MODULE 3

PLANNING

CHAPTER 1 – PLANNING FUNCTION

Planning Function of Management

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions. Planning involves selecting missions and objectives and deciding on the actions to achieve them; it requires decision making, that is, choosing a course of action from among alternatives

Planning bridges the gap from where we are to where we want to go.

Nature of Planning

1. **Planning is goal-oriented:** Every plan must contribute in some positive way towards the accomplishment of group objectives. Planning has no meaning without being related to goals.
2. **Primacy of Planning:** Planning is the first of the managerial functions. It precedes all other management functions.
3. **Pervasiveness of Planning:** Planning is found at all levels of management. Top management looks after strategic planning. Middle management is in charge of administrative planning. Lower management has to concentrate on operational planning.
4. **Efficiency, Economy and Accuracy:** Efficiency of plan is measured by its contribution to the
objectives as economically as possible. Planning also focuses on accurate forecasts.
5. **Co-ordination:** Planning co-ordinates the what, who, how, where and why of planning. Without co-ordination of all activities, we cannot have united efforts.
6. **Limiting Factors:** A planner must recognize the limiting factors (money, manpower etc) and
formulate plans in the light of these critical factors.
7. **Flexibility:** The process of planning should be adaptable to changing environmental conditions.
8. **Planning is an intellectual process:** The quality of planning will vary according to the quality of the mind of the manager.

Importance of Planning

1. ***Planning increases the organization's ability to adapt to future eventualities:*** The future is generally uncertain and things are likely to change with the passage of time. The uncertainty is augmented with an increase in the time dimension. With such a rise in uncertainty there is generally a corresponding increase in the alternative courses of action from which a selection must be made. The planning activity provides a systematic approach to the consideration of such future uncertainties and eventualities and the planning of activities in terms of what is likely to happen.

2. ***Planning helps crystallize objectives:*** The first step in planning is to fix objectives which will give direction to the activities to be performed. This step focuses attention on the results desired. A proper definition and integration of overall and departmental objectives would result in more co-ordinated inter-departmental activities and a greater chance of attaining the overall objectives.
3. ***Planning ensures a relatedness among decisions:*** A crystallization of objectives as mentioned above would lead to a relatedness among the decisions which would otherwise have been random. Decisions of the managers are related to each other and ultimately towards the goals or objectives of the enterprise. Creativity and innovation of individuals is thus harnessed towards a more effective management of the company.
4. ***Planning helps the company to remain more competitive in its industry:*** Planning may suggest the addition of a new line of products, changes in the methods of operation, a better identification of customer needs and segmentation and timely expansion of plant capacity all of which render the company better fitted to meet the inroads of competition.
5. ***Adequate planning reduces unnecessary pressures of immediacy:*** If activities are not properly planned in anticipation of what is likely to happen, pressures will be exerted to achieve certain results immediately or a in a hurry. Thus adequate planning supplies orderliness and avoids unnecessary pressures.

Types of Plans

Plans can be described by their breadth, time frame, specificity, and frequency of use

1. On the basis of Breadth or scope plans can be Strategic, tactical or operational plans.

Strategic plans (long-term plans) are plans that apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment. **Tactical plans** are detailed programmes designed to implement the strategic goals and plans formulated by the top management.

Operational plans (short-term plans) are plans that specify the details of how the overall goals are to be achieved.

2. On the basis of Time frame plans can be Short-term, medium term or long-term plans.

Short-term plans are plans that cover one year or less. These are formulated when the organizations want to accomplish their goals within a short span of time. These plans normally become tools for management of day-to-day activities in departments, divisions etc. They are the steps that lead to the fulfillment of long-term objectives. Operational plans are forms of short term plans.

Medium term plans define the organizational activities that are essential for the execution of long term plans and goals. These plans are useful for middle-level managers as they offer directions to them. They normally cover a time horizon of 1-2 years. Tactical plans are forms of medium term plans.

Long-term plans are plans with a time frame beyond three years. They are prepared when organizations require long periods of time to reach their goals. These plans provide a big picture of an organization and also indicate its future direction. Top management is involved in formulating these plans. Strategic plans are long term plans.

3. On the basis of Specificity plans can be Specific or directional plans.

Specific plans are plans that are clearly defined and leave no room for interpretation. These are apt for organizations which enjoy a stable external and internal environment. Eg a plan that aims at cutting production cost by 3 % in one year.

Directional plans are flexible plans that set out general guidelines. They provide a general direction in which the organization proposes to move forward but there are no specific plan deadlines. These plans are best suited for uncertain and volatile organizations. Eg a plan that aims at increasing corporate profit between 4 % and 6 %.

4. On the basis of Frequency of use plans can be Single-use or standing plans. A single-use plan is a one-time plan specifically designed to meet the needs of a unique situation. Eg Programmes and budgets. Standing plans are ongoing plans that provide guidance for activities performed repeatedly. Eg Policy, procedure, rules.

Classification of plans

Purposes or missions: It identifies the **basic functions or task of an enterprise**. The purpose of a business is generally of production and distribution of goods and services. The purpose of a state highway department is designing, building, and operating a system of state highways.

Objectives: Objectives are **ends** towards which the management seeks to achieve by its operations. They serve as a guide for overall business planning. The objective of a firm might be to make a certain profit.

Strategy: A strategy is the determination of the **basic long term objectives** of an enterprise and adoption of **courses of action** and **allocation of resources** necessary to achieve these goals

A strategy may include such major policies as marketing directly rather than distribution.

Policy: They are **general statements** meant to bring out a consistency in decision making. For example company policy may grant annual vacations to employees

Procedure: They are plans that establish a required **method of handling future activities**. Procedures are routine steps on how to carry out activities. Procedures are specified steps to be followed in particular circumstances. For example in a manufacturing company, the procedure for handling orders may involve the sales department (for the original order), the finance department (for acknowledgement of receipt of funds and for customer credit approval), the accounting department (for recording the transaction), the production department (for the order to produce the goods or the authority to release from stock), and the shipping department (for determination of shipping means and routes)

Rule: Rules are **specific statements that spell out required actions or non actions, allowing no discretion**. Eg No smoking

Programme: Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Eg An airline's programme to acquire a $400 million fleet of jets.

Budget: It is a plan which quantifies future facts and figures.

Levels of planning

In management theory, it is usual to consider that there are three basic levels of planning, though in practice there may be more than three levels of management and to an extent, there will be some overlapping of planning operations. The three levels of planning are discussed below:

1. **Top level planning:** also known as overall **or strategic planning**, top level planning is done by the top management, i.e., board of directors or governing body. It encompasses the long-range objectives and policies or organisation and is concerned with corporate results rather than sectional objectives. Top level planning is entirely long-range and inextricably linked with long-term objectives. It might be called the 'what' of planning.

2. **Middle level planning:** also known as **tactical planning**, it is done by middle level managers or departmental heads. It is concerned with 'how' of planning. It deals with development of resources to the best advantage. It is concerned mainly, not exclusively, with long-range planning, but its nature is such that the time spans are usually shorter than those of strategic planning. This is because its attentions are usually devoted to the step-by-step attainment of the organisation's main objective. It is, in fact, oriented to functions and departments rather than to the organisation as a whole.

3. **Lower level planning:** also known as **operational planning**, it is the concern of departmental managers and supervisors. It is confined to putting into effect the tactical or departmental plans. It is usually for a short-term and may be revised quite often to be in tune with the tactical planning.

Comparison of strategic, tactical and operational planning

Nature	Strategic planning	Tactical planning	Operational planning
Management level	Top level	Middle level	Supervisory level
Duration	Long term	Medium term	Short term
Coverage	Whole organisation	Functional areas like production, marketing etc	Departments, teams etc
Scope of guidelines	Broad and general	Neither too general nor too specific	Too specific
Purpose of planning	Goal and objective formulation	Developing procedures for goal formulation	Goal implementation and controlling
Decision making	Centralised	Decentralised	Decentralised

Planning Process

1. **Being aware of opportunities –** All managers should take a preliminary look at possible future opportunities and see them clearly and completely, know where their company stands in light of its strengths and weaknesses, understand what problems it has to solve and why and know what it can expect to gain. Awareness of opportunities should be made in light of the market, competition, what customers want, our strengths and our weaknesses.

2. **Setting objectives:** Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives specify the end results and indicate the end points of what is to to be done, where primary emphasis is to be placed, and what is to be accomplished by network of strategies, policies, procedures, rules, budgets and programs.

3. **Developing premises:** Premises means the assumptions about the environment in which the plan is to be carried out. It is important for all managers involved in the planning process to agree on the premises. The more thoroughly individuals charged with planning understand and agree to utilise consistent planning premises, the more coordinated the enterprise planning will be.

4. **Determining alternative courses:** Search for and examine alternative courses of action.

5. **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative.

6. **Selecting an alternative:** This is the real point of decision making. The best plan has to be adopted and implemented.

7. **Implement the plan:** This is concerned with putting the plan into action.

8. **Follow-up action:** Monitoring the plans are equally important to ensure that objectives are achieved.

Principles of Planning

1. Principle of contribution to objectives – The purpose of planning is the effective and efficient achievement of objectives.
2. Principle of primacy of planning – Planning precedes all other function of management
3. Principle of efficiency of plans – The efficiency of plans is measured on the basis of optimum costs to achieve the objectives successfully
4. Principle of planning premises – Every plan is based on carefully considered assumptions
5. Principle of limiting factor – While choosing an appropriate course of action amongst different alternatives, the limiting factor such as money, materials, machines, manpower etc should be considered
6. Principle of flexibility – There should be flexibility in the plans

Essentials of effective planning

1. Simple – A good plan must be simple and comprehensive. All employees should understand the significance and it can be easily put into operation
2. Clear and well defined objectives – A good plan must not contain anything indefinite or ambiguous. It should be well defined
3. Well balanced and flexible –It should be broad enough to meet future challenges and uncertainties
4. Time bound – The time period for achieving the objectives should be reasonable.
5. Participation by subordinates – Planning should not be the exclusive responsibility of top management. It should involve participation of subordinates.
6. Practical – Plans should be implemented easily
7. Economical – Plans should not involve unnecessary expenses on decision making, implementation and evaluation

Barriers to effective planning

1. Uncertain future – Future is full of uncertainty. .
2. Resistance to change – Members of an organisation may resist changes due to implementation of plans
3. Inadequate resources – The success of planning depends critically on resources available. In the event of non-availability of adequate resources, managers will have to limit plan related activities
4. Lack of effective communication – When plans are not adequately communicated to the participants, managers will fail to get their commitment and cooperation
5. Improper contribution to planning activities at different levels – Since most of the planning is done by top management, the middle and lower level management which are closer to the operations may not understand all aspects of planning and therefore may not be able to contribute some necessary key factors as input.

Approaches to planning

1. Top-down approach – In most family owned businesses, the authority and responsibility for planning is centralised at the top. The top management defines the mission, lays down strategies and specifies action plans to achieve the stated goals. The plan is then passed to people working at lower level who have little to contribute to the process of planning
2. Bottom – up approach – Lower level management are drawn into the preparation and implementation of plans, their loyalty and commitment would go up.
3. Composite approach – A middle path is chosen to facilitate the smooth implementation of plans. Top level offers guidelines, sets boundaries and encourages the middle and lower level executives to come out with tentative plans. Then they discuss and debate. Once approved, such plans gain acceptance readily since everyone has been drawn into the exercise.

Forecasting

A technique managers can use to assess the environment is forecasting. Forecasting is an important part of planning and managers need forecasts that will allow them to predict future events effectively and in a timely manner. Environmental scanning establishes the basis for **forecasts**, which are predictions of outcomes.

I. Qualitative methods or Opinion and judgemental methods

• Deals with

- What do people say
- What do they do. Useful in forecasting for new product or new market for which no past data available

A. Consumer's Opinion Survey

• Buyers are asked about their future buying intentions of products, their brand preferences and quantity of purchase.

• Possible response to increase in price, probable change in product's feature and competitive product.

B Sales force Opinion

• Salespersons are asked about their estimated sales target in their respective sales territories in a given period of time.

• Sum total of such estimates form the basis of forecasted demand.

C. Jury of expert opinion

The views of experts from sales, production, finance, purchasing and administration are averaged to generate a forecast about future sales as they are well informed about the company's market position, capabilities, competition and market trend

D. Delphi Technique

It is similar to jury of experts. In this a panel of experts is asked to respond to aseries of questionnaires. The responses are tabulated and opinions of the entire group are made known to each other panel members so that they may revise their previous forecast response. The process continues until some degree of consensus is achieved

II. Quantitative methods

It relies on numerical data and mathematical models to predict future conditions. It is used when historical data is available.

The different methods of quantitative analysis are :

1. Time series analysis- Fits a trend line to a mathematical equation and projects into the future by means of this equation. Predicting next quarter's sales on the basis of 4 years of previous sales data
2. Regression models - Predicts one variable on the basis of known or assumed other variables. Seeking factors that will predict a certain level of sales (e.g., price, advertising expenditures)
3. Econometric models - Uses a set of regression equations to simulate segments of the economy. Predicting change in car sales as a result of changes in tax laws

SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis is a technique suitable for early stages of strategic planning process. A scan of the internal and external environment is an important part of the strategic planning process. Internal environment factors are strengths and weaknesses while external environment factors are opportunities and threats.
SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates.

Strengths: factors that give an edge for the company over its competitors. Eg Employee strengths, skills, location etc
Weaknesses: factors that can be harmful if used against the firm by its competitors. Eg employee turnover, employee absenteeism
Opportunities: favorable situations which can bring a competitive advantage. Eg change in government policies
Threats: unfavorable situations which can negatively affect the business. Eg change in legal policies, political instability

	Opportunities (external, positive)	Threats (external, negative)
Strengths (internal, positive)	**Strength-Opportunity strategies** Which of the company's strengths can be used to maximize the opportunities you identified?	**Strength-Threats strategies** How can you use the company's strengths to minimize the threats you identified?
Weaknesses (internal, negative)	**Weakness-Opportunity strategies** What action(s) can you take to minimize the company's weaknesses using the opportunities you identified?	**Weakness-Threats strategies** How can you minimize the company's weaknesses to avoid the threats you identified?

Management by Objectives (MBO)

MBO was first popularized by Peter Drucker in 1954 in his book 'The practice of Management'.
Instead of using traditional goal setting, many organizations use management by objectives (MBO), a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. It is a process of agreeing within an organization so that management and employees buy into the objectives and understand what they are. It has a precise and written description objectives ahead, timelines for their monitoring and achievement. The employees and manager agree to what the employee will attempt to achieve in a period ahead and the employee will accept and buy into the objectives. It is process whereby the superior and subordinate managers of an enterprise jointly identify the common goals of the enterprise, define each individuals responsibility in terms of result expected of him and use the objectives developed as guidelines for operating the unit and assessing the contribution of each of its members.

MBO programs have four elements – goal specificity, participative decision making, an explicit time period and performance feedback. Instead of using goals to make sure employees are doing what they are supposed to be doing, MBO uses goals to motivate them as well.

Definition

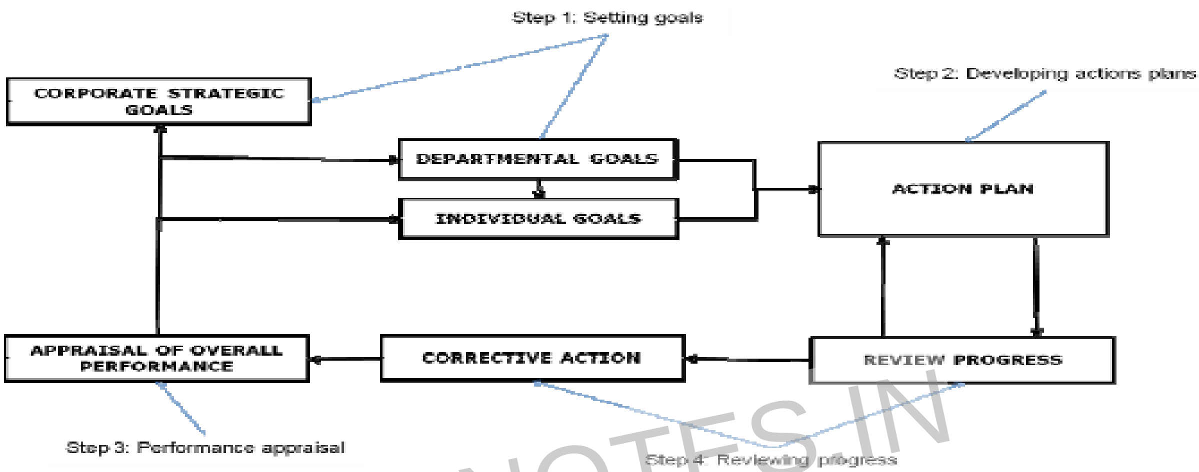
"MBO is a process whereby the superior and the managers of an organization jointly identify its common goals, define each individual's major area of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members."

Features of MBO

1. Superior subordinate participation – MBO requires the superior and the subordinate to recognize that the development of objectives is a joint project

2. Joint goal setting – The subordinate in consultation with his superior sets his own short term goals. Participation encourages commitment
3. Joint decision on methodology – MBO focuses attention on what must be achieved rather than how to achieve it. The superior and subordinate together devise the methodology
4. Makes way to attain maximum result – MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focussing on attainable goals.
5. Support from superior – When subordinate makes efforts to achieve his goals the superiors helping hand is always available

Steps in MBO:



1) Setting objectives:

For Management by Objectives (MBO) to be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company objectives set by the board of directors.

The managers of the various units or sub-units, or sections of an organization should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them.

Peter Drucker used the acronym SMART (Specific, Measurable, Achievable, Realistic and Time bound)

2) Developing action plans

Actions plans specify the actions needed to address each of the top organizational issues and to reach each of the associated goals, who will complete each action and according to what timeline. An overall, top-level action plan that depicts how each strategic goal will be reached is developed by the top level management.

3) Reviewing Progress:

Performance is measured in terms of results. Job performance is the net effect of an employee's effort as modified by abilities, role perceptions and results produced.

4) Performance appraisal:

Performance appraisals communicate to employees how they are performing their jobs, and they establish a plan for improvement. Performance appraisals are extremely important to both employee and employer, as they are often used to provide predictive information related to possible promotion. Appraisals can also provide input for determining both individual and organizational training and development needs.

Advantages

• Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.

• Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the organization and also to solve many problems.

• Clarity of goals

• Subordinates have a higher commitment to objectives they set themselves than those imposed on them by another person.

• Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

Limitations

There are several limitations to the impact of managing by objectives, including:

• It over-emphasizes the setting of goals over the working of a plan as a driver of outcomes.

• It underemphasizes the importance of the environment or context in which the goals are set. That context includes everything from the availability and quality of resources, to relative buy-in by leadership and stake-holders.

• Companies evaluate their employees by comparing them with the "ideal" employee. Trait appraisal only looks at what employees should be, not at what they should do. When this approach is not properly set, agreed and managed by organizations, self-centered employees might be prone to distort results, falsely representing achievement of targets that were set in a short-term, narrow fashion.