

PLANNING

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What is Planning?

Planning is the conscious determination of a future course of action, based on objectives, facts, and rational estimates.

(Koontz & O'Donnell)

Planning answers **three fundamental questions**:

- Where are we now?
- Where do we want to go?
- How do we get there?

In RBI Monetary Policy formulation, supervision strategies, financial inclusion targets, all begin with **planning**, not execution.

Why Planning Matters

- Environment is **volatile, uncertain, complex**
- Decisions today have **long-term consequences**
- Organisations must **shape the future**, not merely react to it

Dalton McFarland said that the **Purpose of planning is two-fold**:

- Determining appropriate goals
- Preparing for adaptive and innovative change

Characteristics of Planning

Planning is **primary, goal-oriented, intellectual, pervasive, continuous, and flexible**.

Characteristics of Planning

(Exam-Ready)

Feature	Meaning	How RBI Asks / Tests It
 Primary Function	Planning precedes organising, staffing directing and controlling	“Why is planning regarded as the first function of management?”
 Goal-Oriented	Planning is undertaken to achieve predetermined organisational objectives	Linkage questions between planning and objectives
 Intellectual Process	Planning involves conscious thinking, analysis and judgement	Theo Haimann definition; conceptual questions
 Pervasive	Planning exists at all levels of management	MCQs on universality of planning
 Continuous	Planning is an ongoing and never-ending process	Conceptual questions on continuity of planning
 Choice-Oriented	Planning involves selection among alternative courses of action	Analytical questions on continuity of planning
 Group-Oriented	Planning focuses on organisational goals, not individual goals	Descriptive questions on organisational objectives
 Flexible	Planning allows modification in response to environmental changes	Application-based questions in dynamic environment



Planning is a continuous, intellectual and goal-oriented process that precedes all managerial functions.

Sequence of Planning



Planning enables organisations to **influence the future instead of accepting it.**

Limitations of Planning (Why Planning Fails)

- **Inaccuracy:** Planning is based on forecasts and assumptions which may turn out to be incorrect due to dynamic economic and policy conditions.
- **Time-consuming:** The planning process requires extensive data collection, analysis, consultation and coordination, making it a lengthy exercise.
- **Costly:** Effective planning involves costs related to information systems, expert manpower and administrative efforts.
- **Rigidity:** Once formal plans, policies and procedures are laid down, they may reduce managerial flexibility and adaptability.
- **Managerial Attitude:** Planning demands intellectual effort and patience; some managers prefer action over analytical thinking and tend to neglect planning.
- **Faulty Design of Planning System:** Lack of participation, absence of reward mechanisms and unclear objectives weaken the planning process.
- **Suppression of Innovation:** Excessive reliance on formal plans and rules may discourage creativity and experimentation.
- **Environmental Uncertainty:** Rapid technological changes, regulatory shifts and external shocks reduce the reliability of plans.

Approaches to Planning

Organisations adopt different approaches to planning based on their structure, size and management philosophy. The major approaches are explained below:

Top-Down Approach

In this approach, planning is centralised. Top management formulates organisational goals, strategies and policies and communicates them downward for implementation. Lower levels of management mainly focus on execution and control, with minimal involvement in goal formulation.

Example: Annual targets fixed by a ministry or headquarters and communicated to field offices; regulatory directions issued centrally to banks for compliance.

Suitability: Bureaucratic and highly structured organisations.

Bottom-Up Approach

Under this approach, planning originates at the lower and middle levels of management. Suggestions and proposals move upward through the hierarchy for review and approval. This approach promotes participation, motivation and a sense of ownership among employees.

Example: Branch managers proposing business targets or operational improvements which are consolidated at regional or zonal levels.

Suitability: Organisations with a participative management culture.

Composite Approach

The composite approach combines both top-down and bottom-up planning. Top management sets broad objectives and policy guidelines, while lower levels develop detailed plans within this framework. Final plans are approved after consultation across levels.

Example: RBI providing broad monetary policy objectives while expert departments and committees work out operational strategies and implementation details.

Suitability: Modern large organisations.

Team-Based Approach

In the team-based approach, planning is assigned to a group of experts or managers who analyse problems, assess opportunities and prepare planning proposals. The team functions under the guidance of top management and acts as an advisory body.

Example: Expert committees, task forces or working groups constituted to frame policy reforms or long-term strategic plans.

Suitability: Strategic and long-term planning.

RBI Context: Institutions like RBI predominantly follow **composite and team-based planning**, where policy direction is set by top management and detailed formulation is carried out by expert groups and departments.

Management By Objectives (MBO)

Management by Objectives (MBO) is a **results-oriented management approach** in which managers and employees **jointly set specific, measurable**

objectives, and performance is evaluated based on **achievement of these objectives**.

MBO links **planning, performance appraisal and control**, ensuring that individual efforts contribute directly to organisational outcomes, a core requirement in large public institutions like RBI.

Core Idea of MBO

- Focus on **results, not activities**
- Emphasis on **mutually agreed objectives**
- Performance judged against **pre-defined standards**

Process of MBO



The MBO process operates as a **continuous cycle**, ensuring alignment between organisational goals and individual performance.

- **Setting Organisational Objectives:** Top management defines clear, specific and time-bound goals considering internal capabilities and external environment.
- **Setting Individual Objectives:** Managers and employees jointly decide individual goals through discussion, ensuring alignment with organisational objectives.
- **Performance Monitoring:** Regular monitoring helps detect deviations early and provides scope for corrective action.
- **Performance Evaluation:** Actual results are compared with predetermined objectives to assess performance objectively.
- **Feedback:** Continuous and constructive feedback helps employees adjust performance and improve results.

- **Performance Appraisal:** Final appraisal forms the basis for rewards, promotions, training and future goal-setting.

Features of MBO

- **Goal-oriented:** Focuses on clearly defined results rather than routine activities.
- **Participative:** Objectives are set jointly by managers and subordinates, improving commitment and motivation.
- **Focus on Key Result Areas (KRAs):** Emphasises measurable and verifiable targets in critical areas of performance.
- **Dynamic and Flexible:** Objectives and plans are periodically reviewed and modified as per changing conditions.
- **Managerial Philosophy:** MBO is not merely a technique but a comprehensive approach influencing planning, control and appraisal.
- **Performance-based Evaluation:** Performance is judged by comparing planned objectives with actual results.
- **Continuous Process:** Operates as an ongoing cycle of goal-setting, review and revision.

Objectives of MBO

The main objectives of MBO are:

- To clarify roles and responsibilities of employees
- To make employees feel involved and valued
- To improve efficiency and effectiveness
- To establish clear performance benchmarks
- To integrate individual goals with organisational goals
- To serve as a basis for promotion, rewards and salary decisions

Advantages vs Limitations of MBO

Advantages	Limitations
 Improves clarity of objectives and organisational focus	 Time-consuming and paperwork-intensive
 Enhances employee motivation and commitment	 Over-emphasis on quantifiable objectives
 Facilitates objective and fair performance appraisal	 Requires strong top-management support
 Encourages better communication and coordination	 Less effective in highly uncertain environments
 Strengthens managerial control through measurable standards	

MBO is commonly tested as:

- A **result-oriented appraisal system**
- A **link between planning and control**
- A **contrast with traditional appraisal methods**

Management by Objectives is a **participative, result-oriented and systematic approach** that aligns individual performance with organisational goals through measurable objectives.

Management by Exception (MBE)

Management by Exception is a **control-oriented approach** in which managers intervene only when actual performance deviates significantly from predetermined standards. Routine operations are handled by subordinates, while top management focuses on critical exceptions requiring corrective action.

MBE helps reduce managerial overload by directing attention to problem areas rather than day-to-day activities. It is particularly useful in large or stable organisations with well-defined standards and reporting systems.

RBI Context: Supervisory intervention triggered only when banks breach prudential norms reflecting the logic of MBE.

Key Differences between MBO and MBE

Key Differences between MBO and MBE		
Basis	Management by Objectives (MBO)	Management by Exception (MBE)
Meaning	Goals are jointly set and performance is evaluated based on goal achievement	Managers intervene only when performance deviates significantly
Focus	Planning, goal clarity and continuous improvement	Control and correction of deviations
Nature	Proactive and forward-looking	Reactive and problem-oriented
Employee Involvement	High; participative goal setting	Low; intervention only during exceptions
Decision-Making	Decentralised and shared	Centralised during deviations
Monitoring	Continuous and regular	Selective and exception-based
Primary	Motivation and effectiveness through goal clarity	Saving managerial time and effort
Best Suited For	Dynamic and growth-oriented organisations	Stable environments with clear standards

DECISION-MAKING AS A COMPONENT OF PLANNING

Decision-Making

Decision-making refers to the process of **selecting one course of action from among two or more alternatives** in order to achieve predetermined organisational objectives. In management, decision-making is not an isolated act but a continuous and systematic process that translates plans into action.

George R. Terry defines decision-making as *the selection based on some criteria from two or more possible alternatives*, while D.E. McFarland views it as *an act of choice representing a course of behaviour chosen from several alternatives*.

Every major RBI action, such as deciding the monetary policy stance, introducing regulatory measures, or managing liquidity, is the outcome of structured decision-making within a broader planning framework.

Nature of Decision-Making

- **Goal-oriented and Dynamic:** Decision-making is undertaken to achieve organisational objectives and is evaluated by outcomes. It is dynamic in nature, as decisions vary with time, urgency and availability of information.
- **Continuous and Intellectual Process:** Decision-making is a continuous process involving a series of interrelated choices rather than isolated acts. It is an intellectual and rational activity requiring analysis, judgement and evaluation.
- **Based on Choice among Alternatives:** Decision-making presupposes the existence of two or more alternatives. Where only one course of action exists, no real decision is involved.



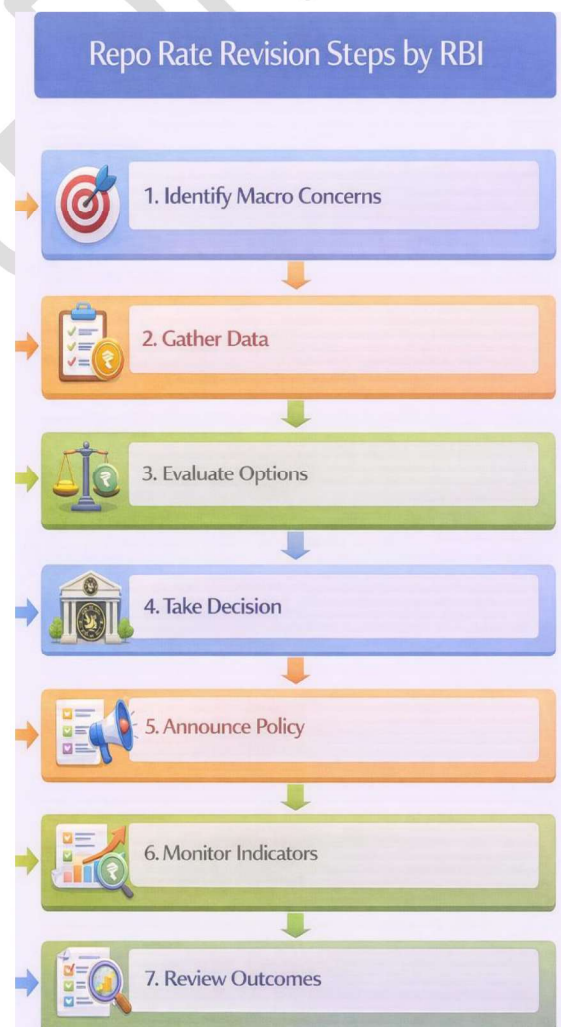
Steps in the Decision-Making Process

Decision-making in planning follows a **logical and sequential process**, through which managers move from problem recognition to corrective action. The

process ensures that decisions are rational, goal-oriented and aligned with organisational objectives.

- **Identification of the problem:** The process begins with clearly defining the issue that requires a decision. At this stage, objectives are specified and the gap between the present situation and the desired state is identified.
- **Collection of relevant information:** Managers gather information from both internal and external sources to understand the problem fully, while consciously avoiding information overload.
- **Identification of alternatives:** Once adequate information is available, feasible alternative courses of action are developed using analysis, experience and creativity.
- **Evaluation of alternatives:** The identified alternatives are evaluated in terms of costs, benefits, risks and feasibility in order to assess their relative merits.
- **Selection of the best alternative:** Based on the evaluation, the most suitable course of action is selected, keeping organisational objectives and constraints in view.
- **Implementation of the decision:** The selected decision is put into action through appropriate planning, coordination and allocation of responsibilities.
- **Evaluation and feedback:** Finally, the outcomes of the decision are reviewed to assess effectiveness and to generate learning for future decision-making.

Illustration: How RBI decides Repo Rate?



Role of Decision-Making in Management

- **Strategic Direction:** Decision-making supports strategic planning by determining long-term goals, policies and overall direction of the organisation.
- **Problem-Solving and Opportunity Identification:** It helps managers identify problems, evaluate alternatives and exploit opportunities consistent with organisational objectives.
- **Resource Allocation and Risk Management:** Decision-making ensures efficient allocation of financial, human and physical resources while balancing risks and expected outcomes.
- **Goal Achievement and Continuous Improvement:** Through evaluation and corrective action, decision-making facilitates achievement of goals and promotes organisational learning and improvement.

Relationship between Planning and Decision-Making

- **Planning as a Framework:** Planning provides the structure for decision-making by defining objectives, priorities and constraints within which decisions are taken.
- **Decision-Making as the Core of Planning:** Every plan involves choices regarding goals, alternatives, resources and timelines, making decision-making essential to planning.
- **Continuous and Interdependent Processes:** Both planning and decision-making require periodic review and revision in response to changing conditions and new information.
- **Guidance during Implementation:** Plans act as reference points during execution, while effective decision-making ensures plans remain relevant and responsive.

Monetary policy formulation involves repeated cycles of planning and decision-making based on evolving macroeconomic data and feedback.

Decision-Making Techniques Used in Planning

Decision-making techniques used in planning can be broadly classified into **qualitative** and **quantitative** techniques.

I. Qualitative Decision-Making Techniques

Qualitative techniques rely on judgement, experience and expert opinion, especially when problems are complex and information is limited.

- **Rational Decision-Making** assumes logical evaluation of all alternatives to select the optimal solution, though it is often unrealistic due to time and information constraints.
- **Bounded Rationality** recognises cognitive and informational limitations, leading managers to choose satisfactory rather than optimal solutions.
- **Intuitive Decision-Making** is based on experience and judgement and is useful in crisis situations, such as emergency regulatory actions by RBI.
- **Brainstorming** is a group technique for generating creative alternatives
- **Delphi Technique** uses structured expert opinions and is useful for forecasting and long-term planning.

II. Quantitative Decision-Making Techniques

Quantitative techniques use numerical models to improve objectivity in decision-making.

- **Linear Programming** assists in optimal allocation of scarce resources under constraints (e.g., allocation of supervisory manpower).
 - **Queuing Theory** helps reduce waiting time and improve service efficiency (e.g., grievance redress mechanisms in banks).
 - **Game Theory** analyses strategic interaction where outcomes depend on actions of others (e.g., competitive behaviour of banks).
 - **Cost–Benefit Analysis** compares expected costs and benefits to select efficient policy alternatives.
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