PLANNING

Planning is **the function of management that involves setting objectives and determining a course of action for achieving those objectives**. Planning requires that managers be aware of environmental conditions facing their organization and forecast future conditions.

Definitions of Planning:

'Planning is an intellectual process of conscious determination of actions, decisions, and considered estimates.'- [Koontz and O'Donnel]

'Planning is the selection of objectives, policies, procedures, and programmes from among alternatives.' – [M.S. Hurley]

'Planning is deciding the best alternative to perform different managerial operations for achieving pre-determined goals.' – [Henry Fayol]

'Planning is an intelligent decision-making process in which creative thinking and imagination are essential.' – [Haynes and Massie]

'Planning is a continuous process of making present entrepreneurial decisions systematically.' – [Peter F. Drucker]

'Planning is, in essence, the exercise of foresight.'- [Hamilton Church]

IMPORTANCE OF PLANNING

I. **Planning provides directions:** By stating in advance how work is to be done planning provides **direction for action**. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction.

II. **Planning reduces the risks of uncertainty**: Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance, the tasks to be performed, planning shows the way to deal with changes and uncertain events.

III. **Planning reduces overlapping and wasteful activities**: Planning serves as the basis for coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding.

IV. **Planning promotes innovative ideas**: Since planning is the first function of management, **new ideas can take the shape of concrete plans**. It is the most challenging activity for the management as it guides all future actions leading to the growth and prosperity of the business.

V. **Planning facilitates decision-making**: Planning helps the manager to look into the future and make a choice among various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition.

VI. **Planning establishes standards for controlling:** Planning involves the setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organising, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured.

Importance of Planning - Why Planning is Important?

1. Increases Efficiency
2. Reduces Business-related Risks
3. Facilitates Proper Coordination
4. Aids in Organising
5. Gives Right Direction
6. Keeps Good Control
7. Helps to Achieve Objectives
8. Motivates the Personnel
9. Encourages Creativity and Innovation
10. Helps in Decision Making

FEATURES OF PLANNING

I. **Planning focuses on achieving objectives**: Organisations are set up with a general purpose in view. **Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals.**

II. **Planning is a primary function of management:** Planning lays down the base for other functions of management. **All other managerial**

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functions are performed within the framework of the plans drawn. Thus, planning precedes other functions.

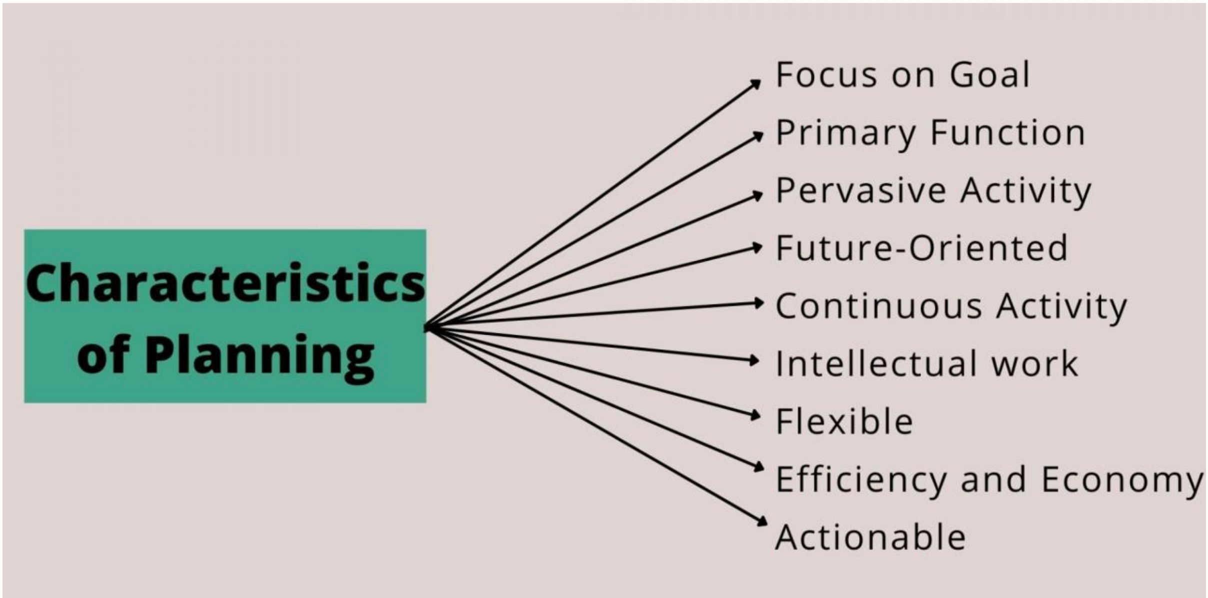
III. **Planning is pervasive:** Planning is required at all levels of management as well as in all departments of the organisation.
- It is not an exclusive function of top management or any particular department. But **the scope of planning differs at different levels and among different departments.**
- For example, the top management undertakes planning for the **organisation as a whole**. Middle management does the departmental planning.
- At the lowest level, **day-to-day operational** planning is done by supervisors.

IV. **Planning is continuous:** Plans are prepared for a specific period, maybe for a month, a quarter, or a year. At the end of that period, **there is a need for a new plan to be drawn up based on new requirements and future conditions.**

V. **Planning is futuristic:** Planning essentially involves looking ahead and preparing for the future. **The purpose of planning is to meet future events effectively to the best advantage of an organisation.** It implies peeping into the future, analysing it and predicting it.

VI. **Planning involves decision-making: Planning essentially involves choice among various alternatives and activities**. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice. The need for planning arises only when alternatives are available.

VII. **Planning is a mental exercise:** Planning requires the application of the mind involving foresight, intelligent imagination and sound judgement. **It is an intellectual activity of thinking rather than doing because planning determines the action to be taken.**



LIMITATIONS OF PLANNING

I. **Planning leads to rigidity**: In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. **These plans then decide the future course of action and managers may not be in a position to change it.**

II. **Planning may not work in a dynamic environment**: The business environment is dynamic, nothing is constant. **The environment consists of several dimensions, economic, political, physical, legal and social dimensions.** The organisation has to constantly adapt itself to changes.

III. **Planning reduces creativity: Planning is an activity which is done by the top management.** Usually, the rest of the members just implement these plans. As a consequence, **middle management** and other decision-makers are neither allowed to **deviate from plans nor are they permitted to act on their own.**

IV. **Planning involves huge costs**: When plans are drawn up huge costs are involved in their formulation. **These may be in terms of time and money, for example, checking the accuracy of facts may involve a lot**

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of time. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans.

V. **Planning is a time-consuming process:** Sometimes plans to be drawn up taking so much time that there is not much time left for their implementation.

VI. **Planning does not guarantee success**: **The success of an enterprise is possible only when plans are properly drawn up and implemented.** Any plan needs to be translated into action or it becomes meaningless.

PLANNING PROCESS

I. **Setting Objectives**: The first and foremost step is setting objectives. Every organisation must have certain objectives. **Objectives may be set for the entire organisation and each department or unit within the organisation.** Objectives or goals specify what the organisation wants to achieve.

II. **Developing Premises**: Planning is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future. Therefore, **the manager is required to make certain assumptions about the future. These assumptions are called premises.**

III. **Identifying alternative courses of action:** Once objectives are set, assumptions are made. Then the next step would be to act upon them. **There may be many ways to act and achieve objectives. All the alternative courses of action should be identified**. The course of action which may be taken could be either **routine or innovative.**

IV. **Evaluating alternative courses:** The next step is to **weigh the pros and cons of each alternative.** Each course will have many variables which have to be weighed against each other. **The positive and negative aspects of each proposal need to be evaluated in light of the objective to be achieved.**

V. **Selecting an alternative:** This is the real point of decision-making. **The best plan has to be adopted and implemented**. The ideal plan, of course, would be the most feasible, profitable and with the least negative consequences.

VI. **Implementing the plan:** This is the step where other managerial functions also come into the picture. **The step is concerned with putting the plan into action, i.e., doing what is required.** For example, if there is a plan to increase production then more labour, and more machinery will be required. This step would also involve organising labour and the purchase of machinery.

VII. **Follow-up action:** To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. **Monitoring the plans is equally important to ensure that objectives are achieved.**

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TYPES OF PLANS

I. **Single-use Plan:** A single-use plan is developed for a one-time event or project. Such a course of action is not likely to be repeated in future, i.e., they are for non-recurring situations. The duration of this plan may depend upon the type of the project. It may span a week or a month. These plans include budgets, programmes and projects.

II. **Standing Plan:** A standing plan is used for activities that occur regularly over some time. It is designed to ensure that the internal operations of an organisation run smoothly. **Standing plans include policies, procedures, methods and rules.**

Based on what the plans seek to achieve, plans can be classified as **Objectives, Strategy, Policy, Procedure, Method, Rule, Programme, and Budget**.

OBJECTIVES

The first step in planning is setting objectives. **Objectives, therefore, can be said to be the desired future position that the management would like to reach.** Objectives are very basic to the organisation and they are defined as ends that the management seeks to achieve through its operations.

STRATEGY

A strategy provides the broad contours of an organisation's business. **It will also refer to future decisions defining the organisation's direction and scope in the long run.** Thus, we can say a strategy is a comprehensive plan for accomplishing an organisation's objective. This comprehensive plan will include three dimensions,

a. determining long-term objectives,
b. adopting a particular course of action, and
c. allocating resources necessary to achieve the objective.

POLICY

Policies are general statements that guide thinking or channelise energies towards a particular direction.

- Policies provide a basis for interpreting strategy which is usually stated in general terms.

- **They are guides to managerial action and decisions in the implementation of the strategy.**
- For example, the company may have a recruitment policy, and pricing policy within which objectives are set and decisions are made.

PROCEDURE

Procedures are routine steps on how to carry out activities.

- **They detail the exact manner in which any work is to be performed. They are specified in chronological order.**
- For example, there may be a procedure for requisitioning supplies before production.
- Procedures are specified steps to be followed in particular circumstances.

METHOD

- Methods provide the prescribed ways or manner in which a task has to be performed considering the objective.
- **It deals with a task comprising one step of a procedure and specifies how this step is to be performed.**
- The method may vary from task to task.

RULE

- Rules are specific statements that inform what is to be done.
- They do not allow for any flexibility or discretion.
- It reflects a managerial decision that a certain action must or must not be taken.

PROGRAMME

Programmes are detailed statements about a project which outline the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action.

BUDGET

- A budget is a statement of expected results expressed in numerical terms.
- It is a plan which quantifies future facts and figures. **For example, a sales budget may forecast the sales example, for higher level management orientation of different products in each area for a particular month.**
- A budget may also be prepared to show the number of workers required in the factory at peak production times.

MULTIPLE CHOICE QUESTIONS

Q1: At which step of the planning process, the best and most feasible plan will be chosen to be implemented?

a) Selecting an alternative

b) Evaluating alternative course of action

c) Setting up objective

d) Developing Premises

Q2: In which step of the planning process pros and cons of each alternative is examined?

a) Developing Premises

b) Setting up Objective

c) Evaluating alternatives course of action

d) Selecting an alternative premise

Q3: Planning is the ______.

a) Primary/First function of the manager

b) Both a) and d)

c) None of the options are correct

d)The last function of the manager

Q4: Making assumptions for the future is called ______.

a) Making policy

b) All of the options are correct

c) Setting planning premises

d) Making derivative plans

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Q5: The composite plan which involves setting up a long-term objective, finding a course of action and allocation of resources is called _______.

a) Programme

b) Strategy

c) Procedure

d) Policy

Q6: Which of the following is a benefit of planning?

a) Helps in avoiding confusion and misunderstanding.

b) Ensures clarity in thought and action.

c) Useless and redundant activities are minimised or eliminated.

d) All of the above.

Q7: Which of the following statements is not true concerning planning?

a) Planning is a pre-requisite for control

b) Planning does not lead to rigidity.

c) Planning enables a manager to look ahead and anticipate changes.

d) Planning facilitates coordination among departments and individuals in the organisation.

MANAGEMENT BY OBJECTIVES (MBO)

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees. It is also known as management by results.

- **Management by objectives** (**MBO**) is a process of defining objectives, within an organization, so that management and employees agree to the objectives and understand what they need to do in order to achieve them.
- The term "Management by Objectives" was first popularized by Peter Druker in his book *The Practice of Management in* 1954.

According to the theory, having a say in **goal setting and action plans encourages participation and commitment among employees, as well as aligning objectives across the organization.**

MBO is based on the following Assumptions:

1. **Existence of mutual understanding between a superior and a subordinate.**

2. Employees can perform better when they know what is expected from them and how their efforts contribute to the organization.

3. It assumes that employees are **interested** to participate in the formulation of plans, want to know the results of their performance, and expect to be fairly rewarded for their performance.

KEY POINTS OF MBO

Management by objectives (MBO) is a process in which a manager and an employee agree on specific performance goals and then develop a plan to reach them.

- It is designed to align objectives throughout an organization and boost employee participation and commitment.
- There are five steps: **Define objectives, share them with employees, encourage employees to participate, monitor progress, and finally, evaluate performance and reward achievements.**
- Critics of MBO argue that it leads to employees trying to achieve the set goals by any means necessary, often at the cost of the company.1:

Features of Management by Objectives MBO:

1. **Superior-subordinate participation:** MBO requires the superior and the subordinate to recognize that the development of objectives is a joint project/activity. They must jointly agree and write out their duties and areas of responsibility in their respective jobs.

2. **Joint goal-setting:** MBO emphasizes joint goal-setting that is tangible, verifiable, and measurable. The subordinate in consultation with his superior sets his own short-term goals. However, it is examined both by the superior and the subordinate that goals are realistic and attainable. In brief, the goals are to be decided jointly through all participation.
3. **Joint decision on methodology:** MBO focuses special attention on what must be accomplished (goals) rather than how it is to be accomplished (methods). The superior and the subordinate mutually devise a methodology to be followed in the attainment of objectives. They also mutually set standards and establish norms for evaluating performance.
4. **Makes way to attain maximum results**: MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focusing on attainable goals. It permits a lot of freedom for a subordinate to make creative decisions on his own. This motivates subordinates and ensures good performance from them.
5. **Support from the superior**: When the subordinate makes efforts to achieve his goals, the superior's helping hand is always available. The superior acts as a coach and provides his valuable advice and guidance to the subordinate. This is how MBO facilitates effective communication between superiors and subordinates for achieving the objectives/targets set.

Management by Objectives (MBO) in 5 Steps

MBO outlines five steps that organizations should use to put the management technique into practice.

1. Either determine or revise organizational objectives for the entire company. This broad overview should be derived from the firm's mission and vision.
2. Translate the organizational objectives to employees. **In 1981, George T. Doran used the acronym SMART** (specific, measurable, acceptable, realistic, time-bound) to express the concept.

3. **Stimulate the participation of employees in setting individual objectives.** After the organization's objectives are shared with employees from the top to the bottom, employees should be encouraged to help set their objectives to achieve these larger organizational objectives. This gives employees greater motivation since they have greater empowerment.
4. **Monitor the progress of employees**. In step two, a key component of the objectives was that they are measurable for employees and managers to determine how well they are met.
5. **Evaluate and reward employee progress**. This step includes honest feedback on what was achieved and not achieved for each employee.

Advantages

- Employees take pride in their work and are assigned goals they know **they can achieve that match their strengths, skills, and educational experiences.**
- Assigning tailored goals gives employees a sense of importance**, boosting their output and loyalty to the company.**
- Communication between management and employees is increased.
- **Management can create goals that lead to the success of the company.**

Disadvantages

- As MBO is focused on goals and targets, it often ignores other parts of a company, such as the culture of conduct, a healthy work ethos, and areas for involvement and contribution.
- **Strain is increased on employees to meet the goals in a specified time frame.**
- Employees are encouraged to meet targets by any means necessary, meaning that shortcuts could be taken and the quality of work compromised.
- If management solely relies on MBO for all management responsibilities, **it can be problematic for areas that don't fit under MBO.**

What is an example of MBO?

Aran and Sons, Inc. sets a marketing goal to triple its social media following in just one year.

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- Employees first gather performance data to determine their performance cap or how well the team can perform with current resources.
- They then define everyone's role in the marketing team and create a list of each team member's objectives that contribute to the primary goal.
- The leaders then research what steps to take to triple their following, applying any new information to each team member's individual goals and determining whether to hire more personnel to spread the workload.

MULTIPLE CHOICE QUESTIONS

Q1: Management by Objective (MBO) is also known as

a) Management by results

b) Management by goals

c) Management by planning

d) Management by evaluation

Q2: Management by Objective (MBO) is a

a) Sets of rules

b) Series of procedure

c) Way of thinking about management

d) All of the above

Q3: In Management by Objective (MBO), the manager and subordinate jointly

a) Identify Common goals

b) Defines each individual's major areas of responsibility

c) Assess the contribution of each of its members

d) All of the above

Q4: Objectives are the ______ of Management action.

a) Design

b) Endpoints

c) Starting points

d) Planning

Q5: Long-term objectives are aimed to be achieved

a) Within one year

b) Within 2 years

c) In more than 3 years

d) In more than 5 years

Q6: Management objectives when it is being considered must have

a) Multiple objectives

b) Three objectives

c) Two objectives

d) Single objective

Q7: Objectives should provide direction to

a) Managerial activities

b) Marketing

c) Financing

d) All of the above

Q8: The following factor(s) are to be considered for establishing the company's objectives.

a) Personnel available

b) Total expected demand

c) Market area to be covered

d) All of the above

Q9: Objectives are decided by

a) Superior

b) Subordinates

c) Mutual consultations of both superior and subordinates

d) None of the above

Q10: The following is not true for MBO

a) It acts as an effective Performance appraisal tool

b) The superior evaluates the individual concerned

c) It forces the management to plan the activities in a systematic way

d) Better management and improved communication

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Q11: The following is (are) the disadvantage(s) of Management by Objective (MBO).

a) Inflexibility

b) Lack of relevant skill

c) Lack of individual motivation

d) All of the above