Unit 4: Planning

Name: ____________________

Date: __/__/__

Meaning

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions. Before doing something, the manager must formulate an idea of how to work on a task. Thus, planning is closely connected with creativity and innovation.

Importance of Planning

The major benefits of planning are given below:

(i) Planning provides directions: By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organisation must do and what they must do to achieve those goals

(ii) Planning reduces the risks of uncertainty: Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance, the tasks to be performed, planning shows the way to deal with changes and uncertain events.

(iii) Planning reduces overlapping and wasteful activities: Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions.

(iv) Planning promotes innovative ideas: Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

(v) Planning facilitates decision making: Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

(vi) Planning establishes standards for controlling: Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organising, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have been able to attain the goals.

Features of Planning

The planning function of the management has certain special features. These features throw light on its nature and scope.

1. Planning focuses on achieving objectives: Organisations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organisational goals.
2. Planning is a primary function of management: Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.
3. Planning is pervasive: Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management nor of any department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.
4. Planning is continuous: Plans are prepared for a specific period, may be for a month, a quarter, or a year. At the end of that period there is need for a new plan to be drawn based on new requirements and future conditions. Hence, planning is a continuous process.
5. Planning is futuristic: Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organisation. It implies peeping into the future, analysing it and predicting it. Planning is, therefore, regarded as a forward-looking function based on forecasting.
6. Planning involves decision making: Planning essentially involves choice from among various alternatives and activities. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice. The need for planning arises only when alternatives are available.
7. Planning is a mental exercise: Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking. In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts

Limitations of Planning

The major limitations of planning are given below:

(i) Planning leads to rigidity: In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. These plans then decide the future course of action and managers may not be able to change it. This kind of rigidity in plans may create difficulty. Managers need to be given some flexibility to be able to cope with the changed circumstances.

(ii) Planning may not work in a dynamic environment: The business environment is dynamic, nothing is constant. The environment consists of several dimensions, economic, political, physical, legal and social dimensions. The organisation must constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment if economic policies are modified or political conditions in the country are not stable or there is a natural calamity.

(iii) Planning reduces creativity: Planning is an activity which is done by the top management. Usually the rest of the members just implements these plans. Therefore, middle management and other decision makers are neither allowed to deviate from plans nor are they permitted to act on their own. Thus, much of the initiative or creativity inherent in them also gets lost or reduced.

(iv) Planning involves huge costs: When plans are drawn up huge costs are involved in their formulation. These may be in terms of time and money for example, checking accuracy of facts may involve lot of time. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans.

(v) Planning is a time-consuming process: Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.

(vi) Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn up and implemented. Any plan needs to be translated into action or it becomes meaningless. Managers tend to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. Besides, there are so many other unknown factors to be considered. This kind of complacency and false sense of security may lead to failure instead of success.

Planning Process

Since planning is an activity there are certain logical steps for every manager to follow.

1. Setting Objectives: The first and foremost step is setting objectives. Every organisation must have certain objectives. Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives or goals specify what the organisation wants to achieve. It could mean an increase in sales by 20% which could be objective of the entire organisation. How all departments would contribute to the organisational goals is the plan that is to be drawn up.
2. Developing Premises: Planning is concerned with the future which is uncertain, and every planner is using conjecture about what might happen in future. Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies.
3. Identifying alternative courses of action: Once objectives are set, assumptions are made. Then the next step would be to act upon them. There may be many ways to act and achieve objectives. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas.
4. Evaluating alternative courses: The next step is to weigh the pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. In financial plans, for example, the risk-return trade-off is very common. To evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made, and decisions taken.
5. Selecting an alternative: This is the real point of decision making. The best plan must be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences. Most plans may not always be subjected to a mathematical analysis. In such cases, subjectivity and the manager's experience, judgment and at times, intuition play an important part in selecting the most viable alternative.
6. Implement the plan: This is the step where other managerial functions also come into the picture. The step is concerned with putting the plan into action i.e., doing what is required. For example, if there is a plan to increase production then more labour, more machinery will be required. This step would also involve organising for labour and purchase of machinery.
7. Follow-up action: To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved.

Types of Plans

1. Objectives: The first step in planning is setting objectives. Objectives, therefore, can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organisation and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what you would like to achieve, i.e., the result of activities. For example, an organisation may have an objective of increasing sales by 10% or earning a reasonable rate of return on investment
2. Strategy: A strategy provides the broad contours of an organisation's business. It will also refer to future decisions defining the organisations direction and scope in the long run. Thus, we can say a strategy is a comprehensive plan for accomplishing an organisation objective. This comprehensive plan will include three dimensions,
    i. Determining long term objectives,
    ii. Adopting a course of action,
    iii. Allocating resources necessary to achieve the objective.
    iv. For example, a company's marketing strategy has to address certain questions i.e., who are the customers? what the demand for the product is? which channel of distribution to use? what the pricing policy is? and how do we advertise the product?
3. Policy: Policies are general statements that guide thinking or channelize energies towards a direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy. For example, the company may have a recruitment policy, pricing policy within which objectives are set and decisions are made. If there is an established policy, it becomes easier to resolve problems or issues.
4. Procedure: Procedures are routine steps on how to carry out activities. They detail the exact way any work is to be performed. They are specified in a chronological order. For example, there may be a procedure for requisitioning supplies before production. Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework.
5. Method: Methods provide the prescribed ways or way a task must be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. For example, for higher level management orientation programmes, lectures and seminars can be organised whereas at the supervisory level, on the job training methods and work-oriented methods are appropriate.

6. Rules: Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken.
7. Programs: 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. Programs will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan.
8. Budget: A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. For example, a sales budget may forecast the sales of different products in each area for a month. Let us take an example of Cash Budget. The cash budget is a basic tool in the management of cash. It is a device to help the management to plan and control the use of cash. It is a statement showing the estimated cash inflows and cash outflows over a given period. Cash inflows would generally come from cash sales and the cash outflows would generally be the costs and expenses associated with the operations of the business. The net cash position is determined by the cash budget i.e., inflows minus (–) outflows = surplus or deficiency.