

Class 12 Business Studies

CHAPTER – 4

PLANNING

Meaning:

- Deciding in advance what to do & how to do it. It is one of the basic managerial functions.
- It involves 2 aspects:
Setting of aims and objectives of the organization + Selecting and developing an appropriate course of action to achieve these objectives.
- Koontz and O'Donnell - —Planning is deciding in advance what to do, how to do, when to do, and who to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen.
- Involves setting of objectives & developing an appropriate course of action to achieve these objectives

Importance of Planning

1. **Planning provides directions:** By stating in advance how the work is to be done planning provides direction for action. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its goals efficiently.
2. **Planning reduces the risk of uncertainty:** Planning is an activity which enables a manager to look ahead, anticipate change, consider the impact of change and develop appropriate responses.
3. **Planning reduces wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different departments and individuals whereby useless and redundant activities are mentioned.
4. **Planning promotes innovative ideas:** Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.
5. **Planning facilitates decision making:** Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option.

6. Planning establishes standards for controlling: Planning provides the standards against which the actual performance can be measured and evaluated. Control is blind without planning. Thus planning provides the basis for control.

Limitations of Planning

(A) Internal Limitations

1. Planning leads to rigidity: Planning discourages individual's initiative & creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organization.

2. Planning may not work in dynamic environment: Planning is based on anticipation of future happenings and since future is uncertain and dynamic therefore, the future anticipations are not always true.

3. Planning involves huge costs: When plans are drawn up, huge cost is involved in their formulation.

4. Planning is time consuming: Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.

5. Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn and implement. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.

6. Planning reduces creativity: In planning, work is to be done as per pre-determined plans. It is decided in advance what is to be done, how it is to be done and who is going to do it. Moreover, planning is done by top management which leads to reduction of creativity of other levels of management.

(B) External Limitations

They are those limitations of planning which arises due to external factors over which an organization has no control.

1. Changes in Government policies way leads to failure of planning.

2. Natural calamities such as flood, earthquake etc. also adversely affect the success of planning.

3. Changes in the strategies of competitors also leads to failure of planning many times.

4. Regular technological changes may affect planning.

5. Changes in the Economic and Social Conditions also reduces the effectiveness of planning.

Planning Process

1. Setting Objectives:

- Objectives specify what the organization wants to achieve.
- Objectives can be set for the entire org. & stated to each dept. within the org. very clearly, to determine how all depts. would contribute towards overall objectives.
- Then these have to percolate down to all employees at all levels so that they understand how their actions contribute to achieving objectives.
- E.g. Objective could be to achieve sales, expansion of business etc.

2. Developing Premises:

- Plans are made on the basis of some assumptions.
- These assumptions, which provide the basis for planning, are called premises.
- All managers involved in planning should be familiar w/ them, cuz plans are expected to operate & reach their destination subject to these. They can be:
 - Internal premises: Cost of products, capital, machinery, profitability etc.
 - External premises: Changes in technology, population growth, competition, govt. policies etc

3. Identifying Alternative Courses Of Action:

- After setting the objectives, managers make a list of alternatives through which the org. can achieve its objectives as there can be many ways to achieve the objectives & managers must know all of them.
- E.g. Sales could be increased through any of the following ways:
 - By enhancing advertising expenditure
 - Appointing salesmen for door-to-door sales
 - By offering discounts
 - By adding more product lines.

4. Evaluating Alternative Courses Of Action

- Positive & negative aspects of each & every proposal need to be evaluated to determine their feasibility and consequences in the light of each objective to be achieved.
- E.g. In financial plans, risk-return trade-off are imp. Riskier the investment, higher the returns it is likely to give. To evaluate such proposals, detailed calc. of earnings, taxes, earnings per share etc. should be done.

5. Selecting The Best Alternative

- Real point of decision-making→ Best plan has to be adopted and implemented.
- The ideal plan = most feasible, profitable and with least negative consequences.
- Most plans may not be subjected to mathematical analysis. In such cases, subjectivity & manager's experience, judgment and intuition are important to select the most viable alternative.
- Sometimes a combination of plans may be selected instead of one best course.

6. Implementing The Plan

- Concerned with putting the plan into action.
- For implementing the plans, managers start organizing & assembling resources for it.
- E.g. If there is a plan to ↑ production, then more labour, more machinery will be reqd. This step would also involve organizing for more labour and purchase of machinery.

7. Follow Up Action

- This involves monitoring the plans and ensuring that activities are performed according to the schedule.
- Whenever there are deviations from plans, immediate action has to be taken to bring implementation according to the plan or make changes in the plan.