

---

**MODULE - III**

# **Planning and Decision Making**



## MODULE 3

# Planning and Decision Making

---

### **Module Description**

The main goal of studying this module is to know the managerial planning and decision making process.

By the end of this module students will have an idea about how managerial planning and decision making process takes place.

#### **Chapter 3.1**

Planning and its Importance

#### **Chapter 3.2**

Decision Making

---



---

# Chapter Table of Contents

## Chapter 3.1

### Planning and its Importance

Aim.....	79
Instructional Objectives.....	79
Learning Outcomes.....	79
3.1.1 Nature and Definition of Planning.....	80
Self-assessment Questions.....	83
3.1.2 Importance and Limitations of Planning.....	84
3.1.3 Planning Processes.....	87
(i) Establishing Objectives.....	88
(ii) Developing Premises .....	88
(iii) Evaluating Alternatives .....	89
(iv) Formulating of Derivative Plans .....	89
(v) Securing Cooperation and Participation.....	89
Self-assessment Questions.....	90
3.1.4 Types of Plans.....	90
i) Strategic Plan.....	90
(ii) Tactical Plan.....	91
(iii) Operational Plan .....	91
Self-assessment Questions.....	92
Summary .....	93
Terminal Questions.....	94
Answer Keys.....	95
Activity.....	96
Case Study .....	97
Bibliography.....	99
e-References .....	99
External Resources .....	99
Video Links .....	99

---





## **Aim**

To provide students with knowledge about the managerial planning and its importance



## **Instructional Objectives**

After completing this chapter, you should be able to:

- Define the nature of planning
- Identify the importance and limitations of planning
- Understand the planning process
- Identify the different plans



## **Learning Outcomes**

At the end of this chapter, you are expected to:

- Recognise the nature and purpose of planning
- Examine the importance of the planning process
- Determine the limitations of planning
- Determine the planning process
- Recognise the different types of plans

---

## 3.1.1 Nature and Definition of Planning

We plan in our daily life to get the things done in a systematic way. Without planning, there would be ambiguity and confusion leading to mismanagement of things. During the early 20th century, Henri Fayol came up with the functions of management, according to which all managers perform five functions: planning, organising, commanding, coordinating and controlling. The plan is considered to be the first function of management, as no goal can be reached without proper planning. Planning helps to achieve the pre-determined objective of the organisation by enabling to attain its short and long term goals. Planning is a management function which involves steps like knowing the purpose, finding out the best possible strategies for achieving them, developing plans to integrate and coordinate activities.

### Why do we need to plan?

Planning is essential for any organisation. It takes lot of time to plan and execution of the plan is equally important in order to do the things according to the plan.

**We need to plan due to four main reasons which may be stated as:**

- **Direction:** Planning provides direction to know, what is expected from us and what we are supposed to do. In an organisational context, manager's plan and employees follow these plans. Employees know what their organisation is trying to achieve, they can coordinate their activities in such a way that they meet targets to achieve the organisational goal.
- **Uncertainty:** Planning reduces uncertainty. In order to minimise the risk, managers anticipate the future risk and develop strategies to counter attack the risk. This does not mean that they can eliminate the risk completely but they come up with strategies which can respond to these uncertainties.
- **Waste and Redundancy:** Planning reduces waste and redundancy at work. Work activities are followed properly as per the pre-determined schedule. This leads to reduction in waste and eliminate chances of doing irrelevant task.
- **Sets the goals or standard of controlling:** Managers try to develop plans and goals. Then comes the implementation of these plans and goals. As these plans and goals are set, managers try to monitor that they are executed properly and there is no deviation from the set standard operating procedure.

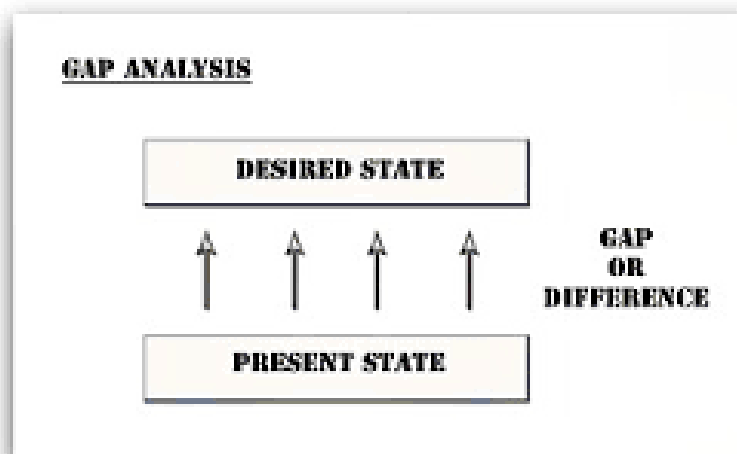


---

## Nature of Planning

The nature of planning can be understood through three approaches. These approaches may be termed as rational, open system and pervasiveness.

**Rational Approach** – Rationality means the quality or state of being reasonable, based on facts and reason. Rationality implies the conformity of one's beliefs with one's reasons to believe, or of one's actions with one's reason for action. Planning is an intellectual and rational approach of thinking. It analyses where one stands and where he wants to go in future. In planning, the planner tries to predict the future and comes out with different ways to counter attack the future risks and uncertainty. In organisational perspective, rationality means choosing the best possible way to get the desired results. Planning tries to fill the gap between the actual performance and the desired performance. In order to complete a task we need various types of resources like land, labour, capital and organisation. Resources are scarce in nature. The rational approach of planning emphasises the utilisation of these scarce resources in the best possible way to get the maximum output.



*Figure 3.1.1: Gap Analysis*

- **Open System Approach:** According to the open system approach, inputs are collected from the organisation and then the suitability is evaluated and the best possible outcome is taken into account. The gap between the current situation and the expected situation is identified. Bridging these gaps requires action to be done which are influenced by the various factors like economic, political, legal, technological, social, etc., as all these factors are subject to change over time, managers need to take these into consideration while planning.

- 
- **Pervasiveness:** Planning is pervasiveness and should be practiced throughout the organisation. At the shop floor level also ideas may come up from the workers regarding how to do a work in an easier and faster way. These ideas should be given due consideration in the planning process. But practically pervasiveness is overlooked in the organisations while planning. Top level managers do the planning which is followed by the middle level and junior level managers. Ideas are not subject to any designation as it may come to any employee and if it is valid and profitable for the organisation then, it should be taken into consideration. Ideally, top managers should plan for the organisation in tune with the organisational objective. Similarly middle level and junior level managers should come up with the ideas and plans at their level. At the shop floor level the foreman should plan to perform the task in a easier and faster way. These standard operating procedures should be followed throughout the organisation.



*Figure 3.1.2: Planning at various levels of Management*

Planning is essential irrespective of the size of the organisation. Planning should be done at all levels of management. In small organisations generally planning is done by the owner or entrepreneur. As the scale of operation is small, it is easier to plan for the organisation. Few people deal with the planning and it is done without any complication. In case the of large organisation the scenario is different, here the scale of operation is very large and some employees devote their major time in developing planning efforts. Many large scale sectors has separate departments do look after the planning activities. These department plans according to the situation, in order to meet the organisational goals.

### **Definitions of Planning**

Many people came up with the definitions on planning form time to time. We would consider few of them according to the per view of our studies.

- 
- Koontz O'Donnel: According to Koontz and O' Donnell, "*Planning is an intellectual process, conscious determination of course of action, the basing of decision on purpose, facts and considered estimates*".
  - Hart's: Liddell Hart defines, strategic planning as "*the art of distributing and applying military means to fulfil the ends of policy*".
  - Alford and Beatt: According to Alford and Beatt, "*Planning is the thinking process, the organized foresight, the vision based on fact and experience that is required for intelligent action.*"



## Self-assessment Questions

- 1) Which comes first in the functions of management?
  - a) Directing
  - b) Controlling
  - c) Planning
  - d) Organising
- 2) Planning is \_\_\_\_\_.
  - a) Pervasive
  - b) Persuasive
  - c) Procrastinate
  - d) Prodigy
- 3) What is known as the quality or state of being reasonable?
  - a) Reconciliation
  - b) Rationality
  - c) Rejoice
  - d) Reciprocate
- 4) The intellectual process of thinking resorted to decide a course of action, which helps in achieving the pre-determined objectives of the organisation in future is:
  - a) Organising
  - b) Planning
  - c) Book Keeping
  - d) Recording

---

## 3.1.2 Importance and Limitations of Planning

Planning is very important for an organisation but in the same time it has few limitations as well.

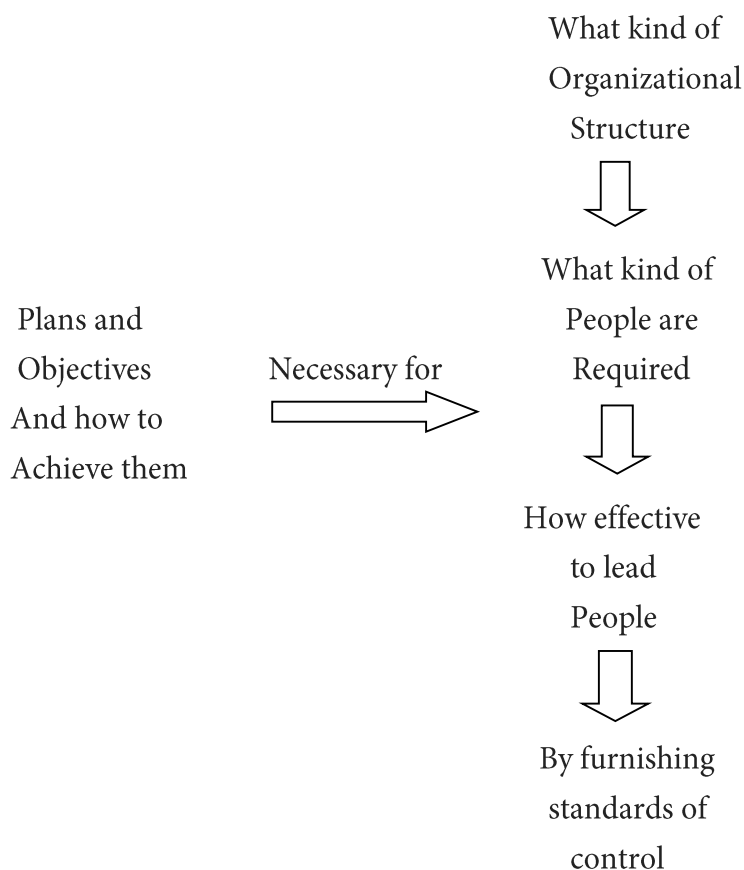
### Importance of Planning

Planning is important for any business to sustain in the long run. Formalised planning became popular in 1960's and it is still followed in organisations. The systems approach of management suggest the correlation and integration of management with the external environment. Planning is done taking into consideration, the anticipated changes in the external environment of the organisation. Organisations with a futuristic vision and proactive attitude thrive in the future. Here we can cite the example of Nirma Industries – In the year 1969, when the washing powder and detergent market in India was dominated by the few market leaders like HUL and P&G in India. Dr. Karsanbhai Patel a pharmacist by profession started making washing power as a single man operation. As a visionary and he could foresee the future of detergent market in India. He could feel that a large number of Indian customers are price sensitive. He manufactured in his backyard keeping the operating cost very less. He sold the detergent for ` 3 per kg, while the cheapest detergent in the market was selling around ` 13 per kg. By 1980, Nirma's sales surpassed Surf, which was a popular brand in India. Nirma's share in the detergent market has grown up and it has an annual turnover of ` 25,000 crores with 14,000 employees. It has taken a lot of hard work, proactive thinking and planning for Nirma to scale up to such an extent.



### Importance of Planning are as follows:

1. **Primacy of Planning:** Planning comes first among the managerial functions. All other functions follows planning process. After setting the objectives in the planning process, all other functions succeeds.



*Figure 3.1.3: Primacy of Planning*

2. **To deal with uncertainty and change:** As there is continuous change in the external environment of the organisation, hence it should be proactive to sense the expected change and come up with strategies to deal with such changes. Changes are of two kinds *i.e.*, tangible and non-tangible. Tangible changes may be in the form of technology, market forces, law, government polices, etc. Non tangible changes may be in the form of workers attitude, organisational culture and values. Hence, organisations should be prepared to deal with the changes with time to achieve the organisational goal.
3. **To focus on organisational objective:** Employees should aim to fulfil the organisational objective. There should be clarity of thought regarding what is expected from them and what they are suppose top do in order to meet the organisational objective.
4. **Helps in coordination:** All managerial functions lead to coordination in the organisation and this begins at the planning stage. In the organisational planning stage, it is formulated how to coordinate with the different departments within the

---

organisation to do the task in a smooth way. There should not be any parallel plans going along so that there is confusion and ambiguity.

5. **Planning leads to controlling:** Controlling is the measurement of accomplishment of events against plans, any deviations from the set objectives can be corrected through proper planning. Monitoring is done on a regular basis to rectify any deviation from the pre-determined processes.
6. **Increase organisational effectiveness:** Organisation should try to increase its effectiveness by achieving its objective within the limited resources. Appropriate planning is required to maximise the efforts to achieve the organisational objectives. Resources in the organisation are allocated according to their use in order to achieve organisational objectives.
7. **Planning is a rational activity:** Planning is considered to a rational and intelligent activity. Planning need special attention and it is treated as highly professionalised expect of business management.



#### **Limitations of Planning:**

**Planning has some limitations as well which may be stated as follows:**

1. **Expensive Process:** Planning is a long process so it is very time consuming. More the planning required more are the resources required.
2. **Non availability of data:** Data required for planning are not easily available more over the procurement of such data is very expensive.
3. **Inability of the planner:** If the planner is not forward looking and proactive in his nature then it would not be possible on his part to make good plans.
4. **Planning may create rigidity:** Formal plans leads an organization to specific goals with time frames. But in reality, the organisational goals changes with time due to the changes in external environment.
5. **Forecasting:** Planning has its limitations as it can forecast exactly. If there is any major deviation in the external environment then, the effectiveness of the planning is at stake.

- 
6. **External factors are very difficult to predict:** External factors like governmental policies, changes in local laws and market slowdown makes it very difficult in decision making.
  7. **Formal plans cannot replace intuition and creativity:** Organisations thrive due to someone's vision and routine planning efforts but formal planning hinders such efforts.
  8. **Planning focuses managers attention on today's completion:** Planning generally focuses managers attention on capitalising on the present business opportunities. This limits managers opportunity on creating or reinventing an industry.
  9. **Formal planning reinforces success, which may lead to failure:** Managers find difficulty in discarding old and successful plans due to the sense of security. With change in the external factors these plans may become redundant and at times it becomes too late to make changes in the plan according to the changed environment.
  10. **Implementation of the plans are difficult:** Just planning is not sufficient for the success of the organisation. Implementation of the plans, is a great challenge in large organisations, as the managers has to motivate the employees to work according to the plan.

Although managers have to face these challenges, they can plan for the future. They should understand that planning is subject to dynamic and uncertain environments.

### 3.1.3 Planning Processes

Planning process starts with chronological steps. These processes may differ based on the situation and the scale of planning. *For example*, planning for a large organisation may require more a serious evaluation of various elements necessary for planning. But in case of small organisations, the steps involved are simple as the scale of operation is small. Hence we should study the feasibility of possible courses of action at each stage.

**Steps involved in planning process can be stated as:**

- We should be aware of the opportunities in the market, competition from opponents, customer demand, our strengths and weaknesses.

- 
- Setting objectives or goals of the organisation, we should be clear about where we want to be and what we want to accomplish and when.
  - Considering planning premises, *i.e.*, in what environment internal or external will our plans operate?
  - **Identifying alternatives:** What are the most promising alternatives to accomplishing our objectives?
  - **Comparing alternatives according to the goals:** Which options will give us the best chance of meeting our goals at the lowest cost and highest profit?
  - **Choosing an alternative:** Selecting the course of action we will pursue.
  - Formulating supporting plans such as buying equipments, materials, hire and train workers and develop a new product.
  - **Quantifying plans by making budgets:** Developing resources such as volume and price, operating expenses necessary for programs and expenditures for capital equipment.

### **(i) Establishing Objectives**

First, we should know what is the aim of the organisation? Objectives tells us about the results expected and indicate the end points of what is to be done. Organisational objectives should specify all the key result areas which are important for achieving the organisational goals. Once the objectives are finalised then plans are made, how to attain goals and objectives. Organisations objectives give direction to the nature of all major plans. Objectives are first defined for the major departments then follows the subordinate departments and so on down the line. Organisation tries to accomplish its objectives through group objectives which requires cooperation among the employees.

### **(ii) Developing Premises**

After determination of the organisational goals, we need to develop the planning premises. Planning premises are the conditions under which planning is carried out. Plans are formulated taking into account both the external and internal factors. External premises include total factors in task environment like political, social, economical, technological, legal, governmental policies, competitor's plans and actions. The nature of planning premises



---

depends upon the level of planning. At the top level, planning is mostly external focused but as we move down the ladder we see that the nature of planning shifts from external to internal premises.

### **(iii) Evaluating Alternatives**

Various alternatives feasible in terms of preliminary criteria may be considered. How each alternatives contributes to the fulfilment of the organisational objectives with the optimum utilisation of the limited resources? There may be changes in the organisational environment due to future uncertain events. This makes evaluating alternatives very challenging. Hence, sophisticated techniques of planning and decision making needs to be developed.

### **(iv) Formulating of Derivative Plans**

Formulation of basic plan is followed by various plans derived to support the main plan. These derivative plans may be like; recruitment and selection, training and development, procurement of raw materials, product development, etc., these derivative plans are formulated out of the main plan and therefore, they support it.

### **(v) Securing Cooperation and Participation**

For the successful completion of any planning process, cooperation and participation is necessary for both managers as well as employees. Managers should motivate the employees to follow the instructions and work towards the fulfilment of the organisational objectives.



## Self-assessment Questions

- 5) Planning increases organisational \_\_\_\_\_.
- a) Effectiveness
  - b) Empathy
  - c) Information
  - d) Feedback
- 6) Planning is an \_\_\_\_\_ process.
- a) Emotional
  - b) Equity
  - c) Equilibrium
  - d) Expensive
- 7) The expenses on planning are directly proportional:
- a) Time spent on planning
  - b) Money
  - c) Number of people involved
  - d) None of the above
- 8) \_\_\_\_\_ tells us about the results expected and \_\_\_\_\_ indicate the end points of what is to be done?
- a) Controlling
  - b) Observation
  - c) Objective
  - d) Organising

### 3.1.4 Types of Plans

Organisations can follow planning process in various ways keeping the basic steps involved in planning the same. There are various factors on which the planning process differs like; importance of the content in the planning process, coverage of the organisational activities, time allocated for the planning process, approach of planning and the degree of formalisation etc.

**Plans are of three main types, which may be stated as follows:**

#### (i) Strategic Plan

Strategic plans are the long term directions of the organisation where it wants to go in future. Generally strategic plans are formulated by the top level managers. While formulating strategic plans, factors that are expected to change in future is taken into consideration. Managers at all levels turn to strategic plans to guide their decisions, influence the culture in an organisation and its policies. Some of the examples of strategic planning are, planned

---

growth in sales, new product launch, diversification of business, mergers and acquisitions, etc.

## **(ii) Tactical Plan**

After strategic plans comes the tactical plans. Tactical plans are the different strategies that are formulated to implement the strategic plans of the organisation. Generally these tactical plans are made by the middle level managers. These tactical plans are medium term in nature and break down the strategic plans into smaller parts. Strategic plans tells us what is to be done, whereas tactical plans tells us how it is to be done? Some of the examples of the tactical plans are, deciding and finalising on the budgets to be allocated and the targets to be achieved within a time frame, etc.

## **(iii) Operational Plan**

Operational plans are the short term plans. These are made by the junior level managers at the shop floor level. Operational planning is done for the day to day activities of the business so that the tactical plans can be carried out within realistic time frames. These plans are focused only on fulfilling short term objectives. Examples of operational planning are, increasing work efficiency by reducing waste and increasing the speed of work.

**Operational planning are of two types like:**

1. **Single Use Plans:** These are specific plans to address a particular issue or goal. *For example, training* to a particular employee regarding a specific skill set.
2. **Ongoing Plans:** These plans can be used in multiple settings on an ongoing basis. *For example,* to deal with contingencies like sudden shortage of employees.



## Self-assessment Questions

- 9) The plans that include vision and mission come under:
- a) Ongoing plans
  - b) Operational plans
  - c) Strategic plans
  - d) Standard plans
- 10) Who makes the tactical plans?
- a) Top level manager
  - b) Middle level manager
  - c) Junior level manager
  - d) CEO
- 11) \_\_\_\_\_ plans are short term plans.
- a) Strategic
  - b) Tactical
  - c) Operational
  - d) None of the above



## Summary

- Planning is an intellectual process of thinking resorted to decide a course of action, which helps achieving the pre-determined objectives of the organisation in future.
- Planning is needed for the survival and growth of the business unit.
- Planning brings in new prospects and ideas which can be implemented to do things in a better and organised manner.
- Three main methods of planning are; strategic plan, tactical plan and operational plan.
- Planning facilitates quick achievement of objectives, brings unity of purpose and direction, ensures full utilisation of resources, avoids inconsistency in efforts and raises competitive strength.
- Being expensive, non-availability of data, rigidity and lack of accuracy are the drawbacks of planning process.



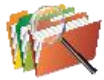
## Terminal Questions

1. “Planning is an intellectual process, the conscious determination of courses of action, the basis of decisions on purposes, facts and estimates”. Discuss the statement and identify the steps involved in the planning process.
2. How does long term planning differ from short term planning? How can both be coordinated?
3. What are the limitations of planning?
4. Explain briefly the different types of plans?



## Answer Keys

Self-assessment Questions	
Question No.	Answer
1	c
2	a
3	b
4	b
5	a
6	d
7	a
8	c
9	c
10	b
11	c



## Activity

**Activity Type: Offline**

**Duration: 30 Minutes**

**Description:**

Make a group of five to six students and try to visit a big restaurant in your nearby area. Meet the manager of the restaurant and try to observe the daily operation of the restaurant. Notice the planning that is required by the restaurant manager to manage the operation. Now try to find out what else can be done to manage the restaurant in a better manner.

**You are required to:**

1. Find out whether better planning can lead to the smooth functioning of the restaurant.



---

# Case Study

## BALSARA HYGIENE PRODUCTS LIMITED

Balsara group promoted Balsara Hygiene product defined in 1978. Before promoting this company, the group was engaged in the business of household hygiene products included in air purifier (Odonil brand), cleaning powder (Odopic), water purifier (Puritans) and lavatory cleaner (Sanifresh). Around 1974, the Balsara group decide to enter personal hygiene and decided to go for toothpaste though the field was quite saturated and dominated by multinationals operating in India. For introducing toothpaste, the group prepared the following planning premises.

### **External Premises: External facilities were as follows:**

- The concept of personal hygiene had begun to assume importance as a sequel to rapid growth in education.
- People were interacting more frequently at professional and social levels which had brought in its wake an awareness of personal hygiene.
- Toothpaste was reserved for small scale sector. Therefore, any further competition would come only from this area and not from existing players. The small scale sector was giving the high-quality product.
- The toothpaste market was perceived to be saturated, but there was a lot of scope for toothpaste market as majority of the population was not covered by this necessity.
- The existing players were multinational companies and there was anti-foreign product feeling particularly after enactment of Foreign Exchange Regulation Act (FERA), 1973. In fact, two prominent foreign corporations – Coco Cola and IBM – were preparing to leave India. The perception was that this feeling could create a favourable response to a consumer product from an Indian company.
- Retaliation by the existing market players was not expected on a large scale, particularly by the market leader (Colgate) because of its complacency due to the belief that the new brand would fade away like others in the past.

---

**Internal Premises: Internal premises were as follows:**

- Balsara group was already in the business of hygiene with a strong network of dealers and retailers. This system could be used for marketing toothpaste too.
- Balsara household hygiene products were market leaders. Therefore, consumer awareness and acceptability to Balsara toothpaste could be created.
- The company had an active research and development department which was able to develop new products in the hygiene area.
- The company had a significant weakness in terms of its size. Therefore, the resources were limited. For introducing a consumer product in a highly competitive market dominated by well-established brands with adamant brand loyalty required a huge amount of promotion.

**You are required to:**

1. Identify the opportunities, threats, strengths and weaknesses available to the company, based on the planning premises developed by Balsara.
2. What strategy would you suggest to Balsara to introduce its toothpaste in the market?

**(Reference: Case Study taken from Principles of Management – L M Prasad, Sultan Chand & Sons Publications, 2015 Edition)**

---

## Bibliography



### e-References

- *Importance of Planning: It's Features, Limitations, Process and Types.* (2013). *YourArticleLibrary.com: The Next Generation Library.* Retrieved 8 July 2016, from <http://www.yourarticlelibrary.com/organization/importance-of-planning-its-features-limitations-process-and-types/8652/>
- Mikoluk, K. (2016). *Planning in Management: Strategic, Tactical and Operational Plans.* *Udemy Blog.* Retrieved 8 July 2016, from <https://blog.udemy.com/planning-in-management/>



### External Resources

- Koontz, H. & O'Donnell, C. (1972). *Management: A Book of Readings (3rd ed.)*. New Delhi: McGraw-Hill.
- Prasad, M. L. (2007). *Principles and Practice of Management (7th ed.)*. New Delhi: Sultan Chand and Sons.
- Ramachandra, K. & Sivapurappa, D. (2010). *Business Management (2nd ed.)*. New Delhi: Himalaya Publishing House



### Video Links

Topic	Link
The Nature of Planning	<a href="https://www.youtube.com/watch?v=8WmVr2LP92c">https://www.youtube.com/watch?v=8WmVr2LP92c</a>
Importance of Planning	<a href="https://www.youtube.com/watch?v=tx128eI8sFY">https://www.youtube.com/watch?v=tx128eI8sFY</a>
Planning Process	<a href="https://www.youtube.com/watch?v=sU3FLxnDv_A">https://www.youtube.com/watch?v=sU3FLxnDv_A</a>
Strategic, Tactical & Operational Plans	<a href="https://www.youtube.com/watch?v=wbdoSZcBkzY">https://www.youtube.com/watch?v=wbdoSZcBkzY</a>



**Notes:**

