

MANAGEMENT

PRINCIPLES AND APPLICATIONS

UNIT-2

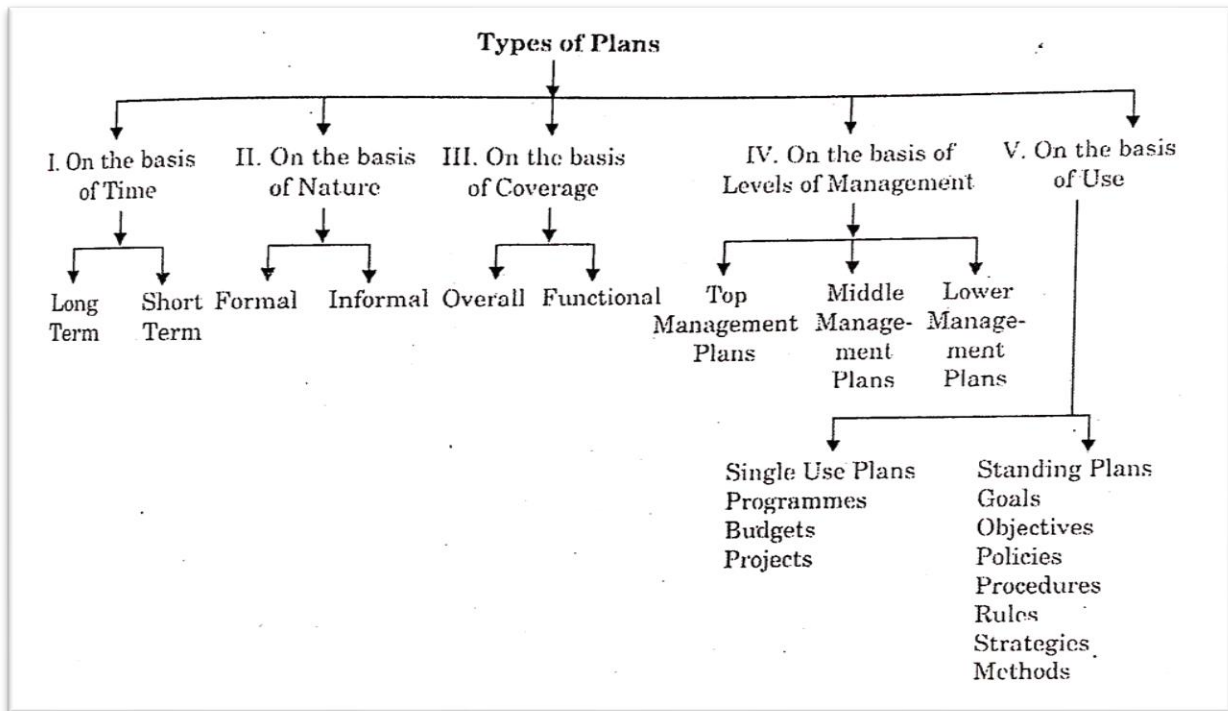
PART-I

TYPES OF PLANS

"Planning is the beginning and end of all managerial activities."

-An old Saying

Basically, planning is concerned with future problems. But while all planning deals with the future, planning in respect of some activities or departments, has to cover a longer future period than others. Management process lays more stress on planning. While planning one should always concentrate on 5 W's which are What, Where, When, Why and Who. The plans are formulated according to the conformity of the above. Thus, on the basis of the future period covered by them, plans may broadly be classified as:



I. On the Basis of Time

These plans are formulated according to time and may be:

1. Long Term Plans: The term 'Long term planning' refers to the process of formulating the long-range objectives of an organisation and determining the ways and means of achieving such objectives. The term 'long range' indicates the extent of future time horizon-the fairly long period of time which can be visualised and verbalised into tentative objectives by the organisation. The duration and limit of long-range differs from enterprise to enterprise and from situation to situation. For some enterprises, 3 to 5 years is a fairly long-time horizon, while for others 25 to 30 years and even beyond it the relevant planning time frame. Long-range planning provides for determination of such critical goals as the desired growth rate of enterprise's assets or sales and profitability, new activities in the future, major new investments, areas of development and disinvestment, and so on.

2. Short Term Plans: The term 'Short term plans' refers to the process of formulating short-range objectives and of deciding on the courses of action or plans, to achieve them. Short-term planning is done for a time span of one year or less. In general, it is carried out within the framework of long-range planning, and for achieving long-range objectives, in a step-by-step manner. A short-range plan is an attempt to break down a long-range plan into compact and

actionable programmes. Short-range planning provides the basis for co-ordinated performance of activities, allocation of resources, assignment of tasks and design of appropriate plan, implementation and programme evaluation system.

II. On the Basis of Nature

1. Formal Plans: Planning is called formal when it is reduced to writing. In such plans, the future course of action is systematically written. Plan should be written especially when the number of actions is quite large. A written plan facilitates control by pin-pointing weaknesses. Besides, formal planning should be undertaken when the course of action has to cover a long period of time.

2. Informal Plans: Informal plan is one which is not reduced to writing. It is simply conceived in the mind of the manager and is conveyed orally. Informal planning is done for a single activity. Informal plans cover a short period of time.

III. On the Basis of Coverage

1. Overall Planning: Overall and strategic planning is done by the top management. Top managers determine the overall objectives of the enterprise and the steps necessary to accomplish them in the light of the resources currently available and likely to be available in the future. Strategic planning is broader in scope as it covers the entire enterprise.

2. Functional Planning: Functional planning, on the other hand, covers a particular functional area of the business. For instance, if planning pertains to finances of the enterprise, it is known as 'financial planning.' Similarly, there may be plans in other functional areas like production, marketing, purchasing, etc.

IV. On the Basis of Levels of Management

1. Top Level Management Plans: This type of planning is carried out by top level management such as directors, managers, etc., Top management planning is mainly concerned

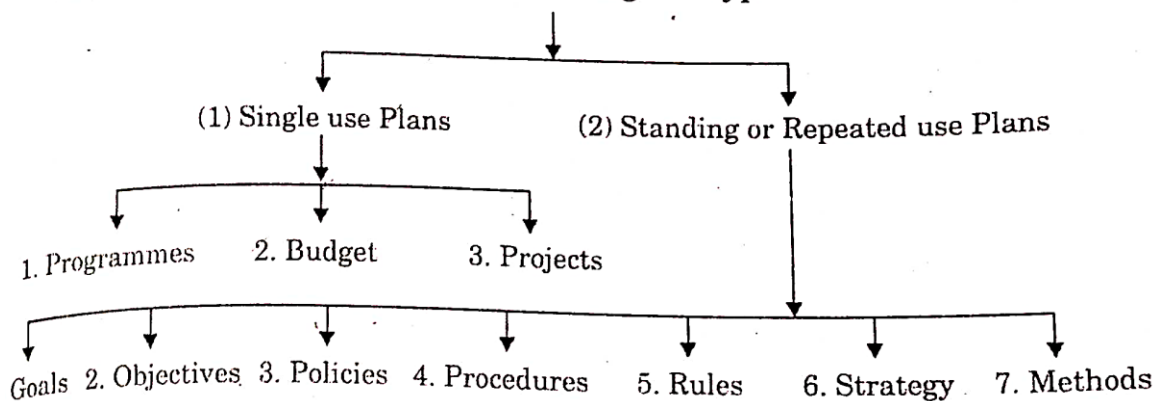
with the formulation of policy, determination of objectives and making of the budgets. Long term planning is the responsibility of top-level management.

2. Middle Level Management Plans: Such plans are carried out by middle level managers. These plans make possible the execution of policy and the achievement of objectives as laid down by top management. Middle level management is responsible for all medium-range plans.

3. Lower Level or Supervisory Level Management Plans: These plans are carried out by supervisors, foremen, etc., at operational ends. They relate to the actual operations of the organisation. As stated, short range planning is the responsibility of lower-level management.

V. On the Basis of Use

As per use, plans may be of the following two types :



1) Single Use Plans

It is also called specific planning or ad-hoc-planning. A single use plan is one which is prepared for a particular situation or specific operation. As soon as that special situation or circumstance is over the plan is not put to use again. Programmes, Budgets and Projects are examples of single use plans. Various types of single use plans are explained as follows:

1. Programmes: A programme is a single use plan laid down for new and non-repetitive activities. It is a concrete scheme of action designed to accomplish a given task. It specifies the steps to be taken, resources to be used, time limits for each step and assignment of tasks. It is

a sequence of action steps arranged in priority necessary to implement a policy and achieve an objective. Once the goals of a programme have been fulfilled, it will not be used again. The expansion programme of a hospital can be cited as an example of programme. It calls for the building of a new hospital in the same or another locality and a variety of plans, policies, procedures, budgets, etc., Once this programme has been accomplished, these plans will not be used again as such.

"A programme can be defined as a comprehensive plan that includes future use of different resources in an integrated pattern and establishes a sequence of required actions and time schedules for each in order to achieve the stated objectives."

-George R. Terry

Advantages of Programmes

The main advantages of programmes are as follows:

- i. Completion of work in time.
- ii. Certainty of work.
- iii. Programmes provide practical guide to action.
- iv. Well formulated programme makes for greater co-ordination.
- v. Programmes provide greater motivation to all concerned.

2. Budgets: *"A budget as a plan is a statement of expected results expressed in numerical items."*

-Koontz and O'Donnell

A budget is a plan which carves the course of business activities for a future period to achieve the prescribed objectives and to provide the desired profits for operation, it may be stated in time, materials, money or in any other unit. In budget formulation a company estimates the general trend of economic conditions within its industry. In the words of George R. Terry, *"A budget is an estimate of future needs, arranged according to an orderly basis, covering some or all of the activities of an enterprise for an enterprise for a definite period of time."*

Characteristics of Budget

Following are the main characteristics of a budget:

- (i) A budget should be based on past figures.
- (ii) There should be an active involvement of top management while preparing a budget.
- (iii) A budget should be a specific statement.
- (iv) A budget should be flexible so that it can be modified according to the requirements of the situation.
- (v) Persons at various levels should be involved in preparing a budget

Types of Budget

The following are the main types of budgets:

A. Classification According to Time

(i) Long term Budgets: These budgets are prepared to depict long term planning of the business. The period of long-term budgets varies between five to ten years. The long-term planning is done by top level management.

(ii) Short term Budgets: These budgets are generally for one or two years and in the form of monetary terms.

(iii) Current Budgets: Current budget is a budget which is established for use over a short period of time and is related to current conditions.

B. Classification on the Basis of Function

(i) Functional Budgets: These budgets relate to different functions. The number of these budgets depends upon the size and nature of the business. The commonly used budgets are:

- (a) Sales Budget
- (b) Product Budget
- (c) Purchase Budget
- (d) Cash Budget
- (e) Finance Budget

(ii) Master Budget: Various functional budgets are integrated into master budget. Master budget is the summary budget incorporating functional budgets. The master budget is used to co-ordinate the activities of various functional departments and also serves helping as a control device.

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