

Session Objectives:

- To understand the nature and significance of planning
- To analyze the different types of plans
- To study the various steps involved in planning process
- To outline the prerequisites of effective planning

Definitions of Planning

In his definition of planning, Peter Drucker offers a holistic view about this term.

"Planning is a continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results against expectations through feedback systems.

McFarland defines planning as follows: "Planning is a concept of executive function that embodies the skills of anticipating, influencing and controlling the nature and direction of change.

In simple terms, planning is the process of establishing objectives and determining how best to achieve them. It involves determination of the future course of action by framing organizational objectives, policies and programs. Planning is an ongoing process that reflects and adapts to changes in the environment surrounding each organization.

Nature of Planning



Most organizations plan their goals, based on the following parameters:

- **Goal-oriented:** Planning involves the establishment of goals, objectives and means to accomplish those goals.
- **Intellectual or rational process:** Planning is considered to be more of an action oriented program, because at any given point of time, it provides sound judgment about actions already undertaken or to be undertaken.
- **Primary functions:** Managerial operations such as organizing, direction, coordination etc. can be effectively performed through proper planning.
- **All pervasive:** Planning is carried out at all levels, irrespective of the level of authority. At the top level, top-managers evolve long-term plans. At middle level, middle level managers design medium term plans, and at the lower level, plans that are evolved at the top and the medium levels, are executed.

- **Futuristic:** Since the future is uncertain, planning involves an anticipation of the future course of actions and also making provisions for achieving the results.
- **Perpetual process:** Due to drastic changes that are taking place in the external environment, plans have to be continually updated or modified at regular intervals.
- **Integrated process:** Plans are interdependent between different departments, as also integrated with each other.
- **Choice:** To achieve the overall objectives, organizations can choose any one or different course/s of action, to achieve the desired ends.

For Example, To produce a product X, the company has a choice to opt for either outsourcing or manufacturing in-house.

Significance of Planning

- **Planning focuses attention on objectives:** Planning makes objectives concrete and tangible. It continually reinforces the importance of objectives by focusing on them. Having plans that focus on these objectives helps prevent over involvement of managers in less important decisions and activities.
- **Offsets uncertainty and risk:** Planning enables an organization to cope with uncertainty and risk. It helps an enterprise to predict future and make due provisions for these. It identifies potential threats and opportunities and minimize future uncertainties by basing its decision on past experience and present situation.
- **Direction:** Planning helps an organization in avoiding aimless activities. It gives a purpose and directs human efforts into channels that contribute to the accomplishment of the goals by making activities more orderly.
- **Provides guidelines:** Since plans specify the actions necessary to accomplish organizational objectives, they serve as the basis for decisions for future activities.
- **Increases organizational effectiveness:** Planning ensures organizational effectiveness by optimum utilization of available resources.
- **Better coordination:** Planning is considered to be the best stage for the integration of diverse forces at work. Coordination is the essence of management and planning is the base for it as various departments work in accordance with the overall plan.
- **Facilitates control:** Planning provides the basis for control, because the function of control ensures that the activities conform to the plan. A second contribution of planning to the controlling process is the provision of concrete data.
- **Innovation and creativity :** Better planning lays emphasis on devising new ways of doing things. This is a prerequisite for long term survival and steady prosperity of business.
- **Delegation:** Planning process, involves all levels of management. Well established plans act as a guide a guide to subordinates and reduce the risk involved in delegation of authority.

Types of Plans

Plans can be classified in a number of ways on the basis of:

- Organization level
- Frequency of use
- Time frame



Organization Levels

On this basis, plans can be divided under strategic, tactical and operational plans.

- **Strategic plans:** Strategic plan is a general plan outlining decisions of resource allocation, priorities and action steps necessary to reach strategic goals. They are applicable to the entire organization and are developed by top management in consultation with board of directors and with middle management. They also require large amounts of information, especially with regard to the future of external environment.

A company is planning to achieve number one position in the area of its operations for the coming five years. For this it prepares a strategic plan.

- **Tactical plan:** They aim to achieve tactical goals and are a means of supporting strategic plans. Tactical plans provide the means to support the implementation of strategic plans. They are less risky and have a time frame of 1-3 years. Developed by the middle level managers, these plans are usually focused on internal data.
- **Operational plans:** Developed by the lower level managers, and with a time frame of less than one year, these plans act as a guide for day-to-day operations. These focus on carrying out tactical plans to achieve operational goals. They spell out specifically what must be accomplished over short time periods in order to achieve operational goals.

Plans based on Frequency of Use

Plans can be categorized on the basis of how frequently they will be use. Based on the extent of recurring use, plans can be of two types: single use plans and standing plans.

Single use plans

Single use plans are designed to carry out a course of action, that is not likely to be repeated in the future. These are aimed at achieving a specific goal and are designed to meet the needs of a unique situation. These plans are tailored to fit specific situations and are used up once the objectives are achieved.

Example: When ICICI Bank planned to merge with Bank of Madura, the top level executives devised a single use plan to guide the merger. It was a one time plan for the unique situation, and is unlikely to be repeated in the future.

The common forms of single use plans are programs, budgets and projects.

- **Program** is a single use plan, that coordinates a complex set of activities necessary to achieve a major recurring goal. Programs clearly identify the steps to be taken, resources to be used and the time period within which the task is to be achieved. It might consist of identifying procedures for introducing new product lines, opening up of new facilities or changing the organization mission.
- **Budgets** indicate the financial support that is required to coordinate the set tasks. A budget generally quantifies the plan and lays down the target to which actual operations are directed.

Example: Merger of GE products with Black & Decker, which resulted in the conversation of product line, involved huge amount of money. Proper budgeting exercise, helped the company in coordinating its activities (redesigning).

- **Projects** are similar to programs, but has lesser scope and complexity. A project may be a component of a program, or it may be a self-contained single-use plan. .

Example : For Black & Decker, the conversion of 150 products was a separate program in itself. Each product had its own managers, its own schedule, and redesign method.

Standing plan

Standing plans are designed for performing activities that occur regularly over a period of time. They enhance efficiency by routine decision making.

Example: Purchase of raw-materials is an on-going activity for every organization. Planning for such activity would be: what to purchase, when to purchase and how much to purchase (neither over stocking nor under stocking).

Common types of standing plans are policies, procedures and rules.

- **Policies:** As a general guideline for action, the policy is the most general form of a standing plan. A policy specifies an organization's general response to a problem or a situation. A policy specifies the broad parameters within which organizational members are expected to operate in pursuit of organizational goals.

Example: a University can adopt a policy of giving relative importance to athletics and extracurricular activities vis-a- vis academic learning and performance.

- **Procedures:** Procedures are detailed, step-by-step instructions that specify what is to be done. It is a chronological sequence of steps to be undertaken to enforce a policy and to achieve an objective. Procedures are guides to action that specify in detail the manner in which activities are to be performed.

Example: Banks have a Standard Operating Procedure (SoP) that mentions about how the cashiers should handle a fixed deposit that is deposited by the customer.

- **Rules:** Rules are statements that spell out clearly, about the specific actions that are to be taken, or not to be taken, in a given situation. The essence of a rule is that it does not allow deviation from a stated course of action and in no way interferes from the rest of the procedure for handling orders. Unlike procedures, rules do not specify a series of steps but dictate exactly what must or must not be done.

Example: 'no smoking' is not a part of any procedure, but the orders must be confirmed the day they are received.

Plans based on the time frame

There are three types of plans based on time frame. These are: short-term, medium-term and long-term plans.

- **Short term plan:** Short term plans are designed for performing day-to-day activities. For lower-level managers, they are the tools for day-to-day management. They state what, when and how to perform the planned tasks. These plans usually range from 0–1 year.
- **Medium term plan:** These plans provide direction for middle level management. These plans generally cover time periods ranging from one to five years. They generally cover time periods ranging from one to five years.
- **Long-term plan:** Long-term plans are established, keeping in view an overall organization vision. It involves the setting up of broad objectives and procedures for achieving results. These plans have a time frame of five years and above.

Planning Process

There are eight steps in planning process.

These are:

- **Analyze opportunities:** Organizations must perform SWOT analysis to know their strengths and opportunities. Organizations should work towards the creation of more business opportunities and decrease the threat from competitors.

- **Establish objectives:** Both individual objectives and overall organization objectives should be set. When individual objectives are achieved, it implies the achievement of a part of overall objectives.
- **Develop premises:** Planning premises are various assumptions about the environment. An Environment comprises of both external (social, economic, technological etc.) and internal (organizational policies) environment. Objectives should be developed based on these factors.
- **Identify alternatives:** Once the objectives are established, ways and means for achieving them should be known.
Example : If the company's objective is to increase its sales by 10%, then the different alternatives that can be considered for this purpose are, to increase awareness through advertisement, sales promotions, modify the existing product etc.
- **Evaluation:** The alternatives are evaluated keeping in mind the goals of the organization and the available resources.
- **Selection:** Sometimes, for an organization, exercising more than one option may prove to be too good. In such situations, an organization can select both the options.
Example: To promote a new or the existing product, sales promotion (discount coupon etc.) accompanied by advertisements, can yield good results.
- **Implementation:** Alternatives for selection, should be implemented.
- **Review:** To compete with the dynamic environment, objectives should be regularly reviewed and updated. Deviations, (if any) should be corrected.

Prerequisites of Effective Planning

The following are the prerequisites of effective planning:

- **Right climate:** Plans to be realistic should be developed, based on facts.
- **Clarity:** To avoid ambiguity, plans should be clear. They should focus on key areas (production, research and development, marketing etc.) that are profitable for the firm.
- **Planning premises:** Premises are the assumptions about the external and internal environment. Assumptions in the form of prediction and forecasts enable the organization to foresee high risk situations.
- **Initiation at the top-level:** Planning involves all levels of management. But, it is the top level that takes the initiative to review, upgrade or modify the plans.
- **Participating in planning process:** Participation of the lower level staff, not only helps in motivating the employees, but also increases their levels of commitment and loyalty towards the organization.
- **Communication:** Plans, once established, should be communicated to the employees. Most organizations fail, as many employees are unaware of the organization's plans and goals.
- **Open system:** In an open system, superiors interact with both the internal and external members, get feedback and implement changes accordingly.
- **Management information system:** Effective planning involves the availability of accurate and reliable information. Development and maintenance of information system, provides the organization with the latest information at all levels.

Limitations of Planning

- **Lack of accurate information:** Planning would go in vain, if it is based on facts and figures that are not reliable.
- **Time consuming:** Managers spend more time in securing the relevant data. This results in loss of opportunities, besides delay in actions.

- **Expensive:** Gathering of information from various sources and experimenting with such information (to know the outcomes), involves large amounts of money.
- **Inflexibility:** Detailed plans and policies, sometimes, prove to be rigid.
- **Resistance to change:** Planning requires willingness to change, not arising out of fear or failure; but in order to compete with the external environment.
- **Environmental constraints:** The dynamic nature of environment, requires taking quick decisions, but long-term plans pose a constraint in this regard.
- **Lack of ability and commitment:** Failure to plan, does not suggest total failure in planning. If one plan fails, managers should have the ability to develop alternative plans. This is a difficult exercise for many managers.
- **Insecure:** Plans can be effective only if they are regularly revised and updated.
- **Reluctance to establish goals:** Managers, who are unable to set meaningful goals, are reluctant to make effective plans.

Summary

- Planning is a process of establishing objectives and determining how best to achieve them.
- Nature of planning includes goal orientation, rational process, all pervasive etc.
- Planning is significant because it offsets uncertainty, provides direction, ensures coordination, control etc.
- Plans are based on organization levels, usage and time-frame
- Planning process
- Prerequisites for effective planning
- Limitations of planning