

## **MODULE II: PLANNING AND DECISION MAKING**

**Planning – Steps, Importance, Components**

**Coordination – Importance**

**MBO (Management by Objectives) – Process, Advantages**

**MBE (Management by Exception)**

**MIS (Management Information System) – Components**

**Decision Making – Techniques, Essentials, Impact of technology on decision making**

## PLANNING

**Philip Kotler**, *“Planning is deciding in the present what to do in the future. It is process whereby companies reconcile their resources with their objectives and opportunities”*

**Koontz and O'Donnell**, *“Planning is deciding in advance what to do, how to do it, when to do it, and who is to do it”*

## **STEPS IN PLANNING PROCESS**

- 1 Analysis of business environment** (Internal and External)
- 2 Determining objectives** (SMART)
- 3 Determining alternative plans** (Stand by arrangement meeting any emergency situation)
- 4 Evaluating alternative plans** (weighing factors like – costs, benefits, risks etc.)
- 5 Selecting best plan** (in light of objectives, resources, management philosophy, image of the company etc.)

## **STEPS IN PLANNING PROCESS**

- 6 Formulation of derivative plans** (related to different departments, subsections of the operative plan such as programmes, budgets, schedules etc.)
- 7 Arranging time and sequence of operations** (for flow of work)
- 8 Implementation** (organizing, directing and controlling)
- 9 Follow-up** (understanding actual progress and deficiencies to facilitates remedial measures)

## **IMPORTANCE OF PLANNING**

1 Minimizes the risks

6 Generates efficiency

2 Facilitates coordination

7 Encourages Innovation

3 Facilitates organizing

8 Focus on goals

4 Facilitates proper direction

9 Facilitates decision making

5 Facilitates control

10 Motivates personnel

# **COMPONENTS OF PLANNING**

## **PLANS**

---

### **STANDING PLANS**

**Mission**

**Objectives**

**Policies**

**Rules**

**Strategies**

### **SINGLE USE PLANS**

**Programmes**

**Projects**

**Schedules**

**Budget**

**Standards**

## **COMPONENTS OF PLANNING**

**STANDING PLANS:** These plans are for repeated use as and when occasion demands.

**Mission:** The mission statement reflects the vision, the basic purpose and philosophy of the organization. It gives clear idea about long term commitment of an organization.

**Objectives/Goals:** Objectives are ends towards which actions are directed. Objectives act as the base of the planning process. Goals are departmental achievements.

**Strategies:** It is broad long term plan for moving the organization from the present position to the desired position in future.

## COMPONENTS OF PLANNING

**Policies:** Policies are the statements that guide decision making. Policies define the boundaries within which decisions can be made.

**Procedures:** It is an established way of performing the work. It consists of series of steps required to perform such as – eg. Employee selection procedure – Advertising the post, Systematic conduct of tests and interviews, Selecting the right candidate.

**Rules:** Rules are specific actions/statements of what should be and should not be done in certain situation. Rules are to be differentiated from policies



## COMPONENTS OF PLANNING

**SINGLE USE PLANS:** These plans are used for specific activity.

**Programmes:** It is a comprehensive plan designed to implement the policies and accomplish the objectives. It is the combination of goals, policies, procedures, rules etc. to carry out a specific course of action.

**Budgets:** It is the statement of expected results expressed in numerical terms. Budget may be expressed in financial terms, labour-hours, units of the product etc. Examples – cash budget, sales budget, production budgets etc.

**Schedules:** It is the time table for the activities. It indicates start time and the completion of each operation/activity/task etc.

## COMPONENTS OF PLANNING

**Projects:** Project approach is followed when the work to be done is of special nature, requiring expertise from different departments or when the work is of complex nature or when the cost involved is very high.

**Standards:** Standard is a norm or criteria against which performance is compared and evaluated. A business establishes a variety of standards indicating anticipated results of the plans. Standards could be either qualitative (quality/ physical standards) and quantitative standards (liquidity ratio, current ratio)

## **MBO (Management by Objectives) / Management by Results**

The term first popularized by Peter Drucker in 1954 in his book, “The Practice of Management” MBO involves the establishment of goals by managers and their subordinates acting together, specifying responsibilities, and assigning authority for the achieving the goals.

According to Peter Drucker, ‘MBO is regarded as a system for improving performance of both the individual manager and the enterprise as a whole by setting up of objectives at the corporate, departmental and individual manager level’

# **MBO (Management by Objectives) / Management by Results**

## **STEPS IN MBO PROCESS**

- 1 Goal Setting: Necessary to find out “Key Result Areas” such as profitability, Innovation, Productivity etc.
- 2 Manager – subordinate involvement
- 3 Matching goals and resources
- 4 Developing action plans: outlining activities to achieve goals, establishing relationship between various activities specifying time to perform each activity, setting priority to each activity etc.
- 5 Implementation of Plan
- 6 Review and appraisal of performance
- 7 Feedbacks

## **Merits and Demerits of MBO**

### **MERITS**

- 1 Result oriented approach
- 2 Clear Goals
- 3 Impartial Approach
- 4 Higher moral
- 5 Personal Leadership
- 6 Motivation

### **DEMERITS**

- 1 Time Consuming
- 2 Conflicting objectives
- 3 Higher paperwork
- 4 Lack of Durability
- 5 Disputed target setting
- 6 Problem of coordination

## **Suggestions for improving effectiveness of MBO**

- 1 Support from all
- 2 Acceptance by managers
- 3 Training of managers
- 4 Organizational commitment
- 5 Allocate adequate time and support
- 6 Uninterrupted information feedback

## **MBE (Management by Exception)**

It is a management technique by which manager's focus only on those events or activities which deviates significantly from standards.

E.g. Quality defects in products of more than 0.1% will be investigated by Chief Production Manager.

## **Advantages of MBE**

**1** Business Expansion

**6** Goals of the organization

**2** Concentration on core issues

**7** Corporate Images

**3** Delegation of authority

**8** Competitive advantages

**4** Efficiency of the firm

**9** Optimum use of resources

**5** Freedom to employees

**10** Ensures succession planning



## **MIS (Management Information System):**

According to H. Weihrich and H. Koontze. ‘ a formal system of gathering, integrating, analyzing, comparing and dispersing information internal and external to the enterprise in a timely, effective and efficient manner’

Communication is essential to undertake managerial functions and to link the enterprise with external environment, customers, dealers, suppliers, investors and others. MIS provides communication link.

## Components of MIS

**1 People:** It consists of computer device operator, support staff, network administrators, system specialists and end-users.

**2 Procedure/Processes:** Procedure refers to set of rules and guidelines for the use of computer based information system. Procedures can be led down by the management either or with the help of the consultants. Procedure depends on the nature of the organization, may vary from department to department according to requirements. MIS helps in retrieving the data as per the requirement of a particular department.

**3 Network Resources:** It consists of server computers, client computers, and communication and transmission media. Network resources include both hardware and software.

# Components of MIS

**4 Data Resources:** It includes raw data and processed data. Data can take many forms – traditional alpha-numerical data, text data, image data, and audio data etc. Data resources must meet certain criteria, as it should be comprehensive, non-redundant, structured data

**5 Hardware:** It consists of input and output device, processors and storage devices. It is physical parts of MIS.

**6 Software:** It consists of various programmes and applications. The software is divided into two major groups – system software and application software.

System software refers to the operating system, i.e. DOS, Windows, Linux, etc. the operating system is the most important programme that runs on a computer.

Application software are for accomplishing specific staff, such as Microsoft Word/Excel, Google Chrome, You Tube, Skype, Whatsapp etc.

## **DECISION MAKING:**

According to James Stoner, 'The process of identifying and selecting a course of action to solve a specific problem'

### **Steps in decision making:**

- 1 Identifying the problem
- 2 Analyzing the problem
- 3 Collecting relevant data
- 5 Selecting the best solution
- 6 Converting decision into action
- 7 Ensuring feedback

## **Essentials of effective decision making**

- |                                       |                                    |
|---------------------------------------|------------------------------------|
| <b>1</b> Proper definition of problem | <b>5</b> Rational Decisions        |
| <b>2</b> Collections of Data          | <b>6</b> Subordinate participation |
| <b>3</b> Communications               | <b>7</b> Training and motivation   |
| <b>4</b> Cost effective               | <b>8</b> Periodic Review           |

# **TECHNIQUES OF DECISION MAKING**

## **PROGRAMMED DECISIONS**

1 Linear Programming

5 Game Theory

2 Probability decision Theory

6 Queuing (waiting line)

3 Payoff Matrix

7 Simulation

4 Decision tree

8 Network Techniques

# **TECHNIQUES OF DECISION MAKING**

## **NON-PROGRAMMED DECISIONS**

### **a) Creative Techniques**

1 Brainstorm Technique

2 Delphi Technique

3 Nominal Group Technique

### **b) Participative Techniques**

4 Participative (Q/C) Technique

5 Heuristic Technique

# **Impact of technology on decision making**

- |                                     |                                 |
|-------------------------------------|---------------------------------|
| 1 Speed of decision making          | 6 Automation of routine matters |
| 2 Quality of decision making        | 7 Decision in core areas        |
| 3 Lower costs in decision making    | 8 Business expansion decisions  |
| 4 IT supports group decision making | 9 Decentralized decision making |
| 5 Communication and decision making |                                 |