

Unit 2

Planning & Decision Making

- Concept and Nature of planning
- Objectives and Components of planning
- Nature
- Process of planning
- Dimensions / Types of Planning,
- Tools and Techniques of planning
- Decision-Making – Nature,
- Significance
- Process
- Techniques of decision making.

Introduction

Planning is the fundamental function of management. It is primarily an intellectual exercise. Planning is the process through which a manager looks to the future and discovers alternative courses of action for effective corporate achievements at all levels. It is the base of all managerial activities, i.e., controlling, coordinating, managing, staffing etc. In other words speaking generally, planning is deciding what to do, when to do, how to do, who will do particular task. Planning is providing the necessary guidelines for effective decision-making for the entire organisation. Since all future actions in the organisation will be based on plans, planning must be careful and thoughtful. Planning helps managers do things in an orderly way. It is necessary “to think” on the basis of available data before taking a particular decision.

Definition

Planning is deciding in advance what to do, how to do it, when to do and who is to do. It bridges the gap from where we are to where we want to go – **Knootz O Donnel**

Planning is deciding the best alternative among others to perform different managerial operations in order to achieve the predetermined goal--- **Henry Fayol**

Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets- **Louis A. Allen**

Natures /Characteristics



1. **Managerial function:** Planning is a first and foremost managerial function provides the base for other functions of the management, i.e. organising, staffing, directing and controlling, as they are performed within the periphery of the plans made.
2. **Goal oriented:** It focuses on defining the goals of the organisation, identifying alternative courses of action and deciding the appropriate action plan, which is to be undertaken for reaching the goals.
3. **Pervasive:** It is pervasive in the sense that it is present in all the segments and is required at all the levels of the organisation. Although the scope of planning varies at different levels and departments.
4. **Continuous Process:** Plans are made for a specific term, say for a month, quarter, year and so on. Once that period is over, new plans are drawn, considering the organisation's present and future requirements and conditions. Therefore, it is an ongoing process, as the plans are framed, executed and followed by another plan.
5. **Intellectual Process:** It is a mental exercise as it involves the application of mind, to think, forecast, imagine intelligently and innovate etc.
6. **Futuristic:** In the process of planning we take a sneak peek of the future. It encompasses looking into future, to analyse and predict it so that the organisation can face future challenges effectively.
7. **Decision making:** Decisions are made regarding the choice of alternative courses of action that can be undertaken to reach the goal. The alternative chosen should be best among all, with the least number of the negative and highest number of positive outcomes.

Planning Process



1. **Establishment of objectives:** planning process is to establish the organization objectives in tune with the opportunities identified, taking into account the resources available. The overall objective of the organization must be stated along the specific objectives of departments
2. **Determination of Planning Premises:** planning premises are the assumptions about the future happenings. As planning is for future and future is uncertain, certain assumptions about the future become necessary Eg. Employee attitude technology uses, managerial decisions making process etc. are some of the factors influencing the internal environment of business. The external environment is like demand, buyer behavior, competitors action, government regulations, suppliers actions
3. **Identifying the alternative course of action:** there are always alternative ways of carrying out any task just as here are different routes to reach a destination point. To attain the objective of a business different course of action may be available. Eg. To maximize profits any of the following method used.

1. large scale production
2. curtailing the cost of production and distribution
3. maximizing sales
4. Increasing the market share and so on

- **Evaluating alternative courses of action:** once the alternative courses of action are identified, the next step is to evaluate the same. Evaluating means studying the merits and demerits of each alternative should be examined carefully to decide on its suitability.
 - **Selecting the best course of action:** once the alternative course of action has been evaluated the next step is to select the best. The one finally selected should help the organization in making an optimum use of the available resources and help to attain the objective.
4. **Formulation of derivative plans:** after the basic plan of the organization has been determined the next step is to prepare the subsidiary plans to support the basic plan.
 5. **Securing corporate participants:** **Manager** must involve people from various departments and take their suggestions and criticisms to rectify the defects in the plan if any. Participation of employees in formulation of plans motivates them to carry out the plan with best of their abilities
 6. **Evaluation and review:** once the implementation of the plan starts it becomes necessary to evaluate performance of periodic intervals to ensure that the activities of the organizations precede in the right direction and as laid down in the plan.

Types of Plans

I) **long term planning:** this plan is usually 5 to 15 years. It is also called as strategic planning. It prepares the business to face the effects of long term changes.

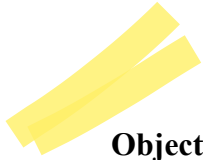
- a) Introduction of a new product
- b) entering a new market
- c) changing the technique of production
- d) increasing the scale of production

II). **Medium term planning:** it is known as tactical planning, the period covered by the medium term plan is usually 1 – 5 years. The plan is needed for

1. Making additions to an Existing plant.
2. Expanding the factory
3. appointment of additional staff to cope with the volume of work

III). **Short term planning:** it is known as operational planning the period covered is less than one year.

- purchase of raw materials
- Arranging for employee training etc



Objectives /Components of Planning

Objectives

Objectives represent the end results which an organization aims to reach. We can also refer to it as goals or targets. Not just planning but all factions of business management begin with the setting of objectives.

In terms of the types of objectives, they may be either individualistic or collective. They can even be long-term and short-term depending on their duration. They can also be general or specific in terms of their scope.

Managers of a business should lay down their objectives clearly and precisely. They must consider their mission and values before setting their goals. Furthermore, they must ensure that their objects for each activity are in consonance with each other.

MANAGEMENT BY OBJECTIVES (MBO)

It is a technique by which the superior and the subordinate jointly identify the objectives desired to be achieved by the subordinate in tune with the overall results expected. Stages involved in the process of MBO

1. **Define organization goals** Setting objectives is not only critical to the success of any company, but it also serves a variety of purposes. It needs to include several different types of managers in setting goals. The objectives set by the supervisors are provisional, based on an interpretation and evaluation of what the company can and should achieve within a specified time
2. **Define employee objectives** Once the employees are briefed about the general objectives, plan, and the strategies to follow, the managers can start working with their subordinates on establishing their personal objectives. This will be a one-on-one discussion where the subordinates will let the managers know about their targets and which goals they can accomplish within a specific time and with what resources. They can then share some tentative thoughts about which goals the organization department can find feasible
3. **Continuous monitoring performance and progress** Though the management by objectives approach is necessary for increasing the effectiveness of managers, it is equally essential for monitoring the performance and progress of each employee in the organization.
4. **Performance evaluation** Within the MBO framework, the performance review is achieved by the participation of the managers concerned.

5. **Providing feedback** In the management by objectives approach, the most essential step is the continuous feedback on the results and objectives, as it enables the employees to track and make corrections to their actions. The ongoing feedback is complemented by frequent formal evaluation meetings in which superiors and subordinates may discuss progress towards objectives, leading to more feedback.
6. **Performance appraisal** Performance reviews are a routine review of the success of employees within MBO organization



Advantages of MBO

- It promotes better communication relationship between the superior and subordinates.
- It gives the subordinate an opportunity to fix his target, in consultation with his superior.
- Subordinate fix the target based on his own potentials.
- They feel they are motivated and take lot of effort to achieve the target.
- Periodical review helps him to go on his right direction.

Disadvantages of MBO

- The superior and subordinates have to meet several times to set the objectives.
- Periodical review of the performance consumes more time and paper work.
- MBO has not much to do with the lower levels of management.

Policies:

These help the managers during the decision-making process. Policies define the course of action that should be undertaken to determine present and future decisions. These are guides to thinking in decision making. They reflect and interpret objectives and guide decisions to achieve the goals. They establish a framework for planning programs.

Policies should never be too rigid because that excessively limits functioning. Policy-makers must also ensure they explain policies to employees clearly. This will prevent any ambiguities that may arise. Policies must also change with time to suit new challenges and circumstances.

Procedures

Procedures are some of the most important components of planning. They describe the exact manner in which something has to be done. They basically guide actions for activities that managers and employees perform.

Procedures also include step-by-step methods. Even rules regulating actions come within the ambit of procedures. The planning process must ensure that procedures are always practical. They should not be rigid and difficult to implement.

Budget

Budgets are plans that express expected results in numerical terms. Whenever an organization expects to do something, it can make a budget to decide on its target. Most activities, targets, and decisions require budgeting. For example, an income budget shows expected financial results and profits

Programme

A programme is nothing but the outline of a broad objective. It contains a series of methods, procedures, and policies that the organization needs to implement. In other words, it includes many other components of planning.

For example, a business may have a diversification programme. Consequently, it will make budgets and policies accordingly for this purpose. Planners and managers can implement programmes like these at various levels.

Strategies

A strategy in simple words refers to minute plans of action that aim to achieve specific requirements. Proper implementation of strategies leads to the achievement of the requisite goals. The nature of an organization's values and missions will determine how it will strategize

RULES

Rules are the do's and don'ts. They are always rigidly enforced. There is always a fine or penalty for the violation of rules. Eg. no smoking in the workplace, Wear uniform while in the factory



Types of Planning

Operational Planning

An operational planning is a diminutive variety planning which works with daily maintenance activities that are completed at particular unit or a departmental level that will be operated in the overall strategic planning.

The basic steps involved in operational planning involve:

- ☐ Setting up of goals and objectives
- ☐ Setting priorities
- ☐ Explain with assumptions
- ☐ Review all if required
- ☐ Create main and back-up plans
- ☐ Workout with the plans
- ☐ Establish a control system with follow up on development

Intermediate Planning

Intermediate planning principally involves time perspective that can be from one year to five years. Since the time duration is unclear with longer duration plans, intermediate plans are normally the main objective in many organisations. It is seen that intermediate planning are normally worked on and created by top managers who work in coordination with middle managers.

Contingency Planning

Contingency Planning is related to certain activities that are persuaded to make sure about proper and direct follow-up steps that will be taken care by management as well as workers on emergency. The main motto of Contingency

Planning is to make sure about:

- ☐ containment of damage or loss of personnel and property
- ☐ continuity of key operations of organisation

Strategic Planning

Following are the steps involved in preparing contingency plan which are:

- ☐ To maintain business operations

- ☐ Define time periods
- ☐ Identify the trigger
- ☐ Keep the plan simple
- ☐ Consider related resource restrictions
- ☐ Identify everyone's needs
- ☐ Define success
- ☐ Include contingency plans in standard operating procedures
- ☐ Manage your risks
- ☐ Identify operational inefficiencies

Decision Making

Introductions

The process followed for identifying and choosing a course of action in order to solve a specific problem is known as decision making. Decision making is both, a managerial function as well as an organisational process. It is organisational in the sense that many decisions transcend the individual manager and become the products of groups, teams, committees, etc. It is managerial in the sense that decision making is the basic responsibility of a Manager, whether it is giving shape to a company's planning or choosing alternatives, etc. Managers have to take decisions and hence need to develop skills for decision making and problem solving

Decision making involves three aspects of human behaviour :

- 1) Cognition - i.e. activities of the mind associated with knowledge.
- 2) Conation - i.e. the action of mind implied by such words as willingness, desire and aversion.
- 3) Affectation - i.e. the aspect of mind associated with emotion, feeling, mood and temperament.

Decision making is defined as the selection of choice of one best alternative. Before making decisions all alternatives should be evaluated from which advantages and disadvantages are known. It helps to make the best decisions. It is also one of the important functions of management. Without other management functions such as planning, Organizing, directing, controlling, staffing can't be conducted because in this managerial function decision is very important

Definitions:

“Decision-making is the selection based on some criteria from two or more possible alternatives.”

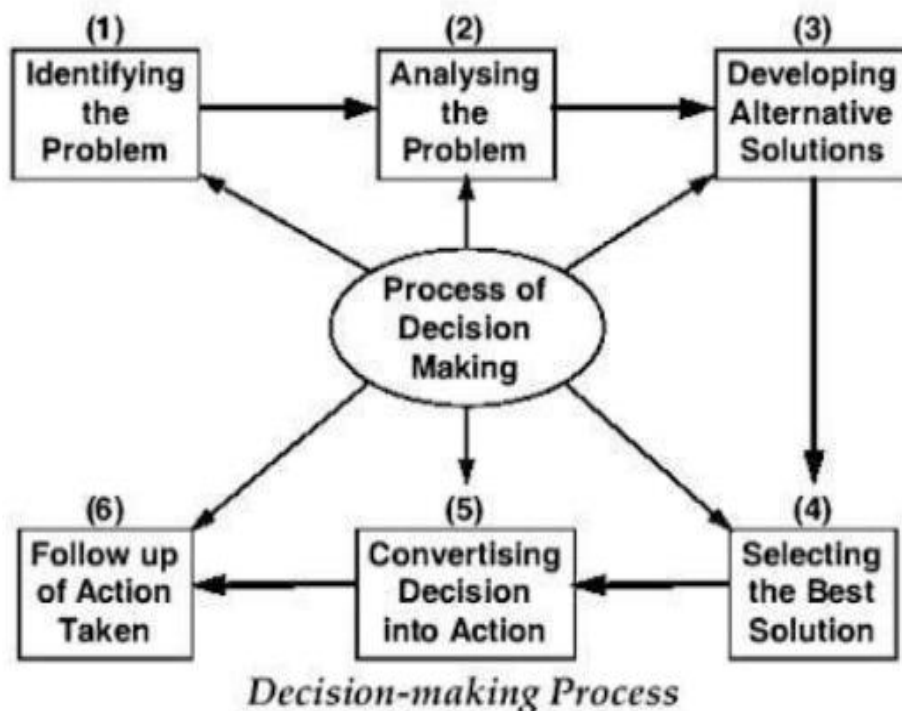
- George Terry

A decision may be defined as "a course of action which is consciously chosen from among a set of alternatives to achieve a desired result." It represents a well-balanced judgment and a commitment to action.

Characteristics/Natures of Decision Making

- Decision making is a selection process.
- Decision making is the end process. It is preceded by detailed discussion and selection of alternatives.
- Decision making is the application of intellectual abilities to a great extent.
- Decision making is a dynamic process.
- Decision making is situational.
- A decision may be either negative or positive.
- Decision making involves the evaluation of available alternatives through critical appraisal methods.
- Decision is taken to achieve the objectives of an organisation.

STEPS INVOLVED IN DECISION MAKING PROCESS



Identifying the Problem: Identification of the real problem before a business enterprise is the first step in the process of decision-making. It is rightly said that a problem well- defined is a problem half-solved. Information relevant to the problem should be gathered so that critical analysis of the problem is possible. This is how the problem can be diagnosed.

Analyzing the Problem: After defining the problem, the next step in the decision-making process is to analyze the problem in depth. This is necessary to classify the problem in order to know who must take the decision and who must be informed about the decision taken. Here, the following four factors should be kept in mind: (i) Futurity of the decision, (ii) the scope of its impact, (iii) number of qualitative considerations involved, and (iv) uniqueness of the decision

Collecting Relevant Data: After defining the problem and analyzing its nature, the next step is to obtain the relevant information/ data about it. There is information flood in the business world due to new developments in the field of information technology. All available information should be utilized fully for analysis of the problem. This brings clarity to all aspects of the problem.

Developing Alternative Solutions: After the problem has been defined, diagnosed on the basis of relevant information, the manager has to determine available alternative courses of action that could be used to solve the problem at hand. Only realistic alternatives should be considered. It is equally important to take into account time and Cost constraints and psychological barriers that will restrict that number of alternatives

Selecting the Best Solution: After preparing alternative solutions, the next step in the decision-making process is to select an alternative that seems to be most rational for solving the problem. The alternative thus selected must be communicated to those who are likely to be affected by it. Acceptance of the decision by group members is always desirable and useful for its effective implementation.

Converting Decision into Action: After the selection of the best decision, the next step is to convert the selected decision into an effective action. Without such action, the decision will remain merely a declaration of good intentions. Here, the manager has to convert 'his decision into 'their decision' through his leadership.

Ensuring Feedback: Feedback is the last step in the decision-making process. Here, the manager has to make built-in arrangements to ensure feedback for continuously testing actual developments against the expectations. It is like checking the effectiveness of follow-up measures. Feedback is possible in the form of organized information, reports and personal observations. Feedback is necessary to decide whether the decision already taken should be continued or be modified in the light of changed conditions.

Significance/Importance of Planning

- **Planning facilitates management by objectives.**
 - o Planning starts with finding of an objective.
 - o It shows the reason for starting different activities.

- o with this, the objective becomes clear and particular.
- o with planning, an employee will be more focused towards objectives and goals.
- o There will be no path, if there is no planning.

□ **Planning minimizes uncertainties.**

- o in business, there occur lots of uncertainties.
- o Because of such uncertainties, there occurs risk factor in every business.
- o with planning, the uncertainties can be lowered as it anticipates any future occurrences.
- o Since future cannot be predicted 100%, so with the help of planning, the management will come to know about future activities.

□ **Planning facilitates co-ordination.**

- o It is seen that planning moves around organisational goals.
- o In this, all activities are aimed at common goals.
- o There is a combined effort all the way in an enterprise in departments and groups.
- o It keeps away from replication of efforts which results in good co-ordination
- o It solves the problems related to work performance which aims at altering the same.

□ **Planning improves employee's morale.**

- o With planning, an atmosphere of order and discipline originates that takes it as a serious aspect.
- o Through planning employees will come to know what is required from them which results in obtaining conformity.

□ **Planning helps in achieving economy.**

- o Good planning results in safer economy as it leads to allocation of resources.
- o It makes admissible for correct use of resources for economic operations.
- o There will be no wastage of resources if choosing correct use will add to objectives of an enterprise.

□ **Planning facilitates controlling.**

- o With planning it is possible to proceed with fixed planned goals and standards of presentation.
- o The basis of controlling is provided.
- o An operative system of controlling is unmanageable without presence of good thought plans.

□ **Planning provides competitive edge.**

- o Planning uses change in work methods, quality, quantity designs, extension of work, redefining of goals etc.

- o The forecasting will secure the future of an enterprise and at the same time calculate the future motives of competitors.

- **Planning encourages innovations.**

- o With planning process, managers will be able to suggest ways and different means in order to improve performance.

- o It is the decision-making function which accommodates creative thinking and imagination which shows innovative methods and growth operations of an enterprise.