6.2 Planning

LEARNING OBJECTIVE

1. Understand the process by which a company develops and implements a strategic plan.

Without a plan, it's hard to succeed at anything. The reason is simple: if you don't know where you're going, you can't really move forward. Successful managers decide where they want to be and then figure out how to get there. In **planning**, managers set goals and determine the best way to achieve them. As a result of the planning process, everyone in the organization knows what should be done, who should do it, and how it should be done.

Developing a Strategic Plan

Coming up with an idea—say, starting a note-taking business—is a good start, but it's only a start. Planning for it is a step forward. Planning begins at the highest level and works its way down through the organization. Step one is usually called **strategic planning**, which is the process of establishing an overall course of action. To begin this process, you should ask yourself a couple of very basic questions: Why, for example, does the organization exist? What value does it create? Sam Walton posed these questions in the process of founding Wal-Mart: his new chain of stores would exist to offer customers the lowest prices with the best possible service.Lee Scott, "Three Basic Beliefs," *About Wal-Mart*, http://www.walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=252 (accessed May 3, 2006).

After you've identified the purpose of your company, you're ready to take the remaining steps in the strategic-planning process:

- Write a mission statement that tells customers, employees, and others why your organization exists.
- Identify core values or beliefs that will guide the behavior of members of the organization.
- Assess the company's strengths, weaknesses, opportunities, and threats.
- Establish goals and objectives, or performance targets, to direct all the activities that you'll perform to achieve your mission.
- Develop and implement tactical and operational plans to achieve goals and objectives.

In the next few sections, we'll examine these components of the strategic-planning process.

Mission Statement

As we saw in an earlier chapter, the *mission statement* describes the purpose of your organization—the reason for its existence. It tells the reader what the organization is committed to doing. It can be very concise, like the one from Mary Kay Inc. (the cosmetics company): "To enrich the lives of women around the world."Mary Kay Inc. Web site, Employment at Mary Kay section, http://www.marykay.com/company/jobsatmarykay/default.aspx (accessed September 21, 2011). Or it can be as detailed as the one from Harley-Davidson: “We fulfill dreams inspired by the many roads of the world by providing extraordinary motorcycles and customer experiences. We fuel the passion for freedom in our customers to express their own individuality.”Harley-Davidson Web site, Company/Student Center section, http://www.harley-davidson.com/en_GB/Content/Pages/Company/company.html?locale=en_GB&bmLocale=enGB (accessed September 21, 2011).

What about Notes-4-You? What should your mission statement say? A simple, concise mission statement for your enterprise could be the following: “To provide high-quality class notes to college students.” On the other hand, you could prepare a more detailed statement that explains what the company is committed to doing, who its customers are, what its focus is, what goods or services it provides, and how it serves its customers. In that case, your mission statement might be the following:

“Notes-4-You is committed to earning the loyalty of college students through its focus on customer service. It provides high-quality, dependable, competitively priced class notes that help college students master complex academic subjects.”

Core Values

Having defined your mission, your next step is to ask, what does this organization stand for? What values will define it? What principles should guide our actions as we build and operate the business? In Chapter 2 "Business Ethics and Social Responsibility", we explained that the small set of guiding principles that you identify as crucial to your company are known as *core values*—fundamental beliefs about what’s important and what is and isn’t appropriate in conducting company activities. Core values affect the overall planning processes and operations. At Volvo, for example, three core values—safety, quality, and environmental care—define the firm’s “approach to product development, design and production.”Volvo Group Global, http://www.volvogroup.com/group/global/en-gb/volvo%20group/our_brand/volvo/Pages/volvo.aspx (accessed September 21, 2011). Core values should also guide the behavior of every individual in the organization. Coca-Cola, for instance, reports that its stated core values—leadership, collaboration, integrity, accountability, passion, diversity and quality—tell employees exactly what behaviors are acceptable.The Coca-Cola Company, “Code of Business Conduct,” http://www.thecoca-colacompany.com/ourcompany/mission_vision_values.html (accessed September 21, 2011). How do companies communicate core values to employees and hold them accountable for putting those values into practice? They link core values to performance evaluations and compensation.

In choosing core values for Notes-4-You, you’re determined not to fall back on some list of the world’s most popular core values: ethics/integrity, accountability, respect for others, and open communication.“Most Executives Say Ethics, Integrity Are Among Core Corporate Values,” allBusiness, http://www.allbusiness.com/reports-reviews-sections/polls-surveys/11427605-1.html (accessed October 9, 2011). You want yours to be unique to Notes-4-You. After some thought, you settle on *teamwork, trust*, and *dependability*. Why these three? As you plan your business, you realize that it will need a workforce that functions as a team, trusts each other, and can be depended on to satisfy customers. In building your workforce, you’ll seek employees who’ll embrace these values.

Conduct a SWOT Analysis

The next step in the strategic-planning process is to assess your company's fit with its environment. A common approach to *environmental analysis* is matching the strengths of your business with the opportunities available to it. It's called **SWOT analysis** because it calls for analyzing an organization's Strengths, Weaknesses, Opportunities, and Threats. It begins with an examination of *external* factors that could influence the company in either a positive or a negative way. These could include economic conditions, competition, emerging technologies, laws and regulations, and customers' expectations.

One purpose of assessing the external environment is to identify both *opportunities* that could benefit the company and *threats* to its success. For example, a company that manufactures children's bicycle helmets would view a change in federal law requiring all children to wear helmets as an opportunity. The news that two large sports-equipment companies were coming out with bicycle helmets would be a threat.

The next step is to evaluate the company's strengths and weaknesses. *Strengths* might include a motivated workforce, state-of-the-art technology, impressive managerial talent, or a desirable location. The opposite of any of these strengths (poor workforce, obsolete technology, incompetent management, or poor location) could signal a potential *weakness*. Armed with a good idea of external opportunities and threats, as well as internal strengths and weaknesses, managers want to capitalize on opportunities by taking advantage of organizational strengths. Likewise, they want to protect the organization from both external threats and internal weaknesses.

Let's start with our strengths. Now that we know what they are, how do we match them with our available opportunities (while also protecting ourselves from our threats and overcoming our weaknesses)? Here's a possibility: By providing excellent service and price while we're still small (with few customers and low costs), we can solidify our position on campus. When the market grows (as it will, because of the increase in the number of classes—especially those at 8:00 a.m.—and increases in student enrollment), we'll have built a strong reputation and will put ourselves in a position to grow. So even if a competitor comes to campus (a threat), we'll be the preferred supplier of class notes. This strategy will work only if we make sure that our notetakers are dependable and that we don't alienate the faculty or administration.

Set Goals and Objectives

Your mission statement affirms what your organization is *generally* committed to doing, but it doesn't tell you *how* to do it. So the next step in the strategic-planning process is establishing goals and objectives. **Goals** are major accomplishments that the company wants to achieve over a long period (say, five years). **Objectives** are shorter-term performance targets that direct the activities of the organization toward the attainment of a goal. They should be clearly stated, attainable, and measurable: they should give target dates for the completion of tasks and stipulate who's responsible for taking necessary actions.Scott Safranski and Ik-Whan Kwon, "Strategic Planning for the Growing Business" (1991), U.S. Small Business Administration, http://www.sbaonline.sba.gov/idc/groups/public/documents/sba_homepage/serv_pubs_eb_pdf_eb6.pdf (accessed October 9, 2011).

An organization will have a number of goals and related objectives. Some will focus on financial measures, such as profit maximization and sales growth. Others will target operational efficiency or quality control. Still others will govern the company's relationships with its employees, its community, its environment, or all three.

Finally, goals and objectives change over time. As a firm reassesses its place in its business environment, it rethinks not only its mission but also its approach to fulfilling it. The reality of change was a major theme when the late McDonald's CEO Jim Cantalupo explained his goal to revitalize the company:

"The world has changed. Our customers have changed. We have to change too. Growth comes from being better, not just expanding to have more restaurants. The new McDonald's is focused on building sales at existing restaurants rather than on adding new restaurants. We are introducing a new level of discipline and efficiency to all aspects of the business and are setting a new bar for performance."McDonald's Corp., "McDonald's Announces Plans to Revitalize Its Worldwide Business and Sets New Financial Targets," Franchise Bison, http://www.bison.com/press_mcdonalds_04072003 (accessed October 8, 2011).

This change in focus was accompanied by specific performance objectives—annual sales growth of 3 to 5 percent and income growth of 6 to 7 percent at existing restaurants, plus a five-point improvement (based on customer surveys) in speed of service, friendliness, and food quality.

In setting strategic goals and performance objectives for Notes-4-You, you should keep things simple. Because you know you need to make money to stay in business, you could include a financial goal (and related objectives). Your mission statement promises "high-quality, dependable, competitively priced class notes," so you could focus on the quality of the class notes that you'll be taking and distributing. Finally, because your mission is to serve students, one goal could be customer oriented. When all's said and done, your list of goals and objectives might look like this:

- **Goal 1**: Achieve a 10 percent return on profits in your first five years.
  - *Objective*: Sales of $20,000 and profit of $2,000 for the first twelve months of operations.
- **Goal 2**: Produce a high-quality product.
  - *Objective*: First-year satisfaction scores of 90 percent or higher on quality of notes (based on survey responses to three measures—understandability, readability, and completeness).
- **Goal 3**: Attain 98 percent customer satisfaction by the end of your fifth year.
  - *Objective*: Making notes available within two days after class, 95 percent of the time.

Develop Tactical and Operational Plans

The planning process begins at the top of the organization, where upper-level managers create a strategic plan, but it doesn't end there. The *execution* of the strategic plan involves managers at all levels.

Tactical Plans

The overall plan is broken down into more manageable, shorter-term components called

tactical plans. These plans specify the activities and allocation of resources (people, equipment, money) needed to implement the overall strategic plan over a given period. Often, a long-range strategic plan is divided into several tactical plans; a five-year strategic plan, for instance, might be implemented as five one-year tactical plans.

Operational Plans

The tactical plan is then broken down into various **operational plans** that provide detailed action steps to be taken by individuals or groups to implement the tactical plan and, consequently, the strategic plan. Operational plans cover only a brief period—say, a week or a month. At Notes-4-You, for example, notetakers might be instructed to turn in typed class notes five hours earlier than normal on the last day of the semester (an operational guideline). The goal is to improve the customer-satisfaction score on dependability (a *tactical goal*) and, as a result, to earn the loyalty of students through attention to customer service (a *strategic goal*).

Plan for Contingencies and Crises

Even with great planning, things don't always turn out the way they're supposed to. Perhaps your plans were flawed, or maybe you had great plans but something in the environment shifted unexpectedly. Successful managers anticipate and plan for the unexpected. Dealing with uncertainty requires *contingency planning* and *crisis management*.

Contingency Planning

With **contingency planning**, managers identify those aspects of the business that are most likely to be adversely affected by change. Then, they develop alternative courses of action in case an anticipated change does occur. You probably do your own contingency planning: for example, if you're planning to take in a sure-fire hit movie on its release date, you may decide on an alternative movie in case you can't get tickets to your first choice.

Crisis Management

Organizations also face the risk of encountering crises that require immediate attention. Rather than waiting until such a crisis occurs and then scrambling to figure out what to do, many firms practice **crisis management**. Some, for instance, set up teams trained to deal with emergencies. Members gather information quickly and respond to the crisis while everyone else carries out his or her normal duties. The team also keeps the public, the employees, the press, and government officials informed about the situation and the company's response to it.Brian Perkins, "Defining Crisis Management," Wharton Alumni Magazine, Summer 2000, http://whartonmagazine.com/issues/summer-2000/reunion-2000/ (accessed October 8, 2011).

An example of how to handle crisis management involves Wendy's. After learning that a woman claimed she found a fingertip in a bowl of chili she bought at a Wendy's restaurant in San Jose, California, the company's public relations team responded quickly. Within a few days, the company announced that the finger didn't come from an employee or a supplier. Soon after, the police arrested the woman and charged her with attempted grand larceny for lying about how the finger got in her bowl of chili and trying to extort $2.5 million from the company. But the crisis wasn't over for Wendy's. The incident was plastered all over the news as a grossed-out public sought an answer to the question, “Whose finger is (or was) it?” A $100,000 reward was offered by Wendy’s to anyone with information that would help the police answer this question. The challenge Wendy’s faced was how to entice customers to return to its fifty San Francisco–area restaurants (where sales had plummeted) while keeping a low profile nationally. It accomplished this by giving out free milkshakes and discount coupons to customers in the affected regions and, to avoid calling attention to the missing finger, by making no changes in its national advertising. The crisis-management strategy worked and the story died down (though it flared up temporarily when the police arrested the woman’s husband, who allegedly bought the finger from a coworker who had severed it in an accident months earlier).Stewart Elliott, “Wendy’s Gets a Break, but Still Has Work Ahead of It,” *The New York Times*, April 29, 2005, http://www.nytimes.com/2005/04/29/business/media/29adco.html?ei=5088&en=bb0e017145269f5e& (accessed October 8, 2011).

Video Clip

(click to see video)

The response to the BP oil spill by its former CEO, Tony Hayward, is an example of poor crisis management.

Even with crisis-management plans in place, however, it’s unlikely that most companies will emerge from a damaging or potentially damaging episode as unscathed as Wendy’s did. For one thing, the culprits in the Wendy’s case were caught, and the public is willing to forgive an organization it views as a victim. Given the current public distrust of corporate behavior, however, companies whose reputations have suffered due to questionable corporate judgment don’t fare as well. These companies include the international oil company, BP, whose CEO, Tony Hayward, did a disastrous job handling the crisis created when a BP controlled oil rig exploded in the Gulf Coast killing eleven workers and creating the largest oil spill in U.S. history. Hayward’s lack of sensitivity will be remembered forever; particularly his response to a reporter’s question on what he would tell those whose livelihoods were ruined: “We’re sorry for the massive disruption it’s caused their lives. There’s no one who wants this over more than I do. I would like my life back.” His comment was obviously upsetting to the families of the eleven men who lost their lives on the rig and had no way to get their lives back.“Embattled BP Chief: I Want My Life Back,” *The Times of London*, May 31, 2010.

Then, there are the companies at which executives have crossed the line between the unethical to the downright illegal—Arthur Andersen, Enron, and Bernard L. Madoff Investment Securities, to name just a few. Given the high risk associated with a crisis, it should come as no surprise that contemporary managers spend more time anticipating crises and practicing their crisis-management responses.

KEY TAKEAWAYS

- Successful managers decide where they want the organization to go and then determine how to get there.
- **Planning** for a business starts at the top and works its way down.
- It begins with **strategic planning**—the process of establishing an overall course of action.
- Step one is identifying the purpose of the organization.
- Then, management is ready to take the remaining steps in the strategic

planning process:

1. Prepare a *mission statement* that describes the purpose of the organization and tells customers, employees, and others what it's committed to doing.
2. Select the *core values* that will guide the behavior of members of the organization by letting them know what is and isn't appropriate and important in conducting company activities.
3. Use **SWOT analysis** to assess the company's strengths and weaknesses and its fit with the external environment.
4. Set **goals** and **objectives**, or performance targets, to direct all the activities needed to achieve the organization's mission.
5. Develop **tactical plans** and **operational plans** to implement objectives.

EXERCISES

1. **(AACSB) Reflective Skills**

   Without a plan, it's hard to succeed. Successful managers set goals and determine the best ways to reach them. Successful students do the same thing. Develop a strategic plan for succeeding in this course that includes the following steps:

   1. Assess your strengths, weaknesses, opportunities, and threats as they relate to this course.
   2. Establish goals and objectives, or performance targets, to direct all the activities that you'll perform to earn a high grade in this course.
   3. Describe tactical and operational plans for achieving your stated goals and objectives.

2. **(AACSB) Analysis**

   If you were the CEO of a large organization, what core values would you want to guide the behavior of your employees? First, assume that you oversee a large company that manufactures and sells medical devices, such as pacemakers, defibrillators, and insulin pumps. Your company was a pioneer in bringing these products to the market. Identify six core values that you would want to guide the behavior of your employees. For each core value, be sure to do the following:

   - Indicate why it's important to the functioning of the organization.
   - Explain how you'll communicate it to your employees and encourage them to embrace it.
   - Outline the approaches that you'll take in holding employees accountable for embracing it.

   Now, repeat the process. This time, however, assume that you're the CEO of a company that rents movies and games at more than eight thousand outlets across the country.