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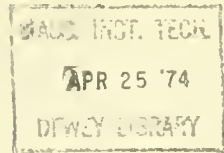
FIVE "MUSTS" OF FORMAL PLANNING

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February, 1974

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FIVE "MUSTS" OF FORMAL PLANNING

A widely accepted approach regarding the design and implementation of an effective formal system for a company's long-range planning is that the system design should be contingent on the specific situational setting of each particular firm. A given formal planning system should thus be "tailored" to the specific corporate strategy, the organizational structure of the firm, the behavioral styles and preferences of management at hand, and other factors. Because of this, there will be no such thing as a generally applicable implementation of a formal planning system. However, this article will conclude, that, in spite of the tailoring approach for systems design, there seem to be at least five general "musts" that do represent necessary, although not sufficient, ingredients in the success of a formal planning process:

1. One of the aims of top management must be that they make use of the formal planning process as a support to formulate strategic choices.
2. The overall purpose of going through a formal planning process must be entirely understood at all levels of the organization that are involved in it.

3. There must be at least a minimum of common requirements regarding the standardization of contents, formats, deadlines, methods, etc., of the formal planning system.
4. The formal planning system must be integrated with the other management systems of the company, such as, for instance, its management control system or management information system.
5. Line managers must be centrally involved in the formal planning process.

These five rules cannot ensure that the formal planning process will be successful, but at least they will make the task a little easier when they are adhered to. Let us, however, emphasize that the principle of situational planning systems design in no sense will be invalidated by our rules.

Of course, the requirement to tailor the design of the remaining aspects of the planning system to the given situational setting will be just as valid. Nevertheless, there is a significantly smaller chance of success for the planning system when the five design guidelines are not respected, as has been shown by a number of business experiences.

THE CONCERN FOR STRATEGIC CHOICES IN PLANNING

Strategic choices are those that govern the most basic orientations of the corporation. They deal with the type of industry, or industries, the company is in, the sort of company it should be, its size and growth, etc. These are some very basic choices that govern all the subsequent ones. However, some confusion frequently exists respecting the process through which they are formulated. They do not exist before and above everything as the Tables of Law. They

are rather developed through a continuous process in which various coalitions--top management, the unions, the engineers, the stockholders, etc.--try to enforce their own point of view. Top management normally has the final word since it is at the highest level of coordination, but they may nevertheless want to compromise as a consequence of all the pressures that are exercised in and out of the corporation. In this process, what planning may give to the whole corporation is a sense of direction, namely a commitment to implement a set of future actions, mutually acceptable to all the parties involved. Top management will be constrained by the plans in two ways because of the organizational commitment phenomenon, a constraint surprisingly easy to overlook:

- the key long-range strategic considerations and actions must, at least to some extent, be part of the plan, in order to secure that these decisions get the full organizational support.
- it will be difficult, or, may even be impossible, for top management to undertake dramatic strategic swings and depart from the planned strategy in too dramatic ways. Organizational commitment will not easily be obtained for such more or less erratic reorientations.

Through the planning process a sort of consensus regarding the overall goals will emerge among the many shareholder groups of the company. Typically, extensive planning revisions, negotiations, reviews and feedbacks will take place before such organizational consensus is reached, manifested in the finalized plan. We believe that a formal planning system cannot be implemented unless it is realized that the system should enhance a sense of direction and organizational commitment, and that, therefore, strategic decision-making to a con-

siderable extent will have to be part of the planning process.

Some companies may not be aware of this requirement and, as a consequence, may find themselves at dead-ends when it comes to implementing a formal planning process. In a \$300 million-sales diversified company with international operations, top management had decided that some sort of future planning process ought to be started in order to better manage the past and future acquisitions. Two joint processes were supposed to be started. First, the divisions were asked to submit their own plans which were designed from scratch, without any guidelines or corporate objectives given to them. Second, a group of corporate staff members were supposed to meet regularly with top management in order to issue corporate objectives. Consequently, the divisions were left from the beginning with little idea of what was expected from them in terms of future orientations and results. This would not have been too bad if, concurrently and in conjunction with the way the thinking of the decisions was developing, top management had been willing to freeze certain options for the future, made the necessary choices, and brought these to the knowledge of the divisions. This however did not take place first because the top management committee was working in a vacuum, isolated from the divisions, and secondly because it consisted only of staff members who were not sufficiently aware of what was really possible for the divisions. In the year following the start of this formal planning process, a small crisis affected the company, forcing sales and profits temporarily to decrease sharply. The formal planning process was immediately abandoned in order to save time for more "urgent" matters. In other words, as soon as planning properly done became most required, it got abandoned. The divisions had not developed enough sense of direction before and

during their planning process. Consequently, what they had prepared was a series of forecasts that soon turned out to be wrong, rather than a firm commitment and a contribution to the corporate decision-making process. The planning efforts, could, consequently, not be of much use, because planning and strategic decision-making were entirely separated. Next to no organizational commitment to the plans had therefore developed. The only option left to management was to cope with the situation in a firefighter type of reaction.

THE PURPOSE OF FORMAL PLANNING

Most companies that undertake long-range planning put considerable emphasis on extrapolating the expected developments of its business activities into the future, so that its top management may get a clearer notion of where the company is going. Many managers compare this future performance forecast with what might be desirable according to a set of corporate goals, more or less explicitly set. The discrepancy between desirable goals and expected performance according to the forecast is commonly called the planning gap. For many managers there seems to be a strong perception that the essence of planning is achieved by this. This is what leads us to believe that widespread confusion in fact exists regarding the difference between forecasting and planning, according to our notion of these tasks. While forecasting is trying to make educated guesses about the future, planning involves one additional crucial step, namely deciding on specific business actions for the future, so that it will be specified in what ways the planning gap may be filled. As a consequence, forecasting is only one of the ingredients in planning. A major purpose of

planning will thus be to support strategic decision-making with the development of alternative actions that will have long-term consequence at the corporate level. It is striking to observe that in several companies that are trying to get formal planning processes started, as well as in some companies with longer traditions in planning, top management often seems to be totally unaware of this major purpose of planning, namely to facilitate the preparation of specific actions for the future. Far too often, this decision orientation of planning seems to get lost.

For example, in a U.S. headquartered company having a rather mature and narrow product line, the planning department has designed a framework indicating the major steps to be followed in preparing a formal plan, specifying that a decision-making and programming phase was to follow a forecasting phase. However, since it was the first time that the company had experienced such a process, top management decided that only the first phase (that of forecasting) should be implemented for the first year, because it felt that planning should involve the other steps when more experience in planning had been gained. This is rather analogous to ordering a hot dog and finally buying only the mustard. The result was to completely detract the formal planning process from its real long-term decision orientation purpose. In addition, this was confusing to the operating units, which came to believe that their planning task was primarily about forecasting. As a consequence, further efforts to improve managers' comprehension of the system were jeopardized from the beginning.

Another indication about the apparent confusion about the decision-making purpose of long-range planning seems also to be frequently reflected by the interpretation of the term "long-range" or "long-term"

planning to mean, say, a five-year planning horizon. Since the major purpose of formal planning is to support strategic decision-making for the future, each such decision calls for the consideration of the appropriate time horizon. The time horizon is consequently a function of the type of decision to be made, not of the decimal system as would be suggested by the fact that a five-year planning horizon seems to be the most readily acceptable among planners. By choosing a time horizon at random or because everybody does it, rather than accepting that it is a function of the decisions to be made, people are still more inclined to confuse planning with forecasting. This is thus another consequence of the confusion about planning's real purpose that can be observed in a number of companies. One is led to believe that what is required is the preparation of a five-year forecast and nothing more, and, again, the essence of formal planning is lost.

Finally, a third symptom of the existing misunderstandings about the purpose of formal planning can be found in a number of companies that are trying to implement a formal planning process to an organization structure without proper regard for at what levels in the organization the responsibility for taking long-range strategic decisions in fact should rest. Companies may be classified all along the spectrum from those in which strategic decisions are all taken centrally to those in which strategic decision-making will be highly decentralized. Planning should be undertaken by those levels in an organization which are responsible for the strategic long-term decisions. Thus, in a decentralized company long-range planning should be undertaken at a number of organizational levels, say by divisions, groups, and corporate headquarters. Separate forecasting as well as decision identification efforts should be worked out by all these units. Con-

versely, in a centralized corporation planning should be undertaken at the corporate level, which, consequently, should prepare its own forecasts and strategic decision alternatives. Often, unfortunately, one finds that only the forecasting tasks of planning but not the action alternative generation task gets delegated to the divisions in a decentralized company and that the execution of the forecasting task is neglected at the corporate level. The result will be a confusion of the planning task, both at the divisional as well as the corporate levels. Similarly, in centralized companies, one may find that forecasts are prepared centrally, and that a number of the functional plans containing specific action proposals are prepared further down in the organization without any forecast base at all. Again, the purpose of planning is confused.

COMMON CONTENT AND FORMAT REQUIREMENT

The desirability to ensure a minimum common format and content requirement for the various organizational subunits' plans in a divisionalized corporation does basically arise because, as we have said, formal planning is a decision-making tool that aims at coordinating the efforts of the various operating units. This coordination can be made much easier if the various inputs from the divisions are also consistent between themselves. The degree to which they must be consistent is really a matter of individual cases. The size of the company, the number of autonomous divisions in question, the diversity of business activities, the degree of interdivisionalized interdependence, the geographical spread of the location of the company's activities, and other factors will determine what the minimum format and content requirement must be. The requirement must be, however, that the pre-

paration schedules, contents, and presentation formats must be such that it allows for reasonably effective aggregation of sub-plans so that corporate planning in fact can take place within the decentralized structure. Planning data must thus be easy to find, comparable and available at the same moment in time.

A necessary requirement, then, for planning in a decentralized company must be that the inputs to the planning process in the various divisions must also be consistent. These inputs include data about the economic environment such as inflation rates, labor cost rates, growth in the economy, etc., as well as data results from corporate constraints and choices such as the cost of capital, the rate of interest for borrowing, etc. . . . All the operating units involved in the planning process obviously have to be given a common set of hypotheses with which to begin. Otherwise, their plans will be impossible to discuss, compare, or coordinate.

In companies that do not take the point of minimum content and format requirement as a "must," it will, of course, be difficult for top management to use the formal plan as a decision-making tool. It frequently turns out that planning deteriorates and becomes less efficient. First, the accuracy of the plans may diminish to less than desirable, because of discrepancies in the underlying definitions for preparing the components of the plans. Second, the time required to complete our plans may increase dramatically, because of delays due to incomplete time tables, time needed clarifying misunderstandings, etc. Finally, quarrels about inconsistencies in plans because of lack of common underlying content and formats may build up hostility among managers and detract energy and attention from improving the decision-support content of planning.

Let the following examples illustrate some of the problems that might arise when the various operating units do not use similar methods and languages when they prepare their formal plans. In a large French company, some of the operating units were using different cost concepts under similar names, and no explicit explanation of these differences existed. As a consequence, the review of each divisional formal plan ended up in lengthy and sterile arguments concerning the meaning of the various terms used. In addition to the risk of serious confusions, this also reduced very much the credibility of the whole process. Each time a figure from the plan was under discussion, the immediate answer was: "How can one have confidence in a plan where such a confusion as to the real meaning of 'manufacturing costs' exists? Obviously, the quantitative part of the formal plan is only a portion of it and not necessarily the essential one. But such arguments are very likely to be used whenever there is already some resistance to the discipline required for going through the formal planning process.

As another example, in a Swiss-based consumer products company with subsidiaries in several European countries, the planning process became very inefficient due to a number of delays in the completion of several of the subsidiaries' planning components. No firm overall set of deadlines had been established, allowing some managers to neglect planning and thereby paralyzing planning because of virtual inability of aggregating the sub-plans into a corporate plan because relevant sub-plans were lacking.

At this point, a note of interpretation may be warranted. Our plan for minimum common content and format requirements should not lead to the implementation of generalized procedures when "tailored" approaches would be applicable. For instance, a large multinational

conglomerate has developed quite different formats for its major sectors of business involvement, industry, hotels and insurance. Obviously, also, cost concepts, depreciation rules, etc., differ substantially between these sectors. This is the way it should be, reflecting a tailoring of the systems to the given situational purposes. However, differences in definitions, concepts, schedules, etc. are made explicit, so that their effects on planning can be easily recognized and plans aggregated.

THE INTEGRATION OF FORMAL PLANNING SYSTEMS WITH OTHER DECISION SUPPORT SYSTEMS

Although the formal planning system of a company will be of key importance in terms of the long-term direction setting, there will naturally also be other management systems that support decision-making in the company. For instance, the management control system, which typically includes the one-year budget, will help assure that long-term policies and strategic decisions are being effectively implemented. Systems for operational control, such as inventory control systems or production line balancing systems will assure that specific tasks are carried out effectively. Management information systems will facilitate the process of collecting, manipulating and transmitting information. Since all these systems, then, in fact will be parts of an overall corporate management system, an overall decision support system, it becomes essential that the systems are designed in such a way that they will function in an integrated way. All the different decision support systems should be tailored to the given situational setting of the company. Provided that the tailoring of the designs is done properly and carefully, the integration between the

systems should be a resulting effect. Conversely, lack of integration may be seen as an indication that one or more subsystems have been designed with less than necessary tailoring care. We may, in fact, say that the requirement that the formal planning system and the other decision support systems should be integrated may serve as a check of consistency that all the subsystems have been properly designed for a given company setting. This "must" that the planning system's design is consistent with the other management systems is illustrated in Figure 1.

LINE MANAGERS MUST BE INVOLVED

The fact is that a number of experts on planning long and vigorously have preached that the line managers must be actively involved in preparing their own plans, because only when those responsible for performance get committed to the plans will these stand a chance to get implemented. In spite of this, a number of factors tend to disentangle the line manager from planning:

- To attempt to increase the effectiveness of planning, staff planners may get involved and actually do the plans on the line managers' behalf, to relieve the busy line from another burden and to ensure that completion dates are met. Done to a very limited extent this may cause little harm, but the danger is imminent that the line manager soon will get too disentangled to stay committed to the plans.
- Planning, and its content, may be seen by some as a tool to obtain power in an organization, which, consequently, may lead to planning being cultivated and "protected" by a small group of executives.

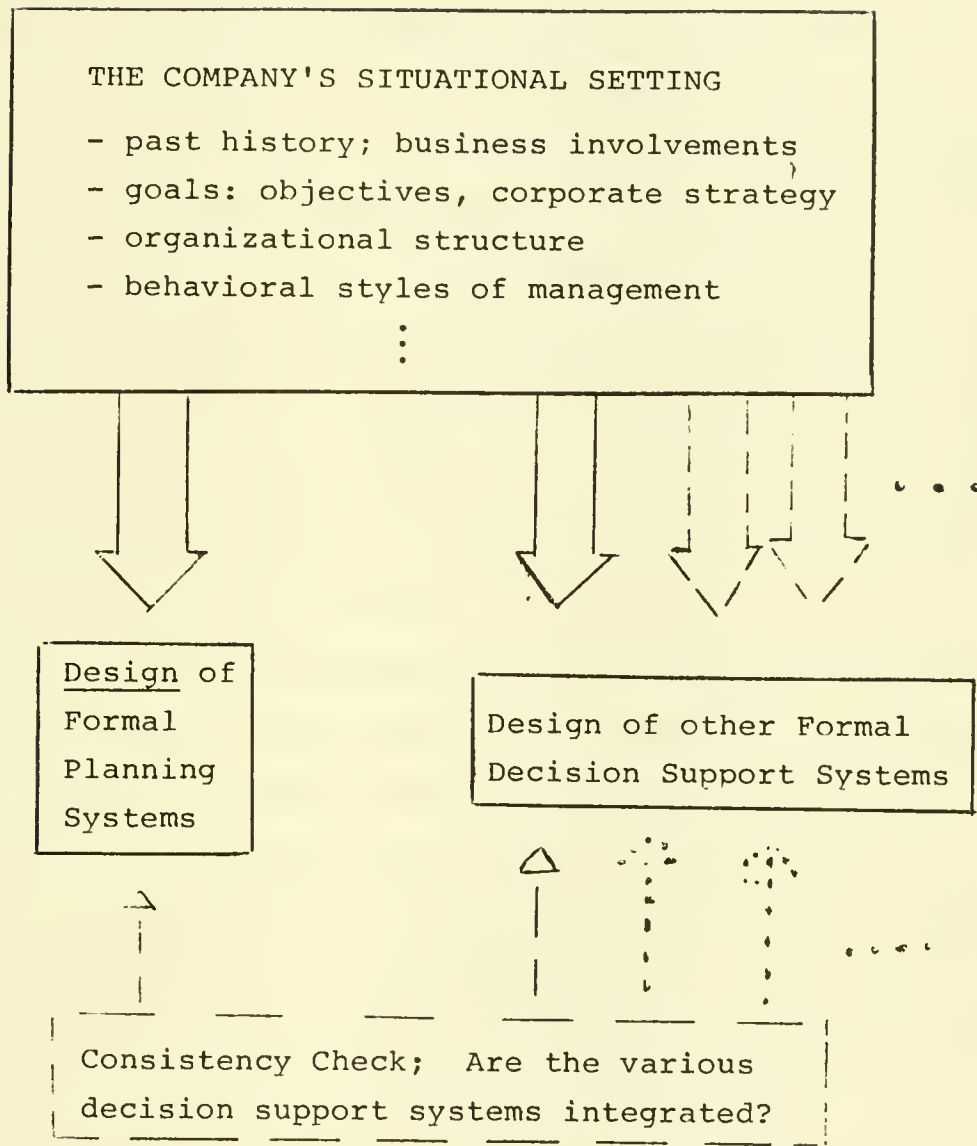


Figure 1. The Integration of Formal Planning Systems with Other Decision Support Systems

We have seen planning as a "political science" happen particularly in a number of European-based organizations, where there is a long-standing tradition of practicing a more secretive management style. Company executives may easily be lead to believe in such settings that the issues dealt with in the formal planning process are so crucial that they should be kept confidential. This will of course be both true and legitimate for some of the issues, but on the other hand, how could one hope to implement a plan when large parts of the organization are unaware of its content? This is even more pertinent these days, as participative management develops from both sides. The confidentiality of certain issues may often be exaggerated, and should never be used as an excuse not to involve line managers when they should be involved. The cost of keeping them uninformed would end up to be much higher than the supposed benefits of secrecy.

The following example illustrates the source of trouble when information is detained as a status symbol in planning. In a headquartered holding company in France with sales in the vicinity of FF 3 billion and multinational industrial operations, it turned out that the top managers of the main subsidiaries had never discussed the formal plans they were preparing for the headquarters with their own managers. For them, knowing about the formal plan content was a symbol of their involvement with the strategic issues of the corporation. As a consequence, they did not feel that their immediate subordinate line managers ought to be informed. However, this had the consequence that their plans were mostly wishful thinking and totally lacked the practicality that would have made them implementable. For instance, some of the plants did not have the capacity to produce what the subsidiary top manager had planned for them. Of course, when it came to imple-

mentation, the line managers were unwilling to take the formal plan seriously. Had they been involved in the preparation from the beginning, this would have not only resulted in a more realistic formal plan, but also in a stronger cooperation for implementing it.

Let us hasten to stress that we do not, of course, advocate that the entire line necessarily should be kept up to date on all major strategic decisions. For instance, in a major U.S. airline carrier company planning is highly centralized, and predominantly top down. Key strategic information is shared among a few top executives and the degree of information going to the line further down in the organization is definitely much less than complete. However, given this type of organization, this is all right. The essence is that the line should receive enough information to plan meaningfully in every situation. How much information that will be needed will of course vary from company to company. In our previous example of the French company, however, the line had definitely not received enough information to get involved in planning in a meaningful manner.

Related to the aforementioned difficulty is the "empire building" syndrome. As an indication of "the bureaucratic phenomenon" the planning organization may have the tendency to grow for its own sake, a process that will blur the real purpose of the planning staff. For instance, in a large U.S.-based industrial company, the first step taken in getting a formal planning process started was to appoint a head of the planning department, who immediately proceeded to appoint assistants to the head of the planning department, and so forth. Subsequently, all these people started designing a system which they thought the company had to follow. However, the way this was perceived by the line people was just as an additional burden placed on them

to satisfy some of the latest fancy needs of information of those staff bureaucrats from above. When, after some time, the staff planners, frustrated by the slowness of getting planning to work effectively, offered to undertake parts of the routine tasks of planning on the line people's behalf, the line was more than pleased to let this perceived burden go. Needless to say, this attempt turned into a total failure, which the planning departments for some time desperately tried to ameliorate by adding still more to their empire building. This seems to be a frequent and grave mistake. Those who make the plans should be the line managers, not the members of the planning department. And the plans should be helpful and make sense to the line, not to the members of the planning department. An essential message for a planning process to be successful is that planning must become a way of managing for the line people. The best way to convey this is through deeply involving those line people and holding back the growth of the planning staff.

CONCLUSION

These were five "musts" of formal planning. Some of these principles have been stated before by others, and other principles are simply plain common sense. However, as we have seen, it is surprisingly easy to violate one or more of these "musts" in real life. In designing and monitoring formal planning systems we should thus take the necessary precautions not to make such violations.

Maybe, more importantly, many of the frequent violations of the basic principles just discussed indicate a basic misunderstanding about planning on behalf of those involved, planners as well as line managers. Such symptoms, then, should lead to explanatory actions

to have these misperceptions straightened out.

Designing and implementing planning systems implies experimenting with one's organization in a real sense, through one's choice of design variables. The expenses of performing the wrong experiments may, of course, become very high when we are dealing with very complex organizations. Our five "musts" may serve as guidelines to prevent the repetition of mistakes done by others before. It should not be necessary to start designing the planning system from scratch, more or less "inventing the heel."

Again, let us hasten to stress that treating these five points with particular care is not in itself a guarantee of success. They are not cook-book recipes, in the sense that there is no such thing as a generally applicable answer to the question of how to implement them. This is pretty much a question of each particular situation. There will never be a universally good way to involve line managers in the planning process, nor a universal set of common content requirements for the formal plans, nor a universal best way to formulate strategic choices before or in relation with the formal planning process, nor a universal approach to integrating planning systems with the other management systems, nor a universal lecture to explain the purpose of formal planning. The "how-to-do-it" depends essentially on each individual situation. Planning is really a way of behaving in the face of situations and, as such, it has to be adapted to each of them.

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