CHAPTER 3

The Short-Term Operating Plan

The purpose of this chapter is to examine some of the shorter term activities (a year or less) that are necessary to support the overall planning process for the organization. Planning without implementation is an academic exercise that will result in little, if any, benefit to the company—other than some nice papers for the files. Breaking the plan into short term and detail phases is necessary if implementation is to take place, and it is this aspect of the planning process that will be discussed in this chapter.

The objectives of this chapter are to

1. examine the underlying theories behind short-term planning;
2. review the elements of a short-term operating plan and some of the factors to consider prior to implementation;
3. identify the factors to consider before beginning short-term planning;
4. identify benefits of and potential problems in a short-term planning process;
5. describe the major steps of a short-term planning system;
6. discuss the implementation of a short-term plan.

THE SHORT TERM PLAN IS THE FIRST STEP IN ACHIEVING THE LONG-TERM PLAN

Introduction

The long-range goals and strategies established by top management need to be translated into more specific short-term departmental goals and objectives. Definitions of goals and objectives are presented subsequently. Note that goals are broad directions or outcomes that the organization wishes to attain, while objectives are measurable and time-specific results relating to one or more of the desired goals. Normally, short-term goals and objectives are developed for a specific planning period (often annually) for both the entity as a whole and each departmental unit. But keep in mind that as they are plans, such plans are subject to change and must be monitored on a continual basis. Just as top management has responsibility for developing the long-term goals (with input from operating personnel), so do operating managers and staff have the responsibility for developing and implementing the short-term goals and objectives within the framework of the overall long-term plans

Goals and Objectives

Goals

- Statements of broad direction
- Describing future states or outcomes of the organization to be attained or retained
- Indicating ends toward which the organization's effort is to be directed

Objectives

- Measurable, desired accomplishments related to one or more goals
- Whose attainment is desired within a specified time frame and can be evaluated under specifiable conditions

Characteristics of Objectives

- *Measurable*: Attainment (or lack thereof) can be clearly identified
- *Explicit*: Clear indication of who, what, when, and how
- *Time-Specific*: To be accomplished within a stipulated period of time

- *Realistic*: Capable of being attained within the time frame specified and with the expenditure of a reasonable and cost-effective amount of effort and resources

To demonstrate the relationship between long-term and short-term goals and objectives, let's look at an example. A long-term goal of the company may be *to become the industry sales leader in our consumer product line.* A related medium-term goal might be *to increase on a steady basis the sales, in units, of our consumer products.* A specific short-term objective for this planning cycle then could be *to increase sales units of Sheen facial soap by at least 10 percent over last year.*

This last objective can be the basis for specific detail plans and related performance expectations for the sales department, finance, manufacturing, and other affected functions within the organization. Departmental objectives can be converted into levels of production, inventory quantities, labor needs, manufacturing capacity, sales activity, administrative support, and other short-term needs. These short-term objectives and related detail plans then become the starting point for the budgeting process. The budget will reflect what is necessary (in terms of labor, material, overhead, engineering, sales, administrative, and other costs) to meet the agreed-upon short-term objectives and work the detail plan for successful results. When management approves each budget, it will reflect the authorized level of expenditures needed to fulfill the objectives by following through on agreed upon detail plans. At this point each manager and supervisor presumably will have been delegated the authority to incur the expenditures to make the detail plan work. Finally, the managers and supervisors can be evaluated based on their ability to effectively work their plans to achieve established short-term objectives.

THE DETAIL PLAN
MOVES TOWARD THE OBJECTIVE,
THE OBJECTIVE MOVES TOWARD THE GOAL

A schematic of the planning cycle is shown next (Figure 3.1). This schematic graphically depicts the relationship between strategic planning and the short-term planning process. It also shows the interactive

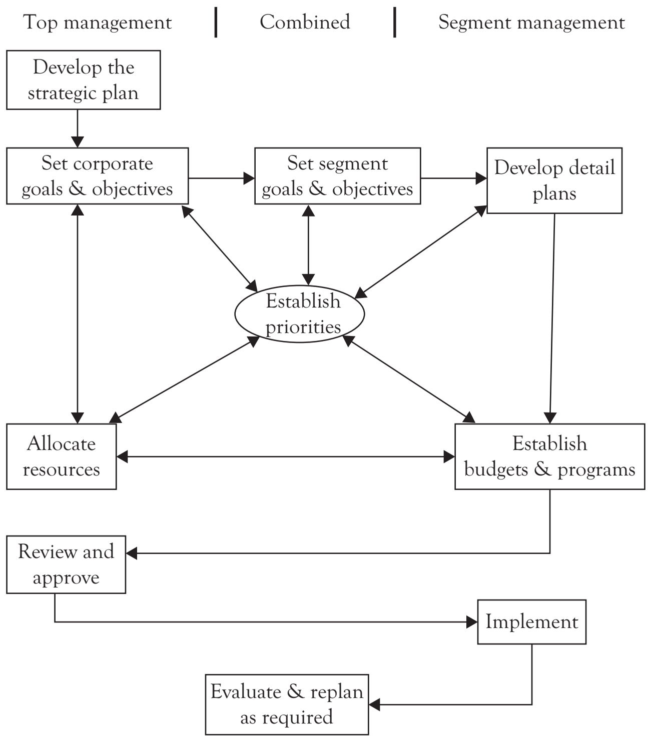

Figure 3.1 Short-term planning cycle

relationship between top and segment management that is required to make the entire planning process fully effective.

The Organization Planning System

One of the most important benefits of an organizational planning system is that it forces managers, supervisors, and operating personnel in the organization to take the time to consider strategic questions and alternatives for achieving the most effective results. Without this focus, day-to-day operations (and related crises) would normally consume all the available time. An organizational planning system enables management to respond to both the external and internal environments, and allows managers to run a complex organization with the aim of achieving an integrated and coordinated result—despite ceaseless changes, nerve-wracking uncertainty, and all-too limited resources.

Organizational planning is the term used to describe planning for the organization as a whole, and encompasses decision making at all levels of the organization. Within this framework, strategic planning provides the basic direction and focus of the organization—that is, the big picture! Strategic planning is concerned with top management decisions relative to the future direction of the organization in terms of such things as business focus, resources, products and services, and markets. Long-range planning, which is often thought of as synonymous with strategic planning, more typically provides a time frame for the strategic plan, typically three to five years (but possibly much longer, depending on the nature of the business).

Short-term planning, or operational planning, provides the framework for implementing the strategic and long-term plans into a short-term time frame—usually a one-year operating period. It should be a direct derivation from the strategic plan and is the logical next step in converting top management's strategic decisions into short-term operating actions. The operating plan works with present resources and the current situation to create a detailed blueprint for achieving agreed-upon goals and objectives for the various segments of the organization. It is the effective development of the short-term operating plan that we will discuss next.

The budgeting process involves activities such as revenue projections, expense allocations, determination of the need for other sources of funds, and the projection of profit or loss, financial position, and cash flow for the organization. Budgeting will be discussed in greater detail in the following chapter. Note, however, that budgeting alone is not planning! While budgeting is a critical activity for the organization, it is only one element of the short-term operating plan. There are many organizations, however, both large and small, that continue to confuse budgeting with planning, or they may allow the budget to be done first and thus have the budget dictate the planning process rather than reverse the sequence and properly have the budget emanate from the planning process.

Presumably, as the organization grows in size and complexity, management will realize that crisis management and purely intuitive planning and control are no longer sufficient. More structured planning concepts and techniques might find their rightful place in the organization's recurring business development activities.

**SOUND INTERNAL OPERATIONS,
STRATEGIC LONG-RANGE PLANS,
SHORT-TERM OPERATING PLANS,
HOW TO DETAIL PLANS, AND
BUDGETING = THE PLANNING CYCLE**

The Underlying Theory Behind Short-term Planning

The starting point for the short-term planning cycle is the strategic or long-range plan as developed by top management. The next step is to develop corporate and segment goals and objectives that support the strategic plans. These are normally formulated by top management with built-in feedback to allow lower levels of management to review the goals and objectives and assure that they are consistent with operational needs—and that no constraints exist that could prevent successful attainment. Once these plans are in place, priorities must be established so that senior and segment management know the extent of resources that need to be allocated to allow the goals, objectives, and detail plans to be attained.

The short-term planning system at the segment level is a process in which lower levels of management develop detail plans in accordance with their own understanding of what top management requires of them. Senior management then exercises top-down direction to support the broad framework of total organizational objectives. In this two-way flow of ideas, a deeper understanding is achieved as to the nature of the organization and how each organizational unit plays a supportive role in accomplishing what the organization wants to achieve.

Segment mission determines segment purpose and functions, and from these plans, budgets and programs are derived. This in turn leads to implementation, review, and replanning. The combination of bottom-up development and top-down direction and review is the foundation for the effectiveness of short-term planning procedures. It maximizes involvement of managers, supervisors, and operational personnel in developing operating goals, objectives, and detail plans; while, at the same time ensuring that these are compatible with overall organization mission and strategic plans, as well as shorter term goals and objectives.

Effective short-term planning necessitates participative management. This does not necessarily mean a complete change in the management system, but it does place more emphasis on certain management techniques such as getting things done through other people. Managers must delegate in order to derive the greatest benefit from the planning system. They must give their employees freedom to devise their own methods for attaining their goals and objectives. This carries with it, of course, the freedom to fail—frightening to some, but a major learning process for employees.

THE GREATER EMPLOYEE INVOLVEMENT, THE GREATER THE RESULTS

The Short-term Operating Plan

Short-term planning is the process whereby top management, operating management, and personnel in the organization jointly identify common goals and objectives, define each individual's major areas of responsibility in terms of results expected, and use these measures as guides to operating each organizational unit and assessing the contribution of each staff member. Short-term planning also permits management at all levels of the organization to concentrate on those matters requiring attention and to devote only minimal effort to those activities that are running smoothly. This concept is popularly known as management by exception. Note that the process is based on a cooperative relationship between top and functional management, insuring an integrated plan for all levels of the organization. As a result, all members of the organization are working toward the same targets—that is singing out of the same songbook.

The general steps normally required in the short-term planning process are discussed in detail as follows:

Planning: Based on corporate goals and objectives, each segment will state its mission (its reason for existence) and its major functions; will analyze its strengths, weaknesses, opportunities and threats; and will develop its goals and objectives (specific goals to be attained).

Programming: Once management agrees on the segment goals and objectives, segment staff will develop alternatives as to how they will accomplish their objectives. Through a priority-setting process, they should consider existing constraints (obstacles to success) and prepare cost-benefit analyses to determine the optimum detail plan or set of activities that will accomplish the objectives.

Budgeting: After the detail plans have been agreed to, resources need to be allocated to each activity. During the budget process, revenues are projected, priorities are set (how much can we do with limited resources?), resources are allocated to relevant activities (expense budgeting), and additional sources of funding are identified if required. Established budgets should represent the delegation of authority from top management to segment management to carry out their agreed-upon plans. This integrates the planning and budgeting phases of the entire process.

Implementation: Following agreement and approval of the detail plans and related budgets, the segment becomes responsible for implementing the plan. Since the steps and activities of the detail plan have been agreed to as the optimum way for the organization to achieve desired objectives, segment personnel must be held accountable for making the plans work as effectively as possible.

Evaluation: The evaluation process in a short-term planning cycle consists of establishing effective reporting systems that will inform if objectives are, in fact, being met. Based on these evaluations, management can determine if the plan should be continued, changed, or dropped entirely. This is the replanning process, which is the start of a new planning cycle.

Factors to Consider Before Short-term Panning Begins

Short-term planning is not an easy process to put into effect in an organization. There are several factors that should be taken into consideration before proceeding with the installation of this system of management planning.

1. *Sustained top level management support*: Ultimate responsibility for the successful implementation of short-term planning systems cannot be delegated to lower levels within the organization. The process should be undertaken *only* if the individual(s) at the top are fully committed to devote sufficient time and resources to ensure its success.

2. *Patience*: Normally only modest results are achieved in the first year other than to get managers and staff thinking and acting in terms of goals, objectives, and detail plans, and to provide time for the planning concepts to become engrained. Improved results should accrue during the second year. Outstanding results should be realized by the third year if the short-term planning process has been properly developed and supported.
3. *Management control*: Those responsible for achieving plan results must have substantial control over the factors affecting achievement of goals, objectives, and detail plans (including related budgets) for which they are to be held accountable.
4. *New management style*: Effective use of short-term planning methodology requires a change in management style from traditional production-oriented methods to a result-oriented goals approach. This is perhaps the most important requirement for effective use of short-term planning methods. At the same time, it is also the most difficult for managers to implement. Some of the more significant changes that must be made to the traditional management approach are as follows:

    - Managers and others at multiple levels need to participate in the development of goals, objectives, and detail plans for their departments, work units, or both.
    - Managers should be given freedom within broad guidelines to devise their own methods for achieving goals and objectives.
    - A major role of managers should be to teach and counsel their employees; just as they also may need teaching and counseling by top management.

TOP MANAGEMENT SUPPORT AND PARTICIPATION RESULTS IN OPERATIONAL PARTICIPATION

What Short-term Planning Can Provide

Considering all the problems and changes required to implement an effective, result-oriented planning system within the business, what then are the benefits that can be identified to justify the time and expense required for successful installation?

1. *Effective planning*: Short-term planning provides for realistic goals and objectives and outlines detail plans for the improvement of activities at all levels of the organization in a way that integrates all the planning pieces.
2. *Communication*: When the manager and operating personnel reach a clear understanding among themselves and top management on the functions and objectives of the organizational units, they avoid the kind of misunderstanding that too often occurs when there is no real agreement on what constitutes a job well done.
3. *Involvement*: The short-term planning system encourages management, supervisory, and staff people to participate in establishing goals, objectives, and detail plans as well as doing the implementation work.
4. *Delegation*: Managing within a short-term planning system makes delegation easier and safer. When a manager gets agreement about functions to be performed, objectives, and ways to measure their achievement, the work can be delegated without fearing loss of control.
5. *Objective evaluations*: In traditional management systems, people are often evaluated in terms of their personal characteristics, and many times there is little equity or objectivity in these evaluations. An effective short-term planning system, on the other hand, allows recognition of and reward for measurable results.
6. *Other benefits*.
   a. Organization
      - Improvement in managerial effectiveness
      - Focused managerial effort
      - Increased profit potential
      - Coordinated effort by team members
      - Objective reward criteria
      - Establishment of responsibility and accountability
      - Identification of individual advancement potential
      - Awareness of individual development needs

b. Segment managers
   - Motivation for them and their staff members
   - Clearly defined areas of accountability
   - Establishment of clear areas of responsibility
   - Strengthened relationships—upward and downward
   - Effective coaching framework
   - Elimination of personality-based evaluation systems

c. Operating staff
   - Expanded knowledge and expectations
   - Provision of specific performance measures
   - Clarification of responsibility and authority
   - Increased possibility of job satisfaction
   - Identification of specific reward and achievement factors

EFFECTIVE SHORT-TERM PLANNING PRODUCES LONG TERM RESULTS

Reasons Why Short-term Planning May Fail

As we have previously stated, the short-term planning process requires many factors to be in place within the organization in order to be successfully implemented. Before proceeding with the implementation of a short-term planning process, some of the reasons why short-term planning programs fail should be identified in order to help prevent recurrence of the same problems.

1. *Goals, objectives, and detail plans set by directive*: In those cases where top management is manipulative or directive in setting segment goals, objectives, or detail plans, real commitment to organizational goals and objectives is rarely achieved. Staff personnel become distrustful and cynical and tend to treat the planning system as an imposed burden, rather than a performance-oriented target. Improvement in performance, if it happens at all, is usually short lived.
2. *"Soft" objective setting*: If management fails to provide overall guidance and fails to adequately review and critique objectives, resultant

segment objectives may not be sufficiently challenging. The objectives then do not contribute to the achievement of optimal results.

3. *Failure to control results*: Some planning systems generate impressive reports, but do not provide for effective control and follow-up action to create performance improvement. Other planning systems provide for control by individual employees, but management may fail to respond to operating personnel control reports with appropriate reactions, suggestions, or both. The planning process then gradually withers and disappears.
4. *Unrewarded performance*: An effective short-term planning system is result-oriented and requires full management commitment to organizational objectives. Staff personnel can become quickly disenchanted if they do not see a direct correlation between achievement of objectives and reward decisions.
5. *Packaged short-term planning approaches*: The short-term planning system must be tailored to the needs of the specific organization. Although a standardized approach can identify criteria to consider and methods to use, an individualized final package is invariably required.
6. *Inflexibility of short-term planning systems*: External and internal environmental conditions change as do organizational responsibilities, authorities, and reporting relationships. The short-term planning system must be sufficiently flexible to adapt to such changes, or it will become irrelevant, unrealistic, unproductive, and, ultimately, unused.
7. *Hurried implementation*: Because of the extensive training time and experience required for the short-term planning process to become fully effective, implementation must be phased in at a rate suitable to available resources and requirements. The first step should be effective goal and objective setting with related formulation of detail plans. Training and implementation, measurement, control, and appraisal should be spread over the first one to two years. Too rapid a pace for implementation often results in delayed realization of planning benefits, with the resulting discouragement often the cause of a complete breakdown in the process.
8. *Insufficient management commitment and involvement*: Where support from the top of the organization is superficial, short-term planning

systems inevitably fail to achieve the desired results. Commitment to planning means much more than approval—it means putting planning activities at the top of the corporate "to do" list. Probability of failure without full commitment by management is so high that formalized short-term planning should not be considered without it.

WITHOUT EFFECTIVE PLANNING PROCEDURES, THERE WILL NOT BE EFFECTIVE RESULTS

Implementing the Short-term Planning System

There are four major steps in implementing short-term planning systems at the segment level in the organization, namely

a. stating mission and functions;
b. developing segment goals and objectives;
c. converting objectives into detail operating plans;
d. measuring progress toward achievement of objectives.

Stating the Mission and Functions

Short-term planning implementation begins with a statement of mission and functions for each operating unit of the organization. The mission can be defined as a statement of purpose and responsibility of the segment. The functions are all the major responsibilities of the units that are required to carry out the mission. Many times this becomes one of the most beneficial exercises in the total planning process, as it requires each manager and staff member to analyze the role of the unit in relation to the overall mission of the organization.

Developing Segment Goals and Objectives

The next step is the development of goals and objectives, which is usually done one year at a time and which involves either improvement to an existing situation or correction of an activity that is below acceptable standards. Objectives are specific in that they focus very closely on the actual effort required to carry out the responsibilities of the segment.

Development of objectives (and related detail plans) should go hand in hand with the development of the budget. Hence, the resources allocated to the segment must support every objective. If a change in the resource allocation is required to support the achievement of objectives, allocation revisions must be approved concurrently with the approval of the objectives.

Regular goals and objectives are those that relate to the segment's routine functions. They should not be in conflict with regular duties and responsibilities; rather, they should be an integral part of these activities. After these regular goals and objectives have been defined, it may be desirable to establish one or more special objectives for the period. Special objectives generally involve one-time projects of particular importance to the organization. Therefore, they should be limited in number. Development of a new reporting system is an example of a special objective. Wherever possible, objectives should be quantified so that performance can be measured. For example, four objectives may be needed for a particular department:

- Reduce the number of person-days lost from 150 to 75.
- Increase the number of actual production hours available from 50 to 55;
- Control operating expenses: Do not exceed $180,000 compared with the existing level of $200,000.
- Implement a quality control system that will enable rejected customer deliveries to be less that 1 percent of total shipments.

Establishing explicit objectives in terms of dollars, hours, or pieces will generate greater likelihood of achievement than will generalized statements of desired objectives, expressed in percentages or nonquantitative terms. With such careful quantification of objectives, it is easier to follow progress toward achievement throughout the planning and implementation period.

After establishing objectives, recognize that they may have different degrees of importance within the organization, so it may be necessary to determine their relative values. This should be a joint process between the staff member and the manager. One possible approach is to assign a point value to each objective as illustrated in the following. In the example, the first objective is given a weight of 10—that is, the importance of that objective is considered to be 10 percent of all objectives in that organizational unit. The total of all the weights for the objectives in any unit must add up to 100.

Example: Weighing of objectives

Goal: Optimize the IT computer facilities.

Objective	Point value
1. Reduce man-days lost	10
2. Increase processing hours available	5
3. Control operating expenses	20
4. Institute quality control system	5
5. Improve staff capability	10
6. Upgrade equipment	15
7. Install security system	5
8. Establish off-site back-up facility	15
9. Set up periodic review procedures to ensure we stay up-to-date	5
10. Create management information Steering Committee	10
Total	100

Objectives to encourage higher performance and to force corrective action should receive relatively high weights. Nominal weights are given to significant but lower priority activities where average performance is acceptable or to areas not requiring special attention at this time.

WEIGHING OBJECTIVES DOES NOT FATTEN RESULTS

Nonquantifiable Objectives

Some objectives are, by their nature, not quantifiable. An objective calling for the development of a quality control system is an example. Progress toward the achievement of such an objective can be followed by monitoring a schedule of events. If, for example, the development of a reporting system is subdivided into five steps, completion of each step could constitute 20 percent of the target.

For example:

Objective: Develop a quality control system by 12/1/xx.

Step	Event	Target
1	Establish requirements and specifications by 3/1/xx	20%
2	Investigate other control systems by 5/15/xx	40%
3	Design system by 9/1/xx	60%
4	Test system by 11/1/xx	80%
5	Obtain approvals from eng., mfg., and sales by 11/15/xx	100%

By definition, achievement of a nonquantifiable objective is limited to 100 percent, which on the surface eliminates the possibility of overachievement. However, a completed objective can also be eligible for a quality rating if the work contribution toward the achievement is considered outstanding enough to merit it.

**A NONQUANTIFIABLE OBJECTIVE
CAN STILL BE ACHIEVED**

Converting Objectives Into Detail Operating Plans

Development of objectives will not produce significant results unless the objectives are turned into a detail operating plan and implemented. In setting up a detail plan, the department manager and staff must determine what general approach should be taken to attain the objectives. They usually deal with ways to raise performance, improve quality or scope of services, or reduce operating costs. An example of an operating plan is depicted below for one objective.

Example: Operating plan details

Objective: To reduce days lost from an average per employee of eight per year to five per year for the fiscal year beginning 7/1/xx

Operating plan details:

	Completion deadline
1. Research absenteeism history	1–31
2. Research attendance incentive systems	2/28
3. Develop an appropriate attendance incentive system	3/30
4. Obtain management approval for the proposed system	4/30
5. Develop orientation program for employees	5/30
6. Conduct orientation program	6/5–6/15
7. Implement system	7/01
8. Provide follow-up program	from 7/01
9. Monitor and control absenteeism	from 7/01
10. Provide counseling services for abusers	from 7/01

The first step is to identify events that must be completed to achieve the objective. An estimate of time requirements for completing each event follows and deadlines are established for each event. The same process is repeated in establishing detail operating plans for each objective. Normally a number of alternative detail plans are developed, (usually two or three), so that department management and top management can arrive at the best priorities and allocation of resources.

Measuring Progress Toward Achievement of Objectives

The final step, after implementing the detail plans, in setting up the short-term planning system is to develop an effective follow-up system. Continual evaluation of progress toward achievement of objectives is essential for effective use of a short-term planning system. Since managerial evaluation should be based on achievements in relation to agreed-upon goals, objectives, and detail plans, periodic performance evaluation is crucial.

Progress reports should be prepared periodically, but not less than once a month. These reports should indicate to what extent agreed-upon objectives have been attained to that time.

In very large and complex organizations where the kinds of functional activities of each unit vary across a wide spectrum, it is virtually impossible to apply a single rule to every situation. Rather, the judgment and discretion of the reviewing personnel need to be fully exercised in dealing with extreme cases of over-and underachievement. The important point that the unit manager and staff need to understand is that top management requires a balanced effort on their part in relation to all important elements and functions of their units. An erratic pattern of performance often reflects the manager's personal likes and dislikes, but does not adequately serve the purposes of the unit.

One of the major benefits of a systematic follow-up program for the short-term planning system is that it creates the vehicle for necessary dialogue between the employee, segment management, and top management. In this context, management can most effectively play its role in motivating staff and exploring ways of removing obstacles to higher achievement. Also, in these review procedures, objectives can be reexamined to test whether they are realistic and feasible in light of any changed conditions. If the short-term planning system is to remain valuable, the segment manager and staff should be prepared to revise detail plans and objectives. The implementation of an effective monitoring system that allows changes to be made can avoid fostering the fatalistic attitude that departments must live out the rest of the year repeatedly explaining variances that have resulted from inappropriate detail plans and related budgets or changes in environmental conditions.

**WITHOUT PROGRESS AND EVALUATION,
AN OBJECTIVE IS JUST AN OBJECTIVE**

Departmental Situational Analysis

The purpose of a departmental situational analysis is to determine the department's capability to achieve a high level of performance in its key results areas. In the situational analysis, the advantages, or those factors that may enhance positive performance, are identified as strengths or opportunities, and the disadvantages, or those factors that will impede performance, are identified as weaknesses and threats. Such an analysis is known as Strengths, Weaknesses, Opportunities, Threats SWOT analysis.

Such an analysis should be completed for each key result area. The following data show the results of an analysis for the manufacturing department relative to manufacturing costs:

Strengths	Weaknesses	Opportunities	Threats
High volume	Labor turnover	Sales potential	Lack of money
OK work force	Material shortages	Product name	Unstable economy
OK mfg. space	Poor layout	New equipment	Strikes
Good standards	Limited tooling	Better training	Changing labor
OK supervision	No capital budget	Plant layout	Obsolete design

Properly done, such an analysis assists the department in the correct identification of the areas to consider in developing specific objectives. They also provide guidelines as to what level of achievement each objective should be given. In addition, the analysis should help to prioritize those areas that are the most critical and, therefore, should be considered first. For example, the aforementioned analysis discloses two major weaknesses of labor turnover and material shortages. These should be considered as immediate areas to remediate.

SWOT ANALYSIS
HELPS SWAT THE BUGS

Guidelines for Setting Objectives

Here are some guidelines to use in setting objectives.

1. Be sure that objectives in one business segment or work unit are not in conflict with objectives in another area of the organization or with the organization's overall goals.
2. Avoid too many objectives; exclude marginal or less relevant ones.
3. Concentrate on the objectives that meet essential needs.
4. Avoid destructive competition. Each business segment should be competing only with itself against performance standards. If too much stress is placed on segments or individuals attaining their objectives to the exclusion of all else, significant amounts of goodwill, cooperation, and morale may be lost.
5. Include some objectives that direct and encourage joint effort and cooperation so that employees are rewarded for working together. Otherwise cooperative employees may no longer find the time to

help others, since they may be too busy pursuing their own goals, objectives, and plans.

AVOID INTERNAL COMPETITION OR IT WILL KILL THE PLAN

Questions Regarding Preparation of Objectives

In developing good short-term planning objectives, you can evaluate the formulation of your objectives by asking the following questions. If no is the answer to any of the questions, the reason why should be analyzed and the objectives revised.

a. Is the objective stated in terms of specific end results to be accomplished?
b. Is the objective clear enough to suggest certain types of action? Is the objective a guide to action?
c. Is the objective ambitious enough to represent a challenge?
d. Is the objective stated so that progress can be measured?
e. Is the objective realistic, practical, and focused on important results?
f. Does the objective has economic value?
g. Is the objective related to one or more organizational and segment goals and the organization's strategic plan?

IS THE OBJECTIVE OBJECTIVE?

Key Operating Indicators Results Areas

One of the most important steps in developing objectives is the identification of key operating indicators (KOI) and results areas, which are those highly selective areas of a department's operations where a strong level of performance must be achieved to optimize results. The most valuable purpose these KOIs serve is to help work unit personnel direct their limited resources to the most important matters where the return will be the greatest relative to the efforts expended. In this way, they help prevent personnel from falling into the activity or "busy-ness" trap—getting busy and staying busy without first determining what to be busy about.

It is normally easier to identify and select KOIs using a two-step approach:

1. List major job responsibilities or job functions, and
2. Examine each job function to determine the KOI areas.

This process is demonstrated next for a financial manager:

Major functions	Key results areas
Accounting	Accurate, timely measurement, and reporting of performance
Treasury	Cost of capital, availability of capital, and return on investable funds
Credit/collections	Aging of accounts and bad debt level
Information technology	Machine utilization, personnel utilization, and cost/benefit level

KOI results areas normally fall into the following categories:

Quantity: Revenue and production levels
Quality: Customer satisfaction and product quality
Timeliness: Schedule misses (or hits) and customer demands
Cost: Cost of services and manufacturing costs

KEY OPERATING INDICATORS ARE KEY TO OPERATIONAL RESULTS

Examples of Measurement Techniques

I. Profit contribution and cost reduction
   a. Production and quantity
      1. Processing time
      2. Machine and employee downtime
      3. Actual versus optimal staff size
      4. Productivity (output per unit of input)
   b. Production and quality
      1. Error rates and rejects
      2. Losses (dollars, lost sales, etc.) resulting from errors

3. Number of occurrences of errors
4. Adherence to quality assurance procedures

c. Costs
1. Adherence to budget (on flexible budgeting basis)
2. Overtime costs
3. Materials and supplies costs
4. Labor costs
5. Overhead (manufacturing, selling, and administrative) costs

II. Accounting controls
1. Adherence to audit schedules
2. Number of exceptions
3. Response time to correct exceptions
4. Timeliness and accuracy of reports

III. Management controls
1. Systems and methods improvements
2. Personnel turnover rate
3. Absentee rate
4. Individual task performance
5. Training programs
6. Management and staff development
7. Coaching and mentoring

IV. Coordination
1. Understanding of operations
2. Problems solved
3. Sales forecast versus production schedule
4. Customer relations, employee relations, and bank relations
5. Inquiry delays
6. Number of praises or complaints

Example: Statement of Mission, Functions, Goals, and Objectives: Accounting Department

Mission

To record all financial transactions of the company and maintain accurate financial records; to collect amounts and accounts receivable when due; to disburse funds for authorized purchases and services received; to provide timely financial reports and information for operational and financial planning, control and evaluation; to safeguard the assets of the company; and protect the company against foreseeable and unforeseeable losses.

Functions

1. Collections: To collect receivables promptly so as to keep the amount due to a minimum.
2. Payroll and payroll taxes: To calculate weekly, semimonthly, and monthly payrolls and to pay the wages and salaries when due; to prepare and file monthly, quarterly, and annual state and federal payroll tax returns, and to make payments when due.
3. Accounts payable: To record and pay all properly authorized vouchers for goods and services purchased and received.
4. Accounting records: To maintain accounting records and systems for accumulating data needed for financial statements, payment of bills, collection of receivables, filing tax returns, computing costs, and so forth.
5. Financial reports: To prepare and supply to management accurate and timely financial statements.
6. Financial analysis and planning: To analyze and interpret financial data, make recommendations for cost reductions, and control of operations.
7. Budgets: To advise and assist department and program management in the preparation of budgets based on approved short-term plans, to assemble and review budgets with appropriate company personnel, and to compile them into an overall budget as supported by the company's short-term plans.

Goals

1. To constantly improve the financial reports and financial data needed for the proper planning, direction, and control of the organization's operations.
2. To provide more accurate budget and actual cost data based on current activity levels and relationship to short-term plans, kept

constantly up-to-date, and integrated into a simple and effective management system.

Objectives

1. *Payroll and payroll taxes*: To maintain the present high standards of accuracy, timeliness, and reliability; to select and train a payroll clerk by October 15, 19x1.
2. *Accounts payable*: To review and analyze the accounts payable function so as to streamline operations and take advantage of computerized procedures by November 30, 19x1; to pay 95 percent of all bills due by the vendor's stated due date and to take advantage of all discounts during the 19x2 fiscal year.
3. *Accounting reports and systems*: To develop a simplified chart of accounts which will provide meaningful data for effective management control and will lend itself to computerization—completed by July 31, 19x1.
4. *Financial reports*: To establish and meet by July 1, 19x1, a fifth working day deadline for publishing financial reports and to maintain such a schedule for the balance of the fiscal year.
5. *Financial analysis and planning*: To set up formats for reporting to company management to take advantage of their recommendations for management planning and evaluation by June 30, 19x1.

Example of a Structured Set of Organization Goals

I. Corporate goals and objectives

G-1: To increase return on sales.

Objective: To increase the return on sales by 10 percent, for this fiscal year over last fiscal year.

G-2: To increase return on investment.

Objective: To increase the return on investment by 6 percent for this fiscal year over last fiscal year.

G-3: To provide positive organizational atmosphere so that each employee may grow and develop to the fullest of his or her ability.

Objective: To develop a comprehensive staff development program by 3/15

II. Segment goals and objectives

A. Production department

G-1: To increase productivity

Objective: To increase the number of units produced of Item A per direct labor hour from four to six by January 15.

G-2: To meet production schedules.

Objective: To be no more than two days late on any production schedule during the periods from December 1 through June 30, and to do so within budgeted costs.

G-3: To improve quality control.

Objective: To reduce rejected production items from 8 percent to 5 percent during the period from November 1to February 1

G-4: To increase production quality control.

Objective: To reduce present level of rejected items in production from 8 percent to 3 percent during the period from November 1 through April 30.

B. Finance Department

G-1: To improve cost variance reporting.

Objective: To report all cost variances within two days of the end of the reporting period beginning November 30.

G-2: To increase return on investments.

Objective: To increase return on invested cash from 10 percent to 12 percent during the next fiscal year by more aggressive investment activities and better cash management.

G-3: To minimize tax costs.

Objective: To reduce the present effective tax rate from 22 percent of profit before taxes to 18 percent in the next fiscal year.

C. Marketing and Sales Department

G-1: To increase market share.

Objective: To increase market share of product line A from 24 percent to 28 percent during the period from November 1 to June 30.

G-2: To increase total net sales dollars.

Objective: To increase total sales dollars by 14 percent this fiscal year over last fiscal year, while at least maintaining the gross profit margin.

G-3: To decrease advertising and promotion costs.

Objective: To decrease advertising and promotion costs from 5 percent of net sales to no more than 4 percent by March 31, and to maintain that level of costs for the remainder of the fiscal year.

Sample of a Detail Operating Plan: Sales Department—Order Service Unit

Goal(s) Related to

2. To ensure that price quotations are issued as expeditiously as time and accuracy will allow and that the field sales force is informed daily of quoted deliveries within their districts.

Objective to be Achieved

4. Systematize the procedure for immediate Request for Quotation (RFQ) notification to the field sales force by August 15. This information will be used by sales people to contact customers. The success of the program is dependent upon field sales making effective use of the data provided.

Present Conditions

a. The customer service group work load, at times, becomes heavier and the requirement for RFQ information is not met.
b. Field sales people do not make a routine practice of requesting this information.
c. Manager, order service has no formal way to monitor the program to ensure that it is being carried out properly.

Desired Conditions

Order service receives quote requests by mail, phone, and fax. The requirement is to inform the field sales force on the day of receipt of RFQs, within the following categories:

a. New customers—all inquiries
b. Repeat customers
   i. RFQs for nonstandard parts
   ii. RFQs for standard parts, valued at $5,000 or more

With RFQ information furnished by order service, the field sales force is to contact the customer for further information.

Detail Operating Plan

1. To establish a formalized information method for RFQs and to implement a log system for this activity.
2. Assign this activity to the administrative staff to be handled on a routine daily basis from information supplied by the customer service group.

Activities	Dates	Budget
a. Design log format	7/5–7/8	$ 600
b. Brief administrative staff on their part of program	7/11	$450
c. Instruct customer service group to pass copies of all RFQs to order service administrator	7/11	$300
d. Implement procedures • Order service administrator: To divide quote requests into territories and pass to the secretary for logging • Set up an open territorial file for RFQs at the administrative desk • Instruct field sales force to contact the administrative desk as routine part of their call-in procedure • Scan log prior to 4 p.m. daily: To determine which sales people have not been advised of quote requests, and inform them by phone, • Send copies of completed logs to the sales manager for follow-up	7/11–7/29	$4,500
Total budget		$ 5,850

Measurement Techniques

To be measured by

a. initially meeting target date of August 1 for complete and successful implementation of the system;
b. periodically scanning logs monthly to determine same day notification or delayed notification. Expectation is for same day notification in all cases—any exceptions to be justified as to cause.

Constraints

a. Success of program is dependent upon field sales force making the best use of the data provided.
b. Time available within order service department to meet daily RFQ turnaround requirement.
c. Ability to make contact with sales personnel on a daily basis.

Alternative Plans and Evaluation

a. Have copy of RFQ routed to sales manager for notification to sales force. Considered impractical from control and logistical standpoint.
b. Place burden on sales personnel to call in for quotes from representative order service personnel assigned to that territory. Considered unworkable due to unavailability of sales personnel calling in when order service personnel are available.

Sample of Detail Operating Plan Budget: Recruit an Accounting Manager

Responsibility: Joe Burns

Description: To recruit for one accounting manager at the annual accountants convention so that at least three highly qualified screened candidates are available for a final interview.

Standards:

a. Candidates are evaluated at least "very good" by screeners.
b. Candidates are available for final interview by August 20.
c. Total cost for recruitment does not exceed $4,000.

Program steps	Responsibility	Dates	Budget
1. Prepare advertisement	TRC	7/10–7/16	$420
2. Place advertisement	TRC	7/20	$680
3. Write and print invitation	TRC	7/12–7/24	$380
4. Post invitation at convention	RSS	8/04	$870
5. Deliver invitation to assigned room	RSS	8/4–8/6	$220
6. Staff hospitality suite	RSS	8/4–8/6	$875
7. Confirm interview dates	RSS	8/6–8/8	$120
8. Send confirmed list to screeners	RSS	8/9	$40
Total			$3,605

Some Pitfalls of a Planning System

Top-Down versus Bottom-Up Systems

In a top-down system, top management creates strategy as well as departmental goals and objectives that they consider necessary to achieve their strategies. Although this procedure provides the resources to achieve the strategies across the organization, it is seen many times by department managers, supervisors, and staff as management by directive. Since the operating personnel have no input into the planning process, the resulting plans are seen as top management's, and there is little motivation for the operating people to achieve success—in fact, there may even be a subtle (or not-so-subtle) sabotaging of efforts. In a bottom-up system, the planning process starts at the lowest levels at which the organization operates. The theory is that operating people are closer, more responsive, and more knowledgeable about the immediate needs and are thus in a better position to develop plans. Since they are totally involved in the planning process, they will be more committed and motivated to make the plans succeed. The potential flaw here, however, is that top management commitment is also necessary to make the plans work.

Spreadsheet Driven Process

With the advent of the microcomputer and spreadsheet software, the planning process has become, for many organizations, a spreadsheet proliferation of income statements and balance sheets for years into the future. Focus tends to be more on projecting past financial data into the future than planning for the future. Elegant accounting methods, complex spreadsheets, and reams of data that are easy to generate, but nearly impossible to analyze and understand, take the place of considering and evaluating alternatives and making intelligent estimates of what is likely to really happen.

Financial Objectives Orientation

In many instances, organizations will set their goals and objectives relative to short-term financial measures such as sales, profits, return on investment measures, market share, and so forth. With these factors dominating, other goals and objectives often become vaguely stated or relatively insignificant in the planning process. Frequently, however, this zeal to improve short-term financial performance can be detrimental to production, marketing, product development, and other functions vital to the long-range future success of the enterprise.

Planning Rigidity

Organizational plans that are too rigidly followed may result in inhibiting actions that are necessary for the organization. What results is a defensive mindset on the part of many managers that manifests itself in an "it's not in the budget" attitude that tends to eliminate or sharply reduce proposals for change.

Lack of Commitment

Often an organization is very adept at producing excellent plans, but falls short in the implementation process. The result is an elegant set of plans sitting on the shelf unused. There may also be lack of commitment to making the plans work at the top or throughout the organization. The plans are not sufficiently integrated with detail operating plans, and there is not an effective control and monitoring system to make it successful. Another situation that may occur is that top management is not willing to enforce the process with requisite discipline. Whatever the cause, the result is a lot of wasted resources expended with no benefit to the organization

Conclusion

Preplanning by making your internal operations the most economical, efficient, and effective as possible using best practices in a program of continuous improvements as part of becoming a learning organization is the best starting point for effective planning procedures—starting with setting your planning parameters by long-range strategic planning. Based on this framework, management and operations personnel establish their short-term operating plans consisting of organizational, departmental, and functional goals, objectives, and detail plans—determined by all levels of management and operations working together to develop agreed upon short-term operating plans. The output of the short-term operating plan process is a set of agreed upon goals, objectives, and detail plans (the how to step) ready for implementation. The only ingredient missing is the budgeting of your detail plans based upon an allocation of scarce resources on a priority basis as to monetary and time commitment. The budgeting phase of the planning cycle will be discussed next.

SHORT-TERM PLANNING
REQUIRES LONG-TERM THINKING