# UNIT II
# PLANNING

According to Koontz O'Donnel - "Planning is an intellectual process, the conscious determination of courses of action, the basing of decisions on purpose, acts and considered estimates".

**Nature of Planning**

1. **Planning is goal-oriented:** Every plan must contribute in some positive way towards the accomplishment of group objectives. Planning has no meaning without being related to goals.
2. **Primacy of Planning:** Planning is the first of the managerial functions. It precedes all other management functions.
3. **Pervasiveness of Planning:** Planning is found at all levels of management. Top management looks after strategic planning. Middle management is in charge of administrative planning. Lower management has to concentrate on operational planning.
4. **Efficiency, Economy and Accuracy:** Efficiency of plan is measured by its contribution to the objectives as economically as possible. Planning also focuses on accurate forecasts.
5. **Co-ordination:** co-ordinates the what, who, how, where and why of planning. Without co-ordination of all activities, we cannot have united efforts.
6. **Limiting Factors:** A planner must recognize the limiting factors (money, manpower etc) and formulate plans in the light of these critical factors.
7. **Flexibility:** The process of planning should be adaptable to changing environmental conditions.
8. **Planning is an intellectual process:** The quality of planning will vary according to the quality of the mind of the manager.

**Purpose of Planning**

1. **To manage by objectives:** All the activities of an organization are designed to achieve certain specified objectives. However, planning makes the objectives more concrete by focusing attention on them.
2. **To offset uncertainty and change:** Future is always full of uncertainties and changes. It foresees the future & makes necessary provisions for it.
3. **To secure economy in operation:** The selection of most profitable course of action that would lead to the best result at the minimum costs.
4. **To help in co-ordination:** Co-ordination is, indeed, the essence of management, the planning is the base of it. Without planning it is not possible to co-ordinate the different activities of an organization.
5. **To make control effective:** The controlling function of management relates to the comparison of the planned performance with the actual performance. In the absence of plans, a management will have no standards for controlling other's performance.
6. **To increase organizational effectiveness:** Mere efficiency in the organization is not important; it should also lead to productivity and effectiveness. Planning enables the manager to measure the organizational effectiveness in the context of the stated objectives and take further actions in this direction.

**Features of Planning**

- It is primary function of management.
- It is an intellectual process
- Focuses on determining the objectives
- Involves choice and decision making
- It is a continuous process
- It is a pervasive function

## CLASSIFICATION OF PLANNING

**On the basis of content**

| Strategic Planning | Tactical Planning |
|---|---|
| It is process of deciding on Long-term objectives of firm | It involves conversion of detailed and specific plans into detailed and specific action plans. |
| It encompasses all the functional areas of business | It is the blue print for current action and it supports the strategic plans. |

**On the basis of time period**

| Long term planning | Intermediate term planning | Short term planning |
|---|---|---|
| Time frame beyond five years<br>It specifies what the organization wants to become in long run<br>It involves great deal of uncertainty. | Time frame between two and five years<br>It is designed to implement long term plans | Time frame of one year or less<br>It provide basis for day to day operations |

## PLANNING PROCESS

**a) Perception of Opportunities:** Is not strictly a planning process. However, this awareness is very important for planning process be-cause it leads to formulation of plans by providing clue whether opportunities exist for taking up particular plans. From this point of view, it can be considered are the beginning of planning process. Perception of opportunities includes a preliminary look at possible opportunities and the ability to see them clearly and completely, knowledge of where the organization stands in the light of its strengths and weaknesses, an understanding of why the organization wants to solve uncertainties, and a vision of what it expects to gain.

**b) Establishing Objectives:** The first and primary step in planning process is the establishment of planning objectives or goals. Definite objectives, in fact, speak categorically about what is to be done, where to place the initial emphasis and the things to be accomplished by the network of policies, procedures, budgets and programmes, the lack of which would invariably result in either faulty or ineffective planning.

**c) Considering the Planning Premises:** Planning premises are assumptions about the future understanding of the expected situations. These are the conditions under which planning activities are to be undertaken. These premises may be internal or external. Internal premises are internal variables that affect the planning. These include organizational polices, various resources and the ability of the organization to withstand the environmental pressure. External premises include all factors in task environment like political, social technological, competitors' plans and actions, government policies, market conditions. Both internal factors should be considered in formulating plans. At the top level mainly external premises are considered. As one moves downward, internal premises gain importance.

**d) Identification of alternatives:** Once the organizational objectives have been clearly stated and the planning premises have been developed, the manager should list as many available alternatives as possible for reaching those objectives. For instance, to achieve the objectives of securing desired profits, necessary plant and machinery should be established in the organization. The machinery can be of different types like: Manual plant, Semi automatic plant, complete automatic plant. While developing the alternatives, organizational frame work like constraint of capital, manpower and philosophies may be taken into account.

**e) Evaluation of alternatives:** At this stage, an attempt is made to evaluate how each alternative contributes to the organizational objectives in the light of its resources and constraints. This presents a problem because each alternative may have certain positive points on one aspect but negative on others. For example, one alternative may be most profitable but requires heavy investment with long gestation period; another may be less profitable but also involves less risk. Moreover, there is no certainty about the outcome of any alternative because it is related with future and future is not certain. This is the reason why more sophisticated techniques of planning and decision-making have been developed.

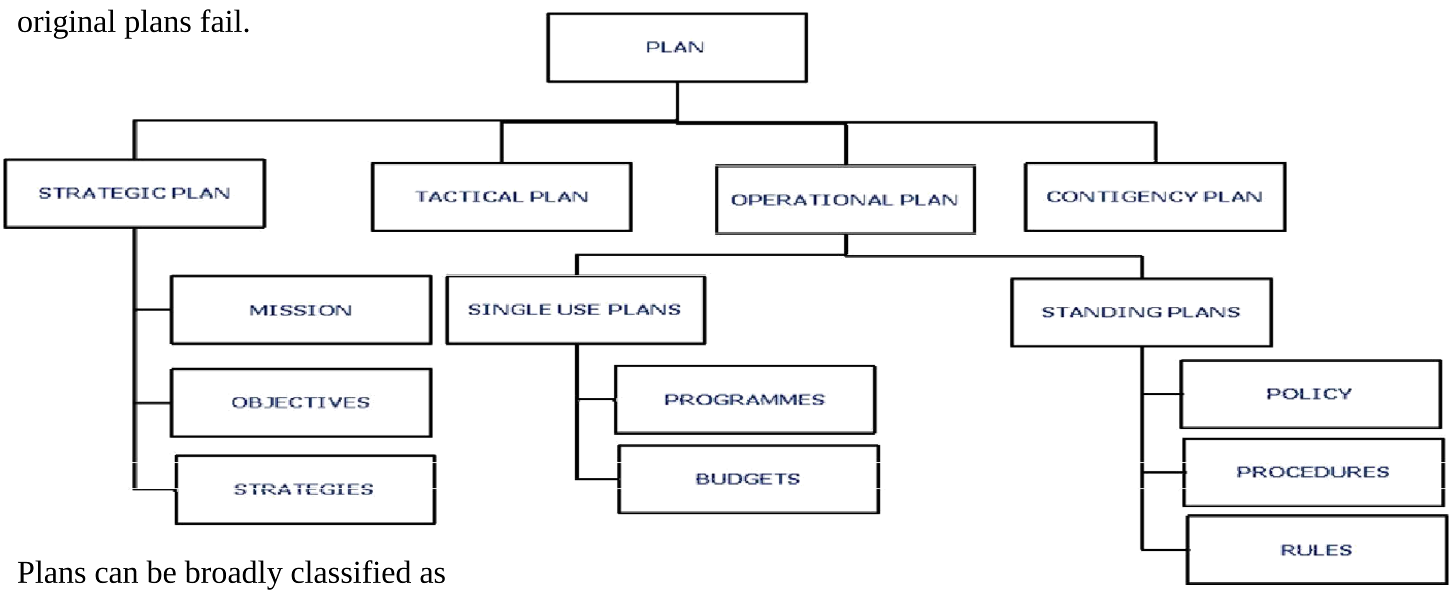
**f) Choice of alternative plans:** After the evaluation of various alternatives the fit one is selected. Sometimes evaluation shows that more than one alternative is equally good. In such a case, a planner may choose more than one alternative. There is another reason for choosing more than one alternative. Alternative course of action is to be undertaken in future, which is not constant. A course of action chosen keeping in view the various planning premises may not be the best one if there is change in planning premises. Therefore, planner must be ready with alternative, normally known as contingency plan, which can be implemented in changed situations.

**g) Formulating of Supporting Plans:** After formulating the basic plan, various plans are derived so as to support the major plan. In an organization there can be various derivative plans like planning for buying equipments, buying raw materials, recruiting and training personnel, developing new product, etc. These derivative plans are formulated out of the main plan and, therefore, they support it.

**h) Establishing sequence of activities:** After formulating basic and derivative plans, the sequence of activities is determined so that plans are put into action. Based on plans at various levels, it can be decided who will do what and at what time. Budgets for various periods can be prepared to give plan more concrete meaning or implementation.

**TYPES OF PLANS / COMPONENTS OF PLANNING**

Operational plans lead to the achievement of tactical plans, which in turn lead to the attainment of strategic plans. In addition to these three types of plans, managers should also develop a contingency plan in case their original plans fail.




Plans can be broadly classified as

**a) Strategic plans:** A strategic plan is an outline of steps designed with the goals of the entire organization as a whole in mind, rather than with the goals of specific divisions or departments. It is further classified as

- **Mission:** The mission is a statement that reflects the basic purpose and focus of the organization which normally remain unchanged. The mission of the company is the answer of the question: why does the organization exists? Mission of Ford: “we are a global, diverse family with a proud inheritance, providing exceptional products and services”.

- **Objectives or goals:** Both goal and objective can be defined as statements that reflect the end towards which the organization is aiming to achieve. However, there are significant differences between the two. A goal is an abstract and general umbrella statement, under which specific objectives can be clustered. Objectives are statements that describe—in precise, measurable, and obtainable terms which reflect the desired organization’s outcomes.
- **Strategies:** Strategy is the determination of the basic long term objectives of an organization and the adoption of action and collection of action and allocation of resources necessary to achieve these goals. Strategic planning begins with an organization's mission. Strategic plans look ahead over the next two, three, five, or even more years to move the organization from where it currently is to where it wants to be. Top management's strategic plan for the entire organization becomes the framework and sets dimensions for the lower level planning.

**b) Tactical plans:** A tactical plan is concerned with what the lower level units within each division must do, how they must do it, and who is in charge at each level. Tactics are the means needed to activate a strategy and make it work. They are concerned with shorter time frames and narrower scopes than are strategic plans. These plans usually span one year or less because they are considered short-term goals. Long-term goals, on the other hand, can take several years or more to accomplish. Normally, it is the middle manager's responsibility to take the broad strategic plan and identify specific tactical actions.

**c) Operational plans:** The specific results expected from departments, work groups, and individuals are the operational goals. These goals are precise and measurable. “Process 150 sales applications each week” or “Publish 20 books this quarter” are examples of operational goals.
An operational plan is one that a manager uses to accomplish his or her job responsibilities. Supervisors, team leaders, and facilitators develop operational plans to support tactical plans (see the next section). Operational plans can be a single-use plan or a standing plan.

- **Single-use plans** apply to activities that do not recur or repeat. A one-time occurrence, such as a special sales program, is a single-use plan because it deals with the who, what, where, how, and how much of an activity.
  - ¬ **Programme**: Programme consists of an ordered list of events to be followed to execute a project.
  - ¬ **Budget**: A budget predicts sources and amounts of income and how much they are used for a specific project.
- **Standing plans** are usually made once and retain their value over a period of years while undergoing periodic revisions and updates. The following are examples of ongoing plans:
  - ¬ **Policy**: Provides a broad guideline for managers to follow when dealing with important areas of decision making. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Typical human resources policies, for example, address such matters as employee hiring, terminations, performance appraisals, pay increases, and discipline.
  - ¬ **Rule**: Is an explicit statement that tells an employee what he or she can and cannot do. Rules are “do” and “don't” statements put into place to promote the safety of employees and the uniform treatment and behavior of employees. For example, rules about absenteeism.
  - ¬ **Procedure**: A procedure is a set of step-by-step directions that explains how activities or tasks are to be carried out. Most organizations have procedures for purchasing supplies and equipment, for example. This procedure usually begins with a supervisor completing a purchasing requisition. The

requisition is then sent to the next level of management for approval. The approved requisition is forwarded to the purchasing department. Depending on the amount of the request, the purchasing department may place an order, or they may need to secure quotations and/or bids for several vendors before placing the order. By defining the steps to be taken and the order in which they are to be done, procedures provide a standardized way of responding to a repetitive problem.

**d) Contingency plans:** Intelligent and successful management depends upon a constant pursuit of adaptation, flexibility, and mastery of changing conditions. Strong management requires a "keeping all options open" approach at all times — that's where contingency planning comes in. Contingency planning involves identifying alternative courses of action that can be implemented if and when the original plan proves inadequate because of changing circumstances. Keep in mind that events beyond a manager's control may cause even the most carefully prepared alternative future scenarios to go awry. Unexpected problems and events frequently occur. When they do, managers may need to change their plans. Anticipating change during the planning process is best in case things don't go as expected. Management can then develop alternatives to the existing plan and ready them for use when and if circumstances make these alternatives appropriate.

## OBJECTIVES

Objectives may be defined as the goals which an organization tries to achieve. Objectives are described as the end- points of planning. According to Koontz and O'Donnell, "an objective is a term commonly used to indicate the end point of a management programme." Objectives constitute the purpose of the enterprise and without them no intelligent planning can take place.

### Features of Objectives

- The objectives must be predetermined.
- clearly defined provides clear direction for managerial effort
- Objectives must be realistic.
- Objectives must be measurable.
- Objectives must have social sanction.
- All objectives are interconnected and mutually supportive.
- Objectives may be short-range, medium-range long-range.
- Objectives may be constructed into a hierarchy.

### Advantages of Objectives

- Clear definition of objectives encourages unified planning.
- Objectives provide motivation to people in the organization.
- When the work is goal-oriented, unproductive tasks can be avoided.
- Objectives provide standards which aid in the control of human efforts in an organization.
- Objectives serve to identify the organization and to link it to the groups upon which its existence depends.
- Objectives act as a sound basis for developing administrative controls.
- Contribute to the management process: they influence the purpose of the orgn, policies, personnel, leadership as well as managerial control.

**Process of Setting Objectives:** Objectives are the keystone of management planning. It is the most important task of management. Objectives are required to be set in every area which directly and vitally effects the survival and prosperity of the business. In the setting of objectives, the following points should be borne in mind.

- Objectives are required to be set by management in every area which directly and vitally affects the survival and prosperity of the business.

- The objectives to be set in various areas have to be identified.
- the past performance must be reviewed, since past performance indicates what the organization will be able to accomplish in future.
- The objectives should be set in realistic terms i.e., the objectives to be set should be reasonable and capable of attainment.
- Objectives must be consistent with one and other.
- Objectives must be set in clear-cut terms.
- For the successful accomplishment of the objectives, there should be effective communication.

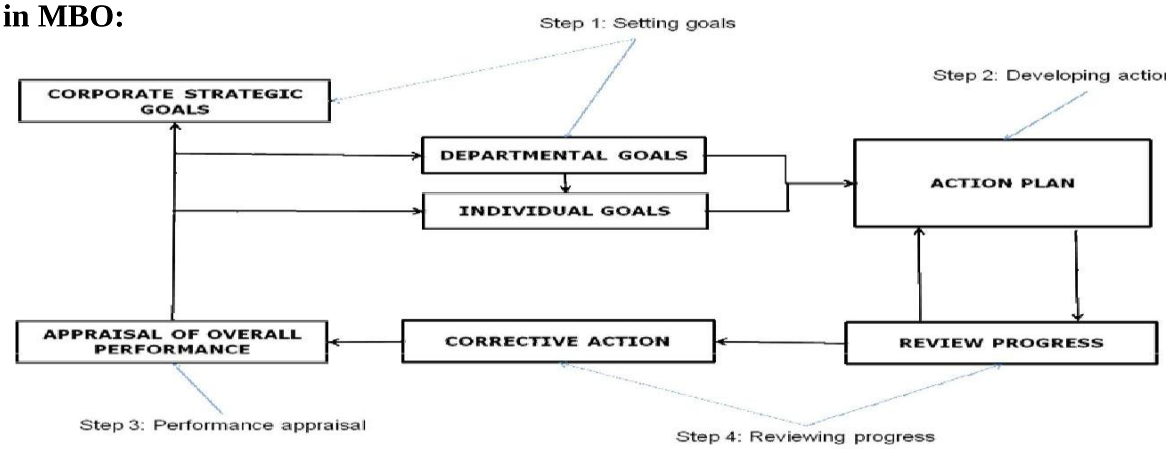
**MANAGEMENT BY OBJECTIVES (MBO)** MBO was first popularized by Peter Drucker in 1954 in his book 'The practice of Management'.

**Definition:** "MBO is a process whereby the superior and the mangers of an organization jointly identify its common goals, define each individual's major area of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members."

**Features of MBO**

1. MBO is concerned with goal setting and planning for individual managers and their units.
2. The essence of MBO is a process of joint goal setting between a supervisor and a subordinate.
3. Managers work with their subordinates to establish the performance goals that are consistent with their higher organizational objectives.
4. MBO focuses attention on appropriate goals and plans.
5. MBO facilitates control through the periodic development and subsequent evaluation of individual goals and plans.

**Steps in MBO:**




The typical MBO process consists of:
1) Establishing a clear and precisely defined statement of objectives for the employee
2) Developing an action plan indicating how these objectives are to be achieved
3) Reviewing the performance of the employees
4) Appraising performance based on objective achievement

**1) Setting objectives: T**o be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company objectives set by the board of directors. The managers of the various units or sub-units, or sections of an organization should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them.
MBO systems, objectives are written down for each level of the organization, and individuals are given specific aims and targets.

**2) Developing action plans:** Actions plans specify the actions needed to address each of the top organizational issues and to reach each of the associated goals, who will complete each action and according to what timeline. An overall, top-level action plan that depicts how each strategic goal will be reached is developed by the top level management. The format of the action plan depends on the objective of the organization.

**3) Reviewing Progress:** Performance is measured in terms of results. Job performance is the net effect of an employee's effort as modified by abilities, role perceptions & results produced. Effort refers to the amount of energy an employee uses in performing a job. Abilities are personal characteristics used in performing a job and usually do not fluctuate widely over short periods of time. Role perception refers to direction in which employees believe they should channel their efforts on their jobs, & they are defined by the activities & behaviors they believe are necessary.

**4) Performance appraisal:** Performance appraisals communicate to employees how they are performing their jobs, and they establish a plan for improvement. Performance appraisals are extremely important to both employee and employer, as they are often used to provide predictive information related to possible promotion. Appraisals can also provide input for determining both individual and organizational training and development needs. Performance appraisals encourage performance improvement.

**Advantages**

- Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment.
- Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates Clarity of goals
- Subordinates have a higher commitment to objectives they set themselves than those imposed on them by another person.
- Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

**Limitations:** There are several limitations to the assumptive base underlying the impact of managing by objectives, including:

- It over-emphasizes the setting of goals over the working of a plan as a driver of outcomes.
- It underemphasizes the importance of the environment or context in which the goals are set. That context includes everything from the availability and quality of resources, to relative buy-in by leadership and stake-holders.
- Companies evaluated their employees by comparing them with the "ideal" employee. Trait appraisal only looks at what employees should be, not at what they should do.
- When this approach is not properly set, agreed and managed by organizations, self-centered employees might be prone to distort results, falsely representing achievement of targets that were set in a short-term, narrow fashion. In this case, managing by objectives would be counterproductive.

**STRATEGIES:**

According to Koontz and O' Donnell, "Strategies must often denote a general programme of action and deployment of emphasis and resources to attain comprehensive objectives". Strategies are plans made in the light of the plans of the competitors because a modern business institution operates in a competitive environment. They are a useful framework for guiding enterprise thinking and action.

**Characteristics of Strategy**

- It is the right combination of different factors.
- It relates the business organization to the environment.
- It is an action to meet a particular challenge, to solve particular problems or to attain desired objectives.
- Strategy is a means to an end and not an end in itself.
- It is formulated at the top management level.
- It involves assumption of certain calculated risks.

**Strategic Planning Process / Strategic Formulation Process**

1. **Input to the Organization**: Various Inputs (People, Capital, Management and Technical skills, others) including goals input of claimants (Employees, Consumers, Suppliers, Stockholders, Government, Community and others)need to be elaborated.
2. **Industry Analysis**: Formulation of strategy requires the evaluation of the attractiveness of an industry by analyzing the external environment. The focus should be on the kind of compaction within an industry, the possibility of new firms entering the market, the availability of substitute products or services, the bargaining positions of the suppliers, and buyers or customers.
3. **Enterprise Profile**: Enterprise profile is usually the starting point for determining where the company is and where it should go. Top managers determine the basic purpose of the enterprise and clarify the firm's geographic orientation.
4. **Orientation, Values, and Vision of Executives**: The enterprise profile is shaped by people, especially executives, and their orientation and values are important for formulation the strategy. They set the organizational climate, and they determine the direction of the firm though their vision. Consequently, their values, their preferences, and their attitudes toward risk have to be carefully examined because they have an impact on the strategy.
5. **Mission (Purpose), Major Objectives, and Strategic Intent**: Mission or Purpose is the answer to the question: What is our business? The major Objectives are the end points towards which the activates of the enterprise are directed. Strategic intent is the commitment (obsession) to win in the competitive environment, not only at the top-level but also throughout the organization.
6. **Present and Future External Environment**: Must be assessed in terms of threats and opportunities.
7. **Internal Environment**: Internal Environment should be audited and evaluated with respect to its resources and its weaknesses, and strengths in research and development, production, operation, procurement, marketing and products and services. Other internal factors include, human resources and financial resources as well as the company image, the organization structure and climate, the planning and control system, and relations with customers.
8. **Development of Alternative Strategies**: Strategic alternatives are developed on the basis of an analysis of the external and internal environment. Strategies may be specialize or concentrate. Alternatively, a firm may diversify, extending the operation into new and profitable markets. Other examples of possible strategies are joint ventures, and strategic alliances which may be an appropriate strategy for some firms.
9. **Evaluation and Choice of Strategies**: Strategic choices must be considered in the light of the risk involved in a particular decision. Some profitable opportunities may not be pursued because a failure in a risky venture could result in bankruptcy of the firm. Another critical element in choosing a

strategy is timing. Even the best product may fail if it is introduced to the market at an inappropriate time.

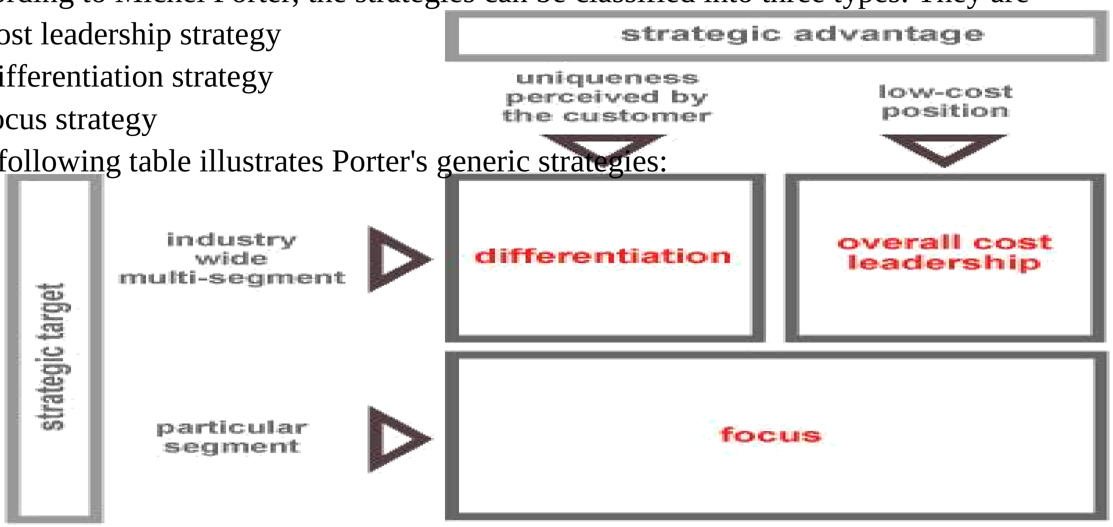
10. **Consistency Testing and Contingency Planning**: The last key aspect of the strategic planning process is the testing for consistency and preparing for contingency plans.

**<u>TYPES OF STRATEGIES</u>**

According to Michel Porter, the strategies can be classified into three types. They are

a) Cost leadership strategy
b) Differentiation strategy
c) Focus strategy

The following table illustrates Porter's generic strategies:




**a) Cost Leadership Strategy:** This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain <u>market share</u>. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market. Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and <u>vertical integration</u> decisions. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
- Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels.

Each generic strategy has its risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

**b) Differentiation Strategy:** A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily.

Firms that succeed in a differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.
- Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

**c) Focus Strategy:** The focus strategy concentrates 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, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.

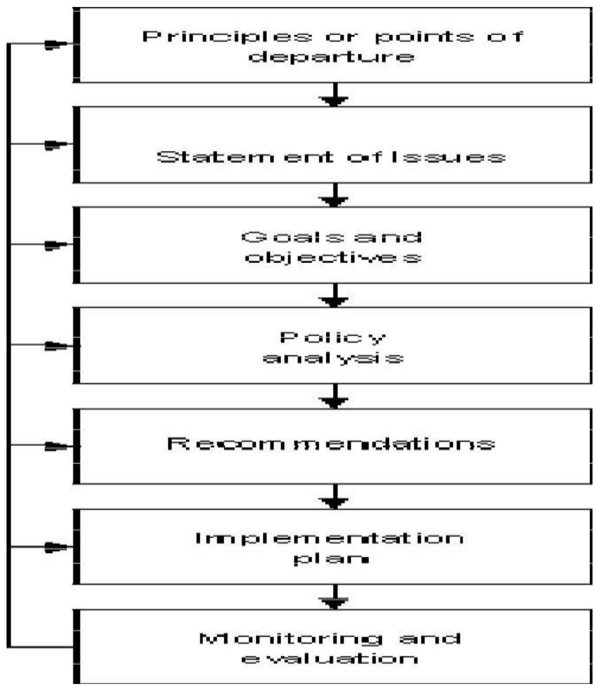
Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

**A Combination of Generic Strategies:** These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Michael Porter argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage.
Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle."

However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

**POLICIES**

**Policies** are general statements or understandings that guide managers' thinking in decision making. They usually do not require action but are intended to guide managers in their commitment to the decision they ultimately make.




The first step in the process of policy formulation, as shown in the diagram below, is to capture the values or principles that will guide the rest of the process and form the basis on which to produce a statement of issues. The statement of issues involves identifying the opportunities and constraints affecting the local housing market, and is to be produced by thoroughly analyzing the housing market. The kit provides the user with access to a housing data base to facilitate this analysis.

The statement of issues will provide the basis for the formulation of a set of housing goals and objectives, designed to address the problems identified and to exploit the opportunities which present themselves.

The next step is to identify and analyze the various policy options which can be applied to achieve the set of goals and objectives. The options available to each local government will depend on local circumstances as much as the broader context and each local authority will have to develop its own unique approach to addressing the housing needs of its residents.

An implementation program for realizing the policy recommendations must then be prepared, addressing budgetary and programming requirements, and allocating roles and responsibilities. Finally, the implementation of the housing strategy needs to be systematically monitored and evaluated against the stated goals and objectives, and the various components of the strategy modified or strengthened, as required.

At each step of the way, each component of the strategy needs to be discussed and debated, and a public consultation process engaged in. The extent of consultation and the participants involved will vary with each step.

**Essentials of Policy Formulation**

The essentials of policy formation may be listed as below:

- A policy should be definite, positive and clear. It should be understood by everyone in the organization.
- A policy should be translatable into the practices.
- A policy should be flexible and at the same time have a high degree of permanency.
- A policy should be formulated to cover all reasonable anticipatable conditions.
- A policy should be founded upon facts and sound judgment.
- A policy should conform to economic principles, statutes and regulations.
- A policy should be a general statement of the established rule.

**Importance of Policies**

Policies are useful for the following reasons:

- They provide guides to thinking and action and provide support to the subordinates.
- They delimit the area within which a decision is to be made.
- They save time and effort by pre-deciding problems and
- They permit delegation of authority to mangers at the lower levels.

## DECISION MAKING

The word decision has been derived from the Latin word "decidere" which means "cutting off". Thus, decision involves cutting off of alternatives between those that are desirable and those that are not desirable. In the words of George R. Terry, "Decision-making is the selection based on some criteria from two or more possible alternatives".

**Characteristics of Decision Making**

- Decision making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem or to arrive at expected results.
- The decision-maker has freedom to choose an alternative.
- Decision-making may not be completely rational but may be judgemental and emotional.
- Decision-making is goal-oriented.
- Decision-making is a mental or intellectual process because the final decision is made by the decision-maker.
- A decision may be expressed in words or may be implied from behaviour.
- Choosing from among the alternative courses of operation implies uncertainty about the final result of each possible course of operation.
- Decision making is rational. It is taken only after a thorough analysis and reasoning and weighing the consequences of the various alternatives.

## TYPES OF DECISIONS

**a) Programmed and Non-Programmed Decisions:** Herbert Simon has grouped organizational decisions into two categories based on the procedure followed. They are:

**i) Programmed decisions:** Programmed decisions are routine and repetitive and are made within the framework of organizational policies and rules. These policies and rules are established well in advance to solve recurring problems in the organization. Programmed decisions have short-run impact. They are, generally, taken at the lower level of management.

**ii) Non-Programmed Decisions:** Non-programmed decisions are decisions taken to meet non-repetitive problems. Non-programmed decisions are relevant for solving unique/ unusual problems in which various alternatives cannot be decided in advance. A common feature of non-programmed decisions is that they are novel and non-recurring and therefore, readymade solutions are not available. Since these decisions are of high importance and have long-term consequences, they are made by top level management.

**b) Strategic and Tactical Decisions:** Organizational decisions may also be classified as strategic or tactical.

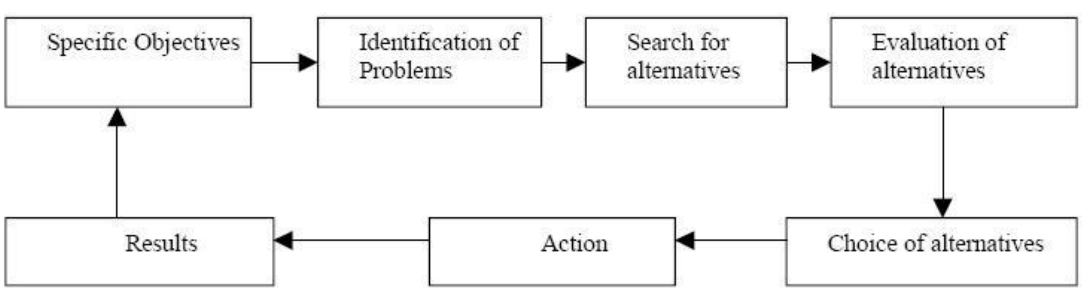
i) **Strategic Decisions:** Basic decisions or strategic decisions are decisions which are of crucial importance. Strategic decisions a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Decisions like plant location, product diversification, entering into new markets, selection of channels of distribution, capital expenditure etc are examples of basic or strategic decisions.

**ii) Tactical Decisions:** Routine decisions or tactical decisions are decisions which are routine and repetitive. They are derived out of strategic decisions. The various features of a tactical decision are as follows:

- Tactical decision relates to day-to-day operation of the organization and has to be taken very frequently.
- Tactical decision is mostly a programmed one. Therefore, the decision can be made within the context of these variables.
- The outcome of tactical decision is of short-term nature and affects a narrow part of the organization.
- The authority for making tactical decisions can be delegated to lower level managers because: first, the impact of tactical decision is narrow and of short-term nature and Second, by delegating authority for such decisions to lower-level managers, higher level managers are free to devote more time on strategic decisions.

## DECISION MAKING PROCESS

The decision making process is presented in the figure below:



**1. Specific Objective:** The need for decision making arises in order to achieve certain specific objectives. The starting point in any analysis of decision making involves the determination of whether a decision needs to be made.

**2. Problem Identification:** A problem is a felt need, a question which needs a solution. In the words of Joseph L Massie "A good decision is dependent upon the recognition of the right problem". The objective of problem identification is that if the problem is precisely and specifically identifies, it will provide a clue in finding a possible solution. A problem can be identified clearly, if managers go through diagnosis and analysis of the problem.

**Diagnosis:** Diagnosis is the process of identifying a problem from its signs and symptoms. A symptom is a condition or set of conditions that indicates the existence of a problem. Diagnosing the real problem implies knowing the gap between what is and what ought to be, identifying the reasons for the gap and understanding the problem in relation to higher objectives of the organization.

**Analysis:** Diagnosis gives rise to analysis. Analysis of a problem requires:

- Who would make decision? What information would be needed? From where the information is available?

3. **Search for Alternatives:** A problem can be solved in several ways; however, all the ways cannot be equally satisfying. Therefore, the decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision. A decision maker can use several sources for identifying alternatives:

- His own past experiences
- Practices followed by others and
- Using creative techniques.

4. **Evaluation of Alternatives:** After the various alternatives are identified, the next step is to evaluate them and select the one that will meet the choice criteria. /the decision maker must check proposed alternatives against limits, and if an alternative does not meet them, he can discard it. Having narrowed down the alternatives which require serious consideration, the decision maker will go for evaluating how each alternative may contribute towards the objective supposed to be achieved by implementing the decision.

5. **Choice of Alternative:** The evaluation of various alternatives presents a clear picture as to how each one of them contribute to the objectives under question. A comparison is made among the likely outcomes of various alternatives and the best one is chosen.

6. **Action:** Once the alternative is selected, it is put into action. The actual process of decision making ends with the choice of an alternative through which the objectives can be achieved.

7. **Results:** When the decision is put into action, it brings certain results. These results must correspond with objectives, the starting point of decision process, if good decision has been made and implemented properly. Thus, results provide indication whether decision making and its implementation is proper.

**Characteristics of Effective Decisions**

An effective decision is one which should contain three aspects. These aspects are given below:

- **Action Orientation:** Decisions are action-oriented and are directed towards relevant and controllable aspects of the environment. Decisions should ultimately find their utility in implementation.
- **Goal Direction:** Decision making should be goal-directed to enable the organization to meet its objectives.
- **Effective in Implementation:** Decision making should take into account all the possible factors not only in terms of external context but also in internal context so that a decision can be implemented properly.

**RATIONAL DECISION MAKING MODEL:** The Rational Decision Making Model is a model which emerges from Organizational Behavior. The process is one that is logical and follows the orderly path from problem identification through solution. It provides a structured and sequenced approach to decision making. Using such an approach can help to ensure discipline and consistency is built into your decision making process.

**The Six-Step Rational Decision-Making Model**

1) **Defining the problem:** This is the initial step of the rational decision making process. First the problem is identied and then defined to get a clear view of the situation.
2) **Identify decision criteria:** Once a decision maker has defined the problem, he or she needs to identify the decision criteria that will be important in solving the problem. In this step, the decision maker is determining what’s relevant in making the decision. This step brings the decision maker’s interests, values, and personal preferences into the process. Identifying criteria is important because what one person thinks is relevant, another may not. Also keep in mind that any factors not identified in this step are considered as irrelevant to the decision maker.
3) **Weight the criteria:** The decision-maker weights the previously identified criteria in order to give them correct priority in the decision.
4) **Generate alternatives:** The decision maker generates possible alternatives that could succeed in resolving the problem. No attempt is made in this step to appraise these alternatives, only to list them.
5) **Rate each alternative on each criterion:** The decision maker must critically analyze and evaluate each one. The strengths and weakness of each alternative become evident as they compared with the criteria and weights established in second and third steps.
6) **Compute the optimal decision:** Evaluating each alternative against the weighted criteria and selecting the alternative with the highest total score.

**DECISION MAKING UNDER VARIOUS CONDITIONS**

The conditions for making decisions can be divided into three types. Namely

a) Certainty,

b) Uncertainty and

c) Risk.

Virtually all decisions are made in an environment to at least some uncertainty However; the degree will vary from relative certainty to great uncertainty. There are certain risks involved in making decisions.

**a) Certainty:** In a situation involving certainty, people are reasonably sure about what will happen when they make a decision. The information is available and is considered to be reliable, and the cause and effect relationships are known.

**b) Uncertainty:** In a situation of uncertainty, on the other hand, people have only a meager database, they do not know whether or not the data are reliable, and they are very unsure about whether or not the situation may change. Moreover, they cannot evaluate the interactions of the different variables. For example, a corporation that decides to expand its Operation to an unfamiliar country may know little about the country, culture, laws, economic environment, and politics. The political situation may be volatile that even experts cannot predict a possible change in government.

**c) Risk:** In a situation with risks, factual information may exist, but it may be incomplete. 1o improve decision making One may estimate the objective probability of an outcome by using, for example, mathematical models On the other hand, subjective probability, based on judgment and experience may be used. All intelligent decision makers dealing with uncertainty like to know the degree and nature of the risk they are taking in choosing a course of action. One of the deficiencies in using the traditional approaches of operations research for problem solving is that many of the data used in model are merely estimates and others are based on probabilities. The ordinary practice is to have staff specialists conic up with best estimates.

Virtually every decision is based on the interaction of a number of important variables, many of which has an element of uncertainty but, perhaps, a fairly high degree of probability. Thus, the wisdom of launching a new product might depend on a number of critical variables: the cost of introducing the product, the cost of producing it, the capital investment that will he required, the price that can be set for the product, the size of the potential market, and the share of the total market that it will represent.

**PLANNING PREMISES**

According to H. weihrich and H.koontz, ”Planning premises are identified as the anticipated environment in which plans are expected to operate."

**PROCESS OF PLANNING PREMISES:** ***Wrong premises can lead to failure of plans.***

**1. Selection of the premises:** Though there are innumerable factors in the environment, all of them do not affect operations of the business enterprise. Top managers should select the premises which have direct impact on developing organizational plans. There are many factors that affect business decisions, some of which are general in nature while others are selective. The general factors affect all the firms alike but specific factors affect different firms differently. While developing premises, organizations should focus more on specific factors (or its micro environment) as they have immediate impact on making the plans.

In order to analyze the factors that affect developing the premises, two factors have to be taken into account:

**I. The probability of impact of factors:** Represents whether the factors under study affect or do not affect the planning premises. This probability can be high, medium or low.

**II. The degree of impact of factors:** Given the factors which have the probability of developing planning premises, it represents the degree to which these factors affect the planning premises. This can also be high, medium or low.

**Based on these two broad factors, nine different combinations can be formed which broadly result into four categories:**

**1. Critical factors:** These factors must be thoroughly analyzed as they significantly affect making of the planning premises.

(i) High probability of impact, and (ii) High degree of impact.

**2. High priority factors:** Though these factors are not as important as critical factors, they rank high in priority in developing the planning premises. These factors also must be thoroughly analysed by managers as they significantly affect the making of planning premises.

(i) Medium probability of impact, and High degree of impact and (ii) High/Medium probability of impact, and Medium degree of impact

**3. Factors to be watched:** Thus, while these factors may not affect the planning premises, but if they affect, their degree of impact is high. A close watch must be kept on these factors so that their impact may not be ignored.

(i) Low probability of impact, and (ii) High degree of impact.

**4. Low priority factors:** These factors rank low in priority in affecting the planning premises as either their probability of impact is low or the degree of impact is low. These factors do not significantly affect making of the planning premises and, therefore, do not require extensive scanning by managers.

(i) Low probability of impact, and Medium degree of impact and (ii) High/Medium/Low probability of impact, and Low degree of impact.

The factors covered under various categories are not generic and determination of these factors depends upon the judgment of managers, nature and size of the organization and nature of environment in which the organizations are operating.

| Probability of impact of factors | Degree of Impact of factors | | |
|---|---|---|---|
| | High | Medium | Low |
| High | Critical | High priority | Low Priority |
| Medium | High Priority | High Priority | Low Priority |
| Low | To be watched | Low Priority | Low Priority |

**2. Development of alternative premises:** Since factors affecting organizational plans cannot be perfectly predicted, managers should develop alternative premises i.e., plans under different sets of assumptions about the future events. This helps in developing contingent plans. Contingent plans are the alternative plans for alternative premises. Since the premises keep changing, some slowly and some fast, to keep pace with such changes, alternative plans must be developed. As developing too many plans is costly in terms of time and money, the following factors should be considered in developing contingent plans:

(a) Should be made for those factors which are important for corporate decisions like economic factors, competitors' policies, consumers' tastes etc. They should be made in the order of priority of factors like: Critical factors, High priority factors, To be watched factors, Low priority factors,

(b) They should be made on the basis of cost-benefit analysis, i.e., alternative whose cost seems to be more than its benefits should be dropped out.

(c) Though maximum details should be covered in each contingency plan, all the plans cannot cover extensive information. Contents or details should depend on the order of priority of plans. Important plans made for critical factors should cover maximum information while plans for low priority factors should not contain extensive details as the degree of their impact on organizational plans is low.

Collecting details or information about the factors that affect the premises is based on forecasting techniques. The choice of technique (simple or complex) depends upon the need of the organization, resources, the period in which information is collected, the sample size, to what degree is the sample representative of the general population etc. Every technique has costs and benefits and a thorough cost-benefit analysis should be undertaken before adopting a specific technique of forecasting. In some cases, this information is available through secondary sources like published journals, magazines and information agencies. The relevance of such information should be considered before using it for development of premises.

**3. Verification of premises:** Planning staff at different levels of different departments makes plans according to their judgement. These premises are then sent to top executives for their approval. The premises which involve both staff and line managers are more consistent than those that are developed by executives alone.

**4. Communication of premises:** After the premises are developed, they are supported by budgets and programmes and communicated to all those concerned with development of plans at different levels in different departments. Planning premises are contained in documents like environmental threat and opportunity profile (ETOP) and communicated to managers concerned. The premises, thus, help to develop sound plans followed by strategies, policies, procedures etc. which further help in effective implementation of plans.

**Types of Planning Premises**

**1. Internal and External Premises**

- **Internal Premises** come from the business itself. It includes skills of the workers, capital investment policies, philosophy of management, sales forecasts, etc.
- **External Premises** come from the external environment. That is, economic, social, political, cultural and technological environment. External premises cannot be controlled by the business.

**2. Controllable, Semi-controllable and Uncontrollable Premises**

- **Controllable Premises** are those which are fully controlled by the management. They include factors like materials, machines and money.
- **Semi-controllable Premises** are partly controllable. They include marketing strategy.
- **Uncontrollable Premises** are those over which the management has absolutely no control. They include weather conditions, consumers' behavior, government policy, natural calamities, wars, etc.

**3. Tangible and Intangible Premises**

- **Tangible Premises** can be measured in quantitative terms. They include units of production and sale, money, time, hours of work, etc.
- **Intangible Premises** cannot be measured in quantitative terms. They include goodwill of the business, employee's morale, employee's attitude and public relations.

### 4. Constant and Variable Premises

- **Constant Premises** do not change. They remain the same, even if there is a change in the course of action. They include men, money and machines.
- **Variable Premises** are subject to change. They change according to the course of action. They include union-management relations.