CBSE CLASS 12 BUSINESS STUDIES

CHAPTER – 4

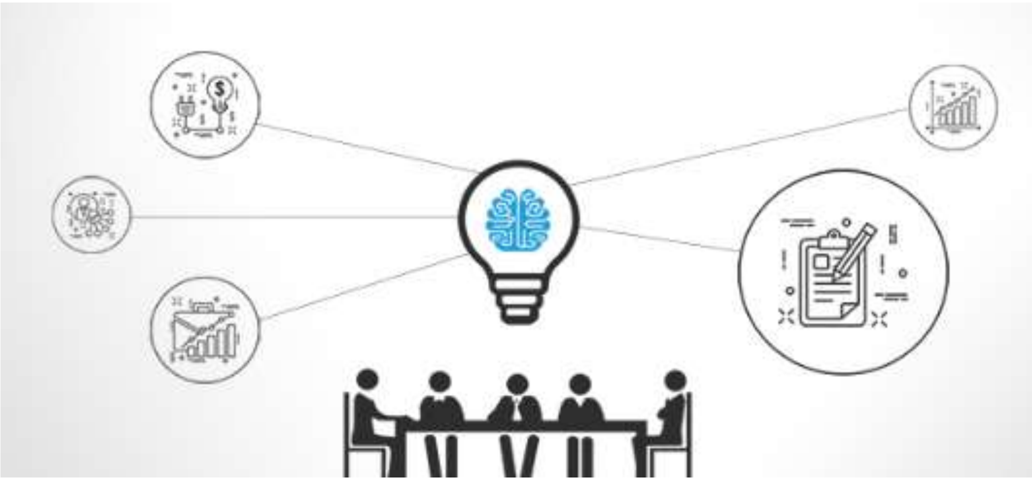
PLANNING

REVISION NOTES

DEFINITION

"Planning is an intellectual process, conscious determination of course of action, the basing of decision on purpose, facts and considered estimates.".

Koontz and O'Donnell



MEANING

- Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions.
- It involves setting objectives and developing appropriate courses of action to achieve these objectives.
- The plan that is developed has to have a given time frame but time is a limited resource. It needs to be utilised judiciously.

IMPORTANCE OF PLANNING

1. Planning provides directions: By stating in advance, how the work is to be done planning provides direction for action. Planning ensures that objectives are clearly stated in order to develop appropriate course of action. If the plans are set, the department and individuals can work in coordination.

2. Planning reduces the risk of uncertainty: Planning is an activity, which enables a manager to look ahead and anticipate changes. Changes or events cannot be eliminated but by deciding the plans and course of action in advance managers can anticipate it and adjust the plans according to the situation.

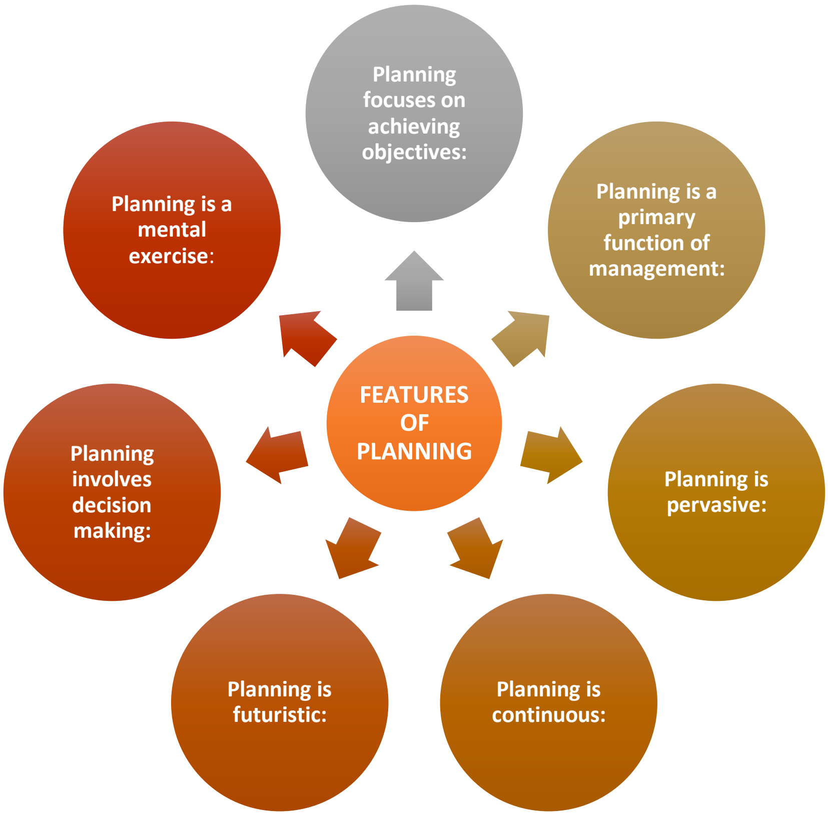
3. Planning reduces overlapping and wasteful activities: Planning serves as the basis of coordinating the activities and efforts of different divisions departments and individuals. It reduces useless and redundant activities, avoids confusion and misunderstanding, and ensures clarity in thought and action.

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. It guides all future action leading to growth and prosperity of the business.

5. Planning facilitates decision making: Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions from alternative courses of action.

6. Planning establishes standards for controlling: Planning provides the standards against which the actual performance is measured. Therefore planning is a prerequisite for controlling.

FEATURES OF PLANNING



1. **Planning focuses on achieving objectives:** Organisations set up with general goals and specific goals along with the plans and activities to be undertaken to achieve these goals.

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

3. **Planning is pervasive:** Planning is required at all levels of management as well as in all departments of the organisation. The scope of planning is different at different levels and for different departments.

4. **Planning is continuous:** Continuity of planning is related with the planning cycle. It means that a plan is framed, it is implemented, and is followed by another plan, and so on.

5. **Planning is futuristic:** The purpose of planning is to meet future events effectively to the best advantage of an organisation. Planning involves forecasting future events and conditions and drafting the plans accordingly.

6. **Planning involves decision making:** Planning essentially involves choice from 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.

7. **Planning is a mental exercise**: Planning requires application of the mind involving foresight. Planning is an intellectual activity, which requires logical and systematic thinking rather than guess work.

LIMITATIONS OF PLANNING

1. Planning leads to rigidity: In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time but managers may not be in a position to change it. As the business environment is dynamic managers need to be given some flexibility to cope up with the changed circumstances.

2. Planning may not work in dynamic environment: Planning is based on anticipation of future happenings and since future is uncertain and dynamic so the organisation needs to adapt itself to changes. However planning cannot foresee the future events effectively.

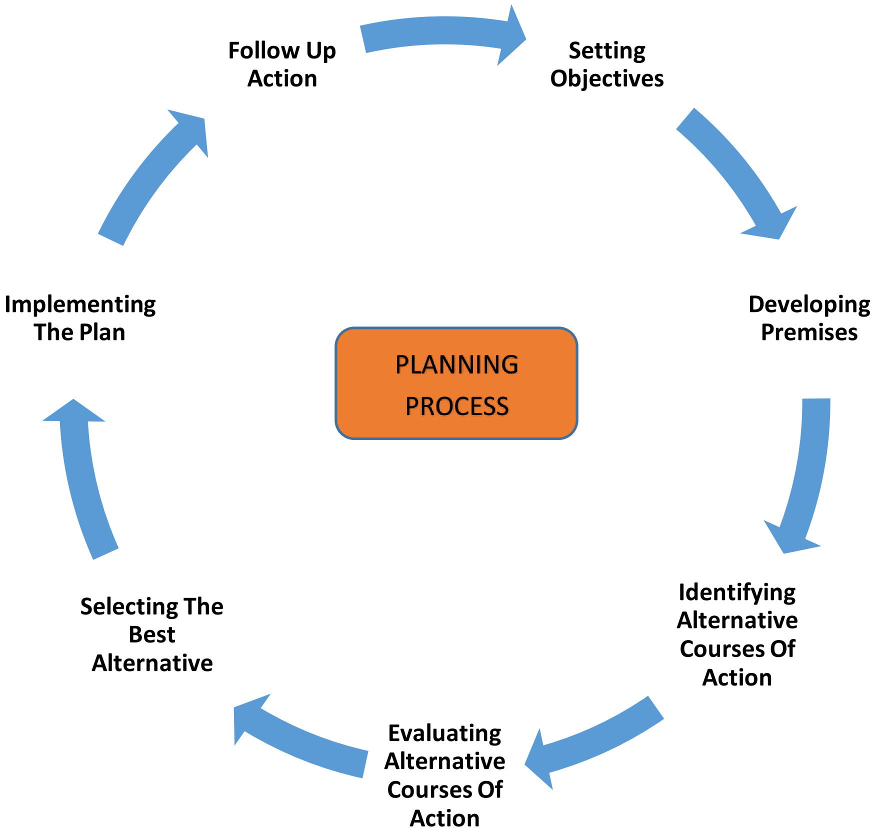
3. Planning reduces creativity: Top management does planning and middle management does implementation of plan but they are not allowed to deviate from plan and thus creativity of these managers get reduced.

4. Planning involves huge costs: Huge costs are involved in the formulation of the plan. Detailed plans require scientific calculations to a ascertain data. Sometimes costs incurred on planning doesn't justify the benefits derived

5. Planning is a time consuming: Many aspects need to be considered while formulating a plan, hence it is a very time consuming process.

6. Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn and implemented. Managers tend to apply the previously tried and tested plans but a plan successful before may not be successful for all situations.

PLANNING PROCESS



1. Setting Objectives:

- Specify the objectives that the organization wants to achieve.

- Set objectives for the entire organisation and each departments, units and employees. State the objectives of the organisation very clearly, and determine how all departments would contribute towards overall objectives.
- Objectives have to percolate down to each unit and employees at all levels so that they understand how their actions would contribute towards achieving objectives.
- Managers must contribute ideas and participate in the objective setting process.
- E.g. Setting sales target, new product launch, business expansion to new territories.

2. Developing Premises:

- Planning is a future oriented activity and the future is uncertain therefore the managers are required to make certain assumptions while drafting plans for the organisation.
- These assumptions about the future are called premises, these are the base material upon which plans are drawn.
- All managers involved in planning should be familiar with the same assumption and they all must agree to it.
- For e.g. forecasting is a technique used for gathering information to develop premises. An organisation uses various forecasts such as policy changes, new markets, demand of a product etc. for various purposes.
- Accuracy of forecast is necessary for successful plans.

3. Identifying Alternative Courses Of Action:

- Once objectives are set, assumptions are made and then alternative courses of action is determined.
- Managers must identify all the alternative courses of action for achieving the objectives of the organisation.
- The course of action may be routine or innovative. Innovative course can be adopted by involving more people and sharing their ideas.

4. Evaluating Alternative Courses Of Action

- The next step is to evaluate the pros and cons of each and every alternative course of action.
- Positive & negative aspects of each proposal is to be evaluated keeping in view the objectives to be achieved

- E.g. In financial decisions, risk-return trade-off are important. Riskier the investment, higher the returns. To evaluate such proposals, detailed calculation of earnings, taxes, earnings per share, dividends are made and then decision is taken.

5. Selecting The Best Alternative

- The best plan from all the alternatives is selected and implemented.
- The ideal plan is the most feasible, profitable and with least negative consequences.

- In most plan drawing a mathematical analysis is not possible hence manager's experience, judgment and intuition plays an important role in selecting the most viable alternative.
- Sometimes a combination of plans may be selected instead of one best course.

6. Implementing The Plan

- In this step the selected best plan is implemented ie putting plan into action.
- Managers start organizing & assembling resources for implementing the plans.
- E.g. If there is a plan to increase production, then more labour, more machinery will be required. This step would also involve organizing more labour and purchase of machinery.

7. Follow Up Action

- Involves monitoring the implemented plans and ensuring that the activities are being performed according to the schedule.
- Continuous monitoring is required to find out deviations from plans and corrective action has to be taken to achieve organizational objectives

TYPES OF PLAN

A plan is a commitment to a particular course of action for achieving specific results. Plans can be classified into several types depending on the use and the length of the planning period. These plans can be classified into single-use plans and standing plans.

1. SINGLE USE PLAN

- A single use plans are specific plans which are meant to solve a nonrecurring particular problem. It was developed for a one-time project or event that has one specific objective.

- Such plan is developed to meet the needs of a unique situation in hand.

- The duration of a single use plan differs depending upon the type of project, as a single event plan may last for one day while a single project may last for one week or months.

- For example, an outline for an advertising campaign. After the campaign runs its course, the short term plan will lose its relevance except as a guide for creating future plans.

2. STANDING PLANS

- Standing plans are used for those activities, which occur regularly over a period of time.
- It is designed once and retain their value over a period of time while undergoing revisions and updates.
- It is developed once but modified from time to time to meet business needs.
- Standing plans include policies, procedures methods and rules

Based on what the plans seek to achieve, plans can be classified as

I. **Objectives:**
   - Objectives are the end results, which the management seeks to achieve, by its operations.

   - They may be designed as the desired future position that the management would like to reach. The first and foremost step of the planning process is setting organizational objectives.

   - Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms, in the form of a written statement of desired results to be achieve within a given time period.

   - E.g. Getting 20% return on Investment, increase sales target by 10% etc. Objectives should be clear and achievable.

II. **Strategy:**
   - Strategy refers to future decisions defining the organisations direction and scope in the long run.
   - Are those plans which an organization prepares to face various situations, threats and opportunities.
   - When the managers of an organization prepare a new strategy for the business it is called internal strategy and when some strategies are prepared to respond to the strategies of the competitors, then such strategies are called external strategies.
   - E.g. selection of the medium of advertisement, selection of the channels of distribution etc.

III. **Policy:**
   - Policies are general statements that guide thinking or channelize energies towards a particular direction. It provides a basis for interpreting strategy.
   - There are policies for all the levels and departments in an organisation, such a s major policies and minor policies.
   - Policies define the parameters within which a manager can function.

- They are flexible as they may be changed as per requirement.
- E.g. selling goods on cash basis only, purchasing decisions etc.

IV. **Procedure:**

- Procedures are routine steps, detailing the exact manner in which a work is to be performed.
- They indicate which work is to be done in which sequence.
- The sequence of actions to be taken are generally to enforce a policy and to attain pre-determined objectives.
- E.g. Recruitment process of a company.

V. **Rule:**

- Rules are specific statement that inform what is to be done and what not to be done in various circumstances.
- Rules are rigid and doesn't allow flexibility and thus ensures discipline in the organization.
- E.g. 'No smoking in the office premises'

VI. **Method:**

- Methods provide the prescribed ways or manner in which a task can be performed considering the objective.
- Selection of proper method saves time, money, efforts and increases efficiency.
- Methods are flexible.
- E.g. various methods of training adopted by an organization to train its employees like apprenticeship training, induction programmes etc.

VII. **Programme**:

- A programme may consist detailed list of project outlining, the objectives, policies, procedures, rules, tasks, physical and human resources required to implement any course of action.

VIII. **Budget:**

- A budget is a statement of expected results expressed in numerical terms for a definite period in the future.
- E.g. sales budget, production budget