UNIT – II

MANAGERS AND ENVIRONMENT

Introduction

The components of an organization's culture are as complex as the different aspects of an individual's personality. Today's managers must understand how the forces of an organization's internal and external environment influence, and sometimes constrain, its productivity. Managers must realize that organizational culture and organizational environment have important implications for the way an organization is managed.

Two perspectives concerning the role that managers play in an organization's success or failure have been proposed. The omnipotent view of management maintains that managers are directly responsible for the success or failure of an organization. This view of managers as being omnipotent is consistent with the stereotypical picture of the "take-charge" executive who can overcome any obstacle in carrying out the organization's objectives. When organizations perform poorly, someone must be held accountable and according to the omnipotent view, that "someone" is management.

The symbolic view of management upholds the view that much of an organization's success or failure is due to external forces outside managers' control. The influence that managers do have is seen mainly as a symbolic outcome. Organizational results are influenced by factors outside of the control of managers, including the economy, market changes, governmental policies, competitors' actions, the state of the particular industry, the control of proprietary technology, and decisions made by previous managers in the organization. The manager's role is to create meaning out of randomness, confusion, and ambiguity. According to the symbolic view, the actual part that management plays in the success or failure of an organization is minimal.

Reality suggests a synthesis; managers are neither helpless nor all powerful. Instead, the more logical approach is to see the manager as operating within constraints imposed by the organization's culture and environment

The organization's culture

Just as individuals have a personality, so, too, do organizations. We refer to an organization’s personality as its culture. Organizational culture is the shared values, principles, traditions, and ways of doing things that influence the way organizational members act. This definition implies:

Individuals perceive organizational culture based on what they see, hear, or experience within the organization.

- Organizational culture is shared by individuals within the organization.
- Organizational culture is a descriptive term. It describes, rather than evaluates.

Seven dimensions of an organization’s culture have been proposed

a. Innovation and risk taking (the degree to which employees are encouraged to be innovative and take risks)

b. Attention to detail (the degree to which employees are expected to exhibit precision, analysis, and attention to detail)

c. Outcome orientation (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)

d. People orientation (the degree to which management decisions take into consideration the effect on people within the organization)

e. Team orientation (the degree to which work activities are organized around teams rather than individuals)

f. Aggressiveness (the degree to which people are aggressive and competitive rather than easygoing and cooperative)

g. Stability (the degree to which organizational activities emphasize maintaining the status quo in contrast to growth)

Strong versus Weak Cultures

Strong cultures are found in organizations where key values are intensely held and widely shared. Whether a company’s culture is strong, weak, or somewhere in between depends on organizational factors such as size, age, employee turnover rate, and intensity of original culture. A culture has increasing impact on what managers do as the culture becomes stronger.

Most organizations have moderate-to-strong cultures. In these organizations, high agreement exists about what is important and what defines “good” employee behaviour. .

Culture is transmitted and learned by employees principally through stories, rituals, material symbols, and language.

An innovative culture should have these characteristics:

- Challenge and involvement
- Freedom
- Trust and openness
- Idea time
- Playfulness/humour
- Conflict resolution
- Debates
- Risk taking

The Organization’s Environment

The general environment includes these broad external conditions that may affect the organization: economic, political/legal, socio-cultural, demographic, technological, and global conditions.

- Economic conditions include interest rates, inflation rates, and changes in disposable income, stock market fluctuations, and the general business cycle.
- Political/legal conditions include the general political stability of countries in which an organization does business and the specific attitudes that elected officials have toward business.
- Socio-cultural conditions include the changing expectations of society. Societal values, customs, and tastes can change, and managers must be aware of these changes.
- Demographic conditions, including physical characteristics of a population (e.g., gender, age, level of education, geographic location, income, composition of family) can change, and managers must adapt to these changes.
- Technological conditions, which have changed more rapidly than any other element of the general environment.
- Global factors include global competitors and global consumer markets.

Environments differ in their amount of environmental uncertainty, which relates to

(1) The degree of change in an organization’s environment and

(2) The degree of complexity in that environment

Degree of change is characterized as being dynamic or stable. In a dynamic environment, components of the environment change frequently. If change is minimal, the environment is called a stable environment.

The degree of environmental complexity is the number of components in an organization’s environment and the extent of an organization’s knowledge about those components. If the number of components and the need for sophisticated knowledge is minimal, the environment is classified as simple. If a number of dissimilar components and a high need for sophisticated knowledge exist, the environment is complex. As uncertainty is a threat to organizational effectiveness, managers try to minimize environmental uncertainty.

Managers in all types and sizes of organizations must constantly monitor changes and consider the particular characteristics of their own location as they plan, organize, lead, and control in this dynamic environment.

Managers might have one of three perspectives or attitudes toward international business

1. An ethnocentric attitude is the parochialistic belief that the best work approaches and practices are those of the home country

2. A polycentric attitude is the view that the managers in the host country know the best work approaches and practices for running their business.

3. A geocentric attitude is a world-oriented view that focuses on using the best approaches and people from around the globe. To be a successful global manager, an individual needs to be sensitive to differences in national customs and practices

Social Responsibility of management

Social responsibility is a voluntary effort on the part of business to take various steps tosatisfy the expectation of the different interest groups. The interestgroups may be owners, investors, employees, consumers, government and society orcommunity.

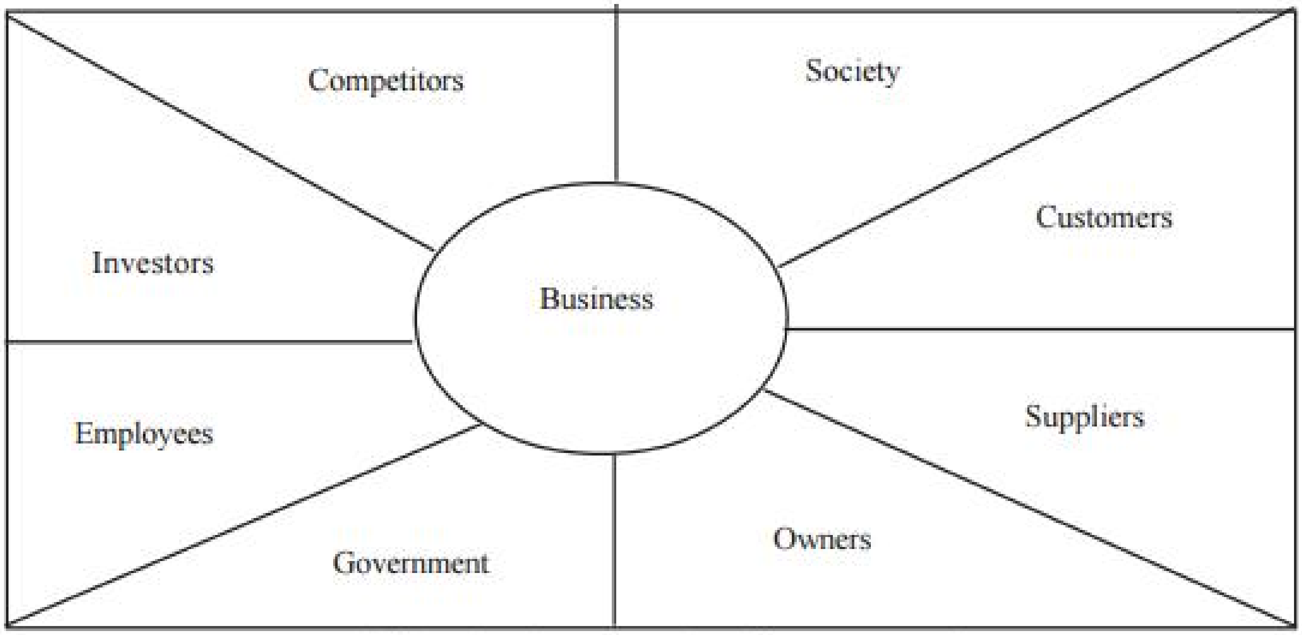
i. Public Image - The activities of business towards the welfare of the society earn goodwilland reputation for the business. The earnings of business also depend upon the publicimage of its activities. People prefer to buy products of a company that engages itselfin various social welfare programs. Again, good public image also attracts honestand competent employees to work with such employers.

ii. Government Regulation - To avoid government regulations businessmen shoulddischarge their duties voluntarily. For example, if any business firm pollutes theenvironment it will naturally come under strict government regulation, which mayultimately force the firm to close down its business. Instead, the business firm shouldengage itself in maintaining a pollution free environment.

iii. Survival and Growth -Every business is a part of the society. So for its survival andgrowth, support from the society is very much essential. Business utilizes the availableresources like power, water, land, roads, etc. of the society. So it should be theresponsibility of every business to spend a part of its profit for the welfare of thesociety.

iv. Employee satisfaction - Besides getting good salary and working in a healthy atmosphere,employees also expect other facilities like proper accommodation, transportation,education and training. The employers should try to fulfill all the expectation of theemployees because employee satisfaction is directly related to productivity and it isalso required for the long-term prosperity of the organization. For example, if businessspends money on training of the employees, it will have more efficient people to workand thus, earn more profit.

v. Consumer Awareness - Now-a-days consumers have become very conscious abouttheir rights. They protest against the supply of inferior and harmful products by formingdifferent groups. This has made it obligatory for the business to protect the interest ofthe consumers by providing quality products at the most competitive price.



Responsibility of Business Towards Different Interest Groups.

i. Responsibility towards owners

Owners are the persons who own the business. They contribute capital and bear the businessrisks. The primary responsibilities of business towards its owners are to:

a. Run the business efficiently.

b. Proper utilisation of capital and other resources.

c. Growth and appreciation of capital.

d. Regular and fair return on capital invested.

ii. Responsibility towards investors

Investors are those who provide finance by way of investment in debentures, bonds, depositsetc. Banks, financial institutions, and investing public are all included in this category. Theresponsibilities of business towards its investors are :

a. Ensuring safety of their investment,

b. Regular payment of interest,

c. Timely repayment of principal amount.

iii. Responsibility towards employees

Business needs employees or workers to work for it. These employees put their best effortfor the benefit of the business. So it is the prime responsibility of every business to take careof the interest of their employees. If the employees are satisfied and efficient, then the onlybusiness can be successful. The responsibilities of business towards its employees include:

a. Timely and regular payment of wages and salaries.

b. Proper working conditions and welfare amenities.

d. Opportunity for better career prospects.

e. Job security as well as social security like facilities of provident fund, groupinsurance, pension, retirement benefits, etc.

f. Better living conditions like housing, transport, canteen, crèches etc.

g. Timely training and development.

iv. Responsibility towards suppliers

Suppliers are businessmen who supply raw materials and other items required bymanufacturers and traders. Certain suppliers, called distributors, supply finished productsto the consumers. The responsibilities of business towards these suppliers are:

a. Giving regular orders for purchase of goods.

b. Dealing on fair terms and conditions.

c. Availing reasonable credit period.

d. Timely payment of dues.

v. Responsibility towards customers

No business can survive without the support of customers. As a part of the responsibility ofbusiness towards them the business should provide the following facilities:

a. Products and services must be able to take care of the needs of the customers.

b. Products and services must be qualitative

c. There must be regularity in supply of goods and services

d. Price of the goods and services should be reasonable and affordable.

e. All the advantages and disadvantages of the product as well as procedure to usethe products must be informed do the customers.

f. There must be proper after-sales service.

g. Grievances of the consumers, if any, must be settled quickly.

h. Unfair means like under weighing the product, adulteration, etc. must be avoided.

vi. Responsibility towards competitors

Competitors are the other businessmen or organizations involved in a similar type of business.Existence of competition helps the business in becoming more dynamic and innovative so asto make itself better than its competitors. It also sometimes encourages the business toindulge in negative activities like resorting to unfair trade practices. The responsibilities ofbusiness towards its competitors are

i. not to offer exceptionally high sales commission to distributers, agents etc.

ii. not to offer to customers heavy discounts and /or free products in every sale.

iii. not to defame competitors through false or ambiguous advertisements.

vii. Responsibility towards government

Business activities are governed by the rules and regulations framed by the government. Thevarious responsibilities of business towards government are:

a. Setting up units as per guidelines of government

b. Payment of fees, duties and taxes regularly as well as honestly.

c. Not to indulge in monopolistic and restrictive trade practices.

d. Conforming to pollution control norms set up by government.

h. Not to indulge in corruption through bribing and other unlawful activities.

viii. Responsibility towards society

A society consists of individuals, groups, organizations, families etc. They all are the membersof the society. They interact with each other and are also dependent on each other in almostall activities. There exists a relationship among them, which may be direct or indirect. Business,being a part of the society, also maintains its relationship with all other members of thesociety. Thus, it has certain responsibilities towards society, which may be as follows:

a. to help the weaker and backward sections of the society

b. to preserve and promote social and cultural values

c. to generate employment

d. to protect the environment

e. to conserve natural resources and wildlife

f. to promote sports and culture

g. to provide assistance in the field of developmental research on education, medicalscience, technology etc.

PLANNING

DEFINITIONS

The task of coming up with a sequence of actions that will achieve a goal is called planning.

- Deciding in advance what to do, how to do, when to do and who is to do it.
- Bridges the gap between where we are to where we want to go.
- Thinking before doing.
- Intellectual demanding process.

BASIC FEATURES OF PLANNING

(a) Planning is the primary function of management as every activity needs to be planned before it is actually performed. In other words, planning precedes all other managerial functions and provides the very basis for organising, staffing, directing and controlling.

(b) Planning is always goal directed. A manager cannot plan anything unless he knows what he wants to achieve. For example, you cannot plan for a journey unless you know where you want to go. Thus, planning is taking such steps so as to achieve the desired goal.

(c) Planning is pervasive at all levels of management and so also for all functional area. Managers at the top level plan for the entire organisation. They make plans for a long period and lay down the objectives for the organisation as a whole. Middle-level managers make quarterly, half-yearly and yearly plans for the departments under them. Foremen and office supervisors plan for a workshop or a section of the office. They make plans for a short period, i.e., for the next day, next week or next month.

(d) Planning is always futuristic. It is deciding in advance what to do, how to do, etc. It requires collection of information about various matters relating to business and then choosing a course of action for the future.

However, while planning for the future, it does take past experience and current situation into consideration.

(e) Planning is an intellectual activity and requires certain conceptual skills to look ahead into the future. It needs good foresight and sound judgment to anticipate future events, develop alternative courses of action and make the right choice.

(f) Planning is a continuous process. In organisations plans are made for a specific period followed by new plans for further period. Sometimes the conditions or circumstance change requiring the plans to be revised. For example, a sugar factory situated in upper regions of Uttar Pradesh had planned for 1,000 tonnes of sugar during the last quarter of the year. Accordingly, the management planned for procurement of sugar cane from the nearby areas. Unfortunately, there was snowfall leading to loss of crop. This made the management to change their plan and procure sugarcane from far off areas like Haryana and Rajasthan and also revise their planned production of 1000 to 800 tonnes. Thus, planning is a continuous activity in organisations.

(g) Planning basically involves making choices. Need for planning arises when goals/ objectives are many and alternatives to achieve them are also plenty. While planning, alternatives are evaluated and a choice is made regarding which course of action is to be followed.

(h) Planning is flexible. Planning is done on the basis of some forecasts which may not materialise.

Hence, plans have to be changed in accordance with the changed conditions. Activities are planned with certain assumptions, which may not come true. Managers must make provision for alternate strategies and plans as indicate in the earlier example of a sugar factory.

IMPORTANCE OF PLANNING

Planning is the most important of all the management functions. Some of the importance are as follows:

(a) Planning reduces uncertainty, risk and confusion in operation. Through planning, the future course of action is known to all and so, everybody knows exactly what needs to be done. This gives a sense of direction resulting in efficiency in operations.

(b) Planning guides the decision making by the managers. Planning of goals to be achieved and the course of action to be followed to achieve the goal act as a guide in their own decision making and action plans.

(c) Planning helps in achieving coordination and facilitates control. Proper planning integrates the tasks at the operational level, thereby making coordination more effective. It also helps in identifying deviations and taking the corrective action.

(d) Planning with an element of flexibility makes the organisation adaptable. In other words planning makes the organisation capable of coping with the changing environment and facing challenges.

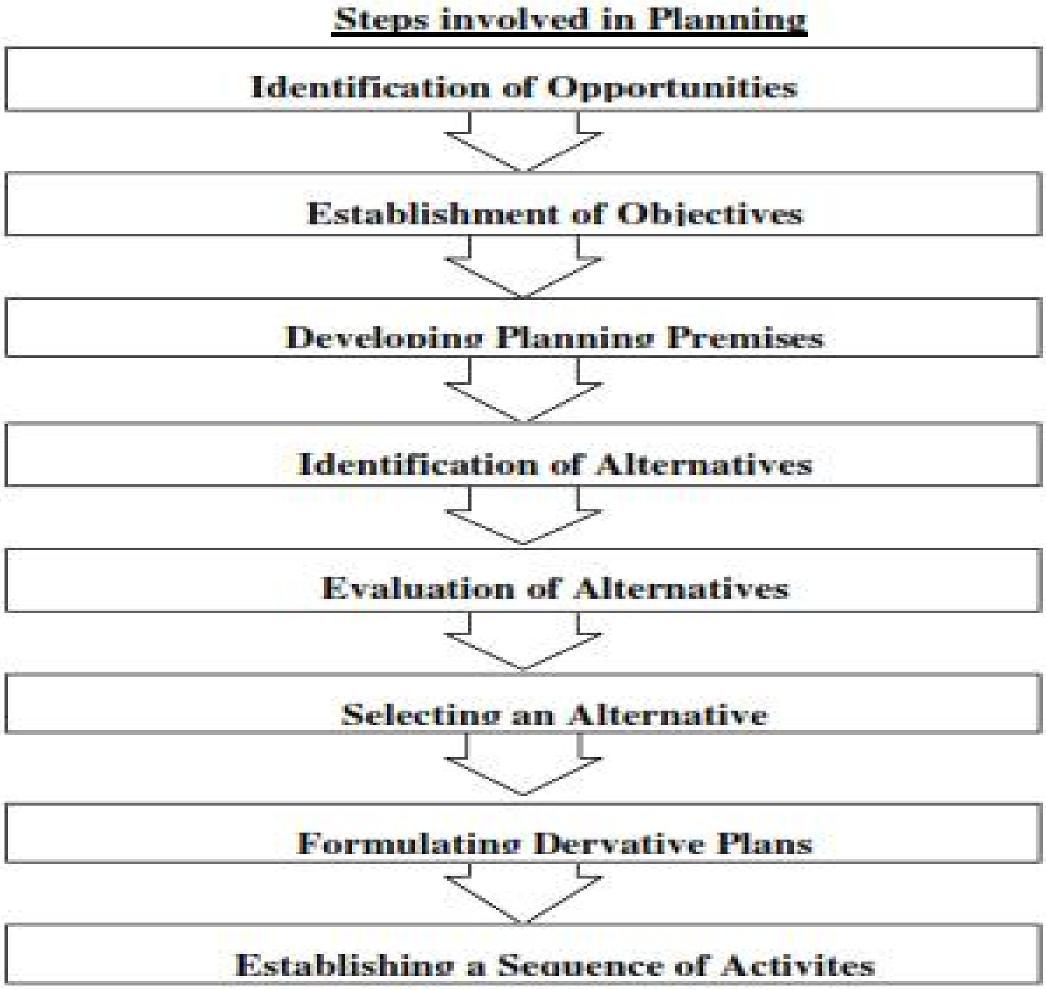
(e) Planning leads to economy and efficiency in operations. Best methods are selected out of available choices, thus, reducing overlapping and wasteful activities.

(f) Planning begins with the determination of objectives and directed towards their achievement. It keeps the executive alive and alert. Managers have to review the progress periodically and recast their strategies to meet the objectives. It should be noted that planning also has certain limitations, as the plans are based on certain assumptions and incomplete information. Hence, the management has to be vigilant and provide for necessary flexibility to take care of changed situations.

FEATURES OF A GOOD PLAN

1. Based on clearly defined objectives
2. Simple, easily understandable
3. Flexible or adaptable to changing conditions
4. Must be balanced in all respects
5. Must provide standards for the evaluation of performance and actions
6. It should be economical
7. It should be practicable
8. Prepared with the consultation of concerned persons
9. Should be clear, specific and logical
10. Should be capable of being controlled

STEPS IN PLANNING



Types of Planning(By functioning)

1. Financial & non financial planning
2. Formal &informal planning
3. Specific or Routine or operational planning
4. Corporate planning and strategic planning

Explanation:

Strategic planning is a very popular concept that has been around for years. Certainly, it is safe to say that most if not all companies and organizations spend time on their strategic plans. Strategic planning is defined as long-range planning that focuses on the entire organization. Strategic planning involves managers at the highest levels. Executive directors and presidents, leaders of the organization, are involved. They must have a part in where the organization is headed and how it will get there. The leaders are asking what must be done in the long run to achieve the organizational goals and objectives. Three years or longer is usually considered long range; however, many organizations seem to think five years is the right amount of time for planning long term. The nature of strategic planning is to develop strategies for achieving your objectives. Strategies must of course be consistent with the purpose and mission of the organization.

Tactical planning is characterized as short-term planning. This type of planning is usually confined to one year or less. It is more concerned with current operations, and as such, usually involves mid level managers instead of the highest level managers. Tactical planners are thinking about tomorrow and next week or next month and planning is much more detailed than strategic. Strategic is more broad.

Contingency planning is worth a brief mention. This is a term that is frequently used within organizations. It simply means what does an organization do when something unexpected happens or when something needs changing. No matter how effective a manager is, circumstances can change that will necessitate plans to change. This is where contingency plans can be very helpful. Contingency plans may cause a manager to go back to the original planning and look at other alternatives. Circumstances may dictate that a particular strategy didn't work and now a different plan must be used. Contingency planning is kind of the "what if" way of thinking. Contingency planning should continue to be more important with organizations as the world and businesses become more complicated.

Types of Planning (Time limit)

1. Long term plans (Above 5 yrs)
2. Medium term plans (Between 2 to 5 Yrs)
3. Short term plans (Less than 2 yrs)

Obstacles of Effective Planning

1. Inadequate inputs
2. Lack of ability
3. Sudden emergencies
4. Need for creativity
5. Resistance to Change

Ways to Overcome the Obstacles

1. Clear cut Objectives
2. Develop a sound Management Information System
3. Create carefully planning premises
4. Develop a dynamic outlook away manages

OBJECTIVES

- Managing an organization effectively requires the formulation of clear objectives.
- The objective is well defined, and the objective points must make necessary efforts to achieve it.
- Objectives and aims direct a man to proceed in a certain way for achieving organizational aims.
- Objective serves as guidelines or landmarks or road lines for action and efforts to achieve managerial goal. Well defined objective steers an organization to success.
- Objective provides a direction for the organization goal and quality of work to be accomplished within a given period of time.
- Objectives are the values which are to be achieved by the organization. These objectives set by the higher management; and every level of management, a supervisor of a team sets the objectives and also decides the process to achieve them. For achieving the objectives, it is essential that the managerial objectives are clear and definite.

Definition of objectives:

- **According to George R. Terry**, "A managerial objective is the goal which prescribes definite scope and suggests the efforts of a manager."
- **In the words of Peter F. Drucker,** "Objectives in the key areas are the 'instrument panel' necessary to pilot the business enterprise. Without them the management flies by the 'seat of the pants' without landmarks, without maps and without having flow route before."
- **According to Heinz Weihrich and Harold Koontz defined objectives of management as**, “A systematic manner and that is consciously directed toward that effective and efficient achievement of organizational and individual objectives”.

The main objectives of management:-

- **Getting Maximum Results with Minimum Efforts -** The main objective of management is to secure maximum outputs with minimum efforts & resources. Management is basically concerned with thinking & utilizing human, material & financial resources in such a manner that would result in best combination. This combination results in reduction of various costs.
- **Increasing the Efficiency of factors of Production -** Through proper utilization of various factors of production, their efficiency can be increased to a great extent which can be obtained by reducing spoilage, wastages and breakage of all kinds, this in turn leads to saving of time, effort and money which is essential for the growth & prosperity of the enterprise.
- **Maximum Prosperity for Employer & Employees -** Management ensures smooth and coordinated functioning of the enterprise. This in turn helps in providing maximum benefits to the employee in the shape of good working condition, suitable wage system, incentive plans on the one hand and higher profits to the employer on the other hand.
- **Human betterment & Social Justice -** Management serves as a tool for the up-liftment as well as betterment of the society. Through increased productivity & employment, management ensures better standards of living for the society. It provides justice through its uniform policies.
- To increase organizational effectiveness.
- To achieve optimum utilization of various resources.
- To have co-ordination between various department in the organization.
- To have co-ordination between various agencies and company.
- To control the material quality.
- To reduces the execution time for various activities of the organization.
- To control the quality of workmanship.
- To manage and control economy execution.

SETTING OBJECTIVES

- Objectives must be based on SMART criteria

    S – Specific
    M – Measurable
    A – Achievable
    R – Relevant
    T – Time-specific

- The objectives must be stated clearly and it should be stated specifically.
- It should be result oriented.
- Established before the fact.
- It should be realistic.
- It should be agreed by both Manager and Associates.
- It should be written.
- Objectives must be consistent with focus.

PROCESS OF MANAGING BY OBJECTIVES

Management by objectives (MBO) is a management model that aims to improve performance of an organization by clearly defining objectives that are agreed to by both management and employees.

Management by objectives (MBO) is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources. It aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization. Ideally, employees get strong input to identify their objectives, time lines for completion, etc. MBO includes ongoing tracking and feedback in the process to reach objectives.

MBO managers focus on the result, not the activity. They delegate tasks by "negotiating a contract of goals" with their subordinates without dictating a detailed roadmap for implementation.

Management by Objectives (MBO) is about setting objectives yourself and then breaking these down into more specific goals or key results.

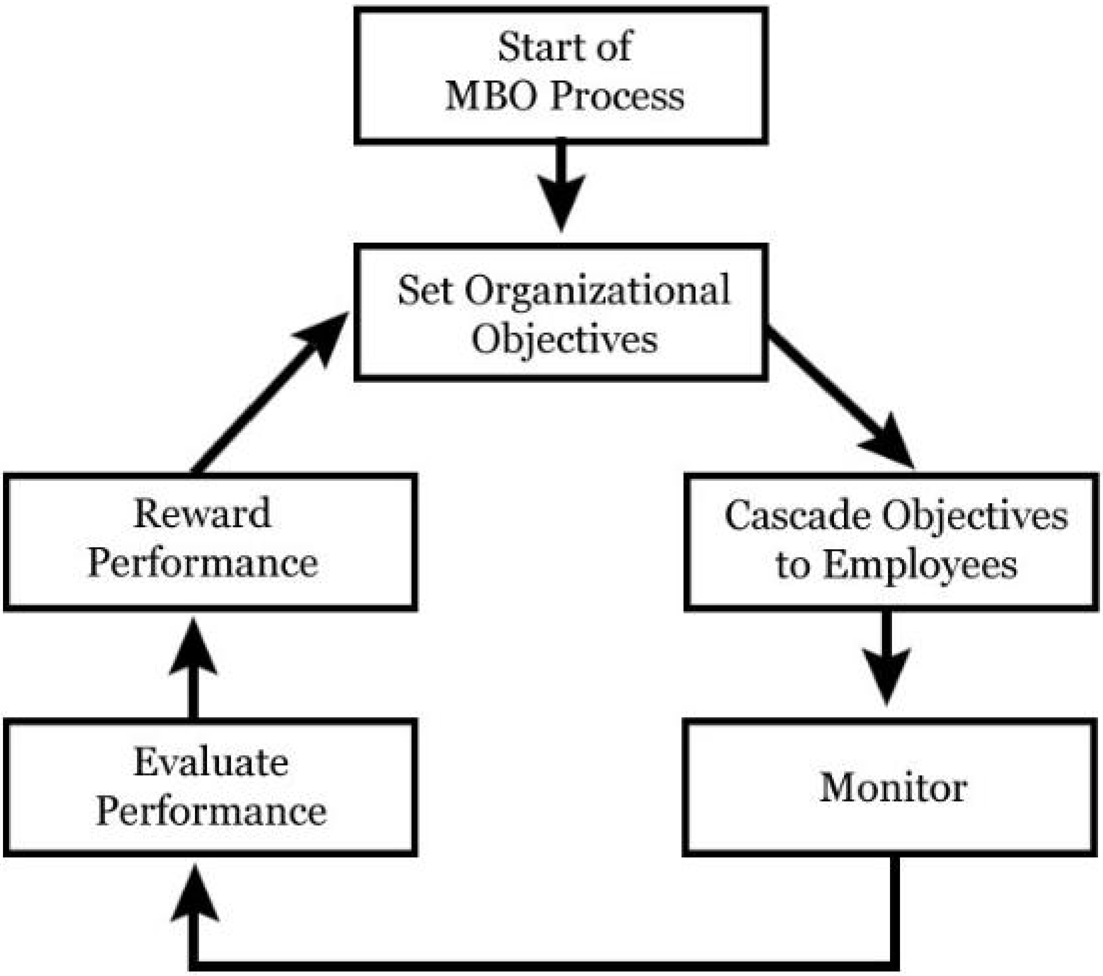
The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own roles and responsibilities in achieving those aims. The complete MBO system is to get managers and empowered employees acting to implement and achieve their plans, which automatically achieve those of the organization.

The MBO style is appropriate for knowledge-based enterprises when staff is competent. It is appropriate in situations where you wish to build employees' management and self-leadership skills and tap their creativity, tacit knowledge and initiative. Management by Objectives (MBO) is also used by chief executives of multinational corporations (MNCs) for their country managers abroad.

In Management by Objectives (MBO) systems, objectives are written down for each level of the organization, and individuals are given specific aims and targets. "The principle behind this is to ensure that people know what the organization is trying to achieve, what their part of the organization must do to meet those aims, and how, as individuals, they are expected to help. This presupposes that organization's programs and methods have been fully considered. If they have not, start by constructing team objectives and ask team members to share in the process."

For Management by Objectives (MBO) to be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company objectives set by the board of directors. "A manager's job should be based on a task to be performed in order to attain the company's objectives... the manager should be directed and controlled by the objectives of performance rather than by his boss."

The review mechanism enables leaders to measure the performance of their managers, especially in the key result areas: marketing; innovation; human organization; financial resources; physical resources; productivity; social responsibility; and profit requirements.



Types of objectives:

- Routine objectives
- Innovation objectives
- Improvement objectives

MBO Strategy: Three Basic Parts

- All individuals within an organization are assigned a special set of objectives that they try to reach during a normal operating period. These objectives are mutually set and agreed upon by individuals and their managers.
- Performance reviews are conducted periodically to determine how close individuals are to attaining their objectives.
- Rewards are given to individuals on the basis of how close they come to reaching their goals.

MBO Stages:

- Define corporate objectives at board level
- Analyze management tasks and devise formal job specifications, which allocate responsibilities and decisions to individual managers
- Set performance standards
- Agree and set specific objectives
- Align individual targets with corporate objectives
- Establish a management information system to monitor achievements against objectives

8 Key Result Areas:

- Marketing
- Innovation
- Human organization
- Financial resources
- Physical resources
- Productivity
- Social responsibility
- Profit requirements

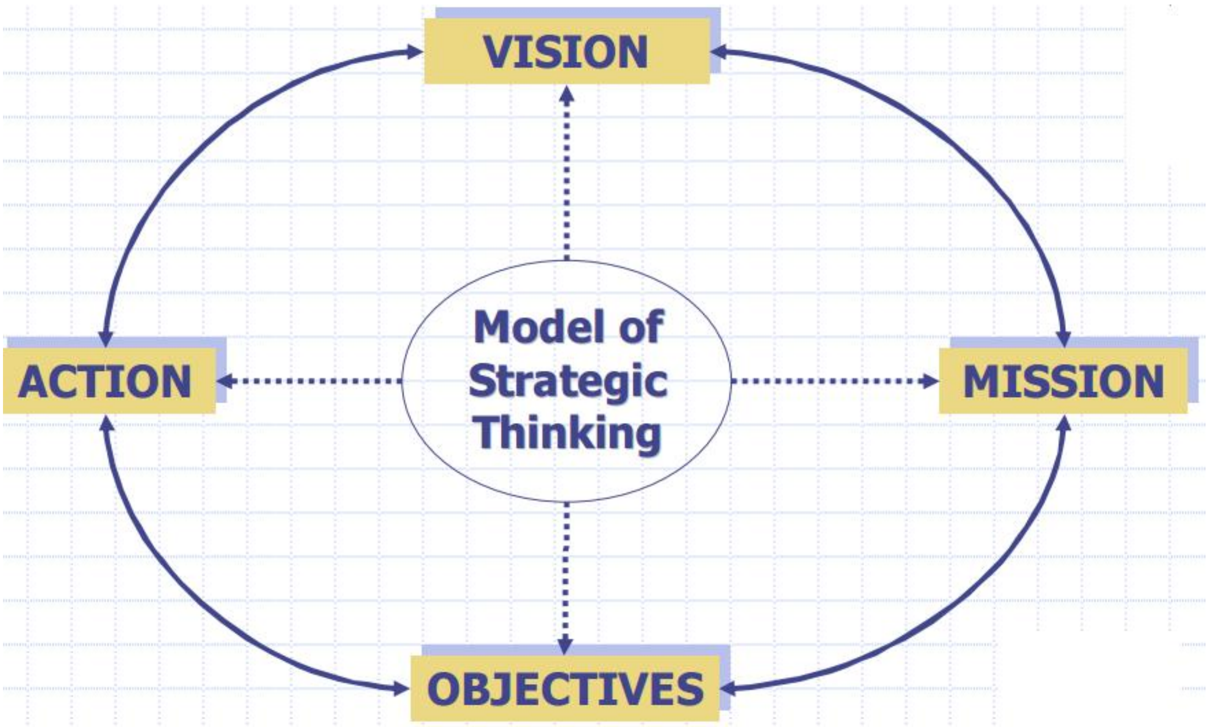
Advantages

- MBO programs continually emphasize what should be done in an organization to achieve organizational goals.
- MBO process secures employee commitment to attaining organizational goals.

Disadvantages

- The development of objectives can be time consuming, leaving both managers and employees less time in which to do their actual work.
- The elaborate written goals, careful communication of goals, and detailed performance evaluation required in an MBO program increases the volume of paperwork in an organization.

STRATEGIES



Strategic management is the process by which an organisation formulates its objectives and manages to achieve them.

Strategy is the means to achieve the organisational ends. A strategy is a route to the destination viz., the “objectives of the firm”. Picking a destination means choosing an objective.

Objectives and strategies evolve as problems and opportunities are identified, resolved and exploited. The interlocking of objectives and strategies characterise the effective management of an organisation.

The process binds, coordinates and integrates the parts into a whole. The strategies to achieve corporate goals at higher levels often provide strategies for managers at lower levels.

Managers must have strategic vision to become strategic managers and thereby to manage the organisation strategically.

Strategic vision is a pre -requisite of the strategic managers. Strategic vision implies a profound scanning ability of the environment in which the company is in i.e., knowing the objectives and values of the organisation stakeholders and bringing that knowledge into future projections and plans of the organisation.

The manager's strategic vision involves:

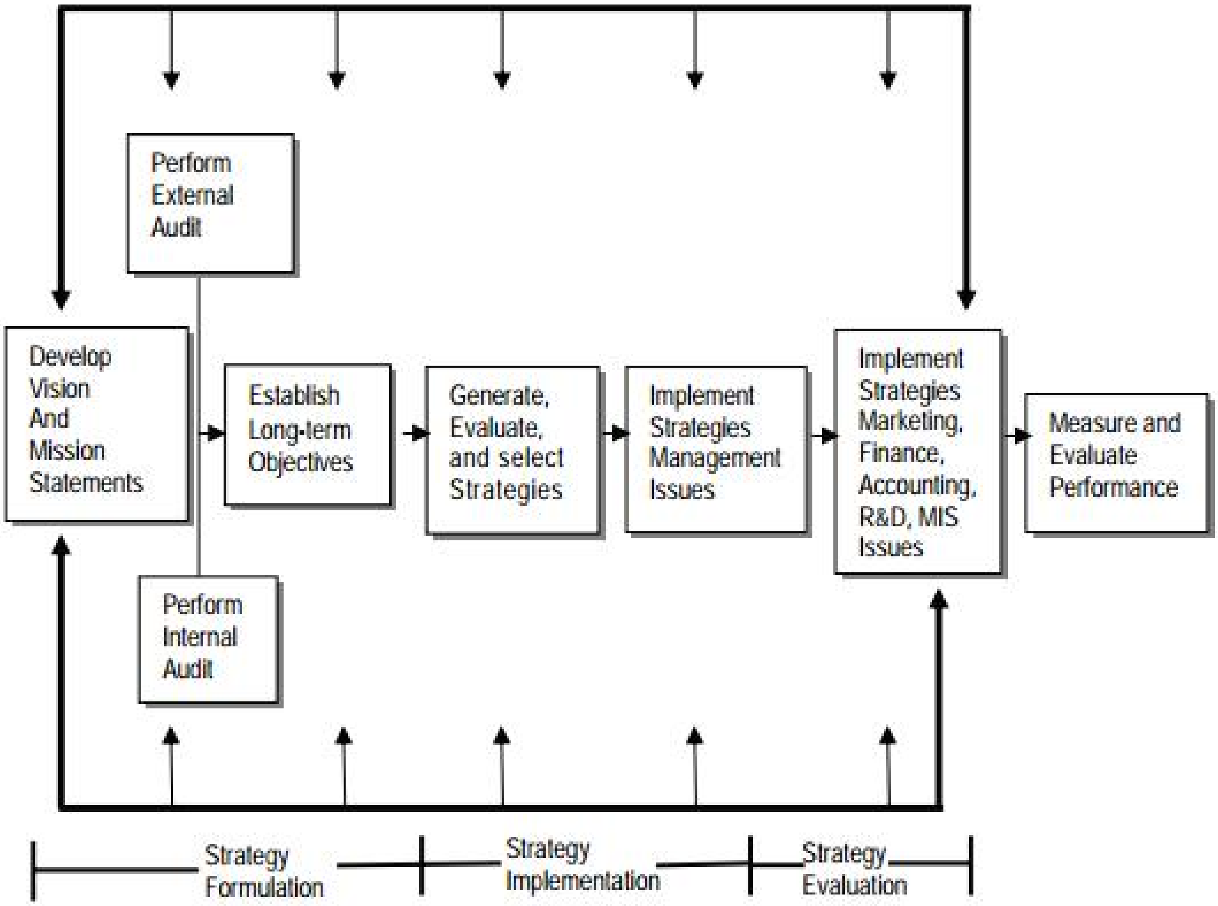
- The ability to solve complex and more complex problems;
- The knowledge to be more anticipatory in perspective and approach and
- The willingness to develop options for the future.

Strategic management can be defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development and information systems aspects of a business to achieve organisational success.

The strategic-management process consists of three stages: strategy formulation, strategy implementation and strategy evaluation.

- Strategy formulation includes developing a business mission, identifying an organisation's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.
- Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can he executed; strategy implementation includes developing a strategy-supportive culture, creating an effective organisational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and motivating individuals to action.
- Strategy evaluation monitors the results of formulation and implementation activities and includes measuring individual and organisational performance and taking corrective actions when necessary. Although making good strategic decisions is the major responsibility of an organisation's owner or chief executive officer, managers and employees both must also be involved in strategy

formulation, implementation, and evaluation activities. Participation is a key to gaining commitment for needed changes.



POLICIES

A policy is a broad guideline for decision making that links the formulation of a strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives, and strategies.

Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations.

Policies are most often stated in terms of management, marketing, finance/accounting, production/operations, research and development, and information systems activities. Policies can be established at the corporate level and apply to an entire organisation, at the divisional level and apply to a single division or at the functional level and apply to particular operational activities or departments.

Policies, like annual objectifies, are especially important in strategy implementation because they outline an organisation's expectations of its employees and managers. Policies allow consistency and coordination within and between organisational departments.

When crafted correctly, an effective policy accomplishes three things:

- It forces trade-offs between competing resource demands.
- It tests the strategic soundness of a particular action.
- It sets clear boundaries within which employees must operate while granting them freedom to experiment within those constraints.

Some policies can make the implementation of specific strategies easier. They can also restrict top management's strategic options in the future. Thus a change in strategy should be followed quickly by a change in policies. Managing policy is one way to manage the corporate culture.

Types of Policies:

a) Organizational and functional policies.

b) Originated, Appealed and Imposed policies

c) General and Specific policies.

d) Written and Implied policies.

Advantages:

- Top management provides guidelines to lower level managers.
- Gives managers to act at all levels without the need to consult the superiors every time.
- Better Administrative control. Provides rational basis for evaluating the results.
- By setting up of policies, the management ensures that the decisions made will be in tune with the objectives and interests of the organization.
- They save time and effort by pre-deciding problems in repetitive situations. They save the management from the botheration of repeating the expensive analysis required to take the policy decision every time.

Limitations:

- Policy is formulated under particular preset conditions which do not remain the same for all problems.
- Requires constant review and revision.
- No formula for all problems.
- Serve as guides for thinking and action and do not provide solutions to problems.
- They are not substitute for human judgment.
- They only point out the limits within which the judgment is to be taken.
- They may stifle individual initiative and creativity.

PLANNING PREMISES

- A plan is based on certain assumptions called premises
- Assumptions or premises are for a future setting or happenings
- Assumptions based upon certain intuition or scientific forecasting
- The assumptions about future derived from forecasting and used in planning are known as planning premises

Definition – Koontz O'Donnell

"Planning premises are the anticipated environment in which plans are expected to operate. They include assumptions or forecast of the future and known conditions that will affect the operations of plans. Eg., as prevailing policies and existing company plans that control the basic nature of supporting plans.

Purpose of premises is to facilitate the planning process by guiding, directing, simplifying and reducing the degree of uncertainty in it. Premises guide planning.

<u>Planning Premises Classification</u>

1. External & Internal
2. Tangible and Intangible premises
3. Controllable and Uncontrollable Factors

EXTERNAL ENVIRONMENT

Economic Environment

- Includes the type of economic system that exist in the economy
- The nature and structure of the economy, the business cycle, the fiscal, monetary and financial policies of the government, foreign trade and foreign investment policies of the govt.
- The type of economic system, that is socialist, capitalist or mixed provides institutional framework within which business firm have to work.

Social and cultural environment

- Members of a society wield important influence over business firms.
- Activities of business firm may harm the physical environment and impose heavy social costs.
- Business should consider the social implication of their decisions.
- Social responsiveness 'the ability of a corporate firm to relate its operations and policies to social environment in way that are mutually beneficial to the company and society at large..
- Social responsibility / social responsiveness related to ethics.

Political and legal environment

- Closely related to government.
- Political philosophy of the government yields great influences over business policies.

Technological environment

- The nature of technology used for production of goods and services in an important factor responsible for the success of a business firm.
- The improvement in technology raises total factor productivity of a firm and reduces unit cost of output.
- Technological environment affects the success of firms and the need for technological advancement cannot be ignored.

Demographic environment

- Includes the size and growth of population, life expectancy of the people rural urban distribution of population the technological skills and educational levels of labor force.
- Since new workers are recruited from outside the firm, demographic factors are considered as parts of external environment.
- The skills and ability of firm’s workers determine to a large extent how well the organization can achieve its mission.

Natural environment

- In the ultimate source of many inputs such as raw materials, energy which business firm’s use in their productive activity.
- Availability of natural resources in a region a country is a basic factor in determining business activity in it.
- It includes geographical and ecological factors such as minerals and oil reserves, water and forest resources wealth and climatic conditions, port facilities are all highly significant for various business activities.
- Not the availability of natural resources alone but also the technology and ability to being them in use that determines the growth of business and the economy.

INTERNAL ENVIRONMENT

- Internal factors are to good extent controllable factors because the firm can change or modify these factors to improve its efficiency.

Value systems

- Means the ethical beliefs that guide the organization in achieving its mission and objective.
- The value system of a business organization makes an important contribution to its success and its prestige in the world of business.

- Value system of a business firm has an important bearing on its corporate culture and determines its behavior towards its employees, shareholders and society at large.
- Infosys "Our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers employees, vendors and society at large"

Mission and objectives

- The objectives of all firms are assured to be maximization of long – run profits.
- Mission is def as the overall purpose or reason for its existence which guide and influences its business decision and economic activities.
- The choice of business domain, direction of its development, choice of business strategy and policies are all guided by the overall mission of the company.
- Reliance Industries Mission "To become a world class company and to achieve global dominance. Ranbaxy laboratories – to become a research based international pharmacy company.

Organization structure:

- Means such things as composition of board of directors, the number of independent directors, the extent of professional management and share holding pattern. Significant influence over decision making process in an organization.

Quality of human resources

- Quality of employees of a firm in an important factor of internal environment of a firm
- The Success of a business organization depends to a great extent on the skills, capabilities, attitudes and commitment of its employees.
- Due to importance of HR for the success of a company these days there is a special course for managers how to select and manage efficiently HR of a company.

Labor unions

- Unions collectively bargain with top managers regarding wages, working conditions of different categories of employees.
- Smooth working of a business organization requires that there should be good relations between mgt & labor union.

PHYSICAL RESOURCES AND TECHNOLOGY CAPABILITIES

- Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor determining its efficiency and unit cost of production.

- R& D capabilities of a company determine its ability to introduce innovation which enhances productivity of works.

2. TANGIBLE AND INTANGIBLE PREMISES

Tangible – those which can be quantified. Eg – Money, Units of Production, etc
Intangible Premises – refers to the qualitative factors like Public relations, company reputation, Employee morale, etc.

3. CONTROLLABLE AND UNCONTROLLABLE FACTORS

Controllable – entirely within the control and realm of management. Eg- Policies, programs, rules of the enterprises
Uncontrollable Factors – Enterprises has absolutely no control are uncontrollable premises. Eg – War, natural calamities, new invention, population trends.

Effective premises

1. Selection of premises which bear materially on the programs
2. Development of alternative premises for contingency planning
3. Verification of the consistency of premises
4. Communication of the premises.

FORECASTING TECHNIQUES

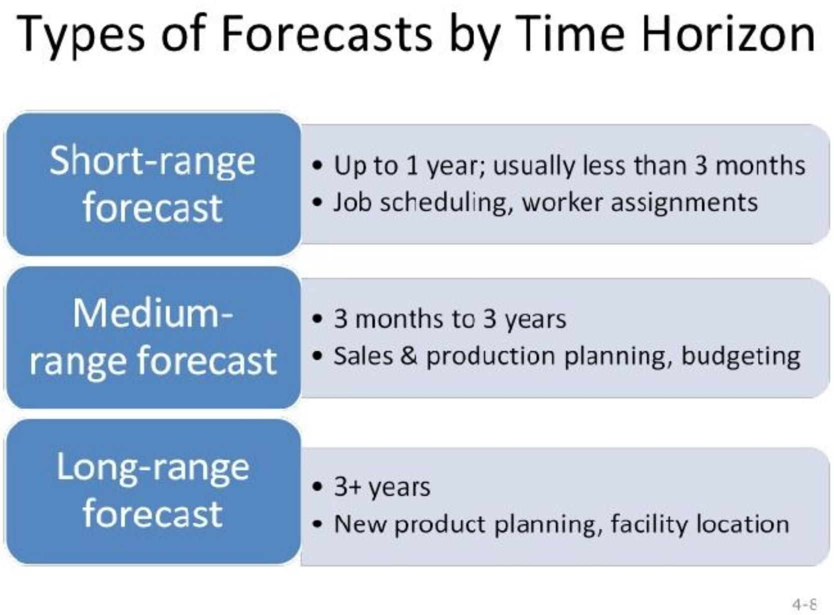
- Predicting the business environment of the future is a key management function.
- We have to forecast what our business situation will look like at a specific time to be able to plan effectively.
- Forecasting lets you hire the people you will need, make sure adequate financing is available and ensure your level of production is enough to meet the projected demand.
- To forecast a company's situation accurately, we have to use one of several relevant techniques.

QUALITATIVE TECHNIQUES

- It should be used when relevant and reliable numerical data is not available. This may be because we are trying something new or because the existing situation has changed radically.
- Qualitative techniques rely on quality advice from informed people familiar with your situation.
- These could be experts in the field or your own employees who are familiar with the markets or business situation.
- Brainstorming and exploring scenarios are qualitative techniques that result in options and choices.
- A team-based approach to qualitative decision-making can build consensus and arrive at a valid forecast and resulting course of action.

QUANTITATIVE TECHNIQUES

Time series techniques



- When data is available, a quantitative technique based on time series can give reliable forecasts.
- Time series forecasting uses historical data to develop a matching series over a given time.
- E.g. if sales of a product decreased over the summer but peaked at Christmas every year for the past 5 years, and then you can forecast the same behaviour for next year.
- If total sales increased steadily by 5 percent per year over the last 10 years, you can forecast that they will increase 5 percent per year over the next 3 years.
- Time series forecasting gives specific answers but needs consistent data trends.

Causation techniques

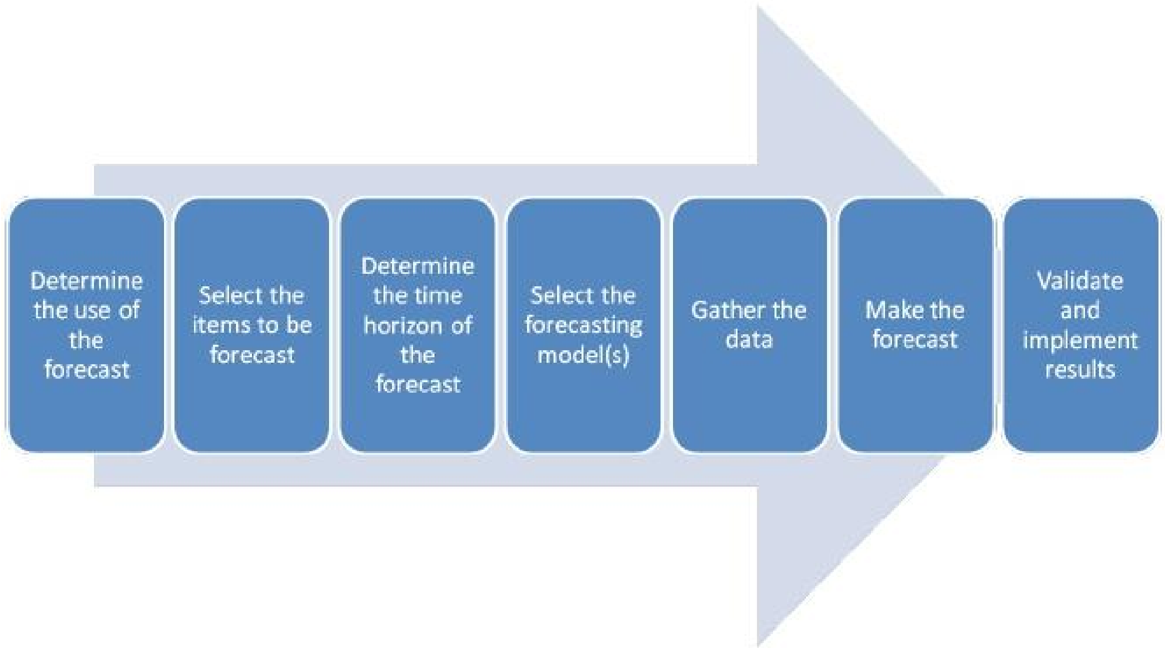
- Causation also examines past data but looks for a cause and effect relationship. Such a technique predicts an increase in Christmas sales based on the increased demand due to the holiday season and possibly because of sales featuring low prices.
- If the technique can filter out the effect of low prices, it can forecast how much of a sales increase you can expect from lowering your prices at other times of the year.

- Causation is a powerful technique if you can identify the cause and effect relationship.

Modelling techniques

- Simulating your business situation mathematically is an effective quantitative technique.
- It relies on a mathematical model based on past data.
- If you can establish a mathematical relationship between past data sets, you can use the mathematical formula for forecasting future behaviour.
- Past data may show that decreasing the price by 5 percent results in an 8 percent sales increase.
- Placing such data in a mathematical model can allow you to predict the sales increase resulting from a 12 percent price drop.

STEPS INVOLVED IN FORECASTING



Step 1: Problem definition.

Often this is the most difficult part of forecasting. Defining the problem carefully requires an understanding of the way the forecasts will be used, who requires the forecasts, and how the forecasting function fits within the organization requiring the forecasts. A forecaster needs to spend time talking to everyone who will be involved in collecting data, maintaining databases, and using the forecasts for future planning.

Step 2: Gathering information.

There are always at least two kinds of information required: (a) statistical data, and (b) the accumulated expertise of the people who collect the data and use the forecasts. Often, it will be difficult to obtain enough historical data to be able to fit a good statistical model. However, occasionally, very old data will be less useful due to changes in the system being forecast.

Step 3: Preliminary (exploratory) analysis.

Always start by graphing the data. Are there consistent patterns? Is there a significant trend? Is seasonality important? Is there evidence of the presence of business cycles? Are there any outliers in the data that need to be explained by those with expert knowledge? How strong are the relationships among the variables available for analysis? Various tools have been developed to help with this analysis.

Step 4: Choosing and fitting models.

The best model to use depends on the availability of historical data, the strength of relationships between the forecast variable and any explanatory variables, and the way the forecasts are to be used. It is common to compare two or three potential models. Each model is itself an artificial construct that is based on a set of assumptions (explicit and implicit) and usually involves one or more parameters which must be "fitted" using the known historical data. exponential smoothing methods, Box-Jenkins ARIMA models, and a variety of other topics including dynamic regression models, neural networks, and vector autoregression .

Step 5: Using and evaluating a forecasting model.

Once a model has been selected and its parameters estimated, the model is used to make forecasts. The performance of the model can only be properly evaluated after the data for the forecast period have become available. A number of methods have been developed to help in assessing the accuracy of forecasts. There are also organizational issues in using and acting on the forecasts.

DECISION MAKING

The word decision has been derived from the Latin word "decidere" which means "cutting off". Thus, decision involves cutting off of alternatives between those that are desirable and those that are not desirable.

In the words of George R. Terry, "Decision-making is the selection based on some criteria from two or more possible alternatives".

Characteristics of Decision Making

• Decision making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem or to arrive at expected results.

• The decision-maker has freedom to choose an alternative.

• Decision-making may not be completely rational but may be judgemental and emotional.

• Decision-making is goal-oriented.

• Decision-making is a mental or intellectual process because the final decision is made by the decision-maker.

• A decision may be expressed in words or may be implied from behaviour.

• Choosing from among the alternative courses of operation implies uncertainty about the final result of each possible course of operation.

• Decision making is rational. It is taken only after a thorough analysis and reasoning and weighing the consequences of the various alternatives.

Types of Decisions

a) Programmed and Non-Programmed Decisions: Herbert Simon has grouped organizational decisions into two categories based on the procedure followed. They are:

i) Programmed decisions: Programmed decisions are routine and repetitive and are made within the framework of organizational policies and rules. These policies and rules are established well in advance to solve recurring problems in the organization. Programmed decisions have short-run impact. They are, generally, taken at the lower level of management.

ii) Non-Programmed Decisions: Non-programmed decisions are decisions taken to meet non-repetitive problems. Non-programmed decisions are relevant for solving unique/ unusual problems in which various alternatives cannot be decided in advance. A common feature of non-programmed decisions is that they are novel and non-recurring and therefore, readymade solutions are not available. Since these decisions are of high importance and have long-term consequences, they are made by top level management.

b) Strategic and Tactical Decisions: Organizational decisions may also be classified as strategic or tactical.

i) Strategic Decisions: Basic decisions or strategic decisions are decisions which are of crucial importance. Strategic decisions a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Decisions like plant location, product diversification, entering into new markets, selection of channels of distribution, capital expenditure etc are examples of basic or strategic decisions.

ii) Tactical Decisions: Routine decisions or tactical decisions are decisions which are routine and repetitive. They are derived out of strategic decisions. The various features of a tactical decision are as follows:

• Tactical decision relates to day-to-day operation of the organization and has to be taken very frequently.

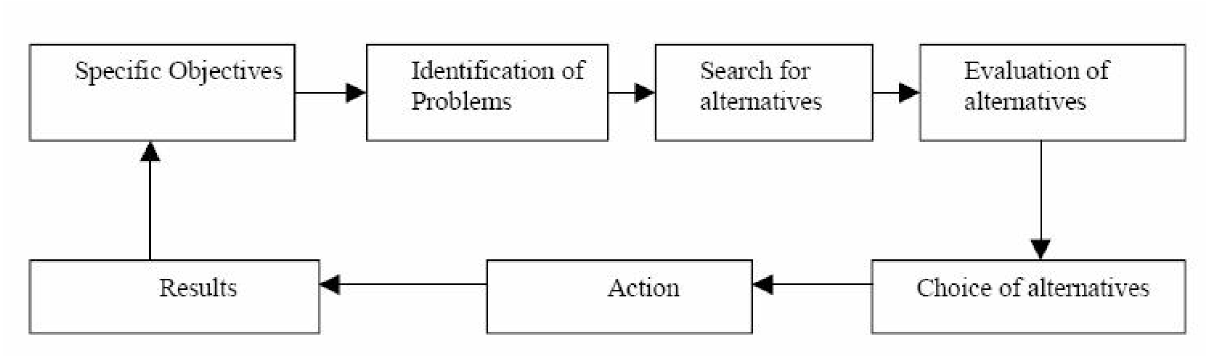
• Tactical decision is mostly a programmed one. Therefore, the decision can be made within the context of these variables.

• The outcome of tactical decision is of short-term nature and affects a narrow part of the organization.

• The authority for making tactical decisions can be delegated to lower level managers because: first, the impact of tactical decision is narrow and of short term nature and

Second,by delegating authority for such decisions to lower-level managers, higher level managers are free to devote more time on strategic decisions.

Decision Making Process



1. Specific Objective: The need for decision making arises in order to achieve certain specific objectives. The starting point in any analysis of decision making involves the determination of whether a decision needs to be made.

2. Problem Identification: A problem is a felt need, a question which needs a solution. In the words of Joseph L Massie "A good decision is dependent upon the recognition of the right problem". The objective of problem identification is that if the problem is precisely and specifically identifies, it will provide a clue in finding a possible solution. A problem can be identified clearly, if managers go through diagnosis and analysis of the problem.

Diagnosis: Diagnosis is the process of identifying a problem from its signs and symptoms. A symptom is a condition or set of conditions that indicates the existence of a problem. Diagnosing the real problem implies knowing the gap between what is and what ought to be, identifying the reasons for the gap and understanding the problem in relation to higher objectives of the organization.

Analysis: Diagnosis gives rise to analysis. Analysis of a problem requires:

• Who would make decision?

• What information would be needed?

• From where the information is available?

Analysis helps managers to gain an insight into the problem.

3. **Search for Alternatives:** A problem can be solved in several ways; however, all the ways cannot be equally satisfying. Therefore, the decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision. A decision maker can use several sources for identifying alternatives:

• His own past experiences

• Practices followed by others and

• Using creative techniques.

4. **Evaluation of Alternatives:** After the various alternatives are identified, the next step is to evaluate them and select the one that will meet the choice criteria. /the decision maker must check proposed alternatives against limits, and if an alternative does not meet them, he can discard it. Having narrowed down the alternatives which require serious consideration, the decision maker will go for evaluating how each alternative may contribute towards the objective supposed to be achieved by implementing the decision.

5. **Choice of Alternative:** The evaluation of various alternatives presents a clear picture as to how each one of them contribute to the objectives under question. A comparison is made among the likely outcomes of various alternatives and the best one is chosen.

6. **Action:** Once the alternative is selected, it is put into action. The actual process of decision making ends with the choice of an alternative through which the objectives can be achieved.

7. **Results:** When the decision is put into action, it brings certain results. These results must correspond with objectives, the starting point of decision process, if good decision has been made and implemented properly. Thus, results provide indication whether decision making and its implementation is proper.

Characteristics of Effective Decisions

An effective decision is one which should contain three aspects. These aspects are given below:

• **Action Orientation:** Decisions are action-oriented and are directed towards relevant and controllable aspects of the environment. Decisions should ultimately find their utility in implementation.

• **Goal Direction:** Decision making should be goal-directed to enable the organization to meet its objectives.

• **Effective in Implementation:** Decision making should take into account all the possible factors not only in terms of external context but also in internal context so that a decision can be implemented properly.

Decision Making Under Various Conditions

The conditions for making decisions can be divided into three types. Namely a) Certainty, b) Uncertainty and c) Risk

Virtually all decisions are made in an environment to at least some uncertainty However; the degree will vary from relative certainty to great uncertainty. There are certain risks involved in making decisions.

a) Certainity:

In a situation involving certainty, people are reasonably sure about what will happen when they make a decision. The information is available and is considered to be reliable, and the cause and effect relationships are known.

b) Uncertainty

In a situation of uncertainty, on the other hand, people have only a meager database, they do not know whether or not the data are reliable, and they are very unsure about whether or not the situation may change.

Moreover, they cannot evaluate the interactions of the different variables. For example, a corporation that decides to expand its Operation to an unfamiliar country may know little about the country, culture, laws, economic environment, and politics. The political situation may be volatile that even experts cannot predict a possible change in government.

c) Risk

In a situation with risks, factual information may exist, but it may be incomplete. 1o improve decision making One may estimate the objective probability of an outcome by using, for example, mathematical models On the other hand, subjective probability, based on judgment and experience may be used.

All intelligent decision makers dealing with uncertainty like to know the degree and nature of the risk they are taking in choosing a course of action. One of the deficiencies in using the traditional approaches of operations research for problem solving is that many of the data used in model are merely estimates and others are based on probabilities. The ordinary practice is to have staff specialists conic up with best estimates.

Virtually every decision is based on the interaction of a number of important variables, many of

which has e an element of uncertainty but, perhaps, a fairly high degree of probability. Thus, the wisdom of launching a new product might depend on a number of critical variables: the cost of introducing the product, the cost of producing it, the capital investment that will he required, the price that can be set for the product, the size of the potential market, and the share of the total market that it will represent.

DECISION-MAKING MODEL

Using a step-by-step decision-making process helps us to make more deliberate, thoughtful decisions by organizing relevant information and defining alternatives. This approach enables us to better insure the chances of choosing the most satisfying alternative possible.

The decision-making process is broken into the following steps: