

## Unit II

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### Planning

**Definition:** Planning is the fundamental management function, which involves **deciding beforehand**, what is to be done, when is it to be done, how it is to be done and who is going to do it. It is an **intellectual process** which **lays down an organisation's objectives and develops various courses of action**, by which the organisation can achieve those objectives. It chalks out exactly, how to attain a specific goal.

Planning is nothing but **thinking before the action takes place**. It helps us to take a **peep into the future** and decide in advance the way to deal with the situations, which we are going to encounter in future. It involves logical thinking and rational decision making.

### Importance of Planning

1. Increases efficiency
2. Reduces business related risks
3. Facilitates proper coordination
4. Aids in organizing
5. Gives right direction
6. Keeps good control
7. Helps to achieve objectives
8. Motivates the personnel
9. Encourages creativity and innovation
- 10.Helps in decision making

## **Features/Nature/Characteristic of Planning:**

### **1. Planning contributes to Objectives:**

Planning starts with the determination of objectives. We cannot think of planning in absence of objective. After setting up of the objectives, planning decides the methods, procedures and steps to be taken for achievement of set objectives. Planners also help and bring changes in the plan if things are not moving in the direction of objectives. For example, if an organisation has the objective of manufacturing 1500 washing machines and in one month only 80 washing machines are manufactured, then changes are made in the plan to achieve the final objective.

### **2. Planning is Primary function of management:**

Planning is the primary or first function to be performed by every manager. No other function can be executed by the manager without performing planning function because objectives are set up in planning and other functions depend on the objectives only.

For example, in organizing function, managers assign authority and responsibility to the employees and level of authority and responsibility depends upon objectives of the company. Similarly, in staffing the employees are appointed. The number and type of employees again depends on the objectives of the company. So planning always proceeds and remains at no. 1 as compared to other functions.

### **3. Pervasive:**

Planning is required at all levels of the management. It is not a function restricted to top level managers only but planning is done by managers at every level. Formation of major plan and framing of overall policies is the task of top level managers whereas departmental managers form plan for their respective departments. And lower level managers make plans to support the overall objectives and to carry on day to day activities.

### **4. Planning is futuristic/Forward looking:**

Planning always means looking ahead or planning is a futuristic function. Planning is never done for the past. All the managers try to make predictions and assumptions for future and these predictions are made on the basis of past experiences of the manager and with the regular and intelligent scanning of the general environment.

### **5. Planning is continuous:**

Planning is a never ending or continuous process because after making plans also one has to be in touch with the changes in changing environment and in the selection of one best way.

So, after making plans also planners keep making changes in the plans according to the requirement of the company. For example, if the plan is made during the boom period and during its execution there is depression period then planners have to make changes according to the conditions prevailing.

## **6. Planning involves decision making:**

The planning function is needed only when different alternatives are available and we have to select most suitable alternative. We cannot imagine planning in absence of choice because in planning function managers evaluate various alternatives and select the most appropriate. But if there is one alternative available then there is no requirement of planning.

For example, to import the technology if the licence is only with STC (State Trading Co-operation) then companies have no choice but to import the technology through STC only. But if there is 4-5 import agencies included in this task then the planners have to evaluate terms and conditions of all the agencies and select the most suitable from the company's point of view.

## **7. Planning is a mental exercise:**

It is mental exercise. Planning is a mental process which requires higher thinking that is why it is kept separate from operational activities by Taylor. In planning assumptions and predictions regarding future are made by scanning the environment properly. This activity requires higher level of intelligence. Secondly, in planning various alternatives are evaluated and the most suitable is selected which again requires higher level of intelligence. So, it is right to call planning an intellectual process.

## **Limitations of Planning:**

### **1. Planning leads to rigidity:**

Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

### **2. Planning may not work in dynamic environment:**

Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.

The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment. For example there may be change in economic policy, change in fashion and trend or change in competitor's policy. A manager cannot foresee these changes accurately and plan may fail if many such changes take place in environment.

### **3. It reduces creativity:**

With the planning the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes

prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

#### **4. Planning involves huge Cost:**

Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.

#### **5. It is a time consuming process:**

Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

#### **6. Planning does not guarantee success:**

Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans.

It is not true that if a plan has worked successfully in past, it will bring success in future also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.

#### **7. Lack of accuracy:**

In planning we are always thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail.

### **Planning Process**

#### **1. Setting up of the objectives:**

In planning function manager begins with setting up of objectives because all the policies, procedures and methods are framed for achieving objectives only. The managers set up very clearly the objectives of the company keeping in mind the goals of the company and the physical and financial resources of the company. Managers prefer to set up goals which can be achieved quickly and in specific limit of time. After setting up the goals, the clearly defined goals are communicated to all the employees.

## **2. Developing premises:**

Premises refer to making assumptions regarding future. Premises are the base on which plans are made. It is a kind of forecast made keeping in view existing plans and any past information about various policies. There should be total agreement on all the assumptions. The assumptions are made on the basis of forecasting. Forecast is the technique of gathering information. Common forecast are made to find out the demand for a product, change in government or competitor policy, tax rate, etc.

## **3. Listing the various alternatives for achieving the objectives:**

After setting up of objectives the managers make a list of alternatives through which the organisation can achieve its objectives as there can be many ways to achieve the objective and managers must know all the ways to reach the objectives. For example, if the objective is to increase in sale by 10% then the sale can be increased:

- (a) By adding more line of products;
- (b) By offering discount;
- (c) By increasing expenditure on advertisements;
- (d) By increasing the share in the market;
- (e) By appointing salesmen for door-to-door sale etc.

So, managers list out all the alternatives.

## **4. Evaluation of different alternatives:**

After making the list of various alternatives along with the assumptions supporting them, the manager starts evaluating each and every alternative and notes down the positive and negative aspects of every alternative. After this the manager starts eliminating the alternatives with more of negative aspect and the one with the maximum positive aspect and with most feasible assumption is selected as best alternative. Alternatives are evaluated in the light of their feasibility.

## **5. Selecting an alternative:**

The best alternative is selected but as such there is no mathematical formula to select the best alternative. Sometimes instead of selecting one alternative, a combination of different alternatives can also be selected. The most ideal plan is most feasible, profitable and with least negative consequences.

After preparing the main plan, the organisation has to make number of small plans to support the main plan. These plans are related to performance of routine jobs in the organisation. These are derived from the major plan. So, they are also known as derivative plans. These plans are must for accomplishing the objective of main plan. The common supportive plans are plans to buy equipment, plan for recruitment and selection of employees, plan to buy raw material, etc.

## **6. Implement the plan:**

The managers prepare or draft the main and supportive plans on paper but there is no use of these plans unless and until these are put in action. For implementing the plans or putting the plans into action, the managers start communicating the plans to all the employees very clearly because the employees actually have to carry on the activities according to specification of plans. After communicating the plan to employees and taking their support the managers start allocating the resources according to the specification of the plans. For example, if the plan is to increase in sale by increasing the expenditure on advertisement, then to put it into action, the managers must allot more funds to advertisement department, select better media, hire advertising agency, etc.

## **7. Follow-up:**

Planning is a continuous process so the manager's job does not get over simply by putting the plan into action. The managers monitor the plan carefully while it is implemented. The monitoring of plan is very important because it helps to verify whether the conditions and predictions assumed in plan are holding true in present situation or not. If these are not coming true then immediately changes are made in the plan.

During follow up many adjustments are made in the plan. For example, if the expenditure planning is done keeping in mind 5% inflation rate but in present situation if the inflation rate rises to 10% then during follow up the managers make changes in the plans according to 10% inflation rate.

## **Types of Plans:**

Planning is a pervasive function which means it is not the task of top level managers only but managers working at different levels perform planning function. The plans framed by top level manager may differ from the plans formed by middle and lower level managers. The different types of plans or common plans formed by the managers at different levels are:

Objectives – Rules Strategy – Programmes

Policies – Methods

Procedures – Budgets

### **1. Objectives:**

Objectives are the ends towards which the activities are directed. They are the end result of every activity.

An objective:

- (a) Should be related to single activity;
- (b) Should be related to result and not to activity to be performed;
- (c) It should be measurable or must be measured in quantitative term;
- (d) It must have a time limit for achievement of objective;

(e) It must be achievable or feasible.

For example, increase in sale by 10% or decrease in rejections by 2%.

## **2. Strategy:**

A strategy is a comprehensive plan to achieve the organisational objectives. The dimensions of strategy are:

- (i) Determining long term objectives.
- (ii) Adopting a particular course of action.
- (iii) Allocating resources for achieving the objectives.

Strategy formulation is the task of top level people and it is must to scan and understand clearly the business environment before framing the strategy. The common decisions in strategy are whether to introduce a new product or not. If to introduce then how, finding out customer for your products making changes in existing products etc. All the strategic decisions are greatly influenced by the business environment. Strategy defines the future decisions regarding the organisation's direction and scope in the long run.

For example, Choice of advertising media, sales promotion techniques, channels of distribution, etc.

## **3. Policies:**

Policy can be defined as organisation's general response to a particular problem or situation. In simple words, it is the organisation's own way of handling the problems. Policies are made at every level because the managers at every level need to decide or predetermine the way of handling a situation and policy acts as a guide to take decisions in unexpected situation.

Policy formation always encourages initiatives of employees because employees have to deal with situations and the way of handling the situation is decided in consultation with the employees. Then they will be able to handle the situation in a much better way. For example, a school may have policy of issuing admission form only to students who secured more than 60% marks.

“No credit sale policy”, etc. Introduction of new product in the market.

## **4. Procedures:**

Procedures are required steps established in advance to handle future conditions. The sequence of steps to be followed by employees in different situations must be predetermined so that everyone follows same steps. The procedure can be defined as the exact manner in which an activity has to be accomplished.

For example, the procedure for admission in a particular school can be:

- (a) Set up a file for applicants;
- (b) Accept the field forms and put them in a file;
- (c) Ask for other certificates to verify score or marks of students;
- (d) Put those documents also in the file;

(e) Give the file to admission in-charge.

Procedures are made common for all the departments to co-ordinate their activities. So procedures cut across all the departmental lines. For example, the procedure to handle the order by manufacturing department may involve sales department also.

### **5. Rules:**

Rules spell out special actions or non-actions of the employees. There is no discretion allowed in rules, i.e., they must be followed strictly and if rules are not followed then strict actions can be taken against employees who are disobeying the rules. Rules are spelt out to create the environment of discipline in the organisation. For example, there can be rule of no smoking in the organisation. Rules generally guide the general behaviour of the employees and employees cannot make any changes in them.

### **6. Programmes:**

Programmes are the combination of goals, policies, procedures and rules. All these plans together form a program. The programmes are made to get a systematic working in the organisation. The programmes create relation between policies, procedures and goals. The programmes are also prepared at different levels. A primary programme is prepared by the top level and then to support the primary programme supportive programmes of different levels are prepared for smooth function of the company.

For example, construction of shopping mall, Development of new product.

### **7. Methods:**

Methods can be defined as formalized or systematic way of doing routine or repetitive jobs. The managers decide in advance the common way of doing a job. So, that

- (a) There is no doubt in the minds of employees;
- (b) There can be uniformity in actions of the employees;
- (c) These help in applying the techniques of standardization and simplification;
- (d) Act as guide for employees.

If the common way of doing the job is not decided in advance then there will be confusion and comparison will not be possible. For example, for the valuation of stock, the organisation must decide in advance what method has to be adopted .So that everyone follows the same method and comparison with the past value of stock can be done, method for calculation of depreciation.

### **8. Budget:**

Budget is the statement of expected result expressed in numerical terms. In budgets the results are always measurable and most of the time these are financial in nature but it does not mean that company prepares only financial budget. Financial budget is also known as profit plan of the company because it includes the



expected income and related expenditures with that income and the profit which the company will earn in the coming year.

Along with financial budget capital budget is prepared to find out the expected capital requirement. Operational budget is prepared where instead of finance hourly units are used stating expected hours the employees will be working. Budgets are prepared by managers at every level and lower level managers generally prepare operational budgets. The most common budget prepared by managers at different levels is cash budget. This budget estimates the expected cash inflow and cash outflow over a period of time. Cash inflow comes from sales and cash outflow is in the form of expenses. Businessmen can find out net cash position by subtracting cash outflow from cash inflow.

**Advantages of planning:**

1. Proper Cooperation among employees,
2. Unity of Action,
3. Economy,
4. Proper coordination and control,
5. Choosing the right objectives, and
6. Future plan.

**What Is Forecasting?**

Forecasting is a technique that uses historical data as inputs to make informed estimates that are predictive in determining the direction of future trends. Businesses utilize forecasting to determine how to allocate their budgets or plan for anticipated expenses for an upcoming period of time. This is typically based on the projected demand for the goods and services offered.

Forecasting, especially where widely participated by all in the organisation, may help to unify and co-ordinate plans. By focussing attention on the future, it assists in bringing a singleness of purpose to planning.

**Elements of Forecasting:**

Forecasting helps us to know the future. It also helps us to compare, to estimate and to analyse the data to arrive at the estimated results. It leads to regular investigation of different aspects of production and management within and outside the organisation. Forecasting prepares a ground to work together and brings better co-ordination, co-operation and control in the organisation. Under forecasting, future prospects, stability and the discrepancies are properly weighed and studied. This helps the management to remove any hindrances that may come in the way of management.

Thus company results are compared with the estimated ones, the other element which is quite conspicuous with forecasting. Whenever large difference is found, further investigation is undertaken to find out the reasons for such discrepancy.

Forecasting, therefore, helps to know the expected profits or losses and just by going through certain reports and records of the company, enables the forecaster to take necessary decisions. Decision-making becomes better and easier when forecasting is undertaken on scientific basis.

### **1. Developing the ground work:**

It carries out an orderly investigation of products, company and industry.

### **2. Estimating future business:**

This follows a clear-cut plan for working out future expectancies in the form of natural undertaking with key executives.

### **3. Comparing actual with estimated results:**

Checking the attained with anticipated results of the business periodically and tracking down reasons for major differences.

### **4. Refining the Forecast Process:**

Once familiarity with estimating the future of the business is gained through practice, sharpening the approach and refining the procedure becomes quite easy.

## **Decision Making**

A decision is the selection of a course of action (or decision) out of many available alternatives. The marketing manager may be arrived to a particular decision by analyzing, evaluating and carefully planning. The decision making is the basic and fundamental key of all managerial activities. It is the study of identifying and choosing best possible choice (or option) based on the values and preferences of the business organization.

**Koontz & O'Donnel:** "Decision is the selection from among alternatives of a course of actions."

## **Decision Making Process**

### **Step 1: Identify the decision**

You realize that you need to make a decision. Try to clearly define the nature of the decision you must make. This first step is very important.

### **Step 2: Gather relevant information**

Collect some pertinent information before you make your decision: what information is needed, the best sources of information, and how to get it. This step involves both internal and external "work." Some

information is internal: you'll seek it through a process of self-assessment. Other information is external: you'll find it online, in books, from other people, and from other sources.

### **Step 3: Identify the alternatives**

As you collect information, you will probably identify several possible paths of action, or alternatives. You can also use your imagination and additional information to construct new alternatives. In this step, you will list all possible and desirable alternatives.

### **Step 4: Weigh the evidence**

Draw on your information and emotions to imagine what it would be like if you carried out each of the alternatives to the end. Evaluate whether the need identified in Step 1 would be met or resolved through the use of each alternative. As you go through this difficult internal process, you'll begin to favor certain alternatives: those that seem to have a higher potential for reaching your goal. Finally, place the alternatives in a priority order, based upon your own value system.

### **Step 5: Choose among alternatives**

Once you have weighed all the evidence, you are ready to select the alternative that seems to be best one for you. You may even choose a combination of alternatives. Your choice in Step 5 may very likely be the same or similar to the alternative you placed at the top of your list at the end of Step 4.

### **Step 6: Take action**

Take some positive action by beginning to implement the alternative chosen in Step 5.

### **Step 7: Review your decision & its consequences**

In this final step, consider the results of the decision and evaluate whether or not it has resolved the need identified in Step 1. If the decision has *not* met the identified need, repeat certain steps of the process to make a new decision. For example, gather more detailed or somewhat different information or explore additional alternatives.

## **Types of Decisions**

### **Programmed and non-programmed decisions:**

Programmed decisions are concerned with the problems of repetitive nature or routine type matters.

A standard procedure is followed for tackling such problems. These decisions are taken generally by lower level managers. Decisions of this type may pertain to e.g. purchase of raw material, granting leave to an employee and supply of goods and implements to the employees, etc. Non-programmed decisions relate to difficult situations for which there is no easy solution. These matters are very important for the organisation. For example, opening of a new branch of the organisation or a large number of employees absenting from

the organisation or introducing new product in the market, etc., are the decisions which are normally taken at the higher level.

## **2. Routine and strategic decisions:**

Routine decisions are related to the general functioning of the organisation. They do not require much evaluation and analysis and can be taken quickly. Ample powers are delegated to lower ranks to take these decisions within the broad policy structure of the organisation. Strategic decisions are important which affect objectives, organisational goals and other important policy matters. These decisions usually involve huge investments or funds. These are non-repetitive in nature and are taken after careful analysis and evaluation of many alternatives. These decisions are taken at the higher level of management.

## **3. Tactical (Policy) and operational decisions:**

Decisions pertaining to various policy matters of the organisation are policy decisions. These are taken by the top management and have long term impact on the functioning of the concern. For example, decisions regarding location of plant, volume of production and channels of distribution (Tactical) policies, etc. are policy decisions. Operating decisions relate to day-to-day functioning or operations of business. Middle and lower level managers take these decisions.

An example may be taken to distinguish these decisions. Decisions concerning payment of bonus to employees are a policy decision. On the other hand if bonus is to be given to the employees, calculation of bonus in respect of each employee is an operating decision.

## **4. Organisational and personal decisions:**

When an individual takes decision as an executive in the official capacity, it is known as organisational decision. If decision is taken by the executive in the personal capacity (thereby affecting his personal life), it is known as personal decision.

Sometimes these decisions may affect functioning of the organisation also. For example, if an executive leaves the organisation, it may affect the organisation. The authority of taking organizational decisions may be delegated, whereas personal decisions cannot be delegated.

## **5. Major and minor decisions:**

Another classification of decisions is major and minor. Decision pertaining to purchase of new factory premises is a major decision. Major decisions are taken by top management. Purchase of office stationery is a minor decision which can be taken by office superintendent.

## **6. Individual and group decisions:**

When the decision is taken by a single individual, it is known as individual decision. Usually routine type decisions are taken by individuals within the broad policy framework of the organisation.

Group decisions are taken by group of individuals constituted in the form of a standing committee. Generally very important and pertinent matters for the organisation are referred to this committee. The main aim in taking group decisions is the involvement of maximum number of individuals in the process of decision-making.

### **Problems in Decision Making**

- Level of **Decision Making** Not Clear. Sometimes, there is ambiguity in the level of power a manager holds, whether he holds the right to make modifications in the existing system. ...
- Lack of Time.
- Lack of reliable data.
- Risk-Taking Ability.
- Too Many Options.
- Inadequate Support.
- Lack of Resources.
- Inability to Change

**The Contents in this E-Material has been taken from the text and reference book as given in the syllabus.**