PLANNING AND DECISION MAKING

UNIT - 4

Learning Outcomes

- Planning: Meaning and levels of planning, planning horizons, planning process, meaning and use of single use, standing, contingency and derivative planning, pitfalls and their improvement in planning
- Decision making conditions: Concept of decision making, process of rational decision making, type of problems and decision making conditions and styles

Planning: Meaning

- It is the process of setting goals, establishing a course of action, implementing the action plans and attaining the goals.
- It is the process of determination of objectives and selecting a best course of action for determining predetermined objectives.
- It is deciding in advance what to do, when to do and how to do.
- It is regarded as the primary function of management as it affects all other functions of management.

- Plan is defined as "a document stating the goals, outlining the action- oriented strategies to attain these goals, and assigning organizational resources to attain them".

- Effective planning includes the total organizational activities.

- Thus, planning is that part of management which attempts to define the organization's future.

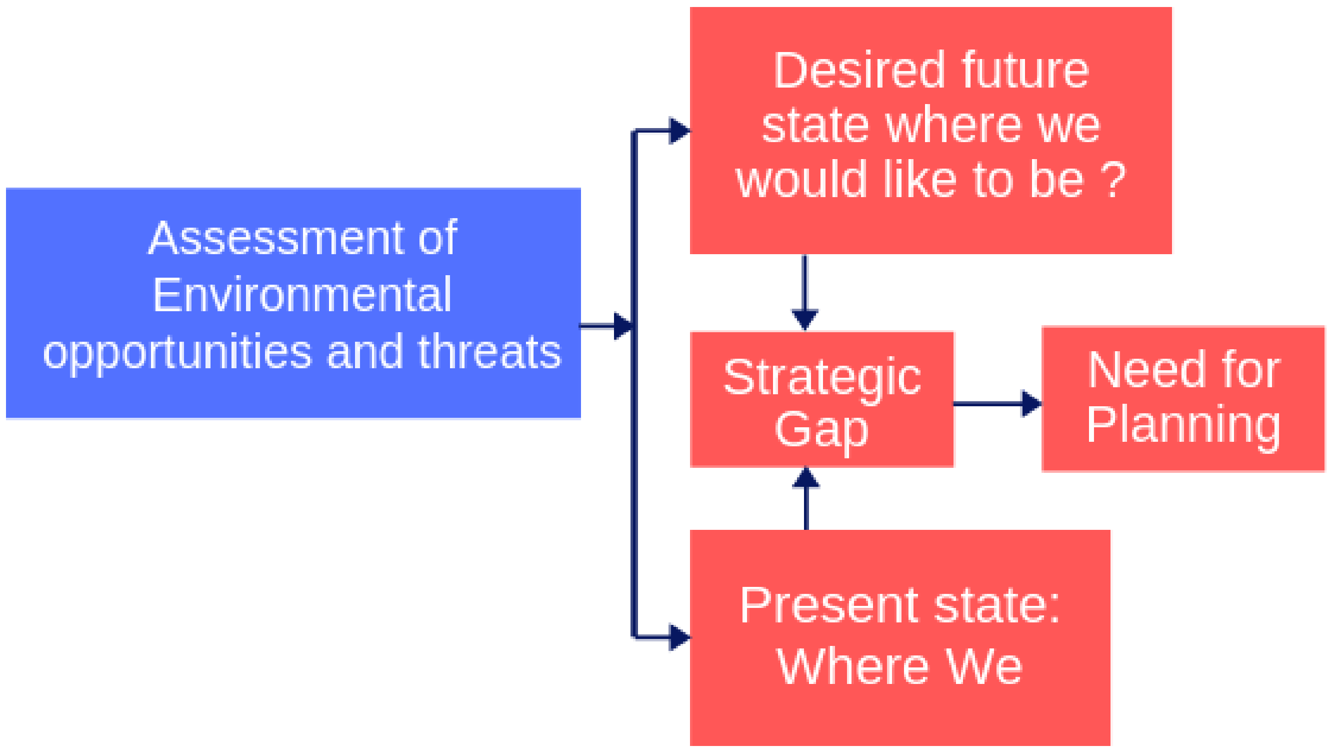


Fig * A Planning Model

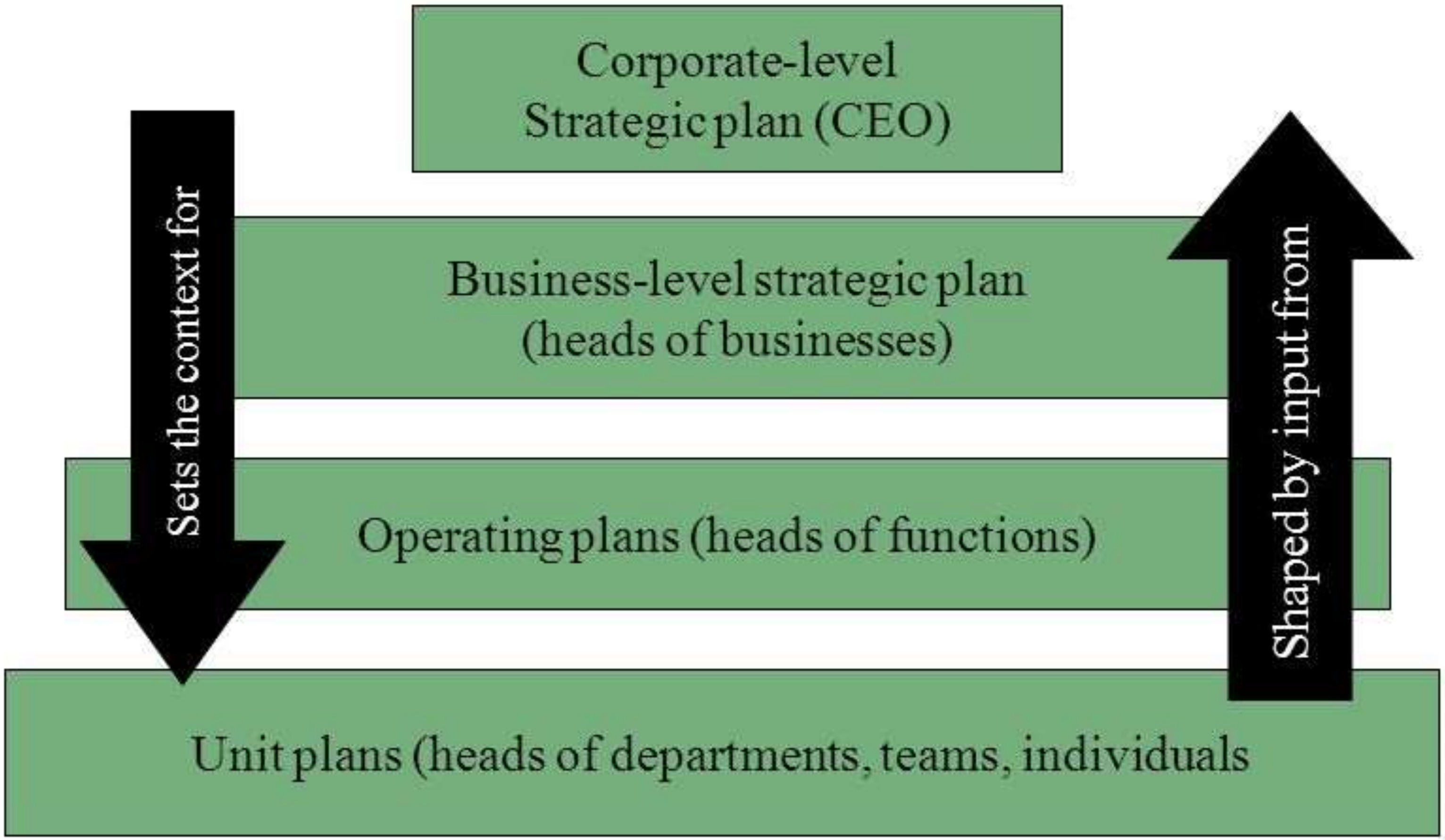
Characteristics/Features of Planning

- Focus on Goal
- Primary function
- Pervasive activity
- Future oriented
- Continuous activity
- Intellectual work
- Flexible
- Efficiency and economy
- Actionable/Attainable

Importance of Planning

- Focus on goal
- Minimize uncertainty
- Maintain effective control
- Innovation and creativity
- Organizational effectiveness
- Economy in operation
- Facilitates coordination
- Avoids business failure

Levels of Planning



Planning Horizons

1. Long range plans (3-5 years)

- Demand/product review, supply review, capacity review

2. Medium range plans (1-3 years)

- Gross profit plan, demand plan, product plan, inventory plan, operations plan, supply chain plan

3. Short-term plans (within a year)

- Program, budget, policies

Types of Plans

1. On the basis of Hierarchy

- Strategic Plan

  Strategic plans, grand plans or corporate plans are the long- term plans prepared by the top level management after environmental scanning. It gives a clear explanation of how to achieve the defined objectives as there is high degree of uncertainty in strategic plan.

- Tactical Plan

  It is the sub- division of corporate plan which is prepared by departmental managers. It is prepared to perform divisional activities like production, finance, marketing, personnel, etc.

- Operational Plan

  It is a specific action plan of each and every activity of the unit which concentrates on the best use of organizational resources.

2. On the basis of Time- period

- **Long- term Plan**

  The plans which have a continuing value for three to five years or more that include corporate level goals and strategies are regarded as long- term plans.

- **Medium- term Plan**

  Medium- term or immediate term plans have a time horizon between one and three years that include business level goals and implementation of strategic plans.

- **Short- term Plan**

  The life span of short- term plans is not more than a year that includes day- to- day operations regarding manufacturing, marketing and more.

3. On the basis of Frequency of use

- **Single Use Plan**

  It is prepared for a specific purpose in non- programmed situation and is non- repetitive in nature. Example- project program and budget. Due to its non-repetitive nature, it is also called ad-hoc plan.

- **Standing Use Plan**

  It is prepared for programmed decision making situation and can be implemented in different situation and repetitive activities. Example- rules, policies, procedures, strategy, etc.

4. On the basis of Flexibility

- **Specific Plan**

  It is developed for a particular department or unit by stating all the specific plans and resources to be used clearly.

- **Flexible Plan**

  It is changeable on the basis of time and situation and is not specific in terms of procedures and resources. It can be modified on the basis of the facility and requirement.

Derivative Plans

- Derivative plans are the supporting plans for the achievement of main plan.
- They are related to policies, procedures, rules, programs, budgets, and schedules.
- The tactical and operational plan are derivative plans as they are formulated to support the strategic or corporate plans.

Contingency Plans

- Contingency plans are formulated to deal with contingency or unexpected situations.
- They are short term plans which are formed by understanding the nature and impact of the most uncertain and important driving forces affecting the future.
- Types of contingency plans:
  - Crisis management plan-formulated to deal with possible future crises such as terrorist attacks and industrial disasters.
  - Scenario plan-plans formulated for “what-if” scenarios.

Planning Process

1) Analysis of opportunities
2) Setting goals/objectives
3) Determination of planning premises
4) Identification of alternatives
5) Evaluation of alternatives
6) Selecting the best alternative
7) Formulation of derivative plans
8) Implementation of plan
9) Reviewing the planning process

1. Analysis of opportunities:

The management has to analyze the Strengths, Weaknesses, Opportunities and Threats (SWOT) to make a successful plan. Strengths and Weaknesses are the outcome of internal environment whereas Opportunities and Threats arise from external environment.

2. Setting goals/objectives:

Specific, clear and practical objectives should be set at the starting point of planning. They should also be time- bound not idealistic or over- ambitious.

3. Determination of planning premises:

Premises are the assumptions of the future on the basis of which the plan is formulated. The various premises are to be studies well first, therefore.

4. Identification of alternatives:

The management must identify and develop all alternatives from the primary and secondary sources of the firm.

5. Evaluation of alternatives:

Each alternative is to be evaluated in terms of some common factors such as risk, responsibility, planning premises, resources, technology, etc.

6. Selecting the best alternative:

Manager needs to select the best course of action on the basis of past experience, present situation and future contingencies of the particular decision.

7. Formulation of derivative plans:

Sub- plans or supporting plans for each department of the organization should be formulated as it is difficult to implement basic plan without the formulation of derivative plans.

8. Implementation of plan:

A plan should not be limited in paper only. So, a manager needs to communicate the plan, guide the sub- ordinates, arrange the resources and supervise the activities for the implementation of plan.

9. Reviewing the planning process:

Planning is a continuous function due to which a manager should evaluate the actual performance and should also take corrective action in proper time to ensure the effectiveness of the plan.

Methods of Planning

1) Top-down method (Centralized planning)
2) Bottom-up method (Decentralized planning)
3) Participative method (Management by Objectives)
4) Team method

Tools for Planning

1) Forecasting
2) Network Technique
3) Flow Chart
4) Gantt Chart
5) Breakeven Analysis
6) Linear Programming
7) Simulation

1. Forecasting

- It includes predictions, projections or estimates of future situations that may significantly affect a business.
- It is concerned with the reduction of uncertainty that exists in some part of the future.
- Examples: time series analysis, regression analysis, moving average method, etc.
- It is the process of developing assumptions such as:
  - What if we change the price by 10%?
  - What will happen if we enter a new market?

2. Network Technique

- It is used to plan and control the time and cost of a project.
- Examples: Program Evaluation and Review Technique(PERT) and Critical Path Method (CPM)
- PERT develops a network of activities and their inter- relationship.
- CPM is the longest path in which the project can be completed in the shortest time.

3. Flow Charts

- It is used to simplify tasks through sequencing.
- It uses boxes for events or activities, diamonds for key decisions, ovals for start and stop points, etc.
- Its motive is to eliminate wasted steps and activities.
- It indicates the steps but does not define the time required for the completion of these steps.

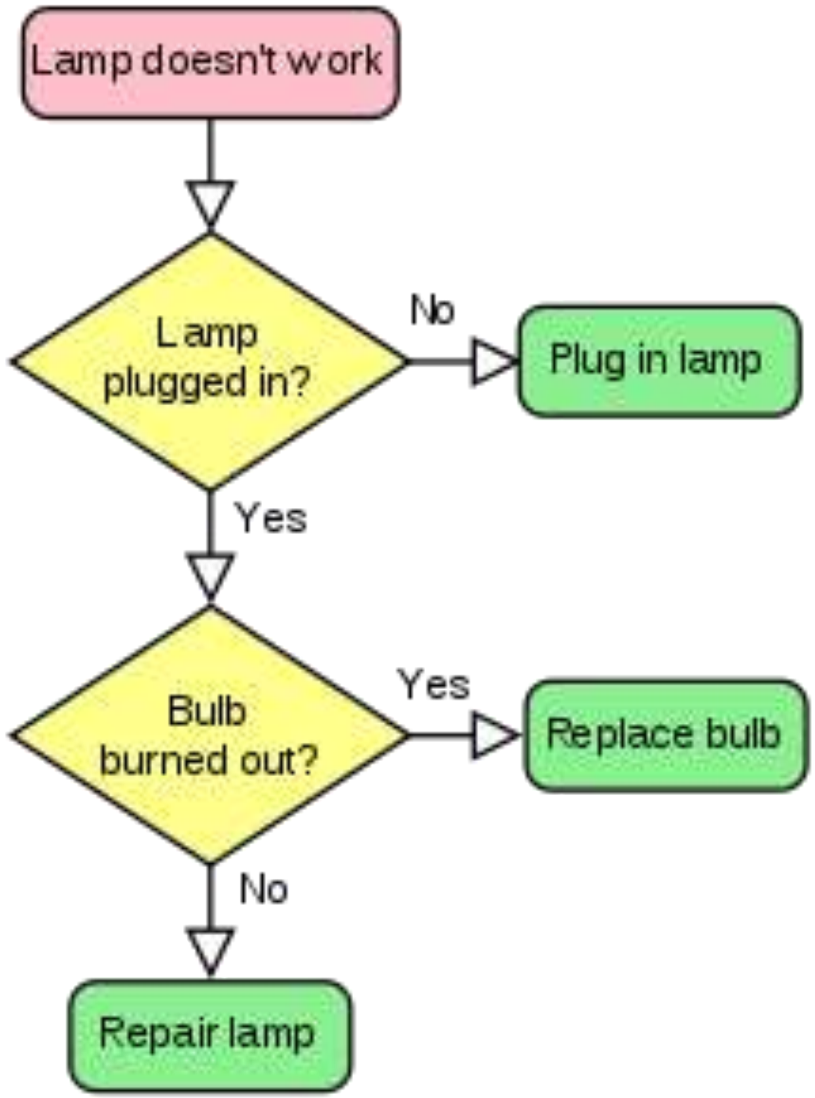


Fig * Flowchart

4. Gantt Chart

- It depicts a schedule of implementation.
- It focuses on activities and time required to complete them.
- It was developed by Henry L. Gantt during the early 1900s.
- It is a bar graph with time on the horizontal dimension and activity scheduled on the vertical dimension.

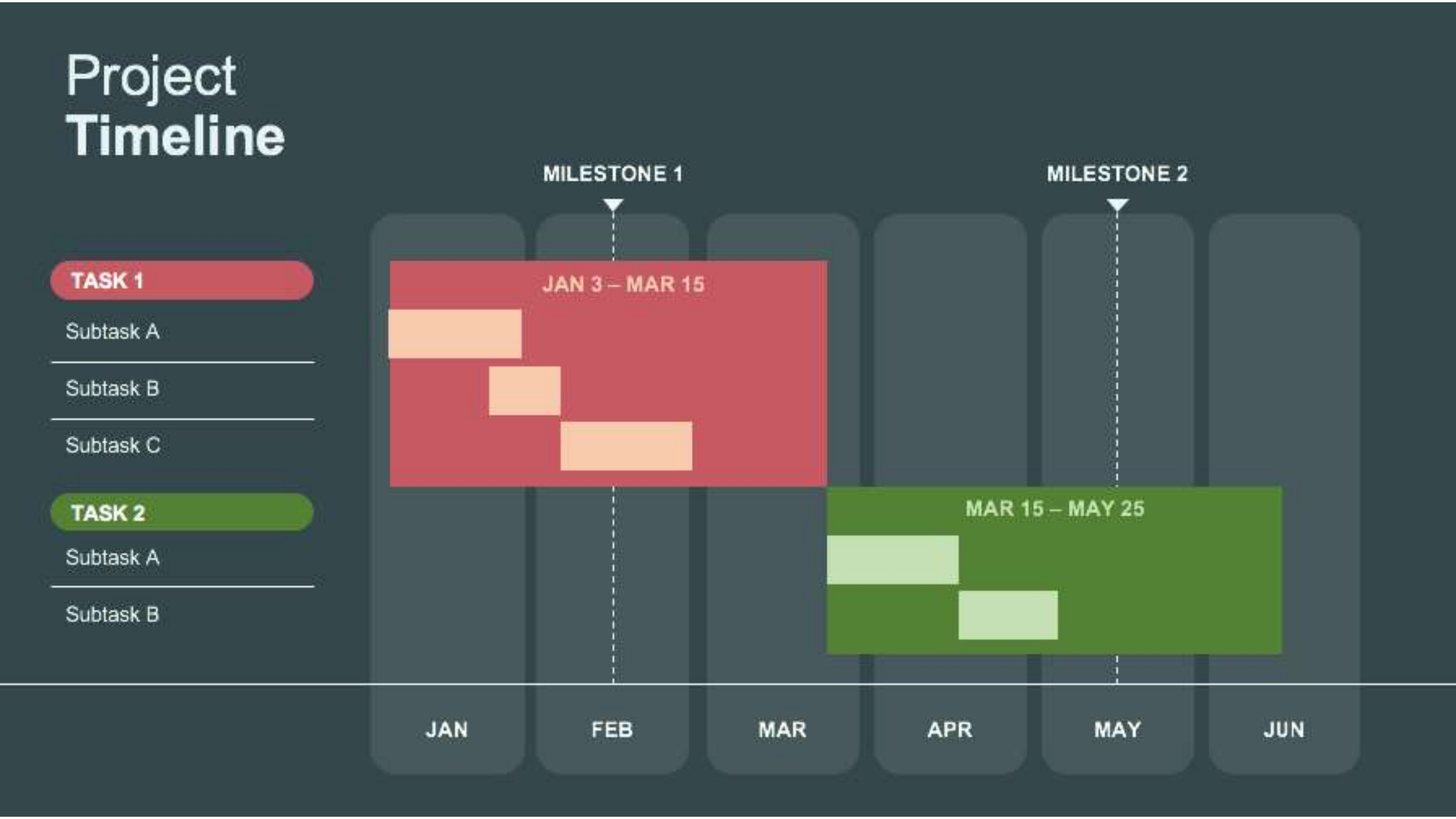


Fig * Gantt Chart

5. Break- even Analysis

- Break Even Point (BEP) is the level of activity in which cost becomes equal to the revenue.
- It is also known as cost- volume profit (CVP) analysis.
- BEP= FC/ (S- VC)

  where FC= Fixed Cost

  S= Sales Revenue

  VC= Variable Cost

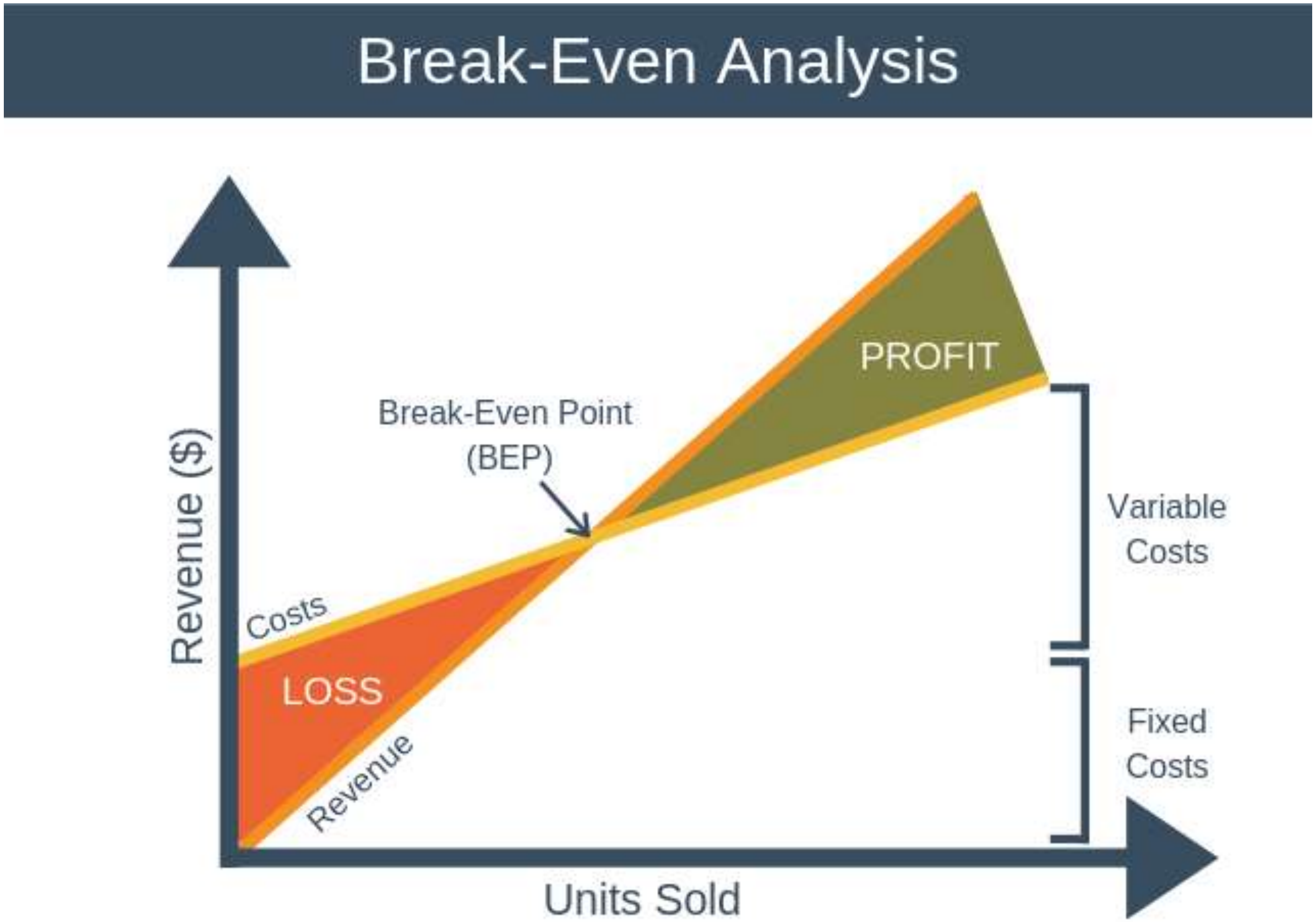


Fig * Break Even Analysis

6. Linear Programming

- It is a mathematical tool used for optimum combination of scarce resources and activities.
- It is used for maximizing profit and minimizing costs.
- It is appropriate when objective must be met within a set of constraints.

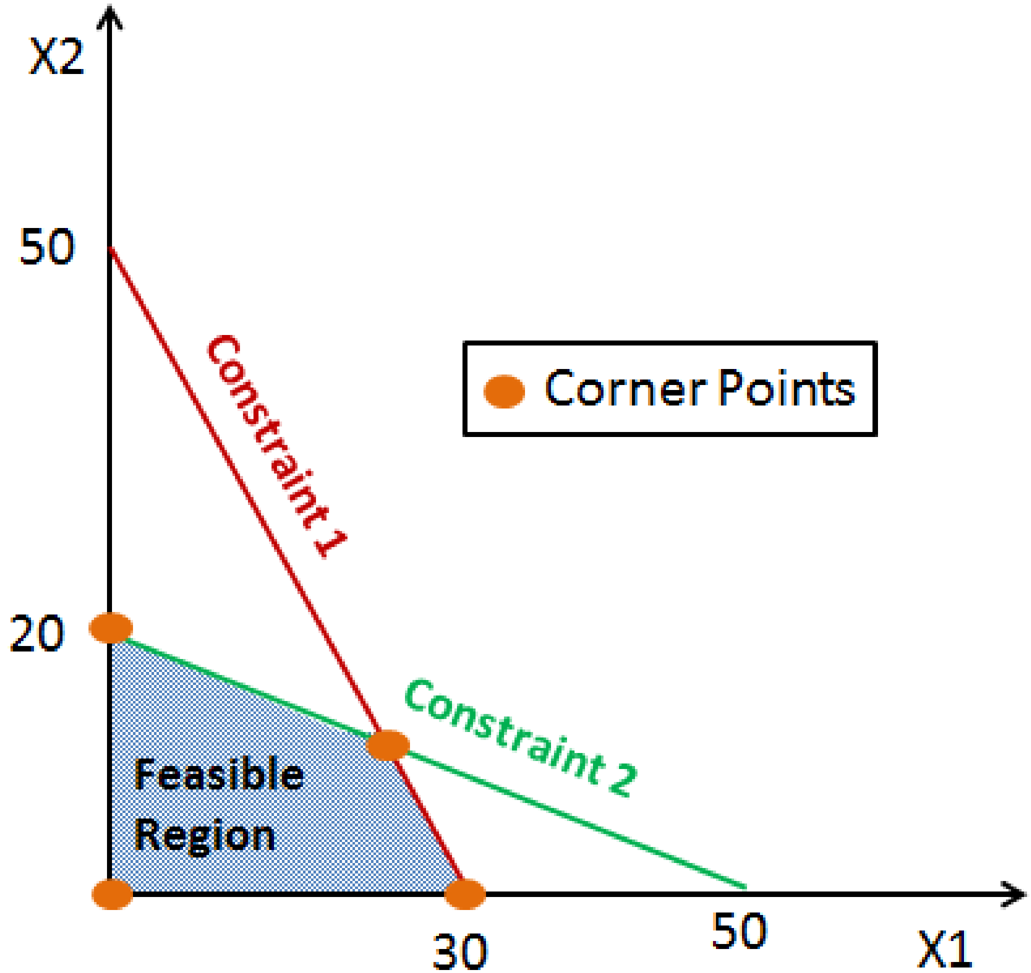


Fig * Linear Programming

7. Simulation

- It represents a model to solve real life problems.
- Computer programming is used to find out a set of output with the combination of different variables.
- It is descriptive in nature.

Planning Premises

- These are the assumptions and predictions about future change in environment factors.
- Since the future is uncertain, premises guide in effective planning.
- These spell out stage of the expected future event which is believed to be exist when plans operate.
- These provide a framework for more realistic and operational plans.

Types of Planning Premises

1. Internal and External Premises
2. Controllable, Semi-controllable and Uncontrollable Premises
3. Tangible and Intangible Premises
4. Constant and Variable Premises

1. Internal and external premises:

Internal premises exist within a business enterprise. Example- sales forecast, plant and machinery, product line, etc.

External premises are those which lie outside a firm. Example- political, economic, socio- cultural, technological forces etc.

2. Controllable, semi- controllable and uncontrollable premises:

Controllable premises are entirely within the control and realm of management. Example- internal policies, rules, research projects, etc.

Semi- controllable are partially under the control of management. Example- trade union relations, demand of product, etc.

Uncontrollable premises are beyond the control of management. Example- natural calamities, war, strike, etc.

3. Tangible and intangible premises:

Tangible premises are those which can be measured quantitatively in terms of money, time and units of production. Example- labor hour, machine hour, etc.

Intangible premises are those which cannot be measured quantitatively. Example- reputation of business, public relations, motivation, etc.

4. Constant and variable premises:

Constant premises are those which do not vary/ change in relation to the course of action. Example- men, machine, money, etc.

Variable premises are those which vary in relation to the course of action. Example- sales volume, etc.

Pitfalls/ Limitations of Planning

- ✓ Lack of Control
- ✓ Expensive Process
- ✓ Inflexibility
- ✓ Based on certain assumptions
- ✓ Delay in action
- ✓ Incomplete information
- ✓ Difficult to implement
- ✓ Unwillingness to change
- ✓ Difficult to implement at unit level
- ✓ Difficult to change with dynamic environment

1. Lack of Control:

External environmental factors like natural calamities, sudden strike and change in government policies are beyond control which influence organizational plans.

2. Expensive Process:

Planning requires extra effort and resources to collect information, evaluate alternatives and forecast future which require extra budget besides normal investment.

3. Inflexibility:

Planning restricts an individuals freedom, initiatives and desire for creativity as it strictly adheres (holds on) to the pre-determined policies and programs.

4. Based on certain assumptions:

Planning is based on different assumptions and forecasting which are not exact science. So, plans get affected time and again.

5. Delay in action:

Planning is thinking and deciding before doing which require sufficient time that can delay the action to be taken.

6. Incomplete information:

If a manager somehow cannot collect the required information, the manager might have to formulate plans on the basis of partial knowledge and information .

7. Difficult to implement :

In certain cases, plans remain only on paper as sacred documents due to different crisis and struggles faced by managers in between.

8. Unwillingness to change:

Employees resist change as they think the new plans will be challenging and difficult to implement.

9. Difficult to implement at unit level:

There are many minor activities at functional level which might not be completely reflected among the broad plans of an organization.

10. Difficult to change with dynamic environment:

Sometimes a plan may be outdated and irrelevant even before they are implemented in the rapidly changing environment.

Improving Planning

- ✓ Setting clear goals
- ✓ Developing realistic plans
- ✓ Proper understanding
- ✓ Management Information System
- ✓ Economical
- ✓ Comprehensive
- ✓ Planning must start at top
- ✓ Flexibility
- ✓ Dynamic Manager
- ✓ Careful Premising

1. Setting clear goals:

   Specific, understandable and rational overall objectives should always be set out first and then departmental and unit goals should be considered.

2. Developing realistic plans:

   Consistency in planning SMART goals should be maintained for proper execution afterwards.

3. Proper Understanding:

   All concerned members should have proper understanding of plan as a good plan is the one which is well understood by those involved in the implementation process.

4. Management Information System:

An efficient system of management information should be maintained so as to avail (benefit) all the relevant facts and figures.

5. Economical:

The planner must undertake cost benefit analysis to ensure that the benefit of planning is more than the cost involved in it.

6. Comprehensive:

Each and every aspect of business should be covered and their purpose and timing should be arranged accordingly to achieve better output.

7. Planning must start at top:

Planning must be set at the top level management as rigorous review of performance from top level stimulates the overall planning.

8. Flexibility:

There should always be some scope to make necessary addition, deletions or alternatives in the plan as per the requirement.

9. Dynamic Manager:

A manager should keep in mind that he is making plan for future which is highly uncertain.

10. Careful Premising:

Due weightage should be given to the relevant factors at the time of premising as the planning premises provide framework within which the plan is formulated.

Decision Making: Meaning

- It is the process of selecting a best course of action out of many different alternatives to produce a desired result.

- It is essential to remove problems and weakness in actual performance.

- It is the process of solving problems by choosing a specific course of action from among alternatives.

- The success of an organization depends upon the decision- making ability of the manager and its implementation in practical field.

- Decisions are the means through which a manager seeks to achieve some desired state.

- Almost everything a manger does, involves decision making.

Characteristics of Decision Making

- Selective process
- Human and Rational process
- Dynamic process
- Goal- oriented process
- Continuous process
- Freedom to decision maker
- Positive or negative impact

Importance of Decision Making

- Pervasive function
- Indispensable component
- Evaluation of managerial function
- Selection of best alternative
- Establishment of plans and policies
- Successful operation of business

Process of rational decision making

- Identification of problems/opportunity/situations
- Development of alternatives
- Evaluation of alternatives
- Selection of the best alternative
- Implementation of the selected alternative
- Follow up & evaluation of the results

Types of problems and decision making

Types of problems

- On the basis of nature/frequency
  - Routine
  - Exceptional
- On the basis of urgency
  - Urgent
  - Non-urgent
- On the basis of impact
  - Overall impact
  - Partial impact
- On the basis of source
  - Technical
  - Human

Types of decision making

- Programmed and non-programmed decisions
- Major and minor decisions
- Routine and strategic decisions
- Policy and operative decisions
- Organizational and personal decisions
- Individual and group decisions

Decision Making Conditions

- Certainty:

  It is a condition under which the manager is well informed about possible alternatives and their outcomes. The condition of certainty exists in case of routine decisions such as allocation of resources for production, payment of wages and salary, etc.

- Risk:

  It is a condition under which the managers have knowledge about alternative course of actions but outcomes are associated with probability estimates where a state of risk, etc.

- Uncertainty:

  It is a condition under which the managers are unaware of the problem they face as they do not know about all the alternatives, the risk associated with them or the likely consequences of each alternatives. Example: introduction of a new or innovative product or service, new technology or selection of new alternative program.

Decision Making Styles

- Linear Thinking Style
  (rational decision making through external data)
- Non-linear Thinking Style
  (intuitive decision making through internal data)

Tools for Decision Making

- Linear Programming
- Simulation
- Payoff Matrix
- Decision Tree
- Queuing Model
- Game Theory
- Accounting Tools


Thank you