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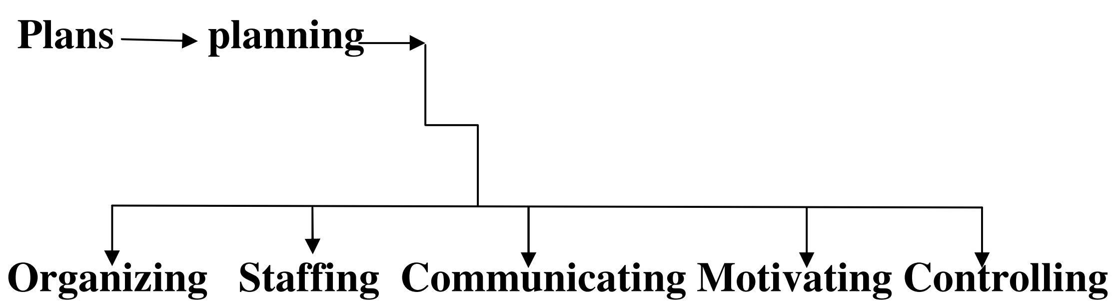
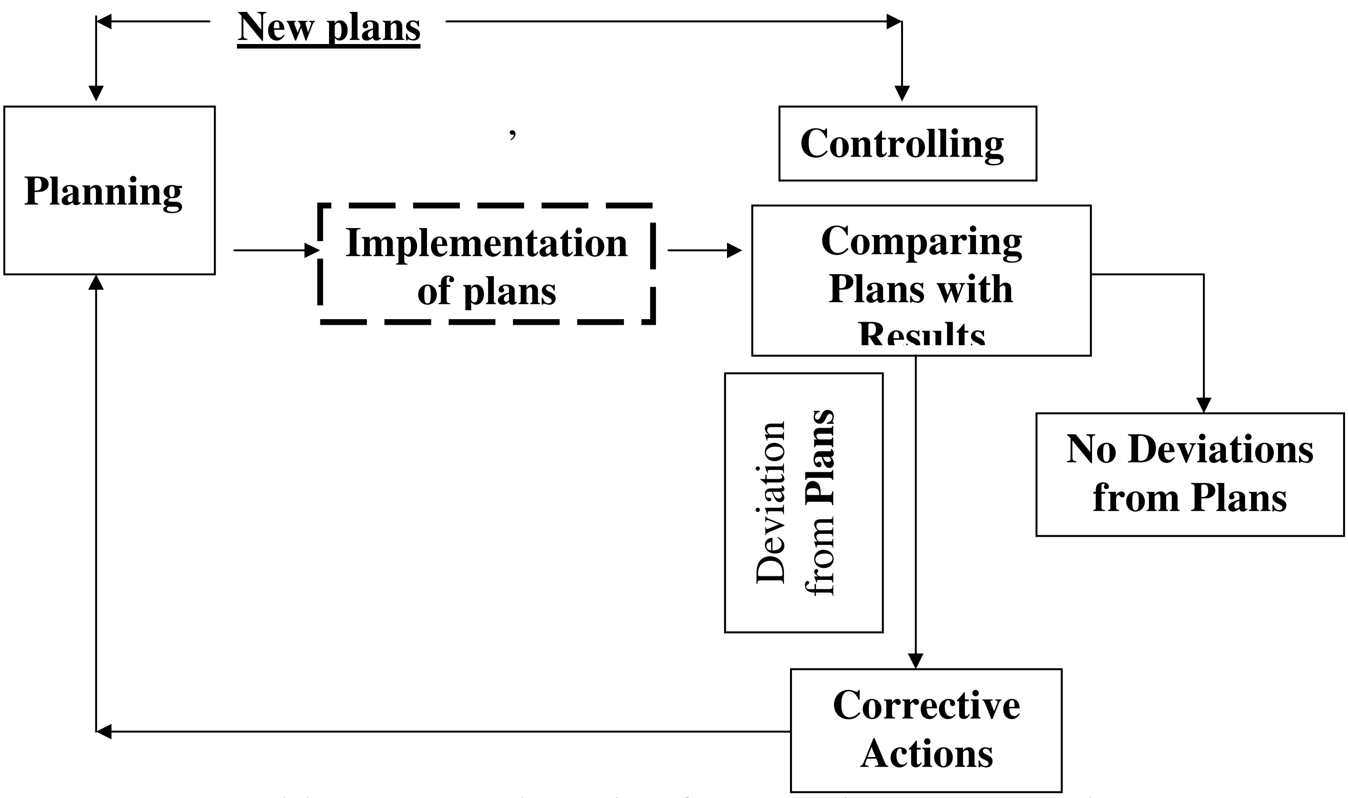
Principles of Management Unit-02 Planning

Planning is the most basic of all managerial functions

- -is a process looks into future
- -is done at all levels of organization
- -organizational plan - details the goal to be achieved perception and creative thinking are essential for a good planning
- -bridges the gap between present and future
- -includes setting objectives making policies and procedures, preparing strategies and programs.



<u>Planning and controlling are inseparable in the management.</u>



<u>Detailing the relationship of controlling and planning</u>

Importance and purpose of Planning:

1) Planning determines the direction of an organization [goals]
2) Planning provides a basis for team work (work assignments; contributions)
3) Planning is economical as it minimizes cost [resource utilization]
4) Planning adopt to the changes in environment [technology, policy, economic changes]
5) Planning provides coordination [towards defined objectives]
6) Planning reduces risks or uncertainty
7) Planning facilitate decision making [alternative cause of actions]
8) Planning encourages innovation and creativity
9) Planning improves moral
10) Planning facilitates control
11) Planning facilitates participation

Nature of Planning:

1) Planning is pervasive in nature (spreads around the entire organization)
2) Planning is primary in nature (precedes over other managerial functions)
3) Planning is continuous in nature (ongoing process of adjustment to change based on feedback)
4) Planning is flexible in nature (as per changes in environmental conditions in technology, government policies, prices; based on forecast of future)
5) Planning is goal oriented (provides Basic guidelines for meaningful planning)
6) Planning is an integrated process (effective integration of plans and actions highly independent but mutually supportive)
7) Planning is forward looking (ahead and for future otherwise business becomes random)
8) Planning is an intellectual process (requires imagination, innovation, foresight, creativity, sound judgment, logical thinking and systematic approach)
9) Planning involves choice (among various alternate courses of actions)
10) Planning includes efficiency and effectiveness (aims at utilizing physical and human resources economically and efficiently)

Types of Plans:

Plans can be classified into

1. Mission: organizational purpose or fundamental reasons for existence. Mission is permanent one. Mission statement also include

(a) Defining the purpose of the organization

(b) Creating the vision of the organization. Vision is a image of what a company wants to be.

(c) Outlining the vision, how to be accomplished

(d) Stating a common goal

2. **Objectives or goals**: Ends towards which the activity ia aimed. Goals must be realistic and have a time period. Objectives form the basis of work and provide the yardstick for measuring the performance.

3. **Strategies**: specific path of action to achieve its objectives this is concerned with positioning the business in the market, establishing a reputation with customers, employees and other stockholders. It is concerned with long time growth. Strategic planning involves extended time scale short-term planning-1to2 years; longterm planning-more than 10 years.

4. **Policies**: it is a basic statement that guides decision making policy statements are expressions of the organization culture and belief system.

Example:

1) An university will give admission to PG program only for students those who secure more than 55% marks in their UG degree.

2) A manufacturing company will establish their plant only in rural areas.

5. **Procedures**: it describes in details the steps to be taken in order to accomplish the job. Procedures emphasis details; policies concentrate on basic general approaches.

Procedures are chronological sequence of required actions (guidelines). Procedure censure consistent actions for routine work. They provide basis for uniform performance as well as standard against which performance can be measured.

6. **Rules**: they are specific guides to actions. Rule is defined as a statement of precisely what is to be done in the same way every time with no permitted deviations. Violation is viewed seriously and penalties are improved for deviations. Rules help in regulating employee's behavior. Rules simplify the decision making process.

7. **Programs**: These are integrated plans that include goals, policies, procedures and rules. It is an aggregate of action plan that accomplishes a mission within a specified time period. Programming is a recent development that increases precision in planning.
8. **Budgets**: budget is a numerated program designed to allocate resources of a firm. a budget is expressed in monetary terms, sometimes in terms of machine hours, labor hours, etc.., budget is prepared well in advance whether for a week or for one year. Even though budget is a plan, this can also be used as control tool.

Planning Process:

Steps in planning:
Being aware of opportunities → Establishing objectives → Considering planning premises → Identifying alternatives → Evaluating alternative course of action→ Choosing best alternative course of action → Formulating derivative plans → Numerating plans by budgeting(establishing sequence of activities)

Steps in planning process:
1. Being aware of opportunities: In the external environment, analyze in right of prevailing market conditions, strategies of competitors, customer's likes and dislikes; organization strength and weakness. Planning requires realistic diagnosis of opportunities.
2. Establishing activates: As a whole and then broken down into departmental and sectional objectives. Objectives of each lower unit must contribute to the objective of next higher unit. Employees are to be given opportunity to suggest their ideas in the goal setting process.
3. Considering planning premises (assumptions): Planning depends on several assumptions about the expected environment conditions kind of markets in future; customer tastes and technical development, tax rates and policies of government, political and social environment and competitors in the market. Changes in any or more will recreate an alternation in the plans.
4. Identifying alternates: Alternative action plans are to be explored all possible alternatives and their probable sequences to make better and best decisions.

5. Evaluating alternative courses of action: Study of performance of alternative plan of actions evaluated in the light of assumptions, goals, costs, quality, etc…,This is normally a difficult one since many variables are involved.

6. Choosing a best alternative course of action: At this stage, select the best one in terms of achieving organizational objectives.

7. Formulating derivative plans: Put the selected course of action into practice and develop its derivative plans such as policies, procedures, rules, etc…,

8. Numerating (sequencing) plans by budgeting: To convert the selected course of action into budgets. Budgets for the whole organization are called as overall budget. Each division or department has its own budget. The sum of the sub divisions budget must be equal to the overall budget of the organization.

<u>Objectives (Goals) :</u>

Objectives are the ends toward activities of an organization are directed. Different organizations have different objectives. Objectives are set lay its top level objectives.

Setting objectives are a part of the planning process of a business is based around concepts such as productivity, custom service, and share holder satisfaction and employee motivation. Objectives define and state the purpose of the organization.

<u>Characteristics of objectives:</u>

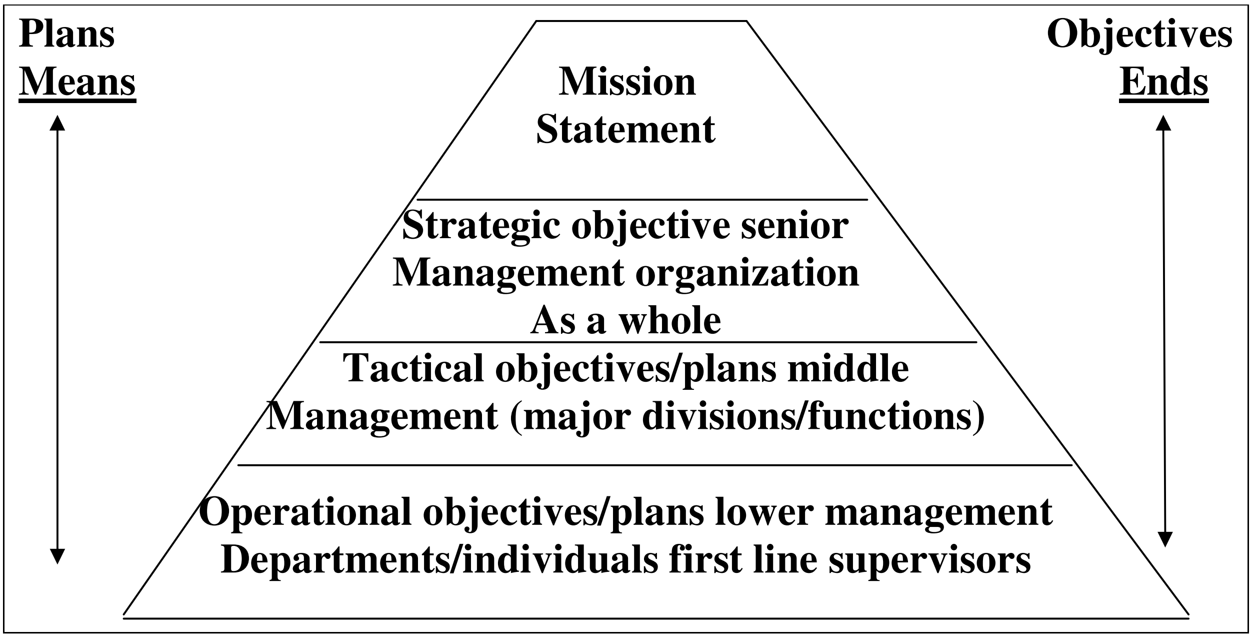
1. Hierarchy of objectives: This can be structured into a hierarchy.

- The achievement of objectives at low levels permits the attainment of objectives at low levels permit the attainment of objectives of higher level.
- Operational objectives lead to the achievement of tactical goals, which in turn lead to the achievement of strategic goals.
- Strategic goals are considered to be the responsibility of senior management Tactical goals are of middle management and operational goals of lower management/first line supervisors.

These are two approaches for setting objectives:

a) Top down approach: Top management determines for subordinates.

b) Bottom up approach: Subordinate help managers to set objectives plans are means and objectives are ends.
Each level of objectives stands as ends relative to the levels below it and as means relative above it.



2. Objectives are multiple in natures: Organization can have a number of objectives. There may be conflict between objectives. To overcome this conflict, the firm has to set priorities. No single objective would place on the path of the progress on the long run. Managers have to integrate all the objectives into a single one.

3. Long range-short range objectives:
Long range objectives such as survival and growth.
Short range objectives-market standing; maximization of sales; product development; productivity; effective utilization of resources, etc..,
Long range objectives extend over a period of 10 years.
Short range objectives are more specific and detailed the long range objectives.

4. Objectives should be specific and measurable: Expressed in quantitative terms (increasing profit by 3% and decreasing scrap by 2%) objective should be qualitative. It should be clearly defined and should be measurable.

5. Objectives are independent: must support one another to achieve simultaneously

6. Objective must cover key results areas: key result areas contribute most to company’s performance.

7. Objectives should have defined time period: dead line starting the date in which objectives will be achieved.
8. Objectives should have priority: priority to important objectives.
9. Objectives should be challenging but realistic: otherwise result as fear and dissatisfaction on the part of employee. Too easy will not serve the purpose.
10. Objectives should be linked to rewards: salary increase, provocations and awards. Rewards give measuring and significance and help in committing employees to achieve.

Benefits of objectives:

1. Unity in planning - adjusted to common overall objective.
2. Motivate subordinates- related to rewards such as monetary or non monitory benefits to feel employee motivated.
3. Facilitate coordination- as common agreement hence coordination of work
4. Provide better control- yardstick to measure performance
5. Facilitate direction- guidelines for directing, leading, motivating and communicating.
6. Basis for planning- without which plans, procedures, policies, rules and budgets cannot be prepared.
7. Basis for measuring performance- since define desired output serve as a performance criteria.
8. Legitimacy- to external environments such as customer, suppliers and shareholders.

Objectives setting:

Consideration for the setting process:

1) Classified into overall goals and derivative goals.
2) Most enterprises have multiple objectives at any time.
3) Should not be too high or low to avoid frustration.
4) Should be classified into long range and short range.
5) Should be challenging but realistic and consistent.
6) Short range and minor objectives should not make controversy with long range and major objectives.
7) Should be flexible to make changes according to external environment.
8) Should be very clear and precise and misinterpretation should be avoided.

9) Should be able to bring efficiency and effectiveness.
10) Should be reasonably attainable.

Approaches to objective setting:

(a)Traditional approach: objectives were set by top management and one way process. This is also called **Authoritarian approach**. This will result in reducing employee morale, commitment and responsibility.

Top level management set overall goals; middle level management set tactical goals and first line supervisors and workers set operational goals.

(b)Modern approach: objectives are jointly set by supervisors and subordinates.

One such approach is referred as Management By Objectives (MBO).

<u>Management By Objectives:</u>

The term MBO was coined by the Peter Drucker and further developed by Humble and Odiorne. This is a tool by which managers can improve their performance and increase their effectiveness.

Definition: The approach which was objectives as a focal point to improve managerial performance and managerial effectiveness both at the individual at the organization level.

MBO is a method where by clear objectives for every department, every person and each project are jointly set by the supervisor and subordinates. The success depends on the mutual relationship between the superior and the subordinates in setting realistic objectives. In MBO superior and the subordinates jointly identifies and sets objectives and also assess performance of each individual or contribution of every department.

MBO integrates the organization objectives with the objectives of individuals. MBO seeks to achieve a sense of common purpose and common direction in the management of the organization.

Features of MBO:

1) Emphasis on results than activities. MBO is a shift from an activity oriented to a result oriented management system.
2) Allows achieving maximum performance.
3) Harmonise the individual employee goals with the organizational goals.
4) Translates overall objectives with objectives of every department and every people and each project.

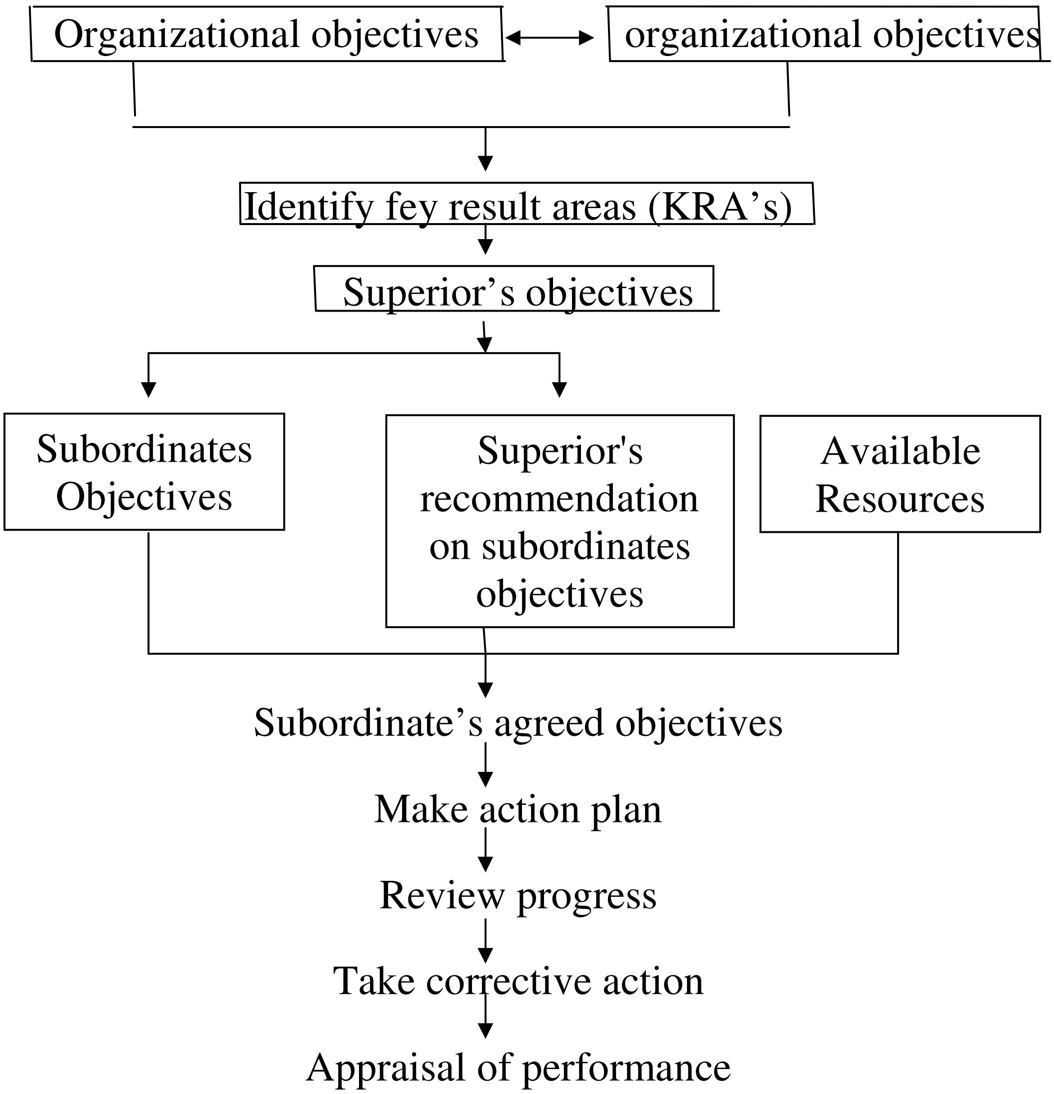
5) Assess the performance of each employee or every division and provides feedback on actual performance as compare to planned one.
6) Provides the delegation of authority and power from top level management to the low level management.
7) Involves people at all levels of the organization.

Process of MBO:

1. Set objectives – to be specified for every managerial position at all levels and not for the individuals who occupy those positions.

2. Identify key result areas (KRA's) – material cost, waste and utilization of machinery for the manufacturing industry.

Steps of MBO process: flowchart



3. Participatory or joint objective setting – Jointly set objectives for subordinates. Emphasis on participation of the subordinates into superior to ensure that objectives are realistic and in agreement into subordinates
4. Make action plans – that means by which an objective is achieved. Action plan spell out the various steps or activities to be performed within a specific time.
5. Review program and take corrective actions – regular review held at prefixed intervals to review the performance against the objective.
6. Appraisal of performance – to assess the individual's potential has compensation.

Benefits of MBO:

1) Performance improvement, since concentration objectives.
2) Employee motivation, since they participate in setting objectives.
3) Evaluation of individual and the division is possible
4) Increases productivity of employees
5) Help managers to exercise better control over employees
6) Change in organizational because of improved understanding of superiors and subordinates.
7) Unnecessary effects are minimized, since objectives are set clearly
8) Obtain high results, since sense of common purpose and common action
9) Helps each employee to understand his role and responsibility
10) Helps in locating weak and problem areas, since improved communication and organizational structure

Limitations of MBO:

1) Very difficult to set verifiable goals
2) Involves too much paperwork, holding of many meetings, hence difficult to allot time for MBO work
3) Time consuming process for setting objectives periodic program reviews also consume more time
4) Environment of poor employee relations reduces MBO efficiency
5) Goals are sometime inflexible to adopt changes in external environment
6) Tendency to emphasis on short run goals at the expense of long run goals. Overemphasis on operational goals affect attainment of strategic goals
7) If participation is discouraged, MBO process becomes weak

8) Failure to teach MBO philosophy weaken the program
9) Activities change rapidly, difficult to measure the performance and implement the MBO process

Requirements of MBO:

1) Approval and support of top management
2) Teaching the philosophy and fundamentals of MBO to all subordinates
3) Setting objectives for both individual and division jointly by superior and subordinates
4) Implementing appraisal methods to evaluate the contribution of individual and every department
5) Implementing MBO at low levels

Strategies:

Definition: determination of long term objectives, making the best choices for the future and allocating the resources necessary to accomplish the objectives

Concerned with positioning the business in the market and establishing a reputation with customers, employees and other stock holders.

Long term view and to see the big future including the firm and competitive environment and to consider how they fit together

Strategic planning:

Made by top management including CEO, P, VP, GM and divisional heads. Policies and strategies are adopted to achieve overall objectives of the firm.

Top management CEO, P, VP, GM, div.heads	Strategic planning(up to 10 years)
Middle management- functional managers, production managers	Tactical planning(1-2 years)
Lower management- unit manager, first line supervisors	Operational planning (1 week to 1 year)

Comparison of different planning

Distinction between strategic planning tactical planning:

Strategic planning	**Tactical planning**
Made by top management (CEO/P/VP/GM/Divisional Heads)	made by middle management product line managers
Long range plan > 10 years	Medium range plan(1-2 years)

Time period of 10 years	Time period of 1-2 years
Primary focus on mission, long term goals and effectiveness	Primary focus on means of implementing strategic goals
Not a detailed one	Somewhat detailed
Main purpose is to ensure long-term effectiveness and growth	Main purpose is in means of implementing strategic goals
Decision making under uncertain and risky conditions	Under moderate risk conditions
Vague in nature	Quantitative and qualitative objectives
Resource allotted is high	Resource allotted is moderate

Distinction between strategic and operational planning:

Strategic planning	Operational planning
Made by top management (CEO/P/VP/GM/Div.heads)	Made by unit manager and first line manager
Long range plans	Short range plans
Time period of 10 years	1week to 1 year
Primary focus on mission, long term goals and effectiveness	Primary focus on operational planning to achieve target to optimize resource and to bring efficiency
Main concerns are competitive position, business reputation and business success	Main concerns are budget, target, performance measurement, quality and feedback
Not a detailed one	Detailed one
Decision making under more uncertainty and risk conditions	Decision making under well defined operational conditions
Resource allotted is high	Resource allotted is low

Types of strategy:

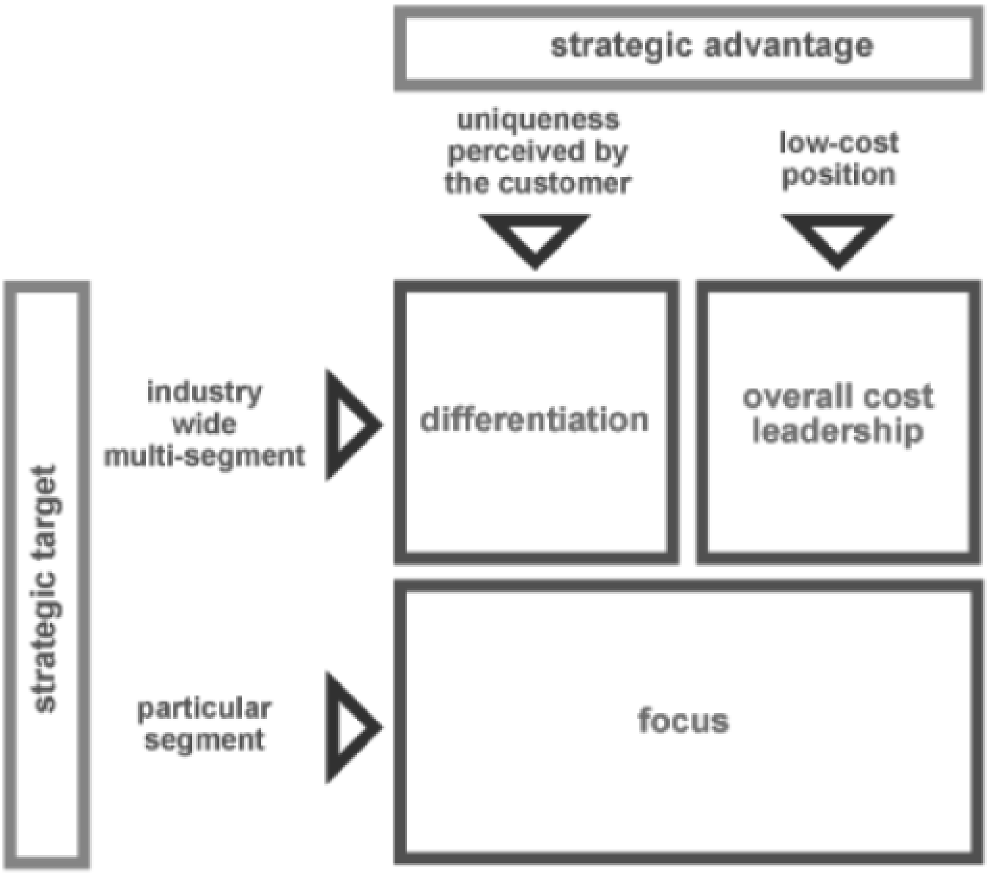
Strategy is an action plan which sets the direction that a company will be taking. It is a decision making choice and involves consideration of external environment affecting the organization and the internal environment of strengths and weakness of the company.

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

a) Cost leadership strategy

b) Differentiation strategy

c) Focus strategy



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 market share. 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 vertical integration decisions, or avoiding some costs altogether. 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.

Strategies are broadly classified into two types:

Strategy

Grand strategy
- Stability strategy
- Growth strategy
- Retrenchment strategy

Global strategy
- Globalization strategy
- Multi domestic strategy
- Transnational strategy

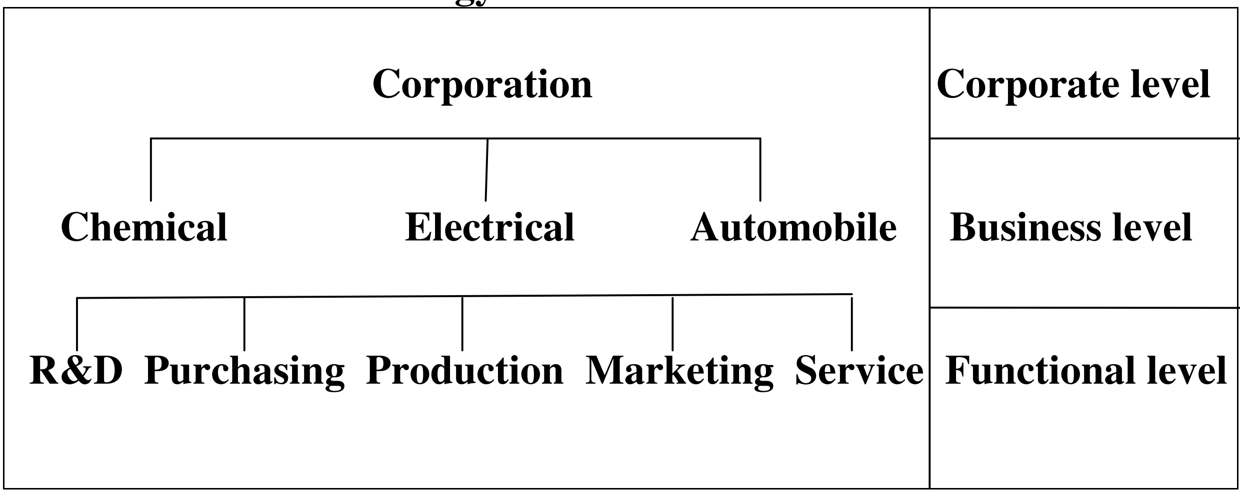
<u>Levels of strategy:</u>

1. Corporate level strategy

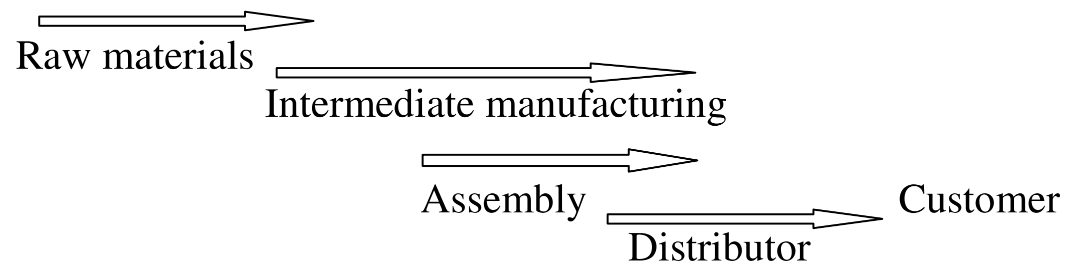
- ➢ Forward vertical integration strategy
- ➢ Backward vertical integration strategy
- ➢ Concentric diversification strategy
- ➢ Conglomerate diversification strategy

2. Business level strategy

3. Functional level strategy



Corporate level strategies:



Horizontal integration strategy: acquiring one or more competitors to increase market share

Concentric diversification: also referred as related diversification energy starting or acquiring a related business

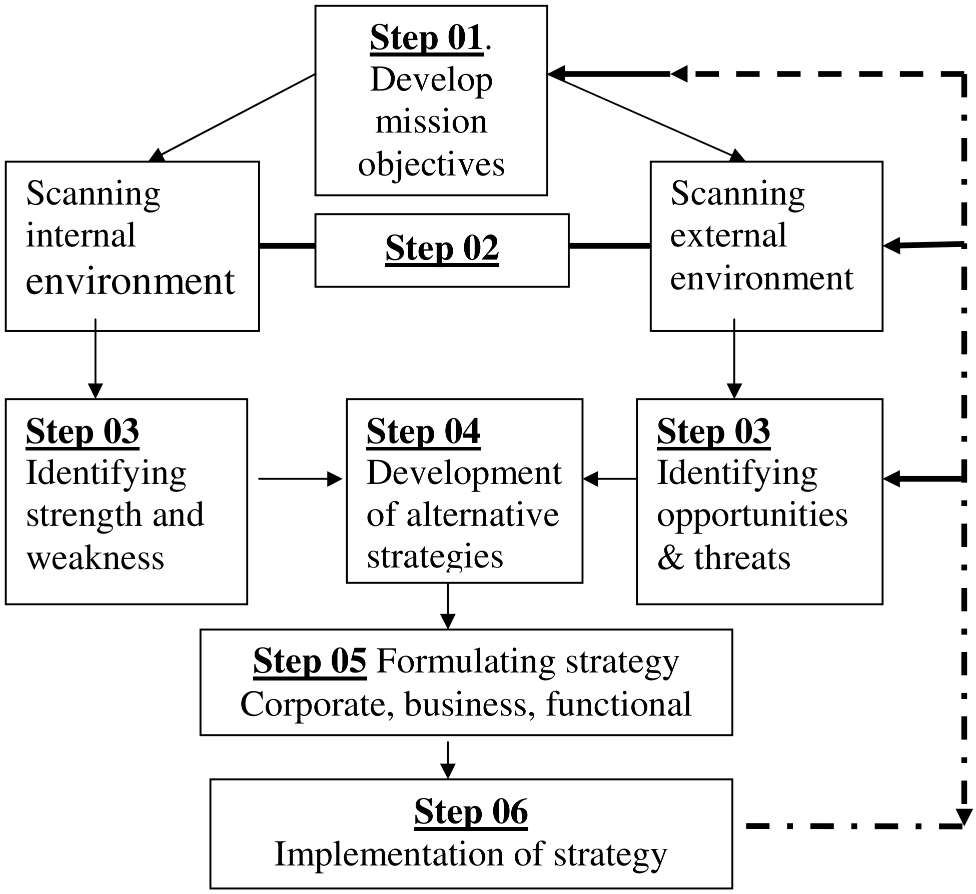
Conglomerate diversification: also known as unrelated diversification acquiring a new business to reduce risk or troubles.

Business related strategy: Action taken to achieve desired goals in serving a specific market with high interrelate set of products. This is to manufacture products at low cost, gaining competitive advantage by making products different than competitor, advertising and expansion and contraction of product lines.

3. Functional level strategy: pertains to all major departments involving all the functions such as research and development, finance, purchase, production, quality control and marketing. This seeks to add value to a good service. This must fit with business strategy.

A company with mature products or low cost strategy will have different functional strategies.

Strategic planning process:



Formulation of strategies

The step can be further categorized into three stages.

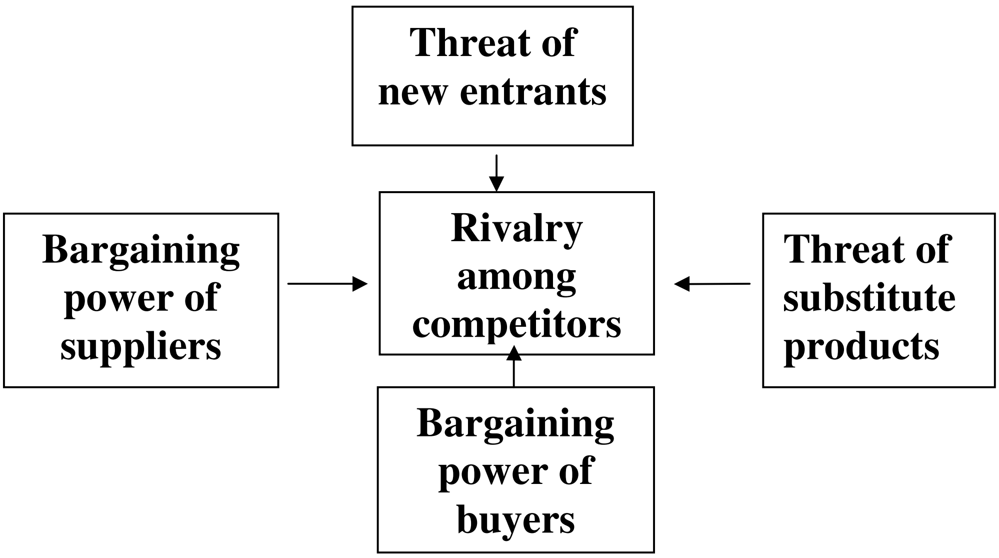
1. **Formulating corporate level (portfolio) strategies:** – this involves the mix of business units and product lines that fit together in a logical way to provide competitive advantages for the organisation. Executives' in-charge of the entire business corporation generally defines portfolio strategy.

BCG (Boston Consulting Group) matrix:

Market growth rate	High (Relative market share)	Low (Relative market share)
High	**STARS** Rapid growth and expansion	**QUESTION MARKS** New ventures, risky a few become starts, others divested
Low	**CASH COWS** Milk to finance question marks and stars	**DOGS** No investment keep if some profits consider divestment

2. Formulating business level strategy:

This is proposed by porter. These are the result of 5 competitive forces.



3. Situation analysis: (SWOT/TWOS) MATRIX

The TOWS MATRIX provides four types of strategies

WT strategy **Min-Min** strategy
WO strategy **Min-Max** strategy
ST strategy **Max-Min** strategy
SO strategy **Max-Max** strategy

SWOT/TOWS MATRIX:

----------------------------------		Maximum	Minimum
	Internal factors → External factors ↓	(S) Internal strength Many ability Market skills Modern controls Novel technologies	(W) Internal weakness High labor turnover Weak financials High absenteeism Poor coordination
Maximum	(O) External opportunities New market openings Political changes Change in economic conditions	(SO) Max-Max Utilizes strength To take advantage of opportunities	(WO) Min-Max Overcome weakness To take advantage of opportunities
Minimum	(T) External threats Economic recession Heavy competition Lack of energy Closings of markets	(ST) Max-Min Utilizes internal strength to avoid external threats	(WT) Min –Min Liquidation Retrenchment

The strategy planner has to make several TOWS MATRIX at different time periods

Implementation of strategies:

This will be more concerned with team leadership, efficiency and other operational matters. This is the process of translation of strategies, policies into action through the development of programs, budgets and procedures. Strategy may be implemented by middle and lower level management. The implementation process considers organizational structure, people, culture and control systems.

POLICIES:

This is a statement and predetermined guideline that provides directions for decision making and taking action.

➢ Policies may be based upon through analysis of objectives and it should be consistent with the company’s mission and philosophy.

- Policy serves as ready guides for solving numerous problems and for making routine day to day decisions. This helps to improve the efficiency of operations.
- Organizational policies may be formulated for all types of situations and functions. Example: sales policies, production policies, personal policies, accounting policies, etc…,
- **Short policies** tend to predict issues and avoid repeated analysis and give a unified structure to the organization.
- Major policies cover the entire organization and are formulated by top level managers.
- Policies lay down the broad scope and limits within which managers are allowed to commit the organization to specific decision.
- Policies neither offer ready made decisions nor specify how exactly managers should make decision and handle events. They only indicate the broad considerations to be kept in mind while making decisions.
- Policies are the basis of excessive operation and they provide answers to all questions in running an organization. Example:Policies of providing discounts to regular customers; employing first class graduates; providing regular to pay all employees within the organization; promotion based on merit.

<u>Characteristics of a good policy:</u>

- Should be clearly expressed and be understandable by all
- Should help managers in achieving organizational objectives and be related to objectives
- Stable but sufficiently flexible
- Sound, logical and provide guidance to solve problems and help make day to day decisions
- Comprehensive in scope and capable of being applied to different situations in a given area so that most cases can be handled at the lower level of organization.
- Precise and provide limits within which managers are allowed to commit the organization to specific decisions
- No of policies should be fairly high and be consistent with the overall objectives and mission of the organization
- Be based on facts and sound judgment are not reflect the emotional feelings of top managers

- Policies in the written form are preferable rather than unwritten policy. Oral policy will not be clear and precise. Language of the written policy must be understandable by all
- Should reflect all the factors affecting internal external environment
- Should be reviewed periodically and can be reformulated.

Types of policies:

Policies

On the basis of levels	on the basis of functions	on the basis of sources
1. Basic policy	1. Production policy	1. Originated policy
2. General policy	2. Marketing policy	2. Appealed policy
3. Division policy	3. Personnel policy	3. External policy
	4. Accounting policy	
	5. Quality policy	
	6. Sales policy	
	7. Purchase policy	
	8. Contracting policy	
	9. Pricing policy	
	10. Dividends policy	

1. The types of policies on the basis of levels are: -

1) Basic policy - set by top level management
2) General policy - set by middle level management
3) Division policy - set by division heads or first line manager/supervisor

2. The types of policies on the basis of functions are: -

Separate policies are set by management for different functions such as production policy, Marketing policy, purchasing policy, Personnel policy, Accounting policy, Quality policy, Sales policy, Purchase policy, contracting policy, Pricing policy, Dividends policy, etc...

3. The types of policies on the basis of sources are: -

1) Originated policy - formulated by top level management on their own intuition and experience
2) Appealed policy - set by top level management in response to appeals made by middle/lower level managers/supervisors
3) External policy - imposed upon the organisation by the external agencies such as government, trade unions and trade associations.

Distinction between policies and objectives:

Policies	Objectives

1. Formulated by top/middle level	Set by top level only
2. Standing plan for an activity likely to be repeated in future	Single use plans for an activity not likely to be repeated
3. Guideline that provide directions for decision making	Aims or goals (not the ends)
4. Determine how the work be done	Determine what is to be done
5. means for achieving goals	Focal points for the effects of the organization
6. Organizational existence and survival do not depends upon the policies	Organizational existence and survival depends upon the objectives.

Steps in policy making:

1. Policy formulation → 2. Policy communication → 3. Policy application → 4. Policy review and approval

1. Policy formulation: by top management out of needs and purpose perceived and defined by the management. Policy formulated must be broader by top level and run over by lower level management. One or more policies may be formulated at a time by the management. Policy contain several sub polices associated with it.

2. Policy communication: to those who are responsible for the applications. Communications may be in form of manuals, written memorandums, board letters and announcements. Basic ideas to educate the members regarding the need for the following policy.

3. Policy application: strictly applied by the subordinate's consistency is very important. Some flexibility is essential in day to day activates.

4. **Policy review and appraisal:** should be reviewed periodically or not become obsolete review is essential to avoid complacency in future manager should analyze the existing policies and scrap out the obsolete or outdated policies.

Guidelines for effective policy making:

1. As far as possible in writing
2. Clearly understood by these responsible to complement
3. Reflect the objectives of the organization
4. Superiors and subordinates must participate in the formulation to ensure successful implementation.

5. Must change in changing environment. Must strike a balance between stability and flexibility.
6. Different policies Should support each other
7. Should not be determined to the interacts of society
8. Should be periodically reviewed for any modification, changes or abandon completely.

Planning premises (anticipated environment) assumptions of future and known conditions:

<u>Types of planning premises</u>

General business	specific business	
	internal	external
political stability		
economic stability	1. Sales fire cash	1. Industry demand
price behavior inflation	2. Capital investment	2. Business location
Stagnation	3. Basic policies	3. Labor market
Generation of national income	4. Supply factors	4. Capital availability
Growth rate in population		
Government policy premises		
Technological environment premises		

<u>Decision making:</u>

- The process of choosing the best alternative course of actions.
- It should be national.
- Should not be affected by emotional feelings, interpersonal relations and sub conscious level and factors.
- Efficiency and effectiveness can be improved by special techniques (brain storming, group decision making, etc…,)

<u>Importance of decision making:</u>

- Managerial functions (PODC) involve decision making.
- Essential at all levels of management.
- Administration is essentially a decision making process.
- Essential to solve managerial problems to allocate resources and to accomplish organizational objectives.
- Manager in an organization are expected to make decisions as an important part of their responsibilities.

<u>Types of decisions:</u>

1. Programmable and non programmable decisions.
2. Once for all and routine decisions

3. Individual and group decisions
4. Personal and organizational decisions
5. Initiative and approved decisions
6. Certain and ambiguity decisions
7. Strategic and operating decisions
8. Adaptive and innovative decision

Decision making process:

1. Recognize the need for a decision
2. Define the problem
3. Search and develop alternatives
4. Evaluate alternatives
5. Selecting among alternatives
6. Implement selected alternatives
7. Learn the feedback

The sequential steps in the rational decision making process is: -

Step 01 : - Recognise the need for a decision

Managers first realize that the decision must be taken. this may be sparked by an event such as changes in the environment. Manager must recognise the need for a decision in the form of a problem or opportunity. Problem occurs when the result is less than the target and opportunity exist when the potential or capability exceed the established target.

Step 02:- Definition of the problem

The definition and diagnosis of the problem involves **three types of skills**: - **Noticing, Interpreting, and Incorporating.**

Noticing means identifying internal and external environmental factors related to the problem

Interpreting means categorising the noticed factors in to symptoms, causes or real problems.

Incorporating means relating these interpretations to organisational objectives. A good decision depends on the definition of a right problem

Step 03: - . Search and develop alternatives

Individuals or teams must look alternatives to any course of actions. Thus decision making involves two or more alternatives. The alternative course of actions can be developed by collecting more information, thinking creatively, consulting experts and undertaking research.

Limiting factors are:-

a) A concept which helps to develop alternative actions and to choose the best;
b) The resisting thing that stands in the way of making decisions;

Recognizing the limiting factors in this situation makes it possible to narrow the search for alternatives.

Various disciplines such as mathematics, the theory of probability and the incremental and cost concept of economics help managers to develop alternatives.

Step 04: - Evaluate alternatives

After identifying alternative courses of actions, they must be compared and evaluated. This step determines the relative cost of / time of each alternative. Managers have to determine the advantages and disadvantages of each alternative.

Step 05: - selecting the best course of action among alternatives

The most important step in decision making is choosing a best alternative course of action. Managers should rank and then select the best. The **three criteria** to be followed by a manager, while selecting the best action among alternatives, are: -

i) Experience - experience is the best teacher**.** Lessons and feedback learned from past experiences may be applicable for taking a decision. Sometimes, this may not help, then managers have to use their creative thinking and innovative skills.

ii) Research and analysis - this involves a search for relationships among the critical variables, constraints and premises. This approach requires modeling of problems and to simulate them. It is mainly mathematical approach. Expenses required for this approach is less compared to experimentation. This method is effective and more accurate one.

iii) Experimentation - this helps managers to select the best action among the alternatives. Manager tests the alternatives under actual and prevailing conditions. The experimentation may be in the form of test marketing of a new product. but this method of selecting an alternative is more expensive.

Step 06: - Implement chosen alternative

The decision taken is to be executed properly. Hence essential steps are to be taken to implement the solution. Sometimes, manager can face resistance or opposition at this stage from employees, those who are affected by the decisions. Therefore, managers have to convince the employees and try to make the people understand what the decision involves. All employees must be brought to accept the decision in a slow manner.

Step 07: - Learn from feedback

Feedback is important because decision making is a continuous and never ending process. At any time , in this step, managers receive feedback about how well the decision was implemented and whether it was effective in achieving the goals. Feedback information is very much useful in taking the corrective measures and in taking further right decisions in the future.

Group decision making: Group tend to reduce biases and combine skills and abilities of the group. Decisions are made from a series of meetings (conferences committees, boards or staff meetings)

Advantages of group decision making:

- Groups can view problems from several perspectives
- Greater information and knowledge allows for more alternative solutions to be generated.
- Provides training to executives in decision making
- Motivation of individual members can be increased by feeling of participation in the group process
- Can be approached from different viewpoints by individual specialists.

Disadvantages:

- Takes considerable time
- Lead to in decisions
- No one is responsible for a decision
- Leaders express a strong preference for one solution.

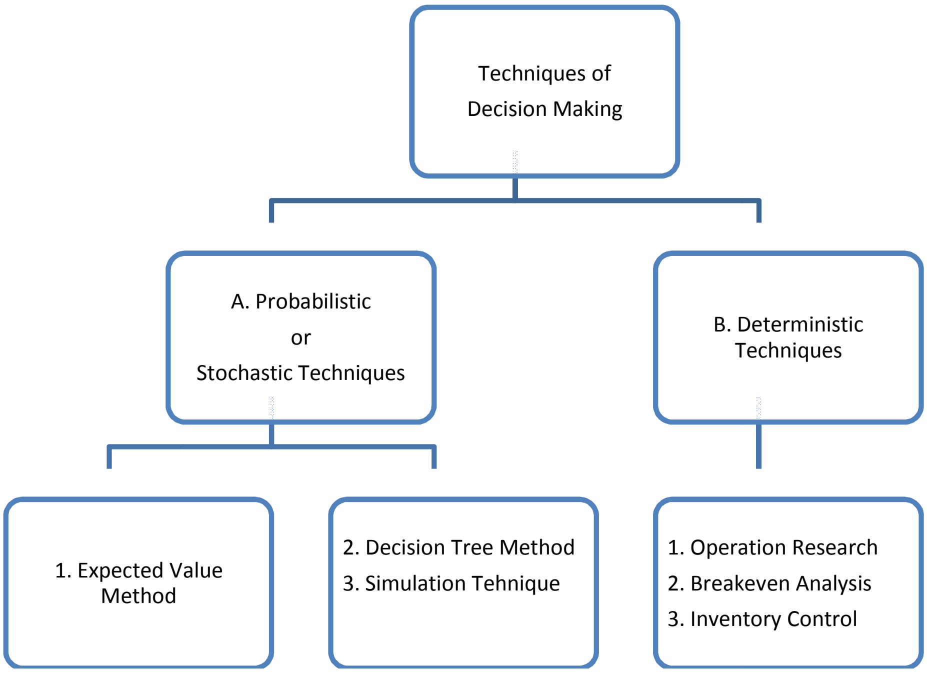
Techniques of decision making:

A. Probabilistic or Stochastic techniques: - three steps are to be followed in a decision involving probabilities.

i) - should first layout in tabular form all the possible actions and outcomes.

ii) - should make a probability distribution projecting chances of each outcome that might result from each action.

iii) - must use a quantitative yardstick to measure the value of each outcome.

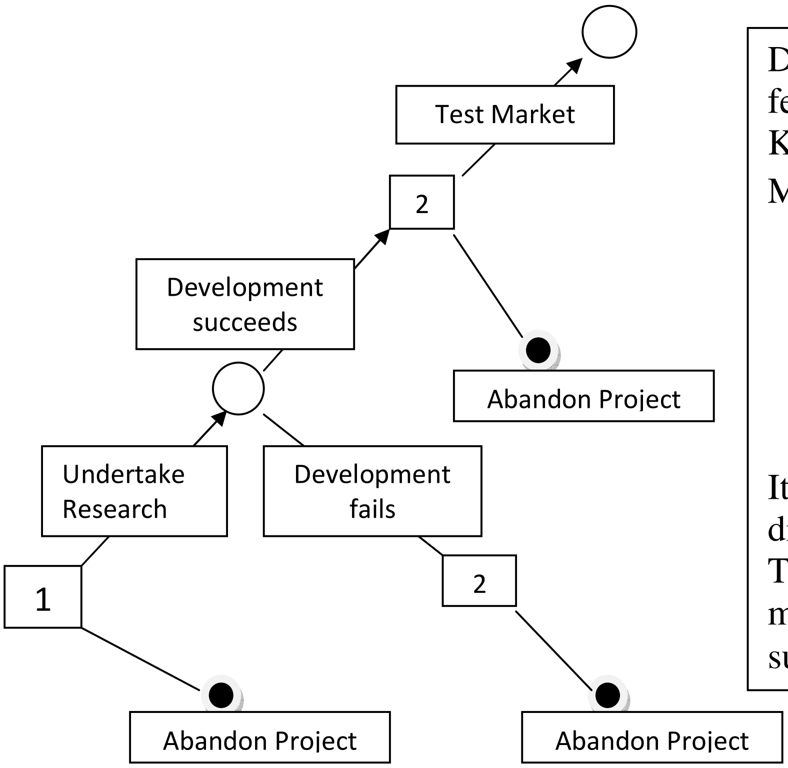


1. Expected value method: - when several alternate courses of actions are available and the outcome of each is uncertain, the decision maker can use probabilities to select the final choice.
Example: - the sale of Air-conditioners tabulated as per periods (hot summer/normal period /cold winter)

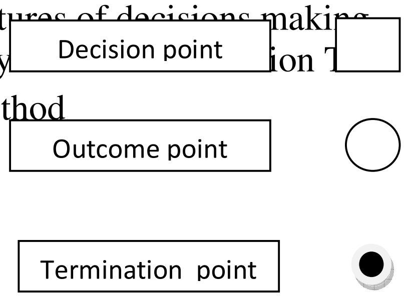
Event /period	outcome		Expected value of each probability = Sales * probability
	Sales (Rs)	probability	
Hot summer	1,00,00,000	0.3	Rs. 30,00,000
Normal	70,00,000	0.5	Rs. 35,00,000
winter	40,00,000	0.2	Rs. 8,00,000
Expected sales (by adding)			**Rs. 73,00,000**

The expected value of any event is the outcome it would produce times its probability. Adding the expected values of all possible events, yields expected sales, the average level of sales that can be expected over the long-run of the given probabilities hold , as shown in the table above

2. Decision tree method: -



Decision tree is built on three key features of decisions making Key [illegible] ion T[illegible] Method



It is also possible to add a time dimensions to the whole diagram. These additional features all help to make use of decision tree a successful exercise for managers

A useful tool for decision makers in the management is the 'Decision tree ' method. This is a conceptual map of possible decisions and outcomes in a particular situation. It is useful in cases where a manager has to make a number of sequential decisions (that is, where earlier decision will affect later and subsequent decisions). The above diagram focuses attention on outcomes or consequences as well as decisions. These outcomes can be further elaborated in terms of their probability and their anticipated pay off.

3. Simulation techniques: -

1) Especially applicable to "what if" problems (If we do this, what will happen)
2) Conducted by manipulation of physical models
3) Without any supervision assistance, and with the help of computer, use a mathematical model, and varying the different parameters to observe the effect on outcome
4) Complex situations can be simulated to determine the best action
5) Is the process of building, testing and operating models of real-world phenomena through the use of mathematical relationships that exists among different critical factors

6) Useful in solving complex problems, engineering design problems, once the values of the factors are known
7) Is essentially probabilistic technique, since typically estimate the future values of the critical factors
8) Is cheaper, safer and easier to experiment than with real machines or physical models of machines

B. Deterministic techniques: - Generally three techniques are followed to determine the solutions

1. Operation Research (OR) - Employing techniques from other mathematical sciences, such as mathematical modeling, statistical analysis, and mathematical optimisation, operations research arrives at optimal or near-optimal solutions to complex decision-making problems. Because of its emphasis on human-technology interaction and because of its focus on practical applications, operations research has overlap with other disciplines, notably industrial engineering and operation management. Operations research is often concerned with determining the maximum (of profit, performance, or yield) or minimum (of loss, risk, or cost) of some real-world objective. Operation management involves design, planning and management of many factors that affects operation.

Inputs	→	**Transformation Process**	→	**Outputs**
Men; Material; Money; Machinery; Management; Methods	→	Planning; System Design; Operating the system; Controlling	→	Products; Services; Information

Operations are influenced by external environmental factors such as economical, social, political, ethical, technological and legal.

2. Breakeven Analysis: - Breakeven analysis is a method of determining the relationship between total revenues and total costs at various levels of production so as to establish a breakeven point (BEP) . The analysis of cost behaviour in relations to changes in volume of sales and its impact on profit is called as breakeven analysis. Hence it is also called as cost-volume -profit analysis.

Breakeven analysis can be represented by a graphical chart as well as a mathematical formula. **BEP (In Units) =** $\frac{TFC}{(P-VC)}$

where BEP- Breakeven point in units; TFC - Total fixed costs; P - Selling price per unit; VC - Variable cost per unit.

BEP (In rupees) = $\{\frac{TFC}{(P-VC)}\} * S$

where S- sales (or) demand in units.

3.Inventory control: Inventory is the resource of any kind that a businessmen like to have to promote smooth and efficient management. Inventory control is the process of determining what and how much of various items are to be kept in stock. it also determines the time and quantity of various items to be procured. the basic objective of inventory control is to reduce the investment in inventories at the same time. Economic Order Quantity (EOQ), Just-in time (JIT) are some control philosophy implemented in inventory control techniques.