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# UNIT 4 PLANNING PROCESS

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## Structure

- 4.1 Introduction  
Objectives
- 4.2 Planning as an Activity
- 4.3 Strategic and Operational Planning
- 4.4 Formulating a Plan
- 4.5 Summary
- 4.6 Key Words
- 4.7 Terminal Questions
- 4.8 Answers

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## 4.1 INTRODUCTION

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In this course, the previous two units discussed the various concepts of organisation structure and design and managerial communication for understanding the issues in management functions and behaviour. To be effective, the manager needs to make proper planning for better utilization of the human resources. This unit helps the learns to understand the concepts of planning and the issues involved in the planning process.

### Objectives

The objectives of this unit are to:

- understand the managerial process of planning;
- introduce the various methods of formulating plans;
- develop an understanding of planning framework; and
- develop insights into the planning practices in Indian enterprises.

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## 4.2 PLANNING AS AN ACTIVITY

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Planning is a household word today. Perhaps there is no sphere of activity where 'Planning' is not used in one context or the other these days. Though planning as an instrument of aiming at future has been in vogue in business since a long time, its use at the macro-level for the gearing up of operations of Government towards the attainment of certain targets is of recent origin. Our Five Year Plans are an example of macro-level planning for the achievement of targets aimed at increasing the standard of living of our people.

Planning, thus, means having a view of the future and deciding in advance where we would like to be and what is to be done in order to reach there.

## Introduction to Management

Planning starts with the definition of the objectives and the formulation of the specific goals or targets to be achieved. Goals are derived from the analysis of existing situation of an organisation and once defined provide a sense of direction to all managerial activities. In order to achieve the goals, specific plans are drawn up. Objectives, goals or targets provide answer to the question, “Where is the organisation heading to?”

Planning is essentially concerned with the future. Since future conditions are unknown, forecasts or estimates must be made to provide a basis for planning. You will appreciate that better forecasts lead to better planning for future. While most forecasts are made intuitively or on the basis of experience, mathematical tools have been developed to make more accurate forecasts.

Planning is done by managers at all levels of organisation. You will see that all managers plan though the character and breadth of planning may differ at different levels of organisation. For example, while an Assistant Engineer at a work-site plans for the accomplishment of work at his site from day to day or for two or three days in advance, the Chief Project Manager must plan for the whole project over a larger period of time. Similarly, a multinational company's top management must plan over a longer time frame for a world-wide market.

Planning is a means to some end as such involves choices among alternatives- alternative goals, alternative programmes and alternative means of achievement. What alternative to choose gives rise to decision-making which every manager will be required to do.

Question: Do you plan your day? How?

Do you plan for your holidays/vacations? How? Why?

Have you actively participated in the planning of some big event like the Annual Function of your college or the marriage of a female relative of yours? Recapitulate how the event was planned.

If you have given thought to the above questions, you must have sensed the need for planning any activity whatsoever. Planning is considered important because it:

- i) attempts to offset uncertainty by foreseeing the future and bringing about preparedness for the happenings in future. In this way, it minimises the chances of mistakes,
- ii) focuses attention on the objectives or goals of the organisation and their attainment,
- iii) leads to economy in operation through the selection of the best possible course of action,
- iv) helps in controlling the activities by providing measures against which performance can be evaluated,
- v) helps in coordinating the operations of an enterprise since a well-considered plan embraces and unifies all the divisions of an enterprise.

True / False:

- a) Planning starts with the definition of the objectives
- b) Planning is essentially concerned with future.
- c) Planning is done by managers at all level of organisation.
- d) Goals are derived from the analysis of existing situation of an organisation.
- e) Forecasts or estimates provides basis for planning.

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### 4.3 STRATEGIC AND OPERATIONAL PLANNING

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As already explained above, a plan provides a view of the future by defining the goals or targets of the organisation. By themselves the targets would have no meaning unless a time limit is fixed for their attainment, e.g. our Five Year Plans indicate the targets to be attained by the end of the respective plan period viz., five years.

In terms of planning horizon, planning can be of two kinds:

1. Strategic Planning, also known as long-range planning, has two important elements-first it covers a longer period of time which may extend from five to twenty or more years. A capital intensive industry, e.g., a public utility service, or a company dealing in international markets must necessarily plan for a longer period. Strategic planning also takes into consideration the totality of activities of the enterprise. In other words it refers to planning for the total enterprise over a longer duration. Planning for a duration of fifteen, twenty or more years is also known as perspective planning.
2. Operational Planning, tactical planning or short-range planning usually extends over a period of one year and is more detailed. While strategic plans indicate the activities to be undertaken or goals to be achieved in general terms, and are an instrument of planning and control in the hands of top management; operational plans are prepared in more specific terms. These plans are directly concerned with operations and deal with the various functional areas of the enterprise like production, marketing, finance, research and development, etc. They guide lower levels of managers in their day to day activities and serve as a yardstick for measuring their performance.

The following table explains the distinction between operational and strategic planning:

	<b>Operational planning</b>	<b>Strategic planning</b>
<b>Focus</b>	Operating Problems	Longer-term Survival and Development

<b>Objective</b>	Present Profits	Future Profits
<b>Constraints</b>	Present Resources Environment	Future Resources Environment
<b>Rewards</b>	Efficiency, Stability	Development of Future Potential
<b>Information</b>	Present Business	Future Opportunities
<b>Organisation</b>	Bureaucratic/Stable	Entrepreneurial/ Flexible
<b>Leadership</b>	Conservative	Inspires Radical Change
<b>Problem Solving</b>	Reacts, Relies on Past Experience Risk	Anticipates, Finds New Approaches Risk

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**Source:** Bernard Taylor; Strategies for Planning: Long Range Planning (August 1975)  
Quoted by Stoner, Management (Prentice Hall, New Delhi) Page 102.

You should remember that the long-range plans and short-range plans are not mutually exclusive. They overlap and, in fact, an operational plan is a part of the strategic plan in the sense that it contributes to the attainment of some part of the objectives or goals laid down in the strategic plan.

All too often the relationship between the operational plan and strategic plan may be forgotten, and policies may be framed under operational plan which may prove unfavourable for the attainment of long-term goals. For example, the long-term plan may aim at increasing labour productivity per hour by 50%. However, the operational plan aimed at cost reduction might lead to the curtailment of expenditure on manpower development, which in the long run may actually decrease productivity rather than increase it.

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#### **4.4 FORMULATING A PLAN**

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Preparing a plan is a step by step exercise. Generally speaking the following four steps will be involved in planning for an enterprise.

1. Perception of opportunities
2. Establishment of goals
3. Appraisal of planning premises
4. Exploring of action paths and selection of a course of action.

##### **Perception of opportunities**

The first step for you to take while planning is to be aware of the opportunities. As you have studied earlier, plans determine a course of action to be adopted

'today' in order to obtain the desired results 'tomorrow'. In order that planning is regarded as effective, it must anticipate and meet the conditions as they develop in future. Forecasting, therefore, is a prerequisite to planning which simply stated, means making an intelligent estimate of the conditions that will exist during the plan period.

For example, a demand forecast, which shows the level of demand of a particular product over a period of time, is the first step towards production and sales planning in an enterprise.

Quite often existing problems themselves induce managers to search for opportunities. A dealer in fashion goods confronted with the problem of falling sales and profit levels will himself be driven to seek new opportunities. Planning requires realistic diagnosis of opportunities.

### **Establishment of goals**

The second step for you is to establish goals which are to be achieved during the specified period. This implies the establishment of goals for the whole enterprise as also for each of its sub-units. Whatever the goal-profits, sales, market share-it is better if it is measureable because later you will use these goals to evaluate the performance of the unit or its managers. Various kinds of budgets and cost standards provide a means of establishing the standards.

### **Appraisal of planning premises**

Premises refer to the factors in the environment that affect the achievement of goals. Government policy is one of those factors which can have significant impact either favourable or unfavourable on any plan formulated by an enterprise. Take for example a recent change in the Government policy regarding the conversion of debentures into equity. Until recently a conversion of debentures into equity was permissible under certain conditions. A large business house which had taken recourse to such conversion in the past and benefited by it, had planned for new projects banking upon the conversion of a new series of debentures into equity. Almost an overnight ban on such conversion into equity by the Government not only created a crisis situation for that enterprise in respect of the financing of the new projects but it also led to the erosion of confidence of investors in the future plans of the company. As a result the market prices of equity share of the company severely declined. You must have guessed that this is the story of Reliance'.

Planning in any organisation rests on several premises, in other words, on assumptions about the expected environment conditioning the plan. Obviously a change in any one or more assumed conditions will necessitate an alteration in the plans. Such assumptions relate to factors which may affect the plans either from within the enterprise or from outside. Accordingly, planning premises may be grouped as external or internal.

A brief description of some of the factors that influence the formulation of the plan by an enterprise will follow later.

**Explore and determine action paths**

The final step in the planning function is to explore and evaluate alternative plans of action, and determine a specific action plan.

Once the goals have been established and the factor or factors affecting the plans taken care of, actual action plan in the form of programmes and budgets are formulated.

A programme shows:

- a) major steps required to reach an objective,
- b) organisational unit or person responsible for each step, and
- c) sequence and timing of each step.

A programme may be accompanied by a budget which indicates the financial resources allocated by the organisation for the implementation of the plan. Actually in order to achieve the overall goals of the organisation, a number of activities will have to be performed, each activity having a separate programme and a separate budget within the overall programme and budget. The system under which budgets are used for purposes of planning is known as the Budgetary Planning System.

We shall go into some details about the role of budgets in a business enterprise. You should, however, remember that budgets in addition to serving as a tool for planning also serve as a tool for control. This means that at the appropriate time, your performance will be appraised in relation to the budget which had guided you so far. Budget therefore, is an instrument of control also.

**SAQ 2**

Point out the steps which is involved in planning for an enterprise.

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As previously stated planning rests on premises about the expected environmental conditions. Such premises are classified into two categories-

- a) External, i.e. Business Environment
- b) Internal premises can be several, e.g., capital investment made; approved sales forecasts; values and beliefs of top management and the policies adopted; and the given organisational structure.

**Business Environment** refers to the totality of economic, political, social, cultural and technological conditions that affect the formulation of plans of any organisation. Since the environment is primarily looked upon from the point of view of its impact on the demand for the product or services offered by the organisation, changes in the environment may have favourable or unfavourable consequences for the organisation. A rise in per capita income may signify more disposable income and indicate more purchasing power in the hands of consumers. On the other hand, political instability has an undesirable impact on the plans of a business enterprise.

### Capital Investment Committee

Business enterprises today need large capital investment and an investment once made in fixed assets tends to have long-run influence on its future plan as the investment made cannot be recouped except through use.

While developing plans, you should first assess carefully your own resources and commitments made, and adjust the plans in such a manner that the existing resources are more productively utilised.

There are several methods of making demand forecasts and sales projections which you will study elsewhere.

It will be interesting for you to know that some of the most interesting and important contributions in management science are associated with the planning function.

### Values and Policies of Top Management

The plans formulated and action taken by managers in an organisation are immensely affected by the values attached to alternative courses of action and policies pursued in each case. Value defines what is 'good' and what is 'not good'. A top management holding a 'good' belief is not likely to plan for something, which they regard as 'not good'. A case in point is a monthly magazine 'Kalyan' devoted to the propagation of religious literature. It has been the basic policy of the top management of that magazine not to accept any advertisements. While planning for increased revenue advertisements are never considered as an alternative source.

In almost every kind of large-scale enterprise, examples can be found where well-conceived strategic plans were thwarted by an organisational structure that delayed the execution of the plans or gave priority to wrong set of considerations. While drawing up a plan, you should give attention to the needs of the organisation not only in terms of the number and kind of personnel required but also to the change in the organisational structure required for the effective implementation of the plan.

**SAQ 3**

What do you mean by “Business Environment”?

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**4.5 SUMMARY**

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Let us now summarise the ideas contained in this section. The function of management starts with planning and organising. A plan defines the goals which are to be attained during a specified period of time in future. Planning involves a vision of the future. The process of planning, therefore, is a mental exercise involving a choice among alternative goals, programmes and means of achievement. Every manager in an organisation has a role in planning though the character and breadth of planning might differ from manager to manager.

A plan encompasses a period of time in which it is expected that the goals would be attained. This period known as planning horizon can be short or long. A short-term plan generally covers a period of one year and is detailed and much more specific than a long-term plan in defining the goals or targets. The process of formulating a long-term plan is known as strategic planning through which an organisation defines its long-term goals.

In formulating a plan a number of sequential steps are involved. In the first place, you have to look for the opportunities. Scanning the environment and forecasting will enable you to perceive the opportunities that exist. Secondly, you specify the goals that you would like to attain during the planning horizon in measurable terms.

The third step involves an appraisal of those premises on which planning of an organisation rests. Such premises can be external to the enterprise or internal to it. In general the economic, socio-cultural and technological environment tends to influence from outside what managers will plan and how. Among the



internal premises, i.e. factors that influence the plan from within are the capital investment which has already been made or committed, the forecast of sales which has been approved as the basis for planning the values and beliefs of top management, and the capability of the organisational structure of the company.

The final step in planning is to lay down an action plan in terms of programmes and budgets with specific targets.

Research studies relating to planning functions in Indian business generally indicate a low importance given to this function. Though sales forecasting and budgeting is common, long-term planning is done by only few large enterprises.

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#### 4.6 KEY WORDS

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**Strategic planning** : Planning activity undertaken keeping in mind the long-term future of an organisation.

**Operational planning** : Planning activities related to day to day functioning of an organisation.

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#### 4.7 TERMINAL QUESTIONS

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1. Point out the importance of planning.
2. Write short notes on the following:
  - a) Strategic planning
  - b) Operational planning

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#### 4.8 ANSWERS

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##### Self Assessment Questions

1. a) True  
b) True  
c) True  
d) True  
e) True
2. Four steps will be involved in planning for an enterprise that are perception of opportunities, establishment of goals, appraisal of planning premises and exploring of action paths and selection of a course of action.
3. Business environment refers to the totality of economic, political, social, cultural, and technological conditions that affect the formulation of plans of any organisation.

## **Terminal Questions**

1. Planning is considered important because of following reasons:

- i) Attempts to offset uncertainty by foreseeing the future and bringing about preparedness for the happenings in future. In this way, it minimises the chances of mistakes.
- ii) Focuses attention on the objectives or goals of the organisation and their attainment.
- iii) Leads to economy in operation through the selection of the best possible course of action.
- iv) Helps in coordinating the operations of an enterprise.
- v) It provides the basis for control.
- vi) Planning encourages, innovation and creativity.
- vii) Planning facilitates optimum utilisation of available resources.

2. a) **Strategic Planning**

It is also known as long range planning. It covers a long period in future. It is prepared for a period of 5, 10 or 15 years or more. It takes into account the forecasted changes in the environment over the long-term. It provides the overall targets towards which all activities of the organisation are to be directed. It results in long-term commitment of resources. It involves a great deal of uncertainty because the period involved is several years. It tries to match the resources of the organisation (micro aspect) with the environmental threats and opportunities (macro) aspect. A long-term strategic plan takes a macro view of the organisation. It provides direction for the growth of the enterprise.

b) **Operational Planning**

It is also known as short-term and tactical planning. Operational plans are prepared for a period up to one year. They are generally specific and detailed. These plans provide form and content to long-term plans. The main purpose of operational planning is to maximise efficiency in day-to-day operations and to ensure uniformity of action. These plans are directly concerned with operations and deal with the various functional areas of the enterprise like production, marketing, finance, research and development. They guide lower level of managers in their day-to-day activities and serve as a yardstick for measuring their performance. Repairs and maintenance plan, purchase plan, product plan are typical examples of operational planning.