PLANNING

BUSINESS MANAGEMENT

UNIT-2

Syllabus

Planning – Meaning – Nature – Importance – Advantages and Limitations – Process of Planning – Types of Plans – MBO – Forecasting – Decision Making.

KEY WORDS: Planning Premises, Plan, Strategy, Polices, Management by Objective, Forecasting

learning objectives

1. Explain the importance of planning
2. Explain Process of Planning and Types of Plans
3. List and explain the steps in a basic planning process
4. Discuss various ways to make plans effective
5. Describe the barriers to planning
6. Explain MBO – Forecasting – Decision Making.

What is Planning ?

Meaning of Planning

Planning is the process of setting objectives, formulating various courses of action in order to achieve them, and selecting the best possible alternative from the various courses of action available in order to ensure completion of organizational goals.

Definitions

“Planning is the thinking process, the organised foresight, the vision based on fact and experience that is required for intelligent action.” **— Afford and Beatt**

“Planning is deciding in advance what is to be done. When a manager plans, he projects a course of action for further attempting to achieve a consistent coordinate structure of operations aimed at the desired results.” **— Theo Haimann**

“Planning aims at bridging the gap between where we are and where we want to go”.

What is Planning?

- Deciding in advance what to do, how to do it , when to do it and who has to do it.
- Planning is the pre-selection of objectives and outlines the action before starting any business.
- Planning is decision making in advance.
- Planning is the process by which managers establish goals and define the methods by which these goals are to be attained. Planning involves selecting missions and objectives and the actions to achieve them; it requires decision making, which is choosing from among alternative future courses of action.

Planning: Develop Objectives

SMART

- Specific
- Measurable
- Attainable
- Realistic
- Time-limited

Nature and Characteristics of planning

1. Intellectual Process
2. Goal-orientation
3. Primary Function
4. Pervasiveness
5. Uniformity
6. Continuity
7. Flexibility
8. Simplicity
9. Precision
10. Feasibility
11. Choice among Alternative Courses
12. Efficiency
13. Inter-dependence
14. Forecasting:

Importance of Planning

1. **Planning provides direction.** Once the goals of all employees and departments are set they are properly guided in the required direction.
2. **Planning reduces the risk of uncertainty.** A good plan cannot eliminate uncertainties of future. However it can reduce unnecessary risks.
3. **Planning reduces overlapping and wasteful activities.** Every person and department is assigned an objective and direction which rules out possible confusion.
4. **Planning involves innovative ideas.** Planning is all about thinking in a unique and improved way so it involves innovation.
5. **Planning helps in decision making.** Decision making involves choosing the best among the identified options.
6. **Planning sets standards for controlling.** Controlling only tries to meet the objectives set at the stage of planning.

Advantages of Planning

1. Planning facilitates management by objectives.
2. Planning helps in focusing the attention of employees on the objectives or goals of enterprise.
3. Without planning an organization has no guide.
4. Planning compels manager to prepare a Blue-print of the courses of action to be followed for accomplishment of objectives
5. Planning minimizes uncertainties.
6. Planning facilitates co-ordination.
7. Planning improves employee’s moral.
8. Planning helps in achieving economies.
9. Planning facilitates controlling.
10. Planning provides competitive edge.
11. Planning encourages innovations.

Limitations of Planning

(A) Internal Limitations

1. Planning leads to rigidity.
2. Planning may not work in a dynamic environment.
3. Planning reduces creativity..
4. Planning is a time-consuming process.
5. Planning does not guarantee success.
6. False sense of security

B) External Limitations

They are those limitations of planning which arises due to external factors over which an organization has no control.

1. Changes in Government policies way leads to failure of planning.
2. Natural calamities such as flood, earthquake etc. also adversely affect the success of planning.
3. Changes in the strategies of competitors also leads to failure of planning many times
4. Regular technological changes may affect planning.
5. Changes in the Economic and Social Conditions also reduces the effectiveness of planning.

Process of Planning (or) Steps in Planning

1. **Setting objective:** The first step in planning is setting objective as they specify what the organization wants to achieve.
2. **Developing premises:** Assumptions made for future are called premises. Premises must be same for all i.e. they should be using the same assumptions.
3. **Identifying alternative course of action:** once the objective are set, assumptions are made the next step is to find out alternative courses of action.
4. **Evaluating alternative courses:** The positive and negative aspects of each proposal are evaluated in the light of objective.
5. **Setting an alternative:** The ideal plan would be the most feasible, profitable and with least negative consequences.
6. **Implement the plan:** Required resources are acquired to put the plan into action.
7. **Follow up action:** plans are monitored to ensure that objective is achieved.

Types of Plans

(i) **Objectives -** Objectives are the ends towards which the activities are directed.
(ii) **Strategy** A strategy is a comprehensive plan to achieve the organisational objectives.
(iii) **Policies** Policies are general statements that guide thinking or channelise energies towards a particular direction.
(iv) **Procedures** Procedures are required steps established in advance to handle future conditions. The procedure can be defined as the exact manner in which an activity has to be accomplished.
(v) **Method** Methods provide the prescribed ways or manner in which a task has to be performed considering the objective.
(vi) **Rule Rules** are specific statements that inform what is to be done. They do not allow for any flexibility .
(vii) **Programme** - Programme are detailed statements about a project which outlines the objectives, policies, procedures, rules.
(viii) **Budget** A budget is a statement of expected results expressed in numerical terms.

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Types of Plans

- Long range Vs Short range - **Short-term planning** evaluates your progress in the present **and** creates an action **plan** to improve performance daily. However, **long-term planning** is a comprehensive framework that comprises of goals to be met within a four- to five-year period.

  Strategic Vs Operational -A **strategic plan** outlines your mission, vision, and high-level goals for the next three to five years. ... An **operational plan** (also known as a work **plan**) is an outline of what your department will focus on for the near future—usually the upcoming year.

  Corporate Vs Functional -Corporate strategy is your company's big-picture goals. If you're large enough to have separate departments, each department should have a business strategy based on the corporate goals. The functional strategy is a detailed plan for moving toward the company goals.

What is Management by Objective ?

- The process of setting objectives in the organization to give a sense of direction to the employees is called as Management by Objectives.
- It refers to the process of setting goals for the employees so that they know what they are supposed to do at the workplace.
- Management by Objectives defines roles and responsibilities for the employees and help them chalk out their future course of action in the organization.
- Management by objectives guides the employees to deliver their level best and achieve the targets within the stipulated time frame.

Management by Objective

The essence of Peter Drucker's basic principle: Management By Objectives is to determine joint objectives and to provide feedback on the results. Setting challenging but attainable objectives promotes motivation and empowerment of employees.

1. Objectives are determined with the employees;
2. Objectives are formulated at both quantitative and qualitative levels;
3. Objectives must be challenging and motivating;
4. Daily feedback on the state of affairs at the level of coaching and development instead of static management reports;
5. Rewards (recognition, appreciation and/or performance-related pay) for achieving the intended objectives is a requirement;
6. The basic principle is growth and development not punishments.

Need for Management by Objectives (MBO)

1. The Management by Objectives process helps the employees to understand their duties at the workplace.
2. KRAs are designed for each employee as per their interest, specialization and educational qualification.
3. The employees are clear as to what is expected out of them.
4. Management by Objectives process leads to satisfied employees. It avoids job mismatch and unnecessary confusions later on.
5. Employees in their own way contribute to the achievement of the goals and objectives of the organization
6. Management by Objectives ensures effective communication amongst the employees. It leads to a positive ambience at the workplace.
7. Management by Objectives leads to well defined hierarchies at the workplace. It ensures transparency at all levels.
8. The MBO Process leads to highly motivated and committed employees.
9. The MBO Process sets a benchmark for every employee.

Management By Objectives steps

Peter Drucker has developed five steps to put Management By Objectives into practice:

1. Determine or revise the organizational objectives
2. Translating the organizational objectives to employees
3. Stimulate the participation of employees in the determining of the objectives
4. Monitoring of progress
5. Evaluate and reward achievements

Weaknesses of MBO

With all its advantages, a system of MBO has a number of weaknesses most of which are due to shortcomings in applying MBO concepts. They are:

1. **Failure to teach the philosophy of MBO**
2. **Failure to give guidelines to goal setters**
3. **Difficulty in setting goals**
4. **Emphasis on short run goals**
5. **Danger of Inflexibility**

What is Forecasting?

Louis Allen defines forecasting as,

"A systematic attempt to probe the future by inference from known facts."

1. Forecasting is a process of predicting or estimating the future based on past and present data.
2. Forecasting can be broadly considered as a method or a technique for estimating many future aspects of a business or other operation.
3. Planning for the future is a critical aspect of managing any organization, and small business enterprises are no exception.
4. Forecasting provides information about the potential future events and their consequences for the organization. It may not reduce the complications and uncertainty of the future. However, it increases the confidence of the management to make important decisions.

Role of Forecasting:

Forecasting is needed for **planning** process because it devises the future course of action. ... It defines the probability of happening of future events. Therefore, the happening of future events can be precise only to a certain extent.

1. It helps the managers in the following ways:
2. Basis of Planning:
3. Promotion of Organization:
4. Success in Organisation:

The Forecasting Process

Steps in Forecasting:

The process of forecasting generally involves the following steps:

1. Developing the Basis
2. Estimation of Future Operations
3. Regulation of Forecasts
4. Review of the Forecasting Process

Techniques of Forecasting:

There are various methods of forecasting. However, no method can be suggested as universally applicable. In fact, most of the forecasts are done by combining various methods.

1. Historical Analogy Method
2. Survey Method
3. Opinion Poll
4. Business Barometers
5. Time Series Analysis
6. Regression Analysis
7. Input-Output Analysis
8. Delphi Method
9. Executive Opinion

Key differences between Planning and Forecasting

PLANNING	FORECASTING
Planning is a process of looking into the future and plan course of actions for future for organization and make preparations for different departments accordingly.	Forecasting is a process of making a prediction for the performance of an organization in future on the basis of its performance in past and present.
Planning is based on pertinent information, objectives, and forecast.	Forecasting is based on assumptions and speculations which requires a certain degree of guess.
It is concerned with assessing future and preparing for it.	It is concerned with approximating future events and trends.
Planning stresses on expectations and facts.	Forecasting stresses on facts only.
It is the responsibility of top level of managers.	It is the responsibility of managers at different level and also experts of different departments.

Decision Making

- Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management.

  Definition of Decision Making

- According to the Oxford Advanced Learner's Dictionary the term decision making means - **The process of deciding about something important, especially in a group of people or in an organization.**
- Trewatha & Newport defines decision making process as follows:, "**Decision-making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem**".

Nature of Decision Making

The following are the nature of decision-making

- Goal-Oriented Process
- Selection Process
- Continuous Process
- Art as Well as Science
- Responsibilities of Managers
- Positive as Well as Negative
- Future Course of Action

Steps in Decision Making

Step 1: Identify the decision

Step 2: Gather relevant information

Step 3: Identify the alternatives

Step 4: Weigh the evidence

Step 5: Choose among alternatives

Step 6: Take action

Step 7: Review your decision & its consequences

Peter Drucker’s rational steps in decision making:

- Define the Problem
- Analyze the Problem
- Develop Alternative Solutions
- Decide on the Best Solution
- Convert decisions into Effective Actions

Types of Decisions

- **Structured problems**: straightforward, familiar, and easily defined problems
- **Programmed decisions**: repetitive decisions that can be handled by a routine approach

Types of Programmed Decisions

- **Procedure**: a series of sequential steps used to respond to a well-structured problem
- **Rule** : an explicit statement that tells managers what can or cannot be done
- **Policy**: a guideline for making decisions

Decision-Making Conditions

- **Certainty**: a situation in which a manager can make accurate decisions because all outcomes are known
- **Risk**: a situation in which the decision maker is able to estimate the likelihood of certain outcomes
- **Uncertainty**: a situation in which a decision maker has neither certainty nor reasonable probability estimates available

Curdiff and Still:
keys to rational decision-making:

Mentions three keys to rational decision-making:

(i) Conceptualization,

(ii) Information,

(iii) Prediction.

Rational decisions require:

(a) Intelligence,

(b) Insight, and

(c) Lot of experience.

Guidelines for Effective Decision Making:

The following guidelines may be followed for effective decision making:

1. Define the goals.
2. Ensure that the decision will contribute to the goal.
3. Adopt a diagnostic approach to decision making.
4. Involve subordinates in decision making process.
5. Ensure successful implementation of the decision.
6. Evaluate the results, and
7. Be flexible and revise the decision which does not yield the desired results.