

Chapter Three: Planning

Model answers

Mini Case 3(i): Revising performance plans at Hitachi

Discussion points

Is it possible to assign specific timeframes to what is termed short, medium and long term plans?

While there is no consensus on specific timeframes for each term, it is generally accepted that short term plans relate to operational issues and invariably feature output or production targets over any period ranging from one day to six months. Meanwhile, business level planning (medium term planning) is normally sufficiently long to ascertain trends, perhaps between six months and one year, while long term plans are strategic in nature and usually entail planning for periods over one year long. However, sometimes these timeframes overlap, making it difficult to determine exactly what is deemed short, medium, or long term in particular instances.

Should executive managers get involved in short term operational planning?

It is unlikely that executive level managers will get involved in operational level planning, as they are primarily responsible for setting the long term strategic direction of the organisation. Executive managers need to liaise with business level managers to ensure that their strategic vision and aims are communicated to those charged with the task of implementing activities that will achieve the aims. However, short term planning is normally the preserve of operational managers.

Questions and tasks

What are synergies?

Synergies are advantages that accrue from the sharing of resources, knowledge, relationships, expertise and experience between different businesses.

Identify some key factors in the external environment that can affect business performance.

There are many external factors that can affect the performance of a business. These may include changes in the political environment (e.g. a new government may impose a tighter regulatory regime on the industry), or economic changes (e.g. central banks may increase interest rates making it more expensive for businesses to borrow investment funds). There may also be changes in tastes and fashions - society

changes over time and new ways of thinking and behaving may affect demand for certain products. For example, in the 1930s, most men wore a hat in public, whereas now relatively few do so. Business performance can also be affected by technological change. Although some firms have a measure of control over this, the rate of technological advance is now beyond the control of any one business. Finally, legal issues may also have an impact, as firms may be subject to new laws on environment, health and safety, use of chemicals etc., which may require new investment, in turn potentially affecting profit targets or other aims.

Why is it important to sometimes revise performance targets?

The business environment is characterised by rapid change and uncertainty. Even the most meticulously thought out planning process may become irrelevant very quickly if external and internal changes affect the business. Managers need to monitor the external and internal environment to ensure that their performance targets remain realistic and achievable in a dynamic environment. There is little value in maintaining specified targets if circumstances mean they are unlikely to be achieved. This will only result in failure, which has a negative effect on internal morale and motivation, sends the wrong signals to consumers, and gives a potential advantage to rivals. Revising targets is a means of ensuring that the challenge presented to the workforce remains relevant and achievable in light of changes in the external and/or internal environment.

Mini Case 3(ii): Contingency planning at the World Trade Centre

Discussion points

Is it realistic to expect most businesses to incur expense by preparing for potentially catastrophic events?

The type and scale of preparations for unknown events is part of a risk assessment exercise that most firms undertake when planning for contingencies. All contingencies require resources and it is a function of management to determine what the level of risk is and the requisite amount of resources that can be allocated to it. The scope for small and medium sized enterprises (SMEs) for protecting against potentially business-threatening events is much more limited compared to large organisations. Consequently, managers of SMEs have to decide if and where they want to allocate their limited resources. It is unrealistic to expect such firms to engage in the broad ranging protective contingency plans that are undertaken by large scale and well-resourced organisations. However, there are a number of practical activities that can be taken to offer a level of continuity that does not necessarily have to incur huge costs. This may involve best practice in data protection, putting in place substitutes for key personnel, allocating specific tasks and leadership roles under emergency conditions, and working with partners to establish procedures if certain events do occur.

In contingency planning, should managers ‘think the unthinkable’?

The old adage that ‘if it can happen, it will happen’, rings true when assessing the level of risk that any business is exposed to. Few people could have imagined the events of 9/11, but with the benefit of hindsight the scenario can be viewed as unlikely but possible. Firms therefore need to err on the side of caution and prepare for the worst. If scenarios are possible then managers must assume that it represents a risk. Thus, in contingency planning, all possible scenarios are worthy of consideration and risk assessment, no matter how outlandish they may seem at the time.

Questions and tasks

What is the function of a data warehouse?

The function of a data warehouse is to develop and utilise tools, technologies and methodologies that allow for the construction, usage, management, and maintenance of the hardware and software owned by an organisation.

In financial service, what activities or functions are most essential for business continuity?

In the financial services industry, business continuity is dependent on maintaining an information and knowledge database of all financial

activities between the organisation and its customers, suppliers, brokers, government and other stakeholders. Financial services rely on information as a basis for buying and selling transactions and all communications that smooth that process. Thus, one of the key functions for ensuring business continuity is to secure the integrity of all information and data. This may entail setting up and paying for data warehousing facilities that maintains the databases in a separate location from those of the everyday activities. This guarantees the security of the 'raw material' that is the lifeblood of the industry.

Another important feature of business continuity is leadership. In crisis situations, all organisations need leadership to ensure that decisions can be made quickly and effectively, that there remains a visible chain of command, and that a sense of continuity is spread throughout the workforce. This human element is essential for maintaining the sense of continuity and confidence among all stakeholders. This can also be extended to ensuring that key personnel with specific skills and experience that is hard to replicate are protected or that there is substitute personnel with sufficient know-how to undertake the activities until a long term replacement can be found. In the financial services industry, this may be personnel with important knowledge of how certain markets work, access to networks that smooth business processes, or specialists in crisis management.

Identify two key lessons learnt from the World Trade Centre catastrophe from a business continuity perspective.

The two main lessons learnt from the World Trade Centre catastrophe was that more needs to be done by companies to protect key personnel with skills and experience deemed vital to ensuring business continuity. In the disaster, some firms lost entire teams of personnel who had been trained to deal with catastrophic events, and who had no immediate replacements. This left a vacuum of skills in the businesses that affected their ability to recover the situation quickly.

The other main lesson learnt was the extent of the vulnerability that central business districts are to a complete breakdown of communications systems. When infrastructure (such as cable, telecommunications, broadband etc) is condensed into a relatively small area, then complete failure is likely to affect a higher proportion of businesses. Thus, the effect of the breakdown of infrastructure is much higher than in other areas where businesses are more dispersed.

Mini Case 3(iii): Succession planning at Visy

Discussion points

When is the best time to start preparing for succession to leadership in an organisation?

Succession planning should be an integral part of the planning process in an organisation that is updated regularly. In terms of leadership roles in an organisation, it is essential that appropriate people are identified who can take over the role of existing incumbents should circumstances determine that the person in the role cannot continue. The reasons for the leadership role becoming vacant may vary considerably, but could include retirement, performance-related issues, disciplinary reasons, changes in skills requirements, death, illness, and so on. The position of any person in an organisation is subject to change and therefore, it is necessary to implement an effective succession plan as a matter of course.

Should family businesses always try to keep leadership positions in the family?

There is always an emotional urge to keep a family business in the hands of the family. There may also be sound economic reasons for doing so, too. For example, future income for family members may be reliant on assuming a role within the organisation. However, it may be the case that the family members in question do not possess the requisite skills and experience, which may present a risk to the future viability of the business. In those instances where family members are unable (or unwilling) to take a leadership role in the organisation, then the succession plan needs to identify non-family members who are able to

further carry out the vision of the organisation according to the family's wishes.

Questions and tasks

Why is succession planning important?

Succession planning is an important aspect of ensuring business continuity. It is vital that key positions within the organisation are constantly filled so that the business can carry on even though key personnel leave. Thus, there are sound economic reasons for succession planning. However, the effect that continuity will have on workers, suppliers, investors and other stakeholders should also be considered. Effective succession planning sends a powerful message to the business community that the organisation can survive and prosper even though key personnel move on. This is important for staff morale, investor confidence, and in maintaining long-established relationships with partners. Failure to plan effectively for succession to key positions leaves an organisation vulnerable to the negative reactions of stakeholders that uncertainty and confusion brings.

What are the key issues that have to be addressed when undertaking succession planning?

Key issues in succession planning include: identifying what positions within the organisation are deemed of vital importance; the nature and characteristics of the role; the skills and experience required to carry out the role; where those skills and experience resides (either internally or from the external labour market); how the role will be filled; the likelihood of the role becoming available; and the timeframe for succession.

Identify an organisation where succession is or has been a problem. Outline what measures the organisation has taken to put in place succession plans.

There are many cases of organisations trying to put in place an effective succession plan - some have been successful whereas others are fraught with difficulties. One particularly long running saga has been the succession to the head of the News International media empire that has been dominated by Rupert Murdoch since its inception in the 1950s. When an organisation becomes synonymous with the personality of the owner over an extended period of time, it is extremely difficult to find someone who can easily step into that person's role. In the case of News International, Chief Executive officer Rupert Murdoch has tried to maintain family control at the top of the organisation with both his son, James, and his daughter, Elizabeth, entrusted with senior roles at various times. This was with a view to eventually taking over the helm when Murdoch himself either retired or died. However, the media

empire had grown to such proportions by the 1990s that it proved almost impossible for Murdoch's relatively young and inexperienced offspring to manage the business effectively. Other individuals (non-family members) have subsequently been given executive and controlling roles within the business as an attempt to integrate specific managerial skills. However, the issue of succession has not been fully addressed, leading Rupert Murdoch to retain full control well into his eighties. Nevertheless, as time goes on the issue of succession only becomes more pressing.

Case study: London 2012 Games

Discussion points

Is legacy planning for Olympic Games a cosmetic exercise, or does it actually deliver tangible benefits to the wider community?

Planning for the future use of Olympic Games facilities and the impetus it gives for regeneration has been a key feature of the bid criteria for prospective hosts for many years. However, in the modern era, few host cities have been able to fulfil their legacy promises. The Sydney Olympics of 2000 left a new stadium in the western suburbs of the city but with little to show for the investment in terms of regeneration of the area or extensive and varied use of facilities. The main stadium is used for major

rugby matches and concerts, but the venue has failed to attract other sports. The Athens Games of 2004 similarly failed to meet legacy promises as the city struggled to meet the debt created by the huge investment required in infrastructure to host the Games. The famous *Birdsnest Stadium* in Beijing has only hosted one major event since the 2008 Games, although the aquatic and cycling arenas are used extensively. Many local residents were moved to make way for the Games infrastructure and have been unable to return. Regeneration of the area was never a realistic part of the plan for the legacy of the Games. The London 2012 Games had the most ambitious of all legacy aims which were extended towards environmental, sustainability, and behavioural and cultural factors. Some had to be reigned in even before the Games began as the national economy slumped in the wake of the 2007/8 banking crisis. While it still remains to be seen if London can buck the trend and deliver on its promises, the overall trend suggests that legacy promises may indeed be a cosmetic exercise to win favour of the members of the International Olympic Committee (IOC) whose votes decide the host city, as opposed to delivering tangible benefits to the wider community of that city.

How effective can planning be in achieving outcomes that are based on behavioural and cultural change?

The legacy promises made by the organisers of the London 2012 Games included targets for getting more people involved in sport, being actively

supportive of sustainability initiatives, and being more aware of their responsibilities to the environment. All of these require a change in culture and behaviour among the local population. To undertake such change takes time and the goodwill of the target population. To achieve the targets ambitious regeneration programmes were built into the planning whereby issues of sustainability and environmental awareness were inextricably linked to the regeneration development of the area of east London where the Games were held. Planning for behavioural and cultural change is fraught with difficulty as there are no guarantees that long term change can be initiated and maintained once the main event is over. There are a host of sociological and psychological factors involved in determining behavioural patterns in society, many of which are not manageable or controllable. Wider factors, such as employment, equal opportunities, access, education and so on all affect attitudes, values and belief systems that play a key role in the change process. Nevertheless, a proactive approach to influencing change is a laudable activity as issues of climate change, waste and ecology are strategic issues that need to be addressed sooner rather than later.

Questions and tasks

Identify a major legacy promise highlighted in the 2012 Games bid document and undertake research to determine if there is any evidence of it being met.

One major legacy promise was to get one million people across the UK actively participating in sport after the Games. This particular promise was diluted even before the Games began for reasons of economy. The investment required to support the aim on a national basis was deemed too expensive in an era of unprecedented public service cuts.

What types of planning were undertaken in the process of delivering the 2012 Games?

Many different types of plans were evident in the organisation and delivery of the 2012 Games. Business plans were put in place for all the contractors assigned to construction and infrastructure support; scenario planning was undertaken to envision a whole series of events that may have potentially disruptive effects on the delivery programme (economic, technical, security etc); contingency planning was put in place to ensure continuity of the various projects that comprised the development programme; and succession planning was undertaken to ensure that key roles were permanently filled should individual leave the project.

Identify four external factors that had an impact on the planning targets of the 2012 Games.

The most pressing external factor affecting the planning targets was the deteriorating state of the national economy over the timeframe of the

construction of the main venues for the 2012 Games. The award of the Games coincided with one of the worst global banking crises in history, something that had a profound effect on the performance of the UK economy. Some plans for investment in infrastructure were scaled back and several of the legacy promises made to win the bid similarly revised downwards.

Security was another major factor influencing the planning process. Each venue and infrastructure development had to deliver robust security and health and safety measures to ensure that the Games passed off without incident. This added significantly to the cost but was unavoidable in an era marked by geo-political tensions.

Another important influencing factor was the impact that the Olympic Park development area had on local residents. Many had to be relocated and some were subjected to compulsory public purchase orders and forced from their homes. Although the scale of the disruption was kept to a minimum, there was reputational damage to the Games organisers when residents had to be removed from homes they had stayed in all their lives.

There were also significant environmental challenges to overcome in and around the main stadium site. Planners had to revise the method of achieving their construction aims and targets as the full extent of the legacy of previous industrial activity became clear. In particular, chemical spillages from former factories had seeped into the ground and polluted a significant area of land. Planners had to factor in the cost and

time it would take to clean the area with all the knock-on effects it had for other construction and development targets.

Chapter questions and tasks

Define planning and outline some of the advantages it offers.

A plan is a formal statement of intent that identifies goals and objectives and how they are to be achieved. A goal is an identified outcome that has been chosen and an objective is an aim that can be measured and achieved within a stated timeframe. Planning is the process of defining and setting goals, identifying the means and coordinating the activities by which those goals are to be achieved.

Advantages of Planning:

- Planning is an essential part of the control function in organisations as it sets the standards of performance and targets for output. This allows managers to determine whether or not current practices are delivering the performance aimed for and to take appropriate action to rectify any shortfall or to find new and better ways of improving performance. It is clear that planning and control functions are inextricably linked.
- Planning helps managers to take a systematic approach to achieving goals and objectives. In the first instance, it helps to focus attention on the types of activities that need to be

undertaken to achieve goals and objectives. This, in turn, helps to clarify the extent to which those goals and objectives are realistic, appropriate and achievable.

- Planning is important to employees because workers need to be able to put into action the plans devised by managers in an integrated manner. The plan acts as a guide to the types of activities that need to be carried out in the organisation and, therefore, contributes an ordered, coordinated and rational approach to achieving goals and objectives.
- Planning is a means by which managers can help to mitigate risk by introducing a measure of control on future events. Although there are many factors that are outside the control of management, it is possible to make contingency plans to deal with the effects of those factors. Planning provides an opportunity for managers to minimise the effects that uncertainty and ambiguity bring.
- Planning helps to allocate resources efficiently to those areas of activity that are going to deliver the goals and objectives. As part of an operational plan, managers can determine the optimal use of resources in each activity and allocate them accordingly. This is important for the sustainability of the business as it provides the organisational intelligence required to minimise costs, reduce waste and achieve maximum returns from resources.

- Competitive advantage can be gained when planning delivers economic benefits derived from more coordinated and efficient working practices, the ability to response to or withstand the impact of any negative effects from the external environment, and a well-motivated and disciplined workforce who can understand the transformation process between planning and action.

Highlight the key components of a typical business plan.

Components of a business plan:

Executive summary: an overview of the whole concept or business

Business profile: a description of a business

Product/service/market analysis: chosen market and position in the market

Marketing plan: strategies to attract and keep clients

Legal and risk management plan: business protection planning

Operating plan: how the business works

Management and personnel plan: skills and experience

Finance plan: investment, expected turnover and profit, cash flow projections

The action plan: what you will do and when

Appendices: This section includes information to support or expand any of the above, such as business references, client testimonials, qualifications, detailed product information, consumer research data, environmental audit procedures, financial projections and statements, contracts and legal documents.

Why do managers value the outcomes of scenario planning?

Scenario planning is valued by managers as it provides a means of dealing with increasing uncertainty in environments that are subject to increasing complexity and rapid change. In such environments, it is not possible to draw any definitive conclusions as to how these will affect the organisation. The outcome of scenario planning helps managers to acquire a range of views from company specialists regarding the effect that possible changes to the business environment will have on the organisation. Each outcome will have its own level of impact on the operations, goals and objectives of the organisation. Crucially, they help to focus the minds of managers on a broader range of possibilities rather than on just a few obvious ones. Critics often state that the reason why managers value scenario planning is that it gives the impression that they have thought through every eventuality and that it dilutes blame when things go wrong.

What is the biggest threat to business continuity for a large scale toy manufacturing company in China?

For a large toy manufacturer in China, the main threat to business continuity is likely to be economic rather than failures relating to security, labour relations or political factors. Such an organisation is likely to have its main markets outside China and exporting will provide most of its revenue. Hence, the business is reliant on growth of demand

for their products from western economies. As consumption in key markets is dependent on disposable incomes then the performance of those economies plays a key role in determining how economically viable the toy manufacturer in China is. The economic slump experienced in many important economies in Europe and the US has curtailed spending on items such as toys, meaning the company in China would have to explore new markets to ensure that it survives and prospers.

Identify the four main stages of succession planning.

Stage 1: identify critical roles

Stage 2: conduct role analysis

Stage 3: design a succession plan

Stage 4: monitor, evaluate and revise