Chapter 5
Planning and Decision Making

Planning

After reading these sections, you should be able to:

1. discuss the benefits and pitfalls of planning.
2. describe how to make a plan that works.
3. discuss how companies can use plans at all management levels, from top to bottom.

Planning

Choosing a goal and developing a method of strategy to achieve that goal
Setting Goals

Examples of S.M.A.R.T. Goals?

- **Walgreens:** “Second is to hire a significant number of people with disabilities in our South Carolina distribution center, scheduled to open in 2007, and achieve 20% productivity gains there.”
- **UPS:** “65% of drivers will have access to the new technology (implemented in 2004) by the end of 2005.” “In 2005, we will increase operating profit in each of our 3 key businesses: domestic, int’l, supply chain.”
- **Wrigley:** “In 2005, the company will decrease the long-term rate of return assumption for the assets of its U.S. (pension) plans from 8.75% to 8.5%.”
- **Halliburton:** “We estimate that 74% of the backlog existing on 12/31 will be eliminated the following fiscal year.”
- **Martha Stewart Living Omnimedia:** “In 2004 we will discontinue the Catalog for Living and its online product options, and sell remaining inventory in early fiscal 2005.”
- **Starbucks:** “In fiscal 2006, we plan to open approximately 1,800 net new stores globally.”

Developing Commitment to Goals

The determination to achieve a goal is increased by...
- setting goals collectively.
- making goals reasonable.
- making goals public.
- obtaining top management support.
### Developing Effective Action Plans

**An Action Plan Lists...**
- Specific Steps
- People
- Resources
- Time Period

### Tracking Progress

- Set...
  - Proximal Goals
  - Distal Goals
- Gather and provide...
  - Performance Feedback

### Maintaining Flexibility

**Option-based planning**
- keep options open by making simultaneous investments
  - invest more in promising options
  - maintains slack resources
Planning or Doing? Beyond the Book

• Planning takes many hours and much effort, time and effort that could be spent doing something. Is time spent planning time lost? No.
• If planning involves predicting where an industry is going, and these predictions are merely guesses, as some managers think, what’s to be gained from planning?
• Time spent planning is time spent learning.
• Learning what?
• To get better and faster at predicting industry outcomes and setting standards.


Planning from Top to Bottom

Starting at the Top

| Strategic Plans | Clarify how the company will serve customers and position itself against competitors (2-5 years) |
| Purpose Statement | An inspirational statement of an organization’s purpose (2 sentences) |
| Strategic Objective | Overall goal that unifies efforts, stretches and challenges, and possesses a finish line and time frame. Flows from purpose. |
Planning Time Lines

<table>
<thead>
<tr>
<th>Plans</th>
<th>Strategic</th>
<th>Tactical</th>
<th>Operational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>2 Years</td>
<td>2 years</td>
<td>30 days</td>
</tr>
<tr>
<td></td>
<td>5 Years</td>
<td></td>
<td>6 months</td>
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Bending in the Middle

<table>
<thead>
<tr>
<th>Tactical Plans</th>
<th>Specify how a company will use resources, budgets, and people to accomplish goals related to its strategic objective.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management by Objectives</td>
<td>Develop and carry out tactical plans</td>
</tr>
</tbody>
</table>

MBO is a four-step process

Steps to Management by Objectives:
1. Discuss possible goals
2. Select goals that are challenging, attainable and consistent with the company’s overall goals
3. Jointly develop tactical plans that lead to the accomplishment of tactical goals and objectives
4. Meet regularly to review progress
Finishing at the Bottom

Operational Plans: Day-to-day plans for producing or delivering products and services over a period of 30 days to 6 months.

Kinds of Operational Plans

- **Single-Use Plans**: Plans that cover unique, one-time-only events.
- **Standing Plans**: Plans used repeatedly to handle frequently recurring events. Three kinds are: policies, procedures, and rules and regulations.
- **Budgets**: Quantitative planning to decide how to allocate money to accomplish company goals.

What Is Rational Decision Making?

*After reading these sections, you should be able to:*

4. explain the steps and limits to rational decision making.
5. explain how group decisions and group decision-making techniques can improve decision-making.
What Is Rational Decision Making?

Decision Making
The process of choosing a solution from available alternatives.

Rational Decision Making
A systematic process of defining problems, evaluating alternatives, and choosing optimal solutions.

Steps to Rational Decision Making

1. Define the problem
2. Identify decision criteria
3. Weight the criteria
4. Generate alternative courses of action
5. Evaluate each alternative
6. Compute the optimal decision

Starting From Scratch

When making a decision, sometimes it’s ok to start over or change direction. Mattel was struggling financially when Bob Eckert first became CEO. They’d been paying a 36¢ per share dividend for several years, but they had started having to borrow from banks to continue the payout. Eckert and his CFO realized that given a blank slate, they wouldn’t be paying the dividend, so they decided to cut it to 5¢. The day that they announced the cut, the stock price actually went up.

Steps to Rational Decision Making

1. Define the problem
   - A problem exists when there is a gap between a desired state and an existing state
   - To make decisions about problems, managers must...
     - be aware of the gap.
     - be motivated to reduce the gap.
     - have the knowledge, skills, abilities, and resources to fix the problem.

2. Identify decision criteria
   - Standards used to guide judgments and decisions
   - The more criteria a potential solution meets, the better that solution should be.

3. Weight the criteria
   - Absolute comparisons
     - each criterion is compared to a standard or ranked on its own merits
   - Relative comparisons
     - each criterion is compared directly to every other criterion
Steps to Rational Decision Making

### Absolute Weighting of Decision Criteria for a Car Purchase

<table>
<thead>
<tr>
<th>Criteria</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>1. Predicted reliability</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
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<tr>
<td>2. Owner satisfaction</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
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<tr>
<td>3. Predicted depreciation</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
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<tr>
<td>4. Avoiding accidents</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<tr>
<td>5. Fuel economy</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
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<tr>
<td>6. Crash protection</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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<td>7. Acceleration</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
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<tr>
<td>8. Rate</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
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<td>9. Front seat comfort</td>
<td>2</td>
<td>3</td>
<td>4</td>
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### Relative Comparison of Home Characteristics

<table>
<thead>
<tr>
<th>HOME CHARACTERISTICS</th>
<th>L</th>
<th>SSQ</th>
<th>IP</th>
<th>SR</th>
<th>QS</th>
<th>NBM</th>
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<tbody>
<tr>
<td>Daily commute (L)</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>0</td>
</tr>
<tr>
<td>School system quality (SSQ)</td>
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<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>0</td>
</tr>
<tr>
<td>Inground pool (IP)</td>
<td>+1</td>
<td>+1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>+1</td>
</tr>
<tr>
<td>Sun room (SR)</td>
<td>+1</td>
<td>+1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Quiet cove (QS)</td>
<td>+1</td>
<td>+1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Newly built house (NBH)</td>
<td>0</td>
<td>+1</td>
<td>-1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total weight</td>
<td>-2</td>
<td>-3</td>
<td>-3</td>
<td>-2</td>
<td>-2</td>
<td>-2</td>
</tr>
</tbody>
</table>

### Generate alternative courses of action

- The idea is to generate as many alternatives as possible
Buck Knives Considers Its Options

In 2004, C.J. Buck moved his company Buck Knives from its 62-year-old headquarters in San Diego, California to Post Falls, Idaho. As its clients had shifted from small specialty stores to larger accounts like Wal-Mart and JCPenney, order volumes had risen but price competition was hurting margins. Buck concluded they could move assembly to Mexico, become a marketing company and outsource all production, or move the company. To maintain the integrity of the brand and maintain quality control, Buck wanted to keep production close to the headquarters. Buck chose to move because Idaho provided a more business friendly environment.


Steps to Rational Decision Making

5 Evaluate each alternative

- This step can take much longer and be more expensive than other steps in the process

Steps to Rational Decision Making

6 Compute the optimal decision

- Multiply the rating for each criterion by the weight for that criterion
- Sum the scores for each alternative course of action
Chapter 5

Limits to Rational Decision Making

Maximize
Satisfice

4.7

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Using Groups to Improve Decision Making

Structured Conflict
Nominal Group Technique
Delphi Technique
Electronic Brainstorming

Using Groups to Improve Decision Making

Structured Conflict
Nominal Group Technique
Electronic Brainstorming

5

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Group Decision Making

Advantages

1. View problems from multiple perspectives
2. Find and access more information
3. Generate more alternative solutions
4. More committed to making chosen solutions work

Group Decision Making

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5.1

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Group Decision Making

Disadvantages
1. Susceptible to groupthink and to considering a limited number of solutions
2. Takes considerable time
3. One or two people can dominate group discussion
4. Members don’t feel personally accountable for decisions and actions

Disadvantages
5. Groupthink

Groupthink is likely to occur when...
- the group is insulated from others with different perspectives.
- the group leader expresses a strong preference for a particular decision.
- there is no established procedure for defining problems and exploring alternatives.
- group members have similar backgrounds.

Structured Conflict

C-Type Conflict
- Cognitive conflict
  Disagreement that focuses on problem- and issue-related differences of opinion

A-Type Conflict
- Affective conflict
  Disagreement that focuses on individuals or personal issues
Devil’s Advocacy

Steps to Establish a Devil’s Advocacy Program

1. Generate a potential solution
2. Assign a devil’s advocate to criticize and question
3. Present the critique of the solution to key decision makers
4. Gather additional information
5. Decide whether to use, change, or not use the originally proposed solution

Dialectical Inquiry

Steps to Establish a Dialectical Inquiry Process

1. Generate a potential solution
2. Identify the assumptions underlying the potential solution
3. Generate a conflicting counterproposal based on opposite assumptions
4. Have advocates of each position present their arguments and engage in a debate in front of decision makers
5. Decide whether to use, change, or not use the originally proposed solution

Nominal Group Technique

Steps to Establish Nominal Group Technique

1. During a quiet time, group members write down as many problems and solutions as possible.
2. Each member shares one idea at a time.
3. Ideas are posted on flipcharts until all ideas are shared.
5. Ideas are ranked during a second quiet time.
6. Members read rankings aloud, and the idea with the highest average rank is selected.
Delphi Technique

Steps to Establish Delphi Technique

1. Assemble a panel of experts.
2. Create a questionnaire of open-ended questions.
3. Summarize the responses and feed back to the panel until the members reach agreement.
4. Create a brief report and send to the panel members for agreement/disagreement.
5. Continue the feedback process until panel reaches agreement.

Stepladder Technique

<table>
<thead>
<tr>
<th>Step 3</th>
<th>Member 4 Joins Group</th>
<th>Shares thoughts, ideas, recommendations</th>
<th>Discussion is Held and Tentative Group Decision is Made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 2</td>
<td>Member 3 Joins Group</td>
<td>Shares thoughts, ideas, recommendations</td>
<td>Discussion is Held and Tentative Group Decision is Made</td>
</tr>
<tr>
<td>Step 1</td>
<td>Member 1 Shares thoughts, ideas, recommendations</td>
<td>Member 2 Shares thoughts, ideas, recommendations</td>
<td>Discussion is Held and Tentative Group Decision is Made</td>
</tr>
</tbody>
</table>

Brainstorming

Four Rules of Brainstorming

1. The more ideas, the better.
2. All ideas are acceptable, no matter how wild or crazy.
3. Other group members’ ideas should be used to come up with even more ideas.
4. Criticism or evaluation of ideas is not allowed.
Electronic Brainstorming

Advantages of Electronic Brainstorming

✓ Overcomes production blocking
  • technology allows everyone to record their ideas as they are created
  • no ideas lost while waiting your turn to speak
✓ Overcomes evaluation apprehension
  • anonymity creates free expression

Disadvantages of Electronic Brainstorming

• Greater expense
• No automatic acceptance of ideas because of one’s position
• Some find it difficult to express themselves in writing
• Lack of typing skills can frustrate participants

Brainstorming: Up-close and Personal

• Some organizations are trying some radical methods for generating new ideas.
  • In 2008, Best Buy took four groups of younger sales people and asked them to live together for 10 weeks.
  • Their goal for the period was to brainstorm and develop new businesses that could be launched quickly and cheaply.
  • Their efforts produced Best Buy Studio, a service providing Web-design consulting for small businesses.