**CHAPTER- 5** **PLANNING AND MAKING DECISIONS**

***Planning***

Planning is one of the major functions of management. It is to decide future course of action. It is systematic activity which determines when, how and who is going to perform a specific job. Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing plans for organizational work activities.

**Stephen P. Robbins:** "Planning is deciding about what to do, how to do it, when to do it, and who is to do it. It provides the ends to be achieved."

Thus, planning involves setting objectives and developing appropriate courses of action to achieve these objectives. Objectives provide direction provide all managerial decisions and actions. Planning provides a rational approach for achieving predetermined objectives.

***Types of Planning***

1. **Types of Planning According to Managerial Hierarchy**

According to managerial hierarchy there are three types of plans. They are:

1. **Strategic Plans**: Strategic plans are documents prepared by top level management to guide the organization in the process of performing its activities in order to achieve its long-term objectives. A strategic plan also tells managers the goals of the plan period and how the objectives are to be achieved. These plans usually designed for a period of four or five years or more.
2. **Tactical Plans**: Tactical plans are prepared and implemented to achieve part of the strategic plans. Tactical plans are often developed by senior and middle management and implemented by middle and junior managers. The time frame for tactical plans is between few months to five months to five years.
3. **Operational Plans**: These plans focus on carrying out tactical plans to achieve operational goals. These plans are to deal with what to be done at the sub-system of the organizational (the very grassroots level) the development of operational plans involves middle and junior managers. There are two basic forms of operational plans; single-use plan which is developed to carry out a course of activities that recur regularly over a period of time. The time frame for operational plan ranges from one month to one year.
4. **Types of Planning According to Time**

According to time there are three types of plans. They are:

1. **Long-term Plans**: These are the plans formed by an organization to guide it in the process of performing its activities in order to achieve long-term objectives. They guide managers and other employees to be aware of the long journey ahead, the difficulties and the benefits that can result. These plans are usually designed for a period of five years and more.
2. **Intermediate Plans**: These are the plans set by and for middle level management. They are set to allocate divisional activities like production, finance, marketing, personal and others. They focus to get the things done complete. These plans are usually designed for a period of more than one year to five years.
3. **Short-term Goals**: These are the operational plans set by and for middle level management. They determine the each and every activity of the department. The time frame for these plans is range from one month to one year.
4. **Types of Planning According to Frequency of Use**

According to frequency of use, there are two types of plans. They are follows:

1. **Single Use Plans**: Single use plans are devised to meet the demand of a particular situation and are not meant to serve as standing guides to thinking and action. These plans are prepared for non-repetitive activities and they are used only once. Single use plans include programmes, projects, schedules, budgets etc.
2. **Standing Plans**: Standing plans are also known as repeated-use plans. These plans are formulated by the managers at different levels and meant for repeated use as and when the occasion demands. Examples of standing plans are mission, objectives, policies, procedures, rules, strategies, etc.
3. **Types of Planning According to Flexibility**

According to flexibility plans can be classified in two groups:

1. Specific Plans: Examples of specific plans are specific procedures, budget allocation, specific schedules of activities, etc. Such plans cannot be misunderstood and misinterpreted.
2. Flexible Plans: These are the plans that can be smoothly adjusted without delay to the requirement of changing condition without serious loss of economy or effectiveness. Flexible plans are also known as directional plans, which provide general guidelines.
3. **Types of Planning According to Formality**
4. **Formal Plans**: They are the plans designed to identify objectives and to structure the major tasks of the organization to accomplish them. Formal plans are approved officially.
5. **Informal Plans**: They are not approved officially but followed to achieve the objectives of organization.

***Planning Process/Steps***

**PLANNING PROCESS**

1. **Analyze opportunities**: This is the pre-step of planning. The management has to analyze the Strength, Weakness, Opportunities and Threats (SWOT) from the changing environment of the business. Strength and weakness are the outcome of internal environment like availability of materials, machines, manpower, organizational structure, technology adopted etc.it is essential to make a detailed study of the above factors and should consider it while setting goals.
2. **Setting goals**: This is the first and actual starting point of planning. The objectives must be specific, clear and practical. They should be time- bound and expressed in numerical terms. They should not be idealistic or over ambitious. A minor mistake in setting objectives might affect the implementation of a plan. Therefore, the management has to define the objective clearly by considering organizational resources and opportunities.
3. **Determination of premises**: Premises are assumptions of the future on the basis of which the plan is formulated. The future environment is estimated on the basis of forecasting. Premises may be tangible and intangible or internal and external. Tangible premises involve capital investment, units of production, unit sold, cost per unit, time available etc. Similarly, intangible premises involve employees' s moral, goodwill, motivation, managerial attitude etc. Internal premises involve money, materials, machines and management whereas external premises involve competitors' strategy, government policy, technological change, and social and cultural beliefs.
4. **Determination of alternatives**: Management needs to identify various alternative courses of action for the achievement of organizational objectives for this, it is essential to identify all the possible alternatives. The management must develop alternatives through support of experienced and intellectual experts in management.
5. **Evaluation of alternatives**: This is a logical step to evaluate each and every alternative from cost and benefit point of view. Each alternative is studied and evaluated in terms of some common factors such as risk, responsibility, planning, premises, resources, technology etc. Therefore, management must apply a broad-based analytical approach for the evaluation of available alternatives.
6. **Selecting a best course of action**: Management selects the best course of action after evaluating all the alternatives. For this, purpose management has to consider past experience, present situation and future contingencies of such decision. Besides, it needs to forecast about the comparative cost and benefit factors.
7. **Formulation of derivative plans**: After selecting the course of action, it is essential to formulate action plans for each department of the organization. These action plans involve formulation of policies, rules, schedules and budget to achieve defined objectives.
8. **Implementation of plan**: After selection of a course of action and preparation of derivative plans, if not implemented, the plan remains in paper only. This step brings all the procedures of plan into action. For the implementation of a plan, the management needs to take some steps such as to communicate with subordinates who initiate plans into action, provide necessary instruction and guidance, make arrangement of all resources like materials, machines, money, equipment etc. And make timely supervision and control of subordinates.
9. **Reviewing the planning process:** Planning is a continuous function and lasts till the organization is in existence. For this, it is necessary to know about the actual performance. The managers can take corrective action in proper time only after evaluating the actual performance. A right decision at the right time is necessary to achieve objectives according to plan. It is also essential to adapt with the changing environment of the business.

***Importance of Planning***

Planning is a primary and inseparable function of management. It is the continuous process up to the existence of organization. It defines a clear line of action so that wastage of resources can be minimized. A good planning is the foundation of an organization and a sign of efficient management. The following are the importance of planning:

1. **Focus on goal**: Every organization is established with a definite objective and all the activities of the organization concentrate to achieve defined objectives. Plan helps to draw the attention of the manager and other employees to the same objectives. It also eliminates confusion and haphazard activities. It facilitates in bringing unity in action and coordination among all the units of works. Therefore, good planning is the sign of management by objectives.
2. **Minimize uncertainty**: Planning is a must to minimize future risk and uncertainty.it involves forecasting and anticipating future uncertainty and changes. It is well known that future is uncertain and changeable. Planning estimates anticipated future changes and makes necessary provision to overcome such changes.
3. **Maintain effective control**: Planning is the basis of control. It determines the standard of work to be performed. Management provides instruction and guidance to do the work on the basis of a plan. It helps to compare actual performance with that of planned performance. Control without planning is not possible. However, planning makes control effective and meaningful.
4. **Innovation and creativity**: As an intellectual exercise, planning encourages innovative thought and creative action among the managers. An effective plan forces managers to think about the best objective and best alternative course of forces managers to think about the best objective and best alternative course of action. It contributes in motivating and developing morale and among the employees. It is also essential to maintain up-to- date position in business operation and face business complexity. Thus, a sound plan contributes in developing innovating ideas and creative action.
5. **Organizational effectiveness**: Planning helps eliminate wastage and utilize available resources in the best possible way. It leads to maximize productivity and minimized cost of output. Planning is the foundation for the successful completion of organizational activities. Therefore, a sound planning contributes in minimizing cost of production and developing organizational effectiveness.
6. **Economy in operation**: Planning avoids the concept of trial and error or hit and miss or random activity. It selects the course of action, which is beneficial from the organizational point of view. It defines the clear line of action for all level of management. It helps to bring a system in the organization which ultimately contribution in developing working efficiency of all members.
7. **Facilitates coordination**: Planning is a primary function, which maintain coordination with other functions of management. It clearly defines objectives and strategies to be achieved and brings other functions of management in action.it also plays important role to maintain close relation among all the departments. This is necessary to develop a feeling of team spirit among all the members of the organization.
8. **Avoid business failure**: The basic motive of planning is to overcome the probability of business failure. Besides, it also defines a clear line of action for every member. It helps to maintain unity in action, better coordination among all the members of the organization. Ultimately, it contributes to maximize productivity and minimize cost of output.

***Strategic Planning***

Strategic planning is the comprehensive master plan stating how the organization will achieve its mission and objectives. It is a dynamic and long range planning which focuses on the organization as a whole. It is the process of determining how to achieve long term goals, minimum of five years, with use of available resources in dynamic environment. Basically, the top level management consisting board of directors and chief of executive formulate the strategic plan.

***Formulation of Strategic Plan***

The formulation of strategic plan consists of following steps:

1. **Identifying organization's current mission, goals and strategies**: The identification of organizational current mission, goals and strategies is the initial step of strategic plan formulation. First, mission is the reason for the existence of an organization. It tells who are and what we do as well as what we would like to become. Mission also developed by top level management, which defines the fundamental unique purpose that sets an organizations of the similar type. Second, goals are the planned to results to be achieved. Goals specify what is to be accomplished whom and should be shown in quantitative terms, if possible. They should be consistent with the mission of the organization. Third, strategy is a comprehensive master plan stating how the organization will achieve its mission and goals. It determines the basic long- term objectives of organization and adoption of course of action and allocation of resources necessary to achieve the goals. It maximizes competitive advantages and minimizes competitive disadvantages.
2. **Analyze the external environment**: The analysis of external environment is the second step in the strategic planning process. It refers to forces and institutions outsides the organization that can potentially affect the organization's performance. The external environment is made up of two components, the specific and task environment and general environment. The task environment consists of customers, suppliers, competitors, government, pressure groups, financial institutions, and strategic allies. Similarly, general environment consists of politics, economy, society, culture and technology.
3. **Identifying opportunities and threats**: After analyzing the external environment, managers need to identify opportunities that can be capitalized and threats that an organization my face. Opportunities that can be capitalized and threats that an organization may face. Opportunities are the positive trends and scope in the external environment factors and threats are the negative trend challenges to the organization.
4. **Analyzing internal environment**: All conditions and forces within the organization affecting business operation are internal environment. Managers need to analyze the internal environment to know about the position of resources. The components of internal environment can be controlled by the management. These components consist of owners or shareholders, board of directors, resources and organizational structure and organizational culture.
5. **Identifying strengths and weaknesses**: Analysis of internal environment facilitates in identifying strengths and weaknesses of an organization. Strengths are the activities that the organization does well or unique resources that it has. Weaknesses are the activities that the organization does not do well or resources it needs but does not possess. Therefore, in the formulation of strategic plan it is necessary to identify the strength plan it is necessary to identify the strengths to capitalize and weakness to overcome them.
6. **Formulating strategic plan**: On the basis of identification of organizational mission and environmental analysis, strategies are developed for corporate, business functional levels. For this, managers need to develop and evaluate strategic alternatives and then choose a strategy that gives their organization the most favorable competitive advantages.

***Implementation of Strategic Plan***

Strategic implementation is the method by which strategies are operationalized or executed within the organization. A manager should implement the strategic plan to achieve defined goals. The formulation of strategic plan becomes fruitful only after its proper implementation. The following strategies should be taken into consideration foe effective implementation of strategic plan:

1. **Organizational structure**: For proper implementation of strategic plan it is essential to develop an organizational structure. It is a network of assigned tasks, defined roles and designed relationships among the organizational members. In the organizational structure, division of activities, interaction and behavior of the members are also specified. It defines the pattern of formal relationship of the superiors and subordinates and also their authorities and responsibilities.
2. **Communication**: All members concerned should be communicated the strategic plan for its implementation. All the members of the organization must be clear about their respective duties and responsibilities. It is the part of the top level managers to communicate all strategic plans to their subordinates for proper implementation.
3. **Technology**: Technology consists of knowledge, equipment, method and process implemented for production and distribution. Effective implementation of strategy requires application of new and advanced technology. For introduction of new products, diversification of existing line and for expansion of business, it is essential to redesign the existing production process and develop new infrastructure facilities.
4. **Provision of resources**: Organizational resources are the main source of implementation of strategic plan. These resources consist of human, financial and physical resources, and technology. It is the duty of the top level management to acquire the required resources for effective implementation of strategic plan.
5. **Group and team work**: For effective implementation of strategic plan, it is essential to focus on participative management. The concept of team work and group effort must be developed in the organization. The works should be assigned to different groups consisting of experts of different of works. The required authority and responsibility should be selected be delegated to the team. The top-level management should play the role of a supervisor to provide guidance and suggestion.
6. **Motivating employees**: Motivation is an important tool to inspire and encourage the employees. For effective implementation of strategic plan, there must be reward and punishment system in the organization. Rewards may be financial and non-financial. The employees should be rewarded on the basis of their efficiency.
7. **Leadership**: An effective leadership is necessary to implement the strategic plan. All the activities of the organization concentrate on the activity of the leader; therefore, the leader must be dynamic and energetic. He has to supervise, guide, motivate and influence the subordinates for effective implementation of strategic plan.
8. **Monitoring** **and evaluation:** The manager should monitor the activities of subordinates regularly to ensure their proper performance. Similarly, the actual performance achieved should be evaluated with planned performance at fixed intervals. Such timely evaluation of actual performance achieved with that of planned performance helps to take corrective action which finally facilitates to achieve strategic goals.

**Tactical Planning**

Tactical planning is short-range planning that emphasizes the current operations of various parts of the organization. It is the plan that determines how specific tasks can best be accomplished on time with available resources.

Tactical planning is developed for achieving tactical goals of an organization and to implement specific plan. Tactical plans define the actions of major departments that are required in the execution of strategic plan. Managers use tactical planning to outline what the various parts of the organization must do for the organization to be successful at some point one year or less into the future. Tactical plans are usually developed in the areas of production, marketing, personnel, finance, and plant facilities.

***Comparing and Coordinating Strategic and Tactical Planning***

The main different between strategic planning andtactical planning are summarized below:

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| --- | --- | --- |
| **Area of Difference** | **Strategic Planning** | **Tactical Planning** |
| **1.Individuals involved** | Strategic plans are usually developed by upper-level management. Upper-level managers are involved to formulate strategic plans because they generally have a better understanding of the organization as a whole than lower-level managers do. | Tactical planning usually developed by lower-level management. Lower-level managers involved to formulate tactical plans because they generally have a better understand of the day-to–day organizational operations than upper-level managers do. |
| **2.Facts on which to base planning** | Strategic planning emphasizes analyzing the future. | Tactical planning emphasizes analyzing the everyday functioning of the organization. |
| **3.Amount of detail in plans** | Strategic plans are based primarily on a prediction of the future. So, these plans are generally less detailed than tactical plans. | Tactical plans are based on known circumstances and day-to-day operations that exist within the organization. So, these plans are generally more detailed than strategic plans. |
| **4.Uncertainty** | It is generally based on long-term forecasts about technology, political environment, etc. and is more uncertain. | It is generally based on the past performance of the organization and is less uncertain. |
| **5.Decision** | It decides the major goals and policies for allocation of resources to achieve these goals. | It decides use of resources for achieving each goal. |

***The Planning and Levels of Management***

Planning is performed at multiple levels within an organization. However, the scope and nature of activities of the planning process often differ at each level of the management. Based on level of management the planning can be segmented into the following three categories:

1. **Strategic Planning**: Planning starts at the top of an organization with strategic plans. Strategic plans are set by the board of directors with the involvement of chief executive officer(CEO) and high ranking managers. The term strategy implies a game plan made to allocate resources, fix priorities and decide actions to implement. Plan is set for the application of whole organization and involves decisions such as merging one organization with the other one, acquiring a new firm, transferring skills from one unit to others, etc.
2. **Tactical Planning**: It is set by the middle level management integrating ideas of strategic plans. This planning involves the process of translating broad strategic plans and goals into more specific plans and goals that are relevant to a definite areas of organizational functioning like production, marketing or human resource. Tactical planning is coordinative in nature as it is concerned with implementation of strategic plans by coordinating the work of different departments and activities in the organization.
3. **Operational Planning**: It is prepared by lower level management. Operating planning involves the process of identifying specific procedures and processes to carry out organizational activities associated with workplaces of different departments. It is done to perform routine tasks such as production runs, delivery schedules, human requirements, arrangement of machinery and production facilities, etc. it provides detail breakdown of budget, time horizon, manpower requirements, responsible persons and the like to support to achieving strategic goals. Operational planning is set at the lower level focusing more specifically in small set of activities. This planning is preserve of lower level managers such as foremen, supervisors and inspectors.

Meaning and Concept of Decision Making

Decision making is an indispensable component of management process. It is also known as the heart of management. In general terms decision making is the process of selecting a best course of action out of many available alternatives. It is the process of identifying and defining the problems, developing alternative solutions, evaluating them in terms of possible consequences and choosing the best solution among them and implementing the decision effectively.

**Approaches of Decision Making**

The main approaches to decision making may be studied in the following three dimensions:

1. **Classical approach:** This is also known as prescriptive, rational or normative model. It specifies how decision should be made to achieve the desired outcome. Under this approach, decisions are made rationally and are directed toward a single and stable goal. It is applied in certainty condition in which the decision maker has full information relating to the problem and also knows all the alternative solutions. It is an ideal way in making a decision. This model assumes the manager as a rational economic man who makes decisions to meet the economic interest of the organization. This model is based on the following assumptions:

* The decision maker has a clear, well-defined goal to be achieved.
* All the problems are precisely defined.
* All alternative courses of action and their potential consequences are known.
* The decision maker can rank the entire alternatives on the basis of their preferred consequences.
* The decision maker can select the alternative that maximizes outcome.

1. **Behavioral approach**: This approach is also known as descriptive approach and administrative model. The theory is proposed by Herbert A Simon, a well real life situations. Managers have limited and simplified view of problems because they do not have full information about the problems, do not possess knowledge of all possible alternative solutions, do not have the ability to process environmental and technological information and do not have sufficient time and resources to conduct an exhaustive search for alternative solutions to the problems. Therefore, this model is based on two concepts: **bounded rationality and satisficing**.

* Bounded Rationality: Simon believed that managers are bound by limited mental capacity and emotion, as well as, by environmental factors over which they have no control. Real life challenges, time and resources limitations, political pressure and other internal and external factors force the manager to work under the condition of bounded rationality. Therefore, the manager cannot take a perfectly rational decision.
* Satisficing: It is the selection of a course of action whose consequences are good enough. Bounded rationality forces managers to accept decisions that are only 'good enough', rather than ideal. Such managerial decisions become rational but within the limits of managers' ability and availability of information. Managers make decisions based on alternatives that are satisfactory. The examples of satisfying decisions are fair price, reasonable profit, adequate market share, proper quality products etc.

1. Implicit favorite model/Retrospective approach

This approach is applicable in non-programmed decisions. In this approach, the manager first chooses an alternative solution to the problem and highlights its strength, and compare with other alternatives and then identifies its drawbacks. This is done with a view to proving that the alternative selected by him is the best solution to the given problem.

**Types of Decisions**

1. **Programmed and Non-Programmed Decisions**

* **Programmed decisions** are routine and repetitive in nature. Managers can solve problems easily an in-depth without deep study by considering the past decision for similar of problems. Generally, such decisions are taken by first line managers on the basis of framework of policies, rules, regulations and standard operating procedures of the organization. In practice, more than 90% of managerial decisions are of this type.
* **Non-programmed decisions** are also known as unique or creative nature decision. They are novel and consequential in nature. In case of such a decision, there are no existing policies or standard operating procedures available to guide the decision maker. Decisions such as product diversification, changing marketing strategy, dropping an existing product, new investment and all policy decisions are of this type.

1. **Routine and Basic decisions**

* **Routine decisions** are related with day-to-day operation of the organization. Such decisions are taken promptly and also implemented in a similar way. In regular activities of the organization, many repetitive problems may arise. Such problems create obstructions in the smooth performance of the organization. The examples of routine decisions involve exchange of work between co-workers, repair and maintenance of machines, making availability of raw materials for production process etc.
* Basic decisions are also known as strategic decisions. Such decisions are necessary for long run survival and growth of business activities of the organization. Generally, top level management is responsible for taking such type of decisions. For examples of such decisions are: investment of extra capital, expansion of business, replacement of plant and machines, recruitment and selection of new staff etc.

1. **Organizational and Personal Decisions**

* **Organizational decisions** are also known as formal or official decisions. In such decisions, the decision maker has to consider his official authority before he comes to any decision. Besides, he has to fulfill all the official procedures, system and formalities for taking any decision. The examples of official decisions are appointment, promotion, transfer of employees etc.
* **Personal decisions** are also known as informal or individual decisions. Such decisions are taken on the basis of personal skill, knowledge and capacity of the individuals. Such decisions do not affect regular performance of the organization because they are made on the basis of personal interest, desire and necessity of the decision maker. To get voluntary retirement from service, reject promotion, refuse to go for higher education etc. are examples of personal decisions. And personal decisions cannot be delegated to others.

1. **Individual and Group Decisions**

* In individual decisions, a single person is involved in the decision making process like the general manager, departmental manager etc. Here, the decision maker has to consider organizational objectives and working environment while taking decisions. For this, he has to use his personal knowledge, skill, idea and experience to decide any matter. In large organizations, the operational chief executive has the sole authority to take decisions, which are of operational nature.
* In group decisions, a group of persons are involved in the decision making process like the board of directors, management committee, partners etc. Such decisions are taken in large organizations like in Joint Stock Companies, Partnership firms, co-operative organizations etc. In such decisions, a group of authorities discuss the subject matter in detail and finally come to a decision through mutual consent or majority of votes.

1. **Policy and Operational Decisions**

* **Policy decisions** are taken by the top-level management and have long-term impact in the organizational performance. These decisions involve introduction of new rules, regulations and programs, amendment of existing rules, introduction of new products or service etc. generally, the top level management has to consider the impact on future performance while taking such decisions.
* **Operational decisions** are taken by the lower level management and are concerned with the day-to-day works of the organization. Such decisions are taken for the implementation of plans and policies formulated by the top level management. These decisions involve change in schedule of works, amount of remuneration to employees, set-up of machines and equipment etc.

**Decision Making Conditions**

There are different conditions in which decisions are to be made. Managers sometimes have an almost perfect understanding of conditions surrounding a decision, but in other situations they may have little information about those conditions. Generally, the decision maker makes decision under the condition of certainty, risk and uncertainty.

1. **Certainty**: Certainty is a condition under which the manager is well informed about possible alternatives and their outcomes. There is only one outcome for each choice. When the outcomes are known that their consequences are certain, the problem of decision is to compute the optimum outcome. Similarly, if there are more than one alternative, they are evaluated by conducting cost studies of each alternative and then choosing the one which optimizes the utility of the resources. the condition of certainty exists in case of routine decision such as allocation of resources for production, payment of wages and salary etc. There is little ambiguity and relatively low chance of making an impractical decision.
2. **Risk**: A more common decision making condition is a state of risk. In such a condition, managers have knowledge about alternative course of action but outcomes are associated with probability estimates. It is more difficult to predict future conditions without full information, so the outcome of an alternative cannot be accurately determined. Therefore, managers can guess the probable outcome on the basis of their experience, research and other available information. They can choose an alternative with highest expected outcome. However, such decisions are largely subjective as no accompanied by moderate ambiguity and chances of an impractical decision.
3. **Uncertainty**: A state of uncertainty occurs when managers are unaware of the problem they face. They do not know all the alternatives, the risk associated with them or the likely consequences of each alternative. This uncertainty arises from the complexity and dynamism of contemporary organization and their environments. Managers have limited information to calculate the degree of risk, so statistical analysis is not possible. The condition of uncertainty arises when the organization introduces a new or innovative product or service; adopts new technology, selects new advertising program etc.

***Concept of Management by Objectives***

Management by objectives (MBO) is a comprehensive management system based on measurable and participatively set objectives. MBO has come a long way since it was first suggested by Peter Ducker in 1954 as a means of promoting managerial self-control.

Management by objectives (MBO) is a system in which specific performance objectives are jointly determined by the subordinates and their superiors, progress toward objectives periodically reviewed, and rewards are allocated on the basis of the progress. It is also called **"Management by results", "Management by Goals and Results" and "Goals Management".**

In short, the whole idea of MBO is based on assumption that collaboratively set objectives elicit commitment of the subordinates that leads to improved performance.

***Factors Necessary for a Successful MBO Program***

1. **Top management support and commitment**: It is essential that MBO should have the support and commitment of the top management without this support, MBO can never be a success. The superiors must be willing to delegate and share the authority with the subordinates. They should consider the subordinates as part of the team for decision making.
2. **Clear goal setting**: The objectives should be clearly formulated, must be realistic and achievable. They should be clearly formulated, must be realistic and achievable. The goals and target neither be very high nor very low.
3. **Participative goal setting**: The objectives and goals should be set with the active participation of the subordinates. There should be effective two way communication between the superior and the subordinates for setting the goals, and for discussing the subordinates problems. These objective must be properly communicated and clearly understood and accepted by all. MBO works best when the goals are willingly accepted.
4. **Overall philosophy of management**: MBO should be treated as on overall philosophy of management and the entire organization. It should not be simply a performance appraisal technique or a divisional process. It should change and replace all the old systems rather than just being added to them.
5. **Decentralization of authority**: MBO will not be effective if the manager is not willing to delegate sufficient authority to the subordinates. The subordinates who have been given challenging assignments through discussion with the superior must be given adequate authority to accomplish their goals otherwise they will resist the setting of clearly defined goals.
6. **Revision and modification goals**: The goals must be continuously reviewed and modified, as the changed conditions require, to avoid inflexibility. The review technique should be such that all deviations are caught early and corrected.
7. **Training and education about MBO**: Being a comparatively new system of management, MBO needs to be properly understood by the managers as well subordinates so that the benefits and positive contribution of MBO can be fully reaped. The organizational members must be educated about the concept, purpose and mechanics of MBO.
8. **Integration of MBO with other organizational sub-systems**: MBO cannot be implemented as an isolated programme. It should be accepted as a style of managing and should be synthesized with the organizational climate and sub-system like planning, delegation of authority, performance evaluation, rewards and benefits, and feedback and controlling. The system should be absorbed wholly by all departments and members of the organization.
9. **Allow sufficient time for MBO to mature and succeed**: MBO is not a magic wand that will solve all the problems of the organization instantly. It is a new approach, a new thinking of managing organizations. It must be allowed sufficient time to show results. It usually takes about 4 to 5 years for MBO to evolve into a full-blown system that ties together such areas as planning, control, performance appraisal and the reward system.

***Group Decision Making***

A group is collection of two or more individuals, working for a common goal and is interdependent. They interact significantly to achieve a group objective. They achieve greater (volume and quality) than the sum total of individual contribution.

Thus, group decision making refers to decisions taken collectively by a group of people. In other words, if the decisions taken collectively, it is called group decision making. It is collective way of making decisions.

***Advantages of Group Decisions***

The advantages of group decision making are as follows:

1. **Increased acceptance**: Those who play an active role in group decision making and problem solving tend to view the outcomes as "ours" rather than "theirs".
2. **Greater pool of knowledge**: A group can bring much more information and experience to bear on a decision or problem than an individual acting alone.
3. Different perspectives: Individuals with varied experience and interests help the group see decision situations and problems from different angles.
4. **Greater comprehension**: Those who personally experienced the give-and-take of group discussion about alternative courses of action tend to understand the rationale behind the final decision.
5. **Training ground**: Less experienced participants in group action learn how to cope with group dynamics by actually being involved.

***Decision Making Process***

Decision making is a continuous and dynamic process. It involves a series of steps. Managers have to follow these steps while taking any decision:

1. **Identification of problems:** The first step of the decision making process is to identify the main problems. Generally, problems arise when there is deviation between actual and planned performances. The reasons for the deviation may be external and internal factors. It is believed that identification of problems is the completion of half of the decision making process. It is similar to diagnosing a disease, which helps in providing the right medicines to patients. Similarly, when a problem is correctly understood, it becomes easy to solve.
2. **Analysis of problems:** After the recognition of problems, another step of the decision making process is to analyze the problems. For this, a decision maker has to accumulate all the facts, data and information related with problems. The number of facts and the volume of information depend upon the nature and complexity of the problem. It is the part of the decision maker to study the main reasons of problems and their impact on short as well as long-term organizational performance.
3. **Development of alternatives:** A problem may have various alternative solutions. Therefore, all possible solutions should be identified and studied. The decision maker should be creative and innovative to identify all the alternative solutions. The identification of a wide range of alternatives provides more freedom for brainstorming. The development of alternative solutions is a mental and creative work which requires discussion and creativity.
4. **Evaluation of alternatives**: After development of alternative solutions, each alternative should be studied and evaluated in terms of the decision making process. They should be studied by considering the efforts involved and outcome expected. Generally, the following queries should be taken into consideration while evaluating any alternative solution; firstly, whether the alternative solution is feasible in terms of cost, time, legal constraints, human and other resources; secondly, whether the alternative is satisfactory for solving problems; thirdly, whether the consequences of the alternative are favorable to the organization.
5. **Selection of best alternative**: This is the final stage of the decision making process after evaluation of various alternatives. In it, the management has to select the best course of action from many alternatives. Management also has to consider both short term as well as long term impact of alternative on organizational performance. The evaluation of alternative should be made on the basis of their volume of benefit and cost. The selection of the best solution helps for implementation and to gain positive outcome in organizational objectives.
6. **Implementation of alternative**: This is the operational part of the decision making process. After the selection of the best alternatives, another task of the management is to implement it. The decision maker should use his alternatives and communication skills for successful implementation of the decision. For this, the decision maker has to delegate authority to the subordinates on the basis of given of responsibility. Management has to consider that organizational objective can be achieved only if the course of action is implemented in the best possible way.
7. **Review of implementation**: The outcomes of implementation should be monitored and evaluated from time to time. This is essential to know about the feedback of the performance. A follow up and review of the actual achievement is essential. Therefore, an effective follow-up can control the major deviation between work achieved and work planned