Planning

CHAPTER 4

NATURE OF PLANNING

Planning is the *beginning* of the process of management. A manager must plan before he can possibly organise, staff, direct or control. Because planning sets all other functions into action, it can be seen as the most basic function of management. Without planning other functions become mere activity, producing nothing but chaos.

Planning is an *intellectual process* which requires a manager to think before acting. It is thinking in advance. It is by planning that managers of organisations decide what is to be done, when it is to be done, how it is to be done, and who is to do it. *Decision-making* is thus an integral part of planning. It is defined as the process of choosing among alternatives. Obviously, decision-making will occur at many points in the planning process. For example, in planning for their organisation, managers must first decide which goal to pursue: "Shall we manufacture all parts internally or buy some from outside?" In fact, deciding which goal to pursue is probably the most important part of the planning process. Managers must also decide which assumptions about the future and about the environment they will use in making their plans: "Will taxes on our earnings increase, and thus strain our company's cash flow, or can we expect taxes to remain at the present level?" In addition, managers must decide how they will allocate their resources to attain their goals: "Should we fill up a senior position by promoting an existing employee or should we hire someone form outside the organisation?" Because decision-making is such an integral part of planning, we will discuss it extensively in the following chapter.

Planning is a *continuous process*. Koontz and O'Donnell[1] rightly observe that like a navigator constantly checking where his ship is going in the vast ocean, a manager should constantly watch the progress of his plans. He must constantly monitor the conditions, both within and outside the organisation to determine if changes are required in his plans. It is wiser for him to be right than merely being consistent. They call it the *principle of navigational change*.

[1] Harold D. Koontz and Cyril J. O'Donnell, *Principles of Management—An Analysis of Managerial Functions* (Tokyo: McGraw-Hill Kogakusha, 1972), p. 135.

As a corollary to the above principle, it can be said that *a plan must be flexible*. By flexibility of a plan is meant its ability to change direction to adapt to changing situations without undue cost. Because circumstances change, it is simple common sense that a plan must provide for as many contingencies as possible. It needs to possess a built-in flexibility in at least five major areas viz., technology, market, finance, personnel and organisation. Flexibility in technology means the mechanical ability of a company to change and vary its product-mix according to the changing needs of its customers. Flexibility in market means the company's ability to shift its marketing geographically. The company should be able to penetrate into unserved areas as and when there is a sudden spurt of demand in those areas. Flexibility in finance means the company's ability to obtain additional funds on favourable terms whenever there is need for them. Flexibility in personnel means the company's ability to shift individuals from one job to another. Flexibility in organisation means the company's ability to change its organisation structure.

However, flexibility is possible only within limits. It is almost invariably true that it involves extra cost. Sometimes it may be so expensive that its benefits may not be worth the cost. Sometimes people may develop patterns of thought that are resistant to change. Sometimes already established policies and procedures may become so deeply ingrained in the organisation that changing them may become difficult. In most cases irretrievable costs already incurred in fixed assets, training, advertising, etc. may block flexibility.

Planning is an *all-pervasive* function. In other words, planning is important to all managers regardless of their level in the organisation. There are, however, some differences in involvement by managers at different levels. One major difference concerns the time period covered. Top level managers are generally concerned with longer time periods. Much of their planning involves activities that will take place six months to five years later, or even after that. Lower level managers are more concerned with planning activities for the day, week, or the month. First-line supervisors, for example, plan the work activities for their people for the day. They are not responsible for predicting sales levels and ordering materials to produce products six months in the future. A second major difference concerns the time spent on planning. Top managers generally spend more time on planning. They are more concerned with establishing objectives and developing plans to meet those objectives. Lower-level managers are more involved in executing these plans.

IMPORTANCE OF PLANNING

Without planning, business decisions would become random, *ad hoc* choices. Four concrete reasons for the paramount importance of the planning function are as follows.

Minimises Risk and Uncertainty

In today's increasingly complex organisations, intuition alone can no longer be relied upon as a means for making decisions. This is one reason why planning has become so important. By providing a more rational, fact-based procedure for making decisions, planning allows managers and organisations to minimise risk and uncertainty. In a dynamic society such as ours, in which social and economic conditions alter rapidly, planning helps the manager to cope with and prepare for the changing environment. Planning does not deal with future decisions, but with the futurity of present decisions. For instance, if a manager does not make any provision for the replacement of plant and machinery, the problems he will have to face after ten years can well be imagined. The manager has a feeling of being in control if he has anticipated some of the possible consequences and has planned for them. It is like going out with an umbrella in cloudy weather. It is through planning that the manager relates the uncertainties and possibilities of tomorrow to the facts of today and yesterday.

Leads to Success

Planning does not guarantee success, but studies have shown that, often things being equal, companies which plan not only outperform the nonplanners but also outperform their own past results. This may be because when a businessman's actions are not random or *ad hoc*, arising as mere reaction to the market place, i.e., when his actions are planned, he definitely does better. Military historians attribute much of the success of the world's greatest Generals to effective battle plans.

Planning leads to success by doing beyond mere adaptation to market fluctuations. With the help of a sound plan, management can act proactively, and not simply react. It involves an attempt to *shape* the environment on the belief that business is not just the creation of environment but its creator as well.

Focuses Attention on the Organisation's Goals

Planning helps the manager to focus attention on the organisation's goals and activities. This makes it easier to apply and coordinate the resources of the organisation more economically. The whole organisation is forced to embrace identical goals and collaborate in achieving them. It also enables the manager to chalk-out in advance an orderly sequence of steps for the realisation of an organisation's goals and to avoid a needless overlapping of activities.

Facilitates Control

In planning, the manager sets goals and develops plans to accomplish these goals. These goals and plans then become standards or benchmarks against which performance can be measured. The function of control is to ensure that the activities conform to the plans. Thus, controls can be exercised only if there are plans.

Trains Executives

Planning is also an excellent means for training executives. They become involved in the activities of the organisation, and the plans arouse their interest in the multifarious aspects of planning.

FORMS OF PLANNING

Strategic planning	*Tactical planning*
1. It decides the major goals and policies of allocation of resources to achieve these goals.	1. It decides the detailed use of resources for achieving each goal.
2. It is done at higher levels of management. Middle managers sometimes are not even aware that strategic planning is being considered.	2. It is done at lower levels of management.
3. It is long-term.	3. It is short-term.
4. It is generally based on long-term forecasts about technology, political environment, etc. and is more uncertain.	4. It is generally based on the past performance of the organisation and is less uncertain.
5. It is less detailed because it is not involved with the day-to-day operations of the organisation.	5. It is more detailed because it is involved with the day-to-day operations of the organisation.

TYPES OF PLANS

Plans are arranged in a hierarchy within the organisation (Fig. 4.1). At the top of this hierarchy stand objectives. Objectives are the broad ends of the organisation which are achieved by means of strategies. Strategies in their turn are carried out by means of the two other major groups of plans—single-use plans and standing plans. *Single-use plans*, as their name suggests, are developed to achieve a specific end; when that end is reached, the plan is dissolved. The major types of single-use plans are programmes and budgets. *Standing plans*, on the other hand, are designed for situations that recur often enough to justify a standardised approach. For example, it would be inefficient for a bank to develop a single-use plan for processing a loan application of each new client. Instead, it uses one standing plan that anticipates in advance whether to approve or turn down any request based on the information furnished, credit rating, and the like. The major types of standing plans are policies, procedures, methods, and rules. We now describe each type of plan in detail.

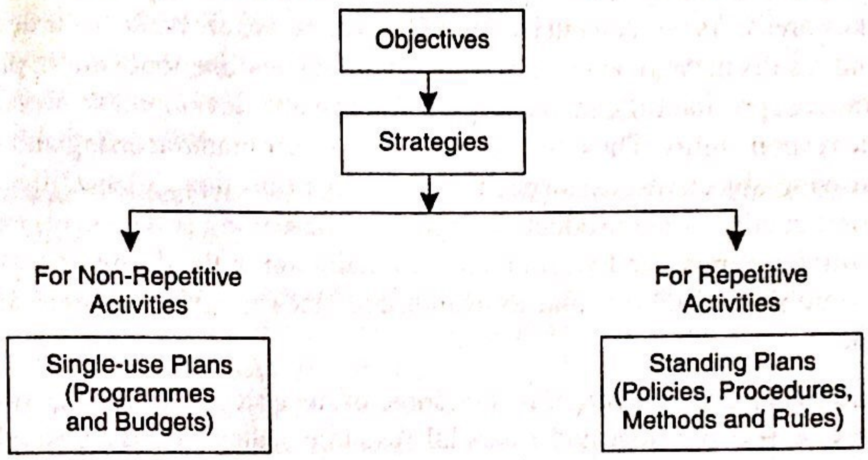

Fig. 4.1 *Hierarchy of organisational plans*

Objectives

Objectives are goals or aims which the management wishes the organisation to achieve. These are the end points or pole-star towards which all business activities like organising, staffing, directing and controlling are directed. Only after having defined these end points can the manager determine the kind of organisation, the kind of personnel and their qualifications, the kind of motivation, supervision and direction and the kind of control techniques which he must employ to reach these points.

Objectives should be distinguished from three other words "vision" "purpose" and "mission". The "*vision*" is the dream that an entrepreneur creates in his waking hours of his preferred future. In fact it is the root of all objectives. The *purpose* of an organisation is its *primary role* defined by the society in which it operates. For example, the purpose of every university is to impart education or the purpose of every hospital is to provide health care. Purpose is therefore *a broad aim* that applies not only to a given organisation but to *all* organisations of its type in that society. The *mission* of an organisation is the *unique aim* that sets the organisation apart from others of its type. It is an organisation's specialisation in some area—service, product or client which decides the organisation's *scope of business*. Indeed, this may lead to turning away business—ruling out a customer segment that would simply be unprofitable or too hard to serve, given the organisation's capabilities. Thus a university may have as its mission imparting education to women only or a hospital may treat heart disorders only. Objectives are the *specific targets* to be reached by an organisation. They are the translation of an organisation's mission into concrete terms against which results can be measured. For example, a university may decide to admit a certain number of students or a hospital may decide to admit a certain number of indoor patients.

Whose objectives are organisational objectives? An answer to this question has been offered by Cyert and March.[2] They regard organisations as coalitions of a large number of stake-holders with widely varying stakes. An organisation's objectives take into account all stakes and specify a common viewpoint acceptable to all the stakeholders. This implies that no organisation can adopt objectives unilaterally without considering what others want.

Characteristics of Objectives Some important characteristics of objectives are as under:

Objectives are multiple in number This implies that every business enterprise has a package of objectives set out in various key areas. As pointed out by Peter Drucker,[3] there are *eight* key areas in which objectives of performance and results have to be set. These are: market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility. Thus, for example, a fertiliser manufacturing and marketing company may have the following objectives: (a) a specified capacity utilisation, (b) specified costs and return on capital, (c) specified quality of the product, (d) specified marketing services, (e) extension and market development, (f) serving remote and virgin areas, (g) maintaining the desired network of retail outlets, (h) extension of warehouse facilities and ex-warehouse sales to small retailers and farmers close to consumption points.

Objectives are either tangible or intangible For some of the objectives (such as in the areas of market standing, productivity, and physical and financial resources) there are quantifiable values available. Other areas of objectives are not readily quantifiable and are intangible, such as manager's performance, workers' morale, public responsibility, etc. But in these areas also objectives become more and more specific and capable of implementation at lower levels in the organisational hierarchy.

Objectives have a priority This implies that at a given point in time, the accomplishment of one objective is relatively more important than of others. For example, the goal of maintaining a minimum cash balance may be critically important to a firm having difficulty in meeting pay rolls and due dates on accounts. Priority of goals also says something about the relative importance of certain goals regardless of time. For example, the survival of the organisation is a necessary condition for the realisation of all other goals.

The establishment of priorities is extremely important in that the resources of any organisation must be allocated by rational means. At all points in time, managers are confronted with alternative goals which must be evaluated and ranked. Managers of non-business organisations are particularly concerned with the ranking of seemingly independent goals. For example, a university vice-chancellor must

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[2] Cyert, R.M. and J.G. March, "A Behavioural Theory of Organisational Objectives", in M. Haire (ed.), Modern Organisation Theory, John Wiley & Sons, Inc., N.Y., 1959.

[3] Peter Drucker, *The Practice of Management* (New Delhi: Allied Publishers, 1970), p. 63.

determine, implicitly, or explicitly, the relative importance of teaching, research and service goals. Of course, the determination of goals and priorities is often a judgemental decision and, therefore, is difficult.

Objectives are generally arranged in a hierarchy This means that we have corporate objectives of the total enterprise at the top, followed by divisional or departmental objectives. Next come objectives of each section and finally individual objectives. Objectives at all levels (except at the top) serve both as an end and as a means. They are the ends of a unit and they are also the means of the next higher unit.

Objectives sometimes clash with each other The process of breaking down the enterprise into units, for example, production, sales and finance, requires that objectives be assigned to each unit. Each unit is given the responsibility for attaining an assigned objective. The process of allocating objectives among various units creates the problem of potential goal conflict and suboptimisation, wherein achieving the goals of one unit may jeopardise achieving the goals of another. For example, the production goal of low unit cost achieved through mass production of low quality products may conflict with the sales goal of selling high quality products. The resolution of this problem is a careful balance of the goal for each unit with the recognition that the goal of neither unit can be maximised. The result is a situation known as *suboptimisation of goals*. The exact form and relative weight to be given to any particular unit or interest group is precisely the nature of management's dilemma; yet it is precisely management's responsibility to make these kinds of judgements.

Requirements of Sound Objectives While laying down objectives there are certain requirements that the manager should always keep in mind.

Objectives must be both clear and acceptable The ultimate test of clarity is the people's understanding of the objectives. Unambiguous communication is helpful in ensuring clarity of understanding. The objectives must also be acceptable to the people, that is, they should be compatible with their individual goals. As Barnard[4] pointed out, each participant in an organisation determines for himself the range of acceptable behaviour, and if the activities required of him are outside this range, he will not pursue the objective. A production line foreman can find all kinds of legitimate means to foil a production schedule if the meeting of that schedule requires behaviour which he considers unacceptable. For example, if the schedule requires a heavy-handed approach to push his subordinates to levels of production beyond those which they themselves believe appropriate, the foreman can simply claim that it is impossible to meet.

Objectives must support one another Objectives could interlock or interfere with one another. For example, the goals of the production department in a company may be operating at cross purposes with those of the marketing department. In view of this, there is need for coordination and balancing the activities of the entire organisation, otherwise its members may pursue different paths making it difficult for the manager to achieve the company's overall objectives.

Further, there should be a close-knit relationship between short-range and long-range objectives. What is to be done the first year should provide a foundation for what is to be done each successive year, and this can be guaranteed only if short-range plans are part of the long-range plan.

Objectives must be precise and measurable An objective must always be spelled out in precise, measurable terms. There are several reasons for this:

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[4] Chester I. Barnard, *The Functions of the Executive* (Cambridge, Mass.: Harvard University Press, 1938).

1. The more precise and measurable the goal, the easier it is to decide how to achieve it. For example, the goal of "becoming more active in the community" leaves managers in doubt as to how to proceed. If instead, managers select as their goal "increasing profits by 10 per cent", they have described their goals in much more meaningful terms.
2. Precise and measurable goals are better motivators of people than general goals.
3. Precise and measurable goals make it easier for lower level managers to develop their own plans for actually achieving those goals. For example, if a general manager is aiming for a 15 per cent growth rate over the next four years, the sales manager can determine how sales must increase in order to meet this goal.
4. It is easier for managers to ascertain whether they are succeeding or failing if their goals are precise and measurable. For example, if they are aiming for a profit of Rs 15 lakh over the next two years, they can check progress as profit and loss figures come in. They would then be in a better position to take whatever corrective action may be necessary to help them meet their goal.

Even objectives which are not immediately measurable can be made so by using a quantifiable element that correlates with them. For example, absenteeism may correlate closely with employee morale, even though morale itself cannot be measured. Hence the specific objective of reducing absenteeism by 50 per cent in, say, a year provides a substitute measurable objective for improvement of morale.

Objectives should always remain valid This means that the manager should constantly review, reassess and adjust them according to changed conditions. With the passage of time stakeholders' preferences change and it becomes necessary for the manager to work out a new common minimum programme.

Advantages of objectives Basically the following benefits result from objectives:

1. They provide a *basis for planning* and for developing other type of plans such as policies, budgets and procedures.
2. They *act as motivators* for individuals and departments of an enterprise imbuing their activities with a sense of purpose.
3. They *eliminate haphazard action* which may result in undesirable consequences.
4. They facilitate *coordinated behaviour* of various groups which otherwise may pull in different directions.
5. They function as a *basis for managerial control* by serving as standards against which actual performance can be measured.
6. They facilitate *better management* of the enterprise by providing a basis for leading, guiding, directing and controlling the activities of people of various departments.
7. They *lessen misunderstanding and conflict* and facilitate communication among people by minimising jurisdictional disputes.
8. They *provide legitimacy* to organisation's activities.

Strategies

In a competitive situation, it is not enough to build plans logically from goals unless the plans take into account the environmental opportunities and threats and the organisational strengths and weaknesses. A corporate strategy is a plan which takes these factors into account and provides an optimal match between the firm and the environment. Two important activities involved in strategy formulation are environmental appraisal and corporate appraisal.

Environmental Appraisal An analysis of the relevant environment results in the identification of threats and opportunities. Andrews[5] defines the environment of a company as the pattern of all external influences that affect its life and development. While every company must define its own relevant environment, some key environment factors which need to be studied are given below:

1. ***Political and legal factors***:
   - (a) Stability of the government and its political philosophy.
   - (b) Taxation and industrial licensing laws.
   - (c) Monetary and fiscal policies.
   - (d) Restrictions on capital movement, repatriation of capital, state trading, etc.
2. ***Economic factors***:
   - (a) Level of economic development and distribution of personal income.
   - (b) Trend in prices, exchange rates, balance of payments, etc.
   - (c) Supply of labour, raw material, capital, etc.
3. ***Competitive factors***:
   - (a) Identification of principal competitors.
   - (b) Analysis of their performance and programmes in major areas, such as market penetration, product life-cycle, product mix, distribution channels and sales organisation, servicing, credit and delivery, advertising and promotion, pricing and branding, labour unions, training of personnel, technological development, productivity and efficiency in manufacturing, financial strength, profitability and rate of return on sales and investment.
   - (c) Anti-monopoly laws and rules of competition.
   - (d) Protection of patents, trade marks, brand names and other industrial property rights.
4. ***Social and cultural factors***:
   - (a) Literacy levels of population.
   - (b) Religious and social characteristics.
   - (c) Extent and rate of urbanisation.
   - (d) Rate of social change.

Corporate Appraisal This involves an analysis of the company's strengths and weaknesses. A company's strengths may lie in its outstanding leadership, excellent product design, low-cost manufacturing skill, efficient distribution, efficient customer service, personal relationship with customers, efficient transportation and logistics, effective sales promotion, high turnover of inventories and/or capital, ability to influence legislation, ownership of low-cost or scarce raw materials, and so on. The company must plan to exploit these strengths to the maximum. Similarly, it may suffer from a number of weaknesses which it must try to circumvent. Thus, formulation of a strategy is like preparing for a beauty contest in which a lady tries to highlight her strong points and hide her weak points.

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[5] Kenneth R. Andrews, *The Concept of Corporate Strategy* (Bombay: D.B. Taraporevala, 1972).

The essence of a strategy is in being different i.e., in combining activities in such a way that they deliver a unique mix of values that are different from rivals. It is not that the rivals cannot imitate this combination. But imitation of a combination of activities is certainly more difficult than the imitation of one or two activities because it requires different equipment, different employee behaviour, different skills, different company image and different management systems. Thus a medical soap manufacturer, with a large sale force calling on dermatologists and drug stores, advertising in medical journals, sending direct mail to doctors, attending medical conferences and doing research at its own skin care institute, *cannot* easily trade off its present mix of activities for some other soap manufacturer's mix where the soap manufactured is of different variety (with deodorants and softners), selling is through super markets and promotion is through price reduction.

The above mode of strategy formulation is known as the "planning" mode. It is systematic and rational. There are two other modes also viz., entrepreneurial and adaptive. Entrepreneurial mode is one in which a proactive, bold plan is drawn to seek new opportunities on the basis of intuition. Also known as the "*inside-out mode*", it believes that the greatest constraint on a company's performance is its own mindset. With enough ambition or "stretch" and with the right core competencies, just about anything is possible. Adaptive mode (also known as the "outside-in" mode) is reactive and timid. This mode is generally used to formulate strategies for solving problems as they come. This mode believes that an organisation is a "prisoner of its environment" and can do only what the world around it allows. The task of the managers is to create the best possible fit between their organisation's internal strengths and weaknesses, and whatever external opportunities and threats there may be. In real life, however, we find organisations following a combination of all the three modes. Thus, a manufacturing company may use the planning mode to formulate the strategy of its finance department, the entrepreneurial mode to formulate the strategy of its marketing department and the adaptive mode to formulate the strategy of its personnel department.

Whatever the mode, a strategy is optimum only for a particular point in time. Hence its time horizon should be carefully chosen. It should be remembered that to formulate a strategy consistent with rapidly changing environment is like aiming at a moving target.

Standing Plans

Policies A policy is general guideline for decision-making. It sets up boundaries around decisions, including those that can be made and shutting out those that cannot. In so doing, it channelises the thinking of the organisation members so that it is consistent with the organisational objectives. In the words of George R. Terry, "policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and direction in which managerial action will take place."[6]

Although, policies deal with "how to do" the work, they do not dictate terms to subordinates. They only provide a framework within which decisions must be made by the management in different spheres. Thus we may hear that the recruitment policy of a company is to recruit meritorious people through the employment exchange; or the advertisement policy of a company is to avoid cut-throat competition with its rivals in the field; or the distribution policy of a fertiliser company is farmer-oriented. In all these examples, respective policies leave it to the discretion of the subordinates, the decisions regarding which candidates are meritorious, what is cut-throat competition and what is to be farmer-oriented.

[6] George R. Terry, *Principles of Management* (Homewood, Ill.: Richard D. Irwin, 1977).

It should be noted that both policies and objectives guide thinking and action, but with difference. Objectives are end points of planning while policies channelise decisions to these ends; or, to put it another way, policies lead to objectives in the way a series of alternate highway routes lead to a city.

Advantages of policies The advantages of policies are as follows:

1. Policies ensure uniformity of action in respect of various matters at various organisational points. This makes actions more predictable.
2. Policies speed up decisions at lower levels because subordinates need not consult their superiors frequently.
3. Policies make it easier for the superior to delegate more and more authority to his subordinates without being unduly concerned because he knows that whatever decision the subordinates make will be within the boundaries of the policies.
4. Policies give a practical shape to the objectives by elaborating and directing the way in which the predetermined objectives are to be attained.

Types of Policies Policies may be variously classified on the basis of sources, functions or organisational level.

1. ***Classification on the basis of sources*** On this basis, policies may be divided into originated, appealed, implied and externally imposed policies.

(a) *Originated policies*: These are policies which are usually established formally and deliberately by top managers for the purpose of guiding the actions of their subordinates and also their own. These policies are generally set down in print and embodied in a manual.

(b) *Appealed policies*: Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the superior on appeals made by the subordinates, they become precedents for future action. For example, let us assume that a company allows a discount of 2 per cent to its buyers. If any customer states that he is willing to purchase in large quantities and is prepared to pay part of the price in advance, provided he is allowed 2½ per cent discount, then the sales manager not knowing what to do may approach the general manager for his advice. If the general manager accepts the proposal for 2½ per cent discount, the decision of the general manager could become a guideline for the sales manager in the future. This policy is appealed policy because it comes into existence from the appeal made by the subordinate to the superior.

(c) *Implied policies*: There are also policies which are stated neither in writing nor verbally. Such policies are called implied policies. Only by watching the actual behaviour of the various superiors in specific situations can the presence of the implied policy be ascertained. For example, if office space is repeatedly assigned to individuals on the basis of seniority, this may become an implied policy of the organisation.

(d) *Externally imposed policies*: Policies are sometimes imposed on the business by external agencies such as government, trade associations and trade unions. For example, a policy might have been dictated by a government law regulating prices or by a decision of a mill owners' association limiting production or by a decision of the trade union to fill up higher posts only by promoting existing employees.

2. ***Classification on the basis of functions*** On the basis of business functions, policies may be classified into production, sales, finance, personnel policies, etc. Every one of these functions will have a number of policies. For example, the sales functions may have policies relating to market, price, packaging, distribution channel, commission to middlemen, etc.; the production function may have policies relating to the method of production, output, inventory, research, etc.; the financial function may have policies relating to capital structure, working capital, internal financing, dividend payment, etc.; the personnel function may have policies relating to recruitment, training, working conditions, welfare activities, etc.

3. ***Classification on the basis of organisational level*** On this basis, policies range from major company policies through major departmental policies to minor or derivative policies applicable to the smallest segment of the organisation.

Guidelines for effective policy-making The guidelines for making effective policies are as follows:

1. Policies should, as far as possible, be stated *in writing* and should be clearly understood by those who are supposed to implement them.
2. Policies should *reflect the objectives* of the organisation, define the appropriate methods and action, and delineate the limits of freedom of action permitted to those whose actions are to be guided by them.
3. To ensure successful implementation of policies, the top managers and the subordinates who are supposed to implement them must *participate* in their formulation. Participation is the best assurance of loyalty to a policy.
4. A policy must strike a *reasonable balance between stability and flexibility*. Conditions change and policies must change accordingly. On the other hand, some degree of stability must also prevail if order and a sense of direction are to be achieved. There are no rigid guidelines to specify the exact degree of the requisite flexibility; only the judgement of management can determine the balance.
5. Different policies in the organisation *should not pull in different directions* and should support one another. They must be internally consistent. A family-owned organisation which is thinking to expand rapidly and also to retain exclusive family control over the enterprise is following an internally inconsistent policy because to achieve expansion, outside finance will have to be raised which may involve loss of family control.
6. Policies should *not be detrimental* to the interest of society. They must conform to the canons of ethical behaviour which prevail in society.
7. Policies must be *comprehensive* to cover as many contingencies as possible. For example, the policy to hire people through employment exchanges should also provide for a situation when adequate member of persons are not so available.
8. Policies should be *periodically reviewed* in order to see whether they are to be modified, changed, or completely abandoned and new ones put in their place.

Procedures Policies are carried out by means of more detailed guidelines called "procedures". A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. The same steps are followed each time that activity is performed. For example, the procedure for purchasing raw material may be: (i) requisition from the storekeeper to the purchasing department; (ii) calling tenders for purchase of materials; (iii) placing orders with the suppliers who are selected; (iv) inspecting the materials purchased by the inspecting department; and (v) making payment to the supplier of materials by the accounts department. Similarly, the procedure for recruitment of personnel may be: (i) inviting applications through advertisement; (ii) screening the applications; (iii) conducting written test; (iv) conducting interview for those who have passed the written test; and (v) medical examination of those who are selected for the posts. Procedures may also exist for conducting the meetings of directors and shareholders, granting loans to employees, issuing raw materials from the stores department, granting sick leave to the employees, passing bills by the accounts department, and so on.

Difference between policy and procedure Various points of distinction between the two are as under:

1. Policies are general guides to both thinking and action of people at higher levels. Procedures are general guides to action only usually for people at lower levels.
2. Policies help in fulfilling the objectives of the enterprise. Procedures show us the way to implement policies.
3. Policies are generally broad and allow some latitude in decision making. Procedures are specific and do not allow latitude.
4. Policies are often established without any study or analysis. Procedures are always established after thorough study and analysis of work.

Advantages and limitations of procedures There are several advantages of procedures. First, they indicate a standard way of performing a task. This ensures a high level of uniformity of performance in the enterprise. Second, they result in work simplification and elimination of unnecessary steps and overlapping. Third, they facilitate executive control over performance. By laying down the sequence and timing of each task, executive's dependence on the personal attributes of his subordinates is reduced, supervision becomes more routine and discipline is externalised. Finally, they enable employees to improve their efficiency by providing them with knowledge about the entire range of work. There are two important limitations of procedures. First, by prescribing one standard way of performing a task, they limit the scope for innovation or improvement of work performance. Second, by cutting across department lines and extending into various other departments they sometimes result into duplication, overlapping and conflict. Thus, in the aforesaid example, the procedure for purchasing raw material almost certainly encompasses the store department, the purchase department, the inspection department and the accounts department.

The above limitations can, however, be overcome if the management reviews and appraises the procedures periodically with an intention to improve them.

Methods A method is a prescribed way in which one step of a procedure is to be performed. The specified technique to be used in screening the applications or conducting a written test is a method, whereas the sequence of steps involved in the recruitment of personnel constitutes a procedure. The method that is selected for discharging a particular step under the existing conditions may become outdated in due course of time because of the discovery of better and more economical methods. The need for better and more economical methods of operation is great because of the pressure of competition in the markets for the products of the concern.

Methods help in increasing the effectiveness and usefulness of the procedure. By improving the methods, reduced fatigue, better productivity and lower costs can be achieved. Methods can be improved in a number of ways. Manual methods of performing a task can be replaced by mechanical means, or the existing mechanised process may be improved, or work simplified and unproductive efforts removed by conducting "motion study".

Rules Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation. In sanctioning overtime to workmen, in regulating travelling allowances, in sanctioning entertainment bills and in other similar matters, a uniform way of handling them or dealing with the case has to be followed. These are all covered by the rules of the enterprise, the objective of which is to avoid repeated reference to higher levels for authorisation of routine matters which occur frequently. Like procedures, rules also bring in predictability. They make sure that a job is done in the same manner every time, bringing uniformity in efforts and results.

A rule is different from a policy, procedure or method. It is not a policy because it does not give a guide to thinking and does not leave any discretion to the party involved. It is not a procedure because there is no time sequence to a particular action. It is not a method because it is not concerned with any one particular step of a procedure.

Single-use Plans

Programmes Programmes are precise plans or definite steps in proper sequence which need to be taken to discharge a *given* task. In other words, programmes are drawn in conformity with the objectives and are made up of policies, procedures, budgets, etc. Thus, an enterprise may have a programme of opening five branches in different parts of the country or of deputing its employees for training or of acquiring a new line of business or installing new machines in the factory or of introducing a new product in the market. The essential ingredients of every programme are *time phasing* and *budgeting*. This means that specific dates should be laid down for the completion of each successive stage of a programme. In addition, a provision should be made in the budget for financing the programme. In the absence of these ingredients it may be a prospect or a hope but it is not a programme. Thus, a programme for the opening of five branches must earmark money and specific time periods for:

1. Securing the necessary accommodation.
2. Recruiting personnel to manage the branches.
3. Arranging the supply of goods which are to be sold through the branches.

Often a single step in a programme is set up as a **project**. Thus, if in the above example, a company is short of qualified personnel, then it may set up a project for hiring and training new employees. The chief virtue of a project lies in identifying a relatively separate and clear-cut work package within a bewildering array of activities involved in a programme. A **schedule** specifies the time when each of a series of actions should take place.

Budgets According to the Institute of Costs and Works Accountants, London, a budget is "a financial and/or quantitative statement prepared prior to a definite period of time, of the policy to be pursued during that period, for the purpose of obtaining a given objective." It is clear from this definition that budgets are plans for a future period of time containing statements of expected results in numerical terms, i.e., rupees, man-hours, product-units and so forth. The important budgets are sales budget, production budget, cash budget, and revenue and expense budget. The sales budget shows the expected sales of finished goods for a period, the production budget reflects the anticipated production over a period, a cash budget projects the expected flow of cash for a period in advance, and the revenue and expense budget shows the anticipated revenue and expenses for a period.

Budgets are very useful for an enterprise. Being expressed in numerical terms, they facilitate comparison of actual results with the planned ones and thus, serve as a control device and yardstick for measuring performance. They also help in identifying and removing dead heads of expenditure. For example, in zero-based budget the sums appropriated to various heads of expenditure in previous years are set to zero and the manager is required to justify each expenditure afresh from scratch.

STEPS IN PLANNING

The steps generally involved in planning are as follows:

1. **Establishing Verifiable Goals or Set of Goals to be Achieved** The first step in planning is to determine the enterprise objectives. These are most often set by upper level or top managers, usually after a number of possible objectives have been carefully considered. There are many types of objectives managers may select: a desired sales volume or growth rate, the development of a new product or service, or even a more abstract goal such as becoming more active in the community. The type of goal selected will depend on a number of factors: the basic mission of the organisation, the values its managers hold, and the actual and potential abilities of the organisation.

The values and beliefs held by top men are very important in the selection of goals. Walchand Hirachand's belief, for example, that a cheap and efficient transport system was necessary for rapid industrialisation resulted in the establishment of the Scindia Shipping Company, Premier Automobiles and the Hindustan Aircraft Company. The Tata group of companies bears the stamp of the lofty ideas of Jamshetji N. Tata. Tata's sense of trusteeship, his realisation that to survive and prosper free enterprise must serve the needs of society, his emphasis on the application of science and technology—all have been brought to bear on the enterprises which bear his name.

2. **Establishing Planning Premises** The second step in planning is to establish planning premises, i.e., certain *assumptions about the future* on the basis of which the plan will be ultimately formulated. Planning premises are vital to the success of planning as they supply pertinent facts and information relating to the future such as population trends, the general economic conditions, production costs and prices, probable competitive behaviour, capital and material availability, governmental control and so on. Since managers at different levels generally differ in their views about these premises it is imperative for the chief executive to arrive at a common set of premises that all can accept.

Planning premises can be variously classified as under:

(a) Internal and external premises.
(b) Tangible and intangible premises.
(c) Controllable and non-controllable premises.

(a) ***Internal and external premises*** Premises may exist within and outside the company. Important internal premises include sales forecasts, policies and programmes of the organisation, capital investment in plant and equipment, competence of management, skill of the labour force, other resources and abilities of the organisation in the form of machines, money and methods, and beliefs, behaviour and values of the owners and employees of the organisation. External premises may be classified in three groups:

business environment, factors which influence the demand for the products of the enterprise and the factors which affect the resources available to the enterprise. These external premises may include the following:

(i) General business and economic environment
(ii) Technological changes
(iii) Government policies and regulations
(iv) Population growth
(v) Political stability
(vi) Sociological factors
(vii) Demand for industry's product.

(b) ***Tangible and intangible premises*** Some of the planning premises may be tangible while some others may be intangible. Tangible premises are those which can be quantitatively measured while intangible premises are those which being qualitative in character cannot be so measured. Population growth, industry demand, capital and resources invested in the organisation are all tangible premises whose quantitative measurement is possible. On the other hand, political stability, sociological factors, business and economic environment, attitudes, philosophies and behaviour of the owners of the organisation are all intangible premises whose quantitative measurement is not possible.

(c) ***Controllable and non-controllable premises*** While some of the planning premises may be controllable, some others are non-controllable. Because of the presence of uncontrollable factors, there is need for the organisation to revise the plans periodically in accordance with current developments. Some of the examples of uncontrollable factors are strikes, wars, natural calamities, emergency, legislation, etc. Controllable factors are those which can be controlled and normally cannot upset well-thought out calculations of the organisation regarding the plan. Some of the examples of controllable factors are: the company's advertising policy, competence of management members, skill of the labour force, availability of resources in terms of capital and labour, attitude and behaviour of the owners of the organisation, etc.

3. **Deciding the Planning Period** Once upper-level managers have selected the basic long-term goals and the planning premises, the next task is to decide the period of the plan. Businesses vary considerably in their planning periods. In some instances plans are made for a year only while in others they span decades. In each case, however, there is always some logic in selecting a particular time range for planning. Companies generally base their period on a future that can reasonably be anticipated. Other factors which influence the choice of a period are as follows: (a) lead time in development and commercialisation of a new product; (b) time required to recover capital investments or the pay-back period; and (c) length of commitments already made.

(a) ***Lead time in development and commercialisation of a new product*** For example, a heavy engineering company planning to start a new project should have a planning period of, say, five years with one or two years for conception, engineering and development and as many more years for production and sales. On the contrary, a small manufacturer of spare parts who can commercialise his idea in a year or so need make annual plans only.

(b) ***Time required to recover capital investments or the pay-back period*** These are the number of years over which the investment outlay will be recovered or paid back from the cash inflow if the estimates turn out to be correct. If a machine costs Rs 10 lakh and generates cash inflow of Rs 2 lakh a year, it has a pay-back period of five years. Therefore, the plan should also be for at least five years.

(c) ***Length of commitments already made*** The plan period should, as far as possible, be long enough to enable the fulfilment of commitments already made. For example, if a company has agreed to supply goods to the buyers for five years or has agreed to work out mines for ten years it need also plan for the same period to fulfil its commitments. However, if the length of commitment can somehow be reduced, the plan period can also be reduced. Thus, if the company can grant sub-lease of its mines to other parties, then it can reduce its plan period also.

4. **Finding Alternative Courses of Action** The fourth step in planning is to search for and examine *alternative courses of action*. For instance, technical know-how may be secured by engaging a foreign technician or by training staff abroad. Similarly, products may be sold directly to the consumer by the company's salesmen or through exclusive agencies. There is seldom a plan for which reasonable alternatives do not exist, and quite often an alternative that is not obvious proves to be the best.

5. **Evaluating and Selecting a Course of Action** Having sought alternative courses, the fifth step is to evaluate them in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research.

6. **Developing Derivative Plans** Once the plan has been formulated, its broad goals must be translated into day-to-day operations of the organisation. Middle and lower-level managers must draw up the appropriate plans, programmes and budgets for their sub-units. These are described as *derivative plans*. In developing these derivative plans, lower-level managers take steps similar to those taken by upper-level managers—selecting realistic goals, assessing their sub-units' particular strengths and weaknesses and analysing those parts of the environment that can affect them.

7. **Measuring and Controlling the Progress** Obviously, it is foolish to let a plan run its course without monitoring its progress. Hence the process of controlling is a critical part of any plan. Managers need to check the progress of their plans so that they can (a) take whatever remedial action is necessary to make the plan work, or (b) change the original plan if it is unrealistic.

LIMITATIONS OF PLANNING

A manager's plans are directed at achieving goals. But a planning effort encounters the following limitations:

1. Planning is an expensive and time-consuming process. It involves significant amounts of money, energy and also risk, without any assurance of the fulfilment of the organisation's objectives. In view of this, many organisations, particularly the smaller ones, are usually unable to afford a formal planning programme.
2. Planning sometimes restricts the organisation to the most rational and risk-free opportunities. It curbs the initiative of the manager and forces him to operate within the limits set by it. Sometimes planning may cause delay in decision-making. In an emergency when there is need for the manager to take a quick decision, he may be bogged down by rules and procedures.
3. The scope of planning is said to be limited in the case of organisations with rapidly changing situations. It is claimed that for industries producing fashionable articles or for industries engaged in the publication of textbooks, working on a day-to-day basis is more economical than on a planned basis.

4. Establishment of advance plans tends to make administration inflexible. When unforeseen changes in the environment, such as a business recession, change in government policy, crop failure, etc. take place, the original plan loses its value and there is need to draw up a fresh plan. But there is a tendency to make the original plan work.
5. Another limiting factor in planning is the difficulty of formulating accurate premises. Since these premises are the background against which a set of plans is made, they necessarily deal with the future. Since the future cannot be known with accuracy, premising must be subject to a margin of error.
6. Planning may sometimes face people's resistance to it. In old, established organisations, managers are often frustrated in instituting a new plan simply by the unwillingness or inability of people to accept it.

Whatever be its limitations, planning is essential for every business enterprise. Unplanned business operations produce chaos and disorder. Moreover, it is always possible to overcome some of the limitations of planning. For instance, the rigidity of a plan can be overcome by revising it periodically, the expensiveness of a plan can be overcome by avoiding elaborate processes and errors in premising can be overcome by entrusting the work of planning to knowledgeable and competent staff.

MAKING PLANNING EFFECTIVE

The following are some guidelines for making planning effective:

1. **Coordination** The planning process is complex, consisting of many major and derivative plans. Even so simple a plan as that to select a new piece of factory machinery may require many subsidiary or derivative plans, such as plans for its purchase, shipment, payment, receipt, unpacking, inspection, use, maintenance, etc. It is important that all these derivative plans fit together, not only in terms of content and action but also in terms of timing. Similarly, short and long-range planning should fit together.

2. **Communication** Best planning occurs when every manager in the organisation has access to complete information, not only pertaining to his own area of planning but also to others' area. This is necessary to make him understand how his departmental goals and policies tie in with those of the enterprise as a whole. He should know what are the premises upon which he is expected to plan.

3. **Participation** Participation of subordinates with superiors is also a key element in making planning effective. It improves understanding of objectives and loyalty in the subordinates and makes execution of plans easy. There are several methods to increase participation of subordinates. MBO in one such method.[7] Bottom-up planning is another method which encourages subordinates to develop, defend and sell their ideas. Committees and management clubs also develop in subordinates a strong feeling of unity with top management.

4. **Proper Climate** It is critical that top managers establish proper climate for planning. This involves stimulating planning interest among the rank and file of managers by setting their goals, establishing planning premises, communicating policies and developing a tradition of change in the organisation.

PLANNING SKILLS

(i) Ability to think ahead.
(ii) Ability to define company objectives.
(iii) Ability to forecast future environmental trends.
(iv) Ability to frame correct strategies.
(v) Ability to monitor the implementation of strategies.

STRATEGIC PLANNING IN THE INDIAN INDUSTRY

Nowadays, corporate planning is receiving great importance by Indian companies. Many large companies have established separate corporate planning divisions and have formalised the planning process. Many companies have now come to realise on the basis of their SWOT (Strengths and Weaknesses, Opportunities and Threats) analysis that they should concentrate on their *core competence* and should not spread themselves too thin by getting into more businesses than they can handle. Notable among these organisations are the Videocon Group, the Thapars, Whirlpool India Ltd., Mafatlals, Hindustan Lever and Larsen and Toubro. Several banks in India from across regions (north-south, east-west) are wanting to merge in a bid to create a larger market for themselves. Joint ventures are also becoming the order of the day. Some notable joint ventures of recent years are Shriram-Honda, Ford-Mahindra, Telco-Benz, Pal-Peugot, Hindustan Motors–Mitsubishi and Government of India–Suzuki.

On the other hand, there are also cases of diversification and demergers. Examples of diversified firms in India include Reliance Industries (Petrochemicals, Textiles, Power Telecommunications), Nagarjun Group (Power, Fertilisers, Finance), Tata (Paper, Tea, Automobiles, Steel, Telecommunications, Software, Consultancy) and Aditya Birla Group (Cement, Textiles, Rayon, Palm oil). Examples of demergers include demerger of Ciba specialties from Hindustan Ciba-Geigy Ltd., demerger of Sandoz India Ltd., from the old Sandoz and demerger of Aptech from Apple Industries Ltd.

[Summary]

- Planning has a primacy over the management functions and is a pervasive element in organisations. By planning, managers minimise uncertainty and help focus the sight of their organisation on its goals.
- There are two important forms of planning: strategic and tactical. *Strategic planning* involves deciding the major goals of the organisation. It is always done at the top management level. *Tactical planning* is concerned with the implementation of strategic plans. It is done at the middle and lower management levels.
- Besides objectives, which are the end goals of the organisation, there are two broad categories of plans: single-use plans and standing plans. *Single-use plans* are developed for a specific activity that is usually not repeated. They include programmes and budgets. Conversely, *standing plans* are used for repetitive activities. They include policies, procedures, methods and rules.
- There are seven steps in the process of planning: (a) establishing verifiable goals; (b) establishing planning premises; (c) deciding the planning period; (d) searching alternative courses of action;