

CHAPTER 2

PLANNING

Learning Objectives:

- To introduce the meaning and definitions of management.
- Analyze the nature and importance of planning.
- Discuss various types of planning.
- Understand types of plan.
- Present steps in planning.
- Understand the meaning and types of decisions.
- Discuss steps in rational decision making.
- Present decision environment.

2.1 MEANING

The management functions as discussed earlier are planning, organizing, staffing, direction and controlling. These functions are essential to achieve organizational objectives. If objectives are not set then there is nothing to organize, direct and control. An organization has to specify what it has to achieve. Planning is related with this aspect.

Every person whether in business or not has framed a number of plans during his life. The plan period may be short or long. One of the characteristic of human being is that he plans. Planning is the first and foremost function of management. According to Koontz and O'Donnel "Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are and to where we want to go. It is in essence the exercise of foresight". According to M.S. Hardy "Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives.

Heying and Massie define "Planning is that function of the manager in which he decides in advance what he will do. It is a decision making process of a special kind. It is an intellectual process in which creative mind and imagination are essential". Planning is an attempt to anticipate the future in order to achieve better performance. Plans derive the following benefits:

- (1) Planning focus managers to think ahead.
- (2) It leads to development of performance standards.
- (3) Having to formulate plans forces management to articulate clear objectives.
- (4) Planning makes organization to be better prepared for sudden developments.

On the basis of definitions of planning the following **features** can be identified.

- (1) Planning is primarily concerned with looking into future. It requires forecasting the future.
- (2) Planning involves selection of suitable course of action. It means there are several ways to achieving objectives.
- (3) Planning is undertaken at all levels of the organization because managers at all level are concerned with determination of future course of action.
- (4) Planning is flexible. Planning involves selection of best course of action under specific environment. If environment changes an adjustment is needed between various factors of planning.
- (5) Planning is pervasive and continuous managerial function.

2.2 NATURE OF PLANNING

The nature of planning may be understood in terms of it being a rational approach, open system, flexibility and pervasiveness.

Planning: A Rational Approach

Planning is a rational approach for defining where one stands, where one wants to go in future and how to reach there. Rationalist denotes a manager chooses appropriate means for achieving the stated objectives rational approach fills the gap between the current status and future status. The difference between two time periods T_1 and T_2 may be as long as 5 years or as short as one year. The desired and the current results are usually expressed in terms of objectives, which can be achieved by an action or set of actions. The actions required resources and the rational approach emphasis an appropriate use of resources.

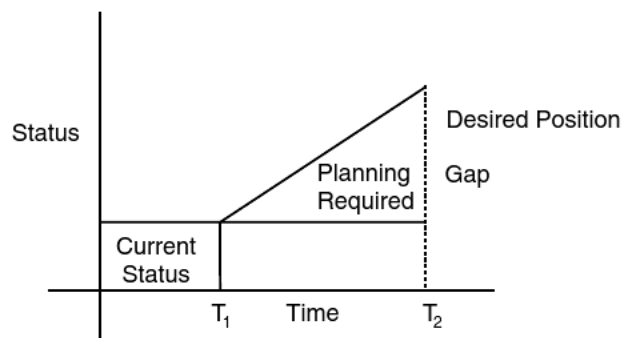


Fig. 2.1: Planning for bridging current & desired

Planning: An Open System Approach

An organization is an open system because it accepts inputs from the environment and exports output to environment. Planning adopt an open system approach. Open system approach indicates that the gap between current and desired status and the action required to bridge this gap is influenced by a variety of environmental economic, legal, political, technological, socio-cultural and competitive factors. These factors are dynamic and change with time. Therefore managers have to take into account the dynamic features of environment while using open system approach.

Flexibility of Planning

By flexibility of a plan is meant its ability to change direction to adopt to changing situations without undue cost. The plans must be flexible to adapt to changes in technology, market, finance, personal and organizational factors. However flexibility is possible only within limits, because it involves extra cost. Some times the benefit of flexibility may not be worth the cost.

Pervasiveness of Planning

Planning is pervasive and it extends throughout the organization. Planning is the fundamental management function and every manager irrespective of level, has a planning function to perform within his particular area of activities. Top management is responsible for overall objectives and action of the organization. Therefore it must plan what these objectives should be and how to achieve them. Similarly a departmental head has to devise the objectives of his department within the organizational objectives and also the methods to achieve them. Thus planning activity goes in hierarchy as shown in fig 2.2.

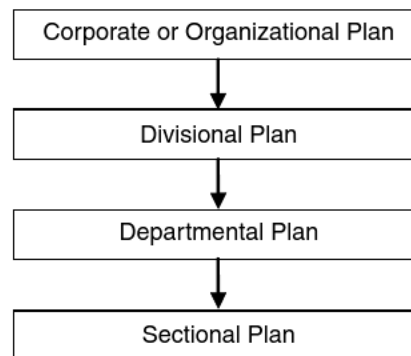


Fig. 2.2: Planning at various levels

2.3 IMPORTANCE OF PLANNING

Planning is of great importance in all types of organization whether business or non-business, private or public, small or large. The organization which thinks much ahead

about what it can do in future is likely to succeed as compared to one which fails to do so. Without planning, business decisions would become random, ad hoc choices. Planning is important because of the following reasons.

- (1) **Primacy of planning:** Planning is the first and foremost function of management, other functions follow planning. What is not planned cannot be organized and controlled. Planning establishes the objectives and all other functions are performed to achieve the objectives set by the planning process as shown in fig 2.3.

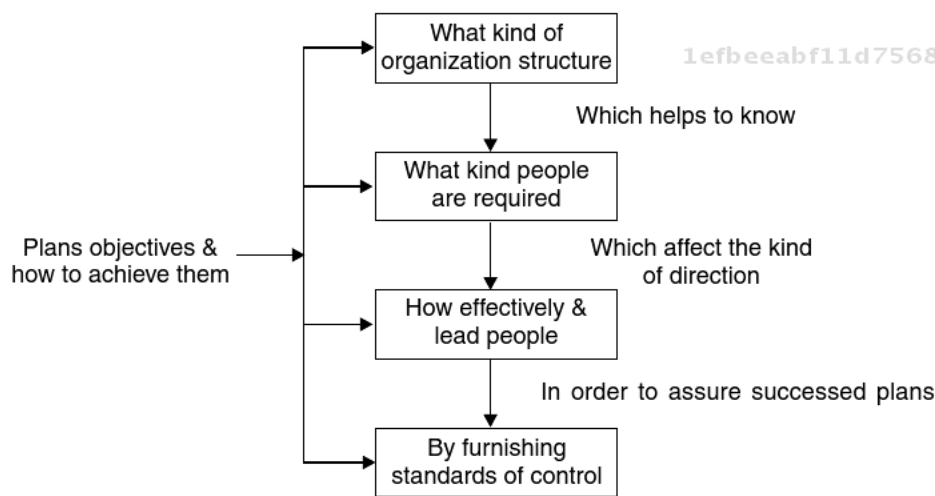


Fig. 2.3: Primacy of planning

- (2) **To minimize risk and uncertainty:** The organization continuously interacts with the external dynamic environment where there is great amount of risk and uncertainty. In this changing dynamic environment where social and economic conditions alter rapidly, planning helps the manager to cope up with and prepare for changing environment. By using rational and fact based procedure for making decisions, manager can reduce the risk and uncertainty.
- (3) **To focus attention on objectives:** Planning focuses on organizational objectives and direction of action for achieving these objectives. It helps managers to apply and coordinate all resources of the organization effectively in achieving the objectives. The whole organization is forced to embrace identical goals and collaborate in achieving them.
- (4) **To facilitate control:** Planning sets the goals and develops plans to achieve them. These goals and plans become the standards or benchmarks against which the actual performance can be measured. Control involves the measurement of actual performance, comparing it with the standards and initiating corrective action if there is deviation. Control ensures that the activity confirm to plans. Hence control can be exercised if there are plans.

- (5) **To increase organizational effectiveness:** Effectiveness implies that the organization is able to achieve its objectives within the given resources. The resources are put in a way which ensures maximum contribution to the organizational objectives. Effectiveness leads to success.

2.4 TYPES OF PLANNING

Though the basic process of planning is same yet there are several ways in which an organization can undertake planning process. Planning can be classified on the basis of coverage of activities, importance of contents in planning, approach adopted in planning process, time dimension and degree of formalization in planning process as shown in Table 2.1

Table 2.1: Types of planning

Dimension	Types of planning
1. Coverage of activity	Corporate and functional planning
2. Importance of contents	Strategic and tactical/operational planning
3. Time period involved	Long term and short term planning
4. Approach adopted	Proactive and reactive planning
5. Degree of formalization	Formal and Informal planning

Corporate and functional planning: The planning activities at the corporate level which cover the entire organizational activities are known as corporate planning. The focus in corporate planning is to determine long term objectives as a whole and to generate plans to achieve these objectives bearing in mind the probable changes in dynamic environment. This corporate planning is the basis for functional planning. Functional planning which is derived from corporate planning is undertaken for each major function of the organization like production, marketing, finance etc., Since functional planning is derived out of corporate planning and therefore it should contribute to the corporate planning.

Strategic and operational planning: Strategic planning sets future directions of the organization in which it wants to proceed in future. Strategic planning involves a time horizon of more than one year and for most of the organization it ranges between 3 and 5 years. Examples of strategic planning may be diversification of business into new lines, planned growth rate in sales etc. Operational planning also known as tactical planning on the other hand involves deciding the most effective use of resources already allocated to achieve the organizational objectives. The time horizon in operational planning is less than one year. Operational planning is undertaken out of the strategic planning. The examples of operational planning may be adjustment of production within available capacity, increasing the efficiency of the operating activity by analyzing past

performance etc. Table 2.2 gives the differences between strategic and operational planning.

Table 2.2: Differences between strategic and operational planning.

Strategic planning	Operational planning
1. It decides major goals and policies of allocation of resources to achieve these goals.	1. It decides the detailed use of resources for achieving these goals
2. It is carried at higher level of management.	2. It is carried at lower level of management.
3. It is long term.	3. It is short term.
4. It is based on long term forecasting considering the possible impact of political, economical, technological and competitive factors and is more uncertain.	4. It is generally based on past performance of the organization and is less uncertain.
5. It is less detailed.	5. It is more detailed.

Long and short term planning: The long term planning is strategic in nature and involves more than one year period and can extend to 15 to 20 years or so. Short term planning usually covers one year. Short term plans are made with reference to long term plans because short term plans contribute to long term plans.

Proactive and reactive plans: Planning is an open system approach and hence it is affected by environmental factors which keep on changing continuously. The organization's response to these changes differs. Based on these responses planning may be proactive and reactive. Proactive planning involves designing suitable courses of action in anticipation of likely changes of environment. Managers adopting proactive changes do not wait for environment to change, but take action in advance of environmental changes. For this, continuous scanning of environment is necessary. In reactive planning response comes after environmental changes take place. By the time organization responds to change in environment there may be further change in environment. Hence this type of planning is suitable in the environment which is fairly stable over a long period of time.

Formal and informal planning: Large organizations undertake planning in a formal way. Generally a separate corporate planning cell is formed at higher level. The cell is staffed by people of different backgrounds like engineers, economists, statisticians etc., depending upon the nature. The cell continuously monitors the environment. When environment shows some change the cell analysis the environment and suggest suitable

measures to take the advantage of the changing environment. This type of planning is rational, systematic, regular and well documented. On the other hand informal planning is undertaken generally by small organizations. This planning process is based on manager's experience, intuitions rather than based on systematic evaluation of environmental changes. This planning process is part of manager's regular activity and is suitable for small organizations.

Learning activity 2.1: Identify and analyze the long range and short plans of your institution.

2.5 TYPES OF PLANS

Plans are classified into standing plans and single use plans as shown in fig 2.3. Standing plans provide guidelines for further course of action and are used over a period of time. Standing plans are designed for situations that recur often enough to justify a standardize approach. For example a bank designs a standing plan to process a loan application. Using this standing plan the bank manager decides whether to approve or not a loan application depending upon the details furnished by the applicant. Once formulated these plans are in operation for a long period unless there is change in these plans. Examples of such plans are organizational mission, long term objective, strategies, policies, procedures and rules. On the other hand single use plans are designed for specific end; when that end is reached, the plan is dissolved or formulated again for next end. Examples of such plans are project, budgets, quotas, targets etc. Single use plans are generally derived from standing plans. Organization set their mission and objectives, out of which strategic actions are determined. In order to put these actions into operations, projects, budgets etc., are prepared for specific time period.

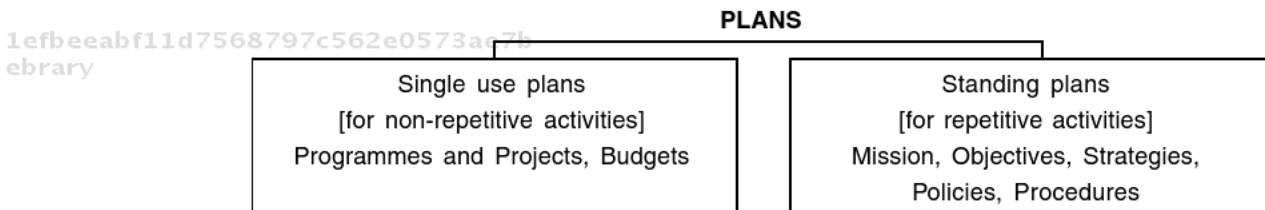


Fig. 2.3: Types of plans

Various organizational plans discussed above are interlinked and may be arranged in hierarchy in which higher order plans helps to derive lower order plans. In turn a lower order plan contributes to the achievement of the objectives of a higher order plans. The hierarchical nature of various plans is represented in fig. 2.4.



Fig. 2.4: Hierarchies of plans

Mission and Purpose

Setting organizational objectives is the starting point of managerial actions. Every organization is purposive creation, it has some objectives; the end results for which the organization strive. These end results are referred to as mission, 'purpose', 'goal', 'target' etc. which are often used inter-changeably. However there are differences in the contest in which these terms are used.

In every social system, enterprises have a basic function or task, which is assigned to them by society. The mission or purpose identifies this basic function or task of the organization, for example the purpose of university.

Mission and purpose are often used interchangeably though there is difference between the two at least at theoretical level. Mission has external orientation and relates the organization to the society in which it operates. A mission statement links the organization activities to the needs of the society and legitimates its existence. Purpose is also externally focused but is relates the organization to that segment of the society to which it serves; it defines the business which the company will undertake. The difference between the two may be visualized in the mission and purpose of Hindustan Lever Limited. The mission statement of HLL is:

"Hindustan Lever's commitment to national priorities has ensured that the company is a part of people lives at the grass root level, making a difference to India and to Indians- in depth, width and size. Hindustan has always identified itself with the nations priorities; employment generation, development of backward area, agricultural linkages, exports etc."

The purpose of the company is:

Our purpose in Hindustan lever is to meet the every day needs of the people every where – to anticipate the aspirations of consumers and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

The mission of the company says what it can be for the country i.e., society in general and purpose suggest how this contribution can be made. However in general practice mission and purpose are either used interchangeably or jointly.

Objectives

Every organization is established for the purpose of achieving some objectives. An individual who starts a business has the objective of earning profits. A chartable institution which starts schools and colleges has the objectives of rendering service to the public in the field of education. Though objectives may differ from one organization to another, yet each organization has its own objective. According to Mc Farland, “**Objectives are the goals, aims or purposes that the organizations wish to achieve over varying periods of time**”. George R Terry defines “A managerial objective is the intended goal which describes definite scope and suggests direction to the efforts of a manager”. Objective is the term used to indicate the end point of management programme, for which an organization is established and tries to achieve.

Objectives have the following characteristics.

- (1) **Objectives are multiple in numbers:** Every business enterprise has a package of objectives set in various key areas. Peter Drucker has emphasized setting objectives in eight key areas namely market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility.
- (2) **Objectives are tangible or intangible:** Some of the objectives such as productivity, physical and financial resources are tangible; where as objectives in the areas of manager’s performance, workers morale is completely intangible.
- (3) **Objectives have a priority:** At a given point of time one objective may be important than another. For example maintaining minimum cash balance is important than due date of payment.
- (4) **Objectives are generally arranged in hierarchy:** It implies that organization has corporate objectives at the top and divisional, departmental and sectional objectives at the lower level of organization.
- (5) **Objectives some time clash with each other:** An objective of one department may clash with the objectives of other department. For example the objectives of production of low unit cost achievement through mass production of low quality products may conflict with goal of sales department selling high quality products.

Requirements of Sound Objectives

- (1) Objectives must be clear: There should not be ambiguity in objectives. The framed objectives should be achievable and are to be set considering various factors affecting their achievements.

- (2) Objectives must support one another.
- (3) Objectives must be consistent with organizations mission.
- (4) Objectives should be consistent over period of time.
- (5) Objectives should be rational, realistic and not idealistic.
- (6) Objectives should start with word 'to' and be followed by an action verb.
- (7) Objectives should be periodically reviewed.

Advantages of Objectives

The following are some of the advantages of objectives.

- (1) **Unified planning:** Various plans are prepared at various level in the organization. These plans are consistent with the objectives and hence objectives encourage unified planning.
- (2) **Individual motivation:** Objectives act as motivators for individual and departments imbuing their activity with a sense of purpose.
- (3) **Coordination:** Objectives facilitate coordinated behavior of various groups which otherwise may pull in different directions.
- (4) **Control:** Objectives provide yardstick for performance. The actual performance is compared with standard performance and hence objectives facilitate control.
- (5) **Basis for decentralization:** Department-wise or section wise objectives are set in order to achieve common objectives of the organization. These objectives provide basis for decentralization.

Learning activity 2.2: Identify the objectives of your department and institution.

Strategies

Every organization has to develop plans logically from goals considering the environmental opportunities and threats and the organizational strengths and weakness. A strategy is a plan which takes into these factors and provides an optimal match between the firm and external environment. Two activities are involved in strategy formulation namely environmental appraisal and corporate appraisal.

Environmental appraisal involves identifying and analysis of the following factors:

- (1) **Political and legal factors:** Stability of government, taxation and licensing laws, fiscal policies, restrictions on capital etc.
- (2) **Economic factors:** Economic development, distribution of personal income, trend in prices, exchange rates etc.,
- (3) **Competitive factors:** Identifying principal competitors and analysis of their performance, anti-monopoly laws, protection of patents, brand names etc.

Corporate analysis involves identifying and analyzing company's strength and weakness. For example a companies strength may be low cost manufacturing skill, excellent product design, efficient distribution etc.,. Its weakness may be lack of physical and financial resources. A company must plan to exploit these strengths to maximum and circumvent it's weakness.

The formulation of strategy is like preparing for beauty contest in which a lady tries to highlight her strong points and hide her weak points. The process of matching company's strength and weakness with environmental opportunities and threats is known as SWOT analysis.

Standing Plans

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Policies

A policy is a general guideline for decision making. It sets up boundaries around decisions. Policies channelize the thinking of the organization members so that it is consistent with the organizational objectives. According to George R Terry " Policy is a verbal, written or implied overall guide, setting up boundaries that supply the general limits and directions in which managerial action will take place". Although policies deal with "how to do" the work, but do not dictate terms to subordinates. They only provide framework within which decisions are to be made by the management in various areas. Hence an organization may have recruitment policy, price policy, advertisement policy etc.,

Types of policies: Policies may be classified on the basis of sources, functions or organizational levels as shown in fig 2.5.

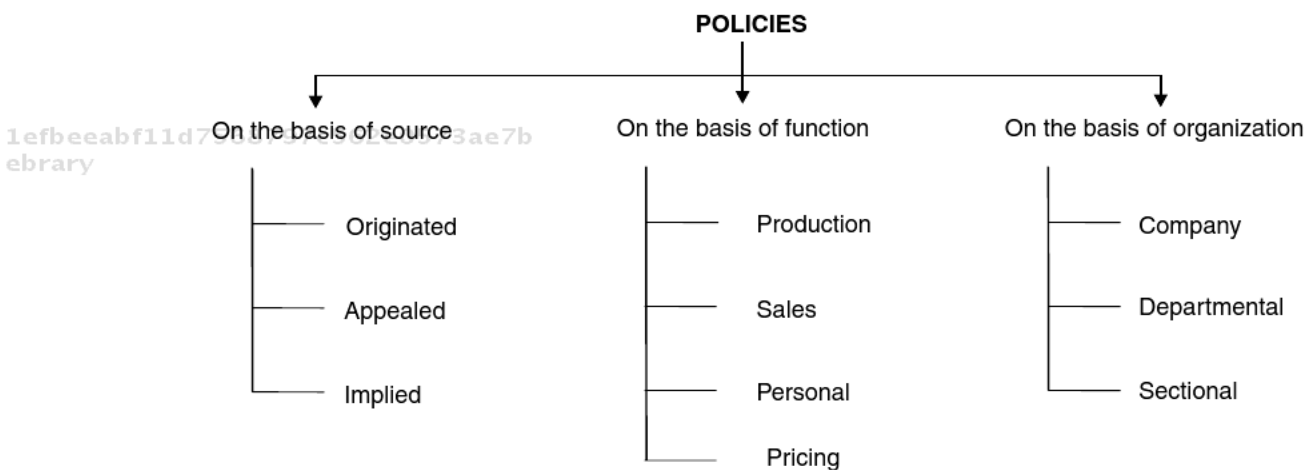


Fig. 2.5: Classification of policies

Originated policies are policies which are established formally. These policies are established by top managers for guiding the decisions of their subordinates and also

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their own and are made available in the form of manuals. Appealed policies are those which arise from the appeal made by a subordinate to his superior regarding the manner of handling a given situation. When decisions are made by the supervisor on appeals made by the subordinates, they become precedents for further action. For example a books dealer offers a discount of 10% on all text books. Suppose if an institution requests for a discount of 15% and prepared to pay full amount in advance, the sales manager not knowing what to do may approach his superior for his advice. If the superior accepts the proposal for 15% discount, the decision of the superior become a guideline for the sales manager in future. This policy is an appealed policy because it comes into existence from the appeal made by the subordinate to the superior. The policies which are stated neither in writing nor verbally are known as implied policies. The presence of implied policies can be ascertained by watching the actual behavior of various superiors in specific situations. For example if company's residential quarters are repeatedly allotted to individuals on the basis of seniority, this may become implied policy.

On the basis of business function policies may be classified into production, sales, finance, personnel policies etc. Every one of these function may have a number of policies. For example the personnel function may have recruitment policy, promotion policy and finance function may have policies related to capital structure, dividend payment etc.,

On the basis of organizational level policies may range from major company policies through major departmental policy to minor or derivative policies applicable to smallest segment of the organization.

Advantages of Policies

The advantages of policies are as follows:

- (1) Policies ensure uniformity of action at various organization points which make actions more predictable.
- (2) Since the subordinates need not consult superiors, it speeds up decision.
- (3) Policies make easier for the superior to delegate more and more authority to his subordinates because, he knows that whatever decision the subordinates make will be within the boundaries of the policies.
- (4) Policies give a practical shape to the objectives by directing the way in which predetermined objectives are to be attained.

Procedures

Policies are carried out by means of more detailed guidelines called procedures. A procedure provides a detailed set of instructions for performing a sequence of actions involved in doing a certain piece of work. A procedure is a list of systematic steps for handling activities that occur regularly. The same steps are followed each time that

activity is performed. A streamlined, simplified and sound procedure helps to accelerate clerical work without duplication and waste of efforts and other resources. Difference between policies and procedures can be explained by means of an example. A company may adopt a policy of centralized recruitment and selection through labor department. The labor department may chalk out the procedure of recruitment and selection. The procedure may consist of several steps like inviting application, preliminary interview aptitude and other tests, final interview, medical examination and issue of appointment orders. The following are advantages of procedures.

- (1) They indicate a standard way of performing a task.
- (2) They result in simplification and elimination of waste.
- (3) Procedure improves the efficiency of employees.
- (4) Procedure serves as a tool of control by enabling managers to evaluate the performance of their subordinates.

Methods

A method is a prescribed way in which one step of procedure is to be performed. A method is thus a component part of procedure. It means an established manner of doing an operation. Medical examination is a part of recruitment and selection procedure, method indicate the manner of conducting medical examination. Methods help in increasing the effectiveness and usefulness of procedures. By improving methods, reduced fatigue, better productivity and lower costs can be achieved. Methods can be improved by eliminating wastes by conducting “motion study”.

Rules

The rules are the simplest and most specific type of standing plans. Every organization attempts to operate in an orderly way by laying down certain rules. Rules are detailed and recorded instructions that a specific action must or must not be performed in a given situation. Rules are more rigid than policies. Rules generally pertain to the administrative area of a procedure. For example sanctioning overtime wages to workers, sanctioning traveling bills etc., need uniform way of handling them. These are all covered by rules of the enterprises. A rule may not be part of procedure. For example ‘no smoking’ is not related to any procedure. Rules demand strict compliance. Their violation is generally associated with some sort of disciplinary action.

Single Use Plans

Programme

A programme is a sequence of activities directed towards the achievement of certain objectives. A programme is action based and result oriented. A programme lays down the definite steps which will be taken to accomplish a given task. It also lays down the time to be taken for completion of each step. The essential ingredients of every

programme are time phasing and budgeting. This means that specific dates should be laid down for the completion of each successive stage of programme. In addition a provision should be made in the budget for financing the programme. A programme might include such general activity as purchasing new machines or introducing new product in the market. Thus a programme is a complex of objective, policies, procedures, task assignments, steps to be taken, resources to be employed and other elements to carry out a given course of action.

Budgets

A budget is a single use plan since it is drafted for a particular period of time. A budget is a statement of expected results expressed in quantitative terms i.e. rupees, man hours, product units etc. Since it is a statement of expected results, it is also used as an instrument of managerial control. It provides a standard by which actual operations can be measured and variation could be controlled. One should not forget that making budget is clearly planning. The important budgets are sales budgets, production budgets, cash budgets, and revenue and expenses budgets.

2.6 STEPS IN PLANNING

The planning process is different from one plan to another and one organization to another. The steps generally involved in planning are as follows:

- (1) **Establishing goals/objectives:** The first step in planning process is to determine the enterprise objectives. These are set by upper level managers after number of objectives has been carefully considered. The objective set depends on the number of factors like mission of the organization, abilities of the organization etc., Once the organizations objectives are determined, the section wise or department wise objectives are planned at the lower level. Defining the objectives of every department is a very essential one; then only clear cut direction is available to the departments. Control process is very easy if the objectives are clearly defined.
- (2) **Establishing planning premises:** This is the second step in planning which involves establishing planning premises that is the conditions under which planning activities will be undertaken. Planning premises are planning assumptions—the expected environmental factors, pertinent facts and information relating to the future such as general economic conditions, population trends, competitive behavior etc.

The planning premises can be classified as below:

- (1) Internal and External premises.
- (2) Tangible and Intangible premises.
- (3) Controllable and non-controllable premises.

Internal and External premises: Premises may exist within or outside the enterprise. Internal premises include sales forecasts, ability of the organization in the form of machines, methods of design, behavior of the owners and employees etc., The external premises exists outside the enterprise and include general business and economic environment, technological changes, government policies and regulations, population growth etc.,

Tangible and Intangible premises: Tangible premises are those which can be quantified. They include population growth, industry demand, capital and resources invested etc., On the other hand political stabilities, sociological factors, attitudes and behavior of the owners etc., are intangible premises.

Controllable and non-controllable premises: Some of the planning premises are controllable and others are non-controllable. Some examples of non-controllable factors are strikes, wars, natural calamity, legislation etc., Because of the presence of non-controllable factors; organizations have to revise plans periodically in accordance with current development. The controllable factors are availability of resources, skill of managers and labor etc.,

- (3) **Deciding the planning period:** Once the long term objectives and planning premises are decided, the next task is to decide the period of the plan. Some plans are made for a year and in others it will be decades. Companies generally base their period on a future that can reasonably be anticipated. The factors which influence the choice of a period are:
 - (a) Lead time in development and commercialization of a new product: An aircraft building company planning to start a new project should have a planning period of five to ten years where as a small manufacturer of spare parts who can commercialize his idea in a year or so makes annual plans.
 - (b) Time required for recovering capital investment or the pay back period: The pay back period also influence the planning period. For example, if a machine costs 50 lakhs and generates cash in flow of Rs. 10 lakhs a year, it has a pay back period of 5 years. Therefore the plans should also be for at least five years.
 - (c) Length of commitment already made: The plan period should be long enough to enable the fulfillment of already made commitments. For example if a company has agreed to supply goods for five years, it needs to plan for the same period to fulfill its commitments.
- (4) **Identification of alternatives:** The fourth step in planning is identifying alternatives. A particular objective can be achieved through various actions. For example an organization's objective is to grow further which can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organization

and so on. With each category there may be several alternatives. For example, diversification may point out the possibility of entering into one of the several fields.

- (5) **Evaluation and selection of alternative:** Once the alternatives are identified the next step is to evaluate the alternatives in the light of the premises and goals and to select the best course or courses of action. This is done with the help of quantitative techniques and operations research. In addition software packages are available for evaluating alternatives.
- (6) **Developing derivative/supportive plans:** Once the plan is selected, various plans are derived so as it support the main plan. The derivative may be planning for buying equipments, buying raw material etc. These derivative plans are formulated out of the main plan and therefore, they support.
- (7) **Measuring and controlling the process:** One should not allow plan to run on its own without monitoring its progress. Managers need to check the progress of their plans so that remedial action can be taken to make plan work or change the plan if it is unrealistic. Hence process of controlling is a part of any plan.

2.7 DECISION-MAKING

Decision-making is an essential part of modern management. Whatever a manager does he does by making decisions. A manager makes hundreds of decisions consciously or subconsciously every day. Decisions are made by the managers and actions are taken by others. Major decisions are taken carefully and consciously by the application of human judgment and experience where as minor decisions are made almost subconsciously using rules. Decision-making permeates through all managerial functions namely planning, organizing, staffing, directing and control. In planning for example manager decides what to produce, where and when etc., and in organizing manager decides about division of work, delegating authority and fixing responsibility. Decision-making is commitment to something, a point of view, a principle or course of action. It is selecting the best among alternative courses of action. The decision-making has the following factors.

- (1) Decision-making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem.
- (2) Existence of alternatives suggests that the decision-maker has freedom to choose an alternative of his liking.
- (3) Decision-making like any other managerial process is goal oriented. It implies that the decision maker attempts to achieve some results through decision-making.

Types of Decisions

Decisions are classified in a number of ways as below:

Programmed and non-programmed decisions: Programmed decisions are those that are made in accordance to policy, procedure and rules. These decisions are routine and repetitive and programmed decision are relatively easy to make. For example determining salary payment to the workers who have been ill, offering discounts for regular customers etc. are programmed decision. Non-programmed decisions are novel and non-repetitive. If a problem has not arisen before or if there is no clear cut method for handling it, it must be handled by non-programmed decision. For example what to do about a failing product line is a non-programmed decision because no definite procedure exists for it. For programmed decision clear cut rules exists and hence it is not possible for two persons to reach different solutions to the some problem.

In case of non-programmed decision there are no clear cut rules for handling the problem, each manager may bring his own personal beliefs, attitudes and judgments to bear on the decision, it is possible for two managers to arrive at distinctly different solutions to the same problem. For manager at higher level this ability to make non-programmed decisions becomes important.

Major and minor decisions: The decisions which have their impact for long-period or which have impact on other departments are known as major decision. On the other hand decisions which does not have long term effect or affecting one department are known as minor decisions, diversification of existing product lines, adopting new technology are the major decisions. The decision to procure raw materials is a minor decision, Major decisions are made at higher level and minor decisions are taken at lower level in the organizational hierarchy.

Simple and complex decisions: If very few variables are to be considered for solving a problem the decision is sample. If the variables are many, then it is a complex decision.

Strategic and tactical or operational decisions: Strategic decision is a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Strategic decisions are major and non-programmed decisions having long term impact. A strategic decision may involve major departure from earlier ones. For example change in the product mix. Strategic decisions are made by the higher level managers. Tactical or operational decision is derived out of strategic decision. It relates to day-to-day working of the organization and is made in the context of well-set policies and procedures. Decisions relating to provisions of air conditioning, parking facilities are operational decisions. These decisions are made at the lower level of the organization.

Individual and group decisions: Decision may be taken either by an individual or group. Decisions which are routine in nature, with few variables and definite procedures exists to deal with them are taken by individuals. On the other hand

decisions which have their impact on other departments, which may result into some changes in the organization, are generally taken by groups.

Learning activity 2.3: Enumerate the major and minor decisions that you have made in the recent past.

Decision Making Process: Steps in Rational Decision Making

A decision is rational if appropriate means are chosen to reach the desired end. The following steps are involved in the process decision making.

- (1) Recognizing the problem.
- (2) Deciding priorities among the problems.
- (3) Diagnosing the problem.
- (4) Developing alternative solutions or courses of activities.
- (5) Evaluating alternatives.
- (6) Converting the decision into effective action and follow up of action.

(1) **Recognizing the problem:** When a manager makes a decision it is in effect the organization's response to a problem. Hence it is necessary to search the environment for the existence of a problem. A problem is said to exist;

- (a) When there is deviation from past experience. For example the present year's sales are lower than previous year, the expenses are more than previous years etc.,
- (b) When there is deviation from plan. For example sales are lower than anticipated, expenses are more than expected etc.,
- (c) When competitors outperform. For example other companies manufacture the goods of same quality at lower costs.
- (d) When people bring problems to the manager, For example workers may complain about poor ventilation.

(2) **Deciding priorities among problems:** A manager might have identified a number of problems. All these problems vary in their importance. He may find that some of the problems are such that they can be solved by their subordinates because they are closest to them. All such problems should be passed on to them. Some problems may need information available only at higher level or affecting other departments. Such problems are referred to higher level managers. And those problems which can be best solved by him are to be focused.

(3) **Diagnosing the problems:** Symptoms of the problem that are observed by the manager may some times mislead him. The symptom may lead manager to suspect one part when the defect may lie hidden in another part. For example if there is decline in sales, the management may think that the problem is one of poor selling procedure or

the saturation of the old market. But the real problem may be inability to move quickly to meet changing needs of the customers. For diagnosing the problem a manager should follow the systems approach. He should study all the sub-parts of his organization which are connected with the sub-part in which the problem seems to be located.

(4) **Developing alternative solutions or courses of action:** A problem can be solved in several ways; however all the ways cannot be equally satisfying. If there is only one way of solving a problem, then no question of decision arises. Therefore decision maker must identify various alternatives available in order to get most satisfactory result of a decision. It should also be borne in mind that it is not possible to consider all alternatives either because information about all alternatives may not be available or some of the alternatives cannot be considered because of limitations. Hence while developing alternatives; the concept of limiting factor should be applied. Limiting factor is one which stands in the way of accomplishing a desired objective. For example, if an organization has limitation in raising sizable finance, it cannot consider projects involving high investment.

A decision maker can identify alternatives using his own experience, practices followed by others and using creative technique. A decision maker using past experience takes into account the action taken by the decision maker in the past with the difference between former challenges and the present one. The successful action of the past may become an alternative for the future. The limitation of this is, what was successful in the past may not be so in the present context because of change in context under which decision was made. Copying from experience of others is another way of generating alternatives. Alternatives used by successful decision makers can be thought of alternatives of decision making. The third method of generating alternatives is through creative process where various exercises are taken to generate entirely new ideas. Creative ideas of individuals or groups help in developing alternatives. One popular group technique is brain storming. The brain storming group consists of 5 to 10 people. The best idea behind brain storming is to think of as many alternatives as possible without pausing to evaluate them.

(5) **Measuring and comparing consequences of the alternative solution:** Once various alternatives are developed, the next step is to measure and compare their consequences of alternatives using quality and acceptability. The quality of a decision must be determined considering both tangible and intangible consequences. Tangible consequences are those which can be quantitatively measured or mathematically demonstrated. For example the one can calculate the installing and running costs of two types of air conditioners. Intangible consequences cannot be measured quantitatively. For example the effect of good labor relationship in one location cannot be compared with the local taxes in another location.

Acceptability of solution is also important. A decision though good in quality may be poor in acceptability or decision though acceptable may not be good in quality. In

such cases managers must find the relative importance of these two. In production, finance, purchase etc. the solution's quality is important than acceptability, where as in all human matters such as lighting condition, layout of office etc., the acceptability is more important. If sufficient information about quality or acceptability of a solution is not available, it is suggested to experiment it on a small scale known as pilot testing. For example a company may test a new product in a certain market before expanding its sale nationwide.

(6) **Converting the decision into effective action and follow up of action:** This step involves communication of decisions to the employees. Decision must be communicated in clear and unambiguous terms. All necessary efforts should be made to secure employees participation in some stages of decision making. Association of employees in decision making not only enhance the acceptability, but also improves the quality of decision. Sometimes due to non-availability of data, a manager may not take correct decision. As a safeguard against incorrect decision, the manager while converting a decision into effective action should institute a system of follow-up so that he can modify or alter his decision at the earliest opportunity.

ENVIRONMENT OF DECISION-MAKING

A decision-maker may not have the complete knowledge about decision alternatives or about the outcome of a chosen alternative. This problem may be highly complex and uncertain. These conditions of knowledge are referred to as the 'environment of decision making'. The environment may be of three types; certainty risks and uncertainty. The environment of decision-making is a continuum, at one end there is complete certainty and at the other end there is complete uncertainty as shown in fig 2.6.

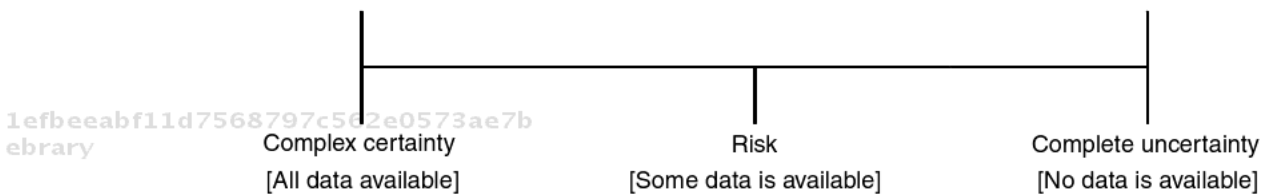


Fig. 2.6

Decision-making under certainty: The term certainty refers to accurate knowledge of the outcome of each alternative. All relevant data are available for making decision. For example a company wants to transport goods from five warehouses to a number of customers. It is possible to obtain the relevant facts for the problem like type of transport available, the cost of transporting a unit from each warehouse to each customer. With this it is possible to design least cost distribution pattern.

Decision-making under risk: In decision making under risk, the consequences of a particular decision cannot be specified with certainty but can be specified with known

probability values. The value of probability is a measure of likelihood of the occurrence of that event. In such cases, alternatives are evaluated by computing the expected value of the payoff associated with each alternative. For example, while estimating the demand of a product for future where there is great amount of uncertainty, a manager can make three estimates of demand associated with the probability of occurrence as show is table 2.3.

Table 2.3

Types of demand	Demand	Probability
High demand	1000	0.3
Medium demand	800	0.5
Low demand	500	0.2

Then the expected demand is computed as follows

$$\text{Expected demand} = 1000(0.3) + 800(0.5) + 500(0.2)$$

Decision making under uncertainty: Uncertainty is said to exist when the decision maker does not know the probabilities associated with the possible outcomes, though he has been able to identify the possible outcomes and their related pay-offs. Since the probabilities are not known, the decision maker cannot use the criterion of maximizing the pay off. He can however use MaxiMin criterion. MaxiMaxi criterion or Minimax regret criterion. If a manufacturer is pessimistic or cautions in his approach, he can choose that decision act which maximizes the minimum pay-off, which is called as MaxiMin criterion. If a manufacturer is optimistic he may choose that decision act which maximizes the maximum pay-off. This is called as max-max criterion. A manager using minimax regrets criterion look at the decision problem neither as pessimistic nor as optimistic. As the name implies the minimax regret criterion is the one by which the decision maker minimizes the maximum regret can occur, no matter what the outcome.

Learning activity 2.4: List at least two decisions that you have made under complete certainty, risk and complete uncertainty.

CHAPTER SUMMARY

Planning is the first and foremost function of management Planning is deciding in advance what to do, when to do, how to do and who is to do it. It is in essence the exercise of foresight. The nature of planning may be understood in terms of it being a rational approach, open system, flexibility and pervasiveness. Planning can be classified on the basis of coverage of activities, importance of contents in planning, approach adopted in planning process, time dimension and degree of formalization and so on.

Plans are classified into standing plans and single use plans. Single use plans (programmes, projects, budgets) are for non-repetitive activities and standing plans (mission, objectives, strategies, policies and procedures) are for repetitive activities. The steps involved in planning process are establishing goals/objectives, establishing planning premises, deciding the planning period, identifying alternatives, evaluation and selection of alternative, developing derivative/supportive plans, and measuring and controlling process. Decision making is selecting the best among alternative courses of action. Decisions may be classified as programmed and non-programmed decisions, major and minor decisions, simple and complex decisions, strategic and operational (tactical) decisions. The environment of decision may be of three types; certainty, risk and uncertainty.

QUESTIONS

- (1) Briefly discuss the nature of planning.
- (2) Explain in brief the importance of planning.
- (3) Discuss the strategic and tactical planning.
- (4) Write a note on hierarchy of plan.
- (5) Discuss the steps in planning.
- (6) Explain in brief planning premises.
- (7) Enumerate requirements of sound objectives.
- (8) Write a note on characteristics of objectives.
- (9) Explain in brief standing and single use plans.
- (10) Discuss different types of decisions.
- (11) Explain in brief the steps involved in rational decision making.
- (12) Write a note on decision making environment.