
UNIT 14 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
- develop insights into the planning practices in Indian enterprises

Structure

- 14.1 Planning as an Activity
- 14.2 Strategic and Operational Planning
- 14.3 Formulating a Plan
- 14.4 Planning Framework
- 14.5 Planning Practices in Indian Organisations
- 14.6 Summary
- 14.7 Self-assessment Test
- 14.8 Key Words
- 14.9 Further Readings

14.1 PLANNING AS AN ACTIVITY

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.

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 long 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.

Activity A

As a manager, identify various planning activities that you are involved in.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.

14.2 STRATEGIC AND OPERATIONAL PLANNING

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.

	Operational Planning	Strategic Planning
Focus	Operating Problems	Longer-term Survival Development
Objective	Present Profits	Future Profits
Constraints	Present Resources Environment	Future Resources Environment
Rewards	Efficiency, Stability	Development of Future Potential
Information	Present Business	Future Opportunities
Organisation	Bureaucratic/Stable	Entrepreneurial/Flexibl
Leadership	Conservative	Inspires Radical
Problem Solving	Reacts, Relies on Past Experience Low Risk	Anticipates, Finds New Approaches High Risk

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 longterm 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.

14.3 FORMULATING A PLAN

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



Sales forecasts, which are a projection of expected sales over a period of time, provide a framework on which plans of most enterprises are based. Since sales give rise to revenues which sustain the enterprise, business enterprises tend to attach a great deal of importance to the framing of such forecasts. A forecast of rising sales over a long-term would indicate the need for the expansion of the facilities. On the other hand, a decline should alert the management to look into the causes of decline and initiate corrective actions.

Generally speaking, making a sales forecast is a two-step process:

1. Make industry-wise demand forecast.
2. Make sales forecast for a specific company.

For example, if you are in automobile business producing two-wheelers, first estimate the total demand for two-wheelers by types and then estimate your market share and the demand for the two-wheeler you are producing or intend to produce.

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.

Organisational Structure

Plans are implemented through an organisational structure which consists of people arranged in a hierarchy, each one responsible for the performance of a specific task in coordination with others. Quite often it may be found that a particular plan drawn up cannot be satisfactorily implemented simply because the structure is such that while on the one hand there is duplication of effort, on the other hand, there is nobody to look after another part of the job.

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.

14.5 PLANNING PRACTICES IN INDIAN ORGANISATIONS

Several researchers have looked into the planning practices in Indian enterprises. Some of these studies are reported here:

Richman and Copen (1972)

Virtually all of the medium-sized and larger companies surveyed established at least some quantitative objectives or targets on an annual or short-term basis. These generally include profitability, sales and production objectives. Most also had some kind of growth objectives and some general guidelines to help determine those areas in which the firm would concentrate or expand its efforts. However few defined longer-term objectives clearly.

Only one of the Indian firms surveyed, a drug producer, did a truly thoughtful job of developing a long-term growth and development model. It identified explicitly a



desirable position to strive for several years in the future and designed specific strategies to reach it. This firm established specific three and five-year goals for market share and profitability.

In general, planning processes and plans at firms studied in India focused on the short run, and in particular on short-term projections of monthly, weekly and daily operating data. Planning documents consisted mostly of sales forecasts and some kind of operating budgets. However, these were prepared more for control purposes than for future planning. The only planning activity found in most of the major firms was the translation of a sales forecast into requirements of imported raw materials and the ordering and stockpiling of these items. In only a few cases were accurate forecasts of capital requirements or productive capacities made.

Bhatia (1981)

This research study on the objectives of a sample of 65 out of the 251 giant companies listed by Research Bureau of Economic Times, revealed that only 45 per cent of these have explicitly defined objectives and 55 per cent do not have expressed objectives. Moreover out of those which have specified their objectives 17 per cent feel that their objectives are confidential and not to be divulged.

The above evidence indicates that the Indian business organisations, specially the large-sized, do realise the need and urgency of planning their operations over longer periods of time. Many however, still consider planning over longer periods a waste of effort primarily because of a larger measure of uncertainties prevailing in the Indian environment.

The Section 14.7 at the end of this unit contains an extract from the chairman's speech of a fairly large Indian company which is indicative of how Indian business look at the planning function and how they proceed to take advantage of the opportunities available in the environment.

You should read it carefully and answer the questions given at the end.

14.6 SUMMARY

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.

14.7 SELF-ASSESSMENT TEST

Perspective Planning in Mahindra Ugine Steel Co. Ltd.

The following passages are extracted from the statement of the chairman of Mahindra Ugine Steel Co. Ltd. at its annual general meeting in 1971. These extracts will provide you an idea of the importance attached to a perspective (long-term) plan for an enterprise and also of some of the factors which condition the planning of a business enterprise.

"I am happy to advise you that in furtherance of our plans to expand the capacity of your Plant and to achieve maximum economies of scale your Company has been able to submit a comprehensive plan to the Government for enlargement of the productive capacity upto 60,000 tonnes of finished Tool, Alloy and Special Steels per annum In planning the expanded capacity of our plant we shall strive to achieve maximum diversification of the end-products consistent with a favourable capital-output ratio... For this, we have to constantly strive to expand our operations and diversify our product-mix so that the goals are met or even exceeded.

The observations about our sales and the outlook for our Company prompts me to discuss briefly the developments and trends in our own industry and share some thoughts on perspective planning. Planning today is a universally accepted exercise for one and all. It involves looking as far ahead as the data on our hands and our vision permit. In the life of a corporation this means a close study of all the factors that shape its progress and influence it decisively. There are several such factors and one such all-important factor, external to the organisation that could provide the guidelines for future growth is the assessment of the potential market. I attach overriding importance to a sincere, honest and realistic attempt to size up the approximate if not the exact requirements of a given product for a given year in the planning and creation of manufacturing capacity.

Your Company is vitally interested in making projections of its own growth with the help of macro-projections of the demand for Mild, Alloy and Special Steels released by various Government and semi-Government agencies. During the last decade there has been several such macro-projection . The last estimates of demand for Steel have come from NCAER. Most of the studies work out the potential demand with the help of the end-use method which is a simple but down to earth technique to assess the short-term as well as long-term demand in developing countries. The recent estimates of NCAER also utilise the same method.

In the latest study of the demand for Steel, the NCAER has taken full account of (a) all the major steel consuming sectors, (b) requirements of such consumers, (c) increase in demand due to export of Steel, (d) Steel content of machinery and engineering goods to be exported, (e) possible reduction in demand due to substitution of Steel by items such as plastics, asbestos, cement, aluminium, etc. in such products as motor cars, railway rolling stock, ship-building, pipes and tubes, (f) Price elasticity of Steel demand and (g) Steel content of imported products and so on.

The main assumption underlying the end-use method is firstly that the targets for various industries obtained from research organisations like the Planning Commission or those of NCAER itself, would be achieved. Experience tells us that this has not always been a correct assumption and plan targets for even the major steel consuming sectors get elasticised. Also in several industries there have been shortfalls in respect of the attainment of targets. As you can see for yourselves, such shortfalls may result in over-estimation of the requirements. Conversely, where targets are exceeded, which is not often the case, the forecast of requirements for a particular industry turn out to be under-estimates.



Secondly, the success of the end-use method is largely conditioned by the accuracy of the norms that relate the Steel industry to the Steel consuming industry by indicating the input co-efficient. Such norms are known to change with technological progress and innovations and there have been several occasions in the past when estimates have gone haywire on account of unrealistic norms having been adopted. For instance, the norms employed by the Perspective Planning Division in its 1965 estimate of the requirements of Alloy and Special Steels have been replaced by the NCAER which has employed its own norms for various industries. The end-use method thus assumes that the impact of technological changes would be minimal, if not nil on the norms of consumption of Steel. Naturally to obtain more accurate figures at the end of such an exercise, the final estimates are adjusted upward to provide for such findings of changes in various consuming sectors. In order to make the macro-projections meaningful for the producers to plan and expand their capacity, it is essential that norms are kept under review and at the end of every year or so the Associations of Consumers and Producers should get together and see that any significant changes in the norms are reflected in the demand figures and necessary adjustments and/or corrections are made on the overall demand projections. By such an exercise the year to year projection of demand would be rendered more realistic and would provide a workable basis to determine the gap between demand and availability.

With these considerations regarding the merits and demerits of the end-use technique in mind, let us consider the recent studies in demand estimates with special reference to the products of our own industry viz. Alloy and Special Steels. There have been as many estimates of demand for Alloy and Special Steels as there are for other Steels also. As against about 300,000 tonnes for 1973-74 and 430,000 tonnes for 1978-79, estimated by the Steering Group of the Steel Ministry in 1968 and incorporated in the Fourth Five Year Plan document, the latest study of the Council provides for 434,000 tonnes for 1975 and 817,000 tonnes for 1980.

The estimates of the Steering Committee as revised by the Technical Wing of the Steel Ministry have now become available. Accordingly the demand for Alloy and Special Steels has been revised upwards from 300,000 tonnes to 400,000 tonnes for 1973-74 and from 430,000 tonnes to 590,000 tonnes for 1978-79. What is of interest to your Company as a producer of Alloy Constructional Steel in these varying estimates is that for 1973-74 the estimates of both the Technical Wing and the NCAER arrive at almost the same figure, but for a difference of only about 2,000 tonnes. The marginal divergence, however, turns out to be sizable in the estimates for the end of the Seventies. As against the Technical Wing's estimate of 178,700 tonnes for 1978-79, the Council Places the demand for Alloy Constructional Steel at 239,906 tonnes for 1980.

It is now accepted that the assessment of the Technical Wing has been rather conservative and that the Council's studies despite certain limitations are more realistic. A message that emerges loud and clear from these studies is that even after the schemes for expansion or setting up of new units on green sites which are now under consideration are successfully implemented by the end of the decade, there would still be a gap, probably substantial rather than marginal between requirements and actual production.

All said and done the numerous estimates referred to above need to be further processed and worked upon for purposes of drawing meaningful conclusions that guide us in deciding about future investments in the creation of new Alloy Steel capacity and in determining the ideal product-mix for your or other plants. The breakdown of such broad aggregates into categories, grades, shapes, surface finish i.e. black or bright, etc. is a pre-condition for successful corporate planning. Quite a few snap judgments, I am afraid, have already been made based on broad aggregate demand resulting in duplication of capacity of the same size ranges. And circumstances may force us to amend them, it not reverse such decisions. In this context, I would emphasize that before a final sanction is issued for creation of fresh capacity, adequate thought is given to the point whether such fresh capacity should



come about through new units on green sites or through expansion of existing units or both. These considerations weigh very heavily in favour of the second proposition. Expansion would firstly help creation of new capacity faster; it would involve lower capital investment; and finally what is important, it would help the existing units to achieve economies of scale.

It is high time that a master perspective plan for the speedy expansion of Steel capacity in the country is drawn up and Government and industry jointly and single-mindedly work for the crystallisation of such plans. This exercise has to be followed by clearer thinking about the future needs.

A corporate or industrywise perspective plan considers not only the market potential for a product but also the derivative demand for essential inputs to be supplied by the feeder and ancillary industries. Only such an assessment of the requirements and availability of raw materials would give meaning and content to the perspective plan.”

Questions:

What factors influence the planning in MUSCO?

How does Government policy influence planning in MUSCO?

What method of making future forecasts is referred to in these passages? What are its elements? How accurately can be the forecasts arrived at through this method? Find out from the books listed below what the other methods of demand forecasting are.

14.8 KEY WORDS

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.

14.9 FURTHER READINGS

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