5

PLANNING AND MAKING DECISION

LEARNING OBJECTIVES

After comprehensive study of this chapter, you will be able to:

- be familiar with the concept and types of planning,
- know the hierarchy of planning,
- explain the process and importance of planning,
- be familiar with the concept of strategic planning,
- know the concept of environmental scanning and methods for scanning,
- be able to formulate and implement the strategic planning,
- be familiar with the various quantitative tools for plans,
- know the concept and approaches of decision making,
- describe various types of decisions,
- explain decision under certainty and uncertainty,
- know the types of problem and of problems solving,
- know the problem solving strategies,
- describe the concept of crisis handling,
- acquire the skills for decision making process,
- be familiar with the concept of group decision making and its benefits.

CONCEPT OF PLANNING

Planning is a process of setting future courses of actions regarding what to do, how to do, when to do, who will to do to attain the organizational goals and so on. It is one of the management functions that concern with setting organizational goals and actions to achieve them. Planning sets the future goals of organization and selects the course of actions to attain the goals effectively and efficiently. In this regard, planning can be described as the process of setting actions plans to direct activities of the organization to guarantee its success. If planning process which sets various goals, objectives and course of actions to attain these them. It is an intellectual process as to think in an advance about the things to be done in future.

In organizations, planning is a management function that defines the goals for future direction and determines the missions and resources to achieve the targets. To meet the goals, managers may develop different plans such as a business plan, operating plan or functional plan.

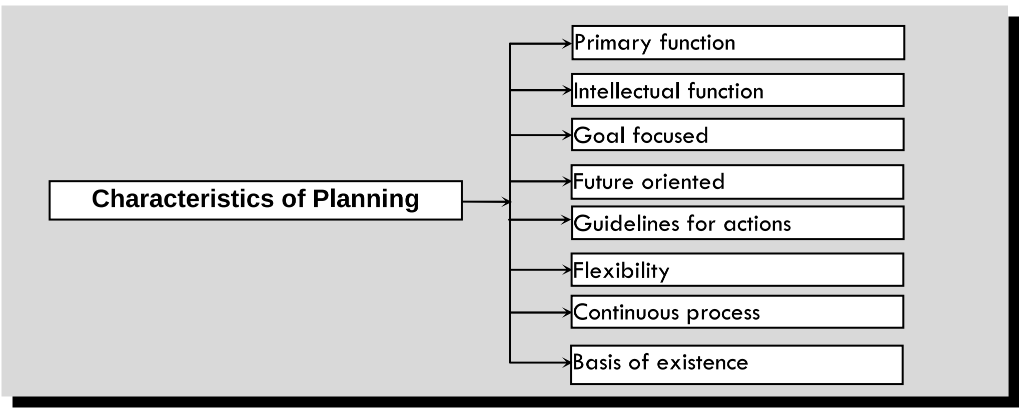
It is well said that '*a well designed plan is half completion of the task*'. It means that if we plan appropriately, half of the total tasks get completed effectively and efficiently. Planning is the blue print of organizational goals, actions to accomplish the goals, resources as well as employee motivation. For the organizational success, there must be specific, measureable, attainable, realistic and focused plan. Such plan helps tackle the environmental uncertainty.

> **Koontz and Weirich** - "Planning involves selecting missions and objectives and the actions to achieve them."
> **Henry Fayol** - "Planning is deciding the best alternative, among others to perform different managerial operations in order to achieve the predetermined goals."
> **Stephen P. Robbins** - "Planning is deciding in advance about what to do, how to do, when to do it and who is to do it. It provides the ends to be achieved."
> **Koontz and O'Donnell** - "Planning is an intellectual process, the conscious determination of courses of actions, the basis of decisions a purpose, facts and considered estimates."
> Louis Allens - "Management planning involves the development of forecasts, objectives, policies, programs, procedures, schedule and budget and budgets - it is trap laid to capture the future."

In conclusion, planning is the process of determining organizational goals, objectives and course of actions to be followed in future. It is intellectual process in which managers formulate and select one best course of action ensuring the effective and efficient functions. Planning represents the vision, wisdom, and foresightedness of managers. Planning needs to be flexible as it requires addressing the dynamic business environment. Thus, planning is the means for organizational success.

CHARACTERISTICS OF PLANNING

Planning is one of the basic management functions defining organizational goals, objectives and strategies. Managerial planning consists of several characteristics as described below :



1. **Primary function:** Planning is one of the primary functions of management. Organizational activities are the result of managerial plans. Each function of the organization is initiated along with plans. All other functions like organizing, staffing, directing, leading, coordinating, motivating, communicating as well as controlling are conducted on the basis of plans.
2. **Intellectual function:** Planning is an intellectual function as plans are prepared by managers with rigorous thinking and analysis. Planning requires creativity, imagination, evaluation and analysis. Managers should have adequate skills, knowledge and experience to prepare effective plan. Plan is the output of mental work with much exercise.
3. **Goal focused:** Planning focuses on achieving the predetermined goals of organization. Course of actions are prepared defining what to do, when to do, how to do and who will to do. Plans are prepared for optimal use of available resources so that goals of the organizations can be attained effectively. Thus, planning is goal focused function.
4. **Future oriented:** Plans are prepared for future courses of actions for optimal utilization of available resources to attain organizational goals effectively and efficiently. Action plans, strategy, directions, guidelines, etc. are prepared to guide future actions of organizations. Planning process uses different tools and techniques to estimate the future action that could be the best.
5. **Guidelines for action:** Plans are prepared to guide the actions of the organization to attain the predetermined goals. Effective plans should be realistic and feasible so that it can be implemented easily. Plan includes strategic actions and specific directions for each goal. Employees can easily accomplish their responsibilities with proper guidelines.
5. **Flexibility:** As we know, business environment is dynamic. There might be several changes in the components of business environment. Plans may be affected by the environmental changes. To cope with the change, plans need to be changed or modified as per the needs. Thus, planning should possess adequate flexibility so that actions, directions and guidelines can be adjusted according to the environmental changes.
6. **Continuous process:** Plans are prepared to attain the objectives of organizations. Organization sets next goal and objectives if the first goal is attained or it is confirmed not attainable. In both conditions, management must set new goal. Sometimes, goals need to be adjusted. In all the above conditions, a set of new plans need to be prepared. To make the organization alive i.e. working continuously, new set of plans need to be prepared either changing the existing plans or by modification in existing plans. Continuity in planning process makes the organization continuous. Thus, planning is a continuous process.
7. **Basis of existence:** Plan is the means of efficiency and economy of the organizational activities. Appropriate and real plan based on detailed analysis of business environment provides the directions for actions. Appropriate plans reduce the cost of production as well as the risk of failure. Proper plan ensures that the desired result can be attained within the standard. Best plan helps for optimal utilization of available resources. Thus, planning is the function to make the organization existing.

PLANNING PROCESS

Every organization prepares own plans. All organizations are engaged in planning activities but no two organizations plan in exactly the same way. The planning process itself can be best thought of a generic activity. Planning process involves series of activities or steps as follows:

1. **Establishes goals:** Goal setting is the first step in planning process. Goals of whole organization, departments and every units of organization should be clearly stated. Goals must be specific, measurable, accessible, realistic and with time frame. Only quantified goals can be measurable.
2. **Identifying the planning premises:** The second step in planning process includes identifying the planning premises in which plans depend. Premises are the assumptions of future condition in

which the current plan is to be implemented. It is simply forecasting about internal and external environmental factors, market conditions, availability of resources, sales, incomes of organization, socio-economic condition etc.

3. **Identifying alternatives :** There can be many alternatives to attain the goals in various specific situations i.e. premises. So while planning, each alternative should be identified in order to analyze in terms of cost, quality and contribution to goal achievements. Most suitable and important alternatives are short listed in this step.
4. **Evaluating the alternatives:** After identifying alternatives, planners must evaluate the positive and negative aspects of each short listed alternative. Each alternative should be examined on the basis of strong and weak points like payback period, cost of production, cost of implementation of plan, cash flow, profitability, availability of resources, etc. Organization can use quantitative techniques and computer software for effective evaluation of alternatives.
5. **Selecting the best alternatives:** The next step in planning process is the selection of one best alternative plan with reference to the quantitative and qualitative evaluation. Organization can select single alternative or suitable combination of more alternatives. The selected alternative will be the main part of plan. It should be clearly spelled out. This is the real point of decision making for announcing the final plan.

IMPORTANCE OF PLANNING

Planning is required for every organization in order to attain goals as planning provides direction for each activity. Without planning the activities cannot be systematic. Plans help in proper utilization and mobilization of different resources like human resources, natural resources, capital resources etc. Planning is essential function for each and every organization due to the following reasons:

1. **Uncertainty reduction:** Forecasting and environmental scanning helps anticipate future uncertainty. It forces managers to think ahead, anticipate change and develop appropriate response for the change. Thus, planning helps reduce risk and uncertainty through pre- determined activities.
2. **Goals focus:** Planning helps organizations to focus their attention on certain selected actions to achieve the desired state. It eliminates the alternative activity and classifies the means and ends. It fixes the procedures and rules of action to achieve the short-term and long-term goals.
3. **Better coordination:** Planning facilitates effective coordination and allocation of resources. It can manage integrated efforts throughout the organization. Activities are pulled together for achieving interdepartmental coordination and cooperation. It helps avoid confusion.
4. **Increases efficiency:** Planning facilitates effective use of resources. It is a rational approach for goal achievement which minimizes the cost of production, reduces wastage rate and avoids duplication in activity. It helps doing the job correctly which absolutely increases the productivity.
5. **Environmental adoption:** Planning identifies environmental opportunities and threats. It helps to manage the changes. Planning anticipates the future events and develop action plans to suit those events. Planning encourages innovation and creativity to minimize the negative impacts of changes.
6. **Basis for control:** Planning provides the standards against which the actual performance is compared. It measures the deviations and helps to identify the corrective actions. Planning makes the control more effective and meaningful.
7. **Avoid random activity:** Planning makes the activities more systematic, integrative and orderly which avoids the random activity. It avoids the need for snap decisions based on impulse and intuition. Planning provides order and rationality to the different activities in organization. It avoids the overlapping efforts.
8. **Increase commitments:** Planning ensures the commitment of managers and employees towards the goal and the process of actions. It facilitates the internalization of individual goals with organizational goals which encourages the sense of involvement and team spirit.

Reality: *Without proper planning, an organization cannot attain the goal effectively. Randomized activities and over use of resources can be controlled because of effective plans.*

TYPES OF PLAN

Different plans are prepared for different purposes at different situations. This means, there can be different types of plans depending upon situation, purpose and nature. Plans can be classified into different types on various bases as discussed below :

1. **Plans on the basis of managerial hierarchy and authority**

   As there are three different levels of management i.e. corporate level, department level and operational level, each level prepares plans for different purposes within their responsibility area. Depending upon the level of management, plan; plans can be classified into corporate plan, departmental plan and operational plan.

   - **Corporate level plan: O**verall vision, mission, goals and strategies of the organization are prepared by top level i.e. corporate level which are called the corporate plans. They are the long term plans prepared to justify the existence and growth of organization. Such plans set the actions to attain organizational goals and objectives. Corporate plans are also called *strategic plans.* Corporate plans are the basis of department level plans.
   - **Department level plan:** Department level plans are prepared by middle level i.e. department level management for their respective activities. Such plans translate strategic i.e. corporate goals and plans into specific goals and plans according to departmental responsibilities. Department level plans are prepared by department managers to each department such as marketing plan for marketing department, financial plan for finance department, human resource plan for human resource department, production plan for production department and so on. These plans are prepared on the basis of strengths and weaknesses of that particular division or department. Main purpose of formulating the department level plan is to determine the specific details of targets for department, resource allocation, resource utilization and time target for the activities. Department plans are also called *tactical plans.*
   - **Operational level plan:** Operational level plans are the plans prepared for operational units to set their goals and specific actions. Such plans are prepared by operational units to attain plans of their department. Operational plans are normally prepared daily i.e. routined activities or for short time. Such plans identify the specific procedure and process required for the operational units of an organization. Packaging unit prepares the responsibility allocation in absence of employees for five days, sales unit prepares plan for shipping goods to Pokhara and Bhairahawa from Kathmandu, operation unit sets plan of machinery maintenance within three days, etc. are some examples of operational plan. Such plans are prepared by operating level managers i.e. supervisor of each unit in coordination of employees. Operational plan should be consistent with strategic and tactical plans.

2. **Plans on the basis of frequency of use**

   Some of the plans are used constantly for long time while some others may have short time use and few plans have only one time use. On the basis how frequently the plans can be used, they can be classified into two categories as single use plan and standing use plan.

   - **Single use plans:** Single use plans are prepared just for one time use. This means that single use plans are not repetitively used. Such plans are developed to solve particular problem in particular situation. They are prepared to fulfill requirements of non-programmed decisions. For instant, plan prepared to conduct any ceremonial functions like annual day, plan prepared to conduct terminal examination in college, overtime work plan in case of mechanical failure, job rotation plan in the absence of employees are some examples of single use plan. Singly use plans have no use after using it once.
   - **Standing use plans:** Standing use plans are prepared for long time use i.e. repetitive activities like mission, strategy and goal of the organizations. Such plans are suitable for programmed decisions and routine functions. In order to make the decisions fit for the

changing situation and environmental context, there must be frequent adjustments in such plans. Standing plans are prepared for long run like growth of the organization, like innovation, consumer care, etc. to serve the existing goal of organizations.

3. **Plans on the basis of flexibility**

Some plans can be modified according to the situations while some others cannot easily be done so. On the basis of the extent of flexibility i.e. provision of change, amendment or modification, plans can be classified into flexible plan and specific plan.

- **Flexible plans:** If the plans can be modified or changed according to the needs of situation, then the plans are called flexible plans. Flexible plans provide general guidelines to perform the activities. Such plans cannot provide specific objectives and procedures. It can be changed or modified according to the changing situations. They are also known as directional plans. Such plans have no effects on long term goals and objectives of the organization.
- **Specific plans:** If the plans are more specific and can be used for long time without any change, or modification then the plans are called specific plans. Specific plans are clearly defined and have specific long term objectives. There is no ambiguity and no chance for miss-interpretation of such plans. Organizational vision, mission and goals are the specific plans.

4. **On the basis of Time Horizon**

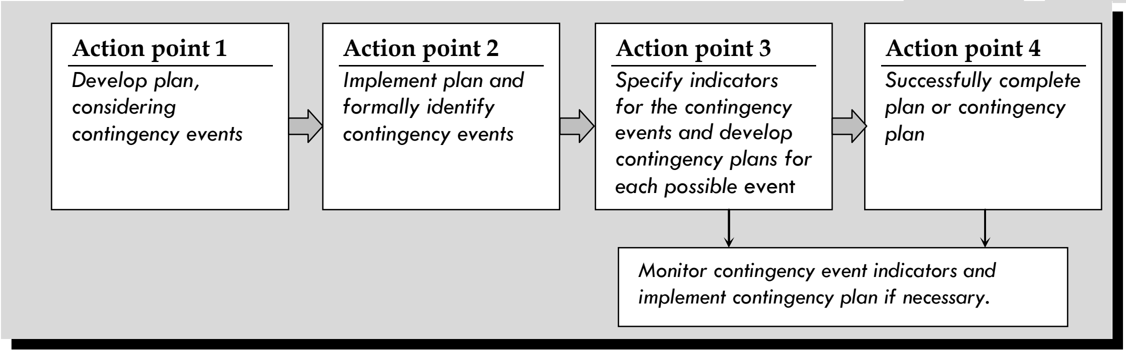
Plans are usually prepared for specific time period. Some plans become useless after that time. Thus, plan can be classified on the basis of the time period to which the plans are prepared into long term plans, medium term plans and short term plans as below:

- **Long term plans:** Long term plans are formulated for long time specially for more than five years. Mission and strategies of organization are long term plans. Long term plans are basically prepared to attain the organizational success. These plans are prepared by top level of the organization.
- **Medium term plans:** Medium term plans are prepared for intermediate terms specially for two to four years. Such plans are the departmental plans which are prepared by department level management of the organization.
- **Short term plans:** Short term plans are prepared for less than one year. Budgets and operational plans are short term plans. Operational plans are prepared by respective work unit.

5. **Contingency plan**

Contingency plan is the alternative course of action prepared in case the intended plan of action is unexpectedly disrupted or found inappropriate. In few cases, the well set plan does not work or gets failed during implementation, management needs to formulate another plan either to correct that plan or replace the plan in emergency. Such plan prepared in an emergency instead of continuous of organizational activities uninterrupted is called the contingency plan. For instance, a contingency plan occurred during the late 1990s in anticipation of what was popularly known as the 'Y2K bug' in order to solve the concern problem possibly created because of change in date system i.e. internal clock changing in computer system from 1999 to 2000. For the purpose, many airlines corporations, hospitals, banks, etc. created additional backup system because of probable loss because of the reason. They also planned additional employees. Likewise, Nepal Government sets contingency plan every year for quick action in case of flood and landslide during the rainy season.

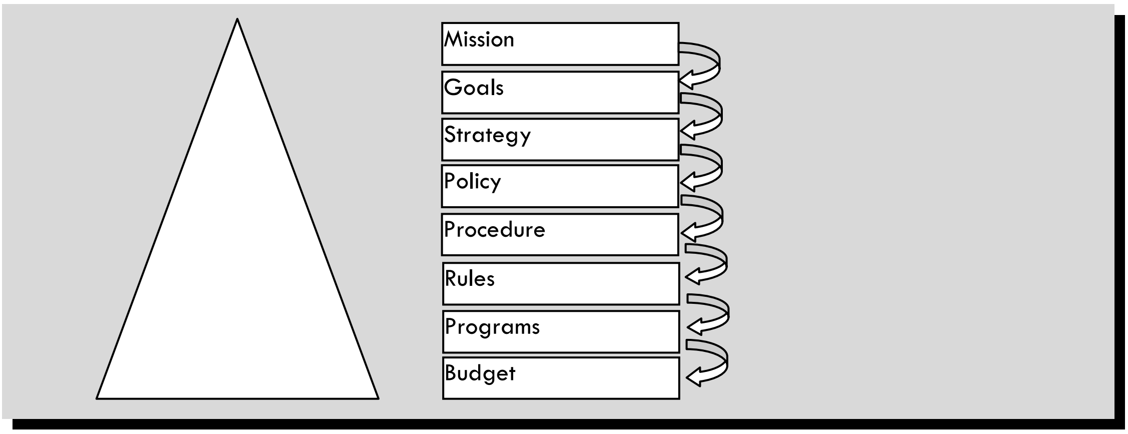
Contingency plan is implemented in four action points as shown in the following figure. At action point 1, management develops the basic plans of the organization. These may include strategic, tactical and operational plans as other normal plans. During this phase, in many organizations, managers usually consider various contingency events (called devil's advocate) asking 'but what if …' about the each course of action. In simple terms, contingency plan is prepared by thinking in negative ways i.e. 'if not happens what to do?'. For each course of action, varieties of contingencies are considered.



At action point 2, developed plans at action point 1 are implemented. During this action point as well, most important contingency events are defined and plan is prepared. Based on likelihood i.e. most probable contingency variable whose impact tend to be substantial is used in contingency planning process. At the action point 3, company specifies certain indicators or signs that suggest that a contingency event is about to take place. For instance, a car seller may consider 10 percent increase in down payments may consider a contingency variable for decrease in sales. Finally at the action point 4, plan implementation is evaluated. If the chosen action plan is successfully implemented, no need to implement the contingency plan. If there will be obstacles in implementation of chosen plan, contingency plan is implemented.

HIERARCHY OF PLANNING

Different types of plans prepared in the organization form a hierarchy. As the plans are prepared from top level management for long term plans to the operational plans prepared by operational level, planning hierarchy flows down from higher level to lower level. Higher level plans are represented by mission, goals, strategies and policies whereas lower level plans are procedures, rules, programs and budget.



i. **Mission:** Mission of an organization defines its business which served as a basis of all planning. It reflects the long term commitment of an organization. It provides the reasons of existence of organization.

ii. **Goals:** Goals are the result to be achieved by organization in certain period of time. It is developed to achieve mission. It provides the direction to the activities of an organization and state about how mission will be accomplished over the years.

iii. **Strategy:** Strategy reflects to grand plan and broad objectives. It is designed by top level management which represents broad choice made for planning.

iv. **Policy:** Policy refers to general guideline for decision making to achieve goals. It specifies general response to problem situation. It can be rational and set for different functional levels like production, marketing, research, etc.

v. **Procedure:** Procedures are the steps for handling activities systematically. They are also known as standing operating procedures (SOP). It helps in evaluation and control the performance according to policies and overall plans.

vi. **Rules:** Rules are guidelines to carry out specific activities. Rules specify the system or guidelines or regulations for work performance. Proper rules must be developed to achieve the pre- determined goals and objectives within disciplined manner. Rules are related to law and can't be rational or person specific.

vii. **Programs:** Programs are integrated action plans as large set of activities. Program and activities are ranked in the order of their importance. Programs are set in order to set priorities of activities to be executed. Organization should allocate all its resources on the basis of such order and priority.

viii. **Budget:** Budgets are financial plans. It is an instrument for allocating resources on the basis of priority. Budgets are prepared for a specific period like monthly, quarterly, one year, three years, five years, etc. Budget is considered as the controlling tool for the activities which assure the expenses or cost of production remains within the scope of expenses.

STRATEGIC PLANNING

Strategic planning is an important component of strategic management. Strategic management is a comprehensive and ongoing management process, aimed at formulating and implementing effective strategies. It is the way of approaching business opportunities and threats. Strategic planning is an organization's process of defining its strategy, or direction, and making decisions for allocating its resources to pursue the given strategy. Strategic management is that set of managerial decisions and actions which determines the long-run performance of an organization.

Strategic planning is the process that involves the review of market condition, customer needs, competitive strengths and weaknesses, external factors of business and the availability of resources that lead to the specific opportunities and threats. The focus of a strategic plan is usually on the entire organization, while the focus of a business plan is usually on a particular product, service or program. It is a process of determining organization’s long term goal and identifying the best approach for achieving those goals. It is a tool for organizing the present on the basis of the projections of the desired future. Therefore, strategic planning is a road map to lead an organization from where it is now to where it would like to be in certain years of time.

> **John R. Schermerhorn, Jr. :** "Strategic planning is the process of formulating and implementing strategic plans. It involves identifying the major objectives of an organization, choosing the strategies needed to achieve them, creating plans to implement the strategies and then doing the required work."
> **Ricky W. Griffin :** "Strategic plan is a general plan outlining decision of resource allocation, priorities and action steps necessary to reach strategic goals."

For our purpose, strategic planning is the plan which is prepared with analyzing organizational strengths, weaknesses, opportunities and threats. In strategic planning proper, steps are identified so that they provide directions for the activities to attain organizational goals. It includes the best way of allocating resources, priorities of activities and necessary activities to attain goals.

FUNDAMENTAL ELEMENTS OF STRATEGIC PLANNING

Strategic plans are the top level plans for formulation of strategy of any organization. For the effective strategic plan, following key components are to be included in a strategic plan:

- Vision, mission and value of the business: Where do the organization currently stand? And where do the organization want to be in the future?
- Objectives: What would the organization like to achieve?

- Directly responsible individuals (DRIs): Who's responsible for these goals?

1. **Vision statement :** Vision statement of an organization is a statement of a principal ambition or target regarding what it wants to achieve or to become. A company vision statement reveals, at the highest levels, what an organization of hopes to be and achieves in the long term. Vision is a broad description of the value an organization provides to become in the future. It is a visual image of what the organization is trying to produce or become or to be known for. It inspires people contribute to the organization. Vision statements should be clear and concise. It provides roadmap to company to reach to its target i.e. destination. Here are examples of vision statement of world popular organization.

> **Nike -** Bring inspiration and innovation to every athlete in the world.
> **McDonald's** - To be the best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness and value, so that we make every customer in every restaurant smile.
> **Standard Chartered Bank** - We have a key role to play in stimulating economic and social development through the services we provide and by being a force for good. The success of our business depends on this.
> **CG Group Nepal** - To be five billion dollar enterprise by 2020.

2. **Mission:** Mission is the statement of reasons for the organizational existence. It tells what the organization is providing to society: service, like hospitality or a product like physical goods. So, a mission statement can be defined as a fundamental, unique purpose or philosophy that established a company and identifies the scope of company operation in terms of product offered and markets served. It may also include the company's philosophy about how it does business. Simply, mission statement tells about why the organization is established and wishes to continue its operations. In combination, these components of a mission statement answer a key question about an organization: "What is our business"? A good answer to this question makes strategy formulation, strategy implementation, and strategy evaluation activities much easier. Organizations formulate the mission statement for the following seven reasons.

   i. To ensure unanimity i.e. harmony of purpose within the organization.
   ii. To provide a basis of motivation for the optimal use of organization's resources.
   iii. To develop a basis, or standard, for allocating organizational resources.
   iv. To establish organizational climate.
   v. To serve as a focal point for those who can identify with the organization's purpose and direction, and to determine those who cannot participate further in the organization's activities.
   vi. To facilitate in translation of goals and objectives into a work structure involving the assignment of tasks to responsible elements within the organization.
   vii. To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time and performance parameters can be assessed and controlled.

Organization	Mission statement
Johnson and Johnson	We believe our first responsibility is to the doctors, nurses, and patients, to mother and all others who use our products and services.
Channel Nepal	To touch the hearts of Nepalese and friends of Nepal through satellite television ensuring quality programs to accommodate the interest and satisfaction of every viewer.
Nepal Lever Limited	Nepal Lever's commitment to national priorities has ensured that the company is a part of people's lives at the grassroots level, making difference to Nepal and Nepalese- in depth, in width and in size. Nepal Lever has always identified itself with the nation's priorities: Employment generation, development of background area, agricultural linkage, export, contribution to exchequer, etc.
Pepsi Cola Co.	Pepsi Co.'s mission is to increase the value of our shareholders' investment. We do this through sales growth, cost controls, and wise investment resources. We believe our commercial success depends upon offering quality and value to our consumers and customers; providing products that are safe, wholesome, economically efficient, and environmentally sound; and providing a fair return to out investors while adhering to the highest standards of integrity.

Mission statements should have following elements :

Mission should be *feasible, realistic* and *achievable*

Mission should be *precise but explanatory*

Mission should be *clear to lead the actions*

Mission should *motivate the members of the organization and its society*

Mission should be *distinctive*

Mission should *indicate major components of strategy*

Mission should *indicate how and when objectives are to be accomplished.*

3. **Value:** Values are the beliefs and moral principles that lie behind the organization's culture. Values give meaning to the norms and behavior standards in the organization. In many organizations, corporate values are not explicit and can only be understood by perceiving the philosophical rationale that lies behind management behavior. Values can provide a rationale for behavior that is just as strong as strategy.

4. **Objectives:** Objectives are the end results of planned activity. It states what is to be accomplished by when, and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of the corporate mission. We define objective as a measure of efficiency of resources conversion process. An objective contains three elements: the attribute that is chosen as a measure of efficiency, the yardstick or scale by which the attribute is measured and the goal- the particular value on the scale, which the firm seeks to attain.

In general terms, objectives and goals are interchangeably used but they have some differences in terms of specificity. Objectives are not fate, they are direction. They are not commands, they are commitments. They do not determine the future, they are means to remobilize the resources and energies of the business for making of the future. Business organizations can formulate variety of objectives. Some of the common areas for objectives could be as follows :

- Net Profit or Profitability
- Continuity of profit (stability)
- Efficiency (lowering cost)
- Employee satisfaction
- Employee development
- Growth (increase in total assets, sales)
- Utilization of resources (return on equity, return on assets)
- Quality product and services (quality assurance)
- Market leadership (market share)
- Technological leadership (innovations, creativity)
- Maximization of dividend or increasing share price (shareholder's wealth maximization)
- Social responsibility (contribution to society, such as paying high tax, supply of quality products, participating in development activities, employment generation, etc.)
- Reputation or increasing organization's image (being considered 'top organization, prestigious organization)
- Survival (avoiding bankruptcy), etc.

Features of good objectives: To be much clear about objectives, objectives should have following features:

- Objectives may be one or more than one at a time
- Priorities among objectives
- Long-term and short-term objectives
- Objectives are measurable
- Objectives are not strategies
- Social sanction of objectives
- Objective should be challenging
- Hierarchy of objectives

FORMULATION OF STRATEGIC PLANNING

Strategic planning process consists of following steps:

Step 1. **Identify the mission, goals, objectives:** While formulating strategic plans, first of all organizational mission, goals and objectives must be identified. Planner should have the clear idea about what purpose the organization is established and what it needs to achieve. The destiny of the organization must be clear so that activities to attain that destiny can be easily identified.

Step 2. **Analyze the external environmental factors:** External environment provides the opportunities and threats to organization. So, external environment should be analyzed for formulation of strategic plans. For it, political, economic, socio-cultural, technological and environmental scanning must be done.

Step 3. **Identify the opportunities and threats:** Main objective of strategic planning is to grab the opportunities with overcoming the threats. So, potential opportunities and threats must be identified for formulation of strategic planning.

Step 4. **Analyze the internal environmental factors:** Internal environment of the organization is composed of strengths and weaknesses of the organization. It provides what can be done and what cannot be. Resources like human skills, technology, raw materials, etc. are the factors influencing strength and weakness.

Step 5. **Identify the strengths and weaknesses:** With the analysis of internal environment of the organization, its strong and weak points need to be listed. All the supporting factors like enough capital, skilled and dedicated manpower, easy supply of raw materials, advanced technology, good market position, etc. are the strengths while unavailability of such factors are weaknesses. With identification of strengths and weaknesses, planner can set the targets, prioritize the activities, allocate the resources, and finally attain the goals. So, for formulation of strategic plans, organizational strengths and weaknesses should be identified.

Step 6. **Formulation of strategy :** After conducting internal and external environmental analysis; strengths, weaknesses, opportunities and threats can be identified. On the basis of such information, different strategic plans for the different levels of organization are identified. Alternative plans for setting activities, their hierarchy of priorities and allocation of resources are also formulated at this stage. Plans prepared at this stage are declared as final plans and needs to be communicated as per necessary.

Step 7. **Implementation of strategy:** Though this is not the step of formulation of strategic plans, it is worthless of formulating strategic plans if it cannot be implemented. This step facilitates for getting feedback to future plans.

Steps 8. **Evaluate the results:** For finding the effectiveness and required changes in plans, its evaluation is necessary. Evaluation helps get the feedback about what extent the plan is working to attain the predetermined goals. This provides sufficient ground for amendment of plans if the activities are deviating from the main stream.

Reality: *Strategic plans provide the guidelines to the organizational activities. If plans are wrong, then resources and effort will be directed at the wrong directions. So, goals attainment becomes impossible. Therefore, it is crucial activity to make organization a successful one.*

IMPLEMENTATION OF STRATEGIC PLAN

Strategic plan must be formulated to achieve the predetermined goals. For this, formulated plan must be implemented effectively which is again equally challenging job. Success or failure of an organization depends on the effective implementation of strategic plan. Unless implemented the plan, it is meaningless to formulate them. Therefore, managers should be aware to implement the plan timely and accurately. The following points are important for the effective implementation of plan:

1. Successful implementation depends on organizational structure. Organizational activities should be properly divided, organized and coordinated. Organizational structure should be matched with strategy.
2. Goals should be determined clearly in qualitative figures as far as possible.
3. Strategy must be institutionalizing. It should be transferred into actions, plans, policies, procedures and rules which will be helpful for decision makers.
4. Policies and procedure are powerful tools for implementation of strategic plan. Annual budget and targets should be defined clearly.
5. There must be open and two- way communication system between different levels of management and employees.
6. Performance based rewards and incentives also help implement the plan effectively.
7. Researches and actions should be matched clearly which is an essence of implementation.
8. Maximum number of managers and employees should be involved in formulating and implementing processes.
9. Working condition and organizational climate should be supportive for successful implementation.
10. Proper technology is essential for implementation of the plans.
11. Leadership plays vital role in effectiveness of the plans. It must be supportive and motivating to the employees.

Reality: *Whatever may be the quality of the plans, it is judged how far it is implemented and predetermined goals are achieved.*

TACTICAL PLANS

Tactical plans are the short term plans specially formulated for one year to operationalize the strategic plan of the organization. Tactical plans, thus, are the operational plans set for short term in order to achieve the long term goals of the organization. For instance, if the strategic plan of a company is for 5 years then the tactical plan may be for one year or may be for a few months, depending on the type and nature of business. Such plans are generally prepared to operational units, departments or projects formulated in coordination with top level strategic plans which are executed by independent departments or company functions.

Tactical plans are generally flexible in nature and less risky plans. Such plans can be changed or improvised according to the environmental changes so that the strategic plans can be attained with minimum changes. Flexibility is the main characteristic of the tactical plans as they need to be changeable as per needs, emergencies or contingencies developed. Changes in environmental conditions like change in price, economic slowdowns, change in interest rates and inflation are the causes in changes in tactical plans. For instance, company is a furniture manufacturer which has set strategy of market growth by 25 percent in next 3 years, then it may formulate tactical plans for each of the manufacturing units. In this course of action, tactical plans should be able to accommodate the uncertainties like failure of machinery, strike by employees, cut in supplies, electricity failures, increase in competitors, etc.

Characteristics of tactical plan

- Tactical plans are usually prepared for short period of one to two years.
- Tactical plans are prepared with narrow and focused goals of middle levels and lower level goals of the organization.
- Tactical plans are prepared in relations with strategic plans i.e. tactical plans are prepared to achieve strategic plan.
- Tactical plans are usually flexible which can be changed or improve according to the changing business environment.

- Tactical plans are prepared separately for different department or area of functions like production, marketing, finance, human resource, etc.
- Tactical plans are implemented and evaluated independently.

COMPARING AND COORDINATING STRATEGIC & TACTICAL PLANNING

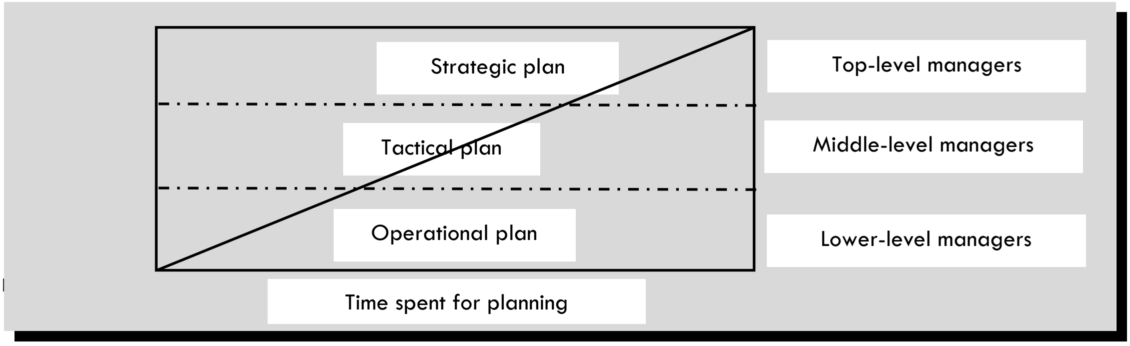
Main objective of preparing plans is to achieve organizational goals. As discussed earlier, strategic plans are prepared for attaining organizational long term goals. To facilitate strategic goals, tactical plans are prepared. There must be coordination between the strategic and tactical plans for effective implementation and attainment of organizational goals. For effective execution of strategic plans, managers need to understand the differences between strategic and tactical planning. Following points provide comparing and coordinating relationship between strategic and tactical planning :

- Strategic plans are prepared by top level managers as they better understand the organization and its vision, mission, objectives. Lower level management engages in day to day activities, way of dealing operational activities and concentrating for immediate actions. Thus, tactical plans are prepared and executed by middle and lower level management. But, tactical plans should be prepared with coordination of strategic plans.
- Strategic plan emphasizes on future, it focuses on analyzing and estimating the future situation. Strategic plan, thus focuses on future. Tactical plans are prepared for day to day activities and prepared for at most one year. Strategic plans are more complex while tactical plans are more specific and simple to prepare. Tactical plans are thus prepared to breakdown the complex, vague and comprehensive plan into more specific, simple and focus for only similar activities.
- Strategic plans are prepared with long term focus and estimation of future. Tactical plans are prepared under much immediate realities. Strategic plans are prepared with aggregate understanding of future while tactical plans are prepared with current competitive environment to offer better practices in comparison to the competitors. Doing so, tactical plans need to prepare with more customized, and premium value.
- Tactical planning takes a company's strategic plan and sets forth specific short-term actions and plans, usually by company department or function. The tactical planning horizon is shorter than the strategic plan horizon. If the strategic plan is for five years, tactical plans might be for a period of one to three years, or even less, depending on what kind of market the business serves and the pace of change.
- Strategic plan and tactical plans are integrally related despite their differences. Managers need both tactical and strategic planning program, and these program must be closely related to be successful. Thus, irrespective of strategic and tactical plans, top level managers need to equally analyze and amend in need.

PLANNING AND LEVELS OF MANAGEMENT

In more comprehensive classification of management, there are three levels of management as top-level, middle-level and lower-level management based on functional focus. All these levels of management engage in typical planning process. Types of plan formulation and time spent for planning process differ level to level.

Top-level management normally engages in formulating strategic plans. As the strategic plans are prepared for long term, so, top-level management engages more in environmental scanning, analysis and forecasting the future. Top-level management focuses on formulating overall plans hence it must coordinate in formulating tactical and operational level plans. For formulating the strategic plans, top-level management spends more time in comparison to all other level managers. Following figure shows the time spent for planning process by different level managers.



Middle-level managers engage in formulating departmental plans i.e. usually the tactical plans. Based on coordination with strategic plans, middle-level management formulates the tactical plans. Usually, they formulate the plans independently though, each tactical plan is to coordinate for its success. For instance, marketing managers formulate the marketing and sales plans while human resource managers formulate the recruitment and selection plan, training and development plan, performance appraisal and compensation plan. Middle-level managers engage more time for planning process in comparison to lower-level management and less time in comparison to the top-level management. Middle-level managers need to have vertical as well as horizontal coordination and cooperation for executing their plans. They need to engage in environment monitoring and analysis for modification and change the tactical plans.

Lower-level managers basically prepare the day-to-day business plan i.e. operational plans for execution of tactical plans. For instance, unit manager formulates plan to operate daily business in case of absence of an employee. Operation manager formulates plan for production in case failure of a machine. Lower-level managers engage for short time for planning as the operating plans are prepared for daily operation.

Basically, top-level management should coordinate with middle-level and lower-level management. For effective planning and execution process, there should be vertical and horizontal communication and coordination between and among the different and same level managers.

PLANNING APPROACHES

Each organization needs to prepare plans regarding various activities to achieve the predetermined goals. There are various methods use for planning. Each planning should follow a proper planning process. Mangers follow different approaches for planning on the basis of their interest and beliefs, organizational culture, situation, need of plans and availability of information. Some of the well known and mostly practiced methods of planning are explained below:

1. **Top-Down method:** Under this method, plans are formulated by top-level management without or very little consultation with lower level management. Plans formulated are then communicated to middle level and lower level management for its implementation. Usually mission, goals and objectives of organization are developed as plans by Executive officers and Board of Directors by adopting this method. This method assumes that top-level managers possess required knowledge, skill and authority of planning. They can generate enough resources and have adequate knowledge to utilize the resources in centralized planning process.
2. **Bottom-Up method:** Under this method, lower level managers and operating level employees set the plans for them. During this course, they inform top-level management about what they expect to do. After collecting their opinion, top-level management finalizes the plans. Organizations having decentralization philosophy follow this method which gives high emphasis on the participation of lower levels in planning process.

   This method helps implement the plan effectively because each and every employee can understand their goals easily. Employees can be motivated easily because of the self formulated plans. The major drawback of this method is that each unit is free to pursue or select the goals that may create the confusion. It takes more time. This method may not be practical in all situations specially at the lack of specialized and dedicated employees.

3. **Composite method:** This method is the combination of the ideas of top-down and bottom-up methods. Top-level management may set the tentative plan and send each unit and branch of the organization to submit their goals. Middle level and lower level management, then, formulate the plan and forward it to top-level management. Again, top-level management reviews and finalizes to consolidate plans. This plan is taken as the final plan. Plans formulated in this way become easy to implement because of included ideas of employees.
4. **Management by Objectives (MBO) method:** MBO is very similar to composite method of planning. The core aim of MBO is the alignment of company goals and subordinate objectives properly. So, everyone in the organization works towards achieving the same organizational goal. In order to identify the organizational goals, the upper management usually follows techniques such as GQM (Goal, Questions, and Metrics).

   The core thing is that, in MBO method, there are four phases of planning process. MBO includes setting goals, developing action plans, periodic reviews and performance evaluation. This method encourage on self-control and self-motivation through participation of maximum employees in planning process. In MBO, the management focuses on the result, not on the activities. The tasks or plans are delegated through negotiations or common understanding with employees. There is no fixed roadmap for the implementation. The implementation is done dynamically and to suit the situation. This method is applicable in modern and large organizations. The MBO is most suitable for knowledge-based enterprises where the staff is quite competent of what they do. But, it consumes more time and cost.
5. **Team method:** Under this method, a team of the experts are hired by from line managers for planning purpose. Job of planning is assigned to that work team to formulate plan. In this method, team may conduct research activities and formulate a draft plan to management. Then, top management reviews it and finalizes the plan. This method is the best method for planning which can motivate employees of every level of organization. But, for this method employees and line managers need to be expert for planning.

QUANTITATIVE TOOLS FOR PLANNING

Organizations can use various tools and techniques for effectiveness and efficiency of planning. Managers need to understand qualitative and quantitative tools of planning that helps formulate and implement the plan. Such techniques are generally based on principles of statistics, probabilities, sampling, accounting, finance and broadly econometrics. Managers should understand advantages, disadvantages or limitations of these techniques that help to select suitable method to minimize the risk and uncertainty. The following techniques are important for planning:

1. **Forecasting method**

   Forecasting is the general estimation as projections about something like production, sales, expenses, income, profits etc. depending on the past experience and present situation. Forecasters use required information through many sources. Forecasting method can be qualitative or quantitative.

   a. **Qualitative forecasting:** There are three main methods of qualitative forecasting.

      i) **Informed judgments:** In this method planners generally meet the selected customers, suppliers and distributors to collect information and estimates about future on their judgments.

      ii) **Scenario analysis:** Under this technique, planners collect opinion of experts about the future situations and environment. The experts may provide three scenarios to forecast the situation. They are best case, most likely case and worst case. Planner can predict future targets by using these scenarios.

      iii) **Delphi technique:** This method also depends on the survey and experts. Planners should ask a set of questions and collect answers from them. Those answers should be analyzed carefully and reached in a decision of tentative results.

b. **Quantitative forecasting:** There are four types of quantitative techniques that aids for planning as below:

   i. **Single projection method:** It is a traditional method under which simply adding to the last year figures makes current years estimation. It can forecast only rough figures.

   ii. **Extrapolation method:** This is a projection method based on analysis of more than two years data. Under this method, managers can estimate future projections using the past years data. They can use statistical methods for calculating the values.

   iii. **Time Series analysis:** This method is suitable for long-term forecasting on the basis of past year data and information. Statistical procedures can be applied to analyze the past data that help for future projection.

   iv. **Moving average method :** This method is used for the estimation of short-term plan that provides a moving average of time series. This point of the time series is the arithmetic or weighted average of a number of preceding consecutive points of the series.

2. **Network method**

   This technique is useful to plan and control the activities for complex projects. Under this method, planners should list out all activities, events and time on the basis of their importance. Required time for each activity is estimated and arranged diagrammatically. All the activities should be linked to each other and critical path is determined. PERT (Program Evaluation and Review Technique), Critical Path Method (CPM), Arrow Diagrams etc. are the most usual network methods.

3. **Break-Even-Point Method (BEP)**

   This method is also known as cost-volume-profit analysis. It identifies the point of no profit no loss. Under this method, fixed cost, variable cost, selling price per unit, are used to estimate the desired profit. It also helps find out the quantity at which the maximum revenue can be generated and profit can be earned. It gives the information about price and profit decisions. Break-even point can be calculated by formula method or the graphic method.

4. **Gantt Chart method**

   This method is developed by Henary L. Gantt at the beginning of 1900 AD. This is a scheduling technique of planning. Under this method, time horizon like days, weeks, months, etc. are shown in horizontal axis and activities to be performed are shown in vertical axis of a schedule. This chart shows the sequence of each activity with starting point and ending point clearly. This method enables the managers to monitor and control the programs effectively.

5. **Other methods**

   There are other various statistical counting, mathematical, financial and forecasting method of planning. They are simulation, linear programming, matrix, flow chart, share valuation, computer programming, decision tree etc. Managers should have adequate knowledge of these tools which assist them to select proper method as their necessity.

Reality: *Each method has its own specific strengths and limitations. Managers should use them on the basis of their knowledge and nature of problems.*

DECISION MAKING

Concept of Decision making

The act or process of choosing one best alternative from set of available alternatives is known as decision making. In decision making process, each level of management and employee involves according to the needs in their daily working life. It is the most important managerial process for moving the organization from existing state to desired state. It is the managerial response to get rid of problems. There are number of ways of decision making such as rational decisions making, intuitive decision making etc.

> **James Stoner :** "Decision making is the process of identifying and selecting a course of action to solve specific problems."
>
> **Allen :** "Decision making is a work that managers perform to arrive at conclusion and judgment."

George R. Terry : "Decision making is the selection based on some criteria from two or more possible alternatives."
Stephen P. Robbins : "Decision making is defined as selection of preferred course of action from two or more alternatives."
Joseph L. Massie : "Decision making is a course of action consciously chosen from the relevant alternatives for the purpose of achieving desired goals."

Managerial decisions are the output of decision making process. It is a challenging job for mangers in this competitive age as the single decision of a manager may lead to success or failure of the organization. Therefore, managers need to identify all available alternative patiently and choose the best combination of alternatives among the available alternatives. During this course of action they should have to fully utilize available information and various techniques to evaluate them. Managers can use quantitative tools and computers for effective decision making.

Decision making consists of following common features i.e. elements:

1. Managers require information and decision rules to select one best alternative from many.
2. Decisions can impact organization and its stakeholders for short-term or long term.
3. Managers must have enough authority for decision making and they must be responsible for the results of decisions made by them.
4. Communication system should be clear which ensures the message of decision for all concerned parties.
5. Decision should be made on time.
6. Decision making process must be goal-oriented.
7. It is a continuous process. Mangers need to make several decisions every day.
8. Decision making solves the specific problems.
9. There must be facility of choice for decision making
10. It is pervasive at all levels, all functions, all organizations and all functional areas of organization.

DECISION MAKING PROCESS

Decision making is a continuous process for accomplishing daily activities to long term survival of the organization. Generally, a designed process is required to make the effective decisions. Rational decision making process involves following steps :

1. **Identifying and diagnosing the problem:** The initial stage in decision making is defining the problems clearly with the causes. The gap between present situation and desired situation should be defined clearly. Clear identification and diagnosing of problem helps to solve the problem easily. Decision made without diagnosing the actual problem and causes cannot be effective.
2. **Identifying the alternatives:** Every problem may have more than one alternative solutions. As many alternative solutions can be developed, more reliable and effective decision can be made. Therefore, managers should develop every possible alternative regarding the decision issue. Related information regarding potential solutions should be collected to analyze them. To analyze the situation, many complex mental activities may be required.
3. **Evaluating the alternative:** In this step, each of the developed alternatives should be evaluated in terms of decision criterion such as total cost, time, legal constraints and resources needed for particular alternatives. Alternatives should be short listed and ranked on the basis of evaluation criterion. In this process the alternative rearrangement, modification, substitution and elimination parts of each of new alternative should be analyzed carefully.
4. **Choosing the best alternative:** This is the most important step in decision making process. Decision makers should select best one alternative or a set of alternatives on the basis of evaluation. They should select less expensive, low time consuming, more effective and efficient alternatives, analyzing the strengths and weaknesses of each alternative. If any of the alternatives are not suitable, additional exercise may require for developing new alternative. In real sense, it is the last step in decision making process.

5. **Implementing the selected alternative:** Implementation is converting a decision into action. Managers should use their skills and ideas to implement the selected alternative to get the desired result. Without proper implementation of decision, it is meaningless in achieving the objectives.
6. **Evaluation and follow up :** The final step in decision making examines the degree of implementation effectiveness . They should be sure that the decision has served the purpose for which it was made. Feedback should be collected and adjustments should be made according to the changes in environment after evaluating the progress of implementation.

TYPES OF DECISION MAKING

Managers make different types of decisions in different situations. Decisions can be classified in terms of frequency of recurrence, nature, importance, time horizon, number of participants in decision making process etc. The various types of decisions are as follows :

1. **On the basis of frequency of recurrence**

   On the basis of frequency of recurrence, decisions can be classified into programmed decisions and non-programmed decisions.

   a. **Programmed decisions:** A decision which is fairly structured or recurred with some frequency is called programmed decisions. Such decisions deal with repetitive and routine problems. If a particular situation occurs, managers will often, develop a routine procedure for handling it. Decision makers know in advance what decisions he/she has to take in particular set of situations. Generally middle level and operating level managers deal with such decision and have short-term impact. There is great deal of certainty in programmed decisions.

   b. **Non-Programmed decisions:** These decisions are relatively unstructured and occur less frequently. Such decisions are required for unique problems and take more time, energy and resources into exploring the situation from all perspective. Intuition, experience, creativity and judgment are major factors in non-programmed decisions. Most of the decisions made by top level management involving organizational missions, goals, strategies, structure and exceptional issues require in this type of decision.

2. **On the basis of nature of the decisions**

   On the basis of the nature of the decisions, it can be classified into three types:

   a. **Strategic decision:** Those decisions which are made by top level of management for long term purpose are called strategic decisions. Long term goals, objectives, strategic plans are strategic decisions.

   b. **Tactical decision :** Tactical decisions are the decisions made by department level managers for their respective departments. They are normally one to three years of term. Such decisions are also called departmental decisions.

   c. **Operational decision :** Decisions taken to solve the problems regarding day to day operation are called operational decision. Such decisions are usually made by operational level supervisors. Decisions relating daily duty management, machine arrangement, etc. are some examples of operational decision.

3. **On the basis of the participants involved in decision making process**

   On this basis of number of participants involved in decision making process, decisions can be classified into individual decision and group decision as follows:

   a. **Individual decision:** The decision which is made by a single person is called individual decision. Generally simple routined problems are decided individually in organization.

   b. **Group decisions:** Such decisions which are taken collectively by group of people are known as group decisions. Under this method, group members participate in discussion and share their opinion, ideas and views to reach in decision.

   Further, decisions can be classified into financial and non-financial decisions, major and minor decisions, short-term and long-term decisions on the basis of organization's financial involvement, nature and time horizon respectively.

APPROACHES TO DECISION MAKING

Managers can follow various approaches of decision making to achieve some desired goals. Decisions are the outputs of decision making process. Management experts generally have three approaches for managerial decision making which are discussed below:

1. **The Classical approach:** This approach of decision making is also known as prospective approach that assumes managers as logical and rational. Therefore, their decisions will be in the best interest of the organization. It tells managers how they reach in decision. This approach assumes that all problems are precisely defined and complete information is available regarding the is the related to decision. Managers have adequate skill and idea about all the alternatives with their merits and demerits. Criteria for evaluating outcomes are assumed to be known. They can receive information and support of computers for effective decision making.
2. **The Administrative approach:** This approach is also known as descriptive model of decision making which argues that decision makers cannot achieve complete and perfect information. They are guided by bounded rationality and tend to satisfy their interest. This approach assumes that managers may face uncertainty, ambiguity and non-programmed decision situation while making decisions. Decision makers have bounded to their rationality. It is limited by beliefs, values, attitudes, ability, skills, habits, qualifications, information and resources. This approach also explains that decisions satisfy and they tend to seek the next alternative only when one is found that meets some minimum standard of sufficiency.
3. **The Rational approach:** In this approach, the function of decision making is completed by step-by-step process where mangers identify the best alternatives. Rational decision making process involves certain steps for effective decision making. They are generally defining the problems, identification of the alternatives, evaluate the alternatives, selection of best alternative, implementing selected alternatives and follow up and evaluation of decision.

DECISION MAKING STYLES

Every manager needs to take decisions taking different assumptions into consideration. Some managers are rational and logical. Such decision makers collect and process the information in a certain order which ensure that information is consistent. Some other managers are creative and intuitive who don't process the information in a certain order. The tolerance for ambiguity can also be low or high among managers. Therefore, on the basis of their way of thinking and tolerance for ambiguity, decision making styles of managers can be classified into four types as below:

1. **Analytical style:** Decision makers with an analytical style have much greater tolerance for ambiguity and rational way of thinking. They want more information and assess more alternatives for decision making. Due to the rational way of thinking, they have ability to adopt the changing situations. They are careful decision makers.
2. **Directive Style:** Managers, using directive style, have low tolerance for ambiguity and rational way of thinking. They are efficient and logical, who make the fast decisions and focus on short term. They use minimum information and assess or analyze only few alternatives.
3. **Conceptual style:** Managers with conceptual decision making styles tend to be very broad in their outlooks and look at many alternatives. They can tolerate any ambiguity and use intuitive way of thinking. They focus on long term and are very good at finding creative solutions to the problems.
4. **Behavioral style:** Decision makers with this style work well with each other. They are concerned about their subordinates. Such managers have low tolerance of ambiguity and intuitive way of thinking. They use meetings to communicate the information and avoid conflicts. They want to be accepted by others. They are more flexible in their decisions depending upon the situation.

To make the decisions effectively, mangers must understand the real situation of decision making conditions. They should use certain level of information whether their way of thinking is rational or intuitive.

DECISION MAKING SITUATIONS/CONDITIONS

All decisions take place within the decision environment. In general, the circumstances that exist the decision makers conditions of certainty, risk and uncertainty. They are further explained below:

1. **Certainty condition:** Decision making under certainty condition exists when decision maker knows with reasonable certainty about what the alternatives are and what conditions are associated with each alternative. There is little ambiguity and very low chance of making wrong decisions. The complexity, tolerance condition of business and increasing challenges of the contemporary business world make such situations rarely found in practice.
2. **Decision Making under Risk condition:** A state of risk exists when the manager is aware about the available alternatives but is unaware about the outcomes of decisions. While making the decisions under risk, managers must determine the probability associated with each alternative. There is moderate possibility of ambiguity and chance of wrong decisions.
3. **Decision Making under Uncertainty condition:** A state of uncertainty exists when the managers are unaware about alternatives and outcomes of decisions. There may not be possible to calculate the probabilities in the changing environment. Possibility of making wrong decision is higher under this condition. Intuition, experience, creativity and judgment play an important role in decision making process under uncertainty condition.

PROBLEM SOLVING

Problem can be defined as a difficulty or an obstacle existing in a situation. It indicates a perceived gap between what is and what should be. It is the process of identifying the gap between the actual situation and desired situation. For instance, if the production per unit plant is estimated 100 units per day but if it is producing only 80 units then there is problem in the production process. The problem may be in production plant or in raw material or in process or in human resources doing the job. It is the duty of managers to identify the problem, its intensity, and causes leading problems. In another words, a problem is known as a question to be answered in various stages of the management. Performance of managers is measured on the basis of their ability to solve the problems. Problems come in many forms.

> **Robbins and Coulter :** "A problem is a discrepancy between an existing state and a desired of affairs.... Decision making is problem solving. Right problems need to be identified correctly."

Managers should be aware to identify the problem and its cause. Managers should give first priority to solve the most important problem. The usual problems of business organizations are high wastage rate, low productivity, unavailability of manpower and other resources, technical problems, human resources problems etc. Problem solving requires the considerable skill.

Thus, problem solving is the process of identifying problem, its intensity, causes and finding the most suitable solution for it from available alternatives. It is an art of decision making. Problems should be solved as soon as possible so that the wastage of materials, time and other resources can be minimized at the maximum extent. The efficiency of manager is judged with the capacity of identifying the probable problems and prevent them in an advance.

TYPES OF PROBLEMS

There can be various types of problems in an organization. Managers should understand them, their causes and probable effects to the organization. Problems can be classified on the various basis as below:

1. **On the basis of Frequency**

   On the basis of frequency of occurrence problems can be divided into two types:

   i. **Routine problems :** Problems which occur on a regular basis are known as routine problems. Such problems are also known as well-structured problem. They can be foreseen and can be solved through established rules, policies and strategies.

ii. **Exceptional problems :** Problems which occur occasionally and exceptionally are known as exceptional problems. These problems are also known as poorly structured problems. Such problems cannot be foreseen and cannot be solved by existing rules and policies. Managers use their intuition, creativity, experience and judgment to solve such problems.

2. **On the basis of Timeframe**

On the basis of timeframe of the effects of problems, problems can be classified into three types:

i. **Short term problems:** If the effect of the problem can be removed quickly, then the problems are called short term problems. Short term problems can be of daily basis like absenteeism of employees, short load shedding, breakdown of machinery etc.

ii. **Medium term problems:** If the effect of the problems take some times to solve, then they are called medium term problems. Such problems may be in production process, termination of employees, damage of machinery, etc. Medium term problems become more serious than short term problems and take more time to solve.

iii. **Long term problems:** If the effect of the problems remains for long time, then the problems are called long term problems. Such problems may bring serious situation of even questions of existence of the organization. These problems need to solve with due care with the consultation of senior management. Such problems may be related with rules, regulation, policies, etc. of the organization.

3. **On the basis of Impact**

On the basis of impact of problem to the organizational activities, they can further be classified in to following two type:

i. **Partially Impact problems:** If the impact of the problem remains only in one or few departments or units or parts of the organization, then the problem is called partially impact problems.

ii. **Overall Impact problems:** If the impact of the problem remains to overall organization, then the problems are called overall problem. Problems regarding goals, objectives, directives or policies of any organization affects to all the departments, units and branches. Such problems normally affect to all parts at the same rate.

4. **On the basis of Urgency**

On the basis of urgency of solving the problems, they can be classified as:

i. **Urgent problems:** If the problems need to be solved very quickly, such problems are called urgent problems. Defects in machinery, imports of raw materials, absenteeism of employees, and high turnover ratio of employees need to be solved immediately. Such problems are urgent problems.

ii. **Non-Urgent problems :** If the problems are not urgent to solve then the problems are called non-urgent problems. For such problems, managers may delay to find the solutions. They may call several meetings with superiors and subordinates, may get the advice of experts, and may consult with legal adviser before coming to the conclusion. Problems regarding goals, objectives, or some legal procurement are related with this category.

5. **On the basis of Source of Problem**

On the basis of source of problem, they can be classified in:

i. **Technical problem:** If the problems are created because of the technical reasons, then the problems are called technical problems. Such problems need to be solved immediately.

ii. **Human problem:** All the problems generated by human resources during the work done are called human problems. Human problems are the results of human negligence or incapability. Such problems can be solved through training and performance appraisal management.

iii. **Environmental problem:** Some problems may arise due to environmental changes or factors. Such problems are called environmental problems. Such problems are normally out of control of organizational management.

PROBLEM SOLVING STRATEGIES

Managers should solve the problems of organization. They must have the adequate skills for analyzing the problems. To do so, problems should be defined clearly and find all potential ways to remove those causes and problems. The following points are important for problem solving as strategies:

1. To identify the real situation of problem, the person should be separated from the problem. If anybody makes a mistake, it should not take personally.
2. Managers should listen all types of problems carefully. They should not dismiss the complaints and rumors.
3. To solve the problem, managers need to get as much information as possible.
4. It is most important to develop the potential alternatives to solve the problems effectively and efficiently.
5. Managers should decide what to do about the problem. They should try to make agreements and understanding with involved parties.
6. Managers should define who will be responsible for each phase of process. For this, they should create accountability.
7. Managers must monitor the process of performance. They should be flexible and open to make adjustments as required to accomplish the objectives.
8. Managers must be sure to recognize the contribution of those who involved in resolving the problems. They should give credit where it is due.

CRISIS HANDLING

Crisis refers to an unexpected, non-recurring and unplanned situation. It is a condition of serious problem. Crisis is a problem of greater intensity and wider implications. It may even endanger organizational survival. It creates conditions of uncertainty and difficulties for goal achievement. It requires urgent and immediate attention of management. If existing problems cannot be solved in time, it will be changed to crisis situation.

There may be several causes for a crisis situation as internal and external causes listed below:

1. **Internal Causes**
   - i. Lack of planning or reluctance to deal with the causes of crisis.
   - ii. Ignoring a problem and its late solution may cause crisis.
   - iii. Technological disturbance also causes a crisis in organizations.
   - iv. Wrong information while making decision
   - v. Communication gap between various levels of management.
   - vi. Conflicts between management and Trade unions
   - vii. Weak economic condition of organization
   - viii. Industrial accidents, etc.
2. **External Causes**
   - i. Environmental turbulences can also cause a crisis.
   - ii. Natural disasters
   - iii. Terrorism
   - iv. Imperfect competition
   - v. Technological development
   - vi. Political instability, etc.

STEPS IN CRISIS HANDLING MECHANISM

Organizations can use different mechanism to handle the crisis situation in organization. As far as possible, managers should try to prevent from facing crisis. But, external and natural crisis i.e. disaster cannot be solved fully while there is possibility minimizing its loss. Therefore, efficient manager should always aware about the possible crisis situation and its effective handling.

The following are steps in effectively handling crisis.

1. **Warning phase:** Prior to crisis, some warning signals appear. Some managers try to hide and ignore such warnings. If warnings are ignored, problems become dangerous and it becomes inevitable crisis. Therefore, managers should try to solve problems early and prevent the crisis through regular monitoring of the operation and establishing open communication channels. Especially, at this stage, managers identify the symptoms of crisis.
2. **Preparation and prevention:** Managers should systematically search for potential problems, so that precautionary measures can be taken to prevent crisis. Preventive measures are often effective but it cannot be prevented at all time. Therefore, managers should make proper planning and training for concerned staffs.
3. **Damage limitation:** If crisis occurs, the damage should be minimized as far as possible. Again, they should have advanced preparation to minimize the effects.
4. **Recovery:** The crisis should be addressed as quickly as possible so that the organization can recover the loss and come back into regular track.
5. **Organizational learning :** This is the final phase of crisis management. Managers and all employees should learn from their mistakes and past experiences. They can find preventive measures, its causes, effects and concerned staffs by the crisis experienced. Once the crisis is over, it should be examined with the purpose of organizational learning.

MANAGEMENT BY OBJECTIVES (MBO)

Management by Objectives (MBO) is a new approach for planning and making decision in participation of managers and employees for defining the objectives. It is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees so that each individual gets encouragement in participation and commitment among employees.

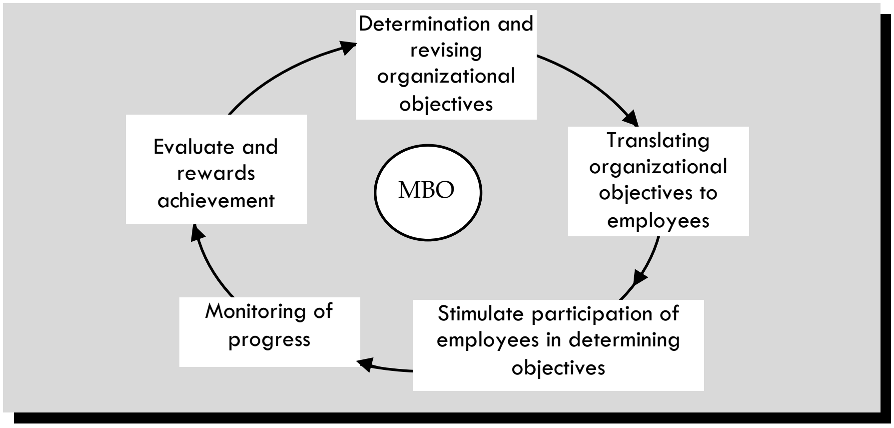
MBO approach increases the alignment of people with organizational objectives, alignment of objectives of each department and units across the organization. Management by Objectives (MBO) is being popular as performance management approach in which organization can balance between the objectives of each level of the organization, and objectives of employees. It is the joint effort of employees and management in determining objectives of organization which fulfills the objectives of both employees and the organization. MBO approach encourages the challenging but attainable objectives formulation which promotes motivation and empowerment of employees. Main essence of MBO is to increase commitment by which each member of the organization gets opportunity to focus on new ideas and innovation that contribute to the development and objectives of organizations.

Steps in Management by Objective (MBO)

MBO is a process consisting of series of interrelated activities. MBO process is not a one-off exercise as it needs to develop cycle with starting point as organization level objectives which need to translate into individual level. It requires to ensure the strong participation of each individual in formulation, implementation and rewarding process. Steps in MBO are simple but vital in implementation as there should be strong commitment from each individual from each level. Peter Drucker explained the MBO process in the following stages.

1. **Determination and revision of organizational objectives:** Starting point for MBO is the strategic level objectives. Organizational strategic objectives are determined based on vision, mission and value statement of the organization. This means that organization should have clear vision, mission and value statement, concise and attainable. Such statements must be communicable and

acceptable to the people involved in organization. So, MBO process is initiated with defining organizational objectives.



2. **Translating organizational objectives to employees:** After defining the organizational objectives, these objectives need to translate to the individual i.e. employees level. For translating organizational objectives into employee level, objectives should be SMART i.e. Specific, Measurable, Acceptable, Realistic and Time-bound. Here, while translating the organizational objectives into employee level, the *Acceptable* element must be taken as this is about agreement on the objectives between the employees and the organization. According to management by objectives, objectives should be clearly recognizable at all levels and everyone should know what their responsibilities are in this.
3. **Stimulate participation of employees in determining objectives:** For effective implementation of the MBO approach, each employee needs to participate in determining personal objectives whatever may be the level and responsibilities of employees. For this, top level managers must encourage everyone to strongly participate in discussion and sharing ideas throughout the organization. Everyone should try to make contribution to translate organizational level objectives into individual level. By broadening the decision making process and responsibility throughout the organization, each employee gets motivated to solve the problems they are faced. This participatory process ensures that personal objectives with respect to general team objectives, department objectives, business unit objectives and ultimately organizational objectives are to be made clear.
4. **Monitoring of progress:** After ensuring the goals and objectives SMART; encouraging the employees for MBO process, now it is essential to develop a system to measure and monitor the progress. In this stage, all the process, problems and achievements need to be detected so that they can be prevented form causing severe impact. It is to ensure that the system and progress are free from abnormal behavior of employees, and deviant behavior during course of setting objectives. It is important to note that there could be always exceptions to a rule and these situations should always be supervised. In Management by Objectives (MBO), employees must be supported by their management through coaching. Create a clear path with sufficient evaluation moments so that growth and development can be monitored accurately.
5. **Evaluate and reward achievements:** Management by Objectives (MBO) has been designed to improve performance at all levels within an organization for which a comprehensive evaluation system is essential. There must be employee's evaluation and reward system to evaluate the performance in relation to the set goals and objectives. There must be adequate and effective feedback system along with reward system.

Factor necessary for a successful MBO program

Management by Objective (MBO) was first proposed by Peter Druker. Peter Drucker suggested a number of conditions to fulfill for effective MBO which are discussed below:

- There must be strong commitment of top level management for MBO process and appropriate objectives.
- Objectives are determined with the strong participation of employees. Management and employees should be together in MBO process.
- Employee's performance should be conscientiously evaluated against established objectives.
- Objectives are formulated at both quantitative and qualitative levels which can be understood easily by each person involved.
- Objectives must be challenging and motivating. For this, organizations should be careful to formulate the attainable objectives. Much challenging not sure to attain objectives discourage people.
- There must be effective system for regular feedback on the state of affairs at the level of coaching and development instead of static management reports.
- Varieties of rewards for example recognition, appreciation and/or performance-based pay must be ensured to encourage people in implementation phase.
- There must be positive approach for managing people and their activities through growth and development not punishments.
- It is important to make fair and correct assessments of the achievements against the setting of measurable goals. Clear performance indicators are essential for a good management by objective approach.

GROUP DECISION MAKING

Group decision making refers to the decision taken collectively by a group of people involved in organization. Organizations are composed of various people, so it is again a group. It consists of different formal and informal, permanent and temporary, committees and task force as the group of people. All these groups are involved in some kind of decision making activities. Through participative management, groups usually are assumed to make better decisions than individual decision making. In many crucial and important problems, exceptional and non-programmed decisions are also made under group decision making system. It helps in effective implementation of plans, policies i.e. decisions to achieve the organizational goals. In group decision making, following methods are applied in general:

Authority rule : Group leader makes decision after hearing the version of each member of the group.

Minority rule : Version of some expert of the group is taken as the group decision.

Majority rule : Version of the majority i.e. maximum number of member is considered as the group decision.

Consensus rule : Common version to the entire member is identified as that is taken as the group decision.

Advantages of group decision making

1. Group decision making generates greater knowledge, information, ideas and more effective solutions.
2. It builds team feeling among the employees.
3. Broader perspective is taken for problem definition and analysis.
4. Creative and high quality decisions are made.
5. Improved communication is achieved.
6. It improves decision making capacity of subordinates.
7. It can ensure the members commitment to decision.
8. Employees can be motivated easily.

9. Effective implementation of decision is possible.
10. It builds interpersonal and leadership skills of group member.

Disadvantages of group decision making

1. Group decision making takes more time to reach in decision.
2. Groups often suffer from ambiguous responsibility.
3. It takes more cost and resources.
4. Groups are in general, dominated by one or few persons' personality and status.
5. There may be conflict among the group members.
6. Compromise to seek of common consensus may produce unwanted and pre-matured decisions.
7. It ignores the individual expertise and specialization.
8. There is possibility of making riskier decisions.

GROUP DECISION MAKING PROCESS

Group decision making is approach in which different people participate in decision making process with collective effort for analyzing problems or situations, developing alternative course of action, evaluate developed alternative courses of action, and select the best alternative. Depending upon nature of task, level of understanding and the people available, the number of people involved in group decision-making process varies greatly, but often ranges from two to seven. The nature and composition of groups, size, demographic composition, structure and purpose, etc. greatly affect process of making decisions and effectiveness. In group-decision making process, following steps are commonly followed:

a. **Setting level of participation:** Before starting to make group decision, first of all, it is essential to decide the level of collaboration in making decision. It helps determine the number of person and define the roles of each individual participating in the decision making process. As it is necessary to make clear that what are essential from managers or leaders and what are expected from the participant before starting the decision making process. In this stage, other additional factors influence in decision making, for example, value of the decision, complexity, available time, number of solution alternatives, and level of understanding required for decision, etc. are fixed.

b. **Selecting process:** After determination of level of participation, it is now to determine a group decision making process. This helps manage the activities, to encourage for open discussions in alternative evaluation process, and to generate the decision outcome. The process should plan the decision making which includes defining the success factors or criteria for the decision; identify and generate decision alternatives; make the decision by selecting the best alternative and; manage the decision implementation process and responsibility.

c. **Facilitating group decision making process:** After selecting decision making process, setting with people and process for making decision, it is necessary setting process for an effective group decision making. In this stage, benefits of group contribution and coordination are ensured in decision making process. For facilitation group decision making, it is essential to motivate people through group clarity, providing clarity, setting structure and ensuring coordination mechanism, setting process to eliminate misunderstanding if any, promoting environment for optimal level of sharing, etc. At the same time, it is essential to provide mechanisms for information storage, retrieval, sharing, summarization and repetition, establish the communication channels needed to satisfy task complexity needs and offer methods for reconciliation of conflicting information and the meaning of shared information. For equal participation of all the participant, discussion and sharing codes can be developed.

d. **Choosing group decision making approach:** In executing the process, it is essential to determine the approach to be used to combine individual responses and generate specific outcomes. In order to make conclusion, some approaches or methods need to be determined well in advance. There can be following different approaches in making decision in group.

- Consultation with a single decision maker – in this approach, all the participants put their views for decision but only one person consolidates and makes the final decision.
- Group averaging – in this approach, after discussion, decision is derived from some form of averaging of independent individual views.
- Voting – in this approach, final decision is made achieving an agreed portion of votes from the group. Multiple rules exist that include majority, super majority of two-thirds i.e. 66.67%, or highest number of votes at least majority, and often rules can consider establishing minimum participation for validity.
- Consensus – in this approach, after discussion on the matter, decision is made based on agreement of each participant. This is most common method in organizations as no one wants to be strongly opposing majority. In most of the cases, a majority agrees make the decision but in few cases, even view in minority may also get consensus of all the participants.
- Unanimous – in this approach, all the participants must agree upon the decisions.

e. **Conducting decision making session:** After developing all essential structures, managing each supports and mechanism, now it is essential to conduct the decision making session. Decision making process should ensure the optimization of integration of knowledge, opinions and preferences into the collective group decision. Leader should ensure the equal participation of decision makers through effective implementation of codes of decision making. Participants and the leaders should be aware in avoiding groupthink to captures minority ideas, should avoid the group polarization and minimize the personal influence in discussion process. Various approaches for problem decomposition and project management methods need to be integrated with individual decision making techniques to address team decision making.

GROUP DECISION MAKING METHODS

Main course in group decision making is same i.e. decision based on participation of people in the process but we can apply different methods on it. Among the many methods used for group decision making, following are the most important methods.

a. **Brainstorming:** Literally, brainstorming is the process of group discussion to produce ideas or solve the problems. In brainstorming, members of the group provide their suggestions or ideas or alternative course of actions verbally. In this method, all the members discuss normally under unstructured manner i.e. no predetermined format of discussion. Group leader or facilitator facilitates to understand, and make clear situation regarding the problem and decision making criteria and expectation. At first, all the members suggest their views, ideas and suggestions regarding the problems and then group leader or the facilitator facilitates to process the finding or decisions for organizational knowledge. Major problem in this method is that many members may not be open to share their ideas in front of their senior members. Nowadays, using the electronic means of communication with internet like Messenger, Hangouts, Google Classroom, Campfire, HipChats, Flowdock, Viber, etc. for brainstorming. Electronic media may limit its effectiveness because of poor internet connection but increases its application because it helps to remove hesitation speaking in group.

b. **Dialectical inquiry:** Dialectical inquiry is a group decision-making technique that focuses developing mutually contrasting ideas so that detail discussion on the subject matter. In more simple words, under this method, group members are encouraged to develop competitive ideas to each other so that more suitable idea can be selected. For increasing effectiveness, total members are grouped into two groups, suggested to develop best ideas and asked for debating for advantages and disadvantages of their ideas. If there is only one group for decision making, there will be a person for devil's advocacy i.e. raise the potential problems with a proposed decision. After discussion, most agreeable course of action is selected.

c. **Nominal group technique:** Under the nominal group technique, group members are required to compose a comprehensive list of their ideas or proposed alternatives in writing. So, it is a structured decision making process. After receiving the written suggestion or ideas, group members usually record their ideas privately. After complete response, each group member is asked to provide one item from their list until all ideas or alternatives have been publicly recorded on a flip chart or marker board. Once all proposals are listed publicly, all the group members are requested to engage in discussion on each of the alternatives listed and provide some rank or rate them. Based on this, a large number of alternatives can be generated.

d. **Delphi technique:** Delphi technique, though is group decision making process, the members in this technique do not meet each other at a place for discussion and making decisions. The individuals in the Delphi group are selected based on specific knowledge and expertise of member in the matter of discussion. Question or the subject matter for discussion or suggestion is asked to the selected member of the Delphi group independently. Their views are recorded in successive stages, common views are recorded and the uncommon or different ideas are resent to the members for further justification or for new ideas. After getting most agreeable suggestion or views on the subject areas, the decisions are made.

COMMON TOOLS FOR DECISION MAKING

Managers can use various tools for making their decisions more effective. They require factual information, expert opinion and other tools for the purpose. Managers usually select qualitative and quantitative tools of decision making on the basis of nature of problems and need of accuracy. Some of the important decision making tools are explained below :

1. **Probabilities and pay-off :** Probability is an statistical measure of the chances of a certain event that will occur in future. Decision makers give certain weights for occurring or non-occurring the specific event on the basis of past experience and judgments. Pay-off is the sum of the values of all the estimated outcomes of the alternatives multiplied by their respective probability. The alternative having maximum expected weight should be selected.

   For example; if a businessman wants to invest one million in business. There are three alternatives available for him i.e. project A, B and C. He estimates the probability of high inflation and low inflation with 0.8 and 0.2 along with the potential benefits. He prepares pay-off matrix to calculate the expected values (EV) as below :

Projects	High inflation (0.8)	Low inflation (0.2)
A	Rs. 20,00,000	(Rs. 350,000)
B	Rs. 15,50,000	(Rs. 750,000)
C	Rs. 950,000	Rs. 10,50,000

   Calculation of expected value (EV);

   Project A : EV = 0.8 × 20,00,000 + (0.2 × 850,000) = Rs. 1450,000

   Project B : EV = 0.8 × 15,50,000 + (0.2 × 750,000) = Rs. 10,90,000

   Project C : EV = 0.8 × 950,000 + 0.2 × 1050,000 = Rs. 970,000

   In the calculation, expected value of project A is greater than project B and project C. So, he should make the investment decision to invest in project A.

2. **Game theory:** This theory is developed by Van Newmann and Marge Stern. It is related to the formulation of strategies against the competitors. This theory assumes that business situation has strong similarities with games. Business games are played to formulate competitive strategy which will provide maximum countering action to the competitors. The outcome of the game is readiness of managers to respond to the action of competitors.

3. **Queuing model:** This model is useful to control various types of waiting lines. It consists of the use of calculated probabilities for determining the number of persons, who will stand in waiting lines. Managers should decide how many counters should be opened to determine the optimum number of customers at the best minimum time. It helps to manage the balance between cost and customers waiting lines. This method can be used in banks, telecom counters, etc.
4. **Inventory model:** Organization can follow inventory models to decide about the optimum level of inventories to be maintained in the organization so that the inventory cost will be minimum and there will be no shortage of raw materials, machines, and finished goods required for production process and supply to the customers. Economic order quantity (EOQ) can be calculated by using carrying cost, ordering cost, storage cost and other inventory related cost. Managers should buy or stock such a quantity in which their total cost can be minimized.
5. **Financial method:** There are many financial and accounting methods which help to reach in organizational decisions. Ratio analysis is one of the most important tools for financial decision making. While capital budgeting, flexible budgeting, standard costing, cost-volume-profit analysis, etc. are some other important tools for decision making.
6. **Linear programming :** Linear programming is the process of making decision regarding the scarce resources like energy, machines, materials, money, personnel, space, time, etc. which may be used to produce several alternative outputs. In this method, various linear inequalities relating to some situation are prepared and the "best" value obtainable under those conditions is identified. It is a mathematical technique used in computer modeling. This is most popular tool for decision making process to find the best possible solution in allocating limited resources to achieve maximum profit or minimum cost.
7. **Decision tree:** Decision tree is the graphical presentation of the alternatives and their probability to come to the decision. This tool shows a complete picture of a potential decision and allows a manager to graph alternative decision paths. Decision tree forces managers to be explicit in analyzing conditions associated with futures decisions and in determining the outcome of different alternatives. Decision tree is a useful way to analyze hiring, marketing, investments, equipment purchases, pricing, and similar decisions that involve a progression of smaller decisions. Generally, decision trees are used to evaluate decisions under conditions of risk. The decision tree is a flexible method.
8. **Simulations :** Simulation is the method in which any type of activity is attempted to imitate an existing system or situation in a simplified manner. Simulation is basically used in model- building in which the simulator tries to gain understanding by replicating something. After understanding the fact, simulator manipulates it by adjusting the variables used to build the model. In simulation, a manager could simulate alternatives and predict their outcomes at this point in the decision process so that guesswork from decision making would be eliminated.

SUMMARY OF LEARNING OBJECTIVES

❒ **Concept of Planning :** Planning can be defined as the process of formulating goals, identifying activities to be undertaken and choosing the means to achieve the goals. Planning arises from the recognition that some interventions is necessary to bring about the change from the present state to some desired alternative (future state).

❒ **Characteristics of planning**
- Primary function
- Future oriented
- Intellectual process.
- Continuous process
- Efficiency focused
- Goal oriented
- Flexible
- Action-oriented
- Pervasive in nature

❒ **Types of Plan**
1. On the basis of managerial hierarchy and authority
   i. Corporate plan ii. Department plan iii. Operational plan

2. On the basis of Frequency of using the plan
   i. Single use plans ii. Standing plans
3. On the basis of Flexibility
   i. Flexible plans ii. Specific Plans
4. On the basis of Time Horizon
   i. Long term plan ii. Medium term plan iii. Short term plan

Hierarchy of Planning : A certain type of hierarchy is formed in planning. It flows down from higher level to lower levels. The important outputs of planning system are inter-linked in a hierarchy. Higher level plans are represented by mission, goals, strategies and policies whereas lower level plans are procedure, rule, programs and budget.

i. Mission ii. Goals iii. Strategy iv. Policy

v. Procedure vi. Rules vii. Programs viii. Budget

❒ **Methods of Planning**

1. **Top-Down method :** Under this method, plans are formulated by top-level management without or very little consultation of lower level management.
2. **Bottom-Up method:** Under this method, the lower level managers and operating level employees set the plans for them. During this course, they inform top-level management about what they expect to do.
3. **Composite method:** This method is the combination of top-down and bottom-up methods. Top-level management may set the tentative plan and send each unit and branch of the organization to submit their goals. Middle level and lower level management then, formulate the plan and forward it to top-level management.
4. **Management by Objectives (MBO) method:** MBO includes setting goals, developing action plans, periodic reviews and performance evaluation. This method encourages on self-control and self-motivation through participation of maximum employees in planning process.
5. **Team method :** Under this method, a work team of the experts member employees from line managers of various levels for planning purpose. In this method, team may conduct research activities and formulate a draft plan to management. Then, top management reviews it and finalizes the plan.

❒ **Planning Process**

- Establishes goals
- Identifying the planning premises
- Identifying alternatives
- Evaluating the alternatives
- Selecting the best alternatives

❒ **Importance of Planning**

- Uncertainty reduction
- Goals focus
- Better coordination
- Increases efficiency
- Environmental adoption
- Basis for control
- Avoid random activity
- Increase commitments

❒ **Strategic planning:** Strategic planning is the process of reviewing market condition, customer needs, competitive strength and weaknesses, external factors of business and the availability of resources that lead to the specific opportunities and threats. Strategic planning is the plan which is prepared with analyzing organizational strengths, weaknesses, opportunities and threats.

❒ **Formulation of Strategic plans**

- Identify the mission, goals and objectives
- Analyze the external environmental factors
- Identify the opportunities and threats
- Analyze the internal environmental factors
- Identify the strength and weaknesses
- Formulation of strategy
- Implementation of strategy
- Evaluate the results

❒ **Implementation of Strategic Plan**

- Organizational structure should be matched with strategy.

- Goals should be determined clearly in qualitative figures.
- Strategy must be institutionalizing.
- There must be open and two ways communication systems.
- Performance based rewards and incentives also help implement the plan effectively.
- Maximum number of managers and employees should be involved in formulating and implementing processes.
- Leadership plays vital role in effectiveness of the plans. It must be supportive and motivating to the employees.

❒ **Tactical plans:** Tactical plans are the short term plans specially formulated for one year to operationalize the strategic plan of the organization. Tactical plans are the operational plans set for short term in order to achieve the long term goals of the organization. Such plans are generally prepared to operational units, departments or projects formulated in coordination of top level strategic plans which are executed by independent departments or company functions.

❒ **Quantitative tools for planning**

- Forecasting method
- Network method
- Break-Even-Point Method (BEP)
- Gantt Chart method
- Other methods

❒ **Management by Objectives (MBO):** Management by Objectives (MBO) is a new approach for planning and making decision in participation of managers and employees for defining the objectives. It is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees so that each individual gets encouragement in participation and commitment among employees.

❒ **Steps in Management by Objective (MBO)**

1. Determination and revision of organizational objectives
2. Translating organizational objectives to employees
3. Stimulate participation of employees in determining of objectives
4. Monitoring of progress
5. Evaluate and reward achievements

❒ **Concept of decision making :** Decision making is the process of selecting best course of action from the available alternatives. Managerial decisions are the output of decision making process. During the decision making process, managers need to identify all available alternative patiently, evaluate all alternatives in terms of pros and cons and choose the best combination of alternatives carefully. Managers use quantitative tools and techniques for effective decision making.

❒ **Approaches to Decision Making**

- The Classical approach
- The Administrative approach
- The Rational approach

❒ **Types of Decision Making**

1. On the basis of frequency of recurrence
   - i. Programmed decisions
   - ii. Non-Programmed decisions
2. On the basis of Nature of the decisions
   - i. Strategic decision
   - ii. Tactical decision
   - iii. Operational decision
3. On the basis of the participant's involvement
   - i. Individual decision
   - ii. Group decisions

❒ **Decision making styles**

1. **Analytical style:** Decision makers with an analytical style has much greater tolerance for ambiguity and rational way of thinking.

2. **Directive style :** Managers using directive style have low tolerance for ambiguity and rational way of thinking.

3. **Conceptual style :** Managers with conceptual decision making styles tend to be very broad in their outlooks and look at many alternatives.

4. **Behavioral style :** Decision makers concern about their subordinate's like and dislikes. Such managers have low tolerance of ambiguity and intuitive way of thinking.

- **Decision Making Condition**
  - Certainty condition
  - Decision making under risk condition
  - Decision making under uncertainty condition
- **Problem solving :** Problem solving is the process of identifying problem, its intensity, causes and finding the most suitable solution for it from available alternatives. It is an art of decision making.
- **Types of Problems**
  1. On the basis of Frequency
     i. Routine problems
     ii. Exceptional problems
  2. On the basis of Timeframe
     i. Short term problems
     ii. Medium term problems
     iii. Long term problems
  3. On the basis of Impact
     i. Partially Impact problems
     ii. Overall Impact problems
  4. On the basis of urgency
     i. Urgent problems
     ii. Non-Urgent problems
  5. On the basis of Source of Problem
     i. Technical problem
     ii. Human problem
     iii. Environmental problem
- **Crisis handling:** Crisis refers to an unexpected, non-recurring and unplanned situation. It is condition of serious problem. Crisis is a problem of greater intensity and wider implications. It may even endanger for organizational survival. It creates conditions of uncertainty and difficulties for goal achievement.
- **Steps in crisis handling mechanisms**
  - Warning phase
  - Preparation and prevention
  - Damage limitation
  - Recovery
  - Organizational learning
- **Decision making process**
  - Identifying and diagnosing the problem
  - Identifying the alternatives
  - Evaluating the alternative
  - Choosing the best alternatives
  - Implementing the selected alternative
  - Evaluation and follow up
- **Group decision making :** Group decision making refers to the decision taken collectively by a group of people involved in organization. Through participative management, groups usually are assumed to make better decisions than individual decision making.
- **Group decision making process**
  - Setting level of participation
  - Selecting process
  - Facilitating group decision making process
  - Choosing group decision making approach
  - Conducting decision making session
- **Group Decision Making Methods**
  - Brainstorming
  - Dialectical inquiry
  - Nominal group technique
  - Delphi technique
- **Tools of Decision Making**
  - Probabilities and pay-off
  - Game theory
  - Queuing model
  - Inventory model
  - Financial method
  - Linear programming
  - Decision tree
  - Simulations

EXERCISE

Brief Answer Questions:

1. Define concept of planning.
2. State and explain different types of plans.
3. Draw the hierarchy of planning.
4. State different steps involved in planning process.
5. Why is planning important in organization?
6. Define strategic planning.
7. How do strategic planning formulated?
8. Define the concept of SWOT analysis.
9. Business environment should be regularly scanned. Explain.
10. State different methods of environmental scanning.
11. State various quantitative tools for planning.
12. What do you mean by managerial decision making?
13. What are the approaches for decision making ? Explain.
14. What are different types of decisions to be made by managers ?
15. Explain the concept of problem solving.
16. State different strategies for problem solving.
17. What do you mean by crisis ?
18. Why is group decision making so important ? Explain

Descriptive Answer Questions

19. Define planning and explain its characteristics.
20. Enumerate the advantages of planning. What skills do you believe a manager should have for effective plans?
21. What are the activities involved in the function of planning?
22. Define planning. Describe the major steps involved in the planning process.
23. Explain the process and importance of planning.
24. Highlight the importance of planning for a business.
25. Describe the different methods of planning.
26. Describe various plans in an organization.
27. Define strategic plan. In what ways do strategic and operational plans differ?
28. Define strategic plan. Explain how is it formulated?
29. What are the things to be considered for effective implementation of strategic plans?
30. Define environmental scanning and describe the limitation of planning.
31. Define environmental scanning. Explain different methods of environmental scanning.
32. What do you mean by SWOT analysis? Explain.
33. Define decision making. Explain its importance in management function.
34. What is decision making? Explain the style of decision-making.
35. Define non-programmed decision. Give examples of non-programed decisions.
36. State different types of decisions and explain programmed decision with examples.
37. Explain the process of decision making. How can decisions be made more effective.
38. What is decision making? Explain the rational process of decision-making.
39. Describe the different styles of decision making and also explain the circumstances where such styles fit.
40. What is problem solving? Explain the important problem solving strategies.
41. What is decision making? Differentiate between the programmed and non-programmed managerial decision.
42. Why is decision making important in organization? Explain the process of decision making?
43. What is decision making? Explain the steps involved in decision making process.
44. What is decision making? Describe the decision making conditions.
45. State and explain the conditions of decision making.
46. What is crisis? Explain various steps in crisis handling.
47. Define group decision. Explain advantages and disadvantages of group decision.

Analytical Answer Questions

48. The success of the organization depends on proper formulation and implementation of planning. In the light of this statement, explain the instrument, which helps managers to implement planning.

49. The increased importance of planning in business enterprise is the direct result of the changing environment in which the enterprise operates. In the light of the above statement, explain how you would scan the environment while preparing plans in your organization.
50. What is planning? Discuss the importance and steps involved in planning.
51. What is planning? Why is planning important in organizations? Also discuss the process of planning.
52. What is meant by strategic planning? Explain its formulation and implementation.
53. What do you mean by environmental scanning? Explain different methods used for environmental scanning.
54. State and explain different quantitative tools for planning.
55. "Decision making is a cardinal factor for every manager in which each management activity is linked together to achieve the results." Do you agree or disagree with this statement. Justify.
56. Decision making is regarded as choosing the best alternative to solve the problem. On the light of above statement, state and explain different types of problems. Also explain different important problem solving strategies.
57. Decision making is very important managerial function. With the statement; discuss the meaning and importance of decision making. Also explain the decision making process.

CASE

Rabindra, completed his MBA from well-known university of Australia in 2012 realized that he can have handful business opportunities in Nepal instead of living in Australia. He decided to return back to Nepal after his higher education of 8 years there. He remembered the tales from elders, relatives and sometimes his teachers that Nepal has no opportunity because of high political instability, corruption and poor system-led market mechanism. He recalled all their faces and also remembered saying one of his professor that 'there is easy to establish business if there is no competition, just you have to do the things in different ways'. He first decided to return back to Nepal, though he had no enough market information based on research, actually he had no any business ideas too. He called few of his school friends and family members about his decision. He got the mixed reaction but one of the friend, doing restaurant business asked him to join the business as he wanted to run it in different ways. Rabindra, originally from Butwal decided to return Nepal first, will search market opportunities later, returned back in 2013. First two months were very good for him, as the days passed he started being tense about what to choose the business career. Many people suggested him bank job, few suggested hotel and other trade. He was determined about what he will do, will be the different in terms of others way of doing business.

Rabindra was MBA in Hotel Management. He again remembered the propose of his friend to join the restaurant, he visited it many times and found no space for him as the regular business was managed by only one person and had no need of next manager. Then, they decided for expansion and diversification of the business. They selected to expand the business to Lumbini as it is being tourist destination, connecting by Gautam Buddha International Airport. They made a business plan as i. expansion of restaurant to Lumbine, ii. being online for home delivery iii. expanding Lumbini based business to aquaculture in restaurant.

They acquired land and started the first plan in 2015 January. Started own website and mobile application for serving people to their home. This type of business was new in their area though not new in Nepal. They started good sales from online sales. Just in 5 Kilometer from that destination, they acquired another land, huge in quantity, 3 bigha, making plan to develop the aquaculture with dance center, meditation center, conference hall and fishing area. Within 2 years of time, they invested around NRs 20 million for the new project. Total business idea was led by Rabindra, his partner was the backbone for confidence and courage. In 2018 they launched the aquaculture to public with total initial accommodation capacity of 26 people for residing, and 50 people for running. Within the first year of operation, they scaled up their daily sales up to NRs. 50,000. Unfortunately, in 2020, they had to face global health crisis of Covid-19 pandemic. Now, they face challenge to operate business, expand the project or to hold.

Questions:

1. What are the information essential to make business decisions? Make list and point out where Rabindra missed to collect such information.
2. Decision making is a process. Do you think the statement is true based on the case? Justify your answer.
3. State and explain different conditions for managerial decision making.
4. What do you suggest to Rabindra for the future course of action? Justify.

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