms to assess goal progress.
- Link rewards to goal attainment.

# Strategic Management

- Strategic Management Process
  - A nine-step process that involves strategic planning, implementation, and evaluation
- The organization's current identity
  - Mission statement
    - ❖ Defines the purpose of the organization
  - Objectives
  - Strategic plan
    - ❖ A document that explains the business founders vision and describes the strategy and operations of that business.

# The Strategic Management Process



# Analyze the Environment

- Environmental scanning
  - Screening large amounts of information to detect emerging trends and create a set of scenarios
- Competitive intelligence
  - Accurate information about competitors that allows managers to anticipate competitors' actions rather than merely react to them

# SWOT: Identifying Organizational Opportunities



## SWOT analysis

Analysis of an organization's strengths, weaknesses, opportunities, and threats in order to identify a strategic niche that the organization can exploit

# SWOT Analysis

- **Strengths (strategic)**
  - **Internal resources that are available or things that an organization does well**
    - ❖ **Core competency: a unique skill or resource that represents a competitive edge**
- **Weaknesses**
  - **Resources that an organization lacks or activities that it does not do well**
- **Opportunities (strategic)**
  - **Positive external environmental factors**
- **Threats**
  - **Negative external environmental factors**

# Grand Strategies

- **Growth strategy**
  - A strategy in which an organization attempts to increase the level of its operations;
- **Retrenchment strategy**
  - A strategy characteristic of a company that is reducing its size, usually in an environment of decline
- **Combination strategy**
  - The simultaneous pursuit by an organization of two or more of growth, stability, and retrenchment strategies
- **Stability strategy**
  - A strategy that is characterized by an absence of significant change



# Growth Strategies

- Merger
  - Occurs when two companies, usually of similar size, combine their resources to form a new company
- Acquisition
  - Occurs when a larger company buys a smaller one and incorporates the acquired company's operations into its own



# Competitive Strategies

- Strategies that position an organization in such a way that it will have a distinct advantage over its competition
  - **Cost-leadership strategy**
    - ❖ Becoming the lowest-cost producer in an industry
  - **Differentiation strategy**
    - ❖ Attempting to be unique in an industry within a broad market
  - **Focus strategy**
    - ❖ Attempting to establish an advantage (cost/differentiation) in a narrow market segment

# Benchmarking

- Benchmarking
  - The search for the best practices among competitors or noncompetitors that lead to their superior performance
- ISO 9000 series
  - Standards designed by the International Organization for Standardization that reflect a process whereby independent auditors attest that a company's factory, laboratory, or office has met quality management standards

# Attaining Six Sigma Quality

- Six sigma
  - A philosophy and measurement process developed in the 1980s at Motorola.
  - To design, measure, analyze, and control the input side of a production process to achieve the goal of no more than 3.4 defects per million parts or procedures.
  - A philosophy and measurement process that attempts to design in quality as a product is being made.

# Six Sigma 12-Process Steps

- Select the critical-to-quality characteristics.
- Define the required performance standards.
- Validate measurement system, methods, and procedures.
- Establish the current processes capability.
- Define upper and lower performance limits.
- Identify sources of variation.
- Screen potential causes of variation to identify the vital few variables needing control.
- Discover variation relationship for the vital variables.
- Establish operating tolerances on each of the vital variables.
- Validate the measurement system's ability to produce repeatable data.
- Determine the capability of the process to control the vital variables.  
Implement statistical process control on the vital variables.

# Identifying A Competitive Advantage

- Environmental sources of entrepreneurial opportunity
  - The unexpected
  - The incongruous
  - The process need
  - Industry and market structures
  - Demographics
  - Changes in perception
  - New knowledge