INDIAN SCHOOL MUSCAT

Senior Section

Department of Commerce and Humanities

Class : 12

SOLVED SUPPORT MATERIAL

CHAPTER :4 : PLANNING

BUSINESS STUDIES (054)

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Q1 What is Planning?

A1 Planning is deciding in advance what to do and how to do.

Q2 Discuss the importance/role/benefits/significance of Planning? **OR**

Why is Planning needed by all businesses?

A2 The major benefits of planning are given below:

1) **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.
2) **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. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.
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 helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.
4) **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 growth and prosperity of the business.
5) **Planning facilitates decision making:** Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involve setting targets and predicting future conditions, thus helping in taking rational decisions.
6) **Planning establishes standards for controlling:** Planning involves 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. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a part of controlling would not be possible. The nature

of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.

Q3 Describe the features of planning.

OR

What are the main features to be considered by the management while planning?

A3 The features of Planning are as follows-

1) **Planning focuses on achieving objectives:** Organisations are set up with a general purpose in view. Planning has no meaning unless it contributes to the achievement of predetermined organisational goals.
2) **Planning is a primary function of management:** Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.
3) **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 nor of 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.
4) **Planning is continuous:** Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process. 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:** 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. Planning is, therefore, regarded as a forward looking function based on forecasting. Through forecasting, future events and conditions are anticipated and plans are drawn accordingly.
6) **Planning involves decision making:** Planning essentially involves choice from among various alternatives and activities. The need for planning arises only when alternatives are available. Planning, thus, involves thorough examination and evaluation of each alternative and choosing the most appropriate one.
7) **Planning is a mental exercise:** Planning requires application of the mind involving foresight, intelligent imagination and sound judgment. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking. In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts.

Q4 Why it is that organisation are not always able to accomplish all their objectives?

OR

A4 Explain the limitations of Planning?

OR

Is planning actually worth the huge costs involved? Explain

The major limitations of planning are given below:

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 frame. These plans then decide the future course of action and managers may not be in a position to change it. Managers need to be given some flexibility to be able to cope with the changed circumstances. Following a pre-decided plan, when circumstances have changed, may not turn out to be in the organisations interest.

2) **Planning may not work in a dynamic environment:** The business environment is dynamic, nothing is constant. The environment consists of a number of dimensions, economic, political, physical, legal and social dimensions. The organisation has to constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment if economic policies are modified or political conditions in the country are not stable or there is a natural calamity. Competition in the market can also upset financial plans, sales targets may have to be revised and, accordingly, cash budgets also need to be modified since they are based on sales figures. Planning cannot foresee everything and thus, there may be obstacles to effective planning.

3) **Planning reduces creativity:** Planning is an activity which is done by the top management. Usually the rest of the members just implements 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. Thus, much of the initiative or creativity inherent in them also gets lost or reduced. Most of the time, employees do not even attempt to formulate plans. They only carry out orders. Thus, planning in a way reduces creativity since people tend to think along the same lines as others. There is nothing new or innovative.

4) **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 accuracy of facts may involve lot 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. There are a number of incidental costs as well, like expenses on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan.

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

6) **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. Managers have a tendency to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. Besides, there are so many other unknown factors to be considered. This kind of complacency and false sense of security may actually lead to failure instead of success. However, despite its limitations, planning is not a useless exercise. It is a tool to be used with caution. It provides a base for analysing future courses of action. But, it is not a solution to all problems.

Q5 What are the steps taken by management in the planning process?

Planning, as we all know is deciding in advance what to do and how to do. It is a process of decision making. It includes the following logical steps-

1. **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. It could mean an increase in sales by 20% which could be objective of the entire organisation. Objectives should be stated clearly for all departments, units and employees. They give direction to all departments.
2. **Developing Premises:** Every manager is required to make certain assumptions about the future. These assumptions are called **premises**. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. Forecasts can be made about the demand for a particular product, policy change, interest rates,

prices of capital goods, tax rates etc.

3. **Identifying alternative courses of action:** Once objectives are set, assumptions are made. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organisation.
4. **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. The more risky the investment, the higher the returns it is likely to give. To evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made and decisions taken.
5. **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 least negative consequences. Most plans may not always be subjected to a mathematical analysis. In such cases, subjectivity and the manager's experience, judgment and at times, intuition play an important part in selecting the most viable alternative. Sometimes, a combination of plans may be selected instead of one best course. The manager will have to apply permutations and combinations and select the best possible course of action.
6. **Implement 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, more machinery will be required. This step would also involve organising for labour and purchase of machinery.
7. **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.

Q6 Explain the different types of Plans that can be adopted by a manager.

OR

You are a successful manager of a reputed MNC. Your strength is you are a good planner. What are the different types of Plans which you have drawn up at the various levels?

OR

Write short notes on-

A6 The following are the different types of Plans-

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 which the management seeks to achieve by its operations. They are usually set by top management of the organisation and focus on broad, general issues. They define the future state of affairs which the organisation strives to realise. They serve as a guide for overall business planning. Different departments or units in the organisation may have their own 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 achieved within a given time period.(**S**-specific,**M-**measurable,**A**-acheivable,**R**-realistic,**T-**Timeboundedness)

1) **Strategy :**A strategy provides the broad contours of an organisation's business. **It will also refer to future decisions defining the organisations direction and scope in the long run.** Thus, we can say a

strategy is a comprehensive plan for accomplishing an organisation objectives. This comprehensive plan will include three dimensions, (i) determining long term objectives, (ii) adopting a particular course of action, and (iii) allocating resources necessary to achieve the objective.

Whenever a strategy is formulated, the business environment needs to be taken into consideration. The changes in the economic, political, social, legal and technological environment will affect an organisations strategy. Major strategic decisions will include decisions like whether the organisation will continue to be in the same line of business, or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market.

2) **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 strategy. For example, the company may have a recruitment policy, pricing policy within which objectives are set and decisions are made. If there is an established policy, it becomes easier to resolve problems or issues. As such, a policy is the general response to a particular problem or situation.

There are policies for all levels and departments in the organisation ranging from major company policies to minor policies. Major company policies are for all to know i.e., customers, clients, competitors etc., whereas minor polices are applicable to insiders and contain minute details of information vital to the employees of an organisation. But there has to be some basis for divulging information to others.

Policies define the broad parameters within which a manager may function. The manager may use his/her discretion to interpret and apply a policy. For example, the decisions taken under a Purchase Policy would be in the nature of manufacturing or buying decisions. Should a company make or buy its requirements of packages, transport services, printing of stationery, water and power supply and other items? How should vendors be selected for procuring supplies? How many suppliers should a company make purchases from? What is the criteria for choosing suppliers. All these answers would be addressed by the Purchase Policy.

3) **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 a chronological order.

Procedures are specified steps to be followed in particular circumstances. They are generally meant for insiders to follow.

The sequences of steps or actions to be taken are generally to enforce a policy and to attain pre-determined objectives.

Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework.

4) **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 Methods may vary from task to task.

Selection of proper method saves time, money and effort and increases efficiency.

5) **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.

They are usually the simplest type of plans(Why)- because there is no compromise or change unless a policy decision is taken.

6) Programme

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

Programmes will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan.

The minutest details are worked out i.e., procedures, rules, budgets, within the broad policy framework.

7) 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 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.

A budget is also a control device from which deviations can be taken care of (How?/why?).Since budget represents all items in numbers, it becomes easier **to compare actual figures with expected figures and take corrective action subsequently.**

It is a fundamental planning instrument in many organisations(Why)- because making a budget involves **forecasting,** therefore, it clearly comes under planning.

How is a cash budget useful tool in the hands of a manager?

OR

What is the purpose/need of drawing up a cash budget?

The cash budget is a basic tool in the management of cash. <u>It is a device to help the management to plan and control the use of cash.</u> It is a statement showing the estimated cash inflows and cash outflows over a given period. Cash inflows would generally come from cash sales and the cash outflows would generally be the costs and expenses associated with the operations of the business. The net cash position is determined by the cash budget i.e., inflows minus (–) outflows = surplus or deficiency.

The management has to hold adequate cash balances for various purposes. But at the same time, it should avoid excess balance of cash since it gives little or no return. The business has to assess and plan its need for cash with a degree of caution.

*************************Chapter -4***********************