

Principles of Management

①

Unit - 2

Planning

Nature and purpose of planning - planning process - types of planning - objectives - setting objectives - policies - planning premises - strategic management - planning tools and techniques - decision making steps and process

* Nature of Planning

- ① Planning is goal-oriented - plans must contribute to achieving group objectives
- ② Primacy of Planning - it is the first of all managerial fns
- ③ Pervasiveness of Planning - found at all levels of management.
 - Top management \Rightarrow strategic planning
 - middle management \Rightarrow administrative planning
 - lower management \Rightarrow operational planning
- ④ Efficiency, Economy and Accuracy - measure efficiency of plan by its contribution to objectives
- ⑤ Co-ordination - planning coordinates the what, who, how, where & why

⑥ Limiting Factors - a planner must recognize limiting factors like money, manpower etc.

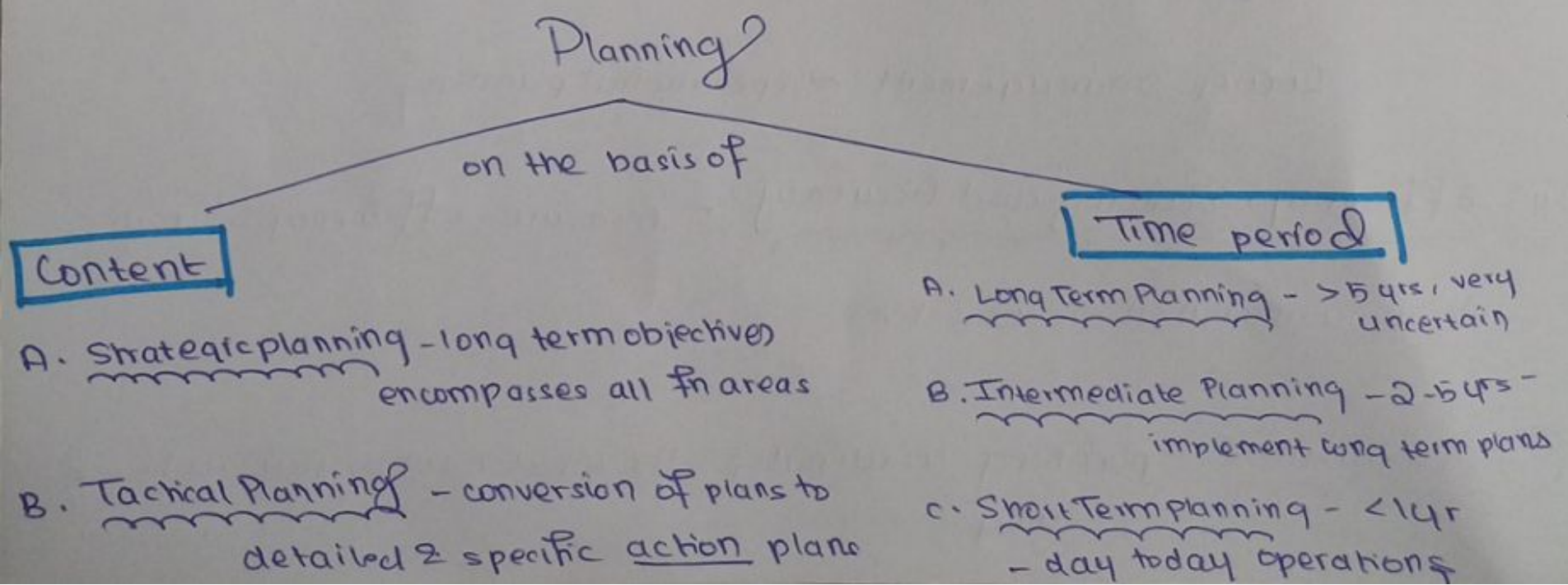
⑦ Flexibility - plans should be adaptable to changing environmental conditions

⑧ Planning is an intellectual process : quality of planning depends on manager

* Purpose of Planning

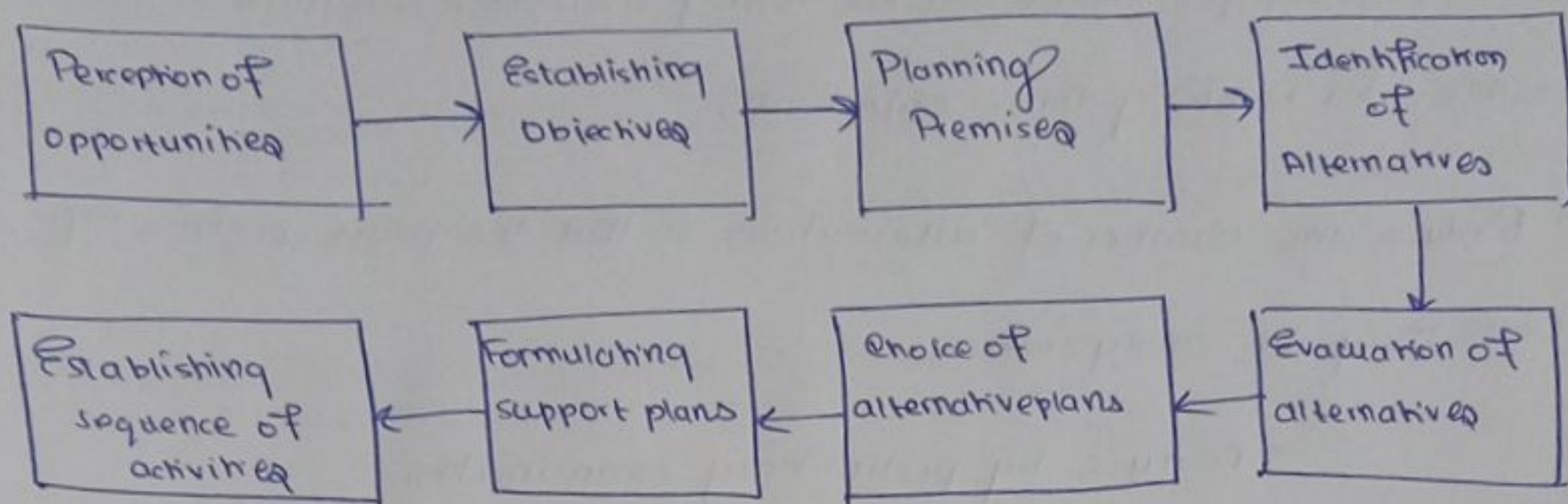
- To manage by objectives
- To offset uncertainty and change
- To secure economy in operation
- To help in co-ordination
- To make control effective
- To increase organizational effectiveness

* Classification of Planning



* Planning Process

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① Perception of Opportunities

- become aware of possible opportunities
- take a preliminary look & understand them clearly & completely

② Establishing Objectives

- establish objectives for the entire enterprise and then for each subordinate unit
- Enterprise objectives should give direction to the nature of all major plans - then define department objectives - then obj. of lesser departments

③ Considering the Planning Premises

- establish, obtain agreement to utilize & disseminate critical planning premises
- Premises are the expected environment of plans in operation - make sure to utilize consistent planning premises

④ Identification of alternatives

- The manager should list as many available alternatives as possible for reaching those objectives.
- Reduce the number of alternatives so that the most promising ones may be analyzed
 - reduce by preliminary examination
 - mathematically eliminate, through the process of approximation

⑤ Evaluation of alternatives

- Having reduced alternatives, evaluate them by weighing the various factors in the light of premises and goals.
- Some alternatives may require a large cash outlay, but a slow payback. - but usually it is replete with uncertainties

⑥ Choice of alternative plans

- An evaluation of alternatives must also include an evaluation of the premises on which the alternatives are based.
- Sometimes, some premises may be unreasonable, & the alt. plan can be eliminated.

⑦ Formulating Supporting Plans

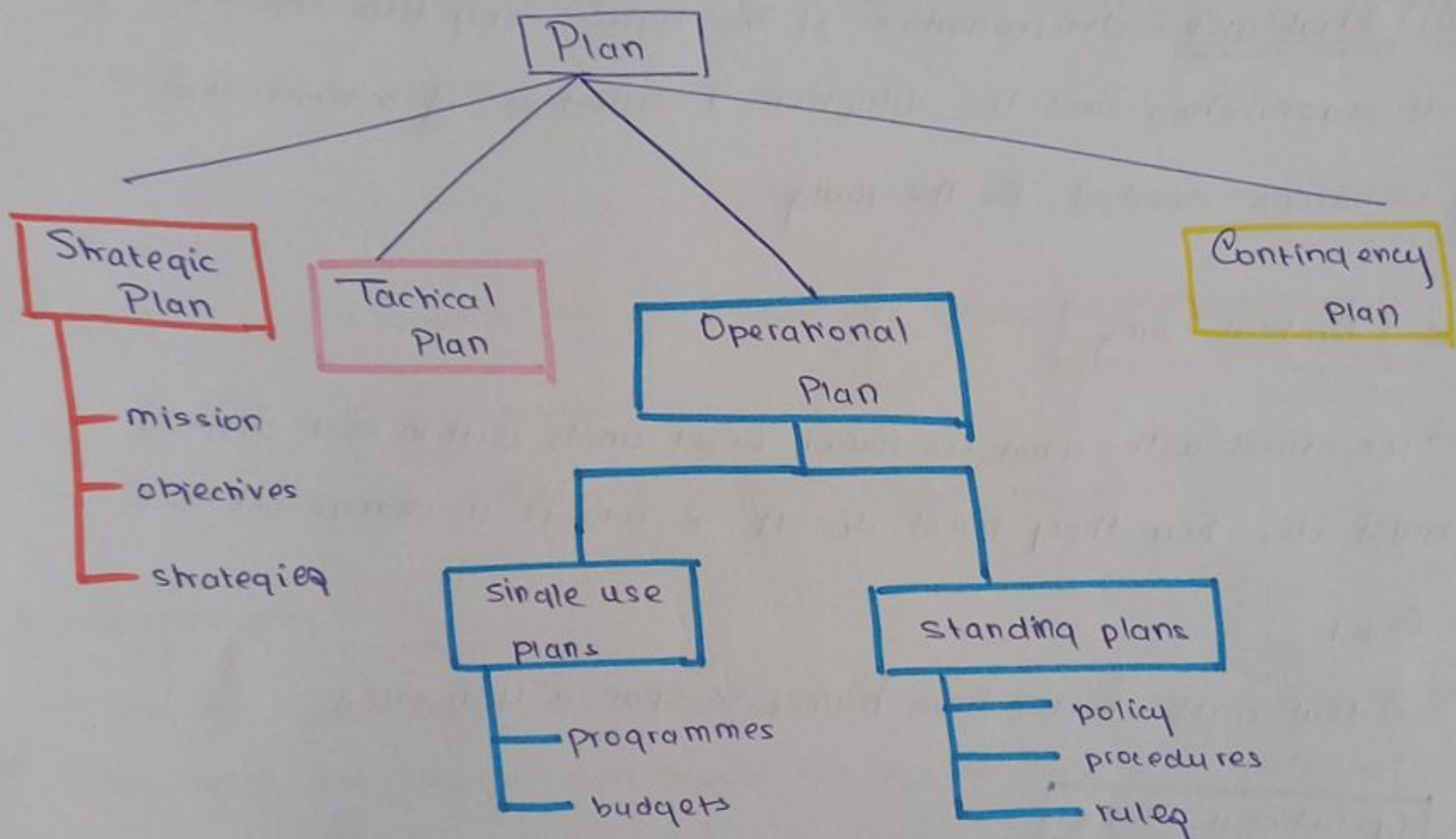
- Plans are numbered & converted into budgets.

→ The total income and expenses with the result ^{ant} profit must be calculated.

⑧ Establishing sequence of activities

→ Identify order of steps to implement the proposed plan.

* Types of Plans / Components of Planning?



A. Strategic Plan

→ designed with the goals of the entire organization as a whole in mind

(i) Mission - reflects the basic purpose & focus of the organization, answer the q: 'why does the organization exist?'

(ii) Objectives or goals - reflect the end towards which the organization is aiming to achieve

Goal - an abstract & umbrella statement

Objectives - statements that describe outcomes in precise, measurable and obtainable terms

(iii) Strategies: determination of the basic long term objectives of an organization and the adoption & collection of actions and resources needed for the goals

B. Tactical Plans

→ concerned with what the lower level units within each division must do, how they must do it & who is in charge at each level

→ deal with shorter time frames & span a year or less

C. Operational Plans

→ The specific results expected from departments, work groups & individuals are operational goals

→ An operational plan is one that a manager uses to accomplish his/her job responsibilities.
They can be

I Single Use Plans - activities that do not recur/repeat

(i) programme - an ordered list of events to follow to execute a project

(ii) budget - predicts sources & amounts of income & how much they are used

(II) Standing Plans - made once & retain their value

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over a period of years sometimes undergoing periodic revisions & updates.

(i) Policy - provides a broad guideline for managers to follow when dealing with important areas of decision making

may be human resource policies - for hiring, terminations etc

(ii) procedure - a set of step by step directions that explains how activities or tasks are supposed to be carried out.

- may be procedures for purchasing supplies and equipment

(iii) rules - an explicit statement that tells an employee what he/she can/cannot do

- promote safety & uniform treatment of employees

D. Contingency Plans

→ involves identifying alternate courses of action that can be implemented if and when the original plan proves inadequate because of changing circumstances.

→ This may happen due to unexpected problems that are beyond a manager's control

* Objectives

→ may be defined as the goals which an organization is trying to achieve.

→ Objectives are the end points of planning. They serve as the

benchmark for measuring the efficiency and effectiveness of the enterprise.

* Features of Objectives

- must be predetermined
- must be realistic
- must be measurable
- must have social sanction
- must be clearly defined

* Process of Setting Objectives

→ Objectives are required to set by management in every area which directly affects the survival / prosperity of the business

- ① Identify the areas in which objectives have to be set
- ② Review the past performance (indicative of what the org. will be able to achieve in the future)
- ③ Make sure that the objectives are realistic, consistent w/ one another & set in clear-cut terms

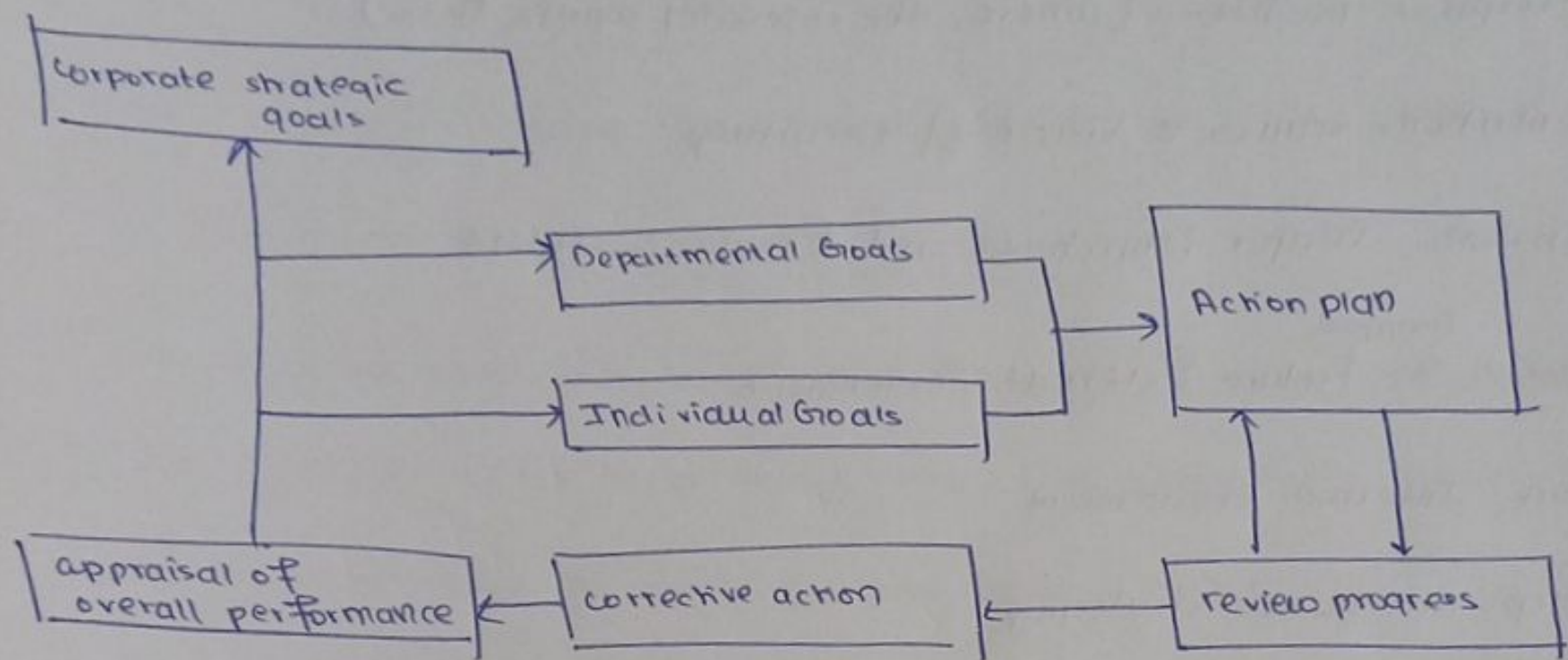
* Management by Objectives (MBO)

→ MBO is a process whereby the superior & the managers of an organization jointly identify the common goals, define each individual's major area of responsibility in terms of the results

expected, and use these measures as guides for

operating the unit & assessing the contribution of each member.

Steps in MBO



1. Establish a clear and precisely defined statement of objectives for the employee

2. Develop an action plan indicating how these objectives are to be achieved.

3. Reviewing the performance of the employee

4. Appraising performance based on objective achievement

* Strategies

→ denote a general programme of action & deployment of resources to attain comprehensive objectives

→ Strategies are plans made in the light of plans by competitors

Strategic Planning Process / Strategy Formulation Process

1. Input to organization ^{Determine}

2. Industry analysis

3. Enterprise profile (where the company wants to go)

4. Orientation, values & vision of executives

5. Mission, Major Objectives and Strategic Intent

6. Present & Future External Environment ^{Analyze}

7. Audit Internal Environment

8. Develop alternative strategies

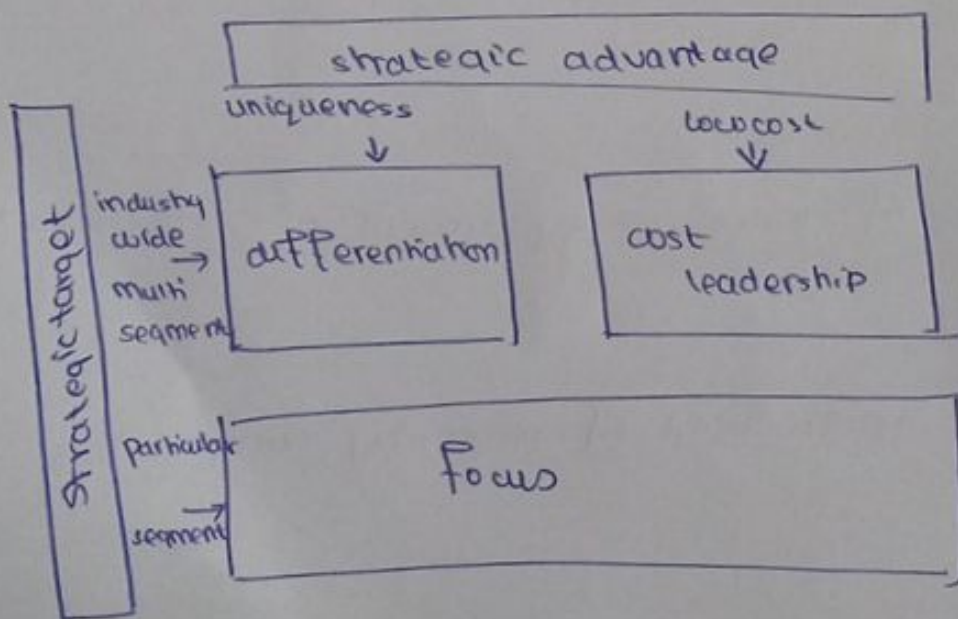
9. Evaluate choice of strategies

10. Medium / Short Range Planning

11. Consistency Testing & Contingency Planning

* Types of Strategies (Porter's Classification)

cost leadership differentiation focus



A. Cost Leadership Strategy

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- being the low cost producer in an industry for a given level of quality
- The firm sells its products either at an average industry price to earn a profit more than that of rivals - or below the avg. industry prices to gain market share.
- Firms acquire cost advantages by improving process efficiencies, gaining unique access to a large source of lower cost materials, optimal outsourcing, or avoiding some costs altogether.
- Such industries also have skills like
 - skills in designing the product, e.g. w/ a small component count
 - high level of expertise in manufacture process engineering

B. Differentiation Strategy

- calls for the development of a product or a service that offers unique attributes that are valued by customers & that customers perceive to be better / different than other competition
- The value added by the uniqueness of the product may allow the firm to charge a premium price for it.

Firms that succeed in the differentiation strategy have the following strengths:

- (i) Access to leading scientific research
- (ii) highly skilled and creative product development team
- (iii) strong sales team to successfully communicate the perceived strengths of the product

c. Focus Strategy

- concentrate on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation.
- The premise is that the needs of the group can be better serviced by focusing entirely on it.
- A firm using a focus strategy often enjoys a high degree of customer loyalty

A Combination of Generic Strategies

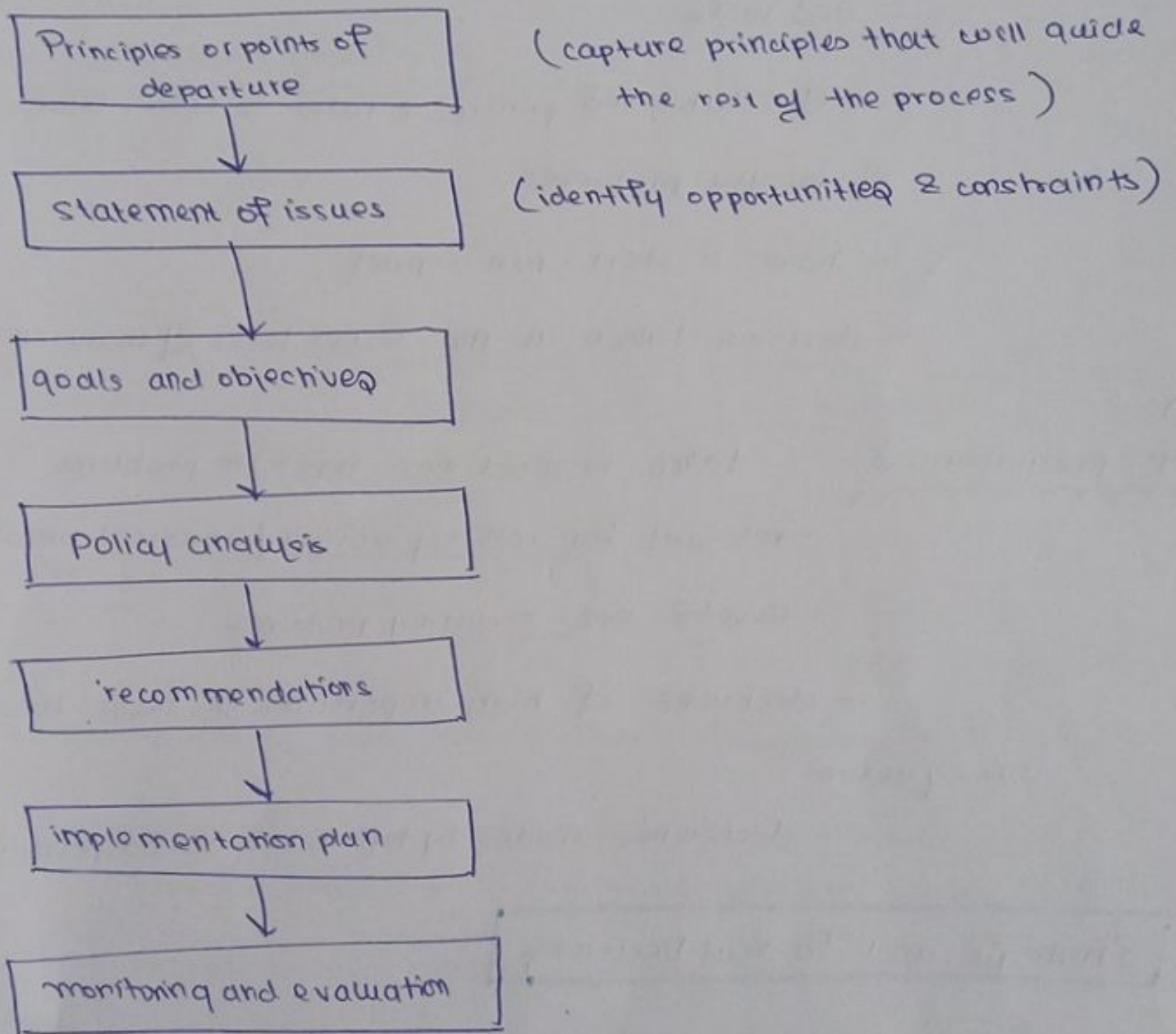
- The 3 generic strategies are not necessarily compatible with one another.
- In trying to achieve ~~some~~ an advantage on all fronts, it may achieve no advantage at all.
- Thus, a firm must select only one of these 3 generic strategies, otherwise will be 'stuck in the middle'

* Policies

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- Policies are general statements or understandings that guide managers' thinking in decision-making.
- They do not require action but are intended to guide managers to commit to decision

Steps



* Decision-making

- selection based on some criteria from two or more possible alternatives.

* Types of Decisions

→ categorized on the basis of the procedure followed.

A. Programmed vs. Non-Programmed Decisions

- (i) Programmed
- routine and repetitive
 - within the framework of organizational policies and rules
 - well established policies & rules to solve these kinds of ~~procto~~ problems
 - have a short-run impact
 - decision taken at the lower level of management

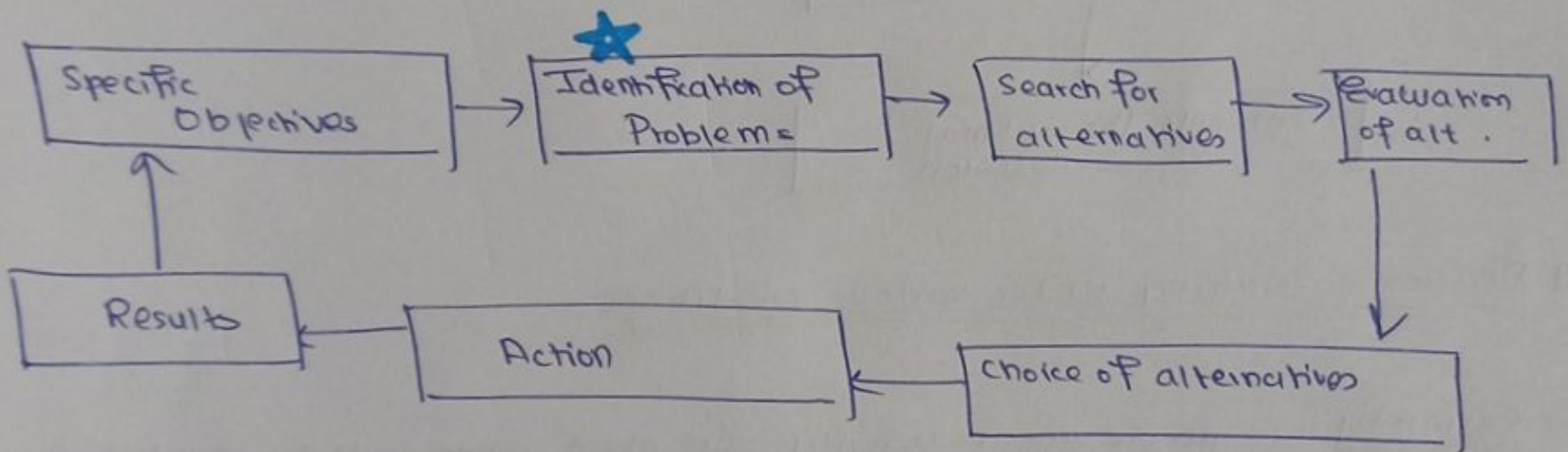
- (ii) Non-programmed
- taken to meet non-repetitive problems
 - relevant for solving unique/unusual problems
 - novel & non-recurring problems
 - decisions of high importance & have long-term consequences
 - decisions made by top-level management.

B. Strategic and Tactical Decisions

- (i) Strategic
- decisions of crucial importance
 - major actions like allocating resources, plant location, capital expenditure, entering into new markets

- (ii) Tactical Decisions - routine & repetitive decisions
- derived from strategic decisions
 - mostly programmed decisions
 - short-term & affects a narrow part of the org.
 - authority delegated to lower-level mgmt.

* Decision making Process



★ → Identification of problems involves Diagnosis & Analysis

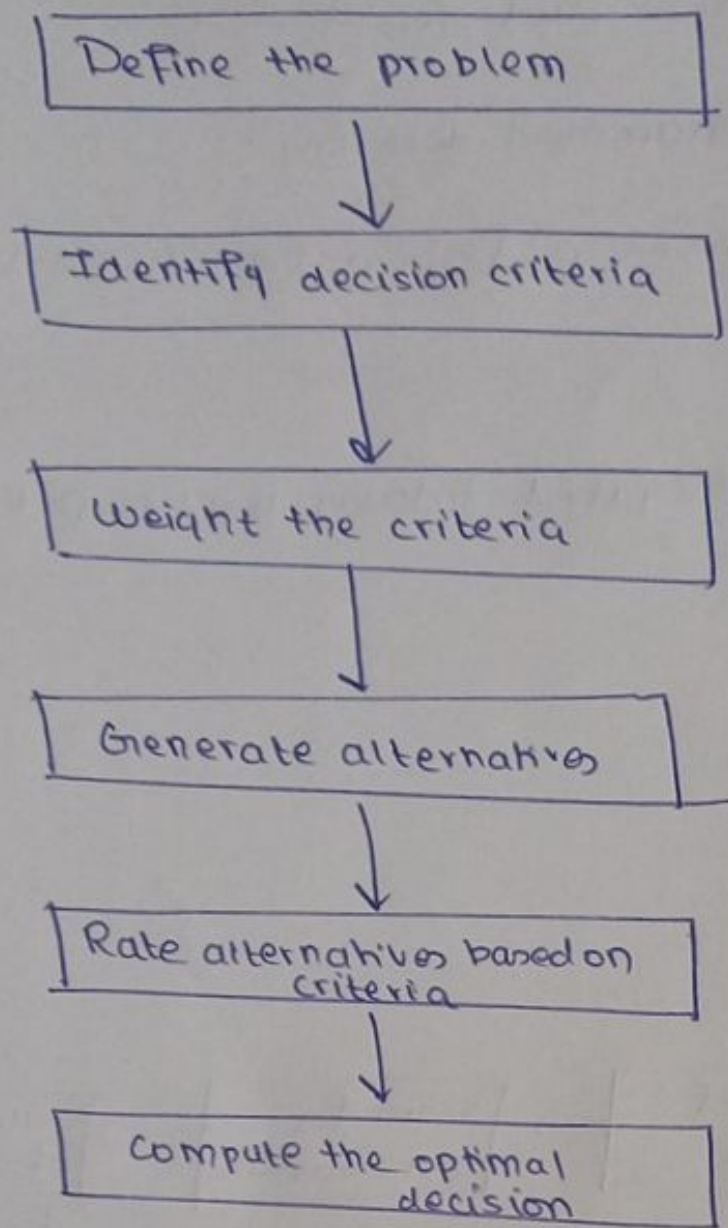
diagnosis - identifying a problem from its signs & symptoms
(must know that a gap exists between current state &

analysis - meant to gain insight into the problem
or solution)

* Rational Decision Making Model

- emerges from organizational behavior
- a logical process that follows an orderly path from problem ID to solution.

The 6 steps in the rational decision-making model



* Decision - Making under various conditions

A. Certainty - people are reasonably sure about what will happen when they make a decision

- info. is available & is considered to be reliable

B. Uncertainty - only a meager amount of data is available
- cannot evaluate interactions of diff. variables
- situation may or may not change

c) Risk - Factual information may exist, but may be incomplete

- To improve decision making - one may estimate the objective probability of an outcome using mathematical models, subjective probability, as well as judgement based off of experience.