

3.14: Types of Plans and Common Planning Tools

Learning Objectives

- Differentiate between the uses of long-term plans, short-term plans, and operational plans.
- Differentiate between standing plans and single-use plans.
- Explain how policies, procedures, and regulations impact operational plans.
- Explain the role of budgets in the planning process.
- Differentiate between forecasting, scenario planning, and contingency planning.
- Explain the use of “management by objectives” (MBO), SMART goals, and benchmarking in planning.

A link to an interactive elements can be found at the bottom of this page.

You can [view the transcript for “Long term and short term planning animated” here \(opens in new window\)](#).

Watch the short animated video for a brief overview of the importance of long-term and short-term planning.

Long-term and Short-term Plans

When you decided to attend college, you had a long-term plan in mind. You would spend the next four or five years preparing to become a teacher, a businessperson, or perhaps an ecologist. Or, you may have committed two or three years to become a nurse, a medical technician, or an electrician. Your long-term goal was necessary to make sure that your daily activities would help you achieve your desired outcome. You could have just enrolled in a school and taken classes that looked interesting, but then where would you be in four years? You most likely would not have taken the courses required to qualify you for the job you want. An organization, especially a business, is not so different. It also needs a long-term plan to make sure that the daily activities of its employees are contributing to the mission and value statements of the organization.

A **long-term plan** is crucial to the ultimate success of the organization. A long-term plan for many businesses, such as construction, hospitality, or manufacturing, generally extends four to five years into the future. For other faster-changing industries, especially technology companies, a long-term plan may only look two or three years into the future. After that, it becomes too difficult to predict the future with any degree of certainty.

Top management is responsible for the development of the long-term plan. It is up to the CEO to make sure that changing conditions (both external and internal) are reflected in the organization’s long-term plan. The larger and more complex the organization, the larger and more complex the long-term plan will be to include all of the individual departments and functions.

Short-term plans generally allocate resources for a year or less. They may also be referred to as operational plans because they are concerned with daily activities and standard business operations. Like long-term plans, short-term plans must be monitored and updated, and this is the role of middle- and first-level management. Different managerial levels have responsibility for implementing different types of short-term plans. For example, a department manager may be comfortable implementing an operational plan for the entire year for her department. A marketing manager may direct a three- to four-month plan that involves the introduction of a new product line. A team leader may only be comfortable planning and implementing very specific activities over the period of a month.

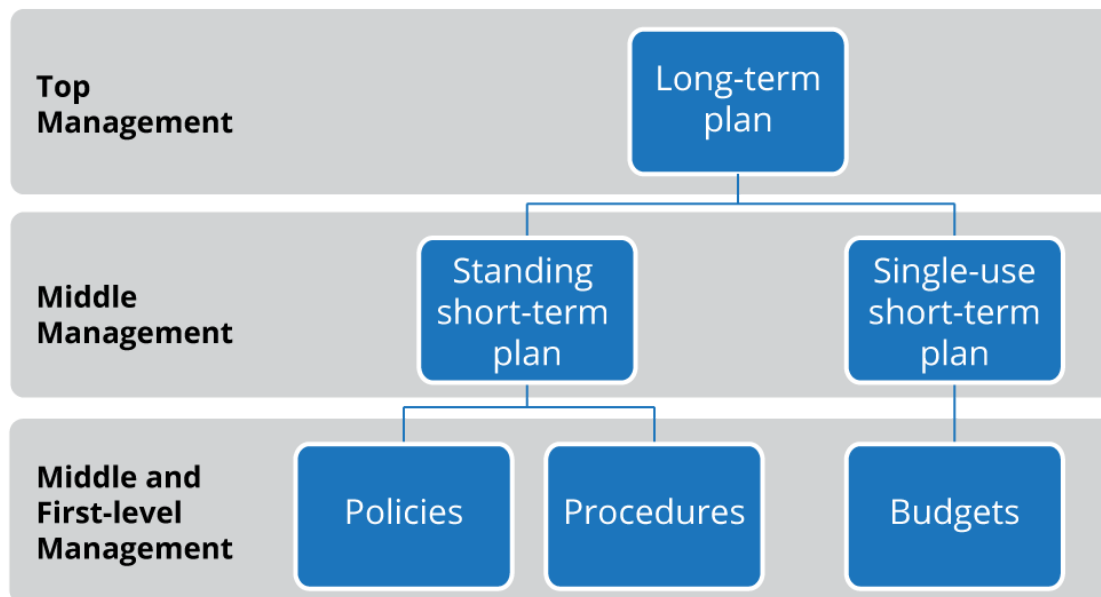


Figure 1. Organizational Plan Hierarchy: The figure above summarizes the relationship between these types of management planning

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Operational Plans: Standing Plans and Single-Use Plans

An **operational plan** describes the specific goals and objectives and milestones set by an organization during a specific period. (**Objectives** are specific tasks undertaken to meet broader goals. A goal may be to increase product sales by 3 percent; an objective may be to hire two additional sales agents.) It will allocate the tangible resources (labor, equipment, space) and authorize the financing necessary to meet the objectives of the plan. There are two types of operational plans: standing plans and single-use plans.

- **Standing plans** are plans designed to be used again and again. Examples include policies, procedures, and regulations. The advantage of standing plans is that they foster unity and fairness within an organization and help to support stated organizational values. Managers don't have to make unique decisions already addressed by various organizational policies. Standing plans also save time because managers know in advance how to address common situations. Finally, standing plans aid in the delegation of work, because employees are already familiar with the procedures and regulations followed by the organization.
- **Single-use plans** refer to plans that address a one-time project or event. The length of the plans varies, but the most common types are budgets and project schedules. The obvious advantage of a single-use plan is that it can be very specific in how it addresses the needs of a particular situation.

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Policies, Procedures, and Regulations

As stated above, the most common examples of standing use plans are policies, procedures, and regulations. These plans are usually published and handed out to new hires or posted on the organization's employee website for easy reference.

- **Policies** provide broad guidelines for the smooth operation of the organization. They cover things like hiring and firing, performance appraisals, promotions, and discipline. For example, a company may have a policy to encourage recycling in the workplace or a policy that prohibits personal cell phone use in manufacturing areas.
- **Procedures** are steps to be followed in established and repeated operations. Procedures should reflect the policies of the company and support the organization's long-term goals. Procedures may also detail steps that should be followed to ensure employees are disciplined in a fair and unbiased manner. For example, if employees feel that other employees interacted with them in an inappropriate manner, then they should follow the procedure for bringing this to management's attention. Or, the organization may establish procedures for what to do in cases of emergencies, such as a fire or toxic spill.

- **Regulations** refer to what is allowable and what is strictly prohibited in an organization. In other words, a regulation is a kind of rule that addresses general situations. In many hospitals and laboratories, for example, there are safety regulations against wearing open-toed shoes or shoes with slippery soles. State and federal governments frequently issue regulations for industries that impact public safety.

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The Role of Budgets in the Planning Process

Refer back to Figure 1 and locate the box labeled “Budgets.” Notice that budgets are examples of single-use, short-term plans. An organization’s budget is a document that details the financial and physical resources allocated to a project or department. They are single-use plans because they are specific to a particular period or event. For example, departments may have a hiring budget that allocates a certain number of positions and a total salary value for a calendar year. Next year, that budget may be the same or it may change, depending upon conditions in the organization. But it cannot be assumed that the budget will stay the same. Zero-based budgets look at each budget as if it were brand new and require managers to justify each of the budgeted items. This process ensures that budgets are closely tied to the latest organizational goals.

Managers deal with a variety of budget types:

- Financial budgets include balance sheets, income/expense statements, and statements of cash flow.
- Operating budgets project revenue against expenditures.
- Nonmonetary budgets allocate resources such as labor, workspace, and equipment use.
- Fixed budgets are budgets that do not change with increased or decreased activities, such as sales revenue. They are also called static budgets.
- Flexible budgets will vary with the level of activity (grow or be reduced according to changing conditions).

Budgets are a very important planning tool, and organizations take their budgeting process very seriously. Some managers spend most of their time making sure that the expenses and projects they control do not exceed authorized spending limits. To routinely “go over budget” is a sign of a poor planning—and planning is one of the basic management functions. In some cases, to routinely come in under budget is also viewed negatively, because with more accurate budgeting those committed resources could have been allocated to other projects. Often, projects compete for limited resources so the best budget is the one that most closely projects actual expenses and revenue.

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Forecasting, Scenario Planning, and Contingency Planning

Forecasting is simply making a prediction about the future. Anyone can make a forecast—the trick is to be right or close enough so that important planning decisions can be based on the forecast. Some “botched” forecasts by business leaders follow:

“This telephone has too many shortcomings to be seriously considered as a means of communication.” – President of Western Union, 1876

“There is a world market for maybe five computers.” – Chairman of IBM, 1943

“Television won’t be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night.” – Darryl Zanuck, president of 20th Century Fox, 1946

“There is no chance that the iPhone is going to get any significant market share.” – Microsoft CEO Steve Ballmer, 2012



There are actually much better ways to predict the future than resorting to fortunetellers.

Scientific forecasting is using mathematical models, historical data, and statistical analysis to make predictions about what will happen in the future. Businesses use **short-term forecasting** all the time when creating budgets and anticipating expenses. Mostly, these forecasts are based on what they sold and what they paid providers in the recent past. **Long-range forecasting** requires both quantitative numerical data and qualitative data based on expert opinions and insights. Often, organizations will create a number of long-range forecasts based on “best-case” and “worst-case” scenarios. They will then make plans on how they would respond to each situation and, as time goes on, they will update and adapt the long-term plan.

One other important type of planning is the **contingency plan**. A contingency plan describes what will happen in a possible—but not expected—situation. Usually, contingency plans are designed to handle emergency situations. For example, airports have contingency plans for plane crashes on takeoffs or landings, and popular tourist attractions have begun developing contingency plans in case of terrorist threats.

An example of the critical importance of contingency planning involves the Deepwater Horizon oil spill in the Gulf of Mexico in 2010. Eleven people lost their lives and seventeen were badly injured when an explosion on an oil rig released almost five million barrels of oil into the Gulf of Mexico. It was the worst marine oil spill in history, and its effects were even more devastating because BP Oil did not have contingency plans in place for that kind of disaster. The spill went on for months while BP and its partners tried to figure out how to shut off the oil’s source. Even though BP spent \$62 billion on the response and cleanup activities, there was extensive damage to marine and wildlife habitats and fishing and tourism industries. Getting employees involved in planning may help prevent tragedies similar to this one.

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Management By Objectives (MBO) and SMART Goals

Management by objectives, or MBO for short, is a tool that can be used to improve the performance of an organization by creating clearly defined objectives agreed upon by management and by the employees. Peter Drucker, a prolific author and a leader in management theory, coined the phrase “management by objectives” in 1954. The intent of MBO is to improve employee motivation and organizational communication by focusing on aligning individual goals to corporate objectives. In MBO, a manager and an employee do the following:

- jointly set goals and objectives for a period.
- together plan tasks that the employee performs with the support of management.
- agree on the standards for evaluating performance of the task.
- regularly meet to review progress.

MBO must be a top-down management tool, because organizational goals are cascaded down to create the various operational levels. Drucker showed that as long as employee goals support short-term and long-term organizational objectives, MBO will help move the company forward. Critics, however, charge that managers using the approach focus more on creating goals than on helping the employee achieve them.

SMART goals are a technique often paired with MBO. SMART stands for specific, measurable, achievable, realistic, and time-bound. The SMART goal paired well with MBO theory by

1. Providing incentives to employees by rewarding them when they meet key goals.
2. Empowering employees by allowing them to set their own objectives for achieving their individual goal.
3. Communicating honestly about what went well and what did not, and focusing on developing the missing skills.

The chart that follows summarizes the most important characteristics of each part of a SMART goal.

SMART Goal Criteria

SPECIFIC	Objectives must be specific enough to avoid confusion. They should identify what the objective is in terms of action to be done.
MEASURABLE	The objective should be numerical and quantifiable. Avoid term such as some, most, many, and enough.
ACHIEVABLE	An objective should be able to be met with reasonable effort. They should not be the source of undue physical or emotional stress.
RELEVANT	The objective should contribute in some way to the success of the organization as well as the development of the employee.
TIME-BOUND	Objectives should come with firm dates—not “soon” or “in a timely manner.”

For example, let's say you set a goal to become a recognized department expert in a subject relevant to advancement within the organization. How could you turn this into a SMART goal?

- **Specific:** I will learn about the liabilities of six major nonprofit organizations.
- **Measurable:** I will make presentations to the advertising, grant writing, and donor/client committees.
- **Achievable:** I will interview one nonprofit organization every week for six weeks.
- **Relevant:** This expertise will fill a current knowledge gap in the new client department.
- **Time-bound:** I will fulfill this goal before my next scheduled annual performance evaluation.

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Benchmarking

The last planning tool we'll discuss in this section is benchmarking. You may think that your organization has an excellent long-term plan and effective short-term plans, but how do you really know? Even if your company is showing growth, is it growing as fast as your competitor? A benchmark is a standard used for comparison purposes. **Benchmarking** is looking at performance levels outside of your organization, or sometimes across departments or divisions inside your organization, to evaluate your own performance. You can benchmark using several different criteria:

- **Industry:** Let's say you produce technology widgets. Benchmarking can answer questions about how your company is doing in comparison to other tech widget makers. This approach is a type of competitive benchmarking.
- **Geography:** Your state is showing a lot of economic growth. You can use benchmarking to determine if your company is sharing in that wealth or underperforming compared to the regional economy.
- **Organization:** You are a small business owner. Benchmarking can help answer questions about whether the economic climate is friendlier to big business than it is to small business, or whether nonprofits are failing whereas for-profits are succeeding.
- **Processes:** You can use benchmarking to determine what processes other firms are using that are helping or hurting them. Are there lessons to be learned from them? This is also called strategic benchmarking or process benchmarking.
- **Innovation:** Benchmarking can help you discover what partners or techniques your competitors are using that are missing in your organization. Are there functions in your products or programs that should be eliminated and others that could be added? Functional benchmarking is key in technology-related organizations.

Internal benchmarking means comparing a department's performance with another department in your company or branch within the same larger organization. The important thing about benchmarking is that it gives you a standard against which to compare your progress.

Key Points

Planning tools are designed to help you determine goals, guide behaviors within the organization, and help you evaluate your performance against external benchmarks. Plans are essential, but good managers know to be flexible when conditions demand.

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