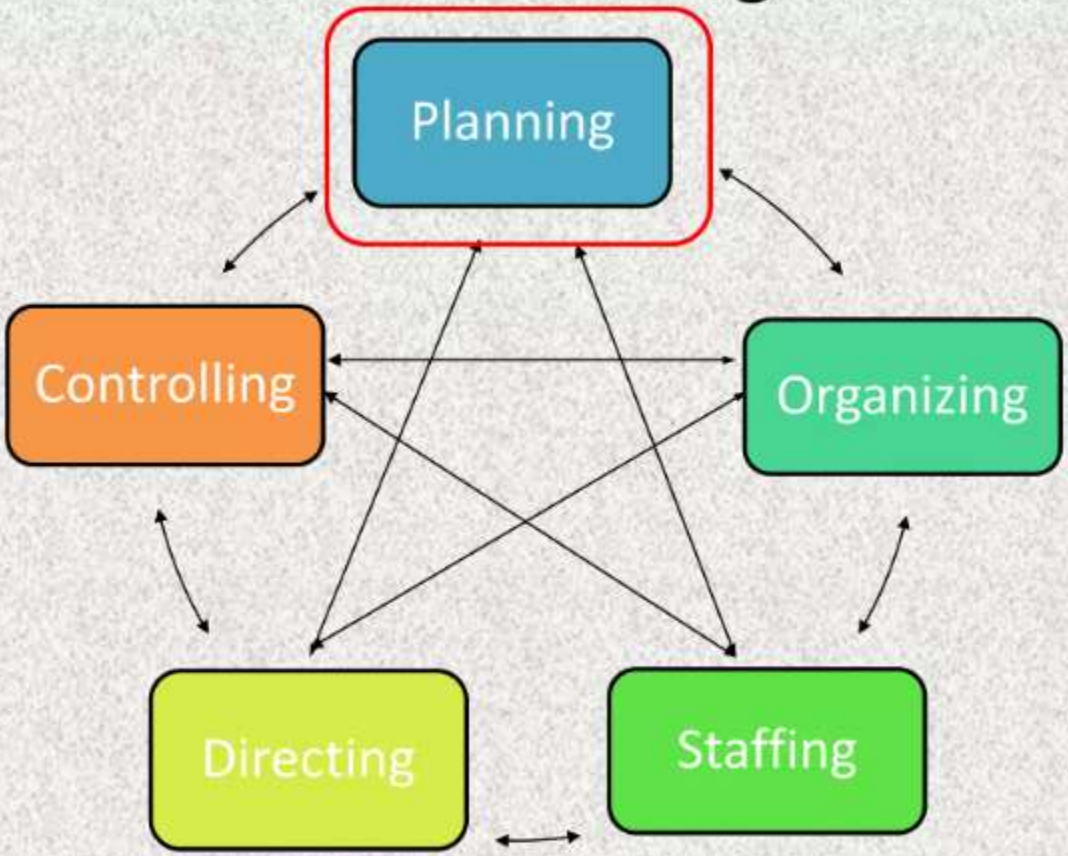
Unit 2 : Planning

Management Planning Process

- Planning objectives and characteristics
- Hierarchies of planning
- The concept and techniques of forecasting.

Functions Of Management



GOAL,PLAN & PLANNING

GOAL: A desired future state that the organization attempts to realize. Goals are important because an organization exists for a purpose, and goals define and state that purpose.

PLAN: A blueprint specifying the resource allocations, schedules, and other actions necessary for attaining goals.

PLANNING: It means determining the organization's goals and defining the means for achieving them.

It involves deciding the future course of action.

Planning is preparing for tomorrow, today. It's the activity that allows managers to determine what they want and how they will achieve it.

It answers six basic questions in regard to any activity:

✓What needs to be accomplished?
✓When is the deadline?
✓Where will this be done?
✓Who will be responsible for it?
✓How will it get done?
✓How much time, energy, and resources are required to accomplish this goal?

- Planning is deciding in advance what to do, how to do it, when to do it and who to do it.
- According to Haimann, “Planning is the function that determines in advance what should be done.”
- Planning involves developing short- and long-term goals for the organization.
- Planning is the part of management concerned with creating procedures, rules and guidelines for achieving a stated objective.
- Planning is carried out at both the macro and micro level.
- Planning bridges the gap between where we are and where we want to go.
- It is today’s projection for tomorrow's activity.
- Planning is the scheme of future action to bring about specified results at a specified cost, in a specified period of time.

Definition of Planning

Weihrich & Koontz

Planning involves selecting missions and objectives and the actions to achieve them; it requires decision making, that is, choosing best alternative from the available future courses of action.

A job well planned is half done

McFarland

Planning may be broadly defined as a concept of executive action that embodies the skills of anticipating, influencing & controlling the nature & direction of change.

Terry

Planning is the selection & relating of fact & making & using of assumption regarding the future in the visualization & formation of proposed activities believed necessary to achieve desired result.”

Planning bridges the gap from where we are to where we want to go

OBJECTIVES OF PLANNING

- To understand the meaning and concept of Planning.
- To develop familiarity with various characteristic of Planning.
- To understand the process of Planning.
- To develop familiarity with various types of Planning.
- To know what exactly are the advantages and disadvantages of Planning.
- To understand the importance of Planning.

CHARACTERISTICS OF PLANNING

- Planning is goal-oriented:- Planning is made to achieve desired objective of business. Planning identifies the action that would lead to desired goals quickly & economically. It provides sense of direction to various activities.

- Planning is looking ahead:- Planning is done for future. It requires peeping in future, analyzing it and predicting it. Thus, planning is based on forecasting.

- Planning is an intellectual process:- Planning is a mental exercise involving creative thinking, sound judgement and imagination. It is not a mere guesswork but a rotational thinking. Planning is always based on goals, facts and considered estimates.

- Planning involves choice & decision making:- Planning essentially involves choice among various alternatives. Therefore, if there is only one possible course of action, there is no need planning because there is no choice. Thus, decision making is an integral part of planning. A manager is surrounded by no. of alternatives. He has to pick the best depending upon requirements & resources of the enterprises.

- Planning is the primary function of management :- Planning lays foundation for other functions of management. It serves as a guide for organizing, staffing, directing and controlling. All the functions of management are performed within the framework of plans laid out. Therefore, planning is the basic or fundamental function of management.

- Planning is a Continuous Process :- Planning is a never-ending function due to the dynamic business environment. Plans are also prepared for specific period of time. Planning never comes into end till the enterprise exists issues.

- Planning is Flexible:- Planning is done for the future. Since future is unpredictable, planning must provide enough room to cope with the changes in customer‘s demand, competition, and govt. policies etc. Under changed circumstances, the original plan of action must be revised and updated to make it more practical.

PRINCIPLES OF PLANNING

Good planning requires a disciplined process that clearly defines the steps that lead to optimal solutions. This process should reflect the following principles:

- Comprehensive – all significant options and impacts are considered.
- Efficient – the process should not waste time or money.
- Inclusive – people affected by the plan have opportunities to be involved.
- Informative – results are understood by stakeholders (people affected by a decision).
- Integrated – individual, short-term decisions should support strategic, long-term goals.
- Logical – each step leads to the next.
- Transparent – everybody involved understands how the process operates.

Nature & Features of planning

Planning focuses on achieving objectives

- ✓ Planning is an intellectual process
- ✓ It is a way to achieve the objective is decided in the planning

Planning is primary function of management

- ✓ It is the first and foremost function of management
- ✓ It lead all other managerial functions
- ✓ Planning is the most basic to all management functions

Planning is pervasive

- ✓ Planning is an important function of every manager (All levels of manager)
- ✓ Planning is pervasive(enveloping) function of management

Planning is futuristic

- ✓ Planning is flexible because future is always dynamic
- ✓ Planning determines the future course of action
- ✓ Primarily concerned with looking into future

Planning is continuous

- ✓ It is involving complex processes of perception, analysis, conceptual thought, communication, decision & action
- ✓ Plans are prepared for a particular period. Hence there is need for new plan after the expiry of that period

Planning involves decision making

- ✓ Choosing best alternative from the available future courses of action.
- ✓ Involves selection of suitable course of action, means there are several alternatives for achieving objectives

Planning is a mental exercises

- ✓ It is a process of thinking before doing
- ✓ It is deciding in advance

What to do?	How to do it?
When do it?	Who is to do?

"*Without the activities determined by planning, there would be nothing to organize, no one to activate and no need to control*". **George R. Terry**

What to do ? — Objective

How to do it ? — Procedure

When to do it ? — Time duration

Who is to do it ? — Employee

Importance of planning

Planning provides direction

- ✓ Gives direction to all the activities of an organization
- ✓ The attention of all the managers will get focused on the attainment of their objectives

Planning reduces risks of uncertainty

- ✓ Future are anticipated & various activities are planned, the risk of future uncertainties can be minimized
- ✓ Provides certainty in the activities
- ✓ Planning establishes coordinated effort
- ✓ Manage complexities & competition

Planning reduces overlapping and wasteful activities

- ✓ Problems of when, where, what and why are almost decided
- ✓ Helps in effective forecasting (predict)

Planning establishes goals and standards used in controlling

Benefits of planning

- Reduces uncertainty
- Encourage innovation & creativity
- Improves motivation
- Achieve better coordination
- Facilitates control
- Planning leads to success
- Focuses attention

6 Ps in planning

1. **Purpose**
2. **Philosophy**
3. **Premise**
4. **Policies**
5. **Plans**
6. **Priorities**

Just planning is not enough

ADVANTAGES OF PLANNING

1. Attention on Objectives:

Planning begins with determination of objectives. It highlights the purposes for which various activities are to be undertaken. Without planning an organization has no guide. Planning compels manager to prepare a Blue-print of the courses of action to be followed for accomplishment of objectives.

2. Minimizing Uncertainties:

Planning is always done for the future. Nobody can predict accurately what is going to happen. Business environments are always changing. Planning is an effort to foresee the future and plan the things in a best possible way.

3. Better Utilization of Resources:

Another advantage of planning is the better utilization of resources of the business. All the resources are first identified and then operations are planned. All resources are put to best possible uses.

4. Economy in Operations:

Effective planning secures economy since it leads to orderly allocation of resources to various operations. It also avoids wastage of resources by selecting most appropriate use that will contribute to the objective of enterprise. The economy is possible in all departments whether production, sales, purchases, finances, etc.

5. Better Co-ordination:

The objectives of the organization being common, all efforts are made to achieve these objectives by a concerted effort of all. The duplication in efforts is avoided. Planning will lead to better co-ordination in the organization which will ultimately lead to better results.

Limitations of Planning

Despite of many advantages of planning, there may be some obstacles and limitations in this process. Planning will only help in minimizing uncertainties to a certain extent.

1. Lack of Reliable Data:

Planning is based on various facts and figures supplied to the planners. Planning will lose its value if reliable facts and figures are not supplied.

2. Time Consuming Process:

Planning is a time-consuming process because it involves collection of information, its analysis and interpretation thereof. This entire process takes a lot of time specially where there are a number of alternatives available. Therefore, planning is not suitable during emergency or crisis when quick decisions are required.

3. Expensive:

The planning process is very expensive. The gathering of information and testing of various courses of action involve greater amounts of money. Collection, analysis and evaluation of different information, facts and alternatives involve a lot of expense in terms of time, effort and money.

Methods of planning

Managers operating at different management levels are involved in planning. According to the nature and size of an organization, method of planning varies. Generally, there are three method of planning.

They are:

1. Top-down planning
2. Bottom-up planning
3. Management by Objectives(MBO)

Task:

What do you mean by????

1. Top-down planning
2. Bottom-up planning
3. Management by Objectives(MBO)

MBO – Management by Objectives

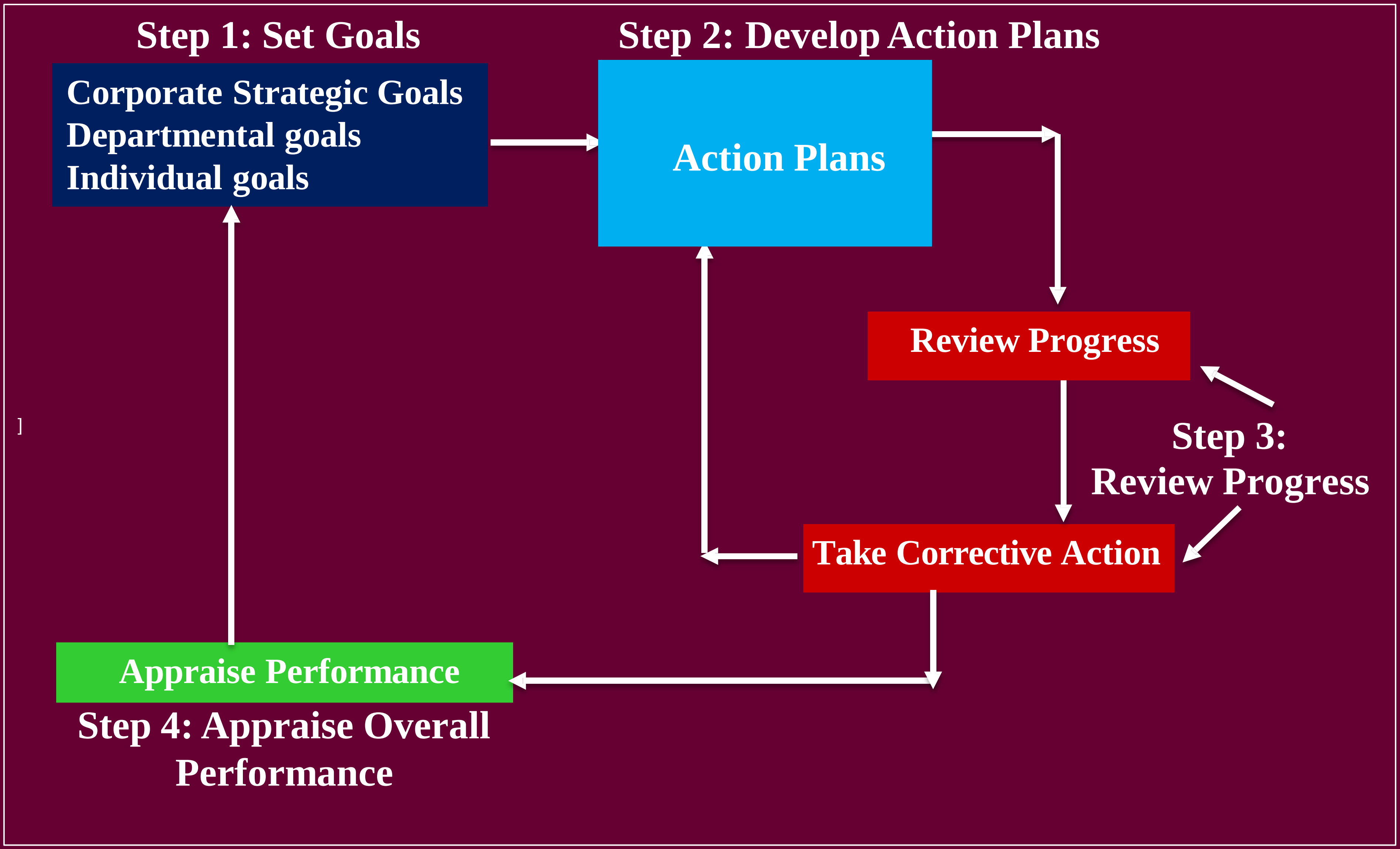
MBO is intended to improve communication between employees & management , increaser employee understanding of company goals, focus employee efforts upon organizational objectives and provide pay & performance

Important factor of MBO : Results achieved by employees rather than the activities performed in their jobs

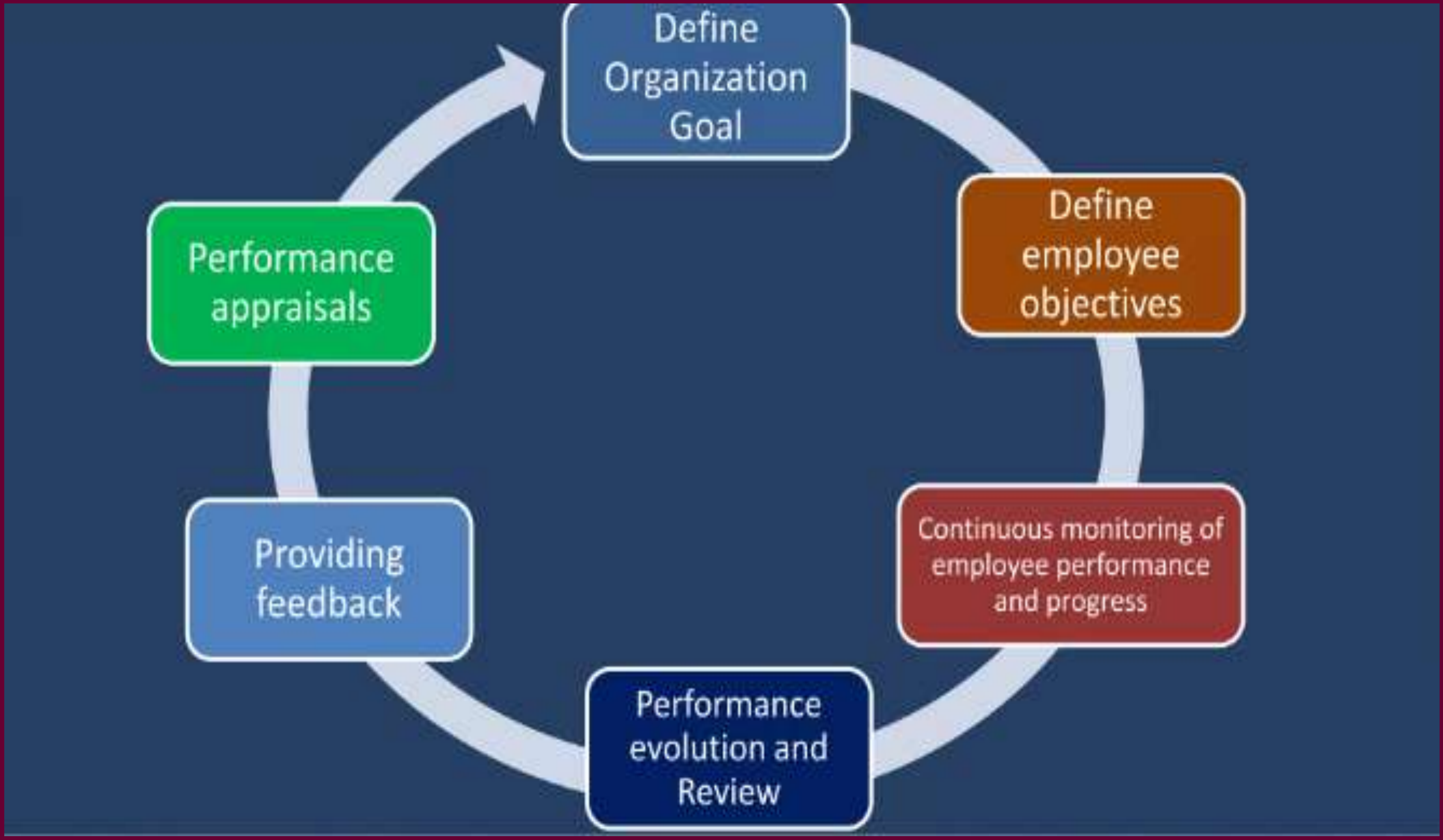
Features of MBO

1. Superior subordination participation
2. Joint goal setting
3. Joint decision on methodology
4. Makes way to attain maximum result
5. Support from superior

MBO Process


Step 1: Set Goals
Corporate Strategic Goals
Departmental goals
Individual goals
Step 2: Develop Action Plans
Action Plans
Review Progress
Step 3:
Review Progress
Take Corrective Action
Appraise Performance
Step 4: Appraise Overall
Performance

MBO PROCESS


Define Organization Goal
Define employee objectives
Continuous monitoring of employee performance and progress
Performance evolution and Review
Providing feedback
Performance appraisals

Steps in management by objective

1. The organization's overall objectives and strategies are formulated.
2. Major objectives are allocated among divisional and departmental units.
3. Unit managers collaboratively set specific objectives for their units with their superiors.
4. Specific objectives are collaboratively set for all department members.
5. Action plans, defining how objectives are to be achieved, are specified and agreed upon by managers and subordinates.
6. The action plans are implemented.
7. Progress toward objectives is periodically reviewed, and feedback is provided.
8. Successful achievement of objectives is reinforced by performance-based rewards.

Benefits of MBO

- Developed result oriented philosophy
- Facilitates effective planning

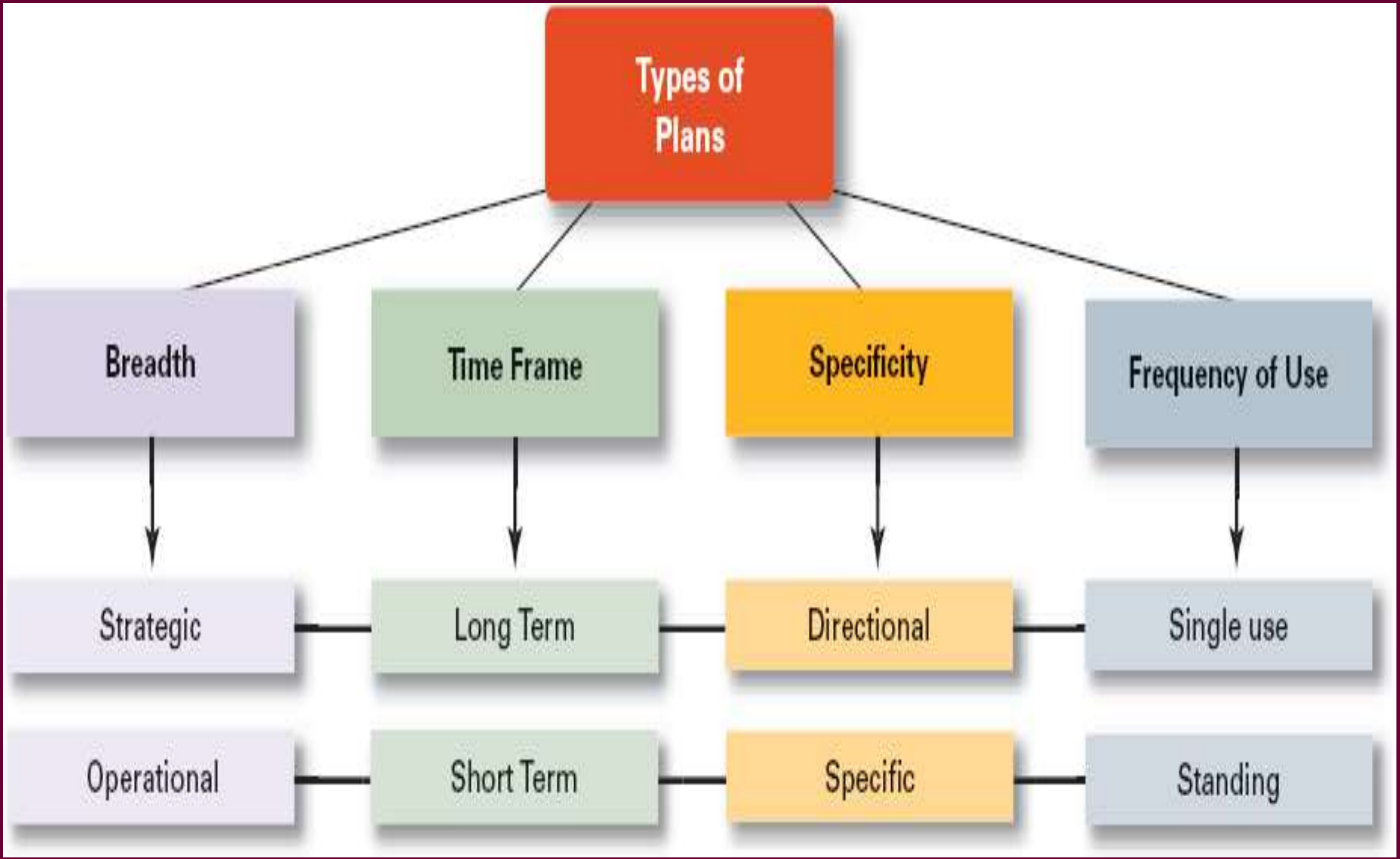
  Manager and employee efforts are focused on activities that will lead to goal attainment
- Facilitates effective control
- Facilitates personal leadership
- Performance can be improved at all company levels
- Acts in motivational force : Employees are motivated
- Departmental & individual goals are aligned with company goals

Limitations of MBO

* Time Consuming
* Reward Punishment approach
* Develops conflicting objectives
* Lacks durability
* Lack of Appreciation
* Problem of coordination

TYPES OF PLANNING

PLANNING TYPES:



PLANNING TYPES:

1. Breadth: Based on the range of area.

- *Strategic planning*
- *Operational planning*

PLANNING TYPES:

Strategic Planning:

- Apply to the entire organization.
- Establish the organization's overall goals.
- Cover extended periods of time

PLANNING TYPES:

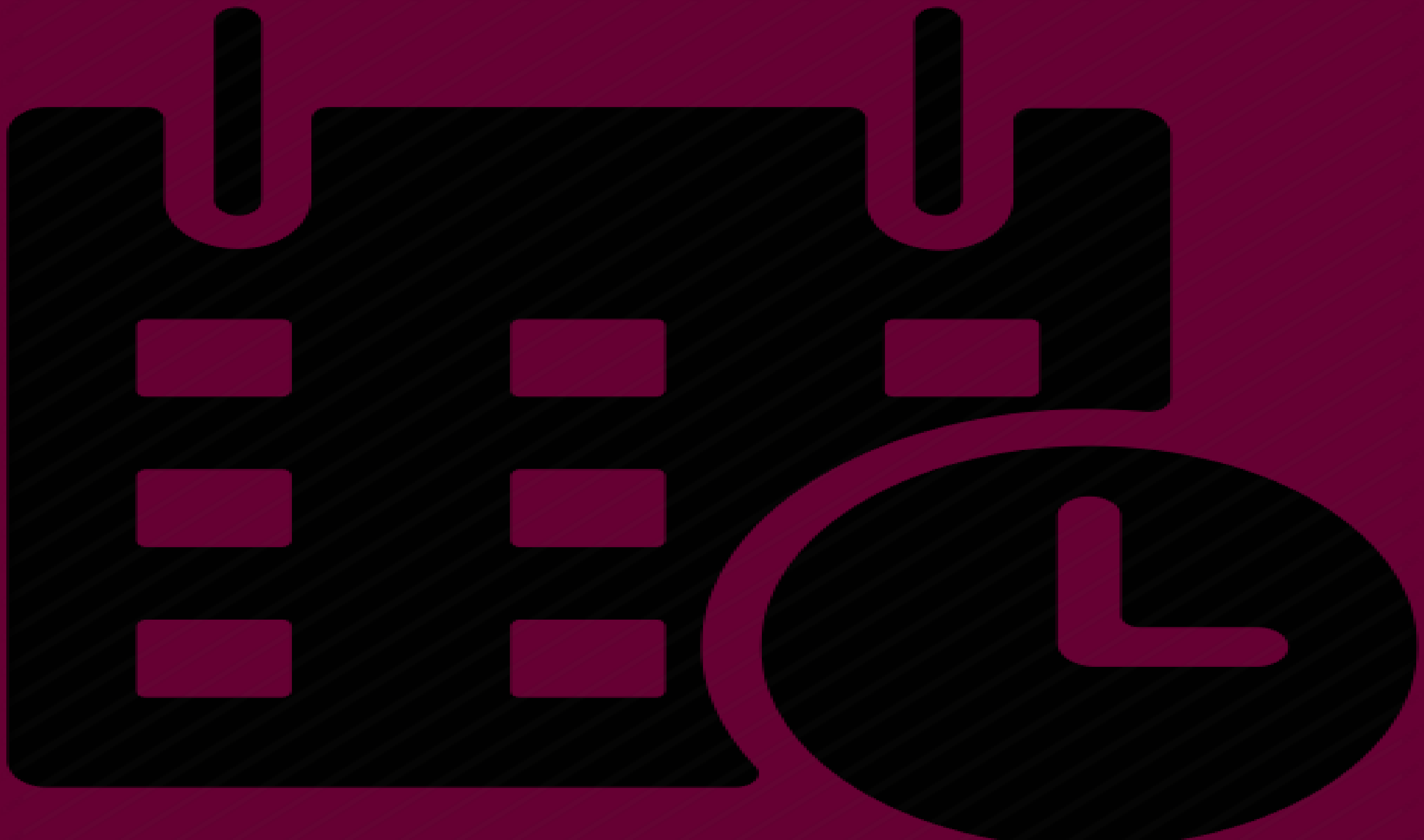
Operational Planning:

- Plans that encompasses a particular operational area of the organization..
- Specify the details of how the overall goals are to be achieved
- Cover short time period.

PLANNING TYPES:

2. Time frame: Based on duration for achieving the goal.

- Long term goal
- Short term goal



PLANNING TYPES:

Long term goals:

- Plans with time frames extending beyond three years.

PLANNING TYPES:

Short term goals:

- Plans with time frames on ***one year or less.***
- **Any plans between these time duration are called as *intermediate plans.***

PLANNING TYPES:

3. Specificity: Based on range of defining.

- ***Specific plans***
- ***Directional plans***

PLANNING TYPES:

Specific Plans

- Plans that are clearly defined and leave no room for interpretation.
- They have clearly defined objectives.
- No uncertainty

PLANNING TYPES:

Directional Plans

- Flexible plans that set out ***general guidelines*.**
- Directional plans are used when ***uncertainty is high.***
- They provide focus but do not lock managers into specific goals or courses of action.

Tactical Planning:

- Deals with the ***low level units*** of an organization.
- Concerned with ***shorter time frames and narrower scopes*.**

PLANNING TYPES:

4. Frequency of use: Based on usage of planning.

- ***Single-Use Plan***
- ***Standing Plans***

UNIT 2: Management Planning Process

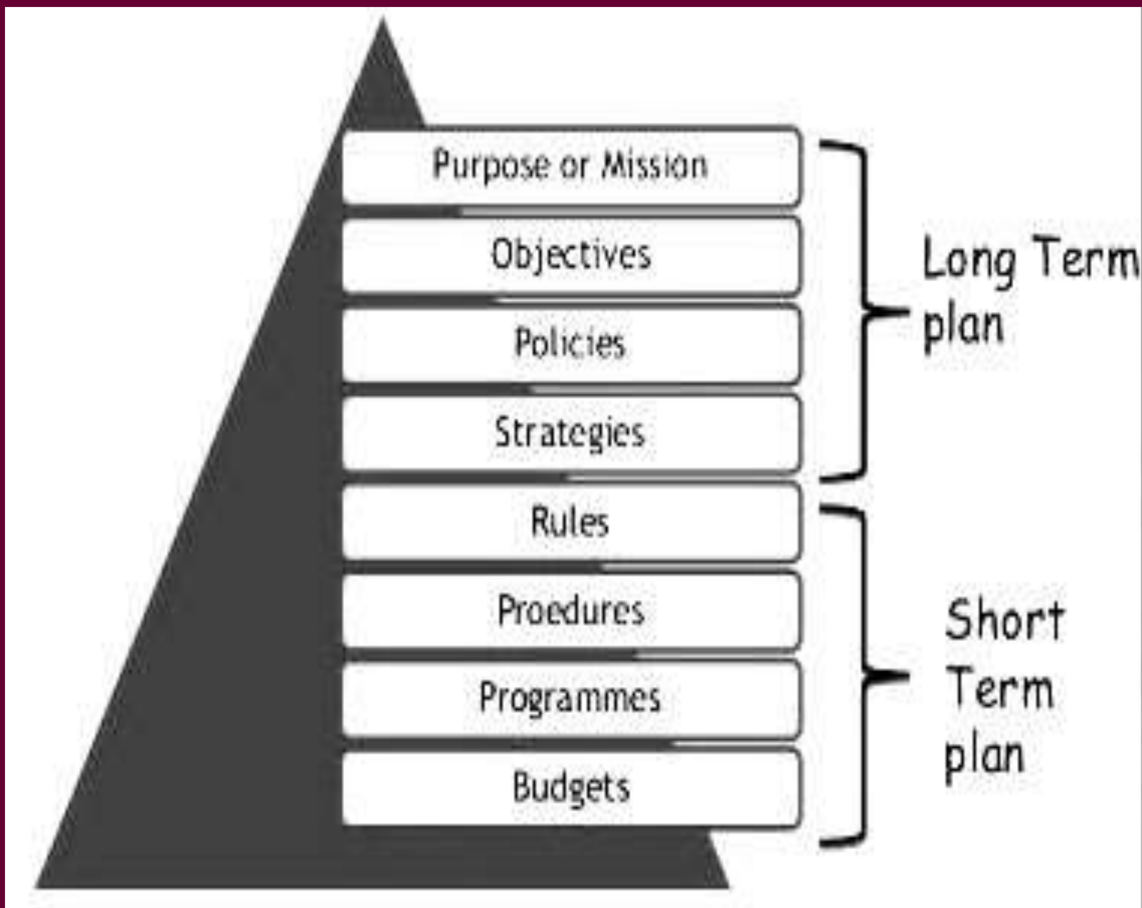
- Planning objectives and characteristics
- **Hierarchies of planning**
- The concept and techniques of forecasting.

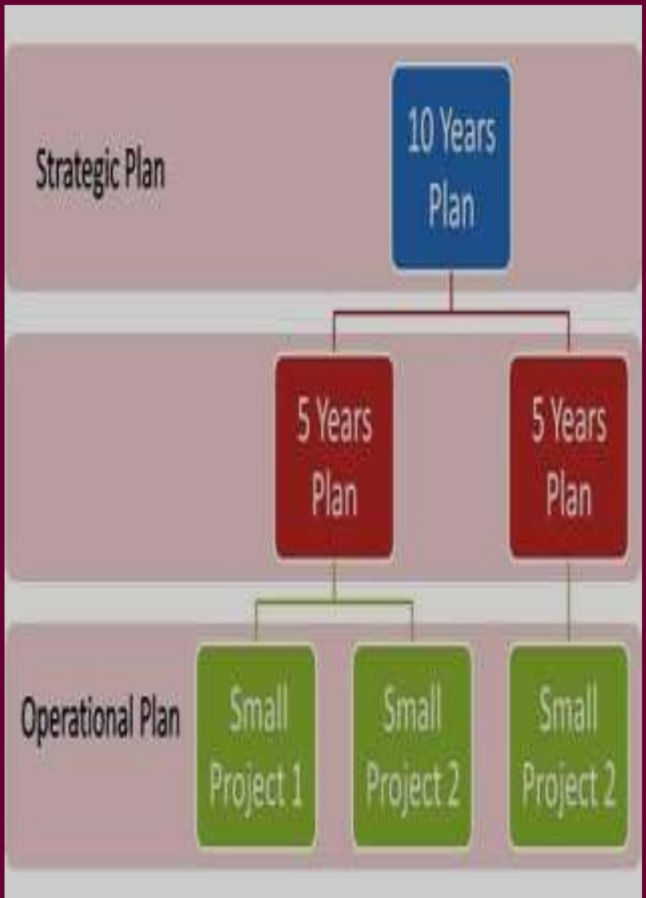
TYPES OF PLANS

(Classification of Planning)

In the process of planning several specific plans are prepared which may broadly be classified into two categories

1.Standing Plans 2.Single Use Plans





PLANNING TYPES:

Single-Use Plan

- A ***one-time plan*** specifically designed to meet the need of a unique situation.

PLANNING TYPES:

Standing Plans

- ***Ongoing plans*** that provide guidance for activities performed repeatedly.

Single-Use Plans & Standing Plans

A single-use plan in a business environment refers to plans developed for a one-time project or event that has one specific goal or objective. Single-use plans consist of budgets, programs and a description of the employees who will be contributing to the single-use plan in question.

Standing plans are often policies and procedures developed to ensure the internal operations of a given business are operating smoothly. Standing plans are often developed once and then modified to suit the business' needs as required.

Examples: policies for employee interaction, procedures for reporting internal issues in the company and regulations in terms of what is allowable and what is prohibited in the business.

SINGLE USE PLANS VS STANDING PLANS

Single use plans

1.Programmes

2.Budgets

3.Projects

Standard/Repeated use plans

1.Objectives

2.Policies

3.Procedures

4.Rules

5.Strategies

Single Use Plans

1. Programmes

- A ***specific plan*** devised to meet a particular situation. Programmes are an in-depth statement that outlines a company's policies, rules, objectives, procedures etc. These programmes are important in the implementation of all types of plan. They create a link between the company's objectives, procedures and rules.

2. Budget

- A budget is a statement of expected results the managers expect from the company. Budgets are also a quantitative statement, so they are expressed in numerical terms. A budget quantifies the forecast or future of the organization.

3. Project

- Part of general programme.

Standing Use Plans

1. *Objectives*

- Specific goals or targets to be accomplished.
- Realistic, flexible.
- Objectives should be framed for a single activity in mind.
- They should be result oriented.
- They should not be unrealistic. Objectives must be achievable.

2. Policies

- ***Guiding principles*** established by the company to govern actions usually under repetitive conditions.
- It is an organization's general way of understanding, interpreting and implementing strategies. Like for example, most companies have a return policy or recruitment policy or pricing policy etc.
- A policy provides a broad guideline for managers to follow when dealing with important areas of decision making.


Top Management's Objective
"We need to improve the company's performance"
Division Manager's Objective
"I want to see a significant improvement in this division's profits"
Department Manager's Objective
"Increase profits, regardless of the means"
Individual Employee's Objective
"Don't worry about quality: just work fast"

3. Procedures

- A procedure is a set of step-by-step directions that explains how activities or tasks are to be carried out.
- It can be understood as a series of related actions that must be taken to accomplish a particular task.
- Procedures are the next types of plan. They are a stepwise guide for the routine to carry out the activities. These stepwise sequences are to be followed by all the employees so the activities can be fulfilled in an organized manner.

4. *Rules*

- A ***decision*** made by the management regarding what is to be done and what is not to be done in a given situation.

- Rules are "do" and "don't" statements put into place to promote the safety of employees and the uniform treatment and behavior of employees.

- Rules are very specific statements that define an action or non-action. Also, rules allow for no flexibility at all, they are final. All employees of the organization must compulsorily follow and implement the rules. Not following rules can have severe consequences.

5. *Strategy*

- A ***special kind of plan*** formulated in order to meet the challenge

  of the polices of competitors.

A strategy is a plan that has three specific dimensions:

- Establishing long-term objectives
- Selecting a specific course of action
- allocating the necessary resources needed for the plan

HIERARCHY OF PLANNING

- Missions
- Goals and Objectives
- Strategies
- Policies
- Procedures
- Rules
- Programs
- Budgets

1. Mission

The mission is the reason for the existence of an organization. It clears what an organization wants to provide to society i.e. product or service. It tells who we are and what we do as well as what we would like to become. The mission is developed by top-level management, which defines the fundamental unique purpose that sets an organization apart from other organizations of a similar type. It also involves the company's philosophy about how it does business and treats its employees.

2. Goals and Objectives

Goals are planned results to be achieved. These are accomplished by destinations that an organization plans to reach. Goals specify what is to be accomplished and by whom and should be shown in quantitative terms. They should be consistent with the mission of an organization.

3. Strategies

It is one of the important parts of the hierarchy of planning in management. The strategy is a comprehensive master plan stating how an organization will achieve its mission and goals. It determines the basic long-term objectives of an organization's adoption of the course of action and allocation of resources necessary to achieve advantages and minimize the desired goals. It maximizes competitive disadvantages.

4. Policies

The policy is a comprehensive guideline for decision making that links the formulation of strategy with its implementation. It defines the area within which a decision is to be made and ensures that decisions will be consistent with objectives. Managers develop policies to make sure that employees of the organization make decisions and take actions that support the mission, goals, and strategies.

5. Procedures

Procedures are the sequential steps that describe in detail how a particular task is to be performed. They generally indicate how a policy is to be implemented and carried out. They are the guides to action and detail the exact manner in which certain activity must be accomplished.

6. Rules

Rules are detailed guides to action. They are specific and rigid and are strictly to be obeyed by all the members of an organization. It is essential to operate an organization in an orderly way. They must be followed precisely and observed strictly. The violation of rules is associated with disciplinary action.

7. Programs

Program is a statement of activities essential to accomplish a single-use plan. It is a comprehensive plan consisting of a complex set of goals, procedures, rules, resource flow, etc. It is an aggregate of several related action plans that are designed to accomplish a mission.

8. Budgets

The budget is a short-term financial plan, which is presented in terms of money. It is designed to allocate the resources of an organization. It is the basis of measuring actual performance achieved with that of standard and identifying the variance.

9. Methods

- Methods prescribe the ways in which specific tasks of a procedure must be performed. Also, methods are very specific and detailed instructions on how the employees must perform every task of the planned procedure. So managers form methods to formalize routine jobs.
- Methods are very important types of plan for an organization. They help in the following ways:

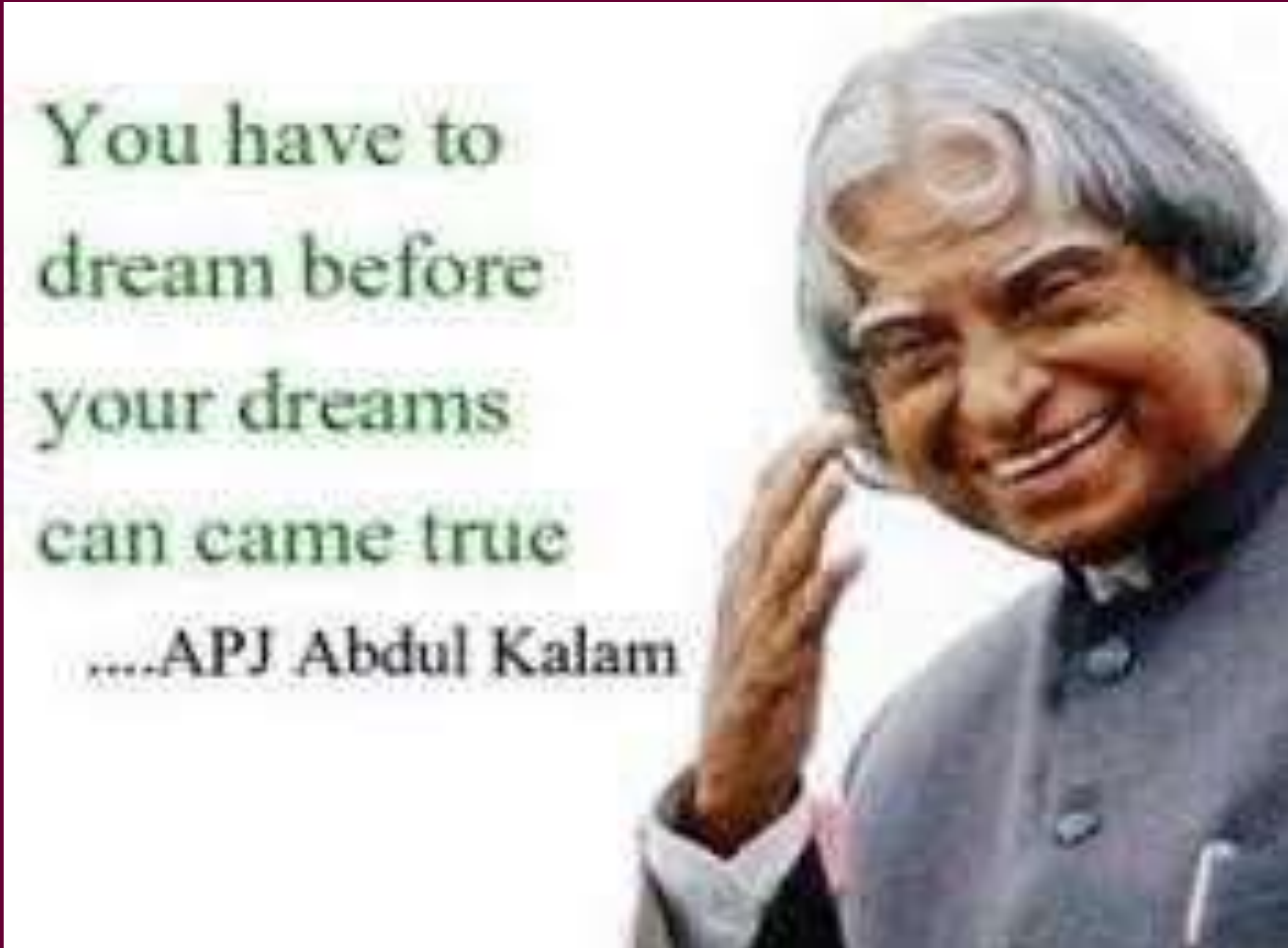
- give clear instructions to the employees, removes any confusion
- Ensures uniformity in the actions of the employees
- Standardizes the routine jobs
- Acts as an overall guide for the employees and the managers
- Standing Plans.

Task:

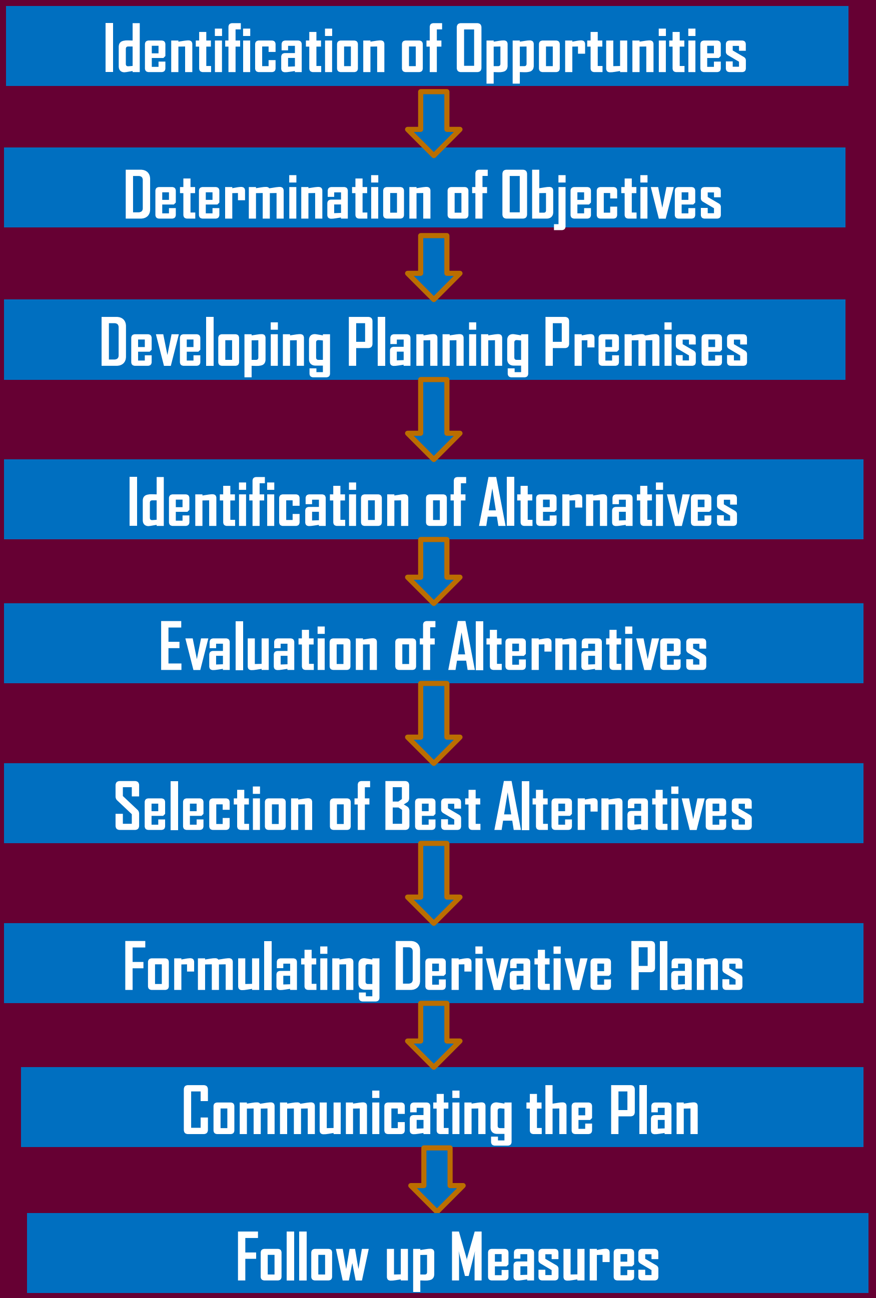
What are the Steps in Planning Process????

Steps in Planning process

- Plans may be major or minor in nature
- Minor plans are simpler and easily made
- Making Major plans require a detailed action plan


You have to
dream before
your dreams
can came true
....APJ Abdul Kalam

Steps in Planning process



Being Aware of Opportunity

In light of

→ Market → Competition

→ What Customers want

→ Our Strengths

→ Our Weakness

It is not a part of planning process. **This is real staring point** both within & outside the organization

All mangers should know

Where they stand, in the light of their strengths & weaknesses.

Also they should understand what problems they wish to solve & why, and know what they expect to gain.

Planning requires realistic finding of the opportunity

Determination of the objectives

Objectives set must clearly indicate

→ What is to be achieved
→ Where action should take place
→ Who should perform it
→ When it is to be accomplished

Developing Planning premises

Planning is forward looking. Therefore planning is based on Forecasting (Assumption or Predict or Calculate)

Forecasting is made in the following ways

1. What will be the market force ? Market forces refers to demand, supply, buying capacity & the like
2. Expectation of volume of sales
3. What kind of products are to be sold & in what price ?
4. What would be their manufacturing costs?
5. What would be the tax policy & economic policy of the Government ?
6. Expectation of technology change in production
7. How is the finance raised for expansion and/or modernization of the business ?

Sufficient information must be collected in order to make plans and sub plans, Also must be done in terms of external and internal Environment

Premise = Foundation (Ground)

Identification of Alternatives

→ Usually, there are several alternatives for any plan.

→ The manager should try to find out all the possible alternatives

→ should Screen out most viable (workable) alternative

→ To analyze in detail a limited number of alternatives

Evolution of Alternatives

After seeking out alternative courses and examine their strong and weak points

→ Most profitable → Immediate profitable → Uncertainty

→ Cash position & Capital availability

→ Large cash outlay & slow payback

→ Less profitable less risk (Easy)

Selection of Best Alternative

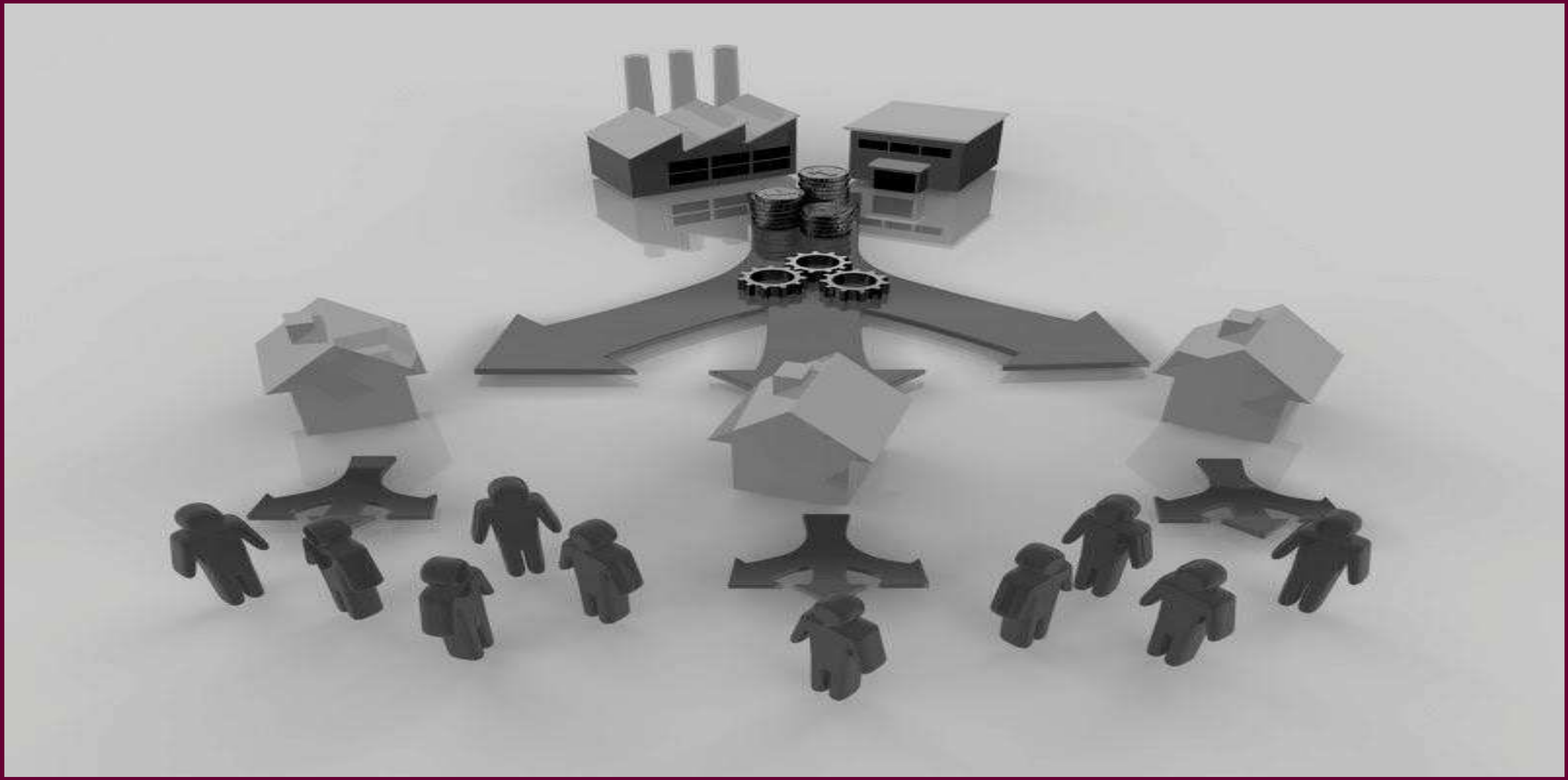
After evaluating the various alternatives the best alternative should be selected for implementation

Formulation of Derivative plans (Secondary Plans)

→ Next step is to develop detailed sub plans for its implementation

→ Derivative plans are required to support the overall plans

→ Derivative plans are developed in the frame work of overall plans

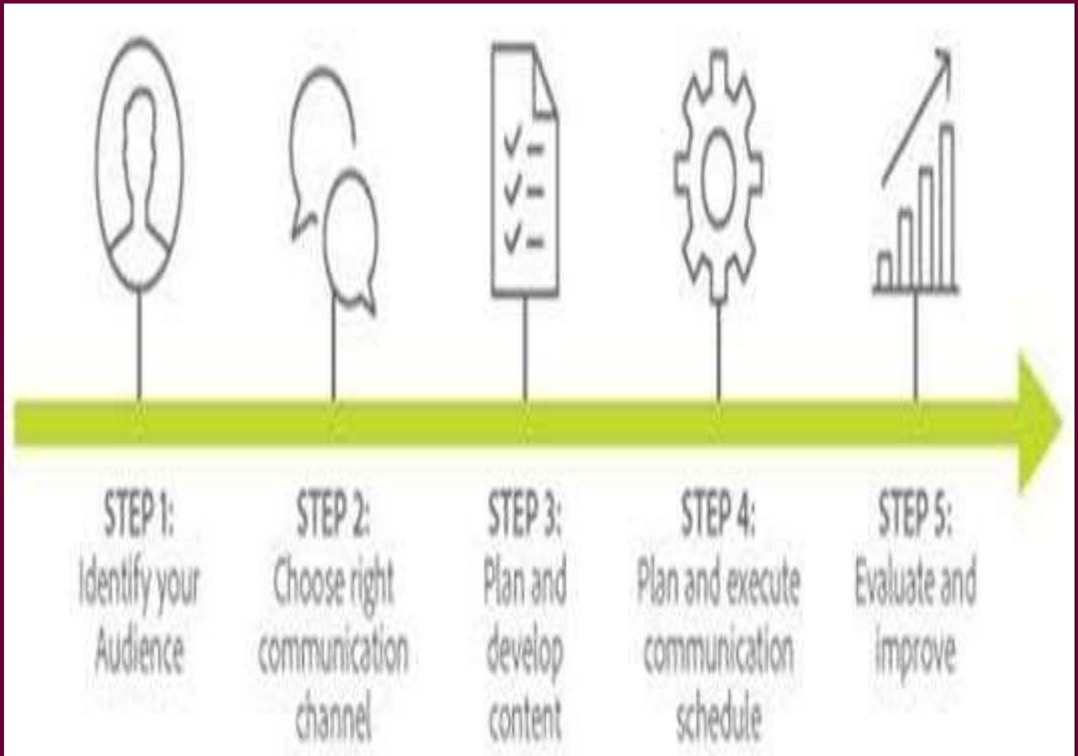


Communicating the Plan

→ It is very important to get the cooperation of the subordinates at every stage of its implementation

→ Securing participation of employees : Successful execution of Any plan depends upon the extent participation of employees

→ The management should involve employees in planning through communication, consultation and participation



Follow-up measures (Evaluation)

- → The management should watch how planning is being done
- → To ensure the plans are proceeding along the right lines
- → Continuous evaluation of planning is also necessary
- → It means that the actual performance is compared with the planning & the corrective action is taken if there is any deviation

Decision Making

Decision making means to select a course of action from two or more alternatives. It is done to achieve a specific objective or to solve a specific problem

Making effective decisions, as well as recognizing when bad decision has been made & quickly responding to mistakes. It is key component in organization

It is process of Identifying Opportunities. It is a judgment

Importance of Decision making

- ✓ Better utilization of resources

  (All available 6 M resources – Men, Money, Materials , Machines, Methods & Markets)

- ✓ Facing Problems & Challenges

  (Decision making tackle new Problems & Challenges)

- ✓Business Growth
- ✓ Achieving objectives
- ✓Increases efficiency
- ✓Facilities innovation
- ✓Motivate employees
- ✓Team Work

A key role of officers Or managers

No organizations can be run without making decisions

Types of Decision Making

Programmed Decisions

- ✓Routine , almost automatic process
- ✓Managers have made decision many times before
- ✓There are rules & guidelines to follow
- ✓Example : Deciding to reorder office supplies

Non Programmed Decisions

- ✓Unusual situations
- ✓Managers have made decision based on information, intuition (feeling – 6th Sense) & judgment
- ✓ No rules & guidelines to follow since the decision is new
- ✓Example : Firm investment in new technology

Mechanistic Decisions

Analytical Decisions

Judgmental Decisions

Adaptive Decisions

Steps in Decision Making Process

Step 1 : Defining & analyzing the problem

✓ Identify the real problem separately from its symptoms

Symptoms	**Underlying Problems**
1. Low profits/declining sales	Poor market research
2. High cost	Poor design process, poorly trained employees
3. Low morale	Lack of communication between management and subordinates
4. High employee turnover	Rate of pay too low, job design not suitable

" A successful manager doesn't just attack symptoms;
He works to uncover the factors that cause these symptoms"

Step 2 :Developing alternative solutions

- ✓ Make Different solutions for solving the problem
- ✓ one of the best methods for developing alternatives is through Brainstorming

Brainstorming → where a group works together to generate ideas and alternative solutions

Step 3 :Evaluating the alternative solutions

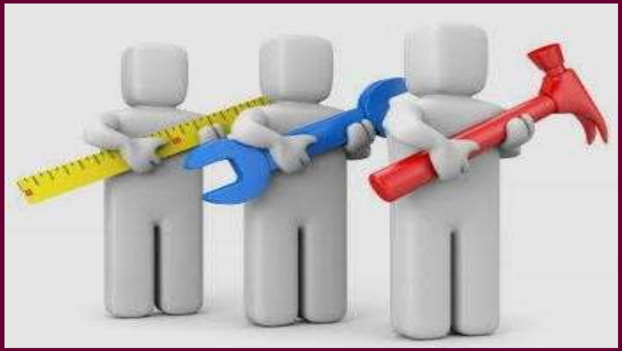
- ✓ Should carefully evaluate the merits & demerits of each alternative
- ✓ Should compare the cost ,risk & practicability

Step 4 : Selecting the best solution

- ✓ Should select the best solution which is less costly & less risky
- ✓ And also solution must be feasible & accepted by employees
- ✓ The best solution is called Decision

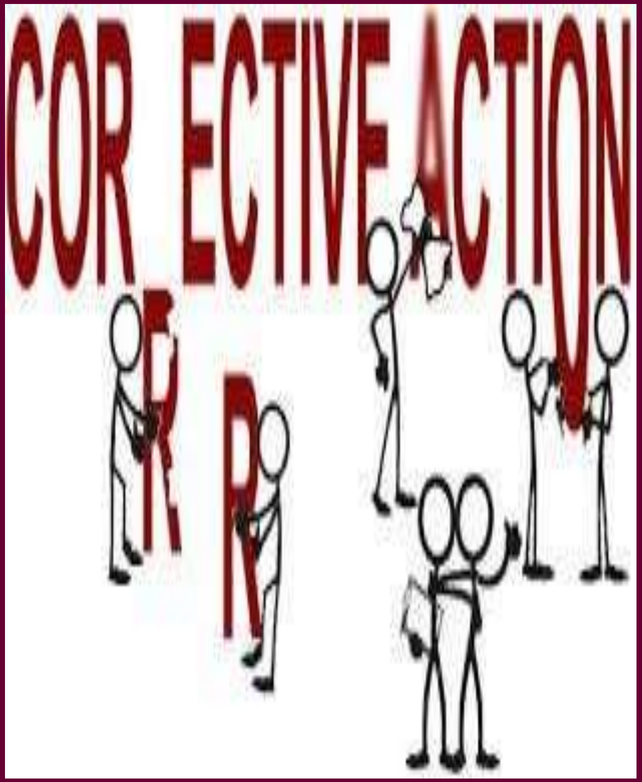
Step 5 :Implementing the Decision

- ✓ Should communicate the decision to the employees
- ✓ Provide all resources to employees
- ✓ Should involving them in the decision making process



Step 6 : Follow up & Corrective Action

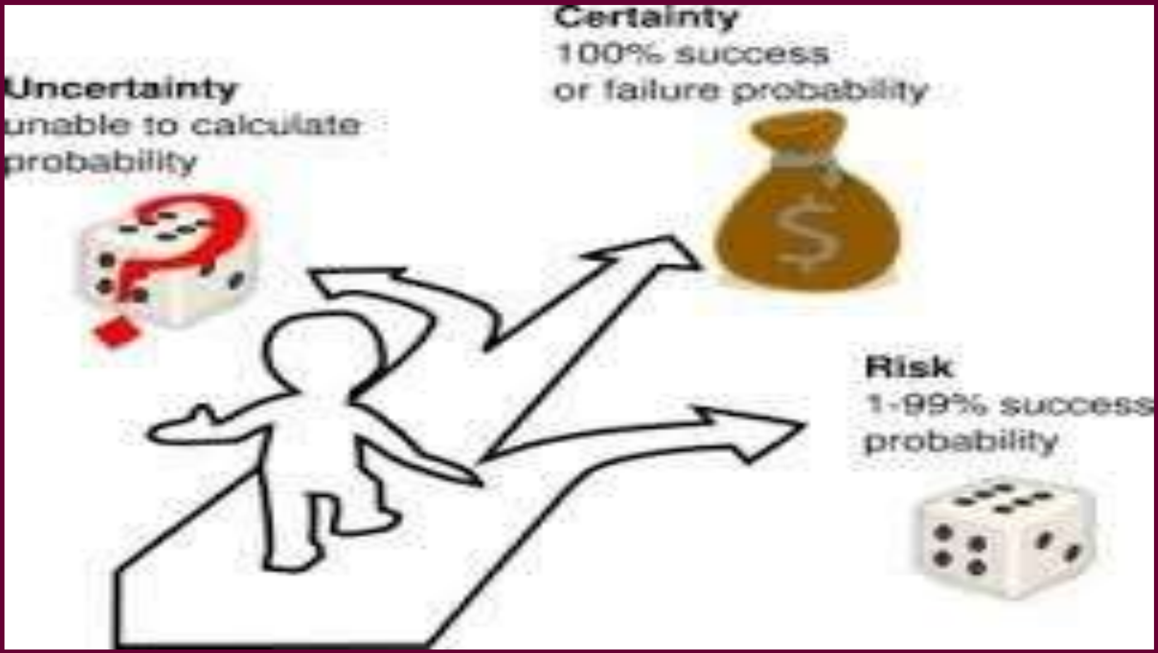
- ✓ Must do follow up
- ✓ Must get the feedback about the decision
- ✓ Find whether decision was effective or not
- ✓ Finding out the deviations, taking essential steps to remove these deviations
- ✓ Follow up is just like the control function. It helps to improve the quality of future decisions

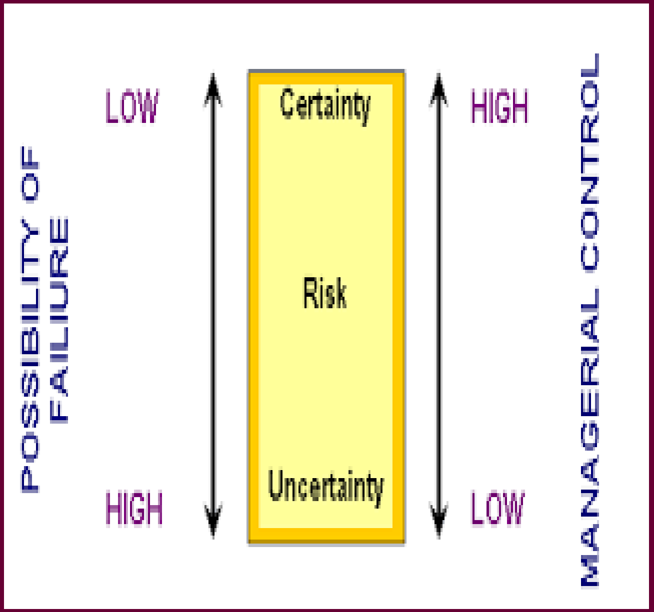


Limitations of Decision making

- ✓ Compromised decisions → It may not be correct or Bold
- ✓ Subjective (Group than individual) decisions
- ✓ Biased decisions → Benefit himself & his group
- ✓ Uncontrollable Environmental factors
- ✓ Responsibility is diluted → Everybody's responsibility is nobody responsibility

Decision making under different conditions





UNIT 2: Management Planning Process

- Planning objectives and characteristics
- Hierarchies of planning
- The concept and techniques of forecasting.

- Forecast: A statement about the future

TODAY	TOMORROW	WED	THU	FRI
Mostly Cloudy	Partly Cloudy	AM T-storms	Sunny	Partly Cloudy
High: 74°	High: 83°	High: 76°	High: 75°	High: 80°
Low: 64°	Low: 67°	Low: 59°	Low: 65°	Low: 59°

Introduction

- Forecasting is the technique of estimating the relevant future events and problems on the basis of past and present behavior or happenings.

- It involves detailed analysis of the past and present events to get a clear cut idea about probable events in the future. So, forecasting may require the use of various statistical techniques though it is not necessary.

Meaning of Forecasting

- It is a systematic guessing of the future course of events with the help of analysis of past and present events. It provides basis for a planning.

Definition

- Neter and Wasserman state "Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements"

Meaning of Forecasting

- In preparing plans for the future, the management authority has to make some predictions about what is likely to happen in the future.
- It shows that the managers know something of future happenings even before things actually happen.
- Forecasting provides them this knowledge. **Forecasting is the process of estimating the relevant events of future, based on the analysis of their past and present behaviour**.
- The future cannot be probed unless one knows how the events have occurred in the past and how they are occurring presently. The past and present analysis of events provides the base helpful for collecting information about their future occurrence.
- Thus, **forecasting may be defined as the process of assessing the future normally using calculations and projections that take account of the past performance, current trends, and anticipated changes in the foreseeable period ahead.**
- Whenever the managers plan business operations and organisational set-up for the years ahead, they have to take into account the past, the present and the prevailing economic, political and social conditions. Forecasting provides a logical basis for determining in advance the nature of future business operations and the basis for managerial decisions about the material, personnel and other requirements.

On the basis of the definition, the following features of forecasting can be identified:

1. Forecasting relates to future events.

2. Forecasting is needed for planning process because it devises the future course of action.

3. It defines the probability of happening of future events. Therefore, the happening of future events can be precise only to a certain extent.

4. Forecasting is made by analyzing the past and present factors which are relevant for the functioning of an organisation.

5. The analysis of various factors may require the use of statistical and mathematical tools and techniques.

Role of Forecasting:

Since planning involves the future, no usable plan can be made unless the manager is able to take all possible future events into account. This explains why forecasting is a critical element in the planning process. In fact, every decision in the organisation is based on some sort of forecasting.

Characteristics

- Forecasting is concerned with future events.
- It is necessary for planning process. Planning is not possible without forecasting.
- The impact of future events has to be considered in the planning process.
- It is a guessing of future events. So, the future events that might happen could be guessed only to some extent.
- Inference or conclusions are drawn form past and present relevant events under scientific forecasting.

Characteristics

- It considers all the factors which affect organizational functions.
- The analysis of various factors may require the use of scientific, mathematical and statistical techniques.
- Personal observation also helps forecasting
- The application of scientific, mathematical and statistical techniques is much more reliable than the use of ordinary tools for obtaining conclusions.

Forecasting Process

1. Through preparation of Foundation
2. Estimation of Future
3. Collection of Results
4. Comparision of Results
5. Refining the Forecast

Steps in forecasting

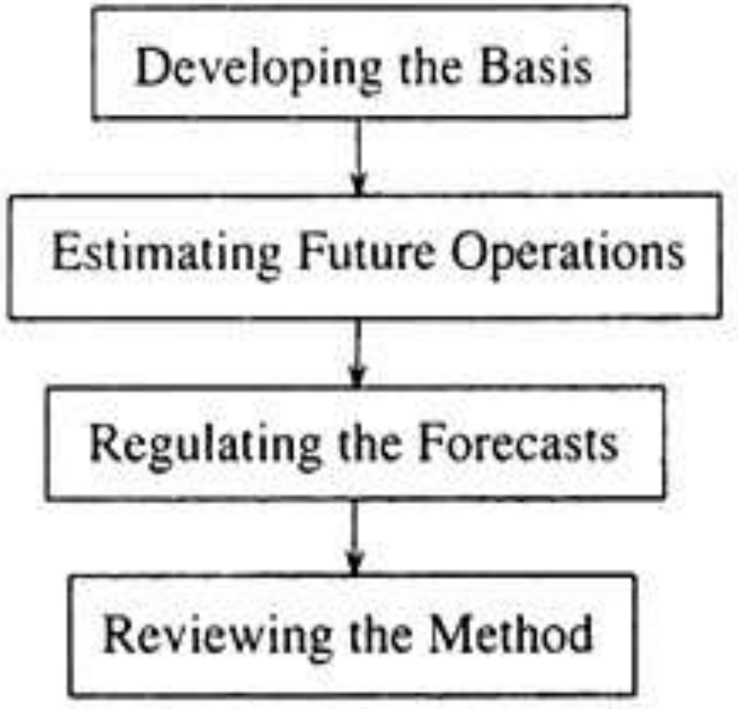


Fig. 3.6: The Forecasting Process.

Steps in Forecasting

The process of forecasting generally involves the following steps:

1. Developing the Basis:
The future estimates of various business operations will have to be based on the results obtainable through systematic investigation of the economy, products and industry.

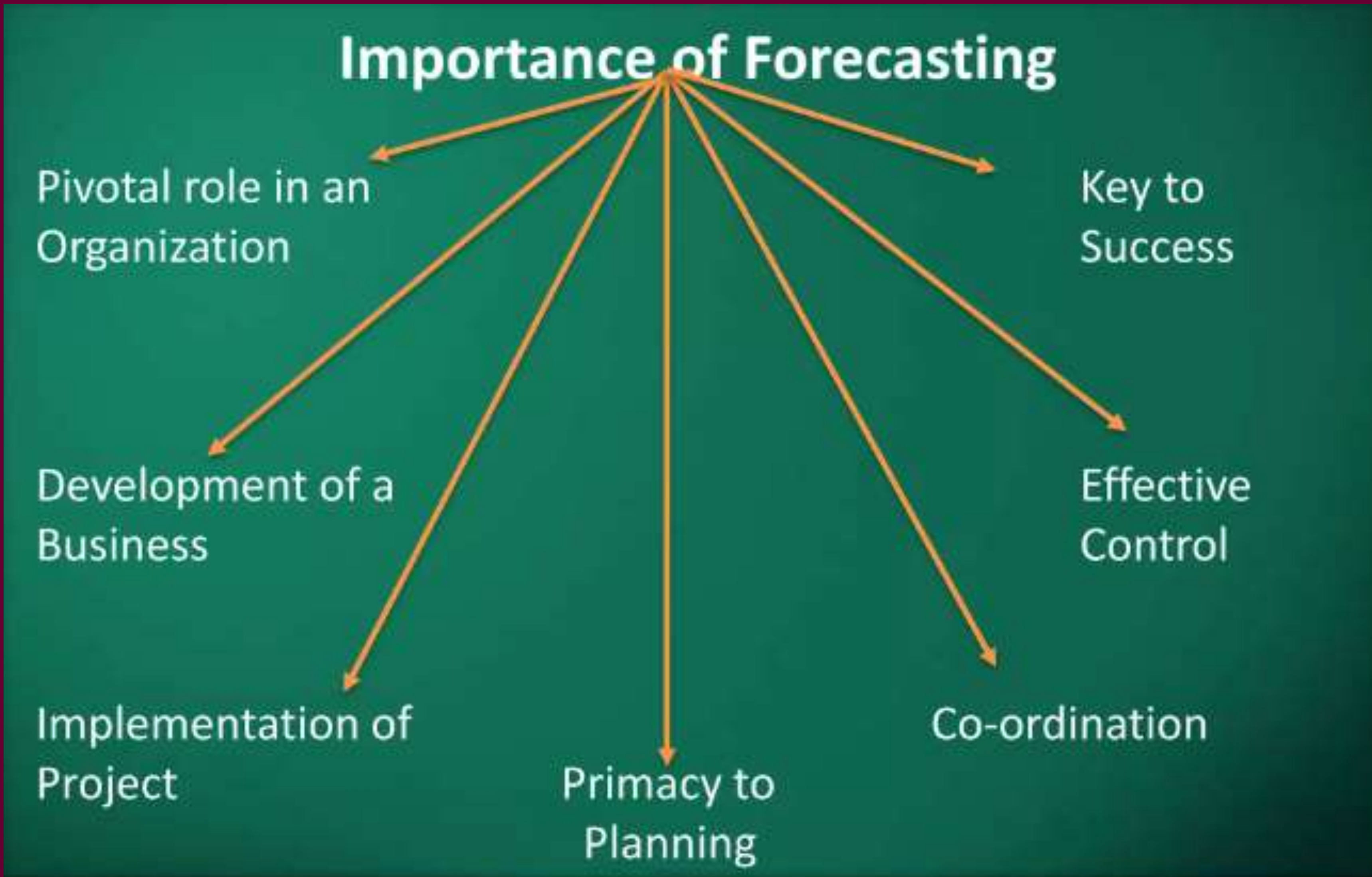
2. Estimation of Future Operations:
On the basis of the data collected through systematic investigation into the economy and industry situation, the manager has to prepare quantitative estimates of the future scale of business operations. Here the managers will have to take into account the planning premises.

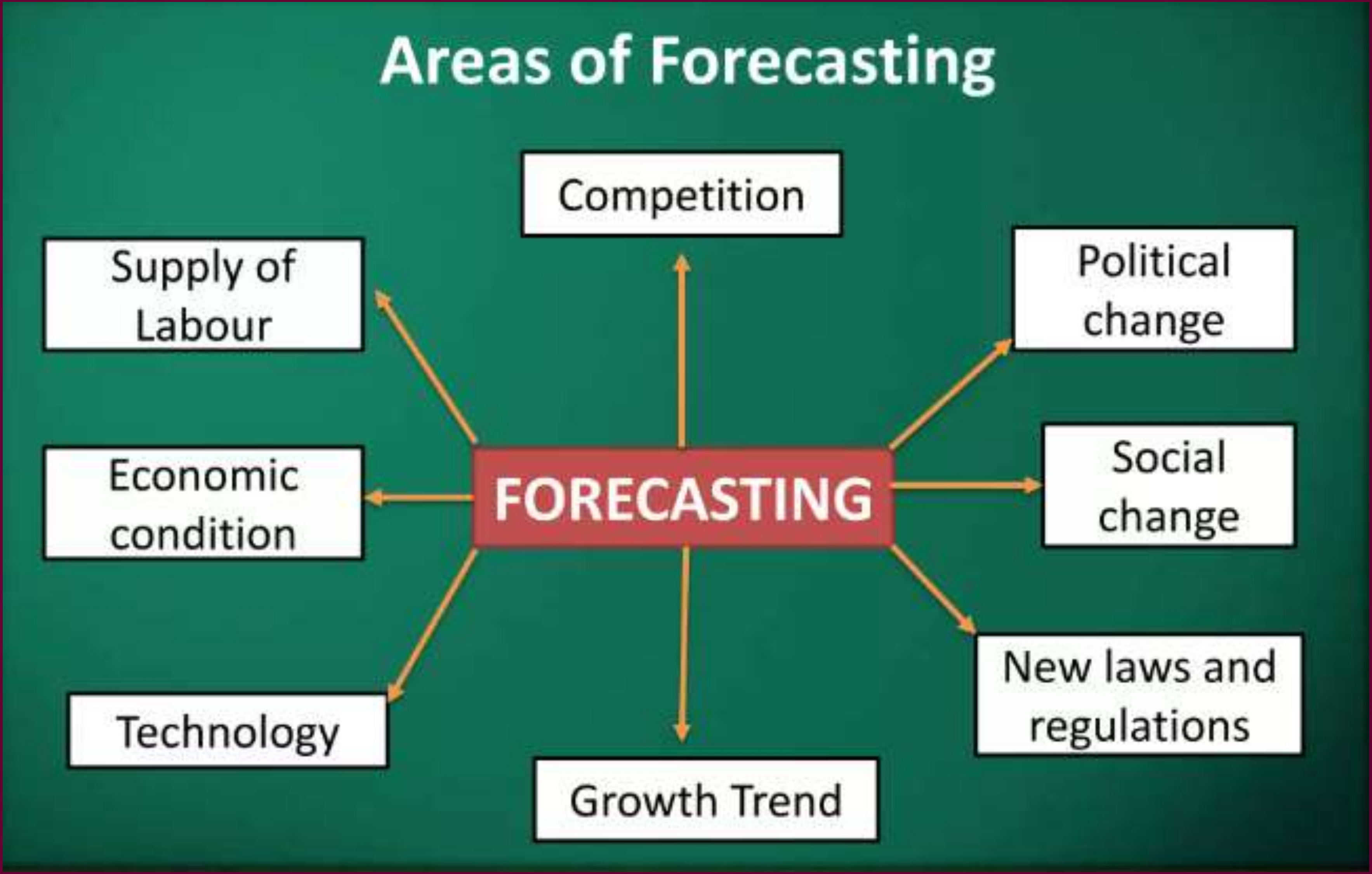
3. Regulation of Forecasts:
It has already been indicated that the managers cannot take it easy after they have formulated a business forecast. They have to constantly compare the actual operations with the forecasts prepared in order to find out the reasons for any deviations from forecasts. This helps in making more realistic forecasts for future.

4. Review of the Forecasting Process:
Having determined the deviations of the actual performances from the positions forecast by the managers, it will be necessary to examine the procedures adopted for the purpose so that improvements can be made in the method of forecasting.

Importance of Forecasting

- The need and importance of forecasting can be found out with the help of key role played for forecasting in the management process especially in planning process.


Importance of Forecasting
Pivotal role in an Organization
Key to Success
Development of a Business
Effective Control
Implementation of Project
Primacy to Planning
Co-ordination


Areas of Forecasting
Competition
Supply of Labour
Political change
Economic condition
FORECASTING
Social change
Technology
Growth Trend
New laws and regulations

Forecasting Techniques or Type or Methods

- Various techniques of forecasting are used in the field of business. An accurate forecasting may reduce the degree of uncertainty. In practice, more than one technique can be combined for making the forecasting effective.

Methods

Similarity events method

- Forecasts is made on the basis of events happened in the past that are similar to current events.

Jury of executive option

- The opinion of experts like Sales, Finance, purchase and the like is sought under this method and the meritorious one is accepted.

Methods

Survey method

- Quantitative and qualitative information is collected from field survey and from this forecasting is done.

Sales person's opinion

- Sales persons are closer toe the consumers and their opinions are taken into consideration for correct sales trend.

Methods

Business Barometers

- Index numbers indicate the direction of the business and can give advance signals for likely changes in the future.

Expectations of consumer

- A survey is conducted in order to know the future needs of consumers and an overall forecast is made. This is also known as "Marketing research Method"

Methods

Time series analysis

- In this method, future activities are the extension of the past. Forecasts are based on the assumptions that the business conditions affecting its steady growth or decline are reasonably expected to remain unchanged in the future.

Delphi method

- It is developed by Rand Corporation to forecast the military events. It is used when past data are not available. Opinions are taken from experts through questionnaire and then summarized and again given to experts for expected future evaluations.

Methods

Extrapolation

- Estimation of future behavior from the known data. Careful study of the past behavior is essential for correct forecasting.

Regression analysis

- It is use to find the effect of changes of relative movements of two or more inter- related variables.

Methods

Input and output analysis

- In this method forecast can be made if the relationship between input and output is known.

Econometric models

- Various cause variables are responsible for effect on one variable. The best example is Gross National Product.

Techniques of Forecasting

There are various methods of forecasting. However, no method can be suggested as universally applicable. In fact, most of the forecasts are done by combining various methods.

1. **Historical Analogy Method:**

Under this method, forecast in regard to a particular situation is based on some analogous conditions elsewhere in the past. The economic situation of a country can be predicted by making comparison with the advanced countries at a particular stage through which the country is presently passing.

Similarly, it has been observed that if anything is invented in some part of the world, this is adopted in other countries after a gap of a certain time. Thus, based on analogy, a general forecast can be made about the nature of events in the economic system of the country. It is often suggested that social analogies have helped in indicating the trends of changes in the norms of business behaviour in terms of life.

Likewise, changes in the norms of business behaviour in terms of attitude of the workers against inequality, find similarities in various countries at various stages of the history of industrial growth. Thus, this method gives a broad indication about the future events of general nature.

2. Field Survey Method:

- Surveys can be conducted to gather information on the intentions of the concerned people. For example, information may be collected through surveys about the probable expenditure of consumers on various items. Both quantitative and qualitative information may be collected by this method.
- On the basis of such surveys, demand for various products can be projected. Survey method is suitable for forecasting demand—both of existing and new products. To limit the cost and time, the survey may be restricted to a sample from the prospective consumers.

3. Opinion Poll:

- Opinion poll is conducted to assess the opinion of the experienced persons and experts in the particular field whose views carry a lot of weight. For example, opinion polls are very popular to predict the outcome of elections in many countries including India. Similarly, an opinion poll of the sales representatives, wholesalers or marketing experts may be helpful in formulating demand projections.
- If opinion polls give widely divergent views, the experts may be called for discussion and explanation of why they are holding a particular view. They may be asked to comment on the views of the others, to revise their views in the context of the opposite views, and consensus may emerge. Then, it becomes the estimate of future events.

4. Business Barometers:

- A barometer is used to measure the atmospheric pressure. In the same way, index numbers are used to measure the state of an economy between two or more periods. These index numbers are the device to study the trends, seasonal fluctuations, cyclical movements, and irregular fluctuations.
- These index numbers, when used in combination with one another, provide indications as to the direction in which the economy is proceeding. Thus, with the business activity index numbers, it becomes easy to forecast the future course of action.
- However, it should be kept in mind that business barometers have their own limitations and they are not sure road to success. All types of business do not follow the general trend but different index numbers have to be prepared for different activities, etc.

5. Time Series Analysis:

- Time series analysis involves decomposition of historical series into its various components, viz. trend, seasonal variances, cyclical variations, and random variances. When the various components of a time series are separated, the variation of a particular situation, the subject under study, can be known over the period of time and projection can be made about the future.
- A trend can be known over the period of time which may be true for the future also. However, time series analysis should be used as a basis for forecasting when data are available for a long period of time and tendencies disclosed by the trend and seasonal factors are fairly clear and stable. Example of time series: - Monitoring of a person's heart rate, hourly readings of air temperature, daily closing price of a company stock, monthly rainfall data, and yearly sales figures.

6. Regression Analysis:

- Regression analysis is meant to disclose the relative movements of two or more inter-related series. It is used to estimate the changes in one variable as a result of specified changes in other variable or variables. In economic and business situations, a number of factors affect a business activity simultaneously.
- Regression analysis helps in isolating the effects of such factors to a great extent. For example, if we know that there is a positive relationship between advertising expenditure and volume of sales or between sales and profit, it is possible to have estimate of the sales on the basis of advertising, or of the profit on the basis of projected sales, provided other things remain the same.

7. Input-Output Analysis:

- According to this method, a forecast of output is based on given input if relationship between input and output is known. Similarly, input requirement can be forecast on the basis of final output with a given input-output relationship. The basis of this technique is that the various sectors of economy are inter-related and such inter-relationships are well-established.
- For example, coal requirement of the country can be predicted on the basis of its usage rate in various sectors like industry, transport, household, etc. and how the various sectors behave in future. This technique yields sector-wise forecasts and is extensively used in forecasting business events as the data required for its application are easily obtained.

Advantages of Forecasting

- The anticipation of future problems and events will make it imperative to accelerate early achievements of objectives. Some of the advantages or merits are briefly discussed below.
- Facilitates Planning
- Ensures —Co-ordination
- Easy Controlling

Limitation of Forecasting

- Forecasting is to be made on the basis of certain assumptions and human judgments. Faulty assumptions and human judgments will yield wrong results.

- It can not be considered as a scientific method for guessing future events, as it does not specify any concrete relationship between past and future events.

- Too much of expectation will cause disappointment and impair the initiative of the executives.

Limitations of Forecasting

- It requires high degree of skill and the process must be undertaken by specialists. This is difficult in practice.
- Proper forecasting needs adequate reliable information and it is very difficult to collect reliable information. Hence, correct forecast is impossible.
- There is no certainty of occurrence of future events predicted by forecasting.

Differences between Forecasting & Planning

NO.	FORECASTING	PLANNING
1	It is basis for planning	Planning is basis for future course of action.
2	No decision can be taken without the help of forecasting	Planning helps to arrive at certain decision. They are regarding what is to be done, how is to be done and when is to be done.
3	Forecasting is done at the middle or lower level of management;	Planning is done at the top level of management.

Sl No	Particulars	Planning	Forecasting
1	Meaning	Making of decision is planning.	Forecasting doesn't involve the process of decision making. It is the due for planning. It also explains what is likely to happen in future.
2	Levels at which decisions are taken	In planning final decisions are taken by top level management.	In forecasting suggestions are given by middle & lower level management.
3	Scope	Planning is more comprehensive which includes many sub-processes.	Forecasting involves estimation of future & provide basis for planning.
4	Commitment of action	It is the basic plan of planning.	Forecasting may not required any Commitment of action but it is help line in planning. It also helps for planning process.
5	Number of Persons	The large numbers of persons are involved in planning process.	Forecasting activity can be taken by whom it may be affected whole of the organization.