5 Fundamentals of Planning

> Planning throws the searchlight of human wisdom, experience, and ingenuity into the darkness of the future.
>
> *Anonymous*

CHAPTER THEME

- To understand the basic framework of planning process as an element of managing.
- To understand the process involved in planning and different types of planning approaches.
- To understand the planning premises and forecasting relevant for planning.
- To identify the barriers to effective planning and the measures required for making planning effective.

BOC INDIA LIMITED

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BOC India Limited (BOC) is engaged in the business of producing industrial gases, welding consumables and equipments, cryogenic and process plants, and health care gases and accessories. It has adopted formal corporate planning process. For its formal and systematic corporate planning process, BOC has adopted a five-year period which is normally the case with most of the companies in India. For implementing the long-term plans, short-term plans are prepared in the form of annual budgets. Both long-term and short-term plans are closely interlinked. This has been done to integrate the company's long-term activities with its actual operations. Thus, the long-term plans are taken on rolling concept basis whereby it is subject to review and modifications during the budget exercise whenever necessary. This system provides both basic documents and guidelines for the company to follow but at the same time provides adequate flexibility.

The company prepares its planning document for long-term period which is known as 'corporate strategy and growth plan'. This document defines corporate mission, managerial philosophy, and corporate objectives. Corporate objectives are defined more sharply so as to include overall objectives as well as functional objectives. Thus, objectives also include targets for sales, volumetric growth, operating efficiencies, and profit performance. At the same stage, functional policies are defined in the areas of operations, finance, marketing, personnel, research and development, and public relations. The document defines corporate strategy and growth plans for various product divisions as well as for corporate divisions. Further, it also prescribes the process of strategy implementation, monitoring, and controlling of foregoing activities.

Within the framework of the above document, the company undertakes annual plans in the form of budget preparation. Managers at all levels in divisions, departments, and units are involved in this process. Since the financial year of the company begins from April, the planning cycle begins in October every year. The annual plan exercise begins with an appraisal of recent economic and other environmental factors. From this appraisal, broad generalizations and assumptions along with corporate objectives and other major directions are issued to all people concerned with planning process. The process is completed by November. On the basis of these documents, various divisions carry SWOT (strengths, weaknesses, opportunities, and threats) analysis for their specific business activities. This analysis is done for the budget period, that is, for the year April-March as well as for the succeeding four years. Therefore, the five-year plan is reviewed every year. Divisional budgets and projections are formulated and successively presented to various management committees. They agree after due discussion and modification wherever necessary. When divisional budgets are agreed upon, these are consolidated into the corporate budget for the consideration of the Board of Directors in the month of February. When this is approved by the Board, this forms the charter of operations and action plans for the company to follow in the financial year and also in the plan period.

Management functions, as pointed out earlier, are classified as planning, organizing, staffing, directing, and controlling. All these functions are required to achieve the objectives of an organization. However, without setting the objectives there is nothing to organize, direct, or control. Therefore, every organization is required to specify what it wants to achieve. Planning is basically related with this aspect.

Concept of Planning

In analyzing planning, two terms: planning and plan are used. These terms are similar but their meanings are different. There is fundamental difference between the two. Planning is an activity. It can be considered a process, hence various activities. On the other hand, plan is a commitment to a particular course of action believed necessary to achieve specific results. For example, Government of India prepares Five-Year Plans which consist of various actions to be taken, results to be achieved, and resources to be used. These are plans. The plans are prepared through the planning process which involves taking various activities to arrive at what is to be achieved, how to be achieved, and when to be achieved. Therefore, planning is taken as a process.

Planning as a process involves the determination of future course of action, that is why an action, what action, how to take action, and when to take action. These why, what, how, and when are related with different aspects of planning process. Why of action reveals that action has some objectives or the end-results which an organization wants to achieve; what of action specifies the activities to be undertaken; how and when generate various policies, programmes, procedures and other related elements. All these elements speak about futurity of action. Thus, planning is defined as follows:

Planning involves determination of future course of action to achieve the desired results.

Features of Planning

On the basis of the definition of planning, its following features can be identified:

1. Planning is a process rather than behaviour at a given point of time. This process determines the future course of action.
2. Planning is primarily concerned with looking into future. It requires forecasting of future situation in which the organization has to function. Therefore, correct forecasting of future situation leads to correct decisions about future course of actions.
3. Planning involves selection of suitable course of action. This means that there are several alternatives for achieving a particular objective or set of objectives. However, all of them are not equally feasible and suitable for the organization.
4. Planning is undertaken at all levels of the organization because all levels of management are concerned with the determination of future course of action. However, its role increases at successively higher levels of management. Moreover, planning at different levels may be different in the context that at the top management level, managers are concerned about the totality of the organization and tries to relate it with the environment while managers at lower levels may be involved in internal planning.
5. Planning is flexible as commitment is based on future conditions which are always dynamic. As such, an adjustment is needed between the various factors and planning.
6. Planning is a pervasive and continuous managerial function involving complex processes of perception, analysis, conceptual thought, communication, decision, and action. The very pervasiveness of these planning elements makes it difficult to identify and observe them in detail.

Nature of Planning

The basic nature of planning may be understood in terms of it being a rational approach, open-system approach, and its pervasiveness.

1. Planning: A Rational Approach. Planning is a rational approach for defining where one stands, where one wants to go in future, and how to reach there. The concept of rationality denotes the choice of appropriate means for achieving stated objectives. In organizational context, planning as a rational approach tries to fill the gap between actual status (current performance) and desired status (desired performance) as shown in Figure 5.1.

The difference between two time periods (T_1 and T_2) may vary between short term, say one year or so, and long-term, say 5 years or so or even more depending on the degree of futurity which an organization takes into account for charting out its plan. The current and desired status is usually expressed in terms of objectives which can be achieved by an action or set of actions. For completing an action, various types of resources—human as well as non-human—are required. The rational approach of planning emphasizes the most appropriate use of these resources.

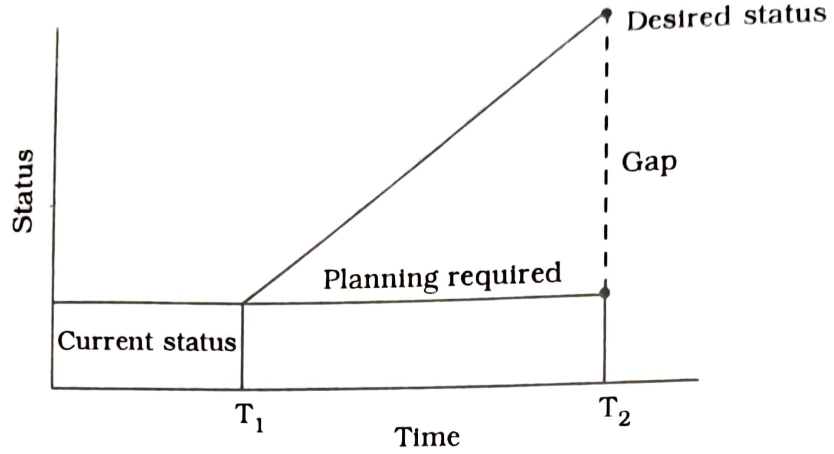

FIGURE 5.1: Planning for bridging gap between current and desired status

2. Planning: An Open System Approach. Planning adopts an open system approach. We have seen in Chapter 2 that an organization is an open system. It takes inputs from the environment, processes these, and exports outputs to environment. The open system approach of planning indicates that the identification of gap between current status and desired status in future and the action required to bridge this gap is influenced by a variety of environmental factors—economic, political-legal, technological, socio-cultural, and competitive. These factors are dynamic and change with the time. Therefore, while adopting open system approach in planning, managers have to take into account the dynamic features of the environment.

3. Pervasiveness of Planning. Planning is pervasive and extends throughout the organization. Every manager has planning function to perform. This stems from the fact that planning is a fundamental management function. However, the pervasiveness of planning is commonly overlooked and planning is frequently considered as being the function of top-level managers. While it is true that they devote more of their time to planning and work with more vital issues than the managers of the middle and lower levels do, the fact remains that every manager has to perform planning function within his particular area of activities. Top management is responsible for overall objectives and actions of the organization. Therefore, it must plan what these objectives should be and how these can be achieved. Similarly, a departmental head has to devise the objectives of his department within the organizational objectives and also the methods of achieving these; a foreman has to devise the objectives of his shop and also how to achieve these. For example, budget, a part of plan in any organization, is prepared at various levels. Each level contributes to the preparation of budget by contributing what his efforts will require in terms of allocation of resources and what his efforts will contribute in terms of results. Thus, planning activity goes in hierarchy as shown in Figure 5.2.

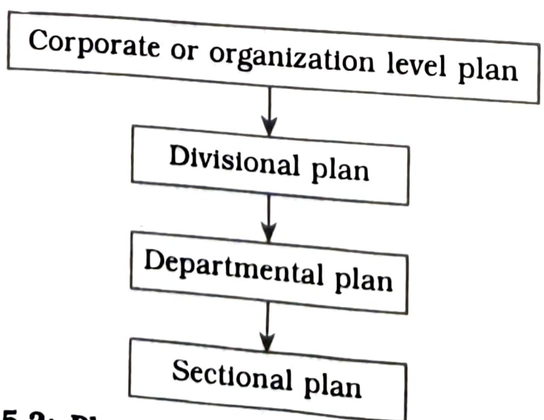

FIGURE 5.2: Planning at various levels of management

Like all the levels of management, planning exists in all the organizations regardless of its size or nature of activities. In large organizations, its presence is apparent due to some employees giving all or major portion of their time to planning efforts. For example, many large organizations have established separate corporate planning departments. Usually, in these cases, emphasis is given to such things as the allocation of available resources in the best manner to achieve basic goals and the courses of action for certain problems deemed most expeditious at the times and places. In small organizations, planning is commonly of a somewhat informal type. The owner/manager himself may do most of it. Relatively it is easy to plan for a small organization because the objectives of such an organization are simple; there are few people to deal with and the planning work itself is free from intricacy. Thus, planning is equally essential for the small and the large organizations.

Importance of Planning

Planning has assumed great importance in all types of organizations—business or non-business, private or public sector, small or large, in developed countries or developing countries. The systems approach of management suggests interaction of an organization with its environment on continuous basis. This interaction can better be maintained through efficient planning. In fact, in today's context, the difference between successful and unsuccessful organizations is because of planning activities undertaken by these. The organization which thinks much ahead about what it can do in future, is likely to succeed as compared to one which fails to do so. For example, Reliance Industries Limited has achieved phenomenal growth within a short period of time because of its ability to plan to take up new projects. In particular, planning contributes in the following ways:

1. Primacy of Planning. Planning precedes all other managerial functions. Since managerial operations in organizing, staffing, directing, and controlling are designed to support the accomplishment of organizational objectives, planning logically precedes the execution of all other managerial functions. Although all the functions intermesh in practice as a system of action, planning is unique in that it establishes the objectives necessary for all group efforts. All other functions are performed to achieve the objectives set by the planning process. This has been presented in Figure 5.3.

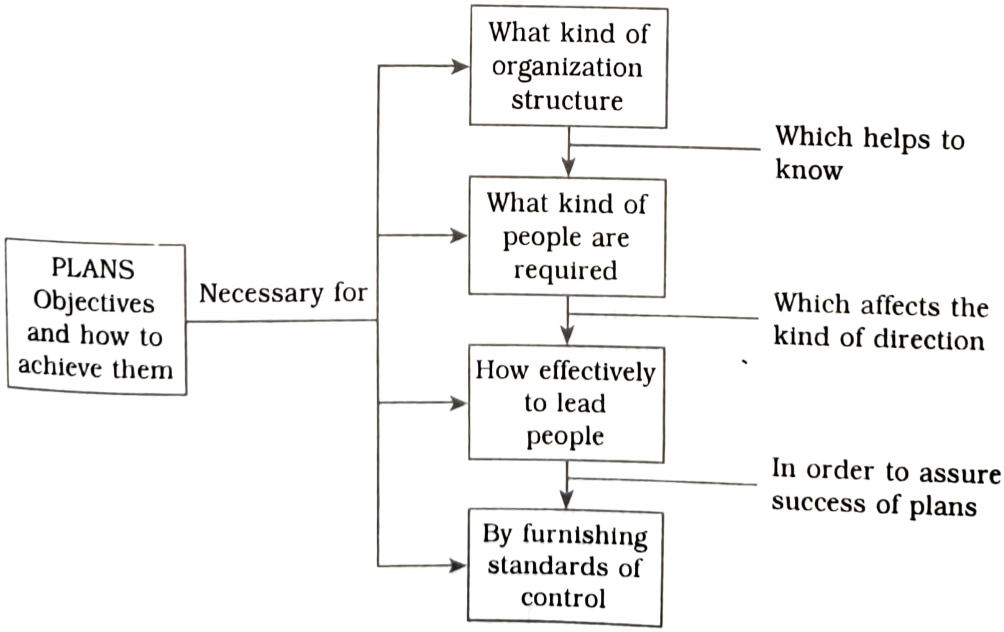

FIGURE 5.3: Primacy of planning

2. To Offset Uncertainty and Change. There is continuous change in the environment and the organization has to work in accelerating change. This change is reflected in both tangible and intangible forms. Tangible changes are in the form of changes in technology, market forces, government regulations, etc. Intangible changes reflect in changes in attitudes, values, cultures, etc. In order to cope up with the requirements of such changes, organization must look ahead for its future course of action which is basically provided by planning process. Planning does not stop changes in the environment but gears the organization to take suitable actions so that it is successful in achieving its objectives.

3. To Focus Attention on Objectives. Planning focuses on organizational objectives and direction of action for achieving these objectives. Sometimes, people in the organization may not be specific about its objectives because of lack of clarity and precise definitions. For example, often we take profit as the objective of a business organization. It is too abstract to be pursued. In order to enforce managerial actions, this should be defined more precisely. When planning action is taken, these objectives are made more concrete and tangible. The objectives are defined in more meaningful terms so that managerial actions are possible. For example, even if the organizational objective is profit-earning, planning activity will specify how much profit is to be earned looking into all facilitating and constraining factors.

4. To Help in Coordination. Though all managerial functions lead to coordination in the organization, real beginning is made at the level of planning stage. Well-considered overall plans unify interdepartmental activities and consequently restrict the area of freedom in the development of purely departmental plans. Thus, various departments work in accordance with the overall plan, and harmony is achieved. It is true to say that coordination is essence of management and planning is the base for it.

5. To Help in Control. Control involves the measurement of accomplishment of events against plans and the correction of deviations to assure the achievement of objectives as set by the plans. Thus, control is exercised in the context of planning action as standards against which actual results are to be compared are set up through planning. At the control stage, an attempt is made to monitor the performance on continuous basis so that immediate action is taken if anything goes wrong.

6. To Increase Organizational Effectiveness. Planning ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources are put to the best of their efficiency but also that they are put in a way which ensures their maximum contribution to organizational objectives. In fact, this can be done by taking appropriate planning. Planning states the objectives of the organization in the context of given resources. Therefore, each resource of the organization has a specific use at a particular time. Thus, planning along with control ensures that resources are put in action in a way in which these have been specified. If this is done, organization will achieve effectiveness.

Planning Process

It is not necessary that a particular planning process is applicable for all organizations and for all types of plans because the various factors that go into planning process may differ from plan to plan or from one organization to another. For example, planning for a major action will take more serious evaluation of various elements necessary for planning but this may not be true for a minor one. Similarly, in a small organization, planning process may not be taken in the same ways as in a large organization. Figure 5.4 presents planning process which is applicable for a major programme like opening of a new product line or acquisition of a major plant. With minor modifications, the process is applicable to all types of plans.

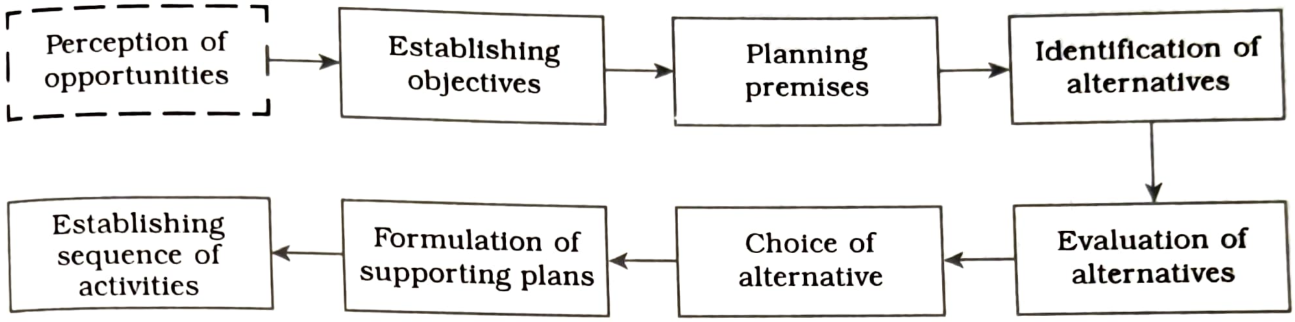

FIGURE 5.4: Planning process

The sequences of various steps in planning are in such a way that they lead to the translation of an idea into action by reaching to the state of establishing of sequences of activities. Each stage contributes to plan formulation in the following ways:

Perception of opportunities is not strictly a planning process. However, this awareness is very important for planning process because it leads to formulation of plans by providing clue whether opportunities exist for taking up particular plans. From this point of view, it can be considered as the beginning of planning process. Perception of opportunities includes a preliminary look at possible opportunities and the ability to see them clearly and completely, a knowledge of where the organization stands in the light of its strengths and weaknesses, an understanding of why the organization wants to solve uncertainties, and a vision of what it expects to gain. This provides an opportunity to set the objectives in real sense because the organization tries to relate itself with the environment. In doing so, it takes the advantages of opportunities and avoids threats. This is a preliminary stage, hence the analysis of environment is not taken in very elaborate form but analysis relates to the determination of opportunities at first instance. Once the opportunities are perceived to be available, the other steps of planning are undertaken.

1. Establishing Objectives. At this stage, major organizational and unit objectives are set. Objectives specify the results expected and indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the various types of plans. The organizational objectives should be specified in all key result areas. Key result areas are those which are important for the organization in achieving its objectives. These are identified on the basis of organizational objectives. For example, for an organization, key result areas may be profitability, sales, research and development, manufacturing, and so on. Once organizational objectives are identified, objectives of lower units and sub-units can be identified in that context. Organizational objectives give direction to the nature of all major plans which, by reflecting these objectives, define the objectives of major departments. These, in turn, control the objectives of subordinate departments and so on down the line. Thus, there will be hierarchy of objectives in the organization.

2. Planning Premises. After determination of organizational goals, the next step is establishing planning premises, that is, the conditions under which planning activities will be undertaken. Planning premises are planning assumptions—the expected environmental and internal conditions. Thus, planning premises are external and internal. External premises include total factors in task environment like political, social, technological, competitors' plans and actions, government policies, etc. Internal factors include organization's policies, resources of various types, and the ability of the organization to withstand the environmental pressure. The plans are formulated in the light of both external and internal factors. The nature of planning premises differs at different levels of planning. At the top level, it is mostly externally focused. As one moves down the organizational hierarchy, the composition of planning premises changes from external to internal. The major plans, both old and new, will materially affect the future against which the managers at lower units must plan. For example, a superior's plans affecting a subordinate manager's area of authority becomes premises for the latter's planning.

3. Identification of Alternatives. Based on the organizational objectives and planning premises, various alternatives can be identified. The concept of various alternatives suggests that a particular objective can be achieved through various actions. For example, if an organization has set its objective to grow further, it can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organizations, or taking over another organization, and so on. Within each category, there may be several alternatives. For example, diversification itself may point out the possibility of entering one of the several fields. The most common problem with alternatives is not that finding of alternatives only but to reduce the number of alternatives so that most promising ones may be taken for detailed analysis. Since all alternatives cannot be considered for further analysis, it is necessary for the planner to reduce in preliminary examination the number of alternatives which do not meet the minimum preliminary criteria. Preliminary criteria can be defined in several ways such as minimum investment required, matching with the present business of the organization, control by the government, etc.

4. Evaluation of Alternatives. Various alternatives which are considered feasible in terms of preliminary criteria may be taken for detailed evaluation. At this stage, an attempt is made to evaluate how each alternative contributes to the organizational objectives in the light of its resources and constraints. This presents a problem because each alternative may have certain positive points on one aspect but negative on others. For example, one alternative may be most profitable but requires heavy investment with long gestation period; another may be less profitable but also involves less risk. Moreover, there is no certainty about the outcome of any alternative because it is related with future and future is not certain. It is affected by a large number of factors making the evaluation work quite complex. This is the reason why more sophisticated techniques of planning and decision making have been developed. Such techniques will be described in a later chapter.

5. Choice of Alternative. After the evaluation of various alternatives, the most fit one is selected. Sometimes, evaluation shows that more than one alternative is equally good. In such a case, a planner may choose more than one alternative. There is another reason for choosing more than one alternative. Alternative course of action is to be undertaken in future which is not constant. A course of action chosen keeping in view the various planning premises may not be the best one if there is change in planning premises. Therefore, planner must be ready with alternative, normally known as contingency plan, which can be implemented in changed situations.

6. Formulation of Supporting Plans. After formulating the basic plan, various plans are derived so as to support the main plan. In an organization there can be various derivative plans like planning for buying equipments, buying raw materials, recruiting and training personnel, developing new product, etc. These derivative plans are formulated out of the main plan and, therefore, they support it.

7. Establishing Sequence of Activities. After formulating basic and derivative plans, the sequence of activities is determined so that plans are put into action. Based on plans at various levels, it can be decided who will do what and at what time. Budgets for various periods can be prepared to give plans more concrete meaning for implementation.

Types of Planning

There may be several ways in which an organization can undertake planning process though the basic steps involved remain the same in each way. Planning can be differentiated on the basis of coverage of organizational activities, importance of contents in planning process, time dimension in planning, approach adopted in planning, and degree of formalization in planning process, as shown in Table 5.1.

TABLE 5.1: Types of planning

	Dimensions	*Types of planning*
1.	Coverage of activities	Corporate planning and functional planning
2.	Importance of contents	Strategic planning and tactical/operational planning
3.	Time period involved	Long-term planning and short-term planning
4.	Approach adopted	Proactive planning and reactive planning
5.	Degree of formalization	Formal planning and informal planning

The above classification is not mutually exclusive but iterative. For example, strategic and tactical planning may be undertaken on the basis of proactive or reactive approach, or formal or informal basis. However, in each set of classification, the type of emphasis put in planning process differs.

CORPORATE PLANNING AND FUNCTIONAL PLANNING

We have seen earlier that planning activity is pervasive and can be undertaken at various levels of an organization. It may be for the organization as a whole or for its different functions. Thus, based on the coverage of activities, there may be planning for the organization as a whole, known as corporate planning or for its different functions, known as functional planning.

Corporate Planning

The term 'corporate planning' denotes planning activities at the top level, also known as corporate level, which cover the entire organizational activities. The basic focus of corporate planning is to determine the long-term objectives of the organization as a whole, and then to generate plans to achieve these objectives bearing in mind the probable changes in environment. Because of long-term orientation involved and strategic aspects covered in corporate planning, it is also used as synonymous to long-term planning or strategic planning. However, some distinction exists among these at least at the conceptual level.

Functional Planning

As against corporate planning which is integrative, functional planning is segmental, and it is undertaken for each major function of the organization like production/operations, marketing, finance, human resource, etc. At the second level, functional planning is undertaken for sub-functions within each major function. For example, marketing planning is undertaken at the level of marketing department and to put marketing plan in action, planning at subfunctions of marketing like sales, product promotion, marketing research, etc. is undertaken. A basic feature of functional planning is that it is derived out of corporate planning and, therefore, it should contribute to the latter. This contribution is achieved by integrating and coordinating functional planning with corporate planning.

STRATEGIC PLANNING AND OPERATIONAL PLANNING

Comprehensive corporate planning may be divided into strategic and operational depending on the direction of actions set in the organization. One part of the planning sets future direction of the organization and another part confines itself to devise actions to proceed in that direction. The former is known as strategic planning while latter is known as operational or tactical planning.

Strategic Planning

Strategic planning sets the long-term direction of the organization in which it wants to proceed in future. It is the process of deciding objectives of the organization, changes in these objectives, resources used to attain these objectives, policies that are to govern the acquisition, use and disposition of these resources. Examples of strategic planning in an organization may be: planned growth rate in sales, diversification of business into new lines, type of products to be offered, and so on. This way, strategic planning encompasses all the functional areas of business and is effected within the existing and long-term framework of economic, political, technological, and social factors. Strategic planning also involves the analysis of various environmental factors particularly with respect to how organization relates to its environment. Strategic planning is for long-term period, 3-5 years or even more.

Operational Planning

Operational planning, also known as tactical or short-term planning, usually covers one year or so. It aims at sustaining the organization in its production and distribution of current products to the existing markets. Operational planning is the process of deciding the most effective use of the resources already allocated and to develop a control mechanism to assure effective implementation of the actions so that organizational objectives are achieved. Operational planning taken in this way answers the questions about a particular function as follows:

1. Why is the action required?
2. What action is to be taken?
3. What will the action accomplish?
4. What are the results of the action required?
5. What objectives and conditions must be met?

Operational planning is undertaken out of the strategic planning. The various examples of operational planning may be adjustment of production within given capacity, increasing the efficiency of operating activities through analyzing past performance, budgeting future costs, programming the comprehensive and specific details of future short-term operations, and so on.

Difference between Strategic Planning and Operational Planning

Apart from the period of time involved in strategic planning and operational planning, there are certain differences between the two. The major differences between the two can be identified as follows:

1. Range of Choice. Strategic planning guides the choice among the broad directions in which the organization seeks to move and concerns the general planned allocation of its managerial, financial, and physical resources over future specified period of time. Operational planning, on the other hand, focuses on the ways and means in which each of the individual functions may be programmed so that progress may be made towards the attainment of organizational objectives. Usually, operational planning aims at contributing to strategic planning as the former tries to achieve results and actions suggested by the latter.

2. Type of Environment. The type of environment for two types of planning is different. Strategic planning takes into account the external environment and tries to relate the organization with it. It usually encompasses all the functional areas of the organization and is effected within the existing and long-term future characteristics of various environmental factors. The nature of external environment, thus, is of prime concern of strategic planners. Operational planning mostly focuses on internal organizational environment so as to make the effective use of given resources.

3. Primacy. Strategic planning precedes operational planning since the latter is primarily concerned with the implementation of the former. Strategic planning sets trend and direction for managerial actions; its time horizon is usually quite long. Operational planning is heavily concerned with short-term programmes implementing step by step progress towards basic organizational goals. In the short term, managers have to work within the framework of given resources as the functional capabilities of the organization are generally restricted because in the short term, there cannot be fundamental change in these. Therefore, strategic planning must recognize the limits of what operational planning can realistically be undertaken in given time periods.

4. Level of Formulation. Strategic planning is formulated usually by top-level management and other specified planning staff in the organization. At this level, managers can take overall view of the organization and have necessary capability to relate the organization with the external environment. Operational planning is usually spread over a wide range within the organization and is generally performed by operating managers with the help of the subordinate staff. Since two planning groups are widely separated in the organization, some incompatibility may exist between two types of planning. Therefore, there is a need for integrating these two in order to have better planning effects. If planning is taken as an integrated system, most of the problems of conflict between strategic and operational planning may be overcome.

LONG-TERM PLANNING AND SHORT-TERM PLANNING

Planning is concerned with problems of future. Thus, a planning system must involve different degrees of futurity. Some parts of the organization have requirements that entail planning for many years into the future, while others require planning over only a short horizon. Capital expenditure, for example, is more subject to long-range planning than any other area. Such plans frequently form the basis of other planning. The planning period is divided generally into (*i*) long term and (*ii*) short term. However, the time dimension of planning is not so obvious as it might appear. Many complex factors interact to determine planning period—the industry peculiarities, the market demand, the availability of resources, the lead time involved in the product life cycle, etc. Thus, what might be a long period of planning for one organization, might be a short period for others.

What should be an ideal planning period depends on commitment principle. Commitment principle implies that long-range planning is not really planning for future decisions, but rather planning the future impact of today's decisions. In other words, a decision is a commitment, normally of funds, direction of action, or reputation. Thus, the commitment for different parts of organization differs. Costs incurred on purchasing a machine may be recouped in ten years and management must foresee the situation for the coming ten years. Similarly, a small manufacturer of spare parts who completes his production cycle consisting of raw material acquisition, production, inventory, sales, and collection of money in six months or so requires a commitment period of six months only and the planning period covers only this period.

Long-term Planning

Long-term planning is of strategic nature and involves more than one-year period extending to twenty years or so. However, the more common long-term period is 3 to 5 years. The long-term plans usually encompass all the functional areas of the business and are effected within the existing and long-term framework of economic, social, and technological factors. Long-term plans also involve the analysis of environmental factors, particularly with respect to how the organization relates to its competition and environment. Sometimes, basic changes in organization structure and activities become the real output of such plans. Examples of such changes may be introduction of new products, product diversification, changes in individuals in the organization, development of new markets, etc.

A distinction between short-range and long-range planning is often made on the basis of the period of time involved. Though there is a clear correlation between these kinds of planning and the length of time horizons, the more important distinction is on the basis of the nature of planning.

Short-term Planning

Short-term planning, also known as operational or tactical planning, usually covers one year. This is aimed at sustaining organization in its production and distribution of current products to the existing markets. Short-term plans directly affect functional groups—production, marketing, finance, etc.

Coordination of Short-term Planning and Long-term Planning. In fact, in a successful planning process, short-term plans are made with reference to long-term plans because short-term plans contribute to long-term plans. As such, there is a need for coordination between these two plans. While preparing the short-term plans, the managers should consider that they are contributing to the long-term plans. For this purpose, they should scrutinize the former in the light of the latter and subordinates should also be made aware of this fact. Sometimes, the short-term plans do not contribute to the organizational objectives. In such a case, the long-term plans need to be modified. This can be done when there is flexibility in planning.

PROACTIVE PLANNING AND REACTIVE PLANNING

Classification of planning into proactive and reactive is based on an organization's response to environmental dynamics. We have seen earlier that planning is an open system approach and is affected by environmental factors which keep on changing continuously. However, organizations' responses to these changes differ. Based on these responses, planning may be either proactive or reactive.

Proactive Planning

Proactive planning involves designing suitable courses of action in anticipation of likely changes in the relevant environment. Organizations that use proactive planning use broad planning approaches, broad environmental scanning, decentralized control, and reserve some resources to be utilized for their future use. These organizations do not wait for environment to change but take actions in advance of environmental change. Most of the successful organizations, generally, adopt proactive approach in planning. In India, companies like Reliance Industries, Hindustan Unilever, etc. have adopted this approach and their growth rate has been much faster than others.

Reactive Planning

In reactive planning, organizations' responses come after the environmental changes have taken place. After the changes take place, these organizations start planning. In such a situation, the organizations lose opportunities to those organizations which adopt proactive approach because, by the time, reactors are ready with their plans, the contextual variables of planning show further changes. Therefore, their plans do not remain valid in the changed situations. This approach of planning is useful in an environment which is fairly stable over a long period of time.

FORMAL PLANNING AND INFORMAL PLANNING

Classification of planning as formal and informal is based on the degree of formalization which is used in undertaking planning activities.

Formal Planning

Formal planning is in the form of well-structured process involving different steps. Generally, large organizations undertake planning in formal way in which they create separate corporate planning cell placed at sufficiently high level in the organization. Generally, such cells are staffed by people with different backgrounds like engineers, statisticians, MBAs, economists, etc. depending on the nature of organization's business. These cells monitor the external environment on continuous basis. When any event in the environment shows some change, the cells go for the detailed study of the impact of the event and suggest suitable measures to take the advantages of the changing environment. The planning process that is adopted is rational, systematic, well-documented, and regular.

Informal Planning

As against formal planning, informal planning is undertaken, generally, by smaller organizations. The planning process is based on managers' memory of events, intuitions and gut-feelings rather than based on systematic evaluation of environmental happenings. Usually, the corporate planning affairs are not entrusted to any single cell or department but become the part of managers' regular activities. Since the environment for smaller organizations is not complex, they do reasonably well with informal planning process.

TYPES OF PLANS

A plan, as defined earlier, is a commitment of resources to a particular course of action believed necessary to achieve specific results. From this point of view, there may be several types of plans, both major and minor. What managers fail to recognize is that there is a variety of plans. Often they consider a major programme or project as a plan like building a factory or purchasing a new machinery. No doubt, these may be major plans but what is, sometimes, overlooked is that a number of other future courses of action are also plans. In fact, planning process, in whatever way it is undertaken, results in several individual plans or component parts which are bound together for consistent operations. Such plans may be classified in two ways: standing plans and single-use plans, or strategic plans and action plans for implementing a strategy known as implementation or operational plans.

Standing and Single-use Plans. Standing plans provide guidelines for further course of action and are used over a period of time. Once formulated, these plans are in operation for a long period unless there is a change in these plans. Examples of such plans are organizational mission and long-term objectives, strategies, policies, procedures, and rules. Single-use plans are relevant for a specified time and after the lapse of that time, these plans are formulated again for the next period. Examples of such plans are projects, budgets, quotas, targets, etc. Generally, these plans are derived from standing plans. For example, organizations set their mission and objectives, out of which strategic actions are determined. In order to put these actions into operations, projects, budgets, etc. are prepared for specific time period.

Strategic and Operational Plans. Another way of classifying various organizational plans are to group them into strategic and operational plans. Strategic plans are major ones which define the long-term course of action for an organization in the light of its environment. These include determination of organizational objectives for long-term period, major policies, and strategies. These strategies are implemented through various operational plans, both major and minor. Examples of major operational plans are projects, budgets; minor plans are in the form of quotas and targets to be achieved within a specified period. Procedures are rules provide guidelines to put plans, particularly the operational ones, into action.

Various organizational plans, as discussed above, are interlinked and may be arranged in a hierarchy in which a higher-order plan helps to derive a lower-order plan. In the reverse direction, a lower-order plan contributes to the achievement of the objectives of a higher-order plan. The hierarchical nature of various plans is presented in Figure 5.5.

FIGURE 5.5: Hierarchy of organizational plans

A basic feature of these plans is that they provide basis for actions as well as measures for control in organizations. How they provide basis for actions will be discussed in Chapters 6 and 7; how they provide measures for control will be taken up in Part VI (Controlling) of the text.

Planning Premises

Managers plan their future course of action on the basis of planning premises. The term 'premise' refers to a proposition stated or assumed at the beginning of a deed. Using this term in the context of planning, it involves various assumptions on which plans are formulated. Since there are many factors which affect the implementation of a plan, assumptions are made in respect of these factors. For example, when a company introduces a new product in the market, it makes assumption that the product will succeed by taking into account the various factors which are likely to affect the product's success or failure. Weihrich and Koontz have defined planning premises as "the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that will affect the operation of plans."[1] Thus, planning premises include both anticipated and known conditions under which plans are formulated. As we shall see later, there are many environmental factors whose likely behaviours are anticipated but there are many internal organizational factors like policies, facilities, etc. which are known at the time of plan formulation.

TYPES OF PLANNING PREMISES

Since there are many factors which are considered in plan formulation, these may be identified in different ways. For example, one way of classifying these is to group these into external and internal premises which is more relevant. Other ways of classification are based on degree of tangibility and degree of controllability of these premises. However, these classifications are not mutually exclusive but overlap. For example, many external premises like rate of economic growth in a country is tangible while the attitudes of its people are intangible. Similarly, many of the external premises may not be controllable but internal premises may be controllable. Therefore, the classification of various planning premises should be seen in this perspective. Let us discuss the various premises.

External Premises

External planning premises are the most important elements in plan formulation. These exist in an organization's external environment. We have seen in Chapter 3 how external environmental factors affect the operation of a business organization. Various external factors are grouped into five broad categories: economic, political-legal, technological, socio-cultural, and competitive. These factors either present opportunity or threat to an organization. An *opportunity* is a favourable condition in the organization's environment which enables it to strengthen its position. A *threat* is an unfavourable condition in the organization's environment which causes a risk, or damage, to the organization's position. For understanding external factors and premising these, *environmental analysis* is undertaken which is the process through which an organization monitors and comprehends various environmental factors to identify opportunities and threats that are provided by these factors. Environmental analysis helps in formulation of plans, particularly strategic, long-term plans, in the following ways:

1. The environment changes so fast that new opportunities and threats are created which may result in disequilibrium into organization's existing equilibrium.

Therefore, the strategists have to analyze the environment to determine what factors in the environment present opportunities for greater accomplishment of organizational objectives and what factors in the environment present threats to the organization's objective accomplishment so that suitable adjustment in strategies can be made to take maximum benefits.

2. Environmental analysis allows strategists time to anticipate opportunities and plan to take optional responses to these opportunities. Similarly, it helps to develop an early warning system to prevent the threats or to develop strategies which can turn the threats to the organization's advantage.
3. Environmental analysis helps strategists to narrow the range of available alternatives and eliminate options that are clearly inconsistent with forecast opportunities or threats. The analysis helps in eliminating unsuitable alternatives and to process most promising alternatives. Thus, it helps strategists to reduce time pressure and to concentrate on those which are more important.

Internal Premises

Besides external factors, internal factors of the organization are also taken into consideration for plan formulation. Various internal premises are related to the events occurring within the organization like organization structure, management systems, etc. Such factors may lie in various functions of the organization such as production/operations, marketing, finance, and human resource and management. These factors may be either strength or weakness of the organization. A *strength* is an inherent capability of the organization which can be used to gain competive advantages over its competitors. A *weakness* is an inherent limitation or constraint of the organization which creates competive disadvantage to it. Strength and weakness of an organization can be identified by *corporate* or *organizational analysis* which is a process through which managers analyze various factors of the organization to evaluate their relative strengths and weaknesses so as to meet the opportunities and threats of the environment. Usually, environmental and corporate analyses are combined together to have SWOT analysis (acronym for strength, weakness, opportunity, and threat).

Tangible and Intangible Premises

Various planning premises may be classified as tangible and intangible. Tangible premises are those which can be expressed in quantitative terms like monetary unit, unit of product, labour hour, machine hour, and so on. For example, sales forecast which provides premise for operative plans can be expressed in terms of rupees or units of product/s. Intangible premises are of qualitative nature and cannot be translated into quantity. For example, image of the company in its environment can be expressed in qualitative terms and interpretation has to be drawn from these. In fact, many external and internal factors cannot be meaningfully quantified, and managers have to make decisions on the basis of such intangible premises. This is the real art of managing. Managers are confronted with a variety of qualitative information.

Controllable and Uncontrollable Premises

Planning premises can be classified on the basis of their controllability. Thus, premises may be either controllable or uncontrollable. However, in between these two, there may be semi-controllable premises. Controllable premises are those that can be controlled by an organization's actions. Such premises are mostly internal, for example, organizational policies, structure, systems, procedures, etc. Uncontrollable premises are mostly external and cannot be controlled by an organization's actions, for example, rate of economic growth, population growth, taxation policy of government, etc. Semi-controllable premises are those which can be controlled to some extent but not wholly, for example, market share of a company's products, labour efficiency, labour turnover, product price, etc. These are semi-controllable because an organization has some kind of control over these factors within the overall constraints of external and internal factors. For example, a company can initiate a change in price of its product but this change has to be within a given range. If upward change is too high, it will not be accepted in the market. Similarly, if downward change is too high, it will result in losses. Classification of planning premises on the basis of their controllability enables the managers to identify those factors that they must make the best use of those that they can capitalize on, and those that they must avoid.

MAKING PLANNING EFFECTIVE

Various limitations of planning should not lead one to believe that planning is unnecessary in the organization, or it is the luxury that only large organizations can afford. The fact is otherwise. It must be recognized that planning is an essential managerial function in all organizations irrespective of their size. Therefore, it should be given proper emphasis. The question is not whether to plan or not, but the question is how well to plan. In making planning effective, managers have to make attempts in two directions: understanding the features of a good plan which results from the planning process and taking actions for making planning process effective.

Features of a Good Plan

There may be various features of a good plan which help in achieving the objectives for which it is prepared. Though some of these features may vary according to the type of plans, in general, a good plan has the following features:

1. Linked to Long-term Objectives. All the plans whether falling in the category of strategic or operational must be linked to long-term objectives of the organization. Though a short-term plan may focus more on the immediate objectives, these objectives must be derived from the long-term objectives of the organization. We have seen earlier that various plans can be arranged in hierarchy and a lower-level plan contributes to the realization of the objectives of a next higher-level plan. As we move up in the hierarchy of plans, more orientation is towards long-term objectives. For example, a budget is a short-term plan, mostly for one year. However, while allocating resources to various units and functions of the organization, the focus must be on the achievement of long-term objectives through annual resource allocation.

2. Direction for Action. A good plan is one which provides direction for future course of action clearly and specifically. For providing direction for action, the plan must specify the actions which should be taken and the outcomes of these actions so that progress towards completion of the plan can be measured and suitable corrective actions can be initiated if the present actions are not in accordance with the plan. From this point of view, the plan must have a feedback system so that the progress of the plan can be measured for taking suitable actions.

3. Consistent. A plan must be consistent in terms of external and internal factors which are considered at the time of plan formulation. External consistency involves alignment of plan to the external environmental factors because the successful implementation of the plan depends on the behaviour of these factors. Though it may be difficult to predict the exact likely behaviour of these factors, the forecast of these factors should be based on reality as far as possible. Similarly, the plan must be consistent in terms of various organizational factors which may be in the form of organizational resources both human and physical, organization structure, and various other organizational plans.

4. Feasible. A good plan is not necessarily highly ambitious but it must be based on reality of the situations. It must be feasible to be implemented. While addition of ambition is a welcome feature because it puts pressure for better performance, it should not be at the cost of feasibility. A highly ambitious plan, sometimes, adds frustration specially when the targets are set too high. We often find more misses in Government's plans because, most of the times, these are not based on reality.

5. Simplicity. A good plan must be simple to understand. Simplicity is required because the plan is formulated by one group of personnel and is implemented by another group of personnel. Sometimes, there may not be frequent communication between these two groups of people and plan implementation may hamper. Often, plans fail because of lack of proper coupling between plan formulation and its implementation. To the extent a plan is simple to understand, the degree of this coupling will be high and plan implementation is facilitated.

6. Flexible. A plan should be flexible enough to incorporate unforeseen future events. Though a forecast can be made in respect of future uncertainties, unforeseen future changes require a change in planning. Thus, planning cannot be static, but flexible. There are two principles of flexibility in planning:

(i) Principle of Flexibility. The more the flexibility can be built into plans, the less the danger of losses incurred by unexpected events; but the cost of flexibility should be weighed against the risks involved in future commitments made. The planning should be in such a way that a change in it, because of changes in planning premises, can be made without undue costs or friction. Flexibility is required generally in long-range planning when there may be fundamental changes. Sometimes, it might be required in short run also; for example, change in production schedule in case of strike.

(ii) Principle of Navigational Change. This is based on the principle of a navigator's checking constantly where his ship is going in the vast ocean. If it is not going on the right path, he changes it according to planned path to reach at the destination. Similarly, a manager should constantly check his plans that these are proceeding in the right way. He may redraw the plans to meet the objectives, if required. Since the distant future is generally more uncertain than the immediate future, long-term planning requires such constant checking. If the future could be accurately predicted, managers could be able to plan ahead without fear. This uncertainty of future places limitations on the practicability of forward planning. A plan which is soundly conceived and evaluated for feasibility, desirability, and practicability provides the basis for day-to-day decisions and actions. However, it requires a constant watch.