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# **UNIT 1: PLANNING AND DECISION MAKING**

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# 1.0 Learning Objectives

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**After learning this unit, you will be able to understand:**

- Planning and Forecasting
- Importance of Planning
- Types of Plans
- About Decision Making
- Guidelines for making Effective Decisions

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## 1.1 Introduction

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In the previous unit, you learned about different approaches to management, i.e. how the idea of management as a thought evolved, early management approaches represented by scientific management, administrative management theory and human relations movement and modern management approaches represented by the behavioural approach, quantitative/management science approach, systems approach and finally the contingency approach. Then you learned about the nature and characteristics of the profession which included how management can be considered as a profession and professionalization of management in India.

In this unit, you will learn about the first and foremost function of management i.e. Planning and Decision Making. A proper planning is always necessary for apt decision making. Management decision making has direct connection with the value of business output.

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## 1.2 Planning and Forecasting

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**Fig 1.1 Planning**

In 1983, a chemistry student Ranganathan set out to sell shampoos with Rs. 15,000 in his pocket. It was a market with 200 odd companies, dominated by the ‘big daddy’ Hindustan Lever Ltd.

From the beginning, Ranganathan knew that many people outside the great Indian middle-class could not afford to spend sixty rupees on shampoo, but they could definitely afford a Re.1 sachet. After clearly visualising this gap, he treated the ‘Chik’ sachet and began selling the same on bicycle. To boost up the sales, he came out with another brilliant idea: ‘Return five shampoo sachets and get one Chik sachet free.’ The idea clicked in frugal rural households of Tamil Nadu. Volumes tripled, the revenues took care of distribution and the brand name stuck.

The liberalisation measures of 1990s helped him grab every opportunity to expand his market to every nook and corner of India. He began advertising first on regional satellite channels and consolidated his brands - Chik, Nyle (herbal shampoo), and the ever popular Fairever fairness cream - in the southern markets before launching them nationally.

Now, CavinKare Group (a synonym of beauty and grace in Tamil literature) has crossed a turnover of 8819 million INR in 2009-2010 with employee strength of 1520, on an all India network of 1300 Stockists catering to about 25 lakh outlets nationally.

In a market dominated by multinationals, Ranganathan created his own space through careful, elaborate planning of what prompts buyers to go after a

product. In a capital-hungry, labour-surplus market, he found the answer. Find a novel cost-effective product and position it in such a way that cannot be easily challenged. This simple chemistry student has already taught some great marketing lessons to multinationals and has proved that even small firms can grow and prosper in a tough environment if they are able to exploit their unique ideas (strengths) through proactive thinking and careful planning.

Today, CavinKare, having established a firm foothold in the national market, is increasing its popularity in the international arena. A dedicated Research and Development centre, equipped with the latest equipment and technologies, constantly supports the various divisions of this company in their endeavour. The Company, which primarily relied on contract manufacturing for many years, has now set up its own world-class plant at Haridwar to cater to the demand of both domestic and international market.

Planning: Deciding in advance what to do, how to do it, when to do it and who is to do it.

### **1.2.1 Meaning and Definition of Planning**

Successful managers try to envisage the problems before they turn into emergencies. As pointed out by Terry, “successful managers deal with foreseen problems and unsuccessful manager’s struggle with unforeseen problems. The difference lies in planning.”

Manager’s best owed with responsibility of achieving definite targets do not waste time waiting for future. Instead they carve the future through a creative collaboration of thoughts by removing present difficulties, anticipating future problems, changing the goals to suit the internal and external changes, experiment with creative ideas and take the initiative, attempting ‘to shape the future and create a more desirable environment.



**Fig 1.2 Planning and Forecasting**

A plan is a forecast for accomplishment. It is a prearranged course of action for tomorrow's activity. In other words, to plan is to prepare a blue print for future action, to bring about specific results at a specific cost in a specific period. Management thinkers have defined the term in two ways:

**Based on futurity:**

- Planning is a trap laid down to capture the future. (Allen)
- Planning is deciding in advance what is to be done in future. (Koontz).
- Planning is informed anticipation of future. (Haimann)
- Planning is 'anticipatory' decision-making. (R.L, Ackoff)

**Based on thinking:**

- Planning is a thinking process, an organised foresight, a vision based on fact and experience that is required for intelligent action. (Alford and Beatt)
- Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. (Koontz and O'Donnell)

A plan is a specific, documented intention consisting of an objective and an action statement. The objective portion is the end and the action statements represent means to that end. Stated another way, objectives give management

targets to shoot at, whereas action statements provide the arrows for hitting the targets. Properly conceived plans give a fair idea of how things are to work out.

### 1.2.2 Features of Planning

Planning has a number of characteristics:

- **Planning is goal-oriented.**
  - Planning is the core of business.
  - Goals established should be worked out to make.
  - Planning locates action which leads to goals quickly and economically.
  - Planning shows a sense of direction to various activities.
- **Planning is looking ahead.**
  - It is done for future.
  - It requires peeping in future, analyzing it and predicting it.
  - It is based on forecasting.
  - It is a synthesis of forecast.
  - It is a mental predisposition for things to happen in future.
- **Planning is an intellectual process.**
  - It is a mental exercise which includes lucrative thinking, judgment and imagination.
  - It involves not mere guesswork but rotational thinking.
  - It depends on goals, facts and considered estimates.
- **Planning involves choice and informed decision-making.**
  - It basically involves selecting from various alternatives.
  - It is not applicable in single course of action as it attains no choice.
  - The decision-making involves an integral part of planning.
  - It gives more options to managers to select the best as per needs.
  - It basically involves selecting from various alternatives.

- It is not applicable in single course of action as it attains no choice.
- The decision-making involves an integral part of planning.
- It gives more options to managers to select the best as per needs.
- **Planning is the primary function of management / Primacy of Planning**
  - It lays the foundation for other functions of management.
  - It serves as guide for organizing, staffing, directing and controlling.
  - It carries complete functions of management inside a framework.
  - It is the main function of management.
- **Planning is a continuous process.**
  - It serves as never-ending process due to dynamic business environment.
  - It is prepared for particular time and is subject to revaluation and review.
  - It remains continuous.
- **Planning is all-pervasive.**
  - It is needed at every level of management and everywhere in enterprise.
  - It varies with scope of work.
  - Top level involves in planning, middle level involves in departmental plans while lower level will implement the same plan.
- **Planning is designed for efficiency.**
  - It leads to complete objectives at lowest cost.
  - It avoids wastage of resources and ensures good use of resources.
  - It is worth or useless till it results in value of cost which occurs.
  - It results in saving time, effort and money.
  - It leads to correct use of men, money, materials, methods and machines.

- **Planning is Flexible.**
  - It should give enough room to cope with changes occurs with customer demand, competition, government policies, etc.
  - The original plan should keep on updating if any circumstance for change occurs.

### 1.2.3 Steps in Planning Process

#### Steps in Planning Function

Planning function of management involves the following steps:

- **Establishment of objectives**
  - The objective of planning is to follow a logically straight approach.
  - Planning should begin with setting up of goals and objectives.
  - The objectives should carry a base for doing various activities with certain direction of efforts.
  - An objective will stress on managers attention on particular result to get executed.
  - Another idea of objectives is to display clear, precise and straight meaning.
  - Objectives should be explained with clear quantitative terms.
  - The goals of objectives should be explained clearly in qualitative terms.
  - Objective should be practical, clear, adaptable, workable and achievable.
- **Establishment of Planning Premises**
  - It is an assumption of events which could happen in future.
  - It is the start of planning process.
  - It relates to finding a trend which deflects from real plans.
  - It locates the hindrances which appear in business at particular course of operations.



- It concerns with taking particular steps which broadly avoids hindrances.
- It can be internal or external which covers capital investment policy, management labour relations and socio- economic and economical changes.
- In this you can control internal premises whereas external premises cannot be controlled.
- **Choice of alternative course of action**
  - In case of forecasts and premises, various alternative actions can be considered.
  - It can be calculated based on pros and cons under light of resources present and need of organisation.
  - It examines merits, demerits and consequences of every alternative before making any selection.
  - Once objective and scientific evaluation is done, then the correct option is selected.
  - Planners with the help of quantitative techniques will be able to verify the stability of such alternative.
- **Formulation of derivative plans**
  - It is the secondary plans that are responsible for giving any help to achievement of main plan.
  - This plan moves from the main plan which will support and speed up the success of the main plans.
  - It covers policies, procedures, rules, programme, budgets, schedules, etc.
  - It shows time schedule as well as series of achieving different tasks.
- **Securing Co-operation**
  - Once the plan has designed, then it is advisable to take people into confidence who are linked with it.

- The idea of taking subordinates into confidence as get motivation and the organisation receives valuable suggestions with the idea to enhance it further.
- **Follow up/Appraisal of plans**
  - Once the action is decided, now it will be put into practice.
  - After implementation of particular plan, it is advisable to judge its performance.
  - The judgment is based on feedback or information from various departments or concerned people.
  - With this, the management can take correct deviations or can modify the plan.
  - All these make a link among planning and controlling function.

#### 1.2.4 Approaches to Planning

Managers tend to pursue approaches to planning based on the extent of participation, authority, delegation and competency level of managers working at various levels, namely:

1. **Top-down approach:** In most family-owned enterprises, authority and responsibility for planning is centralized at the top rung. The top management does approximately 60% of the job which means it defines the mission, lays down strategies, and specific action plans to achieve the stated goals and then pass on to the people working at lower level for execution.
2. **Bottom-up approach:** There are two kinds of people: Thinkers and Doers. Both are equally important. Thinking and doing aspects in the planning process are two sides of the same coin. Hence, if lower level managers are drawn into the preparation and implementation of plans, their loyalty and commitment would go up automatically.
3. **Composite approach:** In this approach, a middle path is chosen to facilitate the smooth implementation of the plans. Here the top management offers guidelines, sees boundaries and encourage the middle and lower level executives to come out with tentative plan.

4. **Team approach:** In this, the job of planning is assigned to a team of managers having requisite experience in various functional areas. They prepare the draft plans, taking internal as well as external factors into account. The tentative plans are forwarded to the top management for approval.

### 1.2.5 Principles of Planning

To be useful, planning should try to incorporate some of the time-tested and inter-related principles, beautifully summed up by Koontz thus:

1. **Principle of contribution to objectives:** Every plan should help in the achievement of organisational objectives.
2. **Principle of primacy of planning:** Planning precedes all other managerial functions. It is the first and the foremost function to be followed in the process of management.
3. **Principle of pervasiveness of planning:** Planning is an all-pervasive function. It is important to all managers regardless of their level in the organisation.
4. **Principle of flexibility:** By flexibility of a plan, we need to highlight its ability to switch gears, change direction to adapt to changing situations without unnecessary cost (ability to vary product mix, shift marketing effort geographically, raise additional funds on favorable terms, reshuffle and relocate personnel quickly, change organisation structure etc. are all included in this exercise).
5. **Principle of periodicity:** Plans should be integrated and interconnected in such a way as to achieve the stated objectives economically and efficiently. A manager should review events and expectations regularly, refine and redraw the plan and keep it on track.
6. **Principle of planning premises:** Every plan is based on carefully considered assumptions, known as planning premises. “The more the individuals charged with planning, understand and agree “to utilize consistent planning premises, the more coordinated enterprise planning will be.”

7. **Principle of limiting factor:** While choosing an appropriate course of action among different alternatives, the limiting or critical factor (such as money, manpower, machinery, materials, management) should be recognized and given due weightage. When ignored, the critical factor would seriously affect the process of planning and make it impossible to achieve goals.

### 1.2.6 Importance of Planning

- **Planning facilitates management by objectives.**
  - Planning starts with finding of an objective.
  - It shows the reason for starting different activities.
  - With this, the objective becomes clear and particular.
  - With planning, an employee will be more focused towards objectives and goals.
  - There will be no path, if there is no planning.
- **Planning minimizes uncertainties.**
  - In business, there occur lots of uncertainties.
  - Because of such uncertainties, there occurs risk factor in every business.
  - With planning, the uncertainties can be lowered as it anticipates any future occurrences.
  - Since future cannot be predicted 100%, so with the help of planning, the management will come to know about future activities.
- **Planning facilitates co-ordination.**
  - It is seen that planning moves around organisational goals.
  - In this, all activities are aimed at common goals.
  - There is a combined effort all the way in an enterprise in departments and groups.
  - It keeps away from replication of efforts which results in good co-ordination.

- It solves the problems related to work performance which aims as altering the same.
- **Planning improves employee's morale.**
  - With planning, an atmosphere of order and discipline originates that takes it as a serious aspect.
  - Through planning employees will come to know what is required from them which results in obtaining conformity.
- **Planning helps in achieving economy.**
  - Good planning results in safer economy as it leads to allocation of resources.
  - It makes admissible for correct use of resources for economic operations.
  - There will no wastage of resources if choosing correct use will can add to objectives of an enterprise.
- **Planning facilitates controlling.**
  - With planning it is possible to proceed with fixed planned goals and standards of presentation.
  - The basic of controlling is provided.
  - An operative system of controlling is unmanageable without presence of good thought plans.
- **Planning provides competitive edge.**
  - Planning uses change in work methods, quality, quantity designs, extension of work, redefining of goals etc.
  - The forecasting will secure the future of an enterprise and at the same time calculate the future motives of competitors.
- **Planning encourages innovations.**
  - With planning process, managers will be able to suggest ways and different means in order to improve performance.
  - It is the decision making function which accommodates creative thinking and imagination which shows innovative methods and growth operations of an enterprise.

### 1.2.7 Types of Plans

The network of various plans facilitates and guides the decision-making and actions on the part of managers.

Knowledge regarding single use and standing plan, appreciating the distinction between policies and strategies, policies and procedures and objective and strategy is very important for a manager before he starts the process of planning.

To provide guidance to the managers to make decisions, take action and solve problems, various plans are drawn up. These plans help the managers in managing day-to-day affairs, exploiting resources of organisation to good effect efficiently and in regulating the work behaviour of subordinates. Some of the plans do provide unifying and consistent base for managerial decision and action. These may be grouped into single use plan and standing plans.

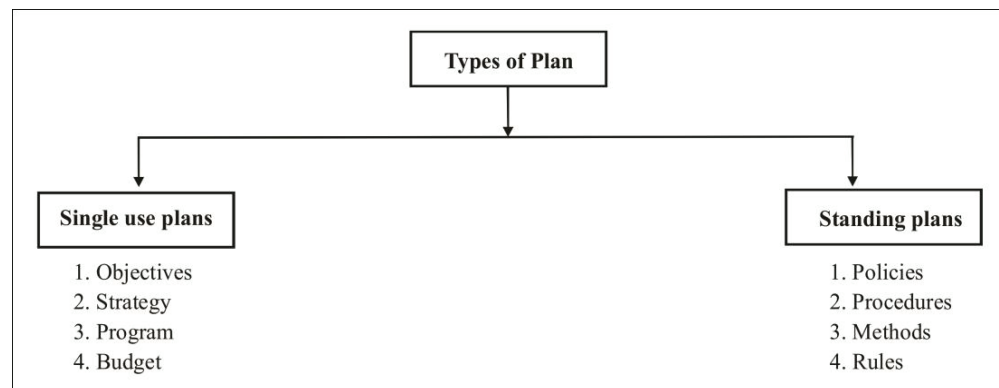


Fig 1.3 Types of Plans

#### 1. Single Use Plans

- **Objective:** Future destination or desirable undertakings.
- **Strategy:** Course of action developed by relating strengths and weaknesses of an organisation with opportunities and threats arising out of a mutable environment.
- **Programme:** A network of policies procedures, rules and budgets designed to meet specific situations and all other needful actions mandatory for implementing a given course of action is included in this phase.

- **Budget:** This is a numerical expression of plan in terms of expected revenue and expenditure over a given period of time.

## 2. Standing Plans

- **Policies:** General statement that guides decision-making.
- **Procedure:** Administrative action guide, which sets the chronological sequence for action.
- **Method:** Detailed manner in which a specific activity will be performed.
- **Rules:** Directives for regulating and controlling the working behaviour of the employees.

### 1.2.8 Advantages and Disadvantages of Planning

#### Advantages

- Planning forces the manager to generate a blueprint of line of action for doing objectives.
- With planning, there exists order and reasonableness in an organisation.
- It encourages the employees to deliver best which led to earning of reward.
- This will develop healthy attitude in work, which further boost the morale and efficiency of employees.
- It leads to pre-determined goals that will helped to compare actual performance.
- It is seen that planning and controlling are opposite sides of a coin.
- With planning, best use of resources, good quality production and aggressive strength of enterprise can be enhanced.

#### Disadvantages

- With planning the administration becomes inflexible.
- It requires progressive policies, procedures and programmes.
- It is circumscribed to individual freedom.
- It is restricted to individual interests not for an enterprise.
- Due to assemblage of data, it is a time consuming process.

- It does not work at time of emergency or crisis when faster decisions are needed.
- Planning depends on thought which is not accurate as a result of future stability.
- Planning is not cost effective as lot of time and money spends on collection, analysis and evaluation of information.

### **1.2.9 Types of Planning**

There are four types planning which are:

- Operational Planning
- Intermediate Planning
- Contingency Planning
- Strategic Planning

#### **Operational Planning**

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

The basic steps involved in operational planning involve:

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



### **Intermediate Planning**

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

### **Contingency Planning**

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

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

### **Strategic Planning**

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

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

### 1.2.10 Management by Objective

It is a type of management which is popular and result oriented technique for any organisation. It is a systematic and organized way which focuses on achievement of goals. It allows management to alter organisation learning to be more result oriented.

It has certain objectives for employees as:

- In this the management dumps the organisational goals and gives chunks to senior managers.
- It is the work of senior managers to obtain objectives for achieve as per organisational goals.
- It chunks down operational management goals and find activities needed for getting such objectives.
- After giving objectives and activities, management releases input to find objectives in a particular time with certain tracking features.
- In this all objectives are tracked and certain feedbacks related to objective were delivered to objective owner.

#### Check your progress 1

1. General statements that guides decision making –
  - a. policies
  - b. procedure
  - c. method
  - d. rules
2. Detailed manner in which a specific activity will be performed –
  - a. method
  - b. rules
  - c. procedures
  - d. policies

3. Which among the following is correct in terms of planning?
- a. It improves employee's morale
  - b. It increases uncertainties
  - c. It makes the objectives confusing
  - d. It lowers the economy
4. Which principle describes first and foremost function that be followed in case of process of management?
- a. Principle of contribution to objectives
  - b. Principle of primacy of planning
  - c. Principle of pervasiveness of planning
  - d. Principle of flexibility

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## 1.3 Decision Making

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### Pepsi-Cola's Dilemma

Many years ago, several reports surfaced stating that syringes and hypodermic needles had been found in Pepsi cans. It was a challenging problem for Pepsi-Cola's executives. Could needles have been put in Pepsi at the canning plants or were the reports a hoax?

The information was unclear and fast changing, time was running out and the executives had to resolve the issue speedily. Recalling the product meant danger for the company. However, there was no evidence produced against the company as yet. A recall would have been very costly and the company would have lost the trust of customers. The executives, after carefully analysing the facts, realised that syringes could not go into un-opened cans of Pepsi. Instead of going for a recall, the executives went on a massive public relations and education campaign.

Nationwide ad campaigns explained, "How implausible it was that syringes could have been put into Pepsi cans at the plants." They also assured consumers that there had been no injuries and not a single confirmed case of a needle found in an unopened can of Pepsi had been reported. By responding quickly and openly to public fears, Pepsi weathered the syringe-scare crisis with little damage.

Pepsi managers made the right decision, believing, based on careful internal analysis, that needle could not possibly have been put into can of Pepsi at the plants. However, it was a decision that could have backfired, if the company would have failed in its attempts to convince consumers that Pepsi products were truly safe.

### 3.3.1 Meaning of Decision Making

Decision-making can be considered as the cognitive process resulting in the selection of a course of action among several available alternatives. It is found that all decision making process will generate a final choice where the output can be perceived as an opinion.

Precisely, decision making relates to the study of discovery and selection of various alternatives which depends on values and choice of a decision maker. Further, decision making shows an option that is taken care of where the manager could simply narrow down on two factors:

- Highest possibility of success
- Excellent match of goals, desires, lifestyle with values.

In the decision making process, an uncertainty will be lower and doubt related to alternatives will make a good choice.



**Fig 1.4 Decision Making**

The above explanation focuses on the information gathering functions which results for making decision. In such cases, the uncertainty will be lowered instead of eliminated. Under such situations, fewer decisions are made with

complete confirmation as entire knowledge of all alternatives is rarely feasible. So all decision uses a certain level of risk some higher than the rest. If there is no uncertainty, you do not have a decision; you have an algorithm- a set of steps or a recipe that is followed to bring about a fixed result.

### 1.3.2 Characteristics of Decision-Making

The important characteristics of decision-making may be listed thus:

- **Goal-oriented:** Decision-making is a goal-oriented process. Decisions are usually prepared to attain some purpose or goal. The intention is to move towards some anticipated state.
- **Alternative:** A decision should be viewed as ‘a point reached in a stream of action.’ It is characterized by two activities- search and choice. The manager searches for opportunities, to arrive at decisions and for alternative solutions, so that action may take place. Selecting an alternative and abiding by it leads to decision making. Thus, an alternative is found fit to solve a particular problem. When no alternatives exist, the manager does not need to arrive at a decision. When uncertainty concerning a particular outcome is confronted, the manager has no choice but to put on his decision making hat.
- **Analytical-Intellectual:** Decision-making is not only an intellectual process but also an intuitive one. It involves conscious and unconscious aspects. Part of it can be learned, but part of it depends upon the personal characteristics of the decision maker.
- **Dynamic Process:** Decision-making is characterized as a process, rather than as one static entity. It is a process of using inputs effectively in the solution of selected problems and the creation of outputs that have utility. Moreover, it is a process concerned with ‘identifying worthwhile things to do’ in a dynamic setting.
- **Pervasive Function:** Decision-making permeates all management and covers every part of an enterprise. Decision-making is the crux of a manager’s job. Everything that the manager does is backed by the power of decision – making.

- **Continuous Activity:** The life of a manager is a perpetual choice-making activity. He decides things as per the gravity of the situation on a continual and regular basis. It is not a one shot deal.
- **Commitment of Time, Effort and Money:** Decision-making implies commitment of time, effort and money. The commitment may be short term or long-term, depending on the type of decision (e.g. strategic, tactical or operating). Once a decision is made, the organisation moves in a specific direction in order to achieve the goals.
- **Human and Social Process:** Decision-making is a human and social process involving intellectual abilities, intuition and judgment. The human as well as social impacts of a decision are usually taken into account while making the choice from several alternatives.

For example, in a labour-surplus, capital-hungry country like India, managers cannot afford to suddenly shut down plants, lop off divisions and lay off thousands of workers in the face of intense competition.

- **Integral Part of Planning:** As Koontz indicated, 'decision making is the core of planning.' Both are intellectual processes, demanding discretion and judgment. Both aim at achieving goals. Both are situational in nature. Both involve choice among-alternative courses of action. Both are based on forecasts and assumptions and about future risk and uncertainty.

### 1.3.3 The Decision-Making Process

Making a good decision is a difficult exercise. It is the product of deliberation, evaluation and thought. To make good decisions, managers should invariably follow a sequential set of steps as shown in this figure.

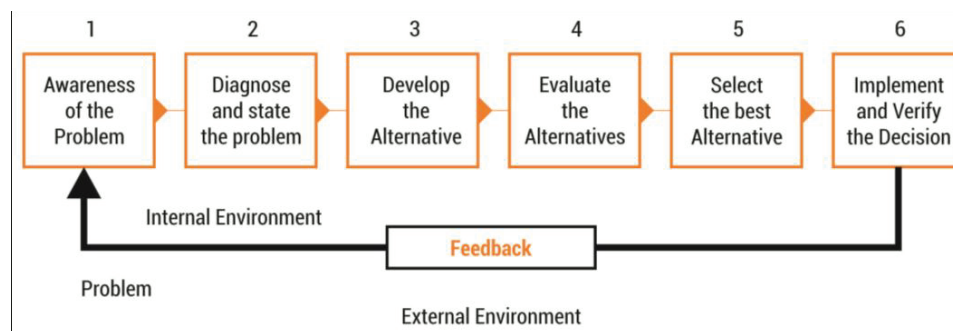


Fig 1.5 Decision making process

## **1. Awareness of the problem**

The first step in the decision-making process is recognizing the problem. The manager should be vigilant enough to know that a problem exists and that it is important enough for managerial action. Problems generally arise because of disparity between what is and what should be. To identify the gaps between the current and desired state of affairs, managers should look for problems that need solving. They must look for occasions to arrive at decisions. The existence of a problem thus steps up the need for decision making.

In order to recognize problems, a manager is expected to monitor the decision-making environment, understand the possible causes and try to define the real problem carefully.

## **2. Diagnose and state the problem**

A successful manager must have the ability to weed out the wheat from the chaff before deciding on a specific course of action. Once aware of a problem, he must state the real problem. He must try to solve the problem, not just note down the symptoms. Quite often, managers waste time developing solutions to the wrong problem. This is because opportunities and problems in the environment do not surface so easily.

Some questions that you need to ask include:

- What is the problem? What is the difference between what is and what should be?
- Which problems should be solved?
- What is the real cause of the problem?

To avoid the danger of prescribing a wrong antidote for the organisation, the manager should consider all aspects of the issue and the decision environment properly. For example, a high employee turnover in an organisation may be due to low salaries, poor working conditions, tight supervision, poor scheduling, dissatisfaction with the jobs etc. The manager should analyse all these causes thoroughly before defining the real problem. An attitude survey may be undertaken to find out why employees are leaving the organisation. This would give an insight into what are the unknown issues left unresolved.

### 3. Develop the alternative

Quite often, executives try to take up the first feasible option. The statement of the problem in clear, measurable terms enables executives to develop alternatives.

The capability to expound alternatives is as important as making a right decision when selecting among alternatives. Ingenuity, research and creative imagination are required to make sure that the best alternatives are considered before a course of action is selected.

### 4. Evaluate the alternatives

In this step, the decision maker attempts to summarise the advantages and disadvantages of each alternative. The consequences if any, of each alternative must also be considered. Sometimes, the alternatives developed may meet internal demands but may fail to meet environmental conditions. In such cases, a manager may be forced to make a 'less than optimal-decision.'

The primary objective of evaluation is not to find out one magic solution but to find out a workable solution that would help to eliminate the problem for good. The attempt is made chiefly to limit the alternatives to a manageable and economically feasible number.

### 5. Select the best alternative

In this step, the decision maker selects the alternative that will maximise the results in terms of existing objectives.

Fortunately, Peter Drucker has offered the following criteria for making the right choice among available alternatives:

- **The risk:** The manager always plays the game of calculated risks as he has to weigh the risks of each course of action against the expected gains.
- **Economy of effort:** The alternative that will give the greatest output for the least inputs in terms of material and human resources is obviously the best one.
- **Timing:** If the situation has great urgency, the best alternative is the one that the decision maker finds fit.



- **Limitation of resources:** Physical, financial and human resources impose a limit on the choice of selection. If adequate resources are not currently available, the decision should be deferred.

## 6. Implement and verify the decision

After making a decision, the manager must implement it. He must see whether it has worked out or not in practicality. In other words, he must seek feedback regarding the effectiveness of the implemented solutions.

### 1.3.4 Guidelines for Making Effective Decision

This can be done if following factors are taken into consideration:

- **Categorical Interpretation:** At the very outset, it may be emphasized that logical decisions can be made if the real problem is interpreted and identified with in depth study and observation.
- **Application of Limiting Factor:** In choosing from among alternatives, the more a manager recognizes and solves for those factors, which are limiting and critical to the attainment of desired objectives, the more clearly and accurately he can select the most desirable alternative.
- **Adequate Information:** Information is the lifeblood of an organisation because all conclusions are based on this. The more the quantity of reliable information, higher is the validity of decision.
- **Considering Others' Views:** While arriving at a decision, it is desirable that all alternatives are considered before arriving at a decision.
- **Timeliness:** A decision, to be effective, must be made at proper time. A delay in decision-making may result into loss of opportunities in this fast-changing environment.

### 1.3.5 Types of Decision

There are basically 3 types of decisions, that are-

1. **Strategic decisions:** are big choices of identity and direction. Who are we? Where are we heading? These decisions are often complex and multi-

dimensional. They may involve large sums of money, have a long-term impact and are usually taken by senior management.

2. **Tactical decisions:** These decisions are about how to manage performance to achieve the strategy. What resources are needed? What is the timescale? These decisions are idiosyncratic but within clearer boundaries. They may involve important resources, have medium-term implications and may be taken by senior or middle managers.
3. **Operational decisions:** are more routine and follow known rules. How many? To what specification? These decisions involve more limited resources, have a shorter-term application and can be taken by middle or first line managers.

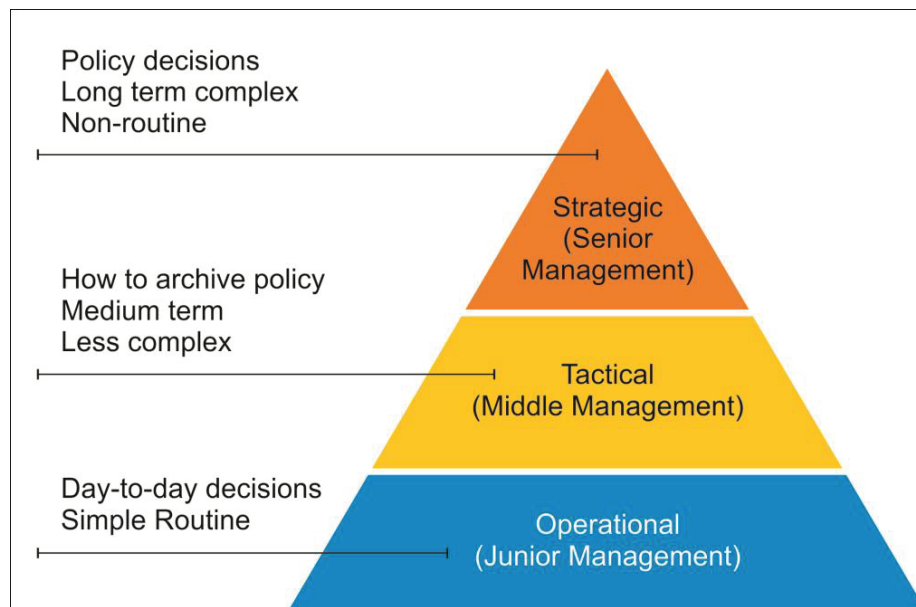


Fig 1.6 Types of decisions

### Check your progress 2

1. Which among the following is not a characteristic of decision making?
  - a. It is a goal oriented process.
  - b. It is viewed as a point reached in a stream of action.
  - c. It is an intellectual cum intuitive process.
  - d. It is related to static entity and not a process.

2. Decision making implies to commitment of:

- a. time
- b. effort
- c. money
- d. all

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## 1.4 Let Us Sum Up

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In this unit we have learnt, that a plan is a forecast for accomplishment which is a predetermined course of action which produces a scheme for future action in order to bring specified results at particular cost in a period.

It is seen that planning has a number of characteristics such as goal-oriented, futuristic, intellectual process, choice and decision making and serves as the main function of the management.

It is analysed that planning is a continuous all pervasive, flexible and designed for efficiency process which involves different steps in establishing objectives. In these plans, managers have certain approaches such as Top-down, Bottom-up, Composite and Team approach.

It is studied that there exists two types of Plans which is Single Use Plans having Objective, Strategy, Programme, Budget and second is Standing Plans having Policies, Procedure, Method and Rules.

Planning aids an organisation to give it a direction provide a unifying framework, economic and reduces uncertainty. It facilitates decision making, encourages innovation, and improves work morale and facilities control.

It is seen that a decision making process will include various steps such as awareness of problem, accurate diagnosis and development of feasible alternatives.

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## 1.5 Answers for Check Your Progress

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**Check your progress 1**

**Answers:** (1-a), (2-a), (3-a), (4-b)

**Check your progress 2**

**Answers:** (1-d), (2-d)

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## 1.6 Glossary

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- 1    **Planning** - It is the process of deciding in advance what is to be done, when and where it is to be done, how it is to be done and by whom.

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## 1.7 Assignment

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Define planning. What are the steps involved in planning?

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## 1.8 Activities

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Explain approaches to planning. What are the principles of planning?

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## 1.9 Case Study

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Are You a Good Planner? Planning is an important skill for managers. Using a hypothetical situation and the information given above, analyse yourself as a good planner. Prepare a report on the same.

### **Planning and Forecasting**

Banks plan loan rate freeze to cash in on festival demand

MUMBAI: Several banks, which were earlier planning to raise their home loan rates in October, were considering deferring such plans, keeping in mind the holiday season ahead when demand for such loans is expected to soar.

After the Reserve Bank of India revised its policy rates in mid-September, several banks said they would consider increasing their lending rates in October when the base rate, on which loans are priced, came up for review.

However, on festivals most banks see a huge demand in personal, car and home loans, as it is considered as an auspicious time for purchasing homes or other assets. Discounts are offered in the form of a waiver in processing fees and lower rates for a limited period.

“Banks may not hike home rates immediately since sales are expected to pick up soon after the Pitru Paksha is over,” said Oriental Bank of Commerce CMD T.Y. Prabhu. During Pitru Paksha, which is related to post-death rites performed by Hindus, many people consider it inauspicious and choose not to take any major investment decisions.

Although the festival season was close, banks were under pressure to raise lending rates in October as their cost of funds have gone up by 50 to 100 basis points during the last quarter. Interest rates on bulk deposits and certificate of deposits had crossed 8% for one year compared with 7% a few months ago. Mr. Prabhu said if banks are under pressure to raise lending rates, they may raise the base rate but simultaneously narrow the spread between the base rate and home loan rates. Banks have pegged their base rate in the range of 7.50% to 8%.

The special home loan scheme of India's largest bank, State Bank of India, is due to close on September 30, but its officials say the bank is most likely to extend the scheme for another quarter to woo customers in the festive season. SBI offers a fixed rate of interest of 8% in the first year, 9% in the second and third year, after which the loan is priced on a floating rate basis.

Punjab National Bank, the second-largest bank, too has come out with a festive offer on home loans marked by a fixed rate of interest of 8.5% for the first three years and subsequently linked to prevailing floating rates.

Last week, Corporation Bank introduced a special home loan and vehicle loan scheme, known as grand festival offer, wherein for loans up to ₹30 lakh, the lender will offer it at base rate of 7.75% in the first year and 50 bps above the base rate for second and 8.25% in the third year. The bank will charge 0.25% more if the loan is above ₹30 lakh. “So far, demand for home loan has not been very encouraging, although we are better than the peers. But with this offer, we expect to deploy ₹1,000 crore,” said S.M. Swati, General Manager-In-Charge of Retail Lending at Corporation Bank.

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## **1.10 Further Readings**

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1. Principles of Management, B.S. Moshal, Galgotia Publications.
2. Management Text and Cases, VSP Rao and V. Hari Krishna, published by Anurag Jain for Excel books.
3. Principles of Management, Edition 2, P. C. Tripathi and P. N. Reddy, Tata McGraw Hill Publishing Company.