

6.2.1: Is Planning Important?

Learning Objectives

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process by which managers establish goals and specify how these goals are to be attained. Plans have two basic components: outcome or goal statements and action statements. Outcome or goal statements represent the *end* state—the targets and outcomes managers hope to attain. Action statements reflect the *means* by which organizations move forward to attain their goals. British prime minister Theresa May is determined to change the way that public companies' boards are comprised of advocating that employees be part of every board. As a part of her action statement, she advocated putting an employee representative in every boardroom, just like Mick Barker, a railway worker since the 1970s, has been quietly helping to shape decision-making as a member of the board of directors at the top of transport giant First Group.²

Planning is an intellectual activity.³ It is difficult to see managers plan because most of this activity unfolds in the mind of those doing the planning. While planning, managers have to think about what has to be done, who is going to do it, and how and when they will do it. Planners think both retrospectively (about past events) and prospectively (about future opportunities and impending threats). Planning involves thinking about organizational strengths and weaknesses, as well as making decisions about desired states and ways to achieve them.⁴

Planning for organizational events, whether in the internal or external environment, should be an ongoing process—part of a manager's daily, weekly, and monthly duties and a routine task for all members of high-involvement organizations. Plans should be continually monitored. Managers and other organizational members should check to see if their plans need to be modified to accommodate changing conditions, new information, or new situations that will affect the organization's future. Plans need to be administered with flexibility, as organizations learn about new and changing conditions. Clearly, the Calico Candy Company failed to monitor its plans in this way. By thinking of planning as a continuous activity, methods can be formulated for handling emerging and unforeseen opportunities and threats. Planning is one process through which organizational activity can be given meaning and direction.

Why Should Managers Plan?

Managers have several reasons for formulating plans for themselves, their employees, and various organizational units: (1) to offset uncertainty and change; (2) to focus organizational activity on a set of objectives; (3) to provide a coordinated, systematic road map for future activities; (4) to increase economic efficiency; and (5) to facilitate control by establishing a standard for later activity.

Several forces contribute to the necessity for organizational planning. First, in the internal environment, as organizations become larger and more complex, the task of managing becomes increasingly complex. Planning maps out future activities in relation to other activities in the organization. Second, as the external environment becomes increasingly complex and turbulent, the amount of uncertainty faced by a manager increases. Planning enables organizations to approach their environment systematically.

A study out of Cornell University and Indiana University found that absenteeism costs companies \$40 billion per year; the absence of planning was one of the biggest problems businesses face. Firms that follow a clearly defined plan in their day-to-day operations will be more successful than those that do not. The authors state, “organizational controlled consequences that would tend to deter absenteeism.” Interestingly, this may be as simple as inspecting the organizational policies that provide the “rules” for employee absenteeism.⁵

Do Managers Really Plan?

Managers should plan formally, but do they? Some observers contend that managers typically are too busy to engage in a regular form of systematic planning. McGill University management professor Henry Mintzberg notes:

*When managers plan, they do so implicitly in the context of daily actions, not in some abstract process reserved for two weeks in the organization's mountain retreat. The plans of the chief executives I have studied seemed to exist only in their heads—as flexible, but often specific, intentions. . . . The job of managing does not breed reflective planners; the manager is a real-time responder to stimuli.*⁶

Others disagree. After reviewing a number of studies focused on the degree to which planning and other managerial activities are inherent parts of managing, management professors J. Carroll and J. Gillen state that “the classical management functions of Fayol, Urwick, and others are not folklore as claimed by some contemporary management writers but represent valid abstractions of what managers actually do and what managers should do.”⁷ Barbara Allen, president of Sunbelt Research Associates, notes that she did a considerable amount of planning before launching her new business. Now that she is operating successfully, she reviews and updates her plans periodically.⁸

Managers often are very busy people. Some act without a systematic plan of action; however, many managers do plan systematically.⁹ For example, many managers develop systematic plans for how their organization will react to a crisis. United Airlines, for example, created a crisis planning group. The group developed United’s crisis contingency plan book, which specifies what the airline’s crisis management team should do in the event of a crisis. Keri Calagna, principal, Deloitte Risk and Financial Advisory, Deloitte & Touche LLP, comments that up to 20.7% of a firm’s value resides in reputation but that CEOs and 77% of the board of directors members identified reputation risk as the area about which they felt most vulnerable and that only 39% had a plan to address it.¹⁰

The question about whether managers really plan and the observation that many times they are simply too busy to retreat to the mountaintop and reflect on where the organization should be going and how it should get there misses the point: there are different types of planning.



Figure 6.2.1.1: Theresa May The United Kingdom may have voted to leave the European Union (EU), a move known as “Brexit,” but if Prime Minister Theresa May gets her way, British companies might look a little more like those in EU countries such as Germany and France. Theresa May favors an overhaul of corporate governance, including appointing employee representatives to boards of directors. (Credit: Arno Mikkor/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

? concept check

1. What is the process where managers establish goals and outline how these goals will be met called?
2. How do the internal and external environments of the organization and its strengths and weaknesses impact the planning process?
3. Why should managers plan?

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