Levels of Decision Making

Capital budgeting involves three levels of decision-making (*Gordon, Miller & Mintzberg, 1975*): operating, administrative & strategic.

	Operating decision	Administrative decisions	Strategic decisions
Where is the decision taken	Lower level management	Middle level management	Top level management
How structure is the decision	Routine: minor office equipment, Inventory recording	Semi-structured: balancing equipment, bond selling	Un-structured: diversification project, plant location
What is the level of resource commitment	Minor resource commitment	Moderate resource commitment	Major resource commitment
What is the time horizon	Short-term	Medium-term	Long-term

Generation & Screening of Project Ideas

Project identification is often a triggering process rather than an analytical exercise. Therefore, it is difficult to develop methods or procedures to accomplish this task. Our objective is to identify investment opportunities, which are primarily feasible & promising, & which merit further examination & appraisal.

The possible sources of generating project ideas:

To stimulate the flow of project ideas the following are helpful:

(a) Periodic SWOT (strength, weakness, opportunities & threats) analysis,

(b) Clear articulation of objectives, &

(c) Fostering (Development) a conducive (favorable) climate.

Generation & Screening of Project Ideas condt...

- A regular monitoring of the business environment may help to identify the project opportunity. Business environment consists of six sectors: *economic, government, technological, socio-demographic, competition, & supplier sector.*
- Appraisal of corporate strength & weakness covers five broad areas:
  (1) marketing & distribution,
  (2) production & operation,
  (3) research & development,
  (4) corporate resources & personnel, &
  (5) finance & accounting

Scouting for project ideas:

(a) analyze the performance of existing industries,
(b) examine the input & output of various industries,
(c) review imports & exports,
(d) study plane outlays & governmental guidelines,
(e) look at the suggestion of financial institutions & development agencies,
(f) investigate local materials & resources,
(g) analyze economic & social trends,
(h) study new technology,
(i) draw clues from consumption abroad,
(j) explore the possibility of reviving of sick units,
(k) identify unfulfilled psychological needs,
(l) attend trade fairs, & finally
(m) stimulate creativity for generatin[illegible]w product ideas

Project Selection

- Project selection is the process of evaluating individual projects or groups of projects, & then choosing to implement some set of them so that the objectives of the parent organization will be achieved.

- Each project will have different costs, benefits, & risks. In the face of such differences, the selection of one project out of a set is a difficult tusk. To aid this process of project selection we use *decision-aiding models*. These models abstract the relevant issues about the problem from the plethora of detail in which the problem is embedded.

- *Models* may be quite simple to understand, or they may be extremely complex. In general introducing more reality into a model make it more difficult to manipulate.

Nature of Project Selection Models

- There are two basic types of project selection models,
  (1) Nonnumeric models (sacred cow, operating necessity etc) &,
  (2) Numeric models (PBP, ARR, NPV, IRR etc.).
- Nonnumeric models do not use number as inputs, on the contrary, numeric models use number as inputs.

Project Selection

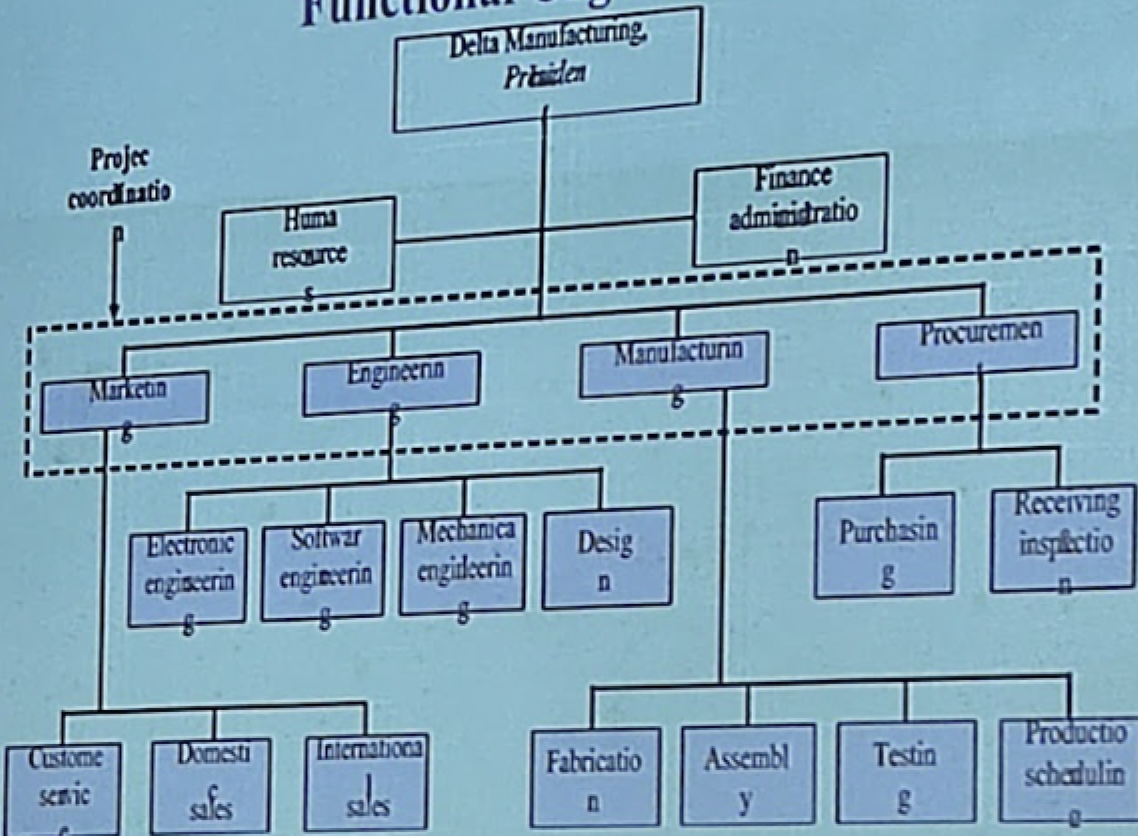
contd…

- Within the limit of their capabilities, such model can be used to increase profit, improve the competitive position, or optimize the utilization of organizations' scarce resources. Thus, the efficiency of a project selection is highly related to the use of such models.

- According to **W. E. Souder (1973)**, while selecting a model, the following criteria are most important.
  - Realism
  - Capability
  - Flexibility
  - Ease of use
  - Cost
  - Easy computerization

Project management structures

Functional Organizations



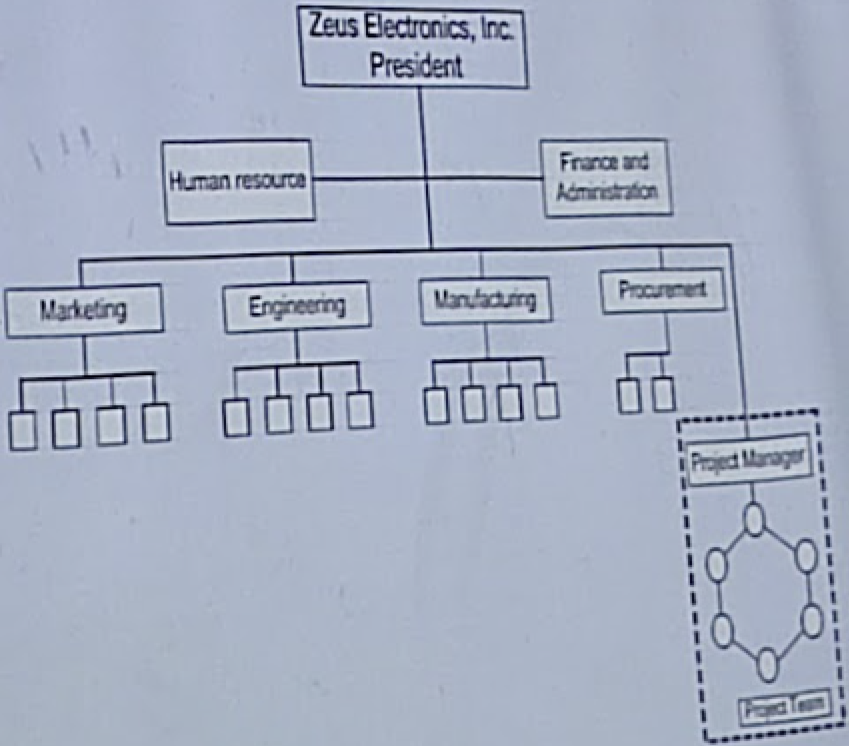
Advantages of Functional Organization

1. Projects are completed within the basic functional structure of the parent organization. No radical alteration is required to implement the project.
2. Maximum flexibility in the use of staff. Personnel required for the project can be arranged from the broad base of personnel available within the functional departments.
3. If the scope of the project is narrow, crucial aspect of the project can be dealt with in-depth expertise from the functional departments.
4. New project inclusion does not change the normal track of the personnel of the functional organization. Therefore, the experts can enjoy growth in their career.

Disadvantages of Functional Organization

1. Projects often lack focus (less priority for project activities).
2. There may be poor integration across functional units (cross-functional coordination & communication are slow & limited in such organizations).
3. Longer time to complete project through this functional arrangement (slow response).
4. Lack of motivation of people assigned to project. They may take it as an additional burden that is not directly linked to their professional advancement.

Dedicated Project Team



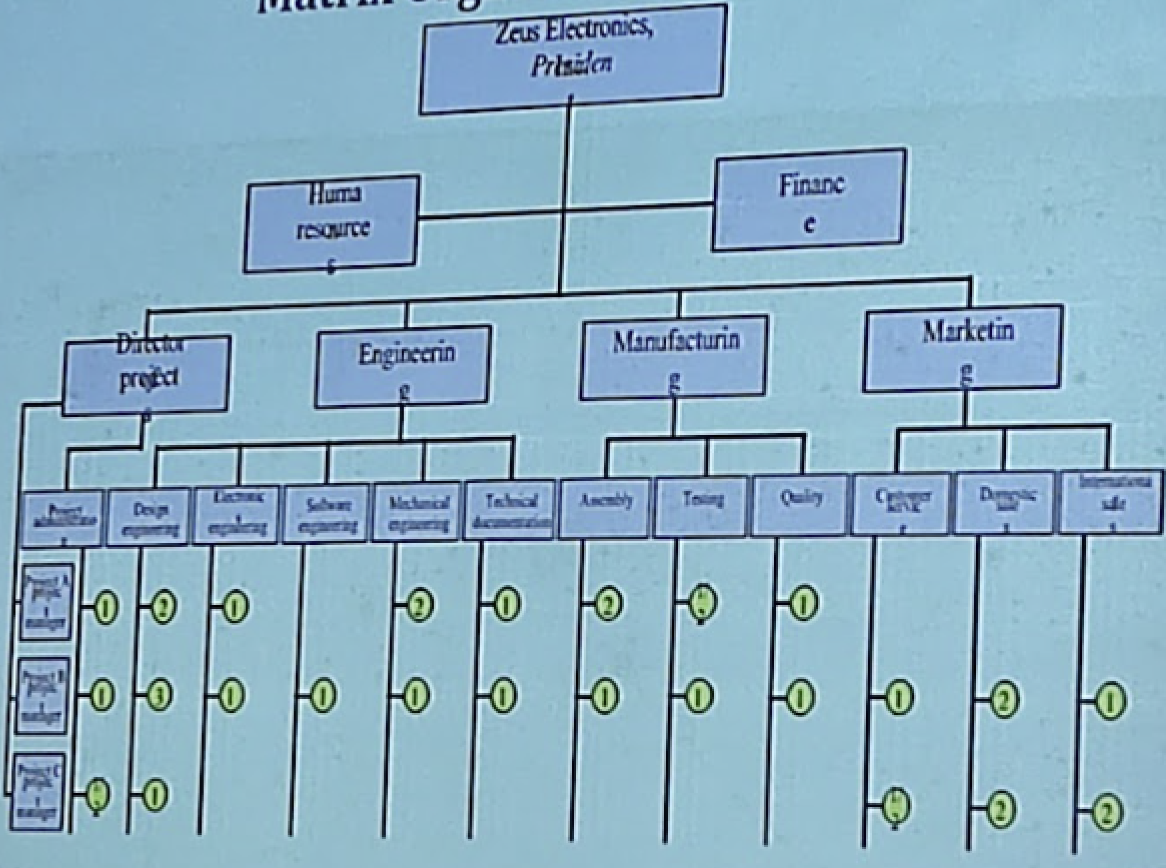
Advantages of Dedicated Project Team

1. New project does not disrupt ongoing operation.
2. Concentrated project focus.
3. Projects are done quickly.
4. High level motivation & cohesiveness the team
5. High level cross-functional integration.

Disadvantages of Dedicated Project Team

1. Expensive new appointments & full time resources.
2. Strong "we-they" divisiveness emerges.
3. After completion, it's difficult for the experts to adjust in their old positions.

Matrix Organization Structure



Advantages of Matrix Structure

1. Resources can be shared across projects & the organization.
2. Strong project focus because of the project manager.
3. Project has reasonable access to the entire reservoir of technology & expertise of functional divisions.
4. Moreover, they have the scope for returning to their own base after the completion of the project.

Disadvantages of Matrix Structure

1. Tension between functional managers & project managers who bring critical expertise & perspective to the project.
2. When the resources or expertise are scarce, a conflict may occur between the functional & project managers related to the use of them.
3. Working in a matrix environment can be extremely stressful because of the two bosses- functional & project managers.
4. Conflict between the project managers & functional managers in making decisions may lead to dysfunctionality.

Choosing an Organization Form

A useful procedure for selecting an organizational form for a project:

1. Identify the specific outcomes desired from the project.
2. Determination of the key tasks of the project & identify the functional divisions where those tasks will be assigned
3. Sequence the key tasks & group them into logical work packages.
4. Determination of project subsystems which will be assigned with the work packages & which subsystem will work closely.

Choosing an Organization Form

Contd...

5. Identify the project characteristics, constraints, or problems that may have affect the selection of organization form.

6. Analyze the above information (1-5) relative to the pros & cons of each form of organization, & make the decision.

Mechanisms for Sustaining Organizational Culture

Methods for maintaining organizational culture

- Formal statement of principles
- Top management behavior
- Reactions to organizational crisis
- Allocation of rewards and status
- Rituals, stories, and symbols

Recruitment of employees who fit the culture

Organizational culture

Removal of employees who deviate from the culture

WHAT IS A FEASIBILITY STUDY

- A feasibility study is defined as an evaluation or analysis of the potential impact of a proposed project or program.
- A feasibility study is conducted to assist decision-makers in determining whether or not to implement a particular project or program.
- The study is based on extensive research on both the current practices & the proposed project/program & its impact on the current practice of the enterprise.
- The feasibility study will contain wide-ranging of data related to financial & operational impact & will include advantages & disadvantages of both the current situation & the proposed plan.
- The feasibility study is conducted during the deliberation phase of the business development cycle prior to commencement of a **formal Business Plan**. It is an analytical tool that includes recommendations & limitations, which are utilized to assist the decision-makers when determining if the Business Concept is viable (Drucker 1985; Hoagland & Williamson 2000; Thompson 2003c; Thompson 2003a).

THE IMPORTANCE OF A BUSINESS FEASIBILITY STUDY

- It is estimated that only one in fifty business ideas are actually commercially viable. Therefore, a Business Feasibility Study is an effective way to safeguard against wastage of further investment or resources (Gofton 1997; Bickerdyke et al. 2000).
- If a project is seen to be feasible from the results of the study, the next logical step is to proceed with the full **Business Plan**. The research & information uncovered in the feasibility study will support the business planning stage & reduce the research time. Hence, the cost of the Business Plan will also be reduced.
- A thorough viability analysis provides an abundance of information that is also necessary for the **Business Plan**. For example, a good market analysis is necessary in order to determine the business concept's feasibility. This information provides the basis for the market section of the Business Plan (Bangs 2000; Hoagland & Williamson 2000; Truitt 2002; Thompson 2003b).