MG8591- PRINCIPLES OF MANAGEMENT

UNIT II - PLANNING

Nature and purpose of planning – planning process – types of planning – objectives – setting objectives – policies – Planning premises – Strategic Management – Planning
Tools and Techniques – Decision making steps and process

Nature and Purpose of Planning:

According to Koontz O'Donnel - "Planning is an intellectual process, the conscious determination of courses of action, the basing of decisions on purpose, acts and considered estimates".

NATURE AND PURPOSE OF PLANNING

NATURE OF PLANNING

Planning is goal-oriented: Every plan must contribute in some positive way towards the accomplishment of group objectives. Planning has no meaning without being related to goals.

Primacy of Planning: Planning is the first of the managerial functions. It precedes all other management functions.

Pervasiveness of Planning: Planning is found at all levels of management. Top management looks after strategic planning. Middle management is in charge of administrative planning. Lower management has to concentrate on operational planning.

Efficiency, Economy and Accuracy: Efficiency of plan is measured by its contribution to the objectives as economically as possible. Planning also focuses on accurate forecasts.

Co-ordination: Planning co-ordinates the what, who, how, where and why of planning. Without co-ordination of all activities, we cannot have united efforts.

Limiting Factors: A planner must recognize the limiting factors (money, manpower etc) and formulate plans in the light of these critical factors.

Flexibility: The process of planning should be adaptable to changing environmental conditions.

Planning is an intellectual process: The quality of planning will vary according to the quality of the mind of the manager.

PURPOSE OF PLANNING

As a managerial function planning is important due to the following reasons:-

To manage by objectives: All the activities of an organization are designed to achieve certain specified objectives. However, planning makes the objectives more concrete by focusing attention on them.

To offset uncertainty and change: Future is always full of uncertainties and changes. Planning foresees the future and makes the necessary provisions for it.

To secure economy in operation: Planning involves, the selection of most profitable course of action that would lead to the best result at the minimum costs.

To help in co-ordination: Co-ordination is, indeed, the essence of management, the planning is the base of it. Without planning it is not possible to co-ordinate the different activities of an organization.

To make control effective: The controlling function of management relates to the comparison of the planned performance with the actual performance. In the absence of plans, a management will have no standards for controlling other's performance.

To increase organizational effectiveness: Mere efficiency in the organization is not important; it should also lead to productivity and effectiveness. Planning

Classification of Planning

On the basis of **content**

Strategic Planning

- It is the process of deciding on Long-term objectives of the organization.
- It encompasses all the functional areas of business.

Tactical Planning

- It involves conversion of detailed and specific plans into detailed and specific action plans.

On the basis of **time period**

Long term planning

- Time frame beyond five years.
- It specifies what the organization wants to become in long run.
- It involves great deal of uncertainty.

Intermediate term planning

- Time frame between two and five years.
- It is designed to implement long term plans.

Short term planning

- Time frame of one year or less.
- It provides basis for day to day operations.

1. PLANNING PROCESS

The various steps involved in planning are given below

them clearly and completely, knowledge of where we stand in the light of our strengths and weaknesses, an understanding of why we wish to solve uncertainties, and a vision of what we expect to gain. Setting realistic objectives depends on this awareness. Planning requires realistic diagnosis of the opportunity situation.

a) Establishing Objectives

The first step in planning itself is to establish objectives for the entire enterprise and then for each subordinate unit. Objectives specifying the results expected indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the network of strategies, policies, procedures, rules, budgets and programs.

Enterprise objectives should give direction to the nature of all major plans which, by reflecting these objectives, define the objectives of major departments. Major department objectives, in turn, control the objectives of subordinate departments, and so on down the line. The objectives of lesser departments will be better framed, however, if subdivision managers understand the overall enterprise objectives and the implied derivative goals and if they are given an opportunity to contribute their ideas to them and to the setting of their own goals.

b) Considering the Planning Premises

Another logical step in planning is to establish, obtain agreement to utilize and disseminate critical planning premises. These are forecast data of a factual nature, applicable basic policies, and existing company plans. Premises, then, are planning assumptions – in other words, the expected environment of plans in operation. This step leads to one of the major principles of planning.

The more individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be.

Planning premises include far more than the usual basic forecasts of population, prices, costs, production, markets, and similar matters.

Because the future environment of plans is so complex, it would not be profitable or realistic to make assumptions about every detail of the future environment of a plan.

Since agreement to utilize a given set of premises is important to coordinate planning, it becomes a major responsibility of managers, starting with those at the top, to make sure that subordinate managers understand the premises upon which they are expected to plan. It is not unusual for chief executives in well- managed companies to force top managers with differing views, through group deliberation, to arrive at a set of major premises that all can accept.

c) Identification of alternatives

Once the organizational objectives have been clearly stated and the planning premises have been developed, the manager should list as many available alternatives as possible for reaching those objectives.

The focus of this step is to search for and examine alternative courses of action, especially those not immediately apparent. There is seldom a plan for which reasonable alternatives do not exist, and quite often an alternative that is not obvious proves to be the best.

The more common problem is not finding alternatives, but reducing the number of alternatives so that the most promising may be analyzed. Even with mathematical techniques and the computer, there is a limit to the number of alternatives that may be examined. It is therefore usually necessary for the planner to reduce by preliminary examination the number of alternatives to those promising the most fruitful possibilities or by mathematically eliminating, through the process of approximation, the least promising ones.

d) Evaluation of alternatives

Having sought out alternative courses and examined their strong and weak points, the following step is to evaluate them by weighing the various factors in the light of premises and goals. One course may appear to be the most profitable but require a large cash outlay and a slow payback; another may be less profitable but involve less risk; still another may better suit the company in long–range objectives.

If the only objective were to examine profits in a certain business immediately, if the future were not uncertain, if cash position and capital availability were not worrisome, and if most factors could be reduced to definite data, this evaluation should be relatively easy. But typical planning is replete with uncertainties, problems of capital shortages, and intangible factors, and so evaluation is usually very difficult, even with relatively simple problems. A company may wish to enter a new product line primarily for purposes of prestige; the forecast of expected results may show a clear financial loss, but the question is still open as to whether the loss is worth the gain.

e) Choice of alternative plans

An evaluation of alternatives must include an evaluation of the premises on which the alternatives are based. A manager usually finds that some premises are unreasonable and can therefore be excluded from further consideration. This elimination process helps the manager determine which alternative would best accomplish organizational objectives.

f) Formulating of Supporting Plans

After decisions are made and plans are set, the final step to give them meaning is to numberize them by converting them to budgets. The overall budgets of an enterprise represent the sum total of income and expenses with resultant profit or surplus and budgets of major balance– sheet items such as cash and capital expenditures. Each department or program of a business or other enterprise can have its own budgets, usually of expenses and capital expenditures, which tie into the overall budget.

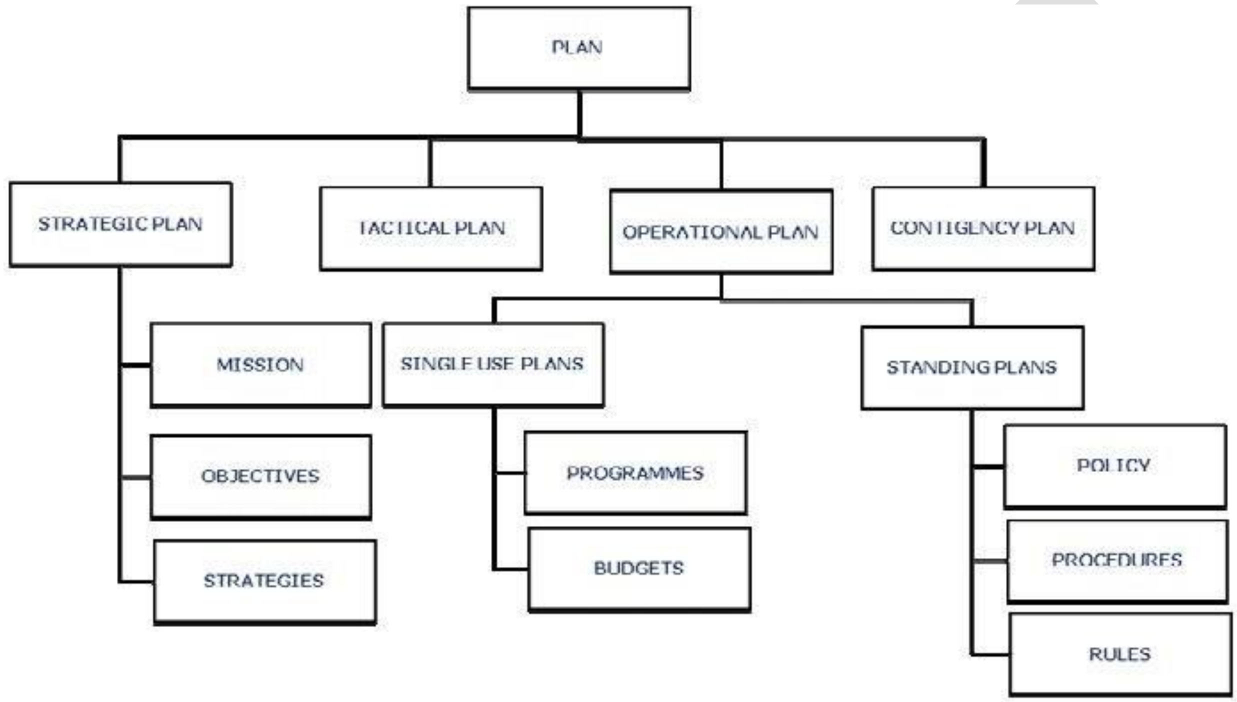
If this process is done well, budgets become a means of adding together the various plans and also important standards against which planning progress can be measured.

g) Establishing sequence of activities

Once plans that furnish the organization with both long-range and short-range direction have been developed, they must be implemented. Obviously, the organization can not directly benefit from planning process until this step is performed.

2. TYPES OF PLANNING

In the process of planning, several plans are prepared which are known as components of planning.



Plans can be broadly classified as

- **Strategic plans**
- **Tactical plans**
- **Operational plans**

Operational plans lead to the achievement of tactical plans, which in turn lead to the attainment of strategic plans. In addition to these three types of plans, managers should also develop a contingency plan in case their original plans fail.

a) Strategic plans

A strategic plan is an outline of steps designed with the goals of the entire organization as a whole in mind, rather than with the goals of specific divisions or departments. It is further classified as

i) Mission:

The mission is a statement that reflects the basic purpose and focus of the organization which normally remain unchanged. The mission of the company is the answer of the question : why does the organization exists?

Properly crafted mission statements serve as filters to separate what is important from what is not, clearly state which markets will be served and how, and communicate a sense of intended direction to the entire organization.

Mission of Ford: –we are a global, diverse family with a proud inheritance, providing exceptional products and services‖.

ii) Objectives or goals:

Both goal and objective can be defined as statements that reflect the end towards which the organization is aiming to achieve. However, there are significant differences between the two. A goal is an abstract and general umbrella statement, under which specific objectives can be clustered. Objectives are statements that describe—in precise, measurable, and obtainable terms which reflect the desired organization's outcomes.

iii) Strategies:

Strategy is the determination of the basic long term objectives of an organization and the adoption of action and collection of action and allocation of resources necessary to achieve these goals.

Strategic planning begins with an organization's mission. Strategic plans look ahead over the next two, three, five, or even more years to move the organization from where it currently is to where it wants to be. Requiring multilevel involvement, these plans demand harmony among all levels of management within the organization. Top-level management develops the directional objectives for the entire organization, while lower levels of management develop compatible objectives and plans to achieve them. Top management's strategic plan for the entire organization becomes the framework and sets dimensions for the lower level planning.

b) Tactical plans

A tactical plan is concerned with what the lower level units within each division must do, how they must do it, and who is in charge at each level. Tactics are the means needed to activate a strategy and make it work.

Tactical plans are concerned with shorter time frames and narrower scopes than are strategic plans. These plans usually span one year or less because they are considered short-term goals. Long-term goals, on the other hand, can take several years or more to accomplish. Normally, it is the middle manager's responsibility to take the broad strategic plan and identify specific tactical actions.

c) Operational plans

The specific results expected from departments, work groups, and individuals are the operational goals. These goals are precise and measurable. ―Process 150 sales applications each week‖ or ―Publish 20 books this quarter‖ are examples of operational goals.

An operational plan is one that a manager uses to accomplish his or her job responsibilities. Supervisors, team leaders, and facilitators develop operational plans to support tactical plans (see the next section). Operational plans can be a single-use plan or a standing plan.

i) Single-use plans apply to activities that do not recur or repeat. A one- time occurrence, such as a special sales program, is a single-use plan because it deals with the who, what, where, how, and how much of an activity.

Programme: Programme consists of an ordered list of events to be followed to execute a project.

Budget: A budget predicts sources and amounts of income and how much they are used for a specific project.

ii) Standing plans are usually made once and retain their value over a period of years while undergoing periodic revisions and updates. The following are examples of ongoing plans:

Policy: A policy provides a broad guideline for managers to follow when dealing with important areas of decision making. Policies are general statements that explain how a manager should attempt to handle routine management responsibilities. Typical human resources policies, for example, address such matters as employee hiring, terminations, performance appraisals, pay increases, and discipline.

Procedure: A procedure is a set of step-by-step directions that explains how activities or tasks are to be carried out. Most organizations have procedures for purchasing supplies and equipment, for example. This procedure usually begins with a supervisor completing a purchasing requisition. The requisition is then sent to the next level of management for approval. The approved requisition is forwarded to the purchasing department. Depending on the amount of the request, the purchasing department may place an order, or they may need to secure quotations and/or bids for several vendors before placing the order. By defining the steps to be taken and the order in which they are to be done, procedures provide a standardized way of responding to a repetitive problem.

Rule: A rule is an explicit statement that tells an employee what he or she can and cannot do. Rules are ―do‖ and ―don't‖ statements put into place to promote the safety of employees and the uniform treatment and behavior of employees. For example, rules about tardiness and absenteeism permit supervisors to make discipline decisions rapidly and with a high degree of fairness.

iii) Contingency plans

Intelligent and successful management depends upon a constant pursuit of adaptation, flexibility, and mastery of changing conditions. Strong management requires a ―keeping all options open‖ approach at all times — that's where contingency planning comes in.

Contingency planning involves identifying alternative courses of action that can be implemented if and when the original plan proves inadequate because of changing circumstances.

Keep in mind that events beyond a manager's control may cause even the most carefully prepared alternative future scenarios to go awry. Unexpected problems and events frequently occur. When they do, managers may need to change their plans. Anticipating change during the planning process is best in case things don't go as expected. Management can then develop alternatives to the existing plan and ready them for use when and if circumstances make these alternatives appropriate.

3. OBJECTIVES

Objectives may be defined as the goals which an organization tries to achieve. Objectives are described as the end- points of planning. According to Koontz and O'Donnell, "an objective is a term commonly used to indicate the end point of a management programme." Objectives constitute the purpose of the enterprise and without them no intelligent planning can take place.

Objectives are, therefore, the ends towards which the activities of the enterprise are aimed. They are present not only the end-point of planning but also the end towards which organizing, directing and controlling are aimed. Objectives provide direction to various activities. They also serve as the benchmark of measuring the efficiency and effectiveness of the enterprise. Objectives make every human activity purposeful. Planning has no meaning if it is not related to certain objectives.

Features of Objectives

- The objectives must be predetermined.
- A clearly defined objective provides the clear direction for managerial effort.
- Objectives must be realistic.
- Objectives must be measurable.
- Objectives must have social sanction.
- All objectives are interconnected and mutually supportive.
- Objectives may be short-range, medium-range and long-range.
- Objectives may be constructed into a hierarchy.

Advantages of Objectives

- Clear definition of objectives encourages unified planning.
- Objectives provide motivation to people in the organization.
- When the work is goal-oriented, unproductive tasks can be avoided.
- Objectives provide standards which aid in the control of human efforts in an organization.
- Objectives serve to identify the organization and to link it to the groups upon which its existence depends.
- Objectives act as a sound basis for developing administrative controls.
- Objectives contribute to the management process: they influence the purpose of the organization, policies, personnel, leadership as well as managerial control.

4. SETTING OBJECTIVES

Objectives are the keystone of management planning. It is the most important task of management. Objectives are required to be set in every area which directly and vitally effects the survival and prosperity of the business. In the setting of objectives, the following points should be borne in mind.

Objectives are required to be set by management in every area which directly and vitally affects the survival and prosperity of the business.

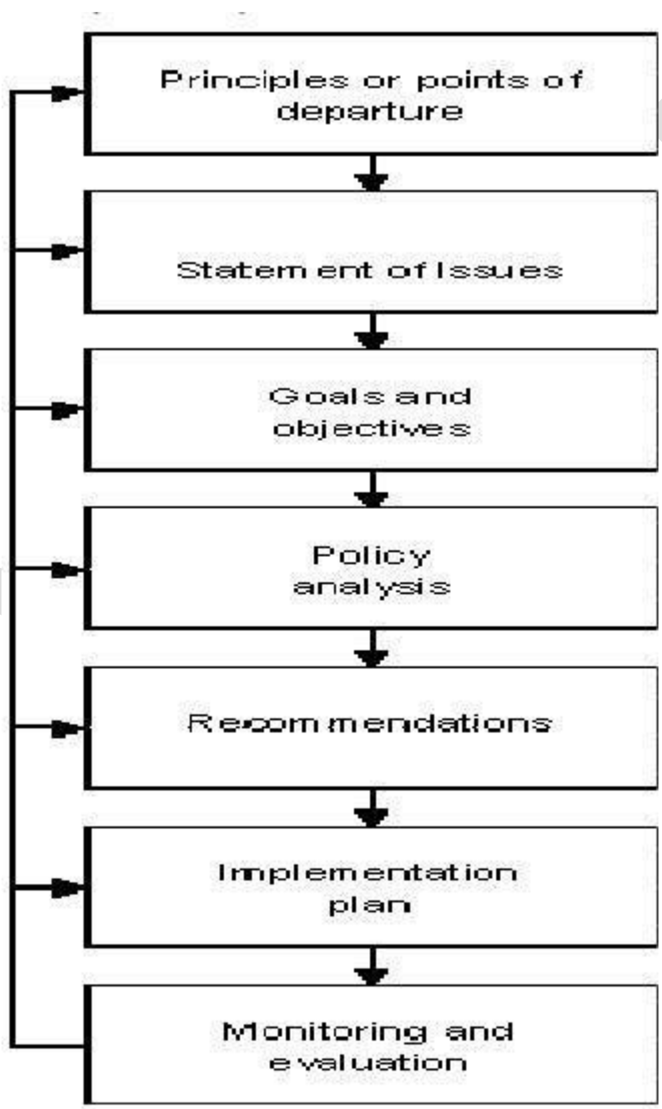
The objectives to be set in various areas have to be identified.

While setting the objectives, the past performance must be reviewed, since past performance indicates what the organization will be able to accomplish in future.
The objectives should be set in realistic terms i.e., the objectives to be set should be reasonable and capable of attainment.

Objectives must be consistent with one and other. Objectives must be set in clear-cut terms.
For the successful accomplishment of the objectives, there should be effective communication.

5. POLICIES

Policies are general statements or understandings that guide managers' thinking in decision making. They usually do not require action but are intended to guide managers in their commitment to the decision they ultimately make.



The first step in the process of policy formulation, as shown in the diagram below, is to capture the values or principles that will guide the rest of the process and form the basis on which to produce a statement of issues. The statement of issues involves identifying the opportunities and constraints affecting the local housing market, and is to be produced by thoroughly analyzing the housing market. The kit provides the user with access to a housing data base to facilitate this analysis.

The statement of issues will provide the basis for the formulation of a set of housing goals and objectives, designed to address the problems identified and to exploit the opportunities which present themselves.

The next step is to identify and analyze the various policy options which can be applied to achieve the set of goals and objectives. The options available to each local government will depend on local circumstances as much as the broader context and each local authority will have to develop its own unique approach to addressing the housing needs of its residents.

An implementation program for realizing the policy recommendations must then be prepared, addressing budgetary and programming requirements, and allocating roles and responsibilities. Finally, the implementation of the housing strategy needs to be systematically monitored and evaluated against the stated goals and objectives, and the various components of the strategy modified or strengthened, as required.

At each step of the way, each component of the strategy needs to be discussed and debated, and a public consultation process engaged in. The extent of consultation and the participants involved will vary with each step.

Essentials of Policy Formulation

The essentials of policy formation may be listed as below:

- A policy should be definite, positive and clear. It should be understood by everyone in the organization.
- A policy should be translatable into the practices.
- A policy should be flexible and at the same time have a high degree of permanency.
- A policy should be formulated to cover all reasonable anticipatable conditions.
- A policy should be founded upon facts and sound judgment.
- A policy should conform to economic principles, statutes and regulations.
- A policy should be a general statement of the established rule.

Importance of Policies

Policies are useful for the following reasons:

- They provide guides to thinking and action and provide support to the subordinates.
- They delimit the area within which a decision is to be made.
- They save time and effort by pre-deciding problems.
- They permit delegation of authority to mangers at the lower levels.

6. PLANNING PREMISES

The process of planning is based upon estimates and predictions of the future. Though past guides the plans in present, plans achieve the goals in the future. Therefore, the forecast of future events leads to efficient plans. Since future events are not known accurately, the assumption is made about these events.

These events may be known conditions (even changes in the tax laws as announced in the budget) or anticipated events which may or may not happen (entry of a competitor in the same market with the same product).

Though these assumptions are primarily based on scientific analysis and models, managers also use their intuition and judgment to make assumptions about future events. By identifying the factors (assumptions) that affect plans is called premising and the methods used for making premises are called forecasting.

The done forecast or the assumptions about the future which provide a base for planning in present are known as planning premises. This is the expectation or forecasts made for achieving the goals.

Planning premises are the basic assumptions about the environment. These assumptions are essential to make plans more realistic and operational. Planning premises provide a framework. All plans are made within this framework. There are many environmental factors, which influence the plan. Assumptions are made about these factors. These assumptions are called premises.

TYPES OF PLANNING PREMISES

- Internal and External Premises
- Controllable, Semi controllable and Uncontrollable premises
- Tangible and Intangible Premises
- Constant and Variable premises

1. **Internal and External Premises**
   Internal Premises:
   Internal premises come from the business itself. It includes skills of the workers, capital investment policies, philosophy of management, sales forecast, etc.

   External Premises:

   External premises come from the external environment. That is, economic, social, political, cultural and technological environment. External premises cannot e controlled by the business.

2. **Controllable, Semi controllable and Uncontrollable premises**
   Controllable Premises:
   Controllable premises are those which are fully controlled by the management. They include factors like materials, machines and money.

   Semi controllable Premises:

   They are partly controllable. They include marketing strategy.

Uncontrollable Premises:

Uncontrollable premises are those over which the management has absolutely no control. They include weather conditions, consumers' behavior, government policy, natural calamities, wars etc.

3. **Tangible and Intangible Premises**
Tangible Premises:
Tangible premises can be measured in quantitative terms. They include units of production and sale, money, time, hours of work, etc.

Intangible Premises:

Intangible premises cannot be measured in quantitative terms. They include goodwill of the business, employee's morale, employee's attitude and public relations.

4. **Constant and Variable Premises**
Constant Premises:
Constant premises do not change. They remain the same, even if there is a change in the course of action. They include men, money and machines.

Variable Premises:

Variable premises are subject to change. They change according to the course of action. They include union-management relations.

8. STRATEGIC MANAGEMENT

The term 'Strategy' has been adapted from war and is being increasingly used in business to reflect broad overall objectives and policies of an enterprise. Literally speaking, the term 'Strategy' stands for the war-art of the military general, compelling the enemy to fight as per out chosen terms and conditions.

According to Koontz and O' Donnell, "Strategies must often denote a general programme of action and deployment of emphasis and resources to attain comprehensive objectives". Strategies are plans made in the light of the plans of the competitors because a modern business institution operates in a competitive environment. They are a useful framework for guiding enterprise thinking and action. A perfect strategy can be built only on perfect knowledge of the plans of

others in the industry. This may be done by the management of a firm putting itself in the place of a rival firm and trying to estimate their plans.

Characteristics of Strategy

- It is the right combination of different factors.
- It relates the business organization to the environment.
- It is an action to meet a particular challenge, to solve particular problems or to attain desired objectives.
- Strategy is a means to an end and not an end in itself.
- It is formulated at the top management level.
- It involves assumption of certain calculated risks.

Strategic Planning Process / Strategic Formulation Process Input to the Organization:

Various Inputs (People, Capital, Management and Technical skills, others) including goals input of claimants (Employees, Consumers, Suppliers, Stockholders, Government, Community and others)need to be elaborated.

Industry Analysis:

Formulation of strategy requires the evaluation of the attractiveness of an industry by analyzing the external environment. The focus should be on the kind of compaction within an industry, the possibility of new firms entering the market, the availability of substitute products or services, the bargaining positions of the suppliers, and buyers or customers.

Enterprise Profile:

Enterprise profile is usually the starting point for determining where the company is and where it should go. Top managers determine the basic purpose of the enterprise and clarify the firm's geographic orientation.

Orientation, Values, and Vision of Executives:

The enterprise profile is shaped by people, especially executives, and their orientation and values are important for formulation the strategy. They set the organizational climate, and they determine the direction of the firm though their vision. Consequently, their values, their preferences, and their attitudes toward risk have to be carefully examined because they have an impact on the strategy.

Mission (Purpose), Major Objectives, and Strategic Intent:

Mission or Purpose is the answer to the question: What is our business? The major Objectives are the end points towards which the activates of the enterprise are directed. Strategic intent is the commitment (obsession) to win in the competitive environment, not only at the top-level but also throughout the organization.

Present and Future External Environment:

The present and future external environment must be assessed in terms of threats and opportunities.

Internal Environment:

Internal Environment should be audited and evaluated with respect to its resources and its weaknesses, and strengths in research and development, production, operation, procurement, marketing and products and services. Other internal factors include, human resources and financial resources as well as the company image, the organization structure and climate, the planning and control system, and relations with customers.

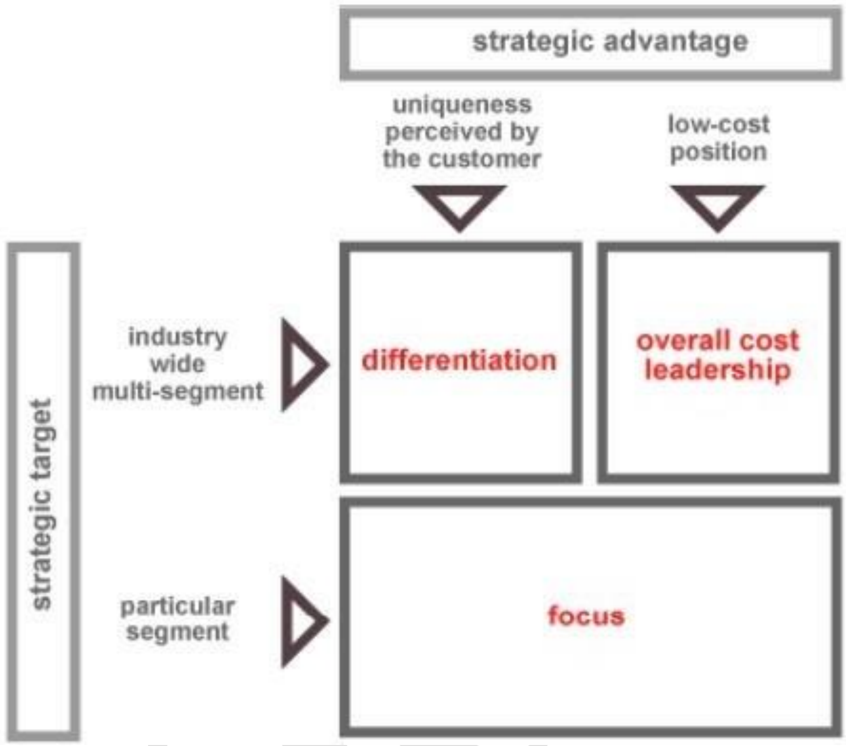
Development of Alternative Strategies:
Strategic alternatives are developed on the basis of an analysis of the external and internal environment. Strategies may be specialize or concentrate. Alternatively, a firm may diversify, extending the operation into new and profitable markets. Other examples of possible strategies are joint ventures, and strategic alliances which may be an appropriate strategy for some firms.

Evaluation and Choice of Strategies:
Strategic choices must be considered in the light of the risk involved in a particular decision. Some profitable opportunities may not be pursued because a failure in a risky venture could result in bankruptcy of the firm. Another critical element in choosing a strategy is timing. Even the best product may fail if it is introduced to the market at an inappropriate time.

Medium/Short Range Planning, Implementation through Reengineering the Organization Structure, Leadership and Control:
Implementation of the Strategy often requires reengineering the organization, staffing the organization structure and providing leadership. Controls must also be installed monitoring performance against plans.

Consistency Testing and Contingency Planning:
The last key aspect of the strategic planning process is the testing for consistency and preparing for contingency plans.

PLANNING - TYPES OF STRATEGIES



TYPES OF STRATEGIES

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

- Cost leadership strategy
- Differentiation strategy
- 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.

9. PLANNING TOOLS AND TECHNIQUES

Even though the definition of strategy analysis varies, there is common thinking on the key planning requirements.

- Preparation for planning through the identification and review of information relevant for strategy analysis
- Performing high-level environmental scan looking at the internal and external business environment with consideration for mission, vision, stakeholders, structure, existing plans, people profiles, and question responses.
- Applying a choice of different tools and techniques to analyze the present state of a business environment and mapping out its future.

Some of the more common analysis tools and techniques include:

VMOST:
This stands for Vision, Mission, Objectives, Strategy, and Tactical. Success in an organization happens with top-down or bottom-up alignment. I was recently reminded of is when working with a client who stated that their tactical is not connected to the strategy. VMOST analysis is meant to help make that connection.

SWOT:
The standard analysis tool, defined as Strengths, Weaknesses, Opportunities, and Threats.
Strengths and weaknesses are internal to the organization, opportunities and threats are external. SWOT requires you to be candid and provide an honest assessment of the state of things. It forces you to create a dialogue with stakeholders to get different viewpoints. Eventually, you focus in on the key issues.

PEST:
This is a great tool to use in tandem with SWOT. The acronym stands for Political, Economic, Social and Technology.
PEST reveals opportunities and threats better than SWOT, the direction of business change, projects that will fail beyond your control, and country, region and market issues through helping you create an objective view.

SOAR:
This stands for Strengths, Opportunities, Aspirations, and Results. This is a great tool if you have a strategic plan completed, and you need to focus on a specific impact zone.
I used SOAR to help a business that needed to focus on their business development requirements due to an external market change. The organization needed to discuss how they would recapture lost sales by $1 million per month to ensure they maintained their profitably. Given that they had already done everything they could to cut costs and operate a lean business, the SOAR was critical in helping define the focus for the next 12 to 24 months.

Boston Matrix (product and service portfolio):
This tool requires you to analyze your business product or service and determine if it is a cash cow, sick dog, questionable, or a flying star.
I have applied this tool to product and service reviews with to help make product decisions with consideration for market share and market growth. But it has no predictive value, does not consider the environment, and you need to be careful with your assumptions. It does force discussions on your present offering and

whether it makes sense to maintain or enhance those offerings. For example, maybe you are holding onto a business product that you love but is really a sick dog and maybe there is a cash cow in your business that you are not optimizing. A decision has to be made.

Porter's Five Forces:
This tool helps you understand where your business power lies in terms of present competitiveness and future positioning strength. It forces you to analyze the bargaining power of suppliers and customers, the threats to new entrants and substitutes, and competitive rivalry in your marketplace. Using this tool helps you understand the balance of power and to identify areas of potential profitability. According to Porter, this model should be used at the line of business level.

Maturity Models:
There are many maturity models that can be applied to a business. From the evolution model, the technology model, to the team model. The idea is that every business or department goes through a maturity cycle. The standard cycle is chaotic, reactive, proactive, service, and value. If you were looking at processes in a department, you would look to see where that process is on the continuum. Then you would determine where you need to be and what it would take to get to that point of maturity. This is a simple explanation. When using a maturity model, it is important that you have a clear problem definition and solution context.

Root Cause Analysis:
This is important, as there are times in the strategy analysis process you need to dig deeper into a problem. This is where RCA is used. The key is that you need to identify and specify the problem correctly, analyze the root cause using a systematic approach, verify the causes, and determine the corrective actions. Implementation of the corrective action is extremely important.
There are many definitions, tools, and techniques that could be addressed. The ones mentioned here are only the tip of the iceberg for strategy analysis and become a foundational part of the strategy analysis toolkit. In a short blog, there is no way to mention them all. But you could create a tool checklist that you could use in your next planning and analysis engagement to help you and your team define the present, future, risk and change state that you need to succeed.

Other Tools and Techniques:

1. **Forecasting**

   - The process of predicting what will happen in the future
   - Very unpredictable – they are planning aids, NOT substitutes

2. **Contingency Planning**

   - Identifies alternative courses of action to take when things go wrong
   - Not always effective when situation is unstable, but better than not having a contingency plan

3. **Scenario Planning**

   - Identifies several future scenarios and makes plans to deal with each one good or bad.
   - A long term version of contingency planning

4. **Benchmarking**

   - Uses internal and external comparisons to plan for future improvements
   - Combats complacency – Challenges the Status Quo

     Look to other organizations/companies to see what they are doing well and how those ideas can be integrated into your company

   - Best Practices: Strategies, techniques, efficiencies that will help others achieve superior performance.

     Internal Benchmarking : Sharing Best practices within an organization

     External Benchmarking : Sharing best practices among competitors and non competitors.

   - **Zara :**

     Benchmarking –Fast Fashion‖

5. Use of Staff Planners

- Specialists who are employed to help coordinate and energize planning
- Skilled in all steps of the planning process and in utilizing Tools and Techniques
- Cisco Systems China – India
- CCL Industries – Host Labeling and Packaging factories worldwide to ease workload

Problem:

As strong as Planners and their plans might be, unless line workers and staff planners work closely together, employees will likely be unmotivated to implement new plans.

10. DECISION MAKING STEPS AND PROCESS

The word decision has been derived from the Latin word "decidere" which means "cutting off". Thus, decision involves cutting off of alternatives between those that are desirable and those that are not desirable.

In the words of George R. Terry, "Decision-making is the selection based on some criteria from two or more possible alternatives".

Characteristics of Decision Making:

Decision making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem or to arrive at expected results.

- The decision-maker has freedom to choose an alternative.
- Decision-making may not be completely rational but may be judgmental and emotional.
- Decision-making is goal-oriented.

- Decision-making is a mental or intellectual process because the final decision is made by the decision-maker.
- A decision may be expressed in words or may be implied from behavior.
- Choosing from among the alternative courses of operation implies uncertainty about the final result of each possible course of operation.
- Decision making is rational. It is taken only after a thorough analysis and reasoning and weighing the consequences of the various alternatives.

TYPES OF DECISIONS

a) **Programmed and Non-Programmed Decisions:** Herbert Simon has grouped organizational decisions into two categories based on the procedure followed. They are:

i) **Programmed decisions:** Programmed decisions are routine and repetitive and are made within the framework of organizational policies and rules. These policies and rules are established well in advance to solve recurring problems in the organization. Programmed decisions have short-run impact. They are, generally, taken at the lower level of management.

ii) **Non-Programmed Decisions:** Non-programmed decisions are decisions taken to meet non-repetitive problems. Non-programmed decisions are relevant for solving unique/ unusual problems in which various alternatives cannot be decided in advance. A common feature of non- programmed decisions is that they are novel and non-recurring and therefore, readymade solutions are not available. Since these decisions are of high importance and have long-term consequences, they are made by top level management.

b) **Strategic and Tactical Decisions:** Organizational decisions may also be classified as strategic or tactical.

i) **Strategic Decisions:** Basic decisions or strategic decisions are decisions which are of crucial importance. Strategic decisions a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Decisions like plant location, product diversification, entering into new markets, selection of channels of distribution, capital expenditure etc are examples of basic or strategic decisions.

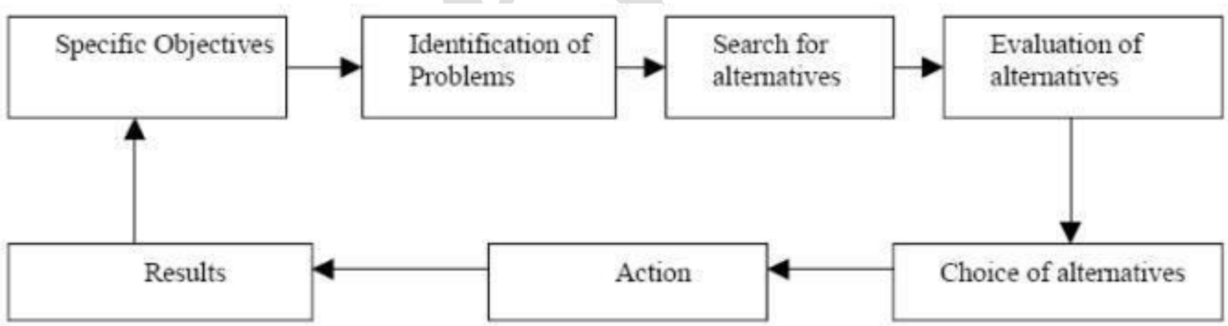
ii) **Tactical Decisions:** Routine decisions or tactical decisions are decisions which are routine and repetitive. They are derived out of strategic decisions. The various features of a tactical decision are as follows:

- Tactical decision relates to day-to-day operation of the organization and has to be taken very frequently.
- Tactical decision is mostly a programmed one. Therefore, the decision can be made within the context of these variables.
- The outcome of tactical decision is of short-term nature and affects a narrow part of the organization.

The authority for making tactical decisions can be delegated to lower level managers because: first, the impact of tactical decision is narrow and of short- term nature and Second, by delegating authority for such decisions to lower- level managers, higher level managers are free to devote more time on strategic decisions.

DECISION MAKING PROCESS

The decision making process is presented in the figure below:



1. Specific Objective: The need for decision making arises in order to achieve certain specific objectives. The starting point in any analysis of decision making involves the determination of whether a decision needs to be made.

2. Problem Identification: A problem is a felt need, a question which needs a solution. In the words of Joseph L Massie "A good decision is dependent upon the recognition of the right problem". The objective of problem identification is that if the problem is precisely and specifically identifies, it will provide a clue in finding a possible solution. A problem can be identified clearly, if managers go through diagnosis and analysis of the problem.

Diagnosis: Diagnosis is the process of identifying a problem from its signs and symptoms. A symptom is a condition or set of conditions that indicates the existence of a problem. Diagnosing the real problem implies knowing the gap between what is and what ought to be, identifying the reasons for the gap and understanding the problem in relation to higher objectives of the organization.

Analysis: Diagnosis gives rise to analysis. Analysis of a problem requires:

- Who would make decision?
- What information would be needed?
- From where the information is available?

Analysis helps managers to gain an insight into the problem.

3. Search for Alternatives: A problem can be solved in several ways; however, all the ways cannot be equally satisfying. Therefore, the decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision. A decision maker can use several sources for identifying alternatives:

- His own past experiences
- Practices followed by others and
- Using creative techniques.

4. Evaluation of Alternatives: After the various alternatives are identified, the next step is to evaluate them and select the one that will meet the choice criteria.
/the decision maker must check proposed alternatives against limits, and if an alternative does not meet them, he can discard it. Having narrowed down the alternatives which require serious consideration, the decision maker will go for

evaluating how each alternative may contribute towards the objective supposed to be achieved by implementing the decision.

5. Choice of Alternatives: The evaluation of various alternatives presents a clear picture as to how each one of them contribute to the objectives under question. A comparison is made among the likely outcomes of various alternatives and the best one is chosen.

6. Action: Once the alternative is selected, it is put into action. The actual process of decision making ends with the choice of an alternative through which the objectives can be achieved.

7. Results: When the decision is put into action, it brings certain results. These results must correspond with objectives, the starting point of decision process, if good decision has been made and implemented properly. Thus, results provide indication whether decision making and its implementation is proper.

Characteristics of Effective Decisions

An effective decision is one which should contain three aspects. These aspects are given below:

Action Orientation: Decisions are action-oriented and are directed towards relevant and controllable aspects of the environment. Decisions should ultimately find their utility in implementation.

Goal Direction: Decision making should be goal-directed to enable the organization to meet its objectives.

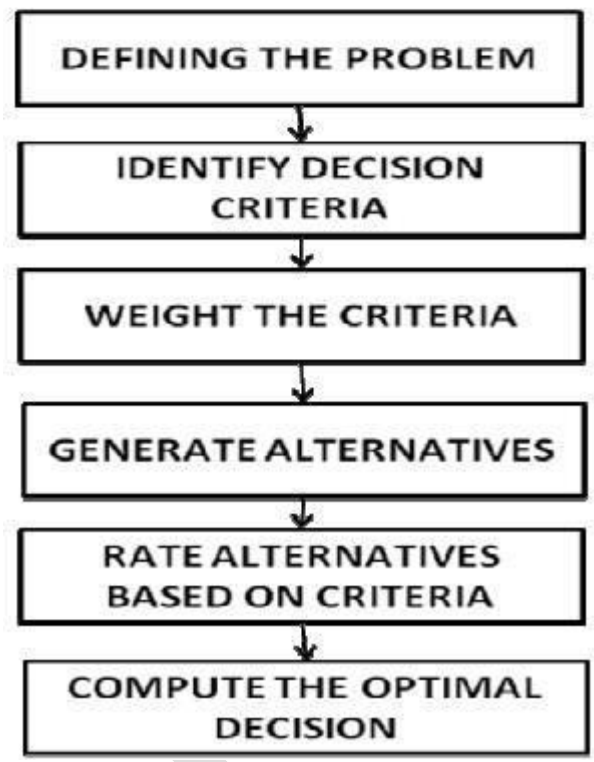
Effective in Implementation: Decision making should take into account all the possible factors not only in terms of external context but also in internal context so that a decision can be implemented properly.

RATIONAL DECISION MAKING MODEL

The Rational Decision Making Model is a model which emerges from Organizational Behavior. The process is one that is logical and follows the orderly path from problem identification through solution. It provides a structured and sequenced approach to decision making. Using such an approach can help to ensure discipline and consistency is built into your decision making process.

The Six-Step Rational Decision-Making Model

- Define the problem
- Identify decision criteria
- Weight the criteria
- Generate alternatives
- Rate each alternative on each criterion
- Compute the optimal decision



1) Defining the problem

This is the initial step of the rational decision making process. First the problem is identified and then defined to get a clear view of the situation.

2) Identify decision criteria

Once a decision maker has defined the problem, he or she needs to identify the decision criteria that will be important in solving the problem. In this step, the decision maker is determining what's relevant in making the decision.

This step brings the decision maker's interests, values, and personal preferences into the process.

Identifying criteria is important because what one person thinks is relevant, another may not. Also keep in mind that any factors not identified in this step are considered as irrelevant to the decision maker.

3) Weight the criteria

The decision-maker weights the previously identified criteria in order to give them correct priority in the decision.

4) Generate alternatives

The decision maker generates possible alternatives that could succeed in resolving the problem. No attempt is made in this step to appraise these alternatives, only to list them.

5) Rate each alternative on each criterion

The decision maker must critically analyze and evaluate each one. The strengths and weakness of each alternative become evident as they compared with the criteria and weights established in second and third steps.

6) Compute the optimal decision

Evaluating each alternative against the weighted criteria and selecting the alternative with the highest total score.

DECISION MAKING UNDER VARIOUS CONDITIONS

The conditions for making decisions can be divided into three types. Namely a) Certainty, b) Uncertainty and c) Risk

Virtually all decisions are made in an environment to at least some uncertainty However; the degree will vary from relative certainty to great uncertainty. There are certain risks involved in making decisions.

a) Certainty

In a situation involving certainty, people are reasonably sure about what will happen when they make a decision. The information is available and is considered to be reliable, and the cause and effect relationships are known.

b) Uncertainty

In a situation of uncertainty, on the other hand, people have only a meager database, they do not know whether or not the data are reliable, and they are very unsure about whether or not the situation may change.

Moreover, they cannot evaluate the interactions of the different variables. For example, a corporation that decides to expand its Operation to an unfamiliar country may know little about the country, culture, laws, economic environment, and politics. The political situation may be volatile that even experts cannot predict a possible change in government.

c) Risk

In a situation with risks, factual information may exist, but it may be incomplete. 1o improve decision making One may estimate the objective probability of an outcome by using, for example, mathematical models On the other hand, subjective probability, based on judgment and experience may be used

All intelligent decision makers dealing with uncertainty like to know the degree and nature of the risk they are taking in choosing a course of action. One of the deficiencies in using the traditional approaches of operations research for problem solving is that many of the data used in model are merely estimates and others are based on probabilities. The ordinary practice is to have staff specialists conic up with best estimates.

Virtually every decision is based on the interaction of a number of important variables, many of which has e an element of uncertainty but, perhaps, a fairly high degree of probability. Thus, the wisdom of launching a new product might depend on a number of critical variables: the cost of introducing the product, the cost of producing it, the capital investment that will he required, the price that can be set for the product, the size of the potential market, and the share of the total market that it will represent.

ADDITIONAL TOPIC RELATED TO PLANNING

MANAGEMENT BY OBJECTIVES (MBO)

MBO was first popularized by Peter Drucker in 1954 in his book 'The practice of Management'. It is a process of agreeing within an organization so that management and employees buy into the objectives and understand what they are. It has a precise and written description objectives ahead, timelines for their motoring and achievement.

The employees and manager agree to what the employee will attempt to achieve in a period ahead and the employee will accept and buy into the objectives.

Definition

–MBO is a process whereby the superior and the mangers of an organization jointly identify its common goals, define each individual's major area of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.‖

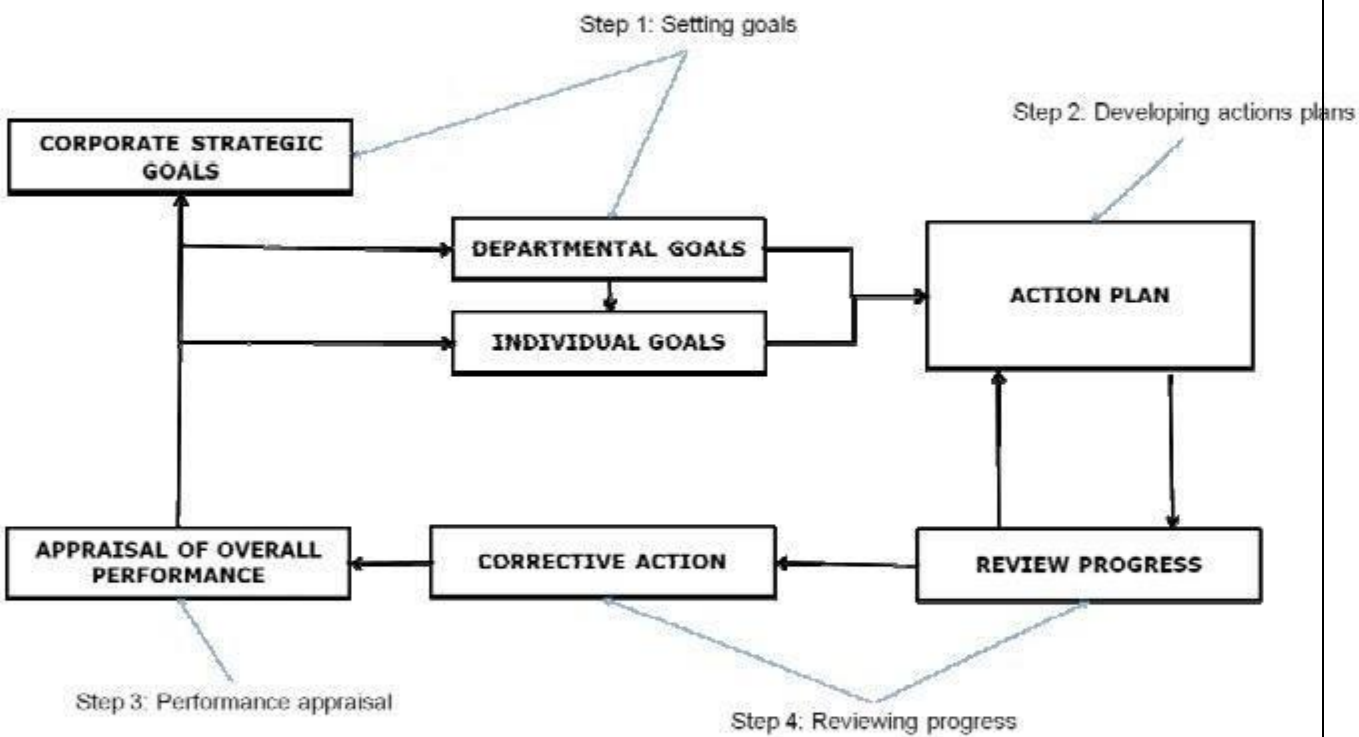
Features of MBO

- MBO is concerned with goal setting and planning for individual managers and their units.
- The essence of MBO is a process of joint goal setting between a supervisor and a subordinate.
- Managers work with their subordinates to establish the performance goals that are consistent with their higher organizational objectives.

MBO focuses attention on appropriate goals and plans.

MBO facilitates control through the periodic development and subsequent evaluation of individual goals and plans.

Steps in MBO:



The typical MBO process consists of

- Establishing a clear and precisely defined statement of objectives for the employee
- Developing an action plan indicating how these objectives are to be achieved
- Reviewing the performance of the employees
- Appraising performance based on objective achievement

1) Setting objectives

For Management by Objectives (MBO) to be effective, individual managers must understand the specific objectives of their job and how those objectives fit in with the overall company objectives set by the board of directors.

The managers of the various units or sub-units, or sections of an organization should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them.

Management by Objective (MBO) systems, objectives are written down for each level of the organization, and individuals are given specific aims and targets.
Managers need to identify and set objectives both for themselves, their units, and their organizations.

2) Developing action plans

Actions plans specify the actions needed to address each of the top organizational issues and to reach each of the associated goals, who will complete each action and according to what timeline. An overall, top-level action plan that depicts how each strategic goal will be reached is developed by the top level management. The format of the action plan depends on the objective of the organization.

3) Reviewing Progress

Performance is measured in terms of results. Job performance is the net effect of an employee's effort as modified by abilities, role perceptions and results produced. Effort refers to the amount of energy an employee uses in performing a job. Abilities are personal characteristics used in performing a job and usually do not fluctuate widely over short periods of time. Role perception refers to the direction in which employees believe they should channel their efforts on their jobs, and they are defined by the activities and behaviors they believe are necessary.

4) Performance appraisal

Performance appraisals communicate to employees how they are performing their jobs, and they establish a plan for improvement. Performance appraisals are extremely important to both employee and employer, as they are often used to provide predictive information related to possible promotion. Appraisals can also provide input for determining both individual and organizational training and development needs. Performance appraisals encourage performance improvement. Feedback on behavior, attitude, skill or knowledge clarifies for employees the job expectations their managers hold for them. In order to be effective, performance appraisals must be supported by documentation and management commitment.

Advantages

Motivation – Involving employees in the whole process of goal setting and increasing employee empowerment. This increases employee job satisfaction and commitment.

Better communication and Coordination – Frequent reviews and interactions between superiors and subordinates helps to maintain harmonious relationships within the organization and also to solve many problems.

Clarity of goals

- Subordinates have a higher commitment to objectives they set themselves than those imposed on them by another person.
- Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

Limitations

There are several limitations to the assumptive base underlying the impact of managing by objectives, including:

- It over-emphasizes the setting of goals over the working of a plan as a driver of outcomes.
- It underemphasizes the importance of the environment or context in which the goals are set. That context includes everything from the availability and quality of resources, to relative buy-in by leadership and stake-holders.
- Companies evaluated their employees by comparing them with the "ideal" employee. Trait appraisal only looks at what employees should be, not at what they should do.

When this approach is not properly set, agreed and managed by organizations, self- centered employees might be prone to distort results, falsely representing achievement of targets that were set in a short-term, narrow fashion. In this case, managing by objectives would be counterproducti