MODULE 3

Planning

Planning is deciding in advance what to do and how to do. 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. Thus, planning is closely connected with creativity and innovation. But the manager would first have to set objectives, only then will a manager know where he has to go. Planning seeks to bridge the gap between where we are and where we want to go. Planning is what managers at all levels do. 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. Objectives provide direction for all managerial decisions and actions. Planning provides a rational approach for achieving predetermined objectives. All members, therefore, need to work towards achieving organisational goals. These goals set the targets which need to be achieved and against which actual performance is measured. Therefore, planning means setting objectives and targets and formulating an action plan to achieve them. It is concerned with both ends and means i.e., what is to be done and how it is to be done.

Nature of Planning

1) **Planning is an intellectual process** - It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking

2) **Planning is goal-oriented** - organisations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful.

3) **Planning is pervasive** - Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management nor of any particular department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.

4) **Planning is the 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. Thus, planning precedes other functions.

5) **Planning is futuristic**- Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organisation. It implies peeping into the future, analysing it and predicting it. Planning is, therefore, regarded as a forward looking function based on forecasting

6) **Planning involves decision making** - Planning essentially involves choice from among various alternatives and activities. Planning involves thorough examination and evaluation of each alternative and choosing the most appropriate one.

7) **Planning is a continuous process** - 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 there is need for a new plan to be

drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process.

Importance or Benefits of Planning

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 organisation has to do and what they must do to achieve those goals. Departments and individuals in the organisation are able to work in coordination. If there was no planning, employees would be working in different directions and the organisation would not be able to achieve its desired goals.

2) **Planning reduces the risks of uncertainty:** Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.

3) **Planning reduces overlapping and wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. 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:** Since planning is the first function of management, 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:** Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

6) **Planning establishes standards for controlling:** Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organising, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a part of controlling would not be possible. The nature of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.

Limitations of Planning

1) **Planning leads to rigidity:** In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. These plans then 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. 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 is dynamic, nothing is constant. The environment consists of a number of dimensions, economic, political, physical, legal and social dimensions. The organisation has to constantly adapt itself to changes. Planning cannot foresee everything and thus, there may be obstacles to effective planning.

3) **Planning reduces creativity:** Planning is an activity which is done by the top management. Usually the rest of the members just implements these plans. As a consequence, 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.

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 for example, checking accuracy of facts may involve lot of time. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans.

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:** The success of an enterprise is possible only when plans are properly drawn up and implemented. Any plan needs to be translated into action or it becomes meaningless.

Planning Process - Steps in Planning

1) **Setting objectives:** The first and foremost step is setting objectives. Every organisation must have certain objectives. Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives or goals specify what the organisation wants to achieve. Objectives should be stated clearly for all departments, units and employees. They give direction to all departments. Departments/ units then need to set their own objectives within the broad framework of the organisation's philosophy. Objectives have to percolate down to each unit and employees at all levels. At the same time, managers must contribute ideas and participate in the objective setting process. They must also understand how their actions contribute to achieving objectives. If the end result is clear it becomes easier to work towards the goal.

2) **Developing premises**: Planning is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future. Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. The premises or assumptions must be the same for all and there should be total agreement on them. All managers involved in planning should be familiar with and use the same assumptions. For example, forecasting is important in developing premises as it is a technique of gathering information. 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 and assumptions are made,

then the next step would be to act upon them. There may be many ways 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. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organisation.

4) **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. 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. Accurate forecasts in conditions of certainty/uncertainty then become vital assumptions for these proposals. Alternatives are evaluated in the light of their feasibility and consequences.

5) **Selecting an alternative:** This is the real point of decision making. 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

Following are the different types of plans:

Strategic Plans

Strategic plans define the framework of the organization's vision and how the organization intends to make its vision a reality.

- It is the determination of the long-term objectives of an enterprise, the action plan to be adopted and the resources to be mobilized to achieve these goals.
- Since it is planning the direction of the company's progress, it is done by the top management of an organization.
- It essentially focuses on planning for the coming years to take the organization from where it stands today to where it intends to be.

- The strategic plan must be forward looking, effective and flexible, with a focus on accommodating future growth.
- These plans provide the framework and direction for lower level planning.

Tactical Plans

Tactical plans describe the tactics that the managers plan to adopt to achieve the objectives set in the strategic plan.

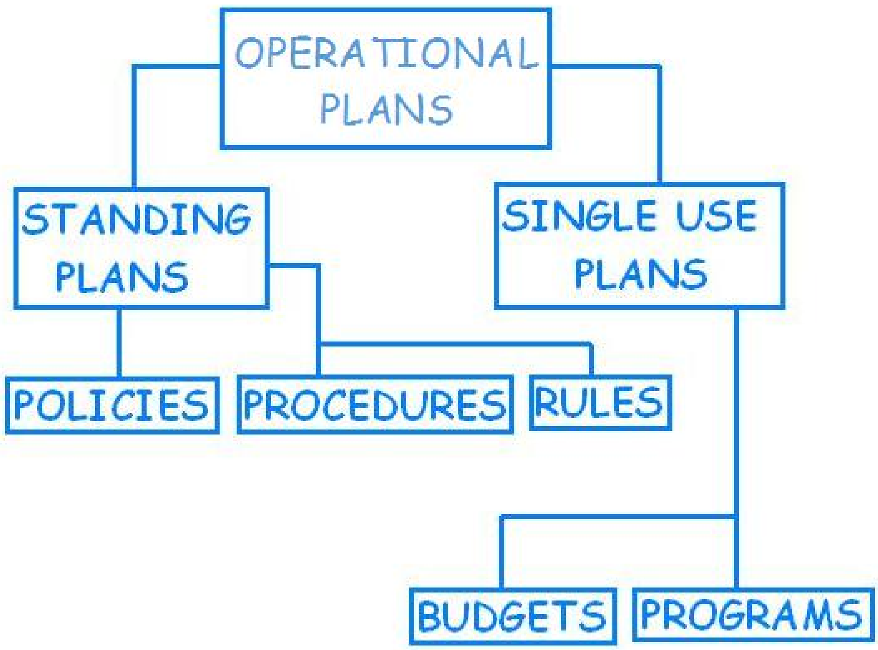
- Tactical plans span a short time frame (usually less than 5 years) and are usually developed by middle level managers.
- It details specific means or action plans to implement the strategic plan by units within each division.
- Tactical plans entail detailing resource and work allocation among the subunits within each division.

Operational Plans

Operational plans are short-term (less than a year) plans developed to create specific action steps that support the strategic and tactical plans.

- They are usually developed by the manager to fulfill his or her job responsibilities.
- They are developed by supervisors, team leaders, and facilitators to support tactical plans.
- They govern the day-to-day operations of an organization.

  Operational plans can be further classified as given below.



Types of Operational Plans

- **Single use plans** - Developed for a one-time event. 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. These plans include budgets, programmes and projects
- **Standing plans** - 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.
- **Policies** – It focuses on accomplishing the organization's objectives by furnishing the broad guidelines for the correct course of action.
- **Procedures** – Procedures outline a more specific set of actions and deals with the implementation of a set of related actions in order to finish a particular task.
- **Rules** – Rules are a set of guidelines that show the way and manner in which a task is to be accomplished. It lays down the do's and don'ts that are to be strictly followed by the members of the organization without any deviation.
- **Programs** – Programs deal with the guidelines that are set for accomplishing a special project within the organization. The project may not be in existence for the entire tenure of the organization, but if the project is accomplished, it might result in short-term success of the organization which might ultimately prove to be extremely helpful.
- **Budget** - Budget is a financial plan for a defined period of time, usually a year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.

It may be noted that according time span the plans may also be classified as follows:

1) Short range plan:- The plan having a time period for or up to one year.
2) Medium range plan:- The plan having a time period for more then one year & less then five years.
3) Long range plan:- The plan having a time period for five years or more .

Management by Objectives (MBO)

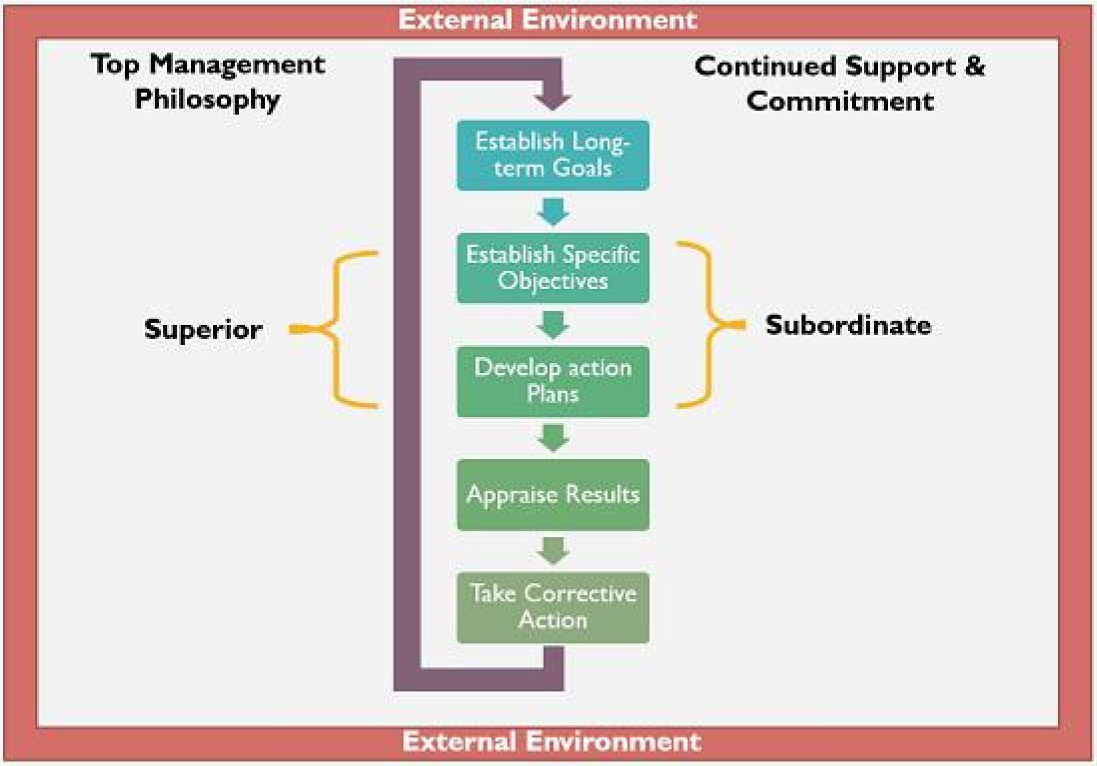
Management by Objectives (MBO) or otherwise called as Management by Results (MBR) is management philosophy which was first propounded by Peter F. Drucker in the year 1954, in his book "Practice of Management".

Management by objectives is a planning and controlling system, in which the superior and subordinates work together in order to define business objectives and establish targets that are to be achieved by the subordinates, and also determine each individual's key area of responsibility as regards the results expected. Further, these measures are considered as yardstick to run the unit and also assess the contribution of each individual.

Assumption of Management by Objectives

MBO relies on the premise that people tend to perform better when they are known about what is expected from them and when they can associate their personal goals with that of the objectives of the organization. In addition to this, it also proposes that people have interest in establishing goals and comparing the

Process of Management by Objectives



MBO Process

Goal Setting: First and foremost, the long term goals of the organization are defined, such as its strategic intent, vision, mission and goals. Once these are formulated, the management then decides specific objectives to be attained within the given time frame.

Action Plan: Action plan refers to the way through which the objectives are achieved. It provides direction regarding how the objectives can be achieved, as in what is to be done, what steps are to be followed, etc.

Performance Appraisal: Last but not the least, at this stage, a comparison is made between actual and predermined standards. These objectives acts as a basis for reviewing the progress.

MBO, is directed towards raising the performance level of the organization by conspiciosly identifying the measurable goals and end results, which are agreed to the management as well as employees of the organization. Thereafter, the employees participate in formulating the action plan and strategy for the attainment of the goals.

Benefits of Management by Objectives

1) It facilitates the employees to understand their tasks and duties in a better way.
2) It is helpful in designing Key Result Area (KRA) for each employee, according to their interest, specialization, experience and competency.
3) It eliminates overlapping and confusions in the tasks and duties.

4) Every employee contributes towards the achievement of the objectives by successfully completing the tasks and duties assigned to them by the superior.
5) It creates an open communication enviornment in the organization.

In a nutshell, Management by objectives is nothing but a process wherein the goals, plans and control system of the organization are defined by the management and employees jointly.

SWOT Analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

A SWOT analysis focuses on the four elements comprising the acronym, allowing companies to identify the forces influencing a strategy, action or initiative. Knowing these positive and negative elements can help companies more effectively communicate what parts of a plan need to be recognized.

When drafting a SWOT analysis, individuals typically create a table split into four columns to list each impacting element side-by-side for comparison. Strengths and weaknesses won't typically match listed opportunities and threats, though they should correlate somewhat since they're tied together in some way. Pairing external threats with internal weaknesses can highlight the most serious issues faced by a company.

Once the risks are identified, you can then decide whether it is most appropriate to eliminate the internal weakness by assigning company resources to fix the problems, or reduce the external threat by abandoning the threatened area of business and meeting it after strengthening your business.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below.

Strengths
Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained.

Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.
Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

Weaknesses
Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

Opportunities

Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

Threats

Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT or TOWS analysis helps to get a better understanding of the strategic choices that you face. (Remember that "strategy" is the art of determining how you'll "win" in business and life.) It helps you ask, and answer, the following questions:

How do you:

- Make the most of your strengths?
- Circumvent your weaknesses?
- Capitalize on your opportunities?
- Manage your threats?

A next step of analysis, usually associated with the externally-focused TOWS Matrix, helps you think about the options that you could pursue. To do this you match external opportunities and threats with your internal strengths and weaknesses, as illustrated in the matrix below:

TOWS Strategic Alternatives Matrix

	External Opportunities (O) 1. 2. 3. 4.	**External Threats (T)** 1. 2. 3. 4.
Internal Strengths (S) 1. 2. 3. 4.	**SO** *"Maxi-Maxi" Strategy* Strategies that **use strengths** to **maximize opportunities.**	**ST** *"Maxi-Mini" Strategy* Strategies that **use strengths** to **minimize threats.**
Internal Weaknesses (W) 1. 2. 3. 4.	**WO** *"Mini-Maxi" Strategy* Strategies that **minimize weaknesses** by **taking advantage of opportunities.**	**WT** *"Mini-Mini" Strategy* Strategies that **minimize weaknesses** and **avoid threats.**

This helps to identify strategic alternatives that address the following additional questions:

Strengths and Opportunities (SO) – How can you use your strengths to take advantage of the opportunities?

Strengths and Threats (ST) – How can you take advantage of your strengths to avoid real and potential threats?

Weaknesses and Opportunities (WO) – How can you use your opportunities to overcome the weaknesses you are experiencing?

Weaknesses and Threats (WT) – How can you minimize your weaknesses and avoid threats?

Advantages of SWOT Analysis

SWOT analysis helps in strategic planning in following manner-

1) It is a source of information for strategic planning.
2) Builds organization’s strengths.
3) Reverse its weaknesses.
4) Maximize its response to opportunities.
5) Overcome organization’s threats.
6) It helps in identifying core competencies of the firm.
7) It helps in setting of objectives for strategic planning.
8) It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.