

CHAPTER 4

PLANNING

Introduction

All business firms would like to be successful, increase their sales and earn profits. All managers dream of these and strive to achieve their goals. But to turn these dreams into reality managers need to work hard in thinking about the future, in making business predictions and achieving targets. Dreams can be turned into reality only if business managers think in advance on what to do and how to do it. This is the essence of planning.

Concept

Planning means deciding in advance **what** is to be done, **when** is to be done, **how** is to be done and by **whom** is to be done.

- + It is one of the basic managerial functions.
- + Before doing something, the manager must formulate an idea of how to work on a particular task.
- + Planning is closely connected with creativity and innovation.
- + Planning seeks to bridge the gap between where we are and where we want to go.
- + Planning is what managers at all levels do.
- + Planning means setting objectives and targets and formulating an action plan to achieve them.
- + Its concerned with both ends and means i.e., what is to be done and how it is to be done.
- + It requires taking decisions since it involves making a choice from alternative courses of action.
- + Planning, thus, involves setting objectives and developing appropriate courses of action to achieve these objectives.

Importance of Planning

Planning tells us where to go; it provides direction and reduces the risk of uncertainty by preparing forecasts. The major benefits of planning are given below:

1. **Planning provides directions:** By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organization has to do and what they must do to achieve those goals. Departments and Planning: Keeping the objective in view and being in action individuals in the organization are able to work in coordination. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its desired goals.
2. **Planning reduces the risks of uncertainty:** planning enables a manager to look ahead and anticipate changes. By deciding in advance we can deal with changes and uncertain events. Changes or events can be anticipated and managerial responses to them can be developed.
3. **Planning reduces overlapping and wasteful activities:** Coordinates the activities and efforts of different divisions, departments and individuals. Ensures clarity in thought and action, work is carried on smoothly without interruptions. It helps in avoiding confusion and misunderstanding. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.
4. **Planning promotes innovative ideas:** new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

5. **Planning facilitates decision making:** look into the future and make a choice from the various alternative courses of action. Evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, helps in taking rational decisions.
6. **Planning establishes standards for controlling:** Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, If there is any deviation it can be corrected. Planning is a prerequisite for controlling. without goals and standards, finding deviations would not be possible. The nature of corrective action required depends upon the extent of deviations planning provides the basis of control.

Features of Planning

1. **Planning focuses on achieving objectives:** planning is purposeful. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Planning has no meaning unless it contributes to the achievement of predetermined organizational goals.
2. **Planning is a primary function of management:** Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important.
3. **Planning is pervasive:** Planning is required at all levels of management and in all departments of the organisation. It is not an exclusive function of top management not of any particular department. Top management plans for the organisation as a whole. Middle management does the departmental planning. lowest level supervisors do day-to-day operational planning
4. **Planning is continuous:** Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end of that period a new plan on the basis of new requirements and future conditions is made . Hence, planning is a continuous process. Continuity of planning is related with the planning cycle. It means that a plan is framed; it is implemented, and is followed by another plan, and so on.
5. **Planning is futuristic:** It essentially involves looking ahead and preparing to meet future events effectively to the best advantage of an organisation. It is regarded as a forward looking function based on forecasting the future, analysing it and predicting it. The future events and conditions are anticipated and plans are drawn accordingly. For example, sales forecasting is the basis on which a business firm prepares its annual plan for production and sales.
6. **Planning involves decision making:** The need for planning arises only when alternatives are available. it involves choosing from among various alternatives and activities. It involves thorough examination and evaluation of each alternative and choosing the most appropriate one.
7. **Planning is a mental exercise:** Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, determining the action to be taken. Planning requires logical and systematic thinking rather than guess work or wishful thinking. Planning must be orderly and based on the analysis of facts and forecasts.

Limitations of Planning

1. **Planning leads to rigidity:** a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. Plans decide the future course of action and managers may not be in a position to change it. This kind of rigidity in plans may create difficulty. Following a pre-decided plan, when circumstances have changed, may not

be in the organisations interest. Managers need to be given some flexibility to be able to cope with the changed circumstances.

2. **Planning may not work in a dynamic environment:** The business environment consists of a number of dimensions, economic, political, physical, legal and social which are dynamic, nothing is constant. The organisation has to constantly adapt itself to these changes. Planning cannot foresee everything and thus, there may be obstacles to effective planning. Competition in the market can also upset financial plans, sales targets may have to be revised and, accordingly, cash budgets also need to be modified since they are based on sales figures.
3. **Planning reduces creativity:** Planning is done by the top management and the rest of the members just implement these plans. Middle management and other decision makers are neither allowed to deviate from plans nor are they permitted to act on their own. Thus, much of the initiative or creativity inherent in them also gets lost or reduced. Planning in a way reduces creativity since people tend to think along the same lines as others.
4. **Planning involves huge costs:** When plans are drawn up huge costs are involved in their formulation. These may be in terms of time and money, like checking accuracy of facts may involve lot of time. The costs incurred sometimes may not justify the benefits derived from the plans. There are a number of incidental costs as well, like expenses on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan.
5. **Planning is a time-consuming process:** Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.
6. **Planning does not guarantee success:** plan needs to be translated into action or it becomes meaningless. Managers have a tendency to rely on previously tried and tested successful plans. but a plan that has worked before may not work again. This kind of complacency and false sense of security may actually lead to failure instead of success.

Planning Process

Planning, as we all know is deciding in advance what to do and how to do. It is a process of decision making. Since planning is an activity there are certain logical steps for every manager to follow.

1. **Setting Objectives:** The first and foremost step is setting objectives. Objectives or goals specify what the organization wants to achieve. Objectives may be set & stated clearly for the entire organisation, each department, units and employees. Departments/ units at all levels then need to set their own objectives within the broad framework of the organisation's philosophy. If the end result is clear it becomes easier to work towards the goal
2. **Developing Premises:** Planning is concerned with making certain assumptions about the future which is uncertain. These assumptions are called premises and are the base material upon which plans are to be drawn they may be in the form of forecasts, existing plans or any past information about policies. Forecasts can be made about the demand for a particular product, policy change, interest rates, prices of capital goods, tax rates etc. Accurate forecasts therefore become essential for successful plans.
3. **Identifying alternative courses of action:** Once objectives are set, assumptions are made. Then the next step would be to act upon them. To act and achieve objectives all the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. If the project is important, then more alternatives should be generated and thoroughly discussed
4. **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative in the light of the objective to be achieved each course will have many variables which have to be weighed against each other. Alternatives are evaluated in the light of their feasibility and consequences. In financial plans, for example, the risk-return trade-off is very common. The more risky the investment, the higher the returns it is likely to give. To

evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made and decisions taken.

5. **Selecting an alternative:** This is the point of decision making where the best plan has to be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences. Most plans may not always be subjected to a mathematical \ Analysis. In such cases, Subjectivity and the manager's experience, judgement and at times, intuition play an important part in selecting the most viable alternative. Sometimes, a combination of plans may be selected instead of one best course. The manager will have to apply permutations and combinations and select the best possible course of action.
6. **Implementing the plan:** This is the step where other managerial functions also come into the picture. The step is concerned with putting the plan into action, i.e., doing what is required. For example, if there is a plan to increase production then more labour, more machinery will be required. This step would also involve organising for labour and purchase of machinery.
7. **Follow-up action:** To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved.

Types of Plans

An organization has to prepare a plan before making any decision related to business operations. These plans can be classified into single-use plans and standing plans.

1. **Single-use Plan:** A single-use plan is developed for a one-time event or project. Such a course of action is not likely to be repeated in future, i.e., they are for non-recurring situations. The duration of this plan may depend upon the type of the project. It may span a week or a month. A project may sometimes be of only one day, such as, organising an event or a seminar or conference. They consist of details, including the names of employees who are responsible for doing the work and contributing to the single-use plan these plans include budgets, programmes and projects.
2. **Standing Plan:** A standing plan is used for activities that occur regularly over a period of time. It is designed to ensure that internal operations of an organisation run smoothly. Such a plan greatly enhances efficiency in routine decision-making. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include policies, procedures, methods and rules.

Based on what the plans seek to achieve, plans can be classified as follows:

1. **Objectives** - Objectives, therefore, can be said to be the desired future position or future state of affairs OR ends that the management would like to reach by its operations. They serve as a guide for overall business planning and its end point All other managerial activities are also directed towards achieving these objectives. They are usually set by top management of the organization and focus on broad, general issues. Different departments or units in the organisation may have their own objectives. Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms. For example, an organisation may have an objective of increasing sales by 10% or earning a reasonable rate of return on investment, earn a 20% profit from business.
2. **Strategy** - A strategy is part of strategic planning or management. It is a general plan prepared by top management outlining resource allocation, priorities and takes into consideration the business environment and competition It include three dimensions,
 - a. determining long term objectives
 - b. Adopting a particular course of action,
 - c. Allocating resources necessary to achieve the objective.

Strategies usually take the course of forming the organisation's identity in the business environment. For example, a company's marketing strategy has to address certain questions i.e., who are the customers? What is the demand for the product? Which channel of distribution to use? What is the pricing policy? And how do we advertise the product.

3. **Policy** - Policies are general statements that guide thinking or channelize energies towards a particular direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy. If there is an established policy, it becomes easier to resolve problems or issues. As such, a policy is the general response to a particular problem or situation. There are policies for all levels and departments in the organization ranging from major company policies to minor policies. Policies define the broad parameters within which a manager may function. The manager may use his/her discretion to interpret and apply a policy. For example, the company may have a recruitment policy, pricing policy within which objectives are set and decisions are made.
4. **Procedure** - Procedures are routine specified steps on how to carry out activities in particular circumstances. They detail the exact manner in which any work is to be performed. They are specified in a chronological order. They are generally meant for insiders to follow. The sequences of steps or actions to be taken are generally to enforce a policy and to attain pre-determined objectives. Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework. For example, there may be a procedure for requisitioning supplies before production.
5. **Method** - Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure performed. The method may vary from task to task. Selection of proper method saves time, money and effort and increases efficiency. For imparting training to employees at various levels from top management to supervisory, different methods can be adopted. For example for higher level management orientation programmes, lectures and seminars can be organised whereas at the supervisory level, on the job training methods and work-oriented methods are appropriate.
6. **Rule** - Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken. Rules are very clearly stated as to exactly what has to be done like reporting for work at a particular time.
7. **Programme** - Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Programmes will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan. The minutest details are worked out i.e., procedures, rules, budgets, within the broad policy framework.
8. **Budget** - A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. Since budget represents all items in numbers, it becomes easier to compare actual figures with expected figures and take corrective action subsequently. Thus, a budget is also a control device from which deviations can be taken care of. But making a budget involves forecasting, therefore, it clearly comes under planning. It is a fundamental planning instrument in many organisations. For example, a sales budget may forecast the sales of different products in each area for a particular month. A budget may also be prepared to show the number of workers required in the factory at peak production times.