Planning

**Planning** is the primary important function of management. Planning may be broadly defined as a concept of executive action that embodies the skill of anticipating, influencing and controlling the nature and direction of change. It is the best alternative to perform different managerial operations for achieving pre-determined goals.

**Features / Characteristics of a Good Plan**

1. *Planning is basic function*: It is the primary function of management. All other functions of management like organizing, directing, staffing and controlling all depend on planning. Hence planning is the starting point of management activities.
2. *Goal oriented*: Planning is always made towards achievement of organizational goals and has a leading contribution for their achievement.
3. *Intellectual process*: Planning is always made on the basis rational judgment, imagination, past experience and logic. Without rational and logical thinking planning is valueless.
4. *Continuous process*: One time planning for achievement of organizational goals is not enough. It is a continuous and on-going process. It is a dynamic exercise and is prepared on the basis of information and assumptions.
5. *Selection among alternatives*: Planning involves choosing the best course of action among many alternatives. If there is only one way of doing a particular work there is no need for planning.
6. *Forward looking*: Planning is always made for future. For this purpose forecasting regarding uncertain events are made.
7. *Integrated process*: Planning is made in such a way so that different activities are integrated and coordinated towards the accomplishment of overall organizational goals.
8. *Attainment of efficiency*: Planning is not effective if it cannot contribute towards the attainment of organizational goals economically and effectively. Maximum output at minimum cost is the foundation of planning.
9. *Flexibility*: Planning should be made in such a way that there is enough room for flexibility. Short term planning should give itself to change according to the need of the situation.

**Steps involved in Planning process**

Planning is the first and most important step in management. The goals of an organization can be achieved only if everything is done according to a plan.

The following are the steps involved in planning process:

1. Determination of Objectives: This is the first step where the objectives need to be spelt out in clear terms. What needs to be achieved helps to determine how it should be achieved. All the opportunities and resources available to fulfill these objectives should be carefully considered at the time of planning.
2. Establishment of Planning Premises: Planning premises are the basic assumptions or criteria on which planning process depends. As business is full of uncertainties, certain assumptions are made on the basis of which plan is formulated. These assumptions must be realistic and logical otherwise the plan may become useless.
3. Development of alternative course of action: There are usually more than one ways of doing a thing. Planning involves identifying the different alternatives for achieving the end.
4. Selecting the best course of action: After developing the alternative course of action, the same must be evaluated so that the best course is selected. This will result in optimization of the output of the organization.
5. Preparation of derivative plans: Next step after choosing the best course is to develop sub-plans. For this different departmental and sectional plans along with the time schedule are to be formulated. Derivative plans helps to accomplish and execute the master plans of the organization.
6. Participation of human resource: Success of plans depends upon the cooperation and coordination of all the employees of an organization. Therefore employees must be communicated and explained all the relevant information for getting their whole-hearted support. Managers of different levels are involved in the planning process so that they develop a feeling of contributing to the planning process.
7. Follow-up action: Actual performance is compared with those that planned and deviations are found out. Corrective actions are taken if there are any unfavorable variances. Without follow-up action a plan will be ineffective.

**Planning Premises**

An organization has to plan and work within the given constraints, environment, framework or factors which are known as planning premise. Thus planning premise are some basic assumptions or criteria on which planning process depends. Planning premises can be classified as:

1. **Internal and external premise**: Those which are related to the internal factors of the organization e.g. business policies, managerial efficiency, utilization of resources etc. are known as internal premise. External premise are those on which the organization has no control and they are extraneous to the business e.g. inflation, political situation, economic and social environment, policy changes by the Government etc
2. **Tangible and intangible premise**: The premises that can be quantified or measured are known as tangible premise (e.g. volume of production, mandays, cost of materials etc.) and those which can be expressed in terms of quality only are known as intangible premise (e.g. goodwill of the business, honesty of workers, good relation with suppliers etc.)
3. **Controllable and uncontrollable premise**: The factors on which the firm has a direct control like policies, programs, rules, regulations, layout of the organization, quality of human resources etc. are known as controllable premise. On the other hand, the factors which are beyond the control of the entity for example natural calamities, political instability, wars, technological advancement etc. are known as uncontrollable premise.
4. **Fixed and Variable premise**: The premise which does not change but remain fixed over the planning horizon is known as fixed premise like man power in a company, machinery and equipments being used etc. These are controllable. The premises which may undergo a change over the time period of the planning horizon is called variable premise. These are not controllable for example taste and fashion of the customers, new products by competitors, industry specific Government policies etc.

**Basic Principles of Planning / Essentials of Sound Plan**

The success of a good plan depends upon some basic principles to be followed by an organization.

1. *Principle of Objective*: Planning is made to fulfill some objectives. No plan is successful if the objectives are not clearly defined and measurable.
2. *Principle of Flexibility*: Future is dynamic and therefore planning cannot afford to be rigid. There should be enough flexibility to change plans if required. Else the main objective of the organization shall remain unfulfilled.
3. *Principle of Unity*: Planning should be formulated in such a way that there must be unity and integrity of different functions of the organization.
4. *Principle of Continuity*: Planning is a continuous exercise as no single plan can continuously bring success for any organization. Each plan must be guided by the previous one.
5. *Principle of Rationality*: Planning must be made on the basis on objective facts and data. Planning based on pure guess and personal opinion is irrational and does not bring the desired results.
6. *Principle of Simplicity*: Planning is most effective when it is clear, simple and understandable to all employees.
7. *Principle of Forecasting*: Future is uncertain but still needs to be predicted to make plans. Forecasting is using scientific techniques to anticipate the future happenings based on past and present events to determine the alternative course of action. It is the foundation of planning program.
8. *Principle of pervasiveness*: It is pervasive for all the levels of management for all the departments.
9. *Principle of Participation*: Participation in decision making process from all levels of management makes implementation of planning easier.
10. *Principle of Selecting the Best Alternative*: Planning involves choice of best alternative out of the many alternatives. Planning involves evaluation of alternatives and choosing the best one among them.

**Importance / Significance / Advantages of Planning:**

1. Determination of Objectives: The first task of planning is to determine objective. The integration of overall departmental objectives would bring in greater coordination among inter-departmental activities and therefore greater chance of attaining overall objectives of the organization. It also includes formulation of policies, procedures, programs etc. to achieve the objective.
2. Forecasting future events: Forecasting is an integral part of planning. There are many risks involved in a business. As future is uncertain forecasting of future events attempts to reduce uncertainties by choosing the best alternative and bring success to the business.
3. Planning helps organization to be more competitive: Planning helps a company to formulate strategies to increase production, introduce new lines of product, product diversification, market diversification, expansion of business which results in increase of competitive strength of the organization.
4. Effective utilization of resources: Planning helps an organization to utilize men, money, material, and machinery in a manner so as to increase productivity. Planning thus increase the overall efficiency.
5. Planning makes control easier: With the help of planning, standards can be determined for material, labor, and overhead variance can be calculated. In case of unfavorable variance control becomes easier and remedial action can be taken. Hence control cannot be effective without proper planning.
6. *Planning facilitates proper coordination*: Planning helps to integrate the short term, medium term and long term plans of the organization and by coordinating the plans of different departments the overall objectives of the organization can be fulfilled.
7. *Motivates human resources*: By giving various monetary and non-monetary incentives to the employees of the organization, planning motivates the employees to strive towards the achievement of organizational goals.
8. *Building sound organization*: Organization is a structural relationship by which an enterprise is integrated together and in which individual effort is coordinated. Organizing cannot be done without proper planning.
9. *Helps right direction*: Direction means giving instructions, information, and right guidance to the subordinates. Direction is not possible without planning because planning helps an organization to decide what to do, when to do and how to do.
10. *Helps in decision making*: Planning guides decision making in different areas and all levels of management.
11. *Elimination of wastages*: Planning helps fullest utilization of man, money, materials, machines etc. through eliminating wastages and achieving optimum output.
12. *Creativity and innovation*: Planning encourages managers to creative and innovative which results in growth of the organization.

**Limitations of Planning**

Though planning has many advantages it is still not free from limitations.

1. *Ineffectiveness*: Planning is made on the basis of forecasts which may not materialize due to unpredictable changes in the business environment. Hence planning may become useless and ineffective.
2. *Forecasting*: Forecasting is a very important tool for estimating the future situations in quantitative terms with the use of various statistical techniques. It is difficult to obtain accurate data for use in forecasting, the absence of which forces planners to use assumptions. If these assumptions do not hold good the forecasts will be incorrect and the plans made on the basis of such forecasts will not be useful.
3. *Rigidity*: Once objectives are determined and planning is made, management does not want to change from the pre-determined course of action. However business environment is dynamic and new opportunities and threats are constantly emerging. Plans should be stable and at the same time flexible to accommodate the changes so that the objectives of the organization can be achieved.
4. *Expensive and time consuming*: Any good planning exercise is costly and time consuming. There is a huge cost involved in collection of relevant data, analyzing and forecasting. Expenses on planning should never exceed the benefits of planning.
5. *Political and technological change*: An effective plan may become useless in the face of technological or political change.
6. Attitude of management: Sometimes managers feel that huge amount may be wasted if planning is unsuccessful and therefore reluctant to plan.
7. *Misdirected planning*: Planning to achieve personal or departmental goals which are not in line with organizational goals fails to produce the desired results.

**Types of Plans**

Planning is basically determining future course of action. The different types of business plans according to their nature are as follows:

1. **Corporate or Strategic Plan**: Top level management is responsible for making corporate plans or strategies. They give the overall purpose and direction to an organization and acts as a foundation for next level planning.
2. **Single-use Plan**: A single use plan is for a particular situation which is related to a short period to fulfill a specific objective. Once the objective is achieved, the plan loses its usefulness. Such plan is basically non-recurring and made keeping a particular situation in mind.
3. **Repeated-use** **(or Standing) plans**: When planning is made for fulfilling some objectives and is used many times for the same operation, it is known as repeated-use plans. It is of permanent and repetitive in nature. Policies, procedures, methods and rules are examples.
4. **Basic Planning**: Planning which is made to formulate the basic or primary objectives of an organization and to determine strategies for this purpose. All the functions of an organization are prepared on the basis of primary planning.
5. **Functional Planning**:Plans which are made for execution of routine jobs in an organization like purchase of raw materials, payment of monthly wages etc.
6. **Short-range Planning**: Generally the planning horizon is one year or less. These plans are in line with the long term plans of thee company.
7. **Medium-range Plans**: Generally more than one year but less than one year, these plans are made in detail to execute long term goals. They are also known as tactical plans and their purpose is to bring the strategies to fruition.
8. **Long-range Planning**: Generally for a period of 5 years or more, these plans are made taking into consideration the overall objectives of the organization.
9. **Physical Plan**: Plans made for construction of physical infrastructure facilities like construction of buildings, assembling and installation of machinery etc.
10. **Derivative Planning**: Derivative plans are sub-plans which help accomplish the master plan of the organization.
11. **Master Plan**: It is a comprehensive plan prepared to achieve the overall objectives of an organization.

**Single Use Plans**

**Objectives:**

Objectives or goals are the ends towards which every activity is aimed – they are the results to be achieved. Objectives are a prerequisite for planning. No planning is possible without setting up of objectives. While enterprise objectives are the basic plan of the firm, a department may also have its own objectives.

Thus the first step in planning is setting objectives. Objectives, therefore, can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organization and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what the organization would like to achieve, i.e., the end result of activities. For example, an organization may have an objective of increasing sales by 10% or earning a reasonable rate of return on investment, earn a 20% profit from business. They represent the end point of planning. All other managerial activities are also directed towards achieving these objectives. They are usually set by top management of the organization and focus on broad, general issues. They define the future state of affairs which the organization strives to realize. They serve as a guide for overall business planning. Different departments or units in the organization may have their own objectives. Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms, in the form of a written statement of desired results to be achieved within a given time period.

Enterprise objectives influence the management philosophy and practice. Objectives have greater influence on the working of an organization. All other types of plans such as policies, strategies, procedures, rules, budgets etc. assist in the attainment of stated enterprise objectives in an economical and efficient manner. Objectives are related to the future and are an essential part of the planning process.

**Strategies:**

The word ‘strategy’ has long been used in the content of military action plans. It was used to state the grand plans made in the light of what it is believed an adversely might or might not do. Managers now use strategies in the broader areas of business operations. A strategy is a comprehensive and integrated plan designed to assure that business objectives are accomplished. The long term objectives of the enterprise are determined and requisite resources are allocated and deployed to achieve the desired results. The purpose of strategies is to determine a picture of the kind of enterprise that is envisaged. Strategies do not attempt to outline the programs for achieving objectives but they furnish a framework for guiding thinking and action.

**Programs:**

A program is a sequence of activities designed to implement policies and accomplish objectives. It is devised to meet a particular situation. Program may be taken as a combination of policies, procedures, rules, budgets, task assignments, etc. developed for the specific purpose of carrying out a particular course of action. Separate programs are prepared for accomplishing different tasks.

The same program may not be used for achieving other goals. It is a single use plan laid down for new and non-repetitive activities. In the words of Koontz and O’Donnell, “Programs are complexes of goals, policies, procedures, rules, task assignment, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action.” To quote George Terry, “A program can be defined as a comprehensive plan that includes future use of different resources in an integrated pattern and establishes a sequence of required actions and time schedules for each in order to achieve the standard objectives.”

**Characteristics of Programs:**

1. A program is a single use comprehensive plan. It is formed to achieve a particular purpose only. Once the goal is achieved the program will not be used again.

2. A number of small plans are prepared to formulate a program. The program for increasing sales by 20 per cent may require a number of small plans to be formed.

3. A program is prepared to achieve organizational goals.

4. It gives a time limit up to which the program is to be implemented. A strict time table is fixed for doing a particular task.

5. A program should ensure coordinated planning efforts.

**Budgets:**

A budget is the monetary or/and quantitative expression of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, co-ordination and control of business enterprise.

According to Institute of Cost and Works Accountants, London, “A budget is a financial statement and /or quantitative statement prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective.” In the words of George R. Terry, “A budget is an estimate of future needs, arranged according to an orderly bases, covering some or all of the activities of an enterprise for a definite period of time.” In the words of Crown and Howard a budget has been defined as, “A pre-determined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.”

**Characteristics of Budget:**

1. A budget should be based on past figures. The possibilities in future should also be taken into account.
2. A budget be flexible so that it is modified according to the requirements of the situation. Rigidity in budgets sometimes creates difficulties.
3. The persons at various levels should be involved in preparing a budget. This will help in getting willing co­operation of everybody while implementing budgets.
4. A budget should be a specific statement. The quantities or monetary information should be clearly mentioned in a budget.
5. There should be an active involvement of top management while preparing a budget.

**Standing Plans (or Repeated Use plans)**

**Policies:**

Policies are general statements or understandings which provide guidance in decision-making to various managers. These are standing plans providing guidance to management in the conduct of managerial operations. Policies define boundaries within which decisions can be made and decisions are directed towards the achievement of objectives. Policies also help in deciding issues before they become problems and making it unnecessary to analyze the same situation every time it comes up. Managers can delegate authority within the given parameters and can still retain control over what their subordinates do.

**Procedures:**

Procedures are details of action or the guidelines for the achievement of business objectives. Procedures give details of how things are to be done. No room is left for judgment. These should help in implementation of policies. Procedures also determine the policy of responsibility and accountability. A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.

Procedures should be distinguished from policies. A procedure is a guide to action whereas a policy is a guide to thinking. Policies are guidelines for taking decisions and procedures consist of various methods to accomplish each phase of work. Policies offer scope for interpretation in order to see that they fit in a particular situation whereas procedures are tailor-made and do not offer any scope for interpretation.

**A procedure is explained with the help of taking the case of purchasing raw materials for a concern:**

*(i) Every department needing raw materials will send a purchase requisition to the purchase department giving quantity specifications, type and quality materials required.*

*(ii) The purchase department will consolidate the requirements of various departments. A combined order is prepared and sent to the suppliers. The purchase department maintains the list of suppliers and regularly collects quotations from them. The copy of the purchase order is also sent to the receiving and inspecting department.*

*(iii) The receiving department compares the goods received with the order placed. Any discrepancy in quantity, quality, etc. is reported to the purchase department.*

*If the goods are proper and according to the order then a report about it is submitted to the purchase department.*

*(iv) After receiving a satisfactory report from receiving and inspecting department, purchase department forwards the bill to accounting department for payment.*

*(v) Accounting department checks the bill and then makes the payment to the supplier.*

**Advantages of Procedures:**

1. Basis of Control: Procedures give a detail of sequences to be followed for completing a task. It can be seen whether the work is proceeding according to the plan or not. Procedures are used as a control mechanism because any discrepancy in completing the work can be determined at once.
2. Consistency: Procedures help to ensure consistency and uniformity of performance. Once the procedures are established, they can be similarly used again and again.
3. Standardization: The standardization of procedures reduces the need for decision-making in similar situation. Wherever a task is to be performed, the same procedure will be followed for doing it. This increases efficiency in doing a work.
4. Co-ordination: Procedures establish a sequence to be followed for each work. This helps in coordinating the activities of different departments or sections because same procedures will be followed by all of them.

**Limitations:**

1. Rigidity: Rigidity is followed in following procedures. They are continuously used over and over again. This discourages initiative and discoveries.
2. Constant Review: The same procedures cannot be followed for long terms. The changing situations necessitate the review of procedures. To keep them effective they should be constantly updated. They should be suitably adjusted to suit the present situation.

**Rules:**

A rule is a plan that lays down a required course of action with regard to a situation. A rule is in the nature of a decision made by management regarding what is to be done and what is not to be done in a particular situation. A rule is definite and rigid and allows no deviation or discretion to the subordinates. Like procedures, rules do not prescribe a chronological sequence of steps to be taken to achieve a given objective. A rule may or may not be a part of the procedure. A rule such as ‘No smoking in the factory’ will not form a part of the procedure. On the other, a rule to make payment within 21 days will be the part of a procedure.

Rules prescribe the limits of acceptable behavior of the members of the organization. Rules will enable managers to predict the behavior of their subordinates, how will they act in a given situation. Rules channel the behavior of workers in a desired direction. Workers sometimes resent rules for stifling their actions. The problem does not lie with the rules, but the manner in which they are put to the workers. Management should try to frame only those rules which are necessary and those too should also be explained properly to the employees.

**Methods:**

Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. The method may vary from task to task.

Selection of proper method saves time, money and effort and increases efficiency. For imparting training to employees at various level from top management to supervisory, different methods can be adopted. For example for higher level management orientation programs, lectures and seminars can be organized whereas at the supervisory level, on the job training methods and work oriented methods are appropriate.