

# Principles of Management

As per new BCom CBCS syllabus 2017 for CU

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# Preface

Management has emerged as an important discipline of learning in the modern world. Success of an organization depends on its effective and efficient management. Management ensures proper utilization of human and non-human resources of an organization effectively and efficiently. It is regarded as the most crucial factor for the growth and survival of an organization. It is also considered as a strategic factor for the economic growth and well-being of any nation. The task of management is getting more difficult and challenging in the ever-changing world of the 21<sup>st</sup> century. It is essential for every organized activity in every society as well as nation. Importance of management is growing day by day with the development of technology. *Peter Drucker*, the father of management, states that ‘management is the dynamic and life-giving element of every organization’. Today, cut-throat competition is increasing due to globalization of trade and liberalized economic policy of the country. Organizations with good management will have a competitive edge over others to combat this competition. Thus, management plays a crucial role for the development of business, society, and economy as a whole. In the recent past, management theory has undergone radical changes due to rapid and diverse transformation in the business environment. This book attempts to familiarize students with latest development taking place in the theory as well as practice of management.

## About the Book

The book *Principles of Management* is especially conceived for students preparing for BCom (Part-I) Honours and general degree courses of University of Calcutta. Besides, students of other universities in West Bengal (such as Kazi Nazrul University, Burdwan University, Kalyani University, Barasat State University, North Bengal University, Vidyasagar University, etc.) and students of professional courses namely, CA, CMA, CS, BBA, etc., may also find this book useful to accomplish their objectives. Therefore, in general, students in the field of business studies are proposed readers of this book.

The aim of this book is to acquaint readers with a conceptual understanding of various functions of management in a logical and systematic manner. This book intends to provide theoretical knowledge on various principles of management and modern tools and techniques widely used in business field. This book will help students in learning the basics of management for acquiring the knowledge they need for taking important decisions. It provides exhaustive treatment of various concepts and principles of management and its application to manage modern organizations effectively. This enables students and professionals to understand and practice management in various real-life situations. This knowledge also helps students in exploring many of the career opportunities available in the field of management and business studies. Students and professionals get benefitted by applying relevant managerial techniques in business decision-making.

## Key Features

- This book is written in a simple readable style and offers clarity of presentation so that the readers can easily grasp the subject matter.
- It aims at preparing students effectively by providing them conceptual understanding in a logical and systematic manner.
- It provides an exhaustive treatment of various techniques of management in practical business situations.
- Theoretical portion is substantiated with real-life examples and diagrams for easy understanding.
- This book incorporates current thoughts, latest trends, and balancing theories with practical application.
- Proper emphasis has been laid on conceptual clarity, due explanation of theoretical concepts, and chapter-end assignment for work practice.

- Each chapter ends with a set of theoretical assignments so that the students can reinforce their understanding properly and prepare themselves well for examinations.

## Content and Structure

This book has been presented through 9 chapters as follows:

*Chapter 1* provides an insight into the basics of management (such as features, importance, objectives, scope, levels, etc., of management) and an overview of various functions.

*Chapter 2* deals with classical, neo-classical, and modern approaches to management theories.

*Chapter 3* focuses on planning process; its features, types, objectives, importance; and strategic planning.

*Chapter 4* covers organizing process; its elements, features, importance; forms of organization, delegation of authority, departmentation, span of management, accountability, etc.

*Chapter 5* describes traditional and modern approaches to motivation; its features, importance, and factors.

*Chapter 6* discusses features, significance, styles, and theories of leadership; qualities of a leader, etc.

*Chapter 7* offers principles and techniques of coordination; its features, importance, and limitations.

*Chapter 8* identifies scope of controlling; its features, elements, importance, techniques and limitations.

*Chapter 9* covers concepts of directing and staffing and their importance in organizations.

## Acknowledgements

I am indebted to my parents for their constant encouragement, support, and motivation that inspired me to write this textbook. I am grateful to my respected teachers from whom I have learnt the basics of this subject. I have relied on authoritative treatises and published books and articles in the field of management in India and abroad. The sources have been duly acknowledged at appropriate places. I express my gratitude to the team at Oxford University Press for inspiring me to instill quality in this book. I also convey my affection to Miss Alankrita Mitra for her efficient secretarial assistance at the time of preparing the manuscript.

There might be certain gaps and deficiencies in my work. I request respected teachers, esteemed professionals, and beloved students to send me your constructive suggestions, comments, and criticisms for further improvement of the book. Any suggestion sent to me at [jkm\\_50@yahoo.co.in](mailto:jkm_50@yahoo.co.in) will be highly appreciated.

**J.K. Mitra**

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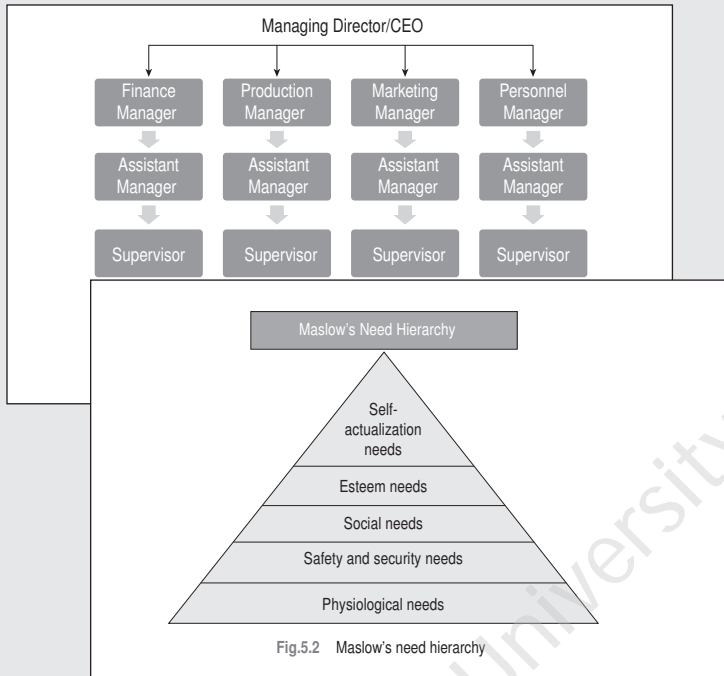
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# Features of



## Figures and Charts

Numerous well-labelled figures and charts are provided throughout the book to elucidate the concepts.

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## Tables

Clear and informative tables help to quickly assimilate distinctions between related concepts.

Table 3.1 Planning vs Forecasting

S.No.	Planning	Forecasting
1	Planning is the basis for future course of action.	Forecasting is the basis for planning.
2	Planning is done at the top level management.	Forecasting is done at the middle level management.
3	Planning is not a tool of forecasting.	Forecasting is a tool of planning
4	Planning can be done by any employee of the top management.	Forecasting is done by experts only.
5	Planning helps to reach at certain decisions.	Decisions cannot be taken without forecasting.

Table 1.1 Profession and Its Professional Associations

S.No.	Profession	Professional Association
1	Accounting profession	The Institute of Chartered Accountants of India
2	Legal profession	Bar Council of India
3	Medical profession	Medical Council of India
4	Engineering profession	The Institute of Engineers in India
5	Company secretary profession	The Institute of Company Secretaries of India
6	Cost Accounting profession	The Institute of Cost Accountants of India

# the Book

## Model Objective Type Questions

Every chapter contains a question bank of short questions with answers to help students prepare for examinations.

### Model Objective Type Questions

#### 1. What do you mean by management?

**Answer** The word 'management' can be scanned as 'manage-men-' (i.e., manage men tactfully). Therefore, management means managing men tactfully to get things done. The term 'management' may be defined as creating the internal environment of an enterprise where individuals working together in groups towards the attainment of group goals. It is a distinct process consisting of planning, organizing, directing, controlling,

social sciences. It is based on a scientific approach and adheres to a code of ethics.

#### 4. Mention any three features of management.

##### Answer

**Purposive activity** The purpose of management is always to achieve certain predetermined objectives. The tasks of management are directed towards effectiveness (i.e., economy in the use

### Model Objective Type Questions

#### 1. What do you mean by planning?

**Answer** Planning is the determination of a future course of action to achieve any desired result. It is the process of thinking before doing. Planning is the first function of management. It is a continuous process that takes place at all levels of management. Today, planning is considered as a strategic area of management in the context of globalization of business operations. It is a process of identifying the strengths and weaknesses of an organization and correlating them with opportunities available in the business world.

#### 4. Mention any four features of planning.

##### Answer

- (i) Planning is the first function of management. Planning provides the basis for other managerial functions (such as organizing, staffing, directing, coordinating, and controlling).
- (ii) Planning is an intellectual activity. Planning involves foreseeing future developments, making forecasts, and then taking decisions.
- (iii) Planning is futuristic in nature. It is a technique to see the future in the light of the present. Plans are prepared for implementing them in the future.

### Exercises

#### Objective Type Questions (2 marks)

1. What is 'levels of management'?
2. What is social significance of management?
3. Define management.
4. What do you mean by 'universality of management'?
5. Distinguish between management and administration.
6. What are the social objectives of management?
7. State whether management is science or an art.
8. Mention the levels of management with a diagram.
9. State two managerial tasks.

#### Short Essay Type Questions (4 marks/8 marks)

1. 'Management is a profession.' Justify the statement.
2. Discuss the socioeconomic significance of management.
3. Discuss the important functions of management.
4. Is management an art or a science? Give reasons for your view.
5. State the scope of management.
6. Define management. Mention the important features of management.
7. Explain the importance of management in a modern organization.
8. What are the objectives of management?
9. Is management an art? Discuss.
10. Is management a science? Discuss.
11. Do you consider management as a profession? Discuss.
12. What are the levels and tasks of the management?
13. What are the difference between administration and management?
14. What are the main functions of management?
15. Explain briefly the subsidiary functions of management.
16. What are the skills necessary for rendering the managerial job?

### Exercises

All chapters contain exercises to help the student test their understanding of the topics.

# Road Map to the University of Calcutta Syllabus

## Principles of Management

### Module I: Principles of Management

UNIT NO. & NAME	DETAILS	CHAPTER
Unit-1: Introduction	Management—definition, importance, functions, nature—as profession, science and art, universality of management; levels of management; managerial tasks and skills.	1
	Different Schools of Thoughts: Classical School—contributions of Taylor and Henri Fayol; Neo-classical school—Human Relations approach and Behavioural Science Approach; Modern School; System approach and Contingency approach.	2
Unit-2: Planning	Concept, importance, steps, types, premises, barriers to effective planning and remedial measures; strategic planning—concept forecasting—concept, techniques.	3
Unit-3: Organizing	Concept, importance, principles, different organization models—line and staff; Functional; Departmentation—need, basis, principles, Delegation of Authority—elements, steps barriers; Centralization and Decentralization of Authority; Span of Management; concept and determining factors.	4
Unit-4: Directing and Staffing	Leadership: Concept, importance, types, leadership traits, Tannenbaum & Schmidt's Model and Blake & Mouton's Model.	6
	Directing: concepts, importance of directing, Staffing: concepts, importance	9
Unit-5: Motivation, Co-ordination and Control	Motivation: Concept, importance, importance of need theory, and contributions of McGregor, Maslow, Herzberg.	5
	Coordination: concepts, importance, principles and implementation techniques.	7
	Control: concepts, importance and tools of control.	8

### Chapter Outline

- Concept of planning
- Features of planning
- Importance of planning
- Types of business plans
- Steps involved in the planning process
- Planning premises (i.e., basic assumptions of planning)
- Essentials of a good plan
- Limitations of planning
- Meaning of forecasting
- Features of forecasting
- Importance of forecasting
- Elements of forecasting process
- Techniques of forecasting
- Limitations of forecasting

### 3.1 CONCEPT OF PLANNING

Planning is the determination of a future course of action to achieve any desired result. It is the process of thinking before doing. It depicts a framework within which other management functions will operate. It is a continuous process that takes place at all levels of management. Today, planning is considered as a strategic area of management in the context of globalization of business operations. It is a process of identifying the strengths and weaknesses of an organization and correlating them with opportunities available in the business world.

*For proper planning, the following points should be decided in advance:*

- what is to be done in future;
- how it is to be done;
- where it is to be done;
- when it is to be done;
- by whom it is to be done.

Planning is the first function of management. Planning performs the functions of decision-making and problem-solving. In other words, planning involves the selection of business objectives and deciding the future course of action for achieving organizational goals. Therefore, planning is a process of determining objectives, discovering alternative courses of action, and choosing suitable methods for achieving desired objectives. Planning provides a rational approach to managerial activities. It brings orderliness, efficiency, and stability in managerial actions and decisions.

*Definitions of planning given by eminent management experts*

- ‘Planning is deciding in advance what is to be done.’ [Theo Haimann]
- ‘Planning is an ability to visualize a future process and its results.’ [J.P. Barger]
- ‘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 intellectual 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]

Planning is essential in every walk of life. Effective planning facilitates early achievement of objectives. It is a process of coping with uncertainty by formulating a future course of action. It attempts to anticipate the future in order to achieve better performance. It discovers the best alternative out of many available alternatives. Growth and prosperity of an organization depends upon its successful planning. Planning helps the manager to shape the organization’s future. It brings rationality into the organization and ensures the most efficient use of scarce resources.

### 3.2 FEATURES (OR CHARACTERISTICS) OF PLANNING

The planning process has the following inherent characteristics:

**Intellectual activity** Planning involves foreseeing future developments, making forecasts, and then taking decisions. Planning is an intellectual activity, as it requires certain conceptual and analytical skills. It leads to in-depth study of a problem (or opportunity) to arrive at a best course of action.

**Primary function of management** Planning is the first function of management. Planning provides the basis for other managerial functions (such as organizing, staffing, directing, coordinating, and controlling). Planning is the basic function and the structure of all other functions depends on it. Planning is the essence of management as it puts management in action.

**Forward-looking process** The planning process calls for visualizing the future. It is a technique to see the future in the light of the present. Plans are prepared for implementing them in the future. Planning is intended to cope with future uncertain events and situations. Therefore, planning is futuristic in nature.

**Goal-oriented process** Planning is based on certain objectives. Planning contributes to the attainment of these objectives. Planning indicates the instructions, routes, rules, and regulations to be followed in achieving these pre-determined objectives. Therefore, planning is goal-oriented as the purpose of every plan is to facilitate the accomplishment of organizational goals.

**Continuous process** The planning cycle continues to operate as long as the organization exists. Planning is like a flowing river. It is a dynamic function and needs continuous review. The execution of one plan initiates the formulation of another plan. Effective planning requires continuous monitoring of events for achieving the desired goals. Planning is an on-going process having no definable ends.

**Flexible process** Planning should be flexible and able to adjust itself to meet future changes and challenges. Planning helps the organization to adjust its activities in response to the changing environment.

Planning must cope with changes in future conditions. Existing plans should be revised from time to time for incorporating the changes taking place in the external environment.

**Common to all (i.e., all pervasive)** Planning is a pervasive activity covering the entire enterprise with all its segments and levels. Planning is required at all levels of management (top, middle, and lower) and in all departments (purchase, production, personnel, finance, etc.) of an organization. Planning is also essential for all types of organizations (economic, social, political, religious, etc.). Therefore, planning is the prime mover of an organization. It is the basic function of every manager, irrespective of his level and position.

**Foundation of successful action** Planning is the foundation of successful action of an enterprise. The main function of planning is to increase the efficiency of the enterprise. Planning aims at the optimum utilization of various resources (like materials, men, machines, money, and methods). Efficiency of planning is measured in terms of output–input ratio. Planning leads to maximum output with minimum expenditure.

**Coordination and cooperation** Departmental managers resort to planning at different points of time. Managerial actions of different managers are coordinated for achieving the organizational objectives. Planning gives a common direction, guidelines, and instructions. It is essential for the harmonious working of the organization. It brings consistency to executive's behaviour and action.

**Conscious process** Planning is a rational and conscious intellectual process. It is not a guess (or sudden) work. It involves an in-depth study and careful analysis of various alternatives and then selecting the best one. It evaluates every alternative with reference to its needs and resources. Planning is also conscious about problems that might arise in future.

### 3.3 IMPORTANCE (OR SIGNIFICANCE) OF PLANNING

The significance of planning can be understood from the following points:

**Economizing operations** Activities are planned to reduce inefficiency and wastage, which lead to economy in operations. Planning helps to realize the business objectives in the best possible manner. It paves the way for the proper utilization of available resources. Planning also emphasizes efficiency in operations and consistency in approach. It avoids incorrect actions and reduces frequency of failures.

**Facilitating coordination** Plans are selected courses along which the management desires to coordinate group action. A plan provides the guidelines and lays down the parameters for different departments. It facilitates coordination of departmental operations by establishing common goals. It avoids duplication of work and inter-departmental conflicts. Well-defined objectives, policies, programmes, and procedures help in proper coordination.

**Facilitating efficient control** Planning is always a pre-requisite for control. In other words, control pre-supposes the existence of planning. Planning without control is useless and control without planning is impossible. Planning brings effectiveness in the process of control. It enables a manager to check the performance of his subordinates. Thus, planning serves as a base for control.

**Facilitating integration** Planning involves logical thinking and decision-making. It projects a course of action for the future through consistent and coordinated actions. It brings about effective integration of diverse decisions and activities of the managers over a period of time. A well thought-out plan integrates inter-departmental activities.

**Reducing future uncertainties** The future is uncertain and full of changes. Planning helps in reducing uncertainties of the future. Planning provides necessary provisions to face uncertainties. It brings rationality and higher degree of stability into the organization. It prepares the organization to cope with changes in the business environment in order to achieve organizational objectives.

**Improving competitive strength** Effective planning provides direction and a sense of purpose to the organization. It guides the business along pre-determined goals. It helps to improve the competitive strength of the organization by adding new lines of products, changes in quality, changes in methods of production, expansion of planned capacity, increasing the volume of production, etc. It leads to the growth and improvement of the organization by ensuring orderly progress.

**Optimum utilization of resources** Planning leads to the optimum utilization of resources at the cheapest and in the best possible manner. It helps managers to allocate available resources in the most efficient manner to achieve the organizational goals. It prompts managers to reduce wastage and brings about overall improvement in the utilization of available resources. It removes all friction, doubts, hesitance, crisis, and duplication.

**Increasing organizational effectiveness** Planning helps the management to increase organizational effectiveness in various ways. Planning forecasts the future, coordinates future activities, reduces future uncertainties, and facilitates effective control. Thus, it increases the overall efficiency of the organization. It ensures that resources are utilized in a way in which these have been specified in the plan.

**Helping in executive development** Planning is an intellectual activity. It involves the use of creative and innovative abilities of executives, which may generate opportunities for profitable use. Regular use of such abilities of executives may inject dynamism in the management of the organization.

**Accomplishing organizational objectives** An organization exists to pursue and achieve certain objectives. All the activities are directed and coordinated for accomplishing organizational objectives. Planning makes the organization a purposeful system with a pre-determined destination. It determines the courses of action to achieve objectives efficiently and smoothly. It ensures that resources are channelized in a proper way to attain organizational objectives.

### 3.4 TYPES (OR FORMS) OF BUSINESS PLANS

Business plans can be of various types (Fig. 3.1). They have been described as follows:

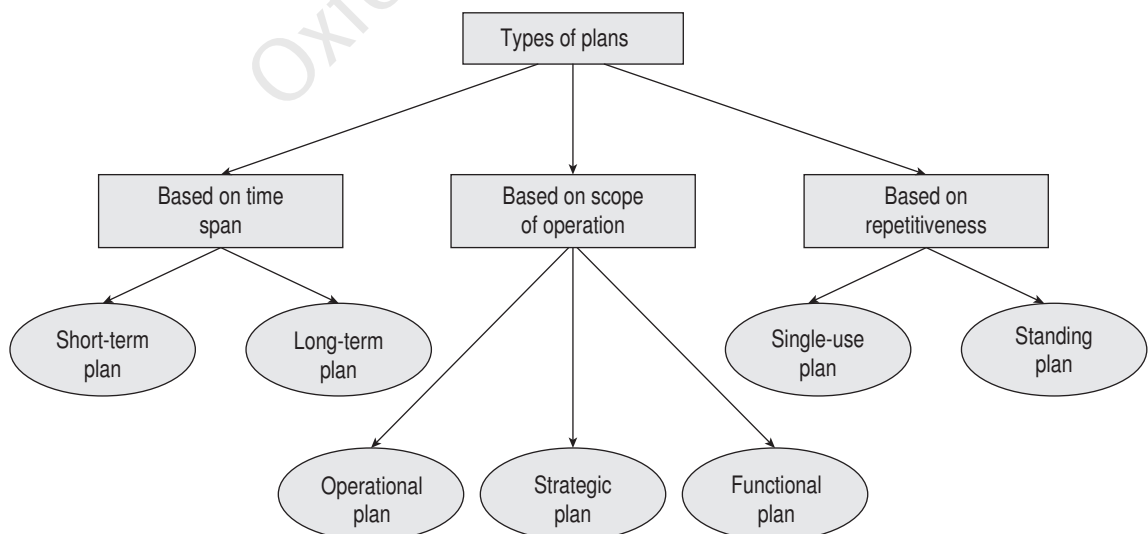


Fig. 3.1 Types of business plans



### 3.4.1 Based on Time Span

On the basis of time span, plan is divided into two types.

**Short-term plan** This plan relates to a relatively short period. This plan is concerned with the determination of activities to accomplish short-term objectives of the enterprise. Normally, operational (or tactical) plans are related to short periods. Short-term plans are developed within the framework of long-term planning. This plan is normally prepared for a period of one year or less.

**Long-term plan** This plan relates to a relatively long period. This plan is concerned with achieving the long-term goals for the enterprise. This plan determines long-term objectives of the enterprise. It is normally made for the period of five years and more. This plan aims at providing the required information on various elements of the future environment. It provides a broad framework within which short-term action plans are developed.

### 3.4.2 Based on Scope of Operation

On the basis of scope of operation, plan is divided into three types.

**Operational (or tactical) plan** This plan is concerned with the optimum use of available resources for a shorter period of time. Production plan of a month is an example of operational plan. This plan is concerned with simple, routine, and repetitive problems. This plan is prepared at middle and lower levels of management. It facilitates participation and involvement of the middle and lower level managers. It is a blue print for current actions within the framework of long range plans.

Operational plan is prepared for a short period (i.e., one year or less). It helps in achieving tangible goals for a short period of time. It divides long-range and strategic plans into various sub-plans and programs. Operational planning is done at the departmental and divisional levels which deal with performance of operations. This plan involves conversion of long-range and strategic plans into detailed operational programs. Operational planning is pragmatic as it requires actual commitment and utilization of resources.

**Strategic plan** Strategic plan determines how to achieve long-term goals of an enterprise in a dynamic business environment. This plan involves important strategic decisions for achieving long-term overall goals of the enterprise. This plan is prepared at higher level of management for the development of the enterprise. Strategic plan covers vital matters and issues concerning profitability, development, survival, and growth of the enterprise. This plan designs the ways and means of achieving growth, diversification, stability, etc. and develops integrated program of action accordingly. Strategic plan gives special emphasis on environmental changes and uncontrollable factors. Strategic plan has a long-term perspective, and it goes beyond five years. This plan needs more managerial judgement and expertise.

Strategic plan chalks out future direction and develops a suitable course of action for the entire organization. This plan enables the top management to explore the future impact of changes and makes current decision to move towards a visional future. It enables the enterprise to predict technological changes and achieve strategic objectives successfully. It ensures rational allocation of available resources of the enterprise for key activities. It creates greater awareness of the business environment and systematic review of the business itself. It helps the top management to respond quickly to the changed environment and manages a complex enterprise with limited resources.

Strategic plan develops an intensive course of action for achieving organizational objectives in an ever changing environment. It aims at scanning organizational strengths, weaknesses, opportunities, and threats (SWOT) by making situational analysis for attaining long range goal of the enterprise. It helps in devising a course of actions in the form of a *move or counter-move* to competitors in the changing environment. This plan calls for creativity and farsightedness on the part of managers for attaining goals in the changing situations.

**Functional plan** This plan is prepared for various functional areas (such as purchase, production, finance, marketing, etc.) of the business enterprise like purchase planning, production planning, finance planning, and marketing planning. This plan serves as a guide for the actions of employees of the concerned functional department. The departmental managers formulate their functional plans for one year in consultation with their subordinate officers. Functional plans require approval of the top management with or without modification. The master plan of an enterprise is based on the functional plans of various departments.

### 3.4.3 Based on Repetitiveness

Plans may be *single-use* plans and *repeated-use* plans. Single-use plans lead to the development of budget, strategy, objectives, and programmes. Repeated-use (standing) plans lead to the development of policies, procedures, methods, and rules.

#### **Single-use Plan**

A single-use plan is meant for a particular situation. It is designed to accomplish a specific objective within a relatively short period. It is tailored to fit a specific situation. This plan ceases to exist once the objective is achieved. It is basically non-repetitive in nature. Budgets, strategy, objectives, and programmes are examples of a single-use plan.

**Budget** A budget is a plan covering operations of an organization for a definite period in the future. It is a statement of expected results, expressed in quantitative terms. It is an estimate of future needs, arranged in an orderly basis. It is prepared after an in-depth analysis of past, present, and future conditions.

A budget may be prepared for all activities performed in an organization (such as purchase budget, production budget, sales budget, capital expenditure budget, cash budget, etc.). Preparation of a budget is a planning process, as it is based on certain assumptions. A budget is also a controlling device so far as its implementation is concerned. A budget furnishes budgetary standards against which actual results are compared. Therefore, budgets serve two purposes, namely, *planning* as well as *control*.

**Strategy** Strategy is a comprehensive action plan designed to achieve specific objectives in the event of difficulty. It is a special kind of plan prepared basically to meet the challenge of a special situation. It is concerned with the means of gaining command over complex external problems and threats. It spells out priorities of the enterprise in specific terms to cope with external situations. Strategy may be considered as an action plan for accomplishing specific objectives in a disturbed state of affairs. It is a set of moves and counter-moves to be used by an organization to get over a problematic situation by restricting rival organizations. It is formulated on the basis of careful situational analysis of the organization and its environment. It is formulated to handle the changes arising out of the environment. It is prepared to cope with the changing business environment and ensuring the survival and development of the organization. It is concerned with perceiving opportunities, threats, and taking initiatives to cope with them in the best possible manner.

**Objective** Objective means planned target of performance. It is the desired end-result of an activity. Objective justifies the scope of operations and activities. Objective is the end-result towards which all the activities of the enterprise are directed. Objectives are multiple in natures and are laid down in numerical terms. Objectives provide the basis for planning and the focal point for all managerial functions.

Objectives are the goals established to guide the efforts of an enterprise, its departments and sections. Objectives serve as barometers for measuring the efficiency and effectiveness of the enterprise. The objectives must be defined in clear terms. Objectives may be general or specific, short-term or long-term, tangible or intangible. A good management is always 'Management by Objectives (MBO)'. Objectives are fixed after collecting relevant facts and figures pertaining to a particular situation. Objectives are crucial for the existence of an organization.

**Programme** A programme is a sequence of activities designed to implement policies and accomplish objectives. It is a precise plan which lays down the different operations to be carried out to achieve a given task.

It is result-oriented and provides practical guidelines to managerial actions. A programme is drawn up in conformity with objectives. It consists of all steps to be taken to achieve the tasks. It involves planning for future events and establishing a sequence for required action.

A programme may be considered as a complex network of policies, procedures, task assignment rules, methods, and budget to carry out a given course of action. A programme is usually supported by capital budgets. It is developed under the umbrella of organizational goals. It can originate at any level in the organization and can be a major programme or a minor one. Different programmes are to be prepared for different situations.

### ***Standing (or Repetitive-use) Plan***

A standing plan is a permanent plan. It is used again and again. It is meant to serve as a standing guideline and criterion on managerial decision-making. It is repeatedly used for tackling recurring problems and issues. Policies, procedures, methods, and rules are examples of standing plans.

**Policies** Policies are the guidelines (or framework) within which employees of an organization are supposed to work. Policies prescribe the most desirable ways and means for the accomplishment of a given objective. Policies are standing decisions made to ensure uniform action in the handling of repetitive problems. Policies define the boundaries within which the decisions should be made by the employees. Policies are aids to the manager on how objectives are to be achieved. Policies provide parameters within which managers have to make decisions consistent with the objectives.

The policies of an organization may be in writing (or implied from conventions and practices). Normally, policies are written and communicated to managers for avoiding confusion and to provide a ready reference. Generally, policies are formulated at the top level on major and vital matters. Sometimes, policies originate at lower levels and move upward for final sanction and approval. Policies should be pragmatic, actionable, and understandable to those employees who have to follow them. Policies should be reviewed periodically and recast as circumstances warrant.

**Procedures** Procedures indicate the specific manner in which a certain activity is to be performed. These procedures determine the sequence of definite acts. Procedures outline the steps taken in performing specific jobs of a repetitive nature. They show the way to implement policies and are guides to action. The essence of procedure is a chronological sequence of required actions.

Procedures are very rigid and do not leave scope for individual judgement. They are clear-cut administrative specifications prescribing the time sequence for the work to be done. They are formulated on the basis of analysis of the various components of the work to be done. Procedures ensure uniformity in performance and action. They are developed to avoid the chaos of random activities. They involve planned sequences and consistency.

**Methods** Methods deal with the best way in which a particular task is to be performed. Methods provide details about a particular operation. They prescribe the exact manner in which the operation will be performed. A method is only concerned with a single operation. Use of standard methods brings in uniformity in action. Methods specify how each step of a procedure is to be performed.

Methods are viewed as specific, detailed, and rational means of simplifying and standardizing the work. They prescribe the way in which a particular task is expected to be performed. The use of scientific methods in performing various operations may lead to higher efficiency and less fatigue on the part of the workers. Normally, the methods are based on research and in-depth analysis of a particular operation. Methods are desirable for various administrative and managerial activities.

**Rules** Rules are specific statements used for guiding what may or may not be done. Rules are prescriptive directives to employees in organizations to do or not to do certain things. Rules are generally formalized in writing and are impersonal in nature. They are meant for strict observance. Employees are expected to

comply with rules (i.e. a specific set of directions) while performing an activity. Violation of the rules is associated with some sort of disciplinary action. Rules are framed to regulate and control the working behaviour of employees. They indicate acceptable patterns of human behaviour in an organization. Usually, rules are made in writing to avoid confusion. Rules should be very precise, specific, and clear, so that there cannot be any controversy or ambiguity. Rules are very rigid and leave no scope for description and deviation. Non-compliance of the rules attracts punishment. The rules are enforced for maintaining discipline among employees. The observance of rules by employees leads to higher efficiency and smooth functioning.

### 3.5 STEPS INVOLVED IN PLANNING PROCESS

Any logical and scientific planning must go through the following steps:

**Determination of objectives of the enterprise** The first step in planning work is to determine the objectives of the enterprise. Objectives indicate the end-points of what is to be done, where the emphasis is to be placed and what is to be accomplished. Objectives specify the results expected and are the basis of planning. Objectives must be backed by suitable policies, procedures, rules, programmes, and strategies. Objectives must be clear, specific, and informative. The objectives of planning should be well-defined to avoid confusion and ambiguity.

**Establishment of planning premises** Planning premises form the foundation of organizational plans. Planning premises refer to certain assumptions about future behaviour of variables. Planning is based on forecasting. Forecasting means the assumption and anticipation of certain future events. Therefore, planning must consider the likely behaviour of certain variable factors. The planning premises may be of different types as follows:

- Internal premises (cost of products, profitability, etc.);
- External premises (liberalized economic and industrial policies of Government);
- Tangible premises (sales volume, production volume, etc.);
- Intangible premises (goodwill, competence of managerial personnel, etc.);
- Controllable premises (expenditure on advertisements);
- Uncontrollable premises (abnormal events, Government policies, etc.).

**Development of alternative courses of action** There may be numerous courses of action to achieve an objective. The management should find alternative ways and examine their effectiveness in the light of planning premises. All possible alternatives should be properly listed for their analysis and comparative evaluation. Managers are required to apply their creative and innovative skills to develop alternative courses of action.

**Selection of best course of action** The next step is the evaluation of alternative courses of action and selecting the best course of action. All possible alternatives should be compared and evaluated in the light of the objectives of the organization. The best feasible course of action is to be decided after careful consideration of merits and demerits of various alternatives. The best course of action is determined according to the circumstances prevailing. Each course of action has to be evaluated in terms of the cost involved, benefits to be received, risks involved, availability of resources, and long-term objectives of the organization.

**Preparation of derivative (or secondary) plans** It is necessary to formulate a derivative plan for each activity in support of the basic plan. The basic plan prepared for the whole enterprise cannot be effectively operated in the absence of derivative (or secondary) plans. The main plan is implemented with the help of various derivative plans. Derivative plans are developed for each activity within the framework of a basic plan. These plans must indicate the time schedule within which a particular assignment should be completed. A derivative plan is necessary to expedite the accomplishment of the basic plan.

**Securing participation of employees** The execution of a successful plan depends to a large extent upon the loyalty and sincerity of the employees. The management should involve employees in the planning

process through consultation and their effective participation. Management should take necessary steps to secure the cooperation, participation, and commitment of the members of the organization. Involvement of the subordinates is essential in order to ensure effective implementation of planning. Plans must be properly communicated, explained, and the employees consulted to secure their effective participation.

**Follow-up and evaluation** The management should watch carefully as to whether the plans and programmes are being implemented properly. The shortcomings of planning can be identified through follow-up action. Necessary adjustment in plans becomes imperative in the context of current problems and situations. Actual performance is compared with planned performance and corrective action is taken to rectify deviations (especially unfavourable deviation). A suitable strategy should be planned and followed for the successful implementation of the planned course.

### 3.6 PLANNING PREMISES (OR BASIC ASSUMPTIONS OF PLANNING)

Planning premises are those basic assumptions upon which the process of planning works. Planning premises provide the *bed-rock* upon which the plans are formulated. They are nothing but background environment (or framework) within which an enterprise operates. Effective planning is largely dependent on knowledge and choice of planning premises. Hence, the description and analysis of such planning premises become imperative.

Planning premises can be classified in several ways as follows:

**Internal and external premises** Internal premises are those which are internal to the organization itself. These are factors over which an enterprise has greater degree of control. Internal premises are definite and known to the enterprise. For instance, resources of the enterprise (in the forms of men, machines, money), methods of operation, wage incentive plans, capital commitment, etc.

External premises relate to the general business environment and conditions which influence the demand for organizational products. These are the assumptions which are based on factors that prevail outside the control of the enterprise. For instance, Government policies, market conditions, technological changes, socio-cultural factors, political factors, availability of resources, industry demand, etc.

**Tangible and intangible premises** Tangible premises refer to those premises which can be quantified (i.e., working days, volume of production, sales volume, man-days, etc.). These premises can easily be measured and assessed.

Intangible premises are those factors which cannot be quantified. These are qualitative in nature (such as goodwill of the concern, public relations, honesty of employees, motivation among the workers, etc.).

**Controllable and uncontrollable premises** Premises, which can be controlled by the actions of the management, are termed as controllable premises. These premises are within the control of the management (such as managerial policies, programmes, rules, regulations, expenditure on advertisements, etc.).

Uncontrollable premises refer to those premises which are beyond the control of the management. These premises are neither predictable nor controllable (such as strikes, wars, natural calamities, imposition of emergency, etc.). The management has to revise its plans and adjust to the changing situation due to the impact of such factors.

### 3.7 BARRIERS (OR LIMITATIONS) TO EFFECTIVE PLANNING

The major barriers to effective planning are described as follows:

**Problem of accuracy** Accuracy in planning is dependent on the facts and figures available to the planners. If reliable information and dependable data are not available, then planning is sure to lose much of its value. The future cannot be forecasted accurately if the available information is not authentic.

**Time-consuming and expensive process** Planning is said to be a time-consuming and an expensive process. Planning has its own cost in terms of money, time, effort, and other resources. There is little guarantee of getting benefits from planning as the future is full of uncertainty.

**Rigidity and inflexibility in administration** Planning directs the management to work on a pre-determined course of action. This may lead to internal inflexibility and procedural rigidity. Planning restricts employees' freedom, initiative, and desire for creativity. Executives are to move along a set track as they have no alternative.

**False sense of security** Planning creates a false sense of security among the managers. They believe that as long as everything goes on according to plan, there is no need to worry. As a result, managers are more concerned with the fulfilment of specific plans rather than improving their performance.

**Rapidity of change** The scope of planning is limited in the case of an organization with rapidly changing situations. Planning under conditions of rapid changes in the external environment tends to be a difficult task. Industry experiences rapid changes, and thus, there is need for dynamism on the part of the manager with regard to formulation of plans.

**External constraints** External constraints set limits to planning, as management has very little (or no control) at all on those variables. Government policies (regarding taxation, import, export, etc.), technological changes, competition, etc. act as a hindrance in the planning process. As a result, managers are not free to take decisions in these areas. The effectiveness of planning is reduced due to the influence of external factors.

**Rigidity of functioning** Planning implies strict adherence to pre-determined policies, procedures, and programmes. It introduces rigidity into the functioning of the organization. As a result, managers lose much of their initiative as they are bound to implement the plans. This rigidity forces them to forego new opportunities and better options.

**Discouraging a new approach** Planning tends to impose internal inflexibility. Generally, managers are accustomed to a particular philosophy (or approach) continued over a long period of time. As a result, managers become hesitant to adopt a new approach. Moreover, the initiative of managers to develop new approaches is discouraged due to the inflexibility in the organization.

**Misdirected planning** Planning may not serve any useful purpose when it is directed towards fulfilling individual goals. Sometimes, the persons involved in the planning process fail to formulate correct plans due to lack of clear objectives and policies. Planning may also be misdirected due to the lack of support from the top management.

### 3.8 REMEDIAL MEASURES (OR STEPS) TO OVERCOME BARRIERS TO PLANNING

An effective plan must have the following characteristics:

**Clearly defined objectives** Plans should be based on clearly defined objectives. Plans are made and implemented for achieving certain objectives. The objectives should be clear, concise, precise, and accurate. A plan should be comprehensive for the satisfactory fulfilment of these objectives.

**High degree of flexibility** A plan deals with the future which is uncertain. A flexible plan can easily be adjusted with the changing situations without much delay. Plans should be prepared with a high degree of flexibility to enable modifications and refinements in accordance with the demands of the situation.

**Unity of operation** Only one plan should be put into operation at a time. Multiple plans operating concurrently will mean confusion, disorder, and duality. The aim of any good plan is to keep the planning activity as a continuous one. If there are different plans, they should be inter-linked to make a single plan.

**Pragmatic** A sound plan should be pragmatic. It should provide for a proper analysis and classification of action. It should be rational, appropriate, and comprehensive.

**Simplicity** A sound plan should be simple and balanced. It should be capable of being put to easy implementation. Employees of the organization should have a clear vision of the plan and its contents. It should have communication value.

**Balanced plan** Balance is an important attribute of a good plan. A balanced plan has a proper bearing in thinking and doing. Proper weightage should be given to various tasks through the interaction of resources and action. There should be proper coordination between short-term and long-term plans. Plans must be integrated in such a manner that the short-range plan may contribute to long-run objectives.

**Planning premises** Every plan is based on assumptions, known as planning premises. These assumptions relate to the anticipation of the future environment. Effective planning is largely dependent upon the knowledge and choice of planning premises. The description and analysis of planning premises is imperative for successful planning.

**Commitment of employees** A sound plan should attract wider participation of employees, especially those involved in its implementation. It should be free from social and psychological barriers for more involvement of the employees. Employees should be properly motivated and their commitment should be sought for proper implementation of the plan.

### 3.9 CONCEPT OF FORECASTING

Forecasting is a systematic estimation of future events with the help of in-depth analysis of past and present events. Forecasting provides a basis for planning. Forecasting includes both assessing the future and making provision for it. As a result, planning cannot be done without forecasting. Thus, forecasting is the projection of future events (or conditions) in the environment in which plans operate. Forecasting aims at understanding various uncertainties and complexities associated with the environment.

Forecasting provides key information and pertinent facts relating to the future. It is essentially a technique of anticipation. The forecasting technique involves the use of sophisticated statistical analysis for the future. Forecasting provides an intellectual basis for formulating various plans. Techniques of forecasting are used for generating relevant and reliable information to formulate planning premises. Forecasting is a guessing of future events after considering all the factors that affect organizational functions.

- ‘Forecasting is a systematic attempt to probe the future by inference from known facts.’ [L. A. Allen]
- ‘Forecasts are predictions (or estimates) of any change in economic phenomena which may affect business plans.’ [Mc Farland]
- ‘Forecasting refers to the statistical analysis of the past and current movements so as to obtain clues about the future pattern of movement.’ [Neter and Wasserman]
- ‘Forecasting is a prediction and its purpose is to calculate some future event or condition.’ [Webster’s New Collegiate Dictionary]

Thus, forecasting is a systematic effort to peep into the future. Forecasting cannot be made without proper knowledge of past and present circumstances. Forecasting increases accuracy and exactness in decision-making.

### 3.10 FEATURES (OR CHARACTERISTICS) OF FORECASTING

The following features of forecasting can be identified on the basis of the above definitions:

**Concerned with future events** Forecasting is concerned with future events. It is a systematic effort to peep into the future. It is essentially a technique of anticipation.

**Necessary for planning process** Forecasting is necessary for the planning process. It is the basis for planning. Decisions cannot be taken without the help of forecasting. Therefore, it is an integral part of the planning process.

**Consideration of relevant facts** Forecasting considers all factors which affect organizational functions. It is a technique to find out the economic, social, and financial factors affecting the business.

**Inference from known facts** Forecasting is a systematic attempt to probe the future by inference from known facts. It is an analysis of past and present movements so as to arrive at the conclusion about the future pattern.

**Art of reading the future** Forecasting is not an exact science. It involves looking ahead and projecting the future events. It requires the use of scientific, mathematical, and statistical techniques for reading the future course of events.

**Elements of guess-work** Forecasting involves an elements of guess-work. Personal observations help in guessing future events to a great extent. Estimates for the future are based on the analysis of past and present circumstances.

### 3.11 IMPORTANCE (OR ROLE) OF FORECASTING

Forecasting helps the management in the following ways:

**Essence of planning** Planning cannot be done without forecasting. Forecasts are the premises (or basic assumptions) upon which planning and decision-making are based. Planning without forecasting is impossible.

**Exactness in decision-making** Forecasting brings exactness and accuracy in managerial decisions. It improves the quality and validity of management decisions. It enables a manager to probe the future economic, social, and political factors that might influence his decisions.

**Implementation of project** Forecasting enables the entrepreneur to achieve success. It helps the entrepreneur to gain experience and implement a project on the basis of his experience.

**Contribution to business success** The success of a business depends on the accurate forecasts made by the various departments. It helps to identify and face environmental challenges with determination. Risks and uncertainties can be reduced to a great extent with the help of forecasting. It contributes greatly to the success of the business by warning business against trade cycles.

**Developing coordination** Forecasting brings about coordination in the efforts of the subordinates. It helps to collect information about internal and external factors and brings unity in the plans. It creates team spirit in the organization. It helps to integrate various plans so that a unified overall plan can be developed.

**Facilitating control** Forecasting helps in achieving effective control by providing relevant future information to the management in advance. The management can be aware of its strengths and weaknesses through forecasting. It discloses areas where adequate control is necessary for the efficient and effective operations of the enterprise. It helps in revealing the weak spots in the organization and thereby improves performance.

**Smooth working of an organization** Forecasting ensures smooth and continuous working of an organization. The business can be saved from the adverse impact of trade cycles through accurate forecasting of sales for the concerned period. It helps the organization to estimate expected profits on the basis of forecasted revenues and costs.

**Development of a business** The development of a business is fully based on forecasting. It helps the promoter to assess the feasibility of establishing a new business by considering expected benefits, costs, risks, and uncertainties of the proposed business. The success of business depends on sound forecasting. Forecasting is of utmost importance in setting up of a new business.



### 3.12 ELEMENTS OF (OR STEPS IN) FORECASTING

The following are the important elements of forecasting:

**Developing the ground work** The first step in the process of forecasting is its preliminary preparation. It involves collection of basic information relating to the product, market, competition, environment of the industry, social factors, political factors, etc. A proper study of these facts helps in making future estimates.

**Estimating future trends** The future can be estimated with the help of past experience and present performance. The prospects of the future period can be estimated in consultation with the key personnel and it should be communicated to all employees of the organization. The management has to prepare quantitative estimates of future events with key executives.

**Collection of results** Relevant records are to be prepared and maintained to collect the actual results. Irrelevant information can be avoided while collecting the results. All relevant facts and figures with regard to actual performance are to be collected and recorded.

**Comparing actual results with the estimated results** The actual results are compared with estimated results to know the deviations. This comparison provides an opportunity to discuss the deviations, their possible reasons and future trends. The reasons for significant deviations can be investigated. This helps the management to estimate the future realistically.

**Refining the forecast process** The forecast can be refined in the light of deviations which seem to be more realistic. The management should review the forecasts periodically and revise it according to the experience gained in the immediate past. In this way, the forecast can be refined and improved.

### 3.13 TECHNIQUES OF FORECASTING

Various techniques of forecasting are used in the field of business. Techniques are used in forecasting to reduce the possibility of errors. Some of the techniques are enumerated below:

**Survey method** Field surveys can be conducted to collect information regarding the attitude of people. Information collected (both quantitative and qualitative) by this technique is useful for proper forecasting. The survey method is suitable for forecasting the demand of both the existing product and new products.

**Index numbers** Index numbers are used to measure the state of condition of business between two or more periods. Business trends, seasonal fluctuations, and cyclical movements are studied with the help of index numbers. Index numbers indicate the direction in which the business is going on. Business activity index numbers are used as barometer to forecast the future trend of a business.

**Time series analysis** In time series analysis, the forecast is made on the assumption that past activities are good indicators of future activities. In other words, future activities are the extension of the past. A trend can be known from the past data (over a period of time) which is utilized for predicting future trends. This technique can be suitably applied where the future is more or less similar to the past. Here, forecasts are based on the assumption that business conditions remain unchanged in the future.

**Regression analysis** Regression equations are used for predicting the average value of one variable when the movements of other variables are known. Normally, regression equations are based on two or more inter-related variables. The variables may be cost, production units, profit, sales volume, etc. Forecast is made on one variable when specific values of other variables are known. A change in the value of one variable has an effect on the other inter-related variables. Forecast can be made from direct linear regression equations.

**Jury of executive opinion** The opinion of experts is sought and the meritorious one is accepted. The opinions may be sought on the areas of sales, purchase, finance, production, etc. Here, the views and opinions of experts are brought together for the purpose of forecast. This method is based on opinion rather than facts. Ideas of the experts are evaluated for their feasibility and profitability. Experts may be requested to comment on the opinions of others in order to arrive at a consensus.

**Econometric model** Econometric models are more scientific in tackling forecasting problems in the disciplines of economics, statistics, and accounting. The complex relationship of numerous variables is responsible for the future behaviour of one variable. This forecasting technique is applied in projecting Gross National Product. A predictive model is developed through a computer from various variables related to the business activity. The past data is used to know the degree of relationship prevailing among various variables.

**Input-output analysis** A relationship between input and output is established on the basis of past data. A forecast of unknown variables can be made when the input-output relationship is known. The input requirements of a production can be forecasted when output is known quantitatively. On the contrary, output can be forecasted on the basis of a given quantity of inputs. Here, the prevailing inter-relationship among the various sectors of the economy can be well-established. This technique yields sector-wise forecasts and is extensively used in forecasting business events.

**Delphi method** The task of forecasting is done in consultation with persons who are directly related to the problem. A panel of experts is prepared. These experts are requested to give their opinions in writing for a prescribed questionnaire. Their opinions are analysed, summarized, and submitted once again to the same experts for future consideration and evaluation. This process is continued till a consensus opinion is obtained. This technique is most suitable for situations where past data is not available.

### 3.14 LIMITATIONS OF FORECASTING

The following are the limitations of forecasting:

**Based on assumptions** Forecasting is made on the basis of certain assumptions and human judgements. Faulty assumptions and human judgements will yield wrong results.

**Uncertainty of the future** Forecasting helps to know the future. It is a prediction of future events. But there is uncertainty of occurrence of such events. Forecasting cannot eliminate the margin of errors and the possibility of mistakes.

**Lack of skill of experts** Forecasting is more of an art than a science. Its success largely depends on how skilfully it is put into practice. It requires a high degree of skill. But in practice, very few experts are available for forecasting.

**Lack of reliable information** Proper forecasting needs adequate and reliable information. It is very difficult to collect reliable data and information. Hence, it is not possible to forecast correctly due to lack of reliable information.

**Far from absolute truth** Forecasting is not an accurate science. There is no fool-proof method of predicting the future. In reality, forecasts are seldom recognized as true, due to a high degree of uncertainty of the future.

**Time and cost factors** Forecasting involves collection of information and conversion of qualitative data into quantitative data. This involves a lot of time and money. Therefore, forecasting is both expensive and time-consuming.

**Ever-changing business conditions** Business conditions are dynamic and ever-changing. They can never be forecast accurately. Forecasting does not specify any concrete relationship between past and future events.

### 3.15 PLANNING VS FORECASTING

Differences in planning and forecasting are given in Table 3.1.

**Table 3.1** Planning vs Forecasting

S.No.	Planning	Forecasting
1	Planning is the basis for future course of action.	Forecasting is the basis for planning.
2	Planning is done at the top level management.	Forecasting is done at the middle level management.
3	Planning is not a tool of forecasting.	Forecasting is a tool of planning.
4	Planning can be done by any employee of the top management.	Forecasting is done by experts only.
5	Planning helps to reach at certain decisions.	Decisions cannot be taken without forecasting.

#### Model Objective Type Questions

##### 1. What do you mean by planning?

**Answer** Planning is the determination of a future course of action to achieve any desired result. It is the process of thinking before doing. Planning is the first function of management. It is a continuous process that takes place at all levels of management. Today, planning is considered as a strategic area of management in the context of globalization of business operations. It is a process of identifying the strengths and weaknesses of an organization and correlating them with opportunities available in the business world.

##### 2. How does planning perform the function of decision-making?

**Answer** Planning performs the functions of decision-making and problem-solving. Planning is an intellectual decision-making process in which creative thinking and imagination are essential. Planning involves the selection of business objectives and deciding the future course of action for achieving organizational goals. Planning provides a rational approach to managerial activities. It brings orderliness, efficiency, and stability in managerial actions and decisions.

##### 3. Does planning process help in coping with uncertainty in future?

**Answer** Planning is intended to cope with future uncertain events and situations. Planning process helps in coping with uncertainty by formulating a future course of action. It attempts to anticipate the future in order to achieve better performance. It discovers the best alternative out of many available alternatives. Planning helps the manager to shape the organization's future.

##### 4. Mention any four features of planning.

**Answer**

- (i) Planning is the first function of management. Planning provides the basis for other managerial functions (such as organizing, staffing, directing, coordinating, and controlling).
- (ii) Planning is an intellectual activity. Planning involves foreseeing future developments, making forecasts, and then taking decisions.
- (iii) Planning is futuristic in nature. It is a technique to see the future in the light of the present. Plans are prepared for implementing them in the future.
- (iv) Planning is goal-oriented process. Planning is based on certain objectives. Planning contributes to the attainment of these objectives. Therefore, as the purpose of every plan is to facilitate the accomplishment of organizational goals.

##### 5. Do you consider planning as a continuous process?

**Answer** The planning cycle continues to operate as long as the organization exists. Planning is like a flowing river. It is a dynamic function and needs continuous review. The execution of one plan initiates the formulation of another plan. Effective planning requires continuous monitoring of events for achieving the desired goals. Planning is an on-going process, having no definable ends.

##### 6. Do you think planning as a pervasive function?

**Answer** Planning is a pervasive activity covering the entire enterprise with all its segments and levels. Planning is required at all levels of management (top, middle, and lower) and in all

departments (purchase, production, personnel, finance, etc.) of an organization. Planning is also essential for all types of organizations (economic, social, political, religious, etc.). Therefore, planning is the basic function of every manager, irrespective of his level and position.

### 7. Mention any four importance (or significance) of planning.

**Answer**

- (i) Planning helps to realize the business objectives in the best possible manner. It paves the way for the proper utilization of available resources. It avoids incorrect actions and reduces frequency of failures.
- (ii) Planning facilitates coordination of departmental operations by establishing common goals. A plan provides the guidelines and lays down the parameters for different departments. It avoids duplication of work and inter-departmental conflicts.
- (iii) Planning is always a pre-requisite for control. In other words, control pre-supposes the existence of planning. Planning without control is useless and control without planning is impossible. Planning brings effectiveness in the process of control.
- (iv) Planning involves logical thinking and decision-making. It projects a course of action for the future through consistent and coordinated actions.

### 8. What is derivative (or supporting) plan?

**Answer** Derivative plans are developed for each activity within the framework of a basic plan. It is necessary to formulate a derivative plan for each activity in support of the basic plan. The basic plan prepared for the whole enterprise cannot be effectively operated in the absence of derivative (or supporting) plans. The main plan is implemented with the help of various derivative plans. A derivative plan is necessary to expedite the accomplishment of the basic plan.

### 9. What is Operational (or Tactical) Plan?

**Answer** Operational plan is concerned with the optimum use of available resources for a shorter period of time. Production plan of a month is an example of operational plan. This plan is concerned with simple, routine, and repetitive problems. This plan is prepared at middle and lower levels of management. It facilitates participation and involvement of the middle and lower level managers. It is a blue print for current actions within the framework of long range plans.

### 10. What do you mean by single-use plans?

**Answer** A single-use plan is meant for a particular situation. It is designed to accomplish a specific objective within a relatively short period. It is tailored to fit a specific situation. This plan ceases to exist once the objective is achieved. It is basically non-repetitive in nature. Budgets, strategy, objectives, and programmes are examples of a single-use plan.

### 11. What is a budget?

**Answer** Budget is a plan covering operations of an organization for a definite period in the future. It is a statement of expected results, expressed in quantitative terms. It is an estimate of future needs, arranged in an orderly basis. It is prepared after an in-depth analysis of past, present, and future conditions. A budget may be prepared for all activities performed in an organization (such as purchase budget, production budget, sales budget, capital expenditure budget, cash budget, etc.).

### 12. What is a strategy?

**Answer** Strategy is a comprehensive action plan designed to achieve specific objectives in the event of difficulty. It is a special kind of plan prepared basically to meet the challenge of a special situation. Strategy may be considered as an action plan for accomplishing specific objectives in a disturbed state of affairs. It is a set of moves and counter-moves to be used by an organization to get over a problematic situation by restricting rival organizations.

### 13. What is an objective?

**Answer** Objective means planned target of performance. It is the desired end-result of an activity. Objective justifies the scope of operations and activities. Objective is the end-result towards which all the activities of the enterprise are directed. Objectives provide the basis for planning and the focal point for all managerial functions. Objectives are crucial for the existence of an organization.

### 14. What is a programme?

**Answer** A programme is a sequence of activities designed to implement policies and accomplish objectives. It is a precise plan which lays down the different operations to be carried out to achieve a given task. It is result-oriented and provides practical guidelines to managerial actions. A programme is drawn up in conformity with objectives. It consists of all steps to be taken to achieve the desired tasks.

### 15. What is a standing (or repetitive-use) plan?

**Answer** A standing plan is a permanent plan. It is used again and again. It is meant to serve as a standing guideline and criterion on managerial decision-making. It is repeatedly used for tackling recurring problems and issues. Policies, procedures, methods, and rules are examples of standing plans.

### 16. What are policies?

**Answer** Policies are the guidelines (or framework) within which employees of an organization are supposed to work. Policies prescribe the most desirable ways and means for the accomplishment of a given objective. Policies are standing decisions made to ensure uniform action in the handling of repetitive problems. Policies define the boundaries within which the decisions should be made by the employees.

**17. What are procedures?**

**Answer** Procedures indicate the specific manner in which a certain activity is to be performed. Procedures determine the sequence of definite acts. Procedures outline the steps taken in performing specific jobs of a repetitive nature. They show the way to implement policies and are guides to action. The essence of procedure is a chronological sequence of required actions.

**18. What are methods?**

**Answer** Methods deal with the best way in which a particular task is to be performed. Methods provide details about a particular operation. They prescribe the exact manner in which the operation will be performed. A method is only concerned with a single operation. Use of standard methods brings in uniformity in action. Methods specify how each step of a procedure is to be performed.

**19. What are rules?**

**Answer** Rules are specific statements used for guiding what may or may not be done. Rules are prescriptive directives to employees in organizations to do or not to do certain things. Rules are generally formalized in writing and are impersonal in nature. They are meant for strict observance. Employees are expected to comply with rules (i.e. a specific set of directions) while performing an activity. Violation of the rules is associated with some sort of disciplinary action.

**20. Mention the steps involved in the planning process?**

**Answer** Any logical and scientific planning must go through the following steps:

(i) Determination of objectives of the enterprise; (ii) Establishment of planning premises; (iii) Development of alternative courses of action; (iv) Selection of best course of action; (v) Preparation of derivative (or secondary) plans; (vi) Securing participation of employees; (vii) Follow-up and evaluation.

**21. What are planning premises?**

**Answer** Planning premises are those basic assumptions upon which the process of planning works. Planning premises provide the *bed-rock* upon which the plans are formulated. They are nothing but background environment (or framework) within which an enterprise operates. Effective planning is largely dependent on knowledge and choice of planning premises. Planning premises can be classified in several ways as follows:

(i) Internal and external premises; (ii) Tangible and intangible premises; (iii) Controllable and uncontrollable premises.

**22. Mention any four limitations of effective planning.**

**Answer**

(i) The future cannot be forecasted accurately if the available information is not authentic.

(ii) Planning is said to be a time-consuming and an expensive process. Planning has its own cost in terms of money, time, effort, and other resources.

(iii) Planning directs the management to work on a pre-determined course of action. This may lead to internal inflexibility and procedural rigidity.

(iv) The effectiveness of planning is reduced due to the influence of external factors.

**23. What is forecasting?**

**Answer** Forecasting is a systematic estimation of future events with the help of in-depth analysis of past and present events. Forecasting provides a basis for planning. Forecasting includes both assessing the future and making provision for it. As a result, planning cannot be done without forecasting. Thus, forecasting is the projection of future events (or conditions) in the environment in which plans operate. Forecasting aims at understanding various uncertainties and complexities associated with the environment.

**24. What are the steps involved in forecasting?**

**Answer** The following are the important steps in forecasting:

(i) Developing the ground work; (ii) Estimating future trends; (iii) Collection of results; (iv) Comparing actual results with the estimated results; (v) Refining the forecast process.

**25. What are the techniques of forecasting?**

**Answer** Various techniques of forecasting are used in the field of business. Some of these techniques are enumerated below:

(i) Survey method; (ii) Index numbers; (iii) Time series analysis; (iv) Regression analysis; (v) Jury of executive opinion; (vi) Econometric model; (vii) Input-output analysis; (viii) Delphi method.

**26. What is survey method of forecasting?**

**Answer** Field surveys can be conducted to collect information regarding the attitude of people. Information collected (both quantitative and qualitative) by this technique is useful for proper forecasting. The survey method is suitable for forecasting the demand of both the existing product and new products.

**27. What is Delphi method of forecasting?**

**Answer** The task of forecasting is done in consultation with persons who are directly related to the problem. A panel of experts is prepared. These experts are requested to give their opinions in writing for a prescribed questionnaire. Their opinions are analysed, summarized, and submitted once again to the same experts for future consideration and evaluation. This process is continued till a consensus opinion is obtained. This technique is most suitable for situations where past data is not available.

## Exercises

### Objective Type Questions (2 marks)

1. What is derivative planning?
2. Mention any four techniques of forecasting.
3. Define operational planning.
4. What do you mean by planning?
5. Define forecasting.
6. Discuss the survey method of forecasting.
7. Briefly explain the importance of planning.
8. Give an idea of 'policy' as a plan.

### Short Essay Type Questions (4 marks/8 marks)

1. 'Planning is a continuous process.' Explain.
2. Discuss the steps involved in planning.
3. Describe the importance of forecasting.
4. Define planning. Discuss the planning premises.
5. Explain the important techniques of Forecasting.
6. What are the measures to be adopted by an organization for making its planning effective?
7. Explain the importance of planning in modern business.
8. Discuss the barriers to effective planning.
9. Give an outline of strategic planning.

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