UNIT 12 FUNDAMENTALS OF PLANNING

Structure

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12.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning, nature and importance of the managerial function of planning
- gain familiarity with the various steps of the planning process
- describe the major types of planning - such as Strategic Planning, Tactical planning, Long-range Planning and Short-range Planning
- enumerate and explain the principles on which Planning is based.

12.1 INTRODUCTION

In Unit 10 you have been introduced to the key functions of management. Planning is one of the critical functions of managers, which is closely related to the other functions. Indeed planning is always recognised as a key function of managers at all levels in the organisation. Of late, there has been a vigorous surge of interest in planning all over the world – especially corporate, long-range and strategic planning.

In this Unit, you will learn the fundamentals of planning – its meaning, nature, characteristics, importance and limitations. You will also learn the elements and steps in the planning process, and the role of forecasting in planning. You will further learn the concepts of strategic planning, tactical planning, long-range planning, short-range planning and the essential principles of planning.

12.2 WHAT IS PLANNING?

Most of us are fairly familiar with the meaning of 'Planning' in our everyday life. We do often decide in advance about the things to be done on a busy working day. Parents make advance decision on the education of their children. As students, you may think in advance how to go ahead with the preparation for your examination, how to make use of your time in the best possible manner and so on. Laymen understand planning as some systematic way of deciding about and doing things in a purposeful manner.

However, in the context of formal organisations and their management, the concept of planning has a specific connotation. It means deciding in advance what is to be done in the future for a specific period and then taking the necessary steps to do the things decided upon. It means looking ahead into the future and trying to anticipate what it is likely to be, how it will affect the organisation, what direction the organisation should take, and how to cope with the future events. Planning also implies determination of courses of action from among alternatives to achieve the goals of the organisation, both in the immediate future and in the long run. The very notion of planning brings to mind such images as neat, orderly and disciplined approach to work, goal-oriented behaviour, thinking about and arranging things in advance, careful allocation of scarce resources, and so on. In short, planning may be defined as the process of setting future objectives and deciding on the ways and means of achieving them.

12.3 NATURE AND CHARACTERISTICS OF PLANNING

The managerial function of planning has certain unique characteristics of its own, which distinguish it from the other managerial functions. It also shares a few characteristics with other managerial functions. All the characteristics together reflect the nature of the planning function. They are discussed as below:

i) **Primacy of Planning:** Planning precedes all other managerial functions. The process of management begins with planning. Planning provides the basis for the subsequent functions of organising, staffing, directing and controlling, though all the functions are highly interrelated and are equally important. Planning is the prime function from which the other functions get the necessary base.

ii) **Planning as a process:** Planning is a process involving a few stages or steps. It is a sub-process of the process of management. The planning process begins with identification of mission and goals of the organisation and ends with making arrangement for implementation of plans.

iii) **Pervasiveness of planning:** Planning is a pervasive function of managers at all levels of the managerial hierarchy, right from the chief executive down to the first line supervisor. However, the content and quality of the function differ from level to level. The time developed to planning also differs. Typically, the chief executive and other, top level managers concentrate on corporate-wide planning function. Their decision on planning have far-reaching effects on the organisation. Managers at middle and lower levels have more limited planning functions.

Planning is also pervasive across the various organisational function areas. In a manufacturing enterprise, for example, we come across such activities as production planning, materials requirements planning, manpower planning, financial planning, and so on.

iv) **Future orientation:** Planning is invariably future-oriented. Henri Fayol defined planning as the process of looking ahead (thinking ahead) and making provision to tackle future events and situations. The concern for future makes sense to the extent that planning is intended to cope with uncertainties and unknowns which unfold themselves as one march into the future.

It is needless to state that planning cannot be anything other than future-oriented: one does not plan for the past and the present. Of course, while planning for the future, managers consider the relevant events and situations of the past and the present within and outside the organisation.

v) **Information base:** Planning is backed by information. Without information planning exists in a vacuum. Information on the past trends, current conditions and future possibilities are essential for planning. Information needed to diagnose planning issues and problems, to develop alternative courses of action to evaluate them and to make final choice of plans.

vi) **Rationality:** Planning is a rational managerial activity. It implies that planning is a purposeful and conscious managerial function. It is backed by adequate information, knowledge and understanding. Managers who are planners are somewhat objective and unemotional in their approach to planning. They make planning decisions with some awareness of their consequences.

vii) **Formal and informal nature:** Planning has both formal and informal elements. Formal planning refers to a systematic and rigorous process of arriving at planning decision through investigation and analysis of the various factors. Formal planning is more explicit, and open; responsibility for various aspects of planning is pinpointed among managers. Plans are put into writing and are communicated through the organisational channels of communication to the various managerial levels.

Informal planning is done by managers through an intuitive process. Managers carry plans in their heads in the form of specific but flexible intentions and communicate them to others through word of mouth. Informal planning may also be viewed as a trial and error, fragmented, intermittent process as against a systematic step-by-step and logical process of formal planning.

viii) **Intellectual process:** Planning is an intellectual process and requires certain conceptual skills. It requires abilities to think both in abstract and concrete terms, to visualize and look ahead into the future and to form ideas and images of future expectations and desires. Planning also calls for intellectual abilities to anticipate opportunities and threats in the environment, to diagnose problems, develop alternative courses of action, and analyse them for choosing the right course.

ix) **Pragmatic, action-orientation:** Although planning is an intellectual thinking activity, it is primarily pragmatic and action–oriented. Planning

precedes action and is often described as action laid out in advance. To think before acting and to decide before doing are part of the discipline and culture of planning. The focus is on actionability of plans, i.e., their quality of being implementable. Planning is also reality-oriented.

x) **Planning as a form of decision making:** Planning involves problems solving and decision making. It is a process of identification of issues and problems needing decision, collection of relevant information, evaluation of alternative courses and choices of the most appropriate alternative. Decisions are made on organisational objectives, strategies, policies, programmes, procedures and other plans. They are all choices from alternatives. They also involve mobilisation, allocation and commitment of resources and efforts in specific ways.

xi) **Planning premises:** Planning is based on certain assumption and estimates about the future behaviours of events and situations in the environment. These are formally known as 'planning premises' which are derived through the process of forecasting. Without such assumptions planning becomes an empty speculative exercise. Managers make promises or assumptions about the future events for purposes of planning in order to have a sense of security and certainty in the midst of grave uncertainties and complexities of the environment.

xii) **Dynamism:** Planning is a dynamic process. It is process of making the organisation selectively move and change in tune with relevant changes in the external environment. It is a process of building flexibility and adaptability into the functioning of the organisation. It is a process of making continuous assessment and reassessment of the goals, resources, direction opportunities and problems of the organisation and converting them to serve its needs.

xiii) **Levels of planning:** Planning is often divided into a few levels on the basis of their scope, significance and time span. On the basis of scope, there are two levels: (1) corporate planning covering the entire organisation, and (2) sub-corporate or functional planning carried on within the various functional units or divisions. On the basis of significance, we may divide planning into strategic planning and tactical or operational planning. On the basis of time span, there are two levels:

1) Long-range planning covering periods of more than one year in general, and

2) Short-range planning covering a period of one year or less.

The division of planning into various levels facilitates analysis of the dimensions and critical elements of planning. Even so, planning is an integrated function. Thus, different levels of planning should be balanced and coordinated so that they support one another.

xiv) **Types of plans:** The process of planning produces several types of 'plans' which may be viewed as a series or hierarchy of decisions and 'action packages'. They include: objectives or goals, strategies, policies, programmes budgets, schedules, procedures, methods, rules and so on. Some of the plans such as objectives and budgets serve as integral elements

of the planning process while others such as policies, procedures, rules and methods serve as facilitating tools for smooth planning. All the plans are categorised into two broad groups; (i) single use plans, and (ii) standing plans. Single use plans are those which are designed to meet specific, non-repetitive and unique situations, while standing plans are those which are fairly stable and are meant to handle a wide range of repetitive situations over a period of time.

12.4 IMPORTANCE OF PLANNING

The importance of the planning function should have been clear after all that you have read about it till now. We may outline the importance of planning function as follows:

i) **Provides directions:** Planning provides a clear sense of directions to the activities of the organisation and to the job behaviour of managers and others. It strengthens their confidence in understanding where the organisation is heading and what for, how best to make the organisation move along the chosen path, and when should they take what measures to achieve the goals of the organisation.

ii) **Provides opportunity to analyse alternative courses of action:** Another source of importance of planning is that it permits managers to examine and analyse alternative course of action with a better understanding of their likely consequences. If managers have an enhanced awareness of the possible future effects of alternative courses of action, for making a decision or for taking any action, they will be able to exercise judgment and proceed cautiously to choose the most feasible and favorable course of action.

iii) **Reduces uncertainties:** Planning forces managers to shake off their inertia and insular outlook; it induces them to look beyond those noses, beyond today and tomorrow, and beyond immediate concerns. It encourages them to probe and cut through complexities and uncertainties of the environment and to gain control over the elements of change.

iv) **Minimises impulsive and arbitrary decisions:** Planning tends to minimise the incidence of impulsive and arbitrary decisions and ad hoc actions; it obviates exclusive dependence on the mercies of luck and chance elements; it reduces the probability of major errors and failures in managerial actions. It injects a measure of discipline in managerial thinking and organisational action. It improves the capability of the organisation of assume calculated risks. It increases the freedom and flexibility of managers within well-defined limits.

v) **King-pin function:** As stated earlier, planning is a prime managerial function which provides the basis for the other managerial functions. The organisational structure of task and authority roles is built around organisational plans. The functions of motivation, supervision, leadership and communication are addressed to implementation of plans and achievement of organisational objectives. Managerial control is meaningless without managerial planning. Thus, Planning is the king-pin function around which other functions are designed.

vi) **Resource Allocation:** Planning is a means of judicious allocation of strategic and scarce resource of the organisation in the best possible manner for achieving strategic goals of the organisation. The strategic resources include funds, highly competent executives, technological talent, good contacts with government, exclusive dealer network and so on. If the organisation enjoys a distinct advantage in possession of such resources, a careful planning is essential to allocate them into those lines which would strengthen the overall competitive position of the organisation.

vii) **Resource use efficiency:** For an ongoing organisation, planning contributes towards a more efficient functioning of the various work units. There is better utilisation of the organisations existing assets, resources and capabilities. It prompts managers to close gaps, to plug loopholes, to rectify deficiencies, to reduce wastage and leakages of funds, materials, human efforts and skill so as to bring about an overall improvement in resource use efficiency.

viii) **Adaptive responses:** Planning tends to improve the ability of the organisation to effectively adapt and adjust its activities and directions in response to the changes taking place in the external environment. An adaptive behaviour on the part of the organisation is essential for its survival as an independent entity. For a business organisation, for example, adaptive behaviour is critical in technology, markets, products and so on.

ix) **Anticipative action:** While adaptation is a behaviour in reaction and response to some changes in the outside world, it is not enough in some situation. In recognition of this fact, planning stimulates management to act, to take bold initiatives, to anticipate crises and threats and to ward them off, to perceive and seize opportunities ahead of other competitors, and to gain a competitive lead over others. For the purpose, some enterprises establish environmental scanning mechanism as part of their planning systems. Thereby such enterprises are able to direct and control change, instead of being directed and controlled by the pervasive external forces of change.

x) **Integration:** Planning is an important process to bring about effective integration of the diverse decisions and activities of the managers not only at a point of time but also over a period of time. It is by reference to the framework provided by planning that managers make major decisions on organisational activities in an internally consistent manner.

Check Your Progress A

1) Which of the following statements are True and which are False?

i) Among other things, Planning implies determination of concern of action from among alternatives.

ii) Planning follows all other managerial functions.

iii) Planning cannot be future-oriented as the future is always uncertain.

iv) Planning has both formal and informal elements.

v) Planning reduces the probability of major errors in management.

2) Fill in the blanks:

i) Planning is the process of setting …….objectives.

ii) .....and ……of planning function differ from level to level of management hierarchy.

iii) Informal planning is done through the …….. process.

iv) As planning requires certain conceptual analytical skills, it is regarded as an…….. process.

v) Assumptions and estimates about the future events are known as planning…….

vi) Plans which are drawn to meet specific, unique situations are known as……..

vii) Planning is a means of judicious ……..of resources.

viii) Planning stimulates management to take ……..

12.5 LIMITATIONS OF PLANNING

You have learnt the nature and importance of planning. Let us now discuss its limitations.

i) **Based on certain assumptions:** Planning is based on certain assumption or premises derived from forecasts about the likely behaviour or relevant future events and variables. If such assumptions or premises turn out to be wide off the mark, the very basis of plans gets affected. Afterall, forcasting is not an exact science.

ii) **Incomplete information:** The information needed for planning is often incomplete. It may not be available in time and its reliability tends to be doubtful. In several situation, managers are forced to make planning decisions on the basis of partial knowledge because of time lags and credibility gaps in information.

iii) **Lack of control:** Managers have little knowledge and less control over several elements of external environment. There is often no way to bring external situation under the discipline of planning. Several external events tend to influence organisational activities and plans in random and perverse ways, as for example natural calamities, sudden strikes, government policy changes, and so on.

iv) **Difficult to change with the changing environment:** Planning, under conditions of rapid changes in the external environment tends to be a tough job; plans would become quickly outdated and irrelevant even before they are implemented. Though flexible plans would be of some help under such conditions, there are also limits on injecting flexibility into organisational plans.

v) **Fluid process:** Planning is essentially a 'fluid' process in the sense that it is always in a state of flux. This is because of the march of the times and

subtle changes which characterise the future as it unfolds. Future is always a moving target. It is not easy to visualise an integrated composite view of the past, present and future for planning purposes.

vi) **Delay in action:** Since planning means thinking and deciding before doing things, it is likely to delay action. For one thing, thinking and deciding are somewhat slow intellectual exercises. Many managers may not have the time or taste for such exercises. For another, managers attach more importance to action and that too timely action wherein lies much activism and dynamism.

vii) **Rigidity:** The plans produced through the planning process tend to introduce rigidity into the functioning of the organisation. Managers are likely to insist on strict compliance with pre-determined pans. This may sometimes mean foregoing new opportunities and better options. A faithful conformity with plans would stifle initiatives beyond the established ways and routines.

viii) **Plans might remain on paper:** At the other extreme it is also likely that plans remain on paper as some sacred documents worthy to be respected and preserved and not followed or implemented. They may be far removed from realities such that managers regard them as 'untouchables'. Alternatively, managers may be too busy in struggling with crises to find time for going along planned courses.

ix) **Difficult to implement at unit level:** It may be easy to formulate broad plans at the corporate level. Problems are likely to arise when managers try to prepare more detailed plans in physical and financial terms at functional and unit levels for purposes of implementations. The detailed plans, if and when prepared, may not reflect the intents of the broad plans in a consistent manner.

12.6 THE PROCESS OF PLANNING

We have stated earlier that planning is a process consisting of certain steps or series of sequential activities. There is no generally accepted or standard format of the planning process. Different authors have their own ways of conceptualising the planning process. Let us discuss one of the conceptual schemes of the process of planning.

i) Planning to plan: Planning does not just occur on its own or with the issue of an order from the chief executive. It has to be properly and carefully decided upon and planned. The management of the organisation has to inject a culture of planning at all the levels of management by highlighting the imperatives and virtues of planning as also the philosophies and techniques embedded in it. It has to educate the managers in various departments by arranging training programmes and conferences on the methodology of planning so as to improve their competence to plan. The required planning system has to be designed and activated. This is especially so with regard to a new organisation.

ii) Appraisal of internal situation: In this step, top management in collaboration with other managers, have to make an analyses of the current state of affairs with the organisation – its existing plans, processes, activities,

performance levels, achievements and problems. It is essential to review in detail the specific strengths and weaknesses of the organisation in its sphere of operations. For example, products and services it supplies, financial position, manpower and managerial resources, competitive position, profitability levels, market image, manufacturing and other facilities, R&D advantages, capital structure, and so on. Management has also to make forecasts and projections of the likely future positions and trends of the organisations activities in all the above areas.

iii) **Appraisal of the external environment:** Top management of the organisation is vitally concerned with the analysis of external environmental conditions for planning purposes. This facilitates them in understanding the elements and events in the world outside the organisation which effect its present and future functioning. Appraisal of environmental trends in economic, social, technological and other means of relevance for the organisation is to be continuous process. Not only the present but also the likely future trends have to be appraised though systematic scanning and forecasting mechanisms. This will enable the organisation to identify the present and future opportunities and threats in the various external elements with which the organisation is directly concerned.

iv) **Definition of key areas and issues for planning:** The appraisal of internal and external environmental conditions gives to the management an idea about what tentative planning the organisation needs. Managers have to ask themselves whether, in the light of external appraisal, the existing businesses, products, markets, processes and practices are relevant, and which aspects of them have to be retained, strengthened, refined and modified. The analysis also may reveal the need for new directions to strengthen the competitive position of the organisation, and to bring about a better alignment between the organisation and the external environment. It may also unearth the possibilities of going into new businesses, new technologies, new products and new markets. An important outcome of the above appraisal is identification of possible measures necessary to cope with environmental opportunities and threats, which are likely to help or hinder, as the case may be, the performance and progress of the organisation.

v) **Development of alternative plans for evaluation and choice:** In this stage, manager have to apply their creative and innovative skills to generate alternative plans-mission, objectives, strategies, policies and programmes – on the basis of assessment of planning needs. They are generally of corporate-wide and long–range in character, ranging from 5 to10 years ahead, depending on circumstances. Devlopment of alternative plans calls for an intensive thinking and search on the part of managers. For example, a business enterprise has several options to increase its economic power and profitability —— by increasing the sales of its existing products in the existing markets, by exploring new markets, by going in for new products, by acquiring outside enterprises and so on. The objective of improving its economic power could be achieved by one or a combination of some of the above alternative strategies.

An important part of this stage is the evaluation of alternative plans by reference to their comparative merits and demerits whereupon choices have

to be made from among the alternative on the basis of certain predetermined selection criteria.

The choices are the decision of managers which will chart the long-range directions of the organisation for a specified period of time.

vi) **Formulation of medium range and short-range plans:** The long-range set of organisational plans provides the basis for formulation of more specific medium–range and short-range plans. Medium– range plans have a time span of more than one year but up to three years in general. Short-range plans are progressively more specific than long-range plans. Short-range plans are called operational plans and the process of formulating them is called 'Operational Planning'. Medium-range plans and short-range plans are generally formulated in such functional management areas like manufacturing, marketing, purchase, personnel finance, R&D and so on. They are further 'de-composed' into more detailed sectional and unit plans valid for basic units of operations in the organisation.

vii) **Arrangements for implementation of plans:** Effective implementation of plans and decision is the crux of the planning process. Since plans are implemented by managers and others at various levels of the organisation, it is essential for top management to enlist their co-operation, participation and commitment for the purpose. Authority and accountability have to be pinpointed specifically among the various managers for implementation of plans, for acquiring and allocation of resources and tasks, for making day-to-day decision and taking initiatives and for activating the communication system in the organisation.

12.7 FORECASTING AS AN ELEMENT OF PLANNING

We have stated earlier that forecasting is an essential element of the planning process. The term forecasting refers to the process of making systematic but tentative appraisal of future conditions and events for a specified period of time – whether for a few months or, a few years ahead. It is a process of predicting relevant future situations which are likely to affect the activities of the organisation. It is an attempt to look ahead and make tentative estimates and projections of the behavior of relevant variables in the environment.

Since planning is future–oriented, forecasting is a basic ingredient of the planning process. Forecasting provides vital clues to managers on what the future problems and prospects are likely to be for the organisation. By means of forecasting, managers generate information on several dimensions and aspects of the environment –economic, social technological and political –which are directly relevant to the functioning and fortunes of the organisation and which directly influence the planning and other decision, initiatives and responses of managers. Forecasting is necessary to enable managers to get important inputs for planning and make informed judgment about the likely impact of the external forces on the organisations present and the future courses of action. Organisational plans are based on proper and reliable information generated by managers through forecasting and other means.

For a business enterprise, for example, several aspects of future trends should be understood through forecasting. They include: future sales trends of the products and series of the enterprise, based on an assessment of future demand, supply cost and competitive conditions, likely levels and trends of profitability, future technological changes, general economic and industry trends, likely emergence of new products, new processes and new markets, probable changes in population characteristics, their levels of income, life styles and buying patterns and so on.

The individual enterprises may be able to get part of the above information on the basis of forecasts made but other agencies –say government, trade associations, academic and research organisation, consultancy firms and so on. But forecasts on internal variables like sales, profits, markets share, cost trends etc. have to be made by the enterprise itself.

Forecasting and Premising: For purposes of formulating plans, managers have to convert the appraisals, estimates and projections about the future events into certain meaningful assumptions, which are known as planning 'Premises'. This conversion process is called premising which is an essential follow–up action after forecasting. Planning premises form the foundation of organisational plans. They are in the nature of informed guesses of managers with respect to specific future trends. A few examples of planning premises are given below:

a) The enterprise will maintain its competitive strength over the next four years.

b) There will be revolutionary developments in TV technology during the next five years.

c) There will be future liberalization in the economic and industrial policies of government with respect to big business enterprises.

Planning premises are categorised in various ways. **External premises** relate to general economic and business condition, social, political technological and other trends. **Internal Premises** are confined to the enterprise's activities – as for example, cash flow, cost of products and services, profitability and so on. **Tangible premises** are qualitative, as sales volume of Rs.50 crores, for example. **Intangible Premises** are qualitative, as for instance the competence and character of managerial personnel in the organisation. **Controllable Premises** are those which are manageable by the enterprises (example: advertising expenditure). **Uncontrollable Premises** relate to acts of god or man about which little can be done by the industrial enterprise (example: A big fire in the plant, government policies etc.)

Forecasts and planning premises are different from plans. The former outline what the future is likely to be. The latter underline what the enterprise should do in future. Further, forecasts and planning premises do not reduce the complexity and uncertainty of the behaviour of future events and in going ahead with confidence to cope with them.

It is true that forecasting is most unlikely to be perfect and that it is in fact a hazardous exercise especially in a situation of rapidly changing external conditions. Forecasts are only approximations and estimates. Future events may not behave exactly according to forecasts and premises made by managers. But

still forecasting before formulating plans is an inescapable exercise. Without intelligent and systematic forecasting organisational plans would be mere expectation and pious wishes.

Check Your Progress B

1) Fill in the blanks :

i) The information needed for planning is often …… and may not be ……

ii) One of the limitations of planning is that it is essentially a …… process.

iii) Appraisal of the external ……is an essential requirements in the planning process.

iv) Forecasting provides vital ……..to manager about the future problems and prospects.

v) The estimated sales of the future is an example of …… …….. premises for the managers of a company.

2) Which of the following statements are True and false?

i) Planning leads to delayed action as it involves prior thinking.

ii) Development of alternative plans is most essential for planning at the functional level.

iii) Forecasting and premising for planning are one and the same thing.

iv) Planning premises and forecasting reduce the uncertainties and complexities of the future.

v) Medium–range plans have a duration of more than one year

12.8 TYPES OF PLANNING

Planning may be categorised into several types on the basis of certain variables. Here we will divide the function of planning into four categories on the basis of two variables –degree of comprehensiveness and time span. On the basis of degree of comprehensiveness, planning is divided into strategic planning and tactical planning. On the bases of time span, we may divide planning into long-range planning and short- range planning. Let us have a brief idea of the four types of planning.

Strategic Planning: The term strategic planning refers to the process of determining the integrated organisation —— wide courses of action to achieve the major objective of the organisation. The term has a military origin where it is used to describe the process of formulation of military campaigns to achieve military goals of defending the home territory and defeating the enemy forces. In military parlance, strategic planning covers such aspects as how to attack the enemy and from how many fronts, the size and combination of ground forces, air forces and naval forces, the amount or resources to be developed, the timing of the various moves, the areas to be fortified and defended and so on. The term acquired great significance in non–military situations also. We often hear of strategies to achieve the goals of Five Year Plans at the national and regional

levels, strategies for solving rural drinking water problems, strategies to reduce the growth rate of population and so on. In the context of business enterprises, **strategic planning consists of formulation of strategies which are in the nature of critical and intelligent courses of action to gain upper hand over competitive and other complex external forces in the environment.** It involves tentative chalking out of the major measure and moves necessary to perceive and exploit opportunities and to tackle threat and constraints, in the light of distinctive strengths and inevitable weaknesses of the enterprises.

The kinds of questions that top management of the enterprise asks itself and finds answer in strategic planning include: what are the most significant market and other opportunities and in what way they are relevant to the enterprise? What are the kinds and complexities of external problems, threats and constraints forced by the enterprise? How should the enterprise take advantage of relevant opportunities and to tackle the threats and constraints (as for example: price cuts, aggressive advertising campaigns, introduction of new or improved products, and so on initiated by rival enterprises) in order to achieve the objectives. In what specific areas and businesses did the enterprise concentrate its efforts to gain or retain its competitive dominance? Into what new businesses should the enterprise extend its activities?

Strategic planning is a means of improving the enterprises' competitive position in relation to other existing and potential rivals in the industry. It is an attempt to design an action plan on how, where and when the strategic resources of the enterprise (investment funds, customer goodwill, and loyalty, distribution network, R&D facilities and so on) have to be developed, and the combination sequence and timing of various major decision and initiatives necessary to achieve the enterprise goals of growth, diversification, high profitability, competitive power, good market share and so on.

Tactical Planning: Tactical planning refers to the process of formulating more specific, functional, sub-plans to implement the strategies of the enterprise. Tactical planning is more limited in its scope and consists of detailed decisions and actions initiated at lower managerial levels to exploit situations as and when they arise and to cope with local, operational problems. It is sub–corporate wide in nature. Tactical plans take the form of small, successive steps or moves taken in a concerted manner. Tactical decision are concerned with what and how activities are to be carried out, what performance criteria are to be established, how scare resources are to be utilised efficiently and so on.

Tactical planning is carried out on the basis of more information under less risky conditions and in a more structured manner than strategic planning. Tactical planning provides the basis for detailed specification of various activities to be carried out by the enterprise in a coordinated and time-bound basis.

To take an example, a major objective set by the top management of an enterprise manufacturing industrial goods is rapid growth by doubling the sales volume within a period of next four years. To achieve this objective, one of the strategies formulated by the enterprise is diversification into manufacture of consumer goods. To implement this strategy the enterprise formulated specific polices on ‘make or buy,’ internal growth vs acquisitions or mergers, foreign collaboration and so on. Within the framework of the above strategy and policies, tactical

plans and decision on such aspects as size of operations, product types, sizes, quality ranges customer services, distribution channels and so on are designed.

The distinction between strategic planning and tactical planning is one of scope and impact. In many cases, the two types of planning become indistinguishable. They are however, inter-dependent.

Long-range Planning: The term 'long-range planning' refers to the process of formulating the long-range objectives of an organisation and of determining the ways and means of achieving such objectives. The term 'long-range' indicates the extent of future time horizon, the fairly long period of time which can be visualized and verbalized into tentative objectives by the organisation. The duration and limit of long-range differs from enterprise to enterprise and from situations to situation. For some enterprises, 3 to 5 years is a fairly long time horizon, while for others, 25 to 30 years and even beyond is the relevant planning time frame. The long-range planning period is determined keeping in view the nature of the enterprise's business, its size and growth rate, the extent of variability of the environment, the time required for converting major decision into tangible results and so on.

Long-range planning provides a frame work for determination of such critical goals as the desired growth rate of the enterprise's assets or sales and profitability, new activities in the future, major new investments, areas of development, and disinvestment, and so on. As Peter Drucker stated, every enterprise should ask itself these and similar questions in the context of complex and dynamic nature of external environment. Business and other organisations cannot expect that their present business, product lines and activities, technology, profit levels and markets will continue to remain relevant in the future. Long–range planning is intended to induce such awareness and to enable managers to make current major decision with a fairly good sense of future outlook.

Short-range Planning: The term 'short-range planning' refers to the process of formulating short-range objectives and of deciding on the courses of action or plans, to achieve them. Short-range planning is done for a time span of one year or less. In general, it is carried out within the framework of long-range planning, and for achieving long-range objectives, in a step–by-step manner. A short-range plan is an attempt to breakdown a long-range plan into compact and actionable programmes. Short-range planning is more action-oriented, more detailed, specific and quantitative. For example, if the long-range goal of an enterprise is to increase its sales volume by 50% during the course of next five years, it has to formulate its short-range plan for the next one year to bring about an increase of say 20% in its sales turnover. It has to formulate a detailed budget of short-range goals, targets of performance, activities, and resource requirements in a time-bound manner. Short-range planning provides the basis for a coordinated performance of activities, allocation of resources, assignment of tasks and design of appropriate plane, implementation and programme evaluation system. Long-range plans are implemented in this manner by programming, budgeting and scheduling efforts and activities needed to achieve organisations goals.

It may be noted that tactical planning and short-range planning are also referred to as **Operational Planning,** because they represent planning of detailed operations at the lower levels of management at middle and supervisory levels.

12.9 PRINCIPLES OF PLANNING

Since planning is a function of management, it must be based on certain principles to serve as guidelines for undertaking the function in right earnest. We may outline the principles of planning as below.

1) **Principle of top management interest:** The chief executive of the organisation must show genuine interest in planning, submit himself to the discipline of planning and must inspire his team to do the same.

2) **Principle of long-range view:** Every managers must plan decisions after a full analysis and understanding of their long-term future effects, and after objectively considering all the available facts.

3) **Principle of contribution to objective:** Planning should be purposeful. It should directly contribute to the achievement of organisational objectives or desired ends.

4) **Princeple of primacy of planning:** As stated earlier, planning holds the prime position in the process of management. It is logically regarded as the first function of managers from which all other function flow.

5) **Principle of flexibility:** The principle suggest that flexibility in planning helps the organisation to cope with rapid and unforeseen changes in the external events. This can be achieved without abandoning the pre-determined plans or without inviting adverse consequences even if drastic.

6) **Principle of navigation change:** This principle is related to the principle of flexibility. It indicates that a regular process of monitoring the course of external events is to be combined with a review and revision of plans in order to achieve desired goals just as a navigator negotiates his ship's way by making changes in his route in response to behaviour of the water mass.

7) **Principle of commitment:** This principle helps in the determination of the planning period. Planning should cover a period of time necessary to fulfil the commitments involved in a decision. For example, if a student makes a decision to join a three years B.Com Course, his planning period is three years.

8) **Principle of the limiting factor:** A limiting factor is one which stands in the way of achieving the desired objective. Managers should pay due attention to tackle those limiting factor which hinder the smooth progress in achievement of objectives.

Check Your Progress C

1) Which of the following statements are True and which are False?

   i) Strategic Planning consists of formulation of strategies for the organisation as a whole.

   ii) Tactical planning is carried out under more risky condition than strategic planning.

   iii) Operational planning includes both long-range and short-range planning.

iv) The principle of flexibility of planning suggests that plans should be changed as frequently as possible.

v) The principle of commitment helps in the determination of the planning period.

2) Fill in the blanks:

i) Strategic and tactical planning are defined on the basis of …….

ii) Courses of action planned to gain upper hand over competitive and other external forces are known as …….

iii) Tactical planning involves a more …… approach than strategic planning.

iv) Long-range planning provides a …….. for determining critical goals.

v) Any factor which stands in the way of achieving desired goals may be called a ……..factor.

12.10 LET US SUMUP

Planning is the process of setting future objectives and deciding on the ways and means of achieving them. It means deciding in advance what is to be done in the future for a specific period and then taking the necessary steps to do the things decided upon.

Planning precede all other managerial functions. It is a sub-process of the process of management. It pervades all levels and all branches of management. Planning is invariably future-oriented but is backed by information relating to the past trends, current conditions and future possibilities. It is a purposeful conscious managerial function. It has both formal and informal elements. At the same time, planning is an intellectual process and requires certain analytical and conceptual skills. Even then, it is primarily a pragmatic and action-oriented function. Planning involves problem solving and decision–making. It is based on certain assumptions and is a dynamic process.

Planning may be divided into certain levels on the basis of scope, significance, and time span, e.g. corporate planning and functional planning; strategic planning and tactical planning; long-range planning and short-range planning. All types of plans may be broadly categorised into two groups. Single use plans and Standing plans.

The importance of planning functions stems from the following benefits of planning. Planning provides a clear sense of direction to the activities of the organisation and the job behaviour of managers and others. It permits managers to examine alternative courses of action with a better understanding of their likely consequences. Planning forces managers to shake of their inertia and induces them to look beyond the immediate concerns. It minimizes the incidence of impulsive and arbitrary decisions and ad hoc actions. Planning provides the basis for all other managerial functions. It is a means of judicious allocation of strategic and scarce recourses of the organisation, and also brings about an over

all improvement in the efficiency of resource use. Further, planning improves the ability of the organisation to adopt effectively and adjust its activities in response to changes in the external environment. It stimulates management to take bold initiatives to anticipate crises or threats and to prevent them and to perceive and seize opportunities ahead of competitors. It is also an integrative process at a point of time as well as over a period of time.

The limitations of planning arise out of the following elements. The assumptions and forecasts which form the basis of planning may be wide off the mark. Information requird may not be reliable or may not be available in time. Changes in external environment are often beyond the knowledge and control of management, particularly in the case of rapid changes. Further, planning is always in a state of flux, due to the continuous and subtle changes taking place in the environment. Besides, planning may delay action as it involves prior thinking and deciding. Often the plan formulated introduces rigidity in the functions of managers. On the other hand, plans may be far removed from reality and thus become difficult to implement, particularly with respect to detailed plans.

The process of planning involves: Planning to plan, appraisal of internal conditions and external environment, defining key areas and issues for planning, development of alternative plans for evaluation and choice, formulation of medium-range and short-range plans and implementation of plans.

Forecasting is an essential element of the planning process. It provides vital clues to managers through the generation of information on several dimensions of economic, social and technological environment. It also provides estimates and projections about the future events.

The appraisals, estimates and projections provided by forecasting are converted into meaningful assumptions known as planning premises. The premises may be of different categories: external, internal, tangible, intangible, controllable and uncontrollable.

Planning may be divided into four categories on the basis of degree of comprehensiveness and time span. These are: Strategic Planning, Tactical Planning, Long-range Planning and Short-range Planning. Tactical and Short-range planning are also referred to as Operational planning.

As a function of management, planning is best carried out on the basis of certain principles viz., of top management interest, long-range view, contribution to objectives, primacy of planning, flexibility, navigational change, commitment, and limiting factor.

12.11 KEY WORDS

Forecasting: Estimating the future behavior of variables affecting the business unit.

Long-range Planning: Formulating the long-run objectives and determining the ways and means of achieving those objectives.

Objectives: Goals or purposes towards which business activities and operations are directed.

Operational Planning: Planning of detailed operations at the middle and supervisory levels of management.

Planning: The process of setting future objectives and deciding on the ways and means of achieving them**.**

Policies: Guidelines for decision-making and action.

Strategic Planning: The process of planning which involves product, market decisions in the light of environmental changes and internal resources.

Strategy: Courses of action to gain upperhand over competitive and other environmental forces.

Tactical Planning: The process of formulating specific, functional sub-plans to implement the strategic plan.

12.12 ANSWERS TO CHECK YOUR PROGRESS

A) 1) i) True ii) False iii) False iv) True v) True

2) i) future ii) content, quality iii) intuitive iv) intellectual v) premises vi) single use plans vii) allocation viii) bold initiative

B) 1) i) incomplete , reliable ii) fluid iii) environment iv) clues v) tangible

2) i) True ii) False iii) False iv) False v) True

C) 1) i) True ii) False iii) False iv) False v) True

2) i) comprehensiveness ii) strategies iii) structured iv) framework v) limiting

12.13 QUESTIONS FOR PRACTICE

1) Define the concept of planning and explain its salient characteristics.
2) Comment on the following statements :
   a) Planning is a pervasive process.
   b) Planning is a useless exercise in a situation of rapidly changing environment.
   c) Planning and decision making are two sides of the same coin.
3) Do you think that planning is a guarantee for organisational success? Give reasons.
4) Is there any need for planning a plan? Explain.
5) The limitations of planning are too serious to make planning a credible function. Do you agree? Why?
6) What is the difference between strategic and long –range planning?
7) Discuss the process of planning.

8) Why is forecasting so important for planning?

9) What are planning premises? How are they relevant to planning?

10) Explain the principles of planning.

11) 'Long-range planning is concerned with making today‘s decision with a better sense of futurity'.Comment.

12) What is the role of top management in the planning process?

Note: These questions will help you to understand the unit better. Try to write answer for them. But do not send your answers to the University. These are for your practice only.

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