

## **TOPIC 4: PLANNING FUNCTION**

### **Classification of Plans**

Plans can be classified on the basis of time or on basis of use.

On the basis of time they can be classified into:

- i. Short term (range) planning
- ii. Intermediate Planning
- iii. Long range planning
- iv. Contingency planning

#### **Short range plans**

They normally cover one year. They are part of the first level managers and the subordinates work. They focus on the daily activities of the organization.

#### **Intermediate (middle – range)**

They cover 1-5 years and are designed to cover the activities of middle level managers. They are of primary concern to most organizations due to the uncertainty associated with long range plans.

#### **Long range plans**

They involve those activities to be performed for a period of 10 years and above. They are limited by the uncertainty of future conditions.

#### **Contingent plans**

These involve identifying alternative course of action in advance of implementation in order to meet possible changes in environmental conditions. It adds an element of flexibility that will assist management in case of sudden changes.

On the basis of use there are 2 main classifications

1. Single-use plans
2. Multi-use plans

#### **Single-use plans**

Single-use plans are those used once and discarded because they have served their purpose. Examples includes

1. Programmes
2. Budgets
3. Logics etc. (judgements)

They are needed for non-repetitive situations and are designed to accomplish specific objectives.

### **Multi-use plans**

They are used more than once. They help in solving repetitive problems. Examples include policies, procedures, rules etc. They are also called standing plans.

### **Need and Importance of Planning**

1. Planning focuses attention on objective result.
2. Planning reduces the elements of uncertainty and risks especially contingent planning
3. They provide a sense of direction by describing goals to be achieved.
4. It encourages innovation and creativity.
5. It helps in coordination of activities
6. Guides decision making
7. It provides a basis for decentralization.
8. Provides efficiency in operations.
9. Facilitates control
10. It acts as premises for decisions to be made in the future i.e. it provides points of reference to individual decision making.

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### **PROCESS OF PLANNING**

Planning follows the following steps

1. Being aware of an opportunity.
2. Developing objectives
3. Developing premises (assumptions about the future)
4. Developing alternative courses of action
5. Evaluate the courses of action
6. Select the course of action to be followed.
7. Formulate derivative (secondary or supportive) plans.
8. Translate your plans into budgets (money terms)

#### **1. Being aware of an opportunity.**

Planning begins by being aware of opportunities in the external environments as well as within the organization. The planners must understand what problems may be encountered (threats) and weigh them in the light of what the company expects to gain.

## **2. Establishing Objectives.**

Objectives are established for the entire organization and then for each subordinate work unit for the long term and for the short term. Objectives specify the end point of what is to be done, where the primary emphasis is to be placed and what are to be established by the network of strategies, policies, procedures, rules, programmes and budgets.

## **3. Developing Premises**

These are the assumptions about the environments in which plans are to be carried out. Forecasting is important in premising. Because the future is so complex, premises are normally limited to assumptions that are critical or strategic to a plan i.e. those which must influence the cost operations.

## **4. Develop the alternative courses of action**

There is seldom a plan for which reasonable alternative do not exist.

## **5. Evaluating course of action**

They should be weighed in the light of company goals and objectives. Courses of action may be evaluated in terms of:

1. Profitability
2. Risk
3. Long term objectives

## **6. Selecting the course(s) of action**

Decision making is the process of selecting the more suitable alternative

## **7. Formulating derivative plans**

These are necessary to support the basic (primary) plan e.g. if a company is to computerize;

- i. It will hire and train computer literate personnel
- ii. Acquire computer equipment
- iii. Organize the computer insurance.

## **8. Numbering (convert into monetary terms)**

Plans are converted into budgets.

## **LEVELS OF PLANNING**

There are 3 main levels of planning

1. Corporate (strategic) planning
2. Managerial planning
3. Operational (tactical) planning

### **1. Corporate (strategic) planning**

It is carried out by top management. It tends to forecast the future. For its success, the purpose (mission) of the organization must be clearly stated.

### **2. Managerial Planning**

This is done by middle level managers and functional managers. It is carried out at the departmental level and is based on corporate plans

### **3. Operational (tactical) planning**

This is done by the first level managers i.e. supervisors and foremen. It is mainly concerned with scheduling specific daily activities.

## **FACTORS THAT HINDER (ROAD BLOCKS TO) EFFECTIVE PLANNING**

- a) Lack of clear objectives and goals on which realistic plans can be based.
- b) The time elements. Long term plans tend to suffer from unforeseen events.
- c) The environment. A changing/dynamic and turbulent environment makes planning very difficult and expensive.
- d) Inadequate information on which to base decisions.
- e) Poor implementation programs
- f) Ineffective communication
- g) Non-involvement of workers in the planning process makes them less eager to co-operate in the implementation.
- h) Lack of commitment from the top management e.g. non- provision of necessary resources to both formulate and implement plans.
- i) Sometimes plans are uneconomical. The cost of planning is higher than the benefits to be derived.
- j) Inflexibility. Some plans are very rigid, they cannot adapt to changing circumstances.
- k) Poor control systems which lead to the wrong corrective action.

## **Measures to overcome barriers to planning/solutions**

- a. Goals should be clear enough so that realistic plans can be formulated.
- b. Emphasis should be laid on short term plans to offset the weaknesses of long term plans.
- c. Forecasting to anticipate the future. Premising – assumptions about the future plans.
- d. There must be an effective management system for better decision making.

- e. Ensuring sound implementation programs and top management should follow up to ensure proper implementation.
- f. Effective communication systems. Two-way communication system that ensure top down communication and down –up communication.
- g. Workers participation in planning or management by objectives (MBO) i.e. joint goal setting between workers and mgt.
- h. Commitment from top management.
- i. Cost benefit analysis should be done to ensure that one gets returns of the process.
- j. Effective and appropriate control systems.

## **Types of Plans – (Multi-use plans)**

### **1. Mission /Purpose of the Organization**

This spells out the basic emphasis of commitment of an organization.

Benefits/uses/importance/characteristics

- It specifies the geographical area in which the organization plans to operate.
- Specifies the products /services that the organization intends to provide.
- It gives a general sense of direction to the employees and therefore guides them to the fulfillment of the firm's potential.
- It is useful to corporate/strategic planning ie long term
- A good mission statement is market or customer oriented i.e. it takes into consideration their demands and needs.
- It serves as basis to formulate the other types of plans.

### **2. Policies**

Meaning: A policy is a guide to the (decision making) thinking and action to guide both management and subordinates for the successful achievement of business objectives i.e. it is the framework within which decision making and action take place.

#### **Uses/purpose of policy formulation**

- 1) To ensure that there will be no deviations from the planned course of action.
- 2) Ensures consistency in decisions
- 3) Provides a guide for thinking in future planning
- 4) It gives managers scope/room for interpretation but not for discretion.

## **Classification of policies**

On the basis Of the <u>source</u>	on the basis of <u>functions</u>	on the basis of <u>level</u>
1. Originated	1. production	1. Basis/General
2. Appealed	2. Finance	(whole org).
3. External	3. Marketing	2. Departmental
	4. Personnel	(depts)
	5. Purchasing	

### **Policies on the basis of sources**

i). **Originated policies.** It is formulated by top management. It tells subordinates how to act in a given situation. It is supported by the authority attached to a given position.

ii) **Appealed policies.** When a subordinate is doubtful whether he has sufficient authority to handle a situation or when he or she doesn't know how to handle a situation they might seek the verdict of a superior. The verdict generates an appeal policy. This policy therefore originates from precedence and guides future actions.

iii) **External policies.** These are those imposed from outside the organization e.g. the trade unions, the govt etc.

### **Phases of policy making and use.**

- i. **Policy formulation** is normally done by top management. Facts are gathered and analyzed and sometimes organizational members are consulted. Within that framework of a broad policy, several supporting policies are also developed.
- ii. **Policy communication.** Once a policy is formulated it must be communicated to those who are ultimately responsible for its application. Policy manuals, company handbooks, written memorandums, board letters and announcements etc are generally placed into service in order to disseminate the policy.
- iii. **Policy application.** Policy decisions are basically made on human judgments and intuition eg the official policy may be cash sales only but if an influential and powerful customer places an order of substantial amount and make the payment through cheque the sales manager may decide in favour of this customer. Flexibility and consistency should be applied carefully.
- iv. **Policy review and appraisal.** Policies may become obsolete in a dynamic and fast changing environment therefore to cope with changes, periodic review is necessary.

## **Difficulties in Policy making and implementation**

- 1) Policies are not easy to express. For policies to work they have to be understood by all. The choice of terminologies and style of writing must be understandable to the members.
- 2) Conflicts between implied and expressed policy statements e.g. A coy's expressed policy might emphasize fair treatment for all customers but the implied policy may try to over emphasize product features through misleading and highly aggressive advertising programmes aimed at winning the customers at any costs.
- 3) Inconsistency. Policies should be consistent in both short and long run objectives. They should also take into account the external constraints and be consistent with the laws and regulations of the state.
- 4) Communication bottlenecks. They should be stated in understandable words and well placed in order to secure commitments and support.
- 5) Cost. There is a danger that a manager may be more liberal than was originally intended.
- 6) The failure to interpret correctly using sound judgments. In policy administration, judgment is needed to apply policies in a flexible manner and also in recognizing out-dated policies.

## **Characteristics of effective policies**

### **(Guidelines to policy formulation and implementation)**

1. They should be related to objectives. The use of policy should help in achieving the enterprise objectives. It must be capable of relating objectives to functions, physical factors and company personnel.
2. Easy to understand. Policies should be stated in definite, positive, clear and understandable language.
3. Precise. A policy should be sufficiently comprehensive and prescribe limits and yard sticks for future actions.
4. Should be stable as well as flexible. Should be stable enough to assure people that there will not be drastic overnight changes and it should be flexible enough to keep the organization in tune with times.
5. Should be based on facts. Should be constructed on the basis of facts and objective judgment and not on personal feeling or opportunistic decisions.

6. Should consider constraints i.e. They call for a thorough knowledge of internal as well as external factors and the effects on the employees. They should recognize economic principles, be in line with law and be compatible with public interest.
7. There should be a reasonable no. There should be as many policies as necessary to cover conditions that can be anticipated but not so many as to become confusing or meaningless.
8. Just, fair and equitable to both internal and external groups.
9. Reasonable. Policies should be reasonable and capable of being accomplished. They should permit interpretation so that they can be applied with success depending on the situation.
10. Review. They should be scrutinized at regular intervals to find out their relevance in the face of continuous changes. This is necessary to avoid organizational complacency or managerial stagnation.

### 3. Objectives

Objectives are the end towards which activities are aimed. They are aims which the management and administration want to achieve. It is an end result to be sought and accomplished.

#### Characteristics of Business Objectives.

- 1) They are the basic purpose of the organization. Without objectives no organization comes into existence, acts or survives. They define the type of activities that organizations undertake.
- 2) They may be **specified or implicit**. They can be implied by the behaviour of the top level management or they could be clearly written.
- 3) They are **multiple** in nature. Key objectives can be further sub-divided to a No. of subsidiary objectives.
- 4) Have **hierarchy**. They have a hierarchy from the top level to the lowest level in the organization structure.
- 5) They form a **network**. Objectives are interdependent and mutually supportive and the realization of one objective doesn't mean the automatic realization of other objectives. The activities of every org. must be coordinated.
- 6) Business objectives may be short or long range. Long range objectives include survival and growth while short range objectives includes maximization of sale, increase in profits etc.
- 7) Business objectives are verifiable. They provide the standards against which the actual performance of individuals, groups or even the org. can be measured.



- 8) Objectives have a social sanction (approval). Organization objectives must be legitimate and in accordance with the social traditions, customs, rules etc.
- 9) Objectives may be specific or general.

### Importance of (Advantages and formally laying down) Objectives

Objectives have the following functions;

- 1) **Legitimacy.** They describe the purpose of the organization so that people know what it stands for and will accept its existence and continuance. Through objective, an org. can emphasize its uniqueness and identity. They help to legitimise the presence of the org. in its environment.
- 2) **Direction** – Objectives provide guidelines for organizational efforts. They keep attention focused on common purpose. Every activity is directed towards objectives and every individual contributes to meet the goals.
- 3) **Coordination.** Objectives keep activities on the right track. They make behaviour in the organization more rational, more coordinated and therefore more effective. This is because everyone knows the accepted goals to work towards.
- 4) **Serves as benchmark for success.** Objectives serve as performance standards against which actual performance may be checked i.e. assessment. They also help in controlling the human efforts in organizations.
- 5) **Motivation.** Goals are motivators. Specific and challenging goals tend to increase performance since it is easy to make a comparison between the actual performance and expectations.
- 6) They are an effective means of **centralizing authority** i.e. granting authority for the lower levels of management

### Areas of objectives setting (Areas needing objectives)

Peter Drucker identified while working for general electric 8

key areas in which organizations could establish objective. They include

1. **Market standing.** This is a question of deciding on the optimum (not maximum) of the market share that the firm is trying to capture ultimately. It requires a careful analysis of
  - ii) Customers and products/services
  - iii) Markets segments (what group(s) are buying the product/services)
  - iv) Distribution channel i.e. who is getting the product
2. **Innovation objective.** In every business there are 3 kinds of innovations.
  - i) Innovation in the market place, consumer behaviour and values
  - ii) Innovation in the product/service

- iii) Innovation in the various skills and activities needed to make the products and services and to bring them to the market

Operating in a competitive world forces business firms to place emphasis on innovation goals.

**3. Productivity.** All businesses have the same resources to work with. It is the quality of management that differentiates one business from another. It must decide as to what inputs of labour, equipment and finances are necessary to produce the firm's output.

**4. Physical and financial resources.** Every business must be able to attract resources i.e. physical, financial and human and put them to productive use to be able to perform well. Resource mobilization is a 2 step process.

- i. Anticipating the needs of business.
- ii. Planning for obtaining the resources in an economical manner.

**5. Manager performance and development.** In order to survive and remain profitable, businesses need strong innovative managers. It is important therefore to set objectives relating to the quality of management performance and development and managers at various levels in the organization.

**6. Workers performance and attitudes.** Tangible benefits must be provided to individuals working in an organization in order to obtain performance from them. Workers want wages, managers want salaries and owners want profit.

**7. Profitability.** Profit objectives are important for accomplishing other objectives e.g.

- i. Covering risks in the business
- ii. Ensuring supply of future capital for modernization and expansion.
- iii. Satisfying customers' needs.

Profits are essential for survival and growth of the firm.

**8. Public and social responsibilities.** To achieve economic objectives, the firm must produce the goods the consumers want. If a firm is not able to create economic value for society, it may not stay in business long enough to make profits.

#### **Guidelines for objective setting (characteristics)**

- I. Should be clearly specified
- II. Should take into account various factors affecting their achievement

- III. They should be consistent with the organization mission.
- IV. Should be rational and realistic not idealistic.
- V. Should provide challenge to those responsible for the achievement.
- VI. They should yield specific result when achieved.
- VII. They should be desirable for those responsible for their achievement and should even condition them to want higher goals.
- VIII. They should be consistent over a period of time but should be responsive to environmental changes.
- IX. They should be periodically reviewed.

#### **4. MANAGEMENT BY OBJECTIVES (MBO)**

In broad terms it may be stated that management by objectives is an overall philosophy of mgt that concentrates on measurable goals and end results. MBO is based on the assumption that people perform better when they know what is expected of them and can relate the personal goals to organizational objectives. It also assumes that people are interested with the goal setting process and in evaluating their performance against the targets. It is therefore a process where the supervisor and subordinates jointly identify common goals, define each other's areas of responsibility in terms of the results expected of them and use these measures as guides for operating a unit and assessing the contribution of each of its members.

##### **Essential Features of MBO**

1. It emphasizes on jointly set goals that are **tangible, verifiable** and **measurable**.
2. It focuses attention at the end result i.e. what is to be accomplished rather than the methods i.e. how it is to be accomplished.
3. It is a **systematic** and **rational** objective that allows management to attain maximum results from available resources by focusing on achieving of goals.
4. Tries to relate long and short range goals, overall and department goals, organizational or environmental goals.
5. Managers are given some discretion in achieving objectives.
6. Superior managers are required to adopt supportive and stimulative roles in relation to their subordinates.
7. Effective management is censured through adequate authority, responsibility and accountability.

##### **Advantages of MBO**

When an organization is managed by objectives, it become performance oriented. It grows, develops and becomes useful in many ways.

- i. **Clear goals.** Participation increase commitments and results in setting better goals. The joint goal setting session enhance team spirit and inter-group communication.
- ii. **Better planning.** Specific goals that are both challenging and attainable are set. Action programs tied to a specific schedule, providing resources for goal accomplishments and finally discussing and removing obstacles to performance, all demand careful planning.
- iii. **Facilitates control.** Verifiable goals provide a basis to exercise better control.
- iv. **Objectives appraisal.** MBO provides a basis for evaluating one's performance since goals are jointly set by superiors and subordinates. Subordinates are trained to exercise discipline and control.
- v. **Motivational force.** Clarified roles reduce ambiguity and employees' anxiety. They also clarify for the subordinate the path to personal rewards. It fosters the feeling of independence and provides an incentive to achieve goals and permit a feeling of true participation in the task from its inception.
- vi. **Better morale.** This is achieved through participation in decision making, clarified goals and improved 2 way communications.
- vii. MBO also emphasizes on **change** as it takes into consideration environmental factors.
- viii. Can be **adapted** to any size of an organization.
- ix. **Maximum information** is generated in the course of deliberation.

### Limitations of MBO

1. It is **pressure** oriented. It tries to force the employees to improve performance and at times they penalize the very people who are most productive in the organization. It therefore exerts pressure on the employees as it is tied with a reward-punishments psychology.
2. It is **time consuming**. MBO demands a great deal of time in setting objectives at every level of the organization. Meetings must be held, progress must be reviewed and all these sessions consume a lot of time.
3. It **increases paperwork**. MBO programmes introduce newsletters, instruction booklets, training manuals, questionnaires, performance data and reports to the organization.
4. **Goal setting problems.** MBO works best when important measurable objectives are jointly agreed upon. It works less when;
  - (i) Verifiable goals are difficult to set.

- (ii) When goals tend to take precedence over the people who use them since MBO focuses on end results, any action that can lead to the achievement of goals is acceptable.
  - (iii) Goals may be **inflexible** and **rigid**
  - (iv) There is an over emphasis on short term goals at the expense of long-term goals.
5. Organizational problems. These arise on the following circumstances.
- (i) When there is a failure to teach the philosophy to all participants in terms of explanation, training or help.
  - (ii) When there is a failure to limit the objectives. When they are too many they will obscure priorities and create a sense of fear and panic among subordinates.
  - (iii) It is inconsistent to the management philosophy i.e. managers are advised to invite subordinates and plan for work in an atmosphere of participation much to their dislike.
  - (iv) It may lead to a tag of war in which the subordinates try to set the lowest possible targets and the supervisors highest.
6. Politics. MBO re-distributes power and not all managers welcome this. It may therefore lead to **infighting** and other **conflicts**.

### **Suggestions for improvement on MBO effectiveness**

1. Organizational commitment. Top level management should explain, coordinate and guide the subordinates.
2. Training. A manager should be given adequate training in the MBO philosophy and procedures before the system is installed. All workers should be trained on goal setting and should be familiarised on the result for which they are to be held responsible.
3. Adequate time and resources. Managers must have the necessary time and resource in order to fully utilize the MBO philosophy.
4. Integrating MBO into real planning and control activities. It is important to assign authority and responsibility for initiating and overseeing the MBO programs eg. A guide manual or procedures may be adopted so as to ensure clarity, facilitate the goal setting and performance appraisal activity.
5. Timely feedback – There should be feedback, counselling and encouragement given to subordinates at times other than the regular performance appraisal sessions.

6. Organizational politics. MBO should be designed in such a way that it can alter the status of an organization, it can influence decisions, it can affect budgets and it can promote the creation of coalitions to fight with it.

### **Process of MBO**

- 1) Goals setting. Long term goals should be outlined before specific objectives to be achieved within a given time are determined.
- 2) An action plan. This is the means by which an objective is to be achieved. The action plan gives direction and ensures unity of purpose in the organizational activities. The action plan will detail what exactly is to be done, how the subordinate will proceed, what steps will be taken and what activities will be engaged in as the subordinate progresses. They can be developed jointly or by the subordinates alone.
- 3) Appraising performance (Final review). Actual results are measured against pre-determined standards.

### **PROCEDURES**

Procedures are also called action guidelines. They prescribe the specific way in which a piece of work is to be done. They are derived from policies, whereas policies define a broad field, procedures show a sequence of activities within that area. They also have a hierarchy of importance. They are more exerting at the lower levels than at the higher levels.

### **The Role of Procedures in an Organisation (Importance /Purpose Served /Advantage)**

Procedures play the following role in an organization.

- 1 They relieve the manager of much of the detail in directing subordinates. They indicate the steps to be accomplished as well as the required time and order of performance
- 2 The members need not invent or come with original solution in order to solve repetitive problems. Standard procedures can be used. Time and energy is saved this way.
- 3 Procedures reduce the need for further decision making by prescribing a series of interlinking steps which are more or less standardized.
- 4 Procedures dispose off the routine problems and therefore facilitate members to develop more efficient methods of operation.

- 5 Procedures provide a basis for uniform performance as well as standard against which such performance can be measured. Procedures therefore ensure consistent action for routine work.
- 6 Procedures help in integrating organizational efforts and facilitate the control process.

### **Disadvantages**

1. Sometimes procedures are complex and rigid.
2. Unless they are rigorously (properly) applied by various departments at various levels in the organization, the administrative process is seriously hampered.
3. Over-elaborate procedures weaken the morale of the workers.
4. The members cannot easily challenge the standard forms and ruling.
5. There is a duplication of efforts caused by the decision for secrecy or the total ignorance of what the others are actually doing.

### **Requirements for effective procedures**

1. They should be based on adequate facts of the particular situation and not guesses or wishes.
2. They should focus on the desired objectives.
3. They should be standardized so that responsibility can be easily fixed.
4. They should be stable but flexible so as to adapt to changing circumstances.
5. Should be economical. The cost should not outweigh the benefits.
6. They should be subjected to periodic review to ascertain if they are still viable under changed conditions.
7. There should be as few steps as possible in a procedure.
8. They should reduce the amount of paper work.
9. They should avoid duplication of efforts and the steps should be simplified.

### **RULES**

A rule is a very specific and detailed guide to action. A rule spells out the dos and don'ts in an organization i.e. reflects a decision that some action must be taken without discretion. They are unlike procedures in that they guide actions without specifying a time sequence. Procedure may be looked at as a sequence of rules. A rule may however be or may not be part of a procedure e.g No smoking is a rule quite unrelated to any procedure but a procedure governing the handling of orders may incorporate a rule that all orders must be confirmed the day they are received.

## **METHODS**

A method is a sub-unit of a procedure. Methods show clearly as to how a step of procedure should be performed. They indicate the techniques to be employed to make the procedure effective. They cover a limited territory normally one dept and are tied to the efforts of one employee doing a piece of work. They are more limited in scope than procedures.

## **PROGRAMMES AND SCHEDULES**

A programme is a comprehensive plan that includes a complex set of goals, procedures, rules, work assignment, resource flows and generally do cover a wide territory. A programme provides a time table of needed action to achieve specific objective.

## **SCHEDULES**

These imply fixing of time of commencing the work, reaching through the different processes and finishing the tasks. Schedules translate programmes into actions.

## **PROJECTS**

Quite often, the individuals portion of a general programme are relatively distinct and planned and executed as projects. A Project is therefore a small programme. Projects may consist of several sub plans, it has the following features.

1. The activity has a clear objective.
2. A project is somewhat unique and unfamiliar to the existing organization.
3. The project activity is complex and critical to the org.
4. The activity is temporary with respect to the duration of need.

## **BUDGETS**

A Budgets is a numerical programme designed primarily to allocate the resources of an organization. It is a blue print of a future course of action. It is an estimate that indicates the future usually in monetary terms, time, man hours etc. It is a projection that defines the anticipated costs of attaining an objective.