

Unit – II - Planning

- Deciding in advance what to do, how to do, when to do and who is to do it.
- Bridges the gap between where we are to where we want to go.
- Thinking before doing.
- Intellectual demanding process.

Nature of Planning

1. It's contribution to purpose and objectives.
2. Primacy of functions – Planning & control are inseparable
3. Pervasiveness of planning – it is a function of all managers. Varies from level to level
4. Efficiency of plans – Plans are efficient if they achieve their purpose at a reasonable cost

Types (scope) of plans

I Purposes or missions:

- Meaningful existence – special task
 - Elements are primary market, profitability, management philosophy and corporate image
- Eg. 1. Distribution of goods & services
- ITC “Satisfaction”
 - Dupont “better things through chemistry”
 - Hallmark “The social expression business”
 - GEC / USH “We are in energy business”

II Objectives:

- Ends towards which all activities are directed
- They are the most basic plan and all other plans are based on the objectives
- They are multiple in nature.
- MBO
- Objectives and goals are interchangeable
- They have hierarchy.
- They are verifiable
- They form a network.

- They differ in time span. Some are long term and short term.
- Objectives may be general or specific.
- Classified into
 - External institutional objectives (to develop high degree of corporate image – TATA)
 - Internal Objectives (profit/maximum rate of return)

III Strategies:

- General program of action and deployment of resources to attain Comprehensive objectives.
- SWOT analysis
 - Eg 1. rural marketing
 - 2. Extension of Distribution width & Length
 - 3. Pester power strategy, social marketing, co-branding, co-marketing.
- Contingent plan to meet the demands of a difficult situation.
- Mainly the job of the top management.

IV Policies:

- General statements or understandings which guide or channel thinking and take actions in decision making.
- Guidelines for decision making
- All policies are statements, sometimes it is only practices (implied)
- Allows for some discretion otherwise it becomes rules
- It is a means of encouraging discretion and initiative, but within limits.
- Policies are developed with the active participation of the entire top level executives.

- Policy is in writing. They take concrete shape when they are put in writing. This will ensure uniformity in application, continuity and greater conformity.

Advantages:

- i. Top management provides guidelines to lower level managers.
- ii. Gives managers to act at all levels without the need to consult the superiors every time.
- iii. Better Administrative control. Provides rational basis for evaluating the results.
- iv. By setting up of policies, the management ensures that the decisions made will be in tune with the objectives and interests of the organization.
- v. They save time and effort by pre-deciding problems in repetitive situations. They save the management from the botheration of repeating the expensive analysis required to take the policy decision every time.

Limitations:

- Policy is formulated under particular preset conditions which do not remain the same for all problems.
- Requires constant review and revision.
- No formula for all problems
- Serve as guides for thinking and action and do not provide solutions to problems.
- They are not substitute for human judgment. They only point out the limits within which the judgment is to be taken.
- They may stifle individual initiative and creativity.

Types of Policies:

- a) Organizational and functional policies.
- b) Originated, Appealed and Imposed policies
- c) General and Specific policies.

d) Written and Implied policies.

V Procedures:

- It establishes a required method of handling future activities.
- They are guides to action, rather than to thinking.
- Provides details of certain activity, the exact manner in which it must be achieved.
- Chronological order. (stated in steps)
- Found in every level of an organization.

Advantages:

- Minimizes the burden of decision making
- Leads to simplification of work flow
- Elimination of unnecessary steps.
- Developed after careful analysis of various operations which are necessary to bring co-ordination in organization.
- Uniformity and conformity of action
- Aid to communication – steps to be followed to complete a particular work.
- Medium of control to evaluate the performance of the subordinate

Limitations

- Rigidity- discourages improvement
- Fixed way of doing a particular job
- Need to be reviewed and updated constantly

VI Rules:

- Rules spell out specific required action or non action, allowing no scope for discretion.
- Rules Vs Procedures Vs Policies
- Rules – no time sequence – “No smoking”
- Sequence of rules.
- Detailed recorded instructions

- Uniform handling of events
- To avoid repeated approval from higher levels for routine matters.
- Offers definite direction to planning process

VII Programs:

- Combination of goals, policies, procedures, task assignments, steps to be taken resources to be employed to carry out a given course of action.
- Time element is introduced
- Planning for future events and establishing a sequence of required actions.
- Supported by budgets.
- Primary program & supporting programs.

VIII Budgets:

- Statement of expected results expressed in quantitative terms.
- Expected income and expenditure under different heads.
- Gives clarity, direction and purpose in an organization.
- Control device.
- Fixed or variable (flexible) budget.
- Functional budgets.

Steps in Planning:

1. Being aware of opportunities.
 - SWOT analysis
2. Establishing objectives.
3. Developing premises
 - Planning premises are forecasts, applicable basic policies, and existing company plans.
 - They are assumptions about the environment in which plan is to be carried out.
 - Forecasting is important for premising.
 - Premises should be make practical what volume of sales? What price?
4. Determining alternative courses of action
5. Evaluating alternative course of action
 - Operation Research – Decision tree
6. Selecting a course of action

- Decision making
- 7. Formulating Derivative plans
 - Supporting plans for basic plan
- 8. Numerating plans by budgeting
 - Income and expenses

Kinds of planning

1. Short term and long term planning
2. Financial & non financial planning
3. Formal & informal planning
4. Specific or Routine planning
5. Corporate planning and strategic planning

Objectives / Importance / Advantages of Planning

1. Focuses attention on objectives & results
2. Reduces uncertainty and risk
3. Provides sense of direction
4. Encourages innovation & creativity
5. Helps in coordination
6. Guides decision making
7. Provides a basis for decentralization
8. Provides efficiency in operation
9. Facilitates control

Features of a good plan

1. Based on clearly defined objectives
2. Simple, easily understandable
3. Flexible or adaptable to changing conditions
4. must be balanced in all respects
5. must provide standards for the evaluation of performance and actions
6. It should be economical
7. It should be practicable
8. Prepared with the consultation of concerned persons

9. Should be clear, specific and logical
10. Should be capable of being controlled

Types of Planning (Time limit)

1. Long term plans (Above 5 yrs)
2. Medium term plans (Between 2 to 5 Yrs)
3. Short term plans (Less than 2 yrs)

Planning can be classified as –

1. Corporate Planning
2. Divisional Planning
3. Strategic Planning

S.No	Strategic Planning	Operational Planning
1	Lays down major goals and Policies of the Organisation	Decides the use of resources in day to day operations
2	Done at higher levels of Management	Done at lower level of Management
3	Long term in nature	Short term in nature
4	Broad and general	Detailed and specific
5	Based on long term forecast and appraisal of Environment	Based on past experience

Obstacles of Effective Planning

1. Inadequate inputs
2. Lack of ability
3. Sudden emergencies
4. Need for creativity
5. Resistance to Change

Ways to Overcome the Obstacles

1. Clear cut Objectives
2. Develop a sound Management Information System
3. Create carefully planning premises
4. Develop a dynamic outlook away manages
5. keep plans flexible
6. provide required resources
7. Undertake a cost benefit analysis of all plans

Management by Objectives (MBO)

“ MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of Organisation and individual Objectives.”

- Where superiors and subordinates jointly identify the goals of the Organisation

Process of MBO

1. Setting preliminary Objectives
2. Clarifying Organisational roles
3. Setting subordinates Objectives
4. Recycling Objectives

How to set Objectives

1. Quantitative & Qualitative
2. Setting Objectives in Govt
3. Guidelines for setting Objectives

Benefits of MBO

- Improvement of managing
- Clarification of Organisation
- Encouragement of Personal commitment
- Development of Effective control

Weakness of MBO

- Failure to teach the philosophy of MBO
- Failure to give guidelines to goal setters
- Difficulty of setting goals
- Emphasis on short run goals
- Danger of Inflexibility

Planning Premises

- A plan is based on certain assumptions called premises
- Assumptions or premises are for a future setting or happenings
- Assumptions based upon certain intuition or scientific forecasting
- The assumptions about future derived from forecasting and used in Planning are known as planning premises

Def – Koontz O'Donnell

“Planning premises are the anticipated environment in which plans are expected to operate. They include assumptions or forecast of the future and known conditions that will affect the operations of plans. Eg as prevailing policies and existing company plans that control the basic nature of supporting plans.

- Purpose of premises is to facilitate the planning process by guiding, directing, simplifying and reducing the degree of uncertainty in it. Premises guide planning.

Planning Premises Classification

1. External & Internal

EXTERNAL

Economic Environment

- Includes the type of economic system that exist in the economy

- The nature and structure of the economy, the business cycle, the fiscal, monetary and financial policies of the govt, foreign trade and foreign investment policies of the govt.
- The type of economic system, that is socialist, capitalist or mixed provides institutional framework with in which business firm have to work.

SOCIAL AND CULTURAL ENVIRONMENT

- Members of a society wields important influence over business firms.
- Activities of business firm may harm the physical environment and impose heavy social costs.
- Business should consider the social implication of their decisions.
- Social responsiveness 'the ability of a corporate firm to relate its operations and policies to social environment in way that are mutually beneficial to the company and society at large..
- Social responsibility / social responsiveness related to ethics.

POLITICAL AND LEGAL ENVIRONMENT

- Closely related to government.
- Political philosophy of the govt yields a great influences over business policies.

TECHNOLOGICAL ENVIRONMENT

- The nature of technology used for production of goods and services in an important factor responsible for the success of a business firm.

- The improvements in technology raises total factor productivity of a firm and reduces unit cost of output.
- Technological environment affects the success of firms and the need for technological advancement cannot be ignored.

DEMOGRAPHIC ENVIRONMENT

- Includes the size and growth of population, life expectancy of the people rural urban distribution of population the technological skills and educational levels of labour force.
- Since new workers are recruited from outside the firm, demographic factors are considered as parts of external environment.
- The skills and ability of a firms workers determine to a large extent how well the orgn can achieve its mission.

NATURAL ENVIRONMENT

- In the ultimate source of many inputs such as raw materials, energy which business firms use in their productive activity.
- Availability of natural resources in a region a country is a basic factor in determining business activity in it.
- It includes geographical and ecological factors such as minerals and oil reserves, water and forest resources wealth and climatic conditions, port facilities are all highly significant for various business activities.
- Not the availability of natural resources alone but also the technology and ability to being them in use that determines the growth of business and the economy.

INTERNAL ENVIRONMENT

- Internal factors are to a good extent controllable factors because the firm can change or modify these factors to improve its efficiency.

VALUE SYSTEMS

- Means the ethical beliefs that guides the organization in achieving its mission and objective.
- The value system of a business orgn makes an important contribution to its success and its prestige in the world of business.
- Value system of a business firm has an important bearing on its corporate culture and determines its behavior towards its employees, shareholders and society at large.
- Infosys “Our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers employees, vendors and society at large”

MISSION AND OBJECTIVES

- The objectives of all firms are assured to be maximisation of long – run profits.
- Mission is def as the overall purpose or reason for its existence which guide and influences its business decision and economic activities.
- The choice of business domain, direction of its development, choice of business strategy and policies are all guided by the overall mission of the company.
- **Reliance Industries Mission** “To become a world class company and to achieve global dominance. **Ranbaxy laboratories** – to become a research based international pharma company.

ORGANISATION STRUCTURE

Means such things as composition of board of directors, the number of independent directors, the extent of professional management and share holding pattern. Significant influence over decision making process in an organization.

QUALITY OF HUMAN RESOURCES

- Quality of employees of a firm in an important factor of internal environment of a firm
- The Success of a business organization depends to a great extent on the skills, capabilities, attitudes and commitment of its employees.
- Due to importance of HR for the success of a company these days there is a special course for managers how to select and manage efficiently HR of a company.

LABOUR UNIONS

- Unions collectively bargain with top managers regarding wages, working conditions of different categories of employees.
- Smooth working of a business organization requires that there should be good relations between mgt & labour union.

PHYSICAL RESOURCES AND TECHNOLOGY CAPABILITIES

- Physical resources such as plant and equipment and technological capabilities of a firm determine its

competitive strength which is an important factor determining its efficiency and unit cost of production.

- R& D capabilities of a company determine its ability to introduce innovation which enhances productivity of works.

2. **Tangible and Intangible premises**

Tangible – those which can be quantified. Eg – Money, Units of Production, etc

Intangible Premises – refers to the qualitative factors like Public relations, company reputation, Employee morale, etc.

3. **Controllable and Uncontrollable Factors**

Controllable – entirely within the control and realm of management
Eg- Policies, programmes, rules of the enterprises

Uncontrollable Factors – Enterprises has absolutely no control are uncontrollable premises. Eg – War, natural calamities, new invention, population trends.

Effective premises

1. Selection of premises which bear materially on the programs
2. Development of alternative premises for contingency planning
3. Verification of the consistency of premises
4. Communication of the premises.

SWOT Analysis or / TOWS Matrix

<p><u>Internal Factors</u></p> <p><u>External Factors</u></p>	<p><u>Internal Strengths (S)</u> Eg. Strength in mgt, operation, Finance, Marketing, R&D Engineering</p>	<p><u>Internal Weaknesses(W)</u> Eg. Weaknesses in areas shown in the box of strength.</p>
<p><u>External Opportunities (O)</u> Consider risk also. Eg Current and future Economic condition, political and social changes, New product services and Technology</p>	<p><u>SO strategy Maxi – Maxi.</u> Potentially the most successful strategy, utilizing the Organisation strength to take advantage of opportunities</p>	<p><u>WO Strategy Mini – Maxi</u> Eg. Developmental strategy to overcome weakness in order to take advantage of oppirtunities</p>
<p><u>External Threats (T)</u> Eg Lack of energy, competition and areas</p>	<p><u>ST Strategy Maxi – Mini</u> Eg. Use of strengths to cope with</p>	<p><u>WT strategy Mini Mini</u> Eg. Retrenchment,</p>

similar to those shown in Opportunity box	threats to avoid threats	Liquidation , Joint venture.
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Forecasting

- Process of predicting future conditions, that will influence and guide the activities, behaviour and performance of the Organisation.

Def – “ Forecasting is the formal process of predicting future events that will significantly affect the functioning of the enterprises.

Features

- Involvement of Future events
- Depends upon past and present events
- Happening of future events
- Make use of forecasting techniques

Process

- Developing the ground work
- Estimating the future trends
- Comparing actual with estimated results
- Refining the forecast

Importance

- Key to planning

- Means of coordination
- Basis for control
- Executive development
- Facing Environmental challenges

Forecasting Techniques

- Qualitative (use of Statistical tools) and Quantitative (employ human judgments to predict future)
1. **Time series Analysis** – involves decomposition of historical series into its various components. Viz – trend, seasonal variations, cyclical variations and random variations. A trend can be known over the period of time and projections can be made about future.
 2. **Historical Analogy** – past history records
 3. **Correlation** – to find the relationship between two variables. Eg. Between advertising expenditure and sales volume, Future sales estimated on basis of change in adv expenditure
 4. **Regression** – To measure the relationship between two variables. To find the relative movements of two or more interrelated series.
 5. **Delphi Technique** – the minds of the experts in the concerned areas are probed systematically.
 6. **Input output analysis**

Types of Forecast

- Demand forecast / sales forecast
- Economic Forecast
- Technological Forecast

Comparison of Planning and Forecasting

S.No	Planning	Forecasting
1	Planning is more comprehensive, it involves many sub processes and	Forecasting is the estimate of future events and provides parameters to the

	elements in order to arrive at decision	planning
2	Requires several decision making	Forecasting does not involve decision making
3	For planning top management level is involved	Forecasting is usually carried by middle or lower level management
4	Commitment of action is the basic motive of planning	Forecasting does not require any commitment but helps planning for future actions

Decision Making

- is the process of choosing a course of action from available alternatives
- **Def .** Haynes & Massie “ Decision making is a process of selection from a set of alternative courses of action which is thought to fulfill the objective of the decision – problem more satisfactorily than others.”

Types of Managerial Decisions

1. Organizational and Personal Decisions
2. Routine and Strategic Decisions
3. Programmed and Non programmed Decision
4. Policy and Operating Decision
5. Individual and Group decision

Decision making Process

1. Defining the problem
2. Analysing the problem
3. Developing alternative solutions
4. Evaluating the Alternatives
5. Selecting the best alternatives
6. Implementing the decision

Factors involved in Decision Making

1. **Tangible Factors** - things which can be measured, Fixed cost, operating cost, profits, machine, etc
2. **Intangible factors** – Unmeasurable elements. Eg. Employee morale, quality of labour relations, Consumer behaviour, etc. – Personal values & Orgn Culture, Group decision making, Creative and innovation

Problems of Decision Making

1. Indecisiveness
2. Time pressure
3. Lack of Information
4. confusing symptoms with causes
5. Failure to evaluate correctly
6. Lack of follow through

Key to success in Decision Making

1. Be problem oriented not just solution oriented
2. Set decision making goals
3. Always check the accuracy of the information
4. Don't be afraid to develop innovative alternatives
5. Be flexible
6. Gain commitment for decision at an early stage
7. Evaluate and follow up the decision

