
UNIT 4 PLANNING

Objectives

After reading this unit, you should be able to:

- Understand the meaning of planning as a management function
- Characteristics of planning function
- How planning process takes place
- Merits and demerits of planning function and various types of planning

Structure

- 4.1 Introduction
- 4.2 Meaning of Planning
- 4.3 Nature of planning
- 4.4 Steps of planning function
- 4.5 Why planning is necessary
- 4.6 Types of planning
- 4.7 Summary
- 4.8 Self- Assessment Questions
- 4.9 References/ Further Readings

4.1 INTRODUCTION

The basic and primary aim of management is to solve the problem effectively, efficiently and creatively owing to a highly competitive and dynamic working environment. Principles of management have long been discussed to help the managers to solve their short-term as well as long term business problems. Due to this principles of management have been categorized into four basic functions namely, Planning, organising, leading and controlling (POLC framework). These integrated and highly essential functions of an organization ensures the smooth functioning of business enterprises on day to day basis and developing a strong foundation for long term survival and growth. Other academics and business gurus have ramified these management functions like planning, organizing, staffing, directing and controlling. No matter what the bifurcation is, planning is the first and most crucial function that needs to be performed for the effective functioning of other management functions. This unit explains in detail about Planning as a management function.

Planning is done by managers at all levels of organisation. You will see that all managers plan though the character and breadth of planning may differ at different levels of organisation. For example, while an Assistant Engineer at a work-site plans for the accomplishment of work at his site from day to day or for two or three days in advance, the Chief Project Manager must plan for the

whole project over a larger period of time. Similarly, a multinational company's top management must plan over a longer time frame for a worldwide market.

Planning is a means to some end as such involves choices among alternatives-alternative goals, alternative programmes and alternative means of achievement. What alternative to choose gives rise to decision-making which every manager will be required to do.

Question: Do you plan your day? How?

Do you plan for your holidays/vacations? How? Why?

Have you actively participated in the planning of some big event like the Annual Function of your college or the marriage of a female relative of yours? Recapitulate how the event was planned.

If you have given thought to the above questions, you must have sensed the need for planning any activity whatsoever. Planning is considered important because it-

- i) attempts to offset uncertainty by foreseeing the future and bringing about preparedness for the happenings in future. In this way, it minimises the chances of mistakes,
- ii) focuses attention on the objectives or goals of the organisation and their attainment,
- iii) leads to economy in operation through the selection of the best possible course of action,
- iv) helps in controlling the activities by providing measures against which performance can be evaluated,
- v) helps in coordinating the operations of an enterprise since a well-considered plan embraces and unifies all the divisions of an enterprise.

Activity 1

As a manager, identify various planning activities that you are involved in.

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4.2 MEANING OF PLANNING

Nothing can affect the success and failure of a business more than the planning function of an enterprise. The globalised and highly dynamic work environment strives for effective planning and its management. This crucial dictum in highly recognized and its fuller assimilation can only be possible with the understanding of what is meant by planning.

Planning is the management function initiates with setting business objective and determining various courses of actions to achieve stated objectives. A successful and efficient business manager scans the environmental conditions of the business organization and forecasting future business conditions. Scanning and predicting future business environment requires a manager to be far-sighted and a good decision-maker.

Planning is a two-way process of looking back to derive future course of action. This preparatory step is systematic and scientific as it follows an order of what, when, how and whom a specific job would be carried out. It is a detailed and comprehensive blueprint of organizational functioning in future. Planning involves a thorough examination of an organization's available physical as well as human resources to coordinate and contribute towards organizational activities. This basic management function involves developing a detailed organizational plan to balance between needs and demands of organizational resources and achieving organizational results thereof.

Urwick stated that "Planning is a mental predisposition to do things in an orderly way, to think before acting and to act in the light of facts rather than guesses". It is a mental process of selecting the best of alternative resources to achieve organizational goals following predetermined standards.

In words of Koontz & O'Donnell, "Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur".

A. Features of Planning

- **Planning focuses on achieving objectives** by deciding upon the activities to be undertaken.
- **Planning is a primary function** as it precedes all functions of management i.e. organising, staffing, directing & controlling.
- **Planning is pervasive** as it is required at all the levels of management but its scope may vary.
- Planning is **continuous** as plans need to be made on a continuous basis till an organisation exists.
- **Planning is futuristic** as it seeks to meet future events effectively to the best advantage of an organisation. Planning is, therefore, called a forward looking function.

- **Planning involves decision-making** as it involves rational thinking to choose the best alternative among the various available alternatives in order to achieve the desired goals efficiently and effectively.
- **Planning is a mental exercise** as it is based on intellectual thinking involving foresight, visualisation and judgement rather than guess work.

4.3 NATURE OF PLANNING PROCESS

The complex and comprehensive nature of planning makes it a function with several characteristics. Planning may have the following characteristics:

1. **A cognitive Process:** The planning process is highly intellectual and thus is cognitive. This managerial function is about thinking with creativity to utilize existing available resources for available opportunity. An organization that lacks in studying today's opportunity and do not reap its benefit profitability in time, may take the opportunity into problem tomorrow. Planning for managers involves functions such as what, how, when and by whom is to be done. An organization that makes a timely decision today with careful thinking need not worry for the future. Such an organization can effectively establish equilibrium between the external environment and internal environment. Planning with critical thinking and a high level of cognition ensures effective decision making.
2. **Planning Vs Forecasting:** Many times planning and forecasting seem to be similar to each other. Though they are common to each other to some extent. Yet they hold a greater degree of differences. Forecasting refers to what is expected to happen if there is no way out to escape. Whereas, planning is about what one wants to happen. Forecasting leads to planning. For example, a threat to natural resources may encourage people and nation to plan for the conservation of natural resources. Though planning involves, evaluation, assessments, estimates and calculations, yet these are made in the presence of available resources, time and goals and objectives of natural resources. Apart from these, planning is a continuous process of assessment and evaluation of find the deviations and making corrections thereafter. In the modern decade, planning is highly complex and data-driven and involves various data mining and analytics.
3. **Planning is the accomplishment of group objectives:** An organization operates with the joint efforts of various individual with varied personality, skills, attitudes, learning and motivation. These varied individuals with varied beliefs and personality make a cohesive group that operates harmoniously to achieve organizational goals. Thus planning involves achieving the objective of individual keeping group and organizational objective in mind.
4. **The choice between Alternatives:** Modern business environment is highly dynamic and changes at a rapid pace. The plan and procedure that used to be effective in past tend to be obsolete and redundant in the

present scenario with a completely new and different business environment. Similarly, the presently available resources may not be available tomorrow or may not fulfil the future new demands. Thus Planning involves judicious adjustments and adaptation in resources to grab the emerging business opportunities. The top management generally follows three steps of decision making. The decision about the objective of business i.e., profitability, growth, consumer satisfaction etc. the next it focuses on selecting the strategy to achieve these objectives followed by operation goals.

5. **Planning is all-pervasive:** Planning as a management function is so imperative that is pervades in all managerial functions for a goal-oriented organization. It would be wrong to state that planning is just a first step, rather it is the step that influences each managerial function be it organizing or controlling. Moreover, It is wrong to quote that planning is a task performed by top-level management only. Though they devote considerable time and discussion in the planning process, yet the role of the middle and lower level of management at their respective activities cannot be neglected to draw a successful effective plan. Several of planning requires managers at a different level. The first step in determining the objective involves top management. But other following steps like operationalization of plan make require the involvement of middle and lower level as well. Involvement of people in planning process belonging to different levels in the organization can significantly boost their motivation level.
6. **Planning is flexible:** for an organization to be successful, it is crucial to establish synergies between opportunity and available resources. Forecasting the growth opportunity and adapting the resources accordingly does provide a competitive advantage to an organization. This requires careful identification of KSAs of people, man, material and money to the take advantage of the available opportunity. Since the business environment is prone to suffer from uncertainty and dynamism, alteration in a mix of materials and plans is very essential to survive and suit the change.
7. **Planning is the integrated process:** with the establishment of various policies, programs and procedures, and organization established organization objectives that it aims to achieve under the planning process. When the organization establish such objective and implement the interventions, it may encounter a difference of opinion among personnel of organization particularly from those who are involved in the planning process. For example, where a sales manager may look for various products to satisfy the needs of the consumer and to grab more market share, production managers may look for keeping the production simple with least standardization. Effective planning takes care of these conflicting interests and tries to maximize the organization interest with the least cost of an individual's interest.

4.4 STEPS INVOLVED IN PLANNING PROCESS

The complex and systematic process of planning involves certain basic logical steps to be followed. These are:

1. **Setting up of organizational objectives:** The first and foremost objective of an organization establishes various objectives and goals that an organization strives to achieve. Objectives determine the various activities and direction of efforts. For an effective planning function, objectives need to be stated clearly and must be precise and unambiguous. Unclear and ambiguous objectives lead to chaos and wastages. Objectives set under the planning process can be for the entire organization, for each department, units and employees. It can be short-term as well as long-term based on the organization's desire to achieve. Apart from objectives being clear, precise and ambiguous, they must be practical, feasible, and achievable and realistic. For example, for a manufacturing company, reducing production hour can be an objective that can be achieved to reduce processing timing at every step. For an objective to be clear and realistic it should be stated in quantitative terms, for example, the number of working hours, the percentage increase in sales or production, the wage is given to labours etc. Objectives stated in qualitative terms can be optimistic but not precise. And hence leads to confusion.
2. **Developing planning premises:** Planning is about predicting the uncertain future to carry out the business activities. To forecast the future, certain assumptions about the future need to be made by the planning managers. These assumptions serve as the base to create a premise for developing a plan of action. This is called planning premises. These assumptions are made in the form of forecasts. Forecasting is a technique of gathering information for developing planning premises. In general business parlance, enterprises forecast the demand for a product, inflation prediction, tax regime, interest rates, government interventions etc. Thus to develop an effective plan, accurate forecasting is essential. Where external forecasting is necessary and complex to be made, internal forecasting also plays a crucial role in the planning process. Internal forecasting such as trade relations, capital investment policy, and management philosophy significantly influences forecasting and thus planning process.
3. **Identification of alternative course of action:** as objectives setting and making of assumptions is done, various alternative courses of actions are identified to achieve those objectives. This step involves the identification of a maximum number of alternatives based on the type of project. An important project requires detailed and comprehensive identification of alternatives than the general one. A detailed statement of alternatives is presented amongst the members of the organization to be discussed about the selection of alternatives.
4. **Evaluating alternative course of action:** after identification of various alternative courses of actions, each action is examined in terms of their

pros and cons. The positive and negative aspect of each course of actions is evaluated concerning the objectives of an organization. For the selection of course of action, the cost and benefits, feasibility, practicability is examined. For a financial plan of an organization, the risk-return of the project is taken into consideration. The plan with higher risk tends to have higher profit earning and is evaluated in terms of EPS, earnings, taxes, dividends and interests.

5. **Selection of alternative:** At this point, the final decision is taken. The best plan in terms of maximum benefits and the minimum cost is adopted for implementation. The plan chosen would be feasible, profitable, and tend to yield higher profits and the least cost. Various plans are selected after careful investigation and statistical calculation, but many a time subjectivity in terms of manager's experience, knowledge and judgment are considered in selecting the best alternative. When an organization look for long-term benefits and number of objectives, a combination of various plans may be selected.
6. **Implementation of the plan:** at this stage, various other managerial functions come into the picture as the best-selected plan is implemented. In this stage, the implementation of the action takes place i.e. doing what is required. For a production department, an objective is to increase production more than labour, then organization may implement a plan that involves more investments in machinery.
7. **Follow-up of action:** this is the crucial stage as it involves seeing whether selected and implemented plan is working as per plans or not. This stage is essential and requires close monitoring to assess deviation in selection and implementation and to achieve desired objectives.

Activity 2

Request your senior manager to procure a copy of the corporate plan of your company. Read it carefully and summarise some of the important programmes of your company.

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4.5 WHY PLANNING IS NECESSARY: IMPORTANCE

The fast-changing business environment creates the need for development and planning. An organization that adopts a lackadaisical approach in the identification of environmental change would surely struggle to survive and grow. The following point shows how planning is an important management function:

1. **Ensures selection of optimum goals:** planning is the cognitive and intellectual process of selecting the best course of action from various available alternatives. It is also about selecting one course of action that has sound chances of being profitable, feasible, achievable and economical and reject the other courses of actions that are not so feasible and profitable. The selected course of action ensures the overall growth of an organization keeping in mind the organizational limitations in terms of resources, time limit, objectives and strategies. In overall development of the organization, it is necessary to optimize the overall operation of the organization and sub-optimization of other departments.
2. **Manages complexities:** a single organization is a function of the heterogeneous group of human resource who possess different KSA, values, belief, culture and motivation level. In such heterogeneous working environment, it is obvious to have a disharmony in terms of organizational and individual interest. An effective plan of organization is a way to create a common interest among individual of an organization who works together towards the accomplishment of organizational goals in which they have shared common goals too. Thus planning is a way towards goal directing activity.
3. **Survive environmental change:** the business environment witness tremendous change now and then. From a conservative business model to democratic, global business scenario has left the business houses to keep itself updated to meet changing demands with changing environment. Change in demand, change in technologies, fashion, preferences, social values significantly affect the organizational normal course of operation. Management must strive to grab the opportunity to take advantage of the changed situation by adapting and adjusting its inputs to meet new demand and preferences of customers. Proper, scientific and systematic planning helps to survive in the turbulent situation created out of environmental change.
4. **Protection from failure:** unpredictable change in consumer's taste and preferences, cut-throat competition, rapid technological change, economic slowdown, political disturbances significantly affect the nation and so business houses. Sometimes these changes are so adverse that leads to complete business failure. However, many organizations could not survive these radical changes due to ineffective planning and faulty decision making. It cannot be denied that planning cannot eliminate all business failures, but it can surely help in identification and evaluation of business opportunities and threats and examining the various course of action thereafter.
5. **Unity of action:** since the organization works with joint efforts of an individual with different KSAs, thus their harmonious working is necessary towards accomplishment of organizational goals. This is possible with efficient planning that provides stake to employees to work jointly for organizational success.
6. **Supports control and coordination:** Planning function supports other management function such as control and coordination. What, when,

how and by whom a function is to be performed, all these are planned and worked out well in advance. This helps in easy and timely performance appraisal and finding the deviation thereof. In the absence of planning neither the performance would be of quality nor can the standard of performance be established effectively. This will lead to poor performance, delay in completion of tasks, wastages, chaos and ultimately control and coordination would suffer. Proper planning can ensure establishment performance standards scientifically and systematically, timely and effective performance measurement, timely identification and elimination of deviations and thus harmonious function at the workplace.

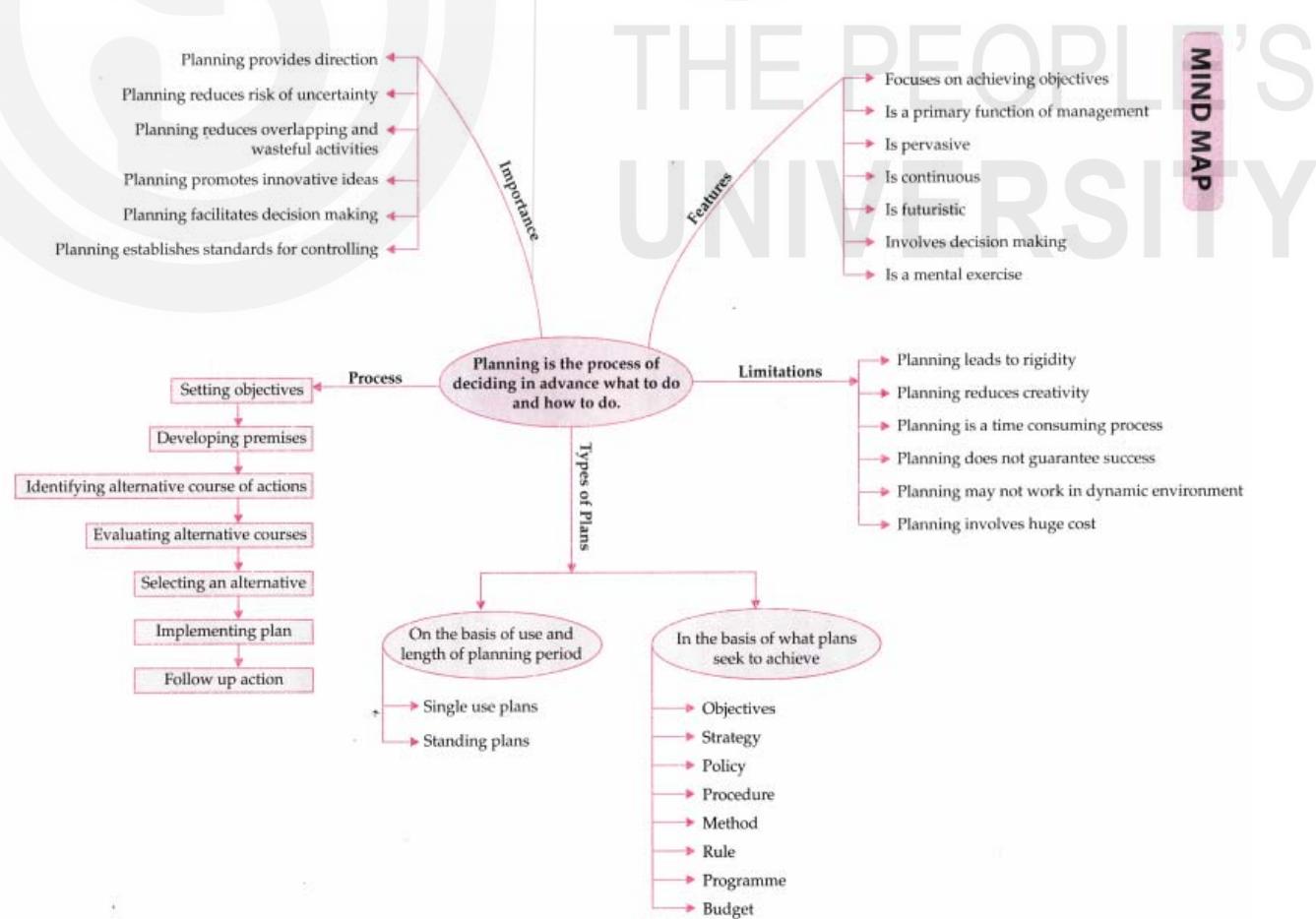
7. **Planning Promotes Innovative Ideas:** It is clear that planning selects the best alternative out of the many available. All these alternatives do not come to the manager on their own, but they have to be discovered. While making such an effort of discovery, many new ideas emerge and they are studied intensively in order to determine the best out of them. In this way, planning imparts a real power of thinking in the managers. It leads to the birth of innovative and creative ideas. For example, a company wants to expand its business. This idea leads to the beginning of the planning activity in the mind of the manager.
8. **Planning Facilitates Decision Making:** Decision making means the process of taking decisions. Under it, a variety of alternatives are discovered and the best alternative is chosen. The planning sets the target for decision making. It also lays down the criteria for evaluating courses of action. In this way, planning facilitates decision making.

Limitations:

Though planning is the first and foremost managerial function, still it is indulged in various negative connotation and limitations. These limitations are:

1. **Uncertainty:** Planning function prepares policies and procedures for future and set goals to be achieved in future. Owing to the uncertain nature of the future, planning function tends to be ineffective as nothing can be assessed about future with surety. So planning is prone to failure many times. As planning is about the future, the future course of action can only be based on anticipation, assumptions, speculations, and probabilities. The management sets the goals to achieve, prepares a plan to achieve those runs with the risk of failure. Though data analysis and statistics have made the planning accurate and effective, yet its cent percent success can never be ensured.
2. **Planning is cognitive function:** planning being the cognitive and intellectual function requires serious attention, time and expertise to plan and make decisions. These require maximum mental involvement and time. Managers who are always grappling with day-to-day operational problems could not devote much attention and time on planning. Many organizations keep planning function at a back seat as it is required only when any adverse change is observed. Thus the effect of planning will be observed in a long time. Therefore focus on the present problem is necessary than the problem of the future.

3. **Abstraction:** as discussed, planning is about predicting future, it involves dealing with vague alternatives. It addresses a question like “what if”. Since it is a function of assumptions, estimation, guesswork and speculation, planning works in abstraction with nothing hard and fast and concrete.
4. **Rigidity:** setting up of objectives, choosing a course of action to be implemented to achieve those objectives makes the planning rigid enough to deviate from the stated path. Work for an uncertain future, with abstraction and speculation through predetermined goals and course of action makes planning function inefficient and ineffective many times. Plan, procedures and practices with predetermined goals and objectives and already stated course of action is deterrent to creativity and innovation. It leaves no room for freedom at work and makes an organization bureaucratic many times. Thus planning function is criticized due to its rigidity.
5. **Costly affair:** planning is an expensive function both in terms of time and money. It requires a huge outlay to assess and estimate information from within and outside the organization. These require an investment of time with serious mental and cognitive devotion. Since it is an intellectual function, it requires experts to assess, evaluate a problem and suggesting a solution thereafter. Many times business organization resort to expert houses offering planning functions from data extraction to data analysis to policy formation. These outside experts cause huge costs to an organization.



BENEFITS FROM ORGANISATIONAL PERSPECTIVE:

- **Gives an organization a sense of direction** Without plans and goals, organizations merely react to daily occurrences without considering what will happen in the long run. For example, the solution that makes sense in the short term doesn't always make sense in the long term. Plans avoid this drift situation and ensure that short range efforts will support and harmonize with future goals.
- **Focuses attention on objectives and results** Plans keep the people who carry them out focused on the anticipated results. In addition, keeping sight of the goal also motivates employees.
- **Establishes a basis for teamwork** Diverse groups cannot effectively cooperate in joint projects without an integrated plan. Examples are numerous: Plumbers, carpenters, and electricians cannot build a house without blueprints. In addition, military activities require the coordination of Army, Navy, and Air Force units.
- **Helps anticipate problems and cope with change** When management plans, it can help forecast future problems and make any necessary changes up front to avoid them. Of course, surprises — such as the 1973 quadrupling of oil prices — can always catch an organization short, but many changes are easier to forecast. Planning for these potential problems helps to minimize mistakes and reduce the “surprises” that inevitably occur.
- **Provides guidelines for decision making** Decisions are future oriented. If management doesn't have any plans for the future, they will have few guidelines for making current decisions. If a company knows that it wants to introduce a new product three years in the future, its management must be mindful of the decisions they make now. Plans help both managers and employees keep their eyes on the big picture.
- **Serves as a prerequisite to employing all other management functions** Planning is primary, because without knowing what an organization wants to accomplish, management can't intelligently undertake any of the other basic managerial activities: organizing, staffing, leading, and/or controlling.

4.6 TYPES OF PLANNING

Based on the organizational objectives and goals the planning can broadly be classified into three main categories. These are Strategic Planning, Tactical Planning and Operational planning. The organization works in an uncertain business environment. Thus it is susceptible to various threats as well as opportunities from the environment. When an organization analyzes possible

threats and competitive opportunities within the environment and evaluates its strength and weaknesses to position itself to take the advantage of the environment or survive the adverse the organization plans strategically. **Strategic planning** involves long term commitment often five or more years. This planning is complex as it includes the entire organization and formulation of objectives. Generally, strategically planning is done in the view of organizational vision and mission. Since it is long term and highly technical therefore top management is involved in it. On the other hand, **tactical planning** of less long term in nature usually for one to three years and it is about developing means and mechanism to be adopted for the implementation of strategic plans. In simple words, tactical planning is “how to implement” strategic plans. This planning is about implementation therefore middle-level managers are involved in such planning process. The third type of planning i.e. **operational planning** seems to functional planning where organization-wide or goals and objective for each unit or sub-unit is established ways to achieve them is looked for. Operational planning is short-term planning for less than one year as it aims to eliminate current operational problems. Planning at this level supports at the higher-level planning of tactical and strategic.

The above discussion classified the planning into three broad categories, however, planning can also be classified based on the time frame involved in it. Broadly plans under planning are divided into three parts i.e. Long-term plans, medium-term plans and short-term plans. Plans those are highly technical and deals with the competitive aspect of the organization are termed as **long term plans** as they involve allocation of resources for a long period usually between five and fifteen years. However they may vary concerning their nature, scope, complexity, and size and are usually somewhat vague. These plans are more susceptible to uncertain events that may leave a significant impact on the organization. Such as technological changes, change in consumer behaviour, government policies can significantly affect the organization and involves serious attention of top management to make a long-term plan. Plans that are relatively detailed and specific and usually range between two and five years are **medium-term plans**. These plans are operational as decisions like raw material purchase; overhead expenses, labour wages, production etc are taken. Though these decisions are also crucial to an organization, yet any flaw in planning would not result in serious failure, as it can be altered in two-three years. Similarly in **short-term plans** for about a year or so are more specific and deals with day to day operation such as inventory management, employees training etc.

Plans can be classified based on the nature and scope of plans. Based on their nature and scope of plans, plans can be standing and of repeated nature that is used repeatedly. In such plans, objectives, policies, procedures, rules and strategies are developed. These plans serve as guidelines to carry out business activities. When an organization has a single-use plan, it usually establishes programmes and budgets.

Types of Plans:

with different purposes and perspectives. Accordingly they may take various shapes and stand differently in the hierarchy of importance.

The most popular ways to describe organizational plans are by their:

1. Coverage – Strategic, tactical, and operational,
2. Time frame – Short and long term,
3. Specificity – Specific versus directional,
4. Frequency of use – Single use and standing.

Note that these planning classifications aren't independent. For instance, short-and long-term plans are closely related to strategic and operational ones. And single-use plans typically are strategic, long term, and directional.

1. Strategic, Tactical and Operational Plans:

a. Strategic Plans:

Strategic plans are designed to meet the broad objectives of the organization – to implement the mission that provides the unique reason for organization's existence. They are set at the top managerial level, and are meant to guide the whole organization.

An organization's strategic plan is the starting point for planning. The aim of strategic planning is to help a company select and organize its businesses in a way that would keep the company healthy in spite of unexpected upsets occurring in any of its specific businesses or product lines.

For example- in order to deal with uncertainties of raw material availability, a company's strategic plan may purport to acquire its own facilities for generating raw material. Strategic plan serves as a guide to the development of sound sub plans to accomplish the organizational objectives.

b. Tactical Plans:

Top level managers set the strategies that an organization should focus to achieve organizational goals. Examples of strategies include set-up a plant to generate raw material for the organization's manufacturing activities, explore North-East market, and likewise. Middle managers interpret these strategies and develop tactical plans for their departments that follow strategies in order to contribute to the organizational goals.

In order to develop tactical plans, middle management needs detail reports (financial, operational, market, external environment). Tactical plans have shorter time frames and narrower scopes than strategic plans. Tactical planning provides the specific ideas for implementing the strategic plan. It is the process of making detailed decisions about what to do, who will do it, and how to do it.

In short, tactical plans may be understood in following terms:

1. Tactical planning deals primarily with the implementation phase of the planning process
2. Tactical planning turns strategy into reality
3. Tactical planning usually has a 1-2 year time horizon
4. Tactical planning is usually tightly integrated with the annual budget process

c. Operational Plans:

The supervisor interprets the strategic and tactical management plans as they apply to his unit. This way, he makes operational plans to support tactical plans. These plans provide the details of how the strategic plans will be accomplished. Examples of planning by supervisors include scheduling the work of employees and identifying needs for staff and resources to meet future changes. Operating plans tend to be repetitive and inflexible over the short run. Change comes only when it is obvious that plans and specific action steps are not working.

There are two main type of operational plans – Single use plans which are developed to achieve specific purposes and dissolved when these have been accomplished; standing plans are standardized approaches for handling recurring and predictable situations.

Note that Tactical plans are based on the organization's strategic plan. In turn, operational plans are based on the organization's tactical plans. These are specific plans that are needed for each task or supportive Activity comprising the whole. Strategic, tactical, and operational planning must be accompanied by controls.

Monitoring progress or providing for follow-up is intended to ensure that plans are carried out properly and on time. Adjustments may need to be made to accommodate changes in the external and/ or internal environment of the organization.

2. Short-Range and Long-Range Plans:

Time is an important factor in planning. George Terry says, "The time period covered by planning should preferably include sufficient time to fulfil the managerial commitments involved."

Generally a short range planning (SRP) means a plan for one or two years and long range planning (LRP) means a plan for three to five years or more. Though this division may be considered as arbitrary, but it may have a general acceptability. This period of course, may vary according to the nature and size of business.

When a concern requires long gestation period, it is natural that the long range planning may cover a longer period than five years. For example-organizations, such as oil or mining companies, or airlines must make long range planning because of their particular purposes and objectives. A home video-rental store or a book store might concentrate on seasonal

or annual goals.

However, whatever the period of planning, it should not be too rigid. It should rather be flexible to meet the unknown factors of the future. If a concern adopts both short-term and long-term planning, the short-term planning should fit in with long-term planning. It is important, for managers, to understand the roles of both long range and short range planning in overall planning scheme.

3. Specific and Directional Plans:

Specific plans are established to achieve a specific purpose and dissolves when the purpose is accomplished. For example- a manager who seeks to increase his firm's sales by 20 per cent over a given twelve-month period might establish specific procedures, budget allocations, and schedules of activities to reach that objective. These represent specific plans.

Directional plans identify general guidelines. They provide focus but do not lock managers into specific objectives or courses of action. Instead of following a specific plan to cut costs by 4 per cent and increase revenues by 6 per cent in the next six months, a directional plan might shoot for improving corporate profits by 5 to 10 per cent every year.

Intuitively it seems right that specific plans would be preferable to directional or loosely guided plans, because they have clearly defined objectives. There is no ambiguity, no problem with misunderstandings. However, in certain circumstances, like in case of fast changing environment, directional plans provide the flexibility required to cope with the changing situations.

4. Single Use and Standing Plans:

A single-use plan is a one-time plan specifically designed to meet the needs of a unique situation and created in response to non-programmed decisions that managers make.

In contrast, standing plans are ongoing plans that provide guidance for activities repeatedly performed in the organization. Standing plans are created in response to programmed decisions that managers make and include the policies, rules, and procedures.

i. Single-Use Plans:

Single-use plans are detailed courses of action that probably will not be repeated in the same form in the future. For example- a firm planning to set up a new warehouse because it is expanding rapidly will need a specific single-use plan for that project, even though it has established a number of other warehouses in the past.

It will not be able to use an existing warehouse plan, because the projected warehouse presents unique requirements of location, construction costs, labour availability, zoning restrictions, and so forth. The major types of single-use plans are programs, projects, and budgets.

a. Programs:

A program covers a relatively large set of activities. The program shows- (1) the major steps required to reach an objective, (2) the organization unit or member responsible for each step, and (3) the order and timing of each step. The program may be accompanied by a budget or a set of budgets for the activities required.

A program may be as large in scope as placing a person on the moon or as comparatively small as improving the reading level of fourth-grade students in a school district. Whatever its scope, it will specify many activities and allocations of resources within an overall scheme that may include other single-use plans as projects and budgets.

b. Projects:

Projects are the smaller and separate portions of programs. Each project has limited scope and distinct directives concerning assignments and time. In the warehouse example, typical projects might include the preparation of layouts, a report on labour availability, and recommendations for transferring stock from existing facilities to the new installation. Each project will become the responsibility of designated personnel who will be given specific resources and deadlines.

c. Budgets:

Budgets are statements of financial resources set aside for specific activities in a given period of time. They are primarily devices to control an organization's activities and so are important components of programs and projects. Budgets itemize income as well as expenditures and thus provide targets for such activities as sales, departmental expenses, or new investments.

Managers often use budget development as the process by which decisions are made to commit resources to various alternative courses of action. In this sense, budgets can be considered single-use plans in their own right.

ii. Standing Plans:

a. Policies:

A policy is a general statement designed to guide employees' actions in recurring situations. It establishes broad limits, provides direction, but permits some initiative and discretion on the part of the supervisor. Thus, policies are guidelines. Some policies deal with very important matters, like those requiring strict sanitary conditions where food or drugs are produced or packaged. Others may be concerned with relatively minor issues, such as the way employees dress.

Policies are usually established formally and deliberately by top

managers of the organization. Policies may also emerge informally and at lower levels in the organization from a seemingly consistent set of decisions on the same subject made over a period of time.

For example- if office space is repeatedly assigned on the basis of seniority, that may become organization policy. In recent years policy has also been set by factors in the external environment—such as government agencies that issue guidelines for the organization's activities (such as requiring certain safety standards).

b. Procedures:

A procedure is a sequence of steps or operations describing how to carry out an activity. It is more specific than a policy and establishes a customary way of handling a recurring activity. Thus, less discretion on the part of the supervisor is permissible in its application. For example- the refund department of a large discount store may have a policy of “refunds made, with a smile, on all merchandise returned within seven days of purchase.”

The procedure for all clerks who handle merchandise returned under that policy might then be a series of steps like these- (1) Smile at customer. (2) Check receipt for purchase date. (3) Check condition of merchandise ... and so on. Such detailed instructions guide the employees who perform these tasks and help insure a consistent approach to a specific situation.

OBJECTIVES: the future goals and desired state that an organization strives to achieve in future. Objectives are road map or direction path that keeps an organization attentive and focused towards its goals and helps in dodging obstacles. Peter Drucker say that an organization mostly has objectives related to market share, innovation, productivity, profitability, physical and financial resources, performance and development etc. Charles Perrow classified objectives into five categories namely; Societal objectives (cultural values, production of goods and services), output objectives, system objectives, product objectives and Derived objectives (community development).

Though organizational objectives are vital to an organization, yet it suffers from the problem of quantification. Where objectives stated in quantitative terms are easily understandable, qualitative objectives are vague and confusing. For example, the objective of cost reduction, ROI on investment, market share, reduction in cost by one-third, fifteen increase in profit, ten percent return on capital etc are explicitly stated and are not subject to vagueness and confusion. Qualitative objective such as maximizing customer satisfaction through quality performance, maintaining an ethical relationship with stakeholders etc are necessary but vague in terms of a clear definition of satisfaction, quality performance and ethics. Objectives that are clear and unambiguous are sure to be achieved.

Management by Objectives (MBO)

Management by objective is the scientific and strategic approach to enhance the organizational objective wherein goals and objectives of organizations are clearly stated, define and conveyed by the managers to the entire organization. The crucial step of defining the objective under this approach is to monitor and evaluate employees' performance against the stated objectives. Ideally, under this approach, employees themselves set their goals and course of action that effectively fulfil their obligation. In other words, MBO is a scientific strategy to establish objectives jointly by managers and subordinates and desire to achieve them with achieving organizational objectives simultaneously. MBO approach follows the following six steps:

1. *Defining organizational objectives/goals* with the help of different managers and supervisors. Based on organization status and performance, objectives to be achieved in specific time are established. A broad range of objectives that are critical to the organization is established and most top-level managers are involved in this step.
2. *Defining objectives for employees*: after establishing the general broad organizational objectives, plans and procedures, managers are superiors discuss and work with their subordinates to establish their objectives. This step is crucial enough as the personal objectives of employees motivate them to work towards organizational objectives. Managers and superiors discuss the need, goals, time and resources required by the employees to achieve their objective and organizational objective ultimately. Employees present their thought and ideas about what departmental objectives are necessary to be framed and achieved.
3. *Regular monitoring performance and progress*: since an organization is managed by managing the objectives of an organization. Thus, apart from increasing managerial efficiency, regular monitoring and progress of employees are necessary. Close monitoring of performance ensures eliminating performance deviation and flaws.
4. At this step performance of each employee concerning performance standard and objectives are *evaluated* by the concerned managers or supervisors.
5. *Providing Feedback*: feedback step is very crucial under management by objective approach. Continuous feedback on performance helps the employees to manage their performance quality and correcting their actions. Feedback at a particular point of time should be replaced with continuous feedback through regular formal and informal meetings of superiors and subordinates. In this way, probable performance deviation can be eliminated and progress can be ensured.
6. *Performance Appraisal*: the routine of performance of an employee by the managers is the final step under the MBO approach.

Management by objectives offers several benefits to the organization such as it ensures better communication between managers and subordinates while objectives for organization and employees are set, makes job clarity amongst subordinates, it leads to increase in motivation level of employees as they feel

more connected with the organization being part of the planning process, and it also ensures the close monitoring too of performance of employees. Ultimately, MBO improves the planning process. Despite several benefits to the organization and employees, MBO is engulfed in various demerits and limitations. Since it involves setting clear and unambiguous objectives for organization as well as employees, a lot of paperwork is involved in it. Regular meetings and sessions are conducting with managers and subordinates to set objectives and detailed records are maintained. Secondly, many a time, lower levels of management are kept outside the objective-setting process and thus the process becomes less democratic. Thirdly, where poor performance is closely monitored and managed, exceptionally good performances do not get any incentive. Moreover, MBO faces the problem of defining the objectives with clarity, devising suitable means to achieve them, difficulty in avoiding conflicts.

Policies: Policies refers to guides to think about the actions to be taken to make decisions with regards to organizational objectives. It is ready reference and answer to all the questions that may arise in due course of time in running the organization. These are broad, comprehensive and flexible to define the course of actions to be followed to attain objectives. In other words, it eliminates the possible confusion of objectives and makes the objectives more concrete and static. Though they are not about any decision yet it sets the boundary and limits within which decision should be made. For instance, an organization aiming at reducing the poverty level within a particular area may hire employees from that local area only.

A good policy is the one that is broad, consistent, adequate in numbers, practical and flexible. The policy formulated must be outlined broadly leaving more scope for managers to decide within the limit. It need not cover every detail as it would become more particular and less scope would be there to make a decision. Since many policies resort to many questions, there are chances that one policy may contradict others. Such a situation must be avoided and hence policies formulated must be consistent and not mutually contradictory. The policy of an organization binds itself in a single thread with which is it known. Hence it is an image builder. A policy must be logical and practical so that every member of an organization can rely on that and managers can make a decision effectively. Lastly, it must be flexible enough to incorporate any probable change and uncertainty.

Procedures: A good objective and good policy may not lead to the desired result until a clear way and mean to achieve them are not established. An organization that does not ponder upon the procedure to be followed for accomplishing its objectives and policies to be implemented is certain to flounder. Questions like what, when and by whom a task would be performed. An effective procedure ensures easy to control, standardisation, consistency, coordination and communication.

Rules: in a general term, rules are norms set by the organization that governs what and what not to be done under a certain situation. It is the self-imposed principle of action and varies with the situation. Rules set the parameters to be followed and standards to be achieved. Hence it does not leave any scope

for decision making. Deviations or violations of rules usually lead to punishment.

Strategies: derived from the Greek word “strategi” which means the office of the general. Strategy refers to the organizational overall plan to attain the objectives working under the ambit of uncontrollable environmental forces. In an uncertain external environment, the organization is exposed to various threats as well as opportunities. In such situations, an enterprise makes various strategies such as; a strategy to stabilize the business in a turbulent situation, strategy to develop a product, strategy to expand the market, vertical integration, mergers, disinvestment, etc.

Planning Practices in Indian Organisations

Several researchers have looked into the planning practices in Indian enterprises.

Some of these studies are reported here:

Richman and Copen (1972)

Virtually all of the medium-sized and larger companies surveyed established at least some quantitative objectives or targets on an annual or short-term basis. These generally include profitability, sales and production objectives. Most of them also had some kind of growth objectives and some general guidelines to help determine those areas in which the firm would concentrate or expand its efforts. However few defined longer-term objectives clearly.

Only one of the Indian firms surveyed, a drug producer, did a truly thoughtful job of developing a long-term growth and development model. It identified explicitly a desirable position to strive for several years in the future and designed specific strategies to reach it. This firm established specific three and five-year goals for market share and profitability.

In general, planning processes and plans at firms studied in India focused on the short run, and in particular on short-term projections of monthly, weekly and daily operating data. Planning documents consisted mostly of sales forecasts and some kind of operating budgets. However, these were prepared more for control purposes than for future planning. The only planning activity found in most of the major firms was the translation of a sales forecast into requirements of imported raw materials and the ordering and stockpiling of these items. In a few cases there were accurate forecasts of capital requirements or productive capacities made.

Bhatia (1981)

This research study on the objectives of a sample of 65 out of the 251 giant companies listed by Research Bureau of Economic Times, revealed that only 45 per cent of these have explicitly defined objectives and 55 per cent do not have expressed objectives. Moreover out of those which have specified their objectives 17 per cent feel that their objectives are confidential and not to be divulged.

the large-sized, do realise the need and urgency of planning their operations over longer periods of time. Many however, still consider planning over longer periods a waste of effort primarily because of a larger measure of uncertainties prevailing in the Indian environment.

4.7 SUMMARY

Planning is the crucial, first and foremost function of management. It is the function that lays down foundation stone for other managerial functions such as organizing, staffing, directing and controlling. With a view to meet future uncertain event, it is also about retrospection and enhancing the planning eliminating the flaws committed in previous plans. Planning being cognitive, continuous and future driven process, it is engrossed with various merits and limitations as well. Planning is not simple and easy to perform function, rather it is cognitive and comprehensive function that requires various chronological steps to be followed. Be it objectives, procedures, rules, strategies and policies an organization need to define its planning function accordingly in order to make an organization successful.

Case Studies:

I. Super Fine Rice Ltd. has the largest share of 55% in the market. The company's policy is to sell only for cash. In 2015, for the first time company's number one position in the industry has been threatened because other companies started selling rice on credit also. But the managers of Super Fine Rice Ltd. continued to rely on it's previously tried and tested successful plans which didn't work because the environment is not static. This led to decline in sales of Super Fine Rice Ltd. The above situation is indicating two limitations of planning which led to decline in it sales.

a) Identify the limitations.

Answer:

The two limitations of planning which led to decline in it sales are:

- Planning does not guarantee success.
- Planning may not work in dynamic environment.

II. Laxmi Chemicals Ltd., a soap manufacturing company, wanted to increase its market share from 30% to 55% in the long-run. A recent report submitted by the Research & Development Department of the company had predicted a growing trend of herbal and organic products. On the basis of this report, the company decided to diversify into new variety of soaps with natural ingredients having benefits and fragrances of Jasmine, Rose, Lavender, Mogra, Lemon Grass, Green Apple, Strawberry etc. The Unique Selling Proposition (USP) was to promote eco-friendly living in the contemporary life style. The company decided to allocate 30 crores to achieve the objective.

a) Identify the type of one of the functions of management mentioned above which will help the company to acquire dominant position in the market

Answer:

Strategy is the type of plan which will help the company to acquire dominant position in the market.

- III. Two years ago, Mayank obtained a degree in food technology. For some time, he worked in a company that manufactured bread and biscuits. He was not happy in the company and decided to have his own bread and biscuits manufacturing unit. For this, he decided the objectives and the targets, and formulated an action plan to achieve the same. One of his objectives was to earn 50% profits on the amount invested in the first year. It was decided that raw materials like flour, sugar, salt, etc. will be purchased on two months credit. He also decided to follow the steps required for marketing the products through his own outlets. He appointed Harsh as the Production Manager who decided the exact manner in which the production activities were to be carried out. Harsh also prepared a statement showing the requirement of workers in the factory throughout the year. Mayank informed Harsh about his wise sales target for different products, for the forthcoming quarter. While working on the production table, a penalty of D150/- per day was announced for not wearing the helmet, gloves and apron by the workers.

a. Identify and explain the different types of plans discussed.

Answer:

The different types of plans discussed above are listed below:

1. **Objectives:** Objectives are the end results of the activities that an organisation seeks to achieve through its existence. All other activities within the organisation are directed towards achieving these objectives.

“One of the objectives was to earn 50% profit on the amount invested in the first year.”

2. **Policy:** A policy is a set of general guidelines that help in managerial decision making and action. “decided that the raw materials like flour, wheat, sugar, etc. will be purchased on two months credit.”

3. **Method:** A method refers to the prescribed ways or manner in which a task has to be performed considering the objective. “decided the exact manner in which production activities were to be carried out.”

4. **Procedure:** A procedure contains a series of specific steps to be performed in a chronological order to carry out the routine activities.

“decided to follow the steps required for marketing of the products through his own outlets.”

5. **Rule:** A rule is a specific statement relating to the general norms in terms of Do’s and Dont’s that guide the behaviour of people. It commands strict obedience and a penalty which is likely to be imposed on its violation.

"While working on the production table, a penalty of Rs. 150 per day was announced for not wearing helmets, gloves and aprons by the workers."

4.8 SELF-ASSESSMENT QUESTIONS

I Perspective Planning in Mahindra Ugine Steel Co. Ltd.

The following passages are extracted from the statement of the chairman of Mahindra Ugine Steel Co. Ltd. at its annual general meeting in 1971. These extracts will provide you an idea of the importance attached to a perspective (long-term) plan for an enterprise and also of some of the factors which condition the planning of a business enterprise.

"I am happy to advise you that in furtherance of our plans to expand the capacity of your Plant and to achieve maximum economies of scale your Company has been able to submit a comprehensive plan to the Government for enlargement of the productive capacity upto 60,000 tonnes of finished Tool, Alloy and Special Steels per annum In planning the expanded capacity of our plant we shall strive to achieve maximum diversification of the end-products consistent with a favourable capital-output ratio... For this, we have to constantly strive to expand our operations and diversify our product-mix so that the goals are met or even exceeded.

The observations about our sales and the outlook for our Company prompts me to discuss briefly the developments and trends in our own industry and share some thoughts on perspective planning. Planning today is a universally accepted exercise for one and all. It involves looking as far ahead as the data on our hands and our vision permit. In the life of a corporation this means a close study of all the factors that shape its progress and influence it decisively. There are several such factors and one such all-important factor, external to the organisation that could provide the guidelines for future growth is the assessment of the potential market. I attach overriding importance to a sincere, honest and realistic attempt to size up the approximate if not the exact requirements of a given product for a given year in the planning and creation of manufacturing capacity.

Your Company is vitally interested in making projections of its own growth with the help of macro-projections of the demand for Mild, Alloy and Special Steels released by various Government and semi-Government agencies. During the last decade there has been several such macro-projection . The last estimates of demand for Steel have come from NCAER. Most of the studies work out the potential demand with the help of the end-use method which is a simple but down to earth technique to assess the short-term as well as long-term demand in developing countries. The recent estimates of NCAER also utilise the same method.

In the latest study of the demand for Steel, the NCAER has taken full account of (a) all the major steel consuming sectors, (b) requirements of such consumers, (c) increase in demand due to export of Steel, (d) Steel content of machinery and engineering goods to be exported, (e) possible reduction in

demand due to substitution of Steel by items such as plastics, asbestos, cement, aluminium, etc. in such products as motor cars, railway rolling stock, ship-building, pipes and tubes, (f) Price elasticity of Steel demand and (g) Steel content of imported products and so on.

The main assumption underlying the end-use method is firstly that the targets for various industries obtained from research organisations like the Planning Commission or those of NCAER itself, would be achieved. Experience tells us that this has not always been a correct assumption and plan targets for even the major steel consuming sectors get elasticised. Also in several industries there have been shortfalls in respect of the attainment of targets. As you can see for yourselves, such shortfalls may result in over-estimation of the requirements. Conversely, where targets are exceeded, which is not often the case, the forecast of requirements for a particular industry turn out to be under-estimates.

Secondly, the success of the end-use method is largely conditioned by the accuracy of the norms that relate the Steel industry to the Steel consuming industry by indicating the input co-efficient. Such norms are known to change with technological progress and innovations and there have been several occasions in the past when estimates have gone haywire on account of unrealistic norms having been adopted. For instance, the norms employed by the Perspective Planning Division in its 1965 estimate of the requirements of Alloy and Special Steels have been replaced by the NCAER which has employed its own norms for various industries. The end-use method thus assumes that the impact of technological changes would be minimal, if not nil on the norms of consumption of Steel. Naturally to obtain more accurate figures at the end of such an exercise, the final estimates are adjusted upward to provide for such findings of changes in various consuming sectors. In order to make the macro-projections meaningful for the producers to plan and expand their capacity, it is essential that norms are kept under review and at the end of every year or so the Associations of Consumers and Producers should get together and see that any significant changes in the norms are reflected in the demand figures and necessary adjustments and/or corrections are made on the overall demand projections. By such an exercise the year to year projection of demand would be rendered more realistic and would provide a workable basis to determine the gap between demand and availability.

With these considerations regarding the merits and demerits of the end-use technique in mind, let us consider the recent studies in demand estimates with special reference to the products of our own industry viz. Alloy and Special Steels. There have been as many estimates of demand for Alloy and Special Steels as there are for other Steels also. As against about 300,000 tonnes for 1973-74 and 430,000 tonnes for 1978-79, estimated by the Steering Group of the Steel Ministry in 1968 and incorporated in the Fourth Five Year Plan document, the latest study of the Council provides for 434,000 tonnes for 1975 and 817,000 tonnes for 1980.

The estimates of the Steering Committee as revised by the Technical Wing of the Steel Ministry have now become available. Accordingly the demand for

Alloy and Special Steels has been revised upwards from 300,000 tonnes to 400,000 tonnes for 1973-74 and from 430,000 tonnes to 590,000 tonnes for 1978-79. What is of interest to your Company as a producer of Alloy Constructional Steel in these varying estimates is that for 1973-74 the estimates of both the Technical Wing and the NCAER arrive at almost the same figure, but for a difference of only about 2,000 tonnes. The marginal divergence, however, turns out to be sizable in the estimates for the end of the Seventies. As against the Technical Wing's estimate of 178,700 tonnes for 1978-79, the Council Places the demand for Alloy Constructional Steel at 239,906 tonnes for 1980.

It is now accepted that the assessment of the Technical Wing has been rather conservative and that the Council's studies despite certain limitations are more realistic. A message that emerges loud and clear from these studies is that even after the schemes for expansion or setting up of new units on green sites which are now under consideration are successfully implemented by the end of the decade, there would still be a gap, probably substantial rather than marginal between requirements and actual production.

All said and done the numerous estimates referred to above need to be further processed and worked upon for purposes of drawing meaningful conclusions that guide us in deciding about future investments in the creation of new Alloy Steel capacity and in determining the ideal product-mix for your or other plants. The breakdown of such broad aggregates into categories, grades, shapes, surface finish i.e. black or bright, etc. is a pre-condition for successful corporate planning. Quite a few snap judgments, I am afraid, have already been made based on broad aggregate demand resulting in duplication of capacity of the same size ranges. And circumstances may force us to amend them, if not reverse such decisions. In this context, I would emphasize that before a final sanction is issued for creation of fresh capacity, adequate thought is given to the point whether such fresh capacity should come about through new units on green sites or through expansion of existing units or both. These considerations weigh very heavily in favour of the second proposition. Expansion would firstly help creation of new capacity faster; it would involve lower capital investment; and finally what is important, it would help the existing units to achieve economies of scale.

It is high time that a master perspective plan for the speedy expansion of Steel capacity in the country is drawn up and Government and industry jointly and single-mindedly work for the crystallisation of such plans. This exercise has to be followed by clearer thinking about the future needs.

A corporate or industry wise perspective plan considers not only the market potential for a product but also the derivative demand for essential inputs to be supplied by the feeder and ancillary industries. Only such an assessment of the requirements and availability of raw materials would give meaning and content to the perspective plan."

Questions:

- 1) What factors influence the planning in MUSCO?

- 2) How does Government policy influence planning in MUSCO?
- 3) What method of making future forecasts is referred to in these passages? What are its elements? How accurately can be the forecasts arrived at through this method? Find out from the books listed below what the other methods of demand forecasting are.

4.9 REFERENCES/ FURTHER READINGS

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