



# PRINCIPLES OF MANAGEMENT –UNIT 2 - PLANNING

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# Topics

- Nature & Purpose of Planning
- **Planning Process**
- **Types of Planning**
- Objectives
- Setting Objectives
- Policies
- Planning Premises
- **Strategic Management**
- **Planning Tools & Techniques**
- **Decision Making Steps & Process**

# Nature & Purpose of Planning



# Planning

## Involves

- Defining the organization's goals,
- Establishing strategies for achieving those goals and
- Developing plans to integrate and coordinate work activities.
- “Planning is the process of deciding in advance what is to be done? ,who to do it? , how it is to be done? and when it is to be done?”-Kenneth H.Killen

# Nature of Planning

- Primary function
- Intellectual activity
- Continuous function
- Flexible
- Pervasive function



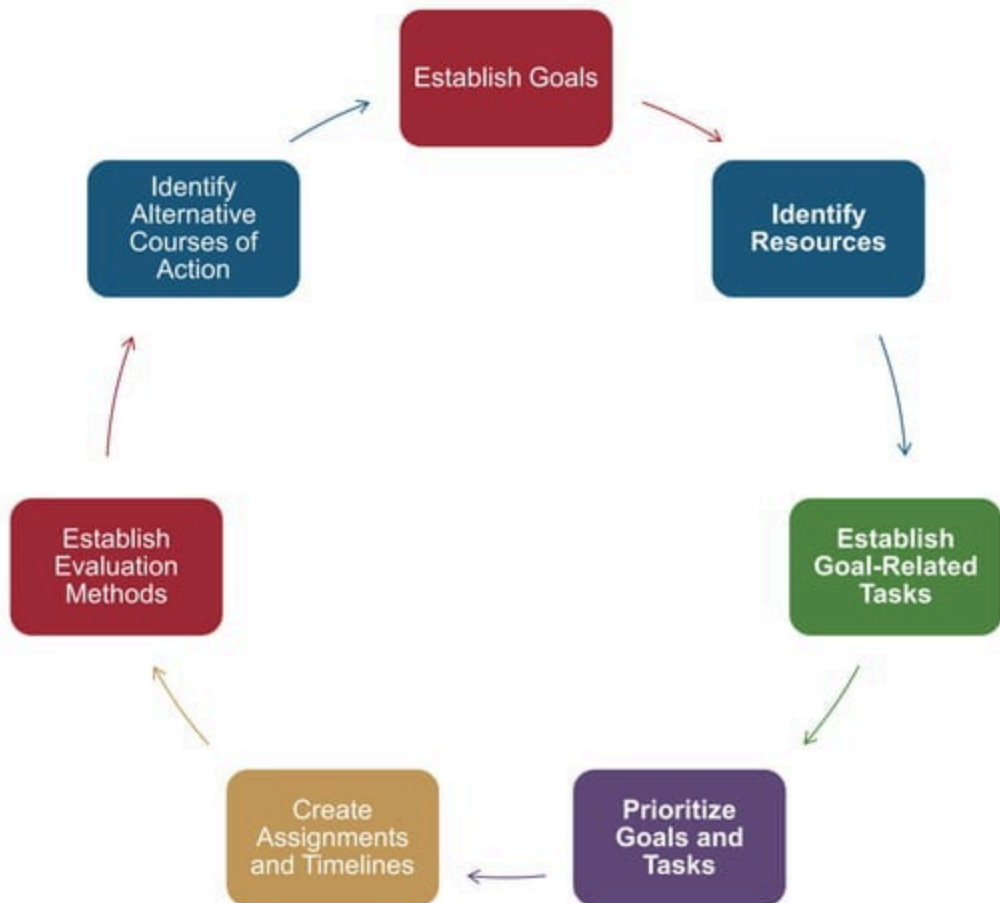
# Purpose of Planning/Why Managers Plan

- Planning provides *Direction*.
- Planning reduces *uncertainty*.
- Planning minimizes *waste and redundancy*.
- Planning *establishes goals or standards* used in Controlling.

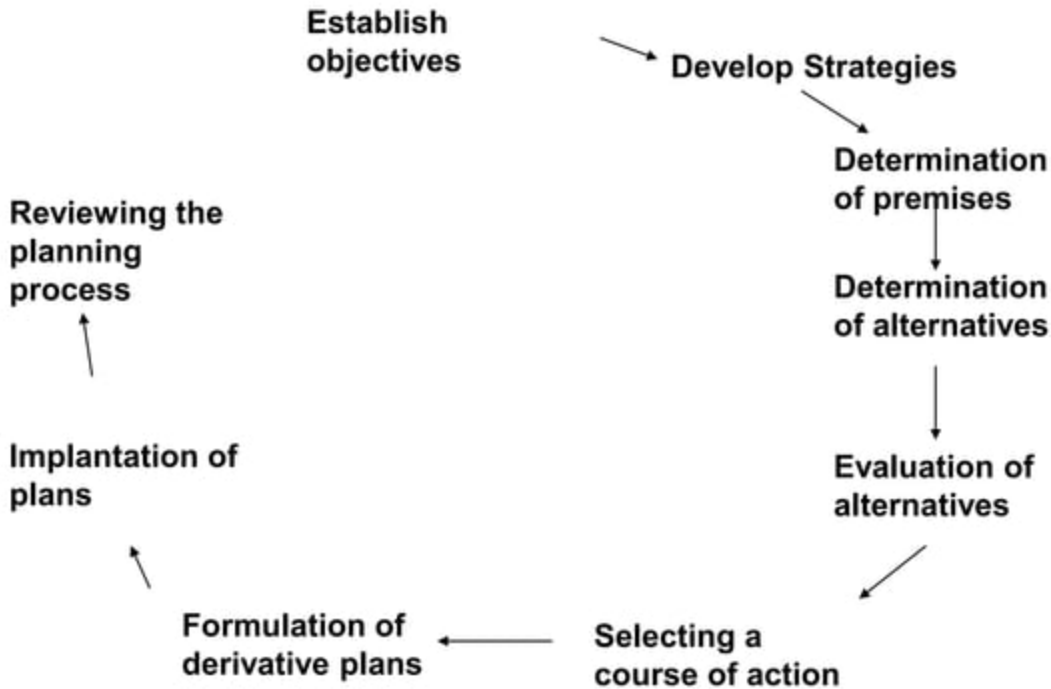


# Planning Process





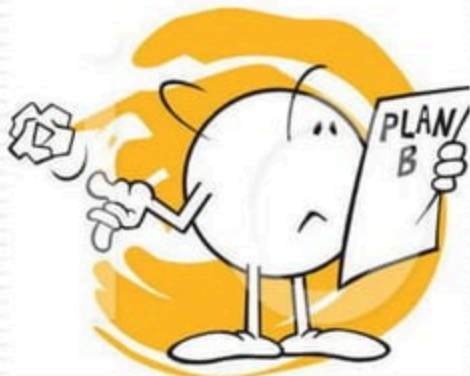


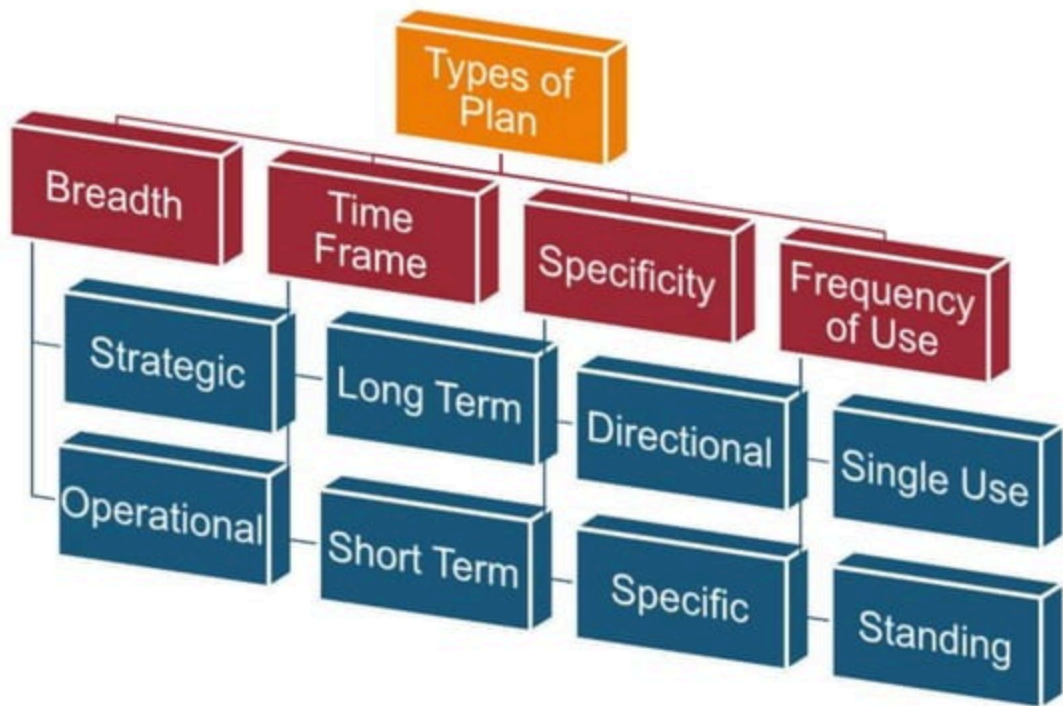


# Example

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# Types of Planning





# Types of Plans

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- Breadth
  - Strategic Plans
    - Plans that are applied to the entire organization and establishes the organization's overall goals.
  - Operational Plans
    - Plans that are applied/comprised to a particular operational areas in the organization.

# Types of Plans

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- Time Frame
  - ▣ Long Term
    - ▣ Plans with a time frame beyond 3 years.
  - ▣ Short Term
    - ▣ Plans covering one year or less.

# Types of Plans

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- Specificity
  - ▣ Directional Plans
  - ▣ Plans that are flexible and set out general guidelines.
  - ▣ Specific Plans
  - ▣ Plans that are clearly defined and no interpretation.

# Types of Plans

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- Frequency of Use
  - Single Use Plans
    - One-time plan specifically designed to meet the needs of a unique situation
  - Standing Plans
    - On-going plans that provide guidance for activities performed repeatedly.



# Objectives



# Objectives/Goals

- End result / Measurable result.
- Stated Goals
  - ▣ Official Statement
  - ▣ What stakeholders to believe
  - ▣ Annual Report
  - ▣ Public statements made by Managers.



## Real Goals

What the organization actually pursues.



- Peter Drucker introduced MBO

- Identify Common goals
- Define Responsibilities
- Using these measures to operate and evaluate performance.

# Nature of Objectives

- ❑ Multiple in number
- ❑ Tangible / Intangible
- ❑ Has priority
- ❑ Arranged in a hierarchy
- ❑ Might Clash with each other



# Guidelines

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- Clear & Acceptable.
- Support one another.
- Precise and measurable.
- Remains Valid.

# Merits

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- Provide basis for Planning, Development
- Act as motivators
- Eliminate Haphazard actions
- Coordinate behaviour
- Provides control
- Better Management
- Lessen Misunderstanding and conflict



# Setting Objectives

# Traditional Approach

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- In traditional goal setting, goals set by top managers flow down through the organization and become sub-goals for each organizational area.



# Traditional goal setting



# Drawbacks

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- Turning broad strategic goals into departmental, team, and individual goals can be a difficult and frustrating process.
- Clarity is lost as the goals make their way down from the top of the organization to lower levels

# MANAGEMENT BY OBJECTIVES



Management By Objectives (MBO)

# Origin of the MBO Concept

- MBO was first outlined by Peter Drucker in 1954 in his book *The Practice of Management*.
- Since the book introduced the concept, MBO has been accepted and implemented in many businesses like:
  - General Motors,
  - General Electrics,
  - General Foods, etc

# MBO

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- Management by objectives (MBO) is a systematic and organized approach that aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization.
- It allows management to focus on achievable goals and to attain the best possible results from available resources.

# MBO programs have four elements

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- goal specificity,
- participative decision making,
- an explicit time period, and
- performance feedback

# MBO Process



# Steps in MBO

1. The organization's overall objectives and strategies are formulated.
2. Major objectives are allocated among divisional and departmental units.
3. Unit managers collaboratively set specific objectives for their units with their managers.
4. Specific objectives are collaboratively set with all department members.
5. Action plans, defining how objectives are to be achieved, are specified and agreed upon by managers and employees.
6. The action plans are implemented.
7. Progress toward objectives is periodically reviewed, and feedback is provided.
8. Successful achievement of objectives is reinforced by performance-based rewards



# Where to Use MBO

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- The MBO style is appropriate for knowledge-based enterprises when your staff is competent.
- It is appropriate in situations where you wish to build employees' management and self-leadership skills and tap their creativity and initiative.
- Management by Objectives (MBO) is also used by chief executives of multinational corporations (MNCs) for their country managers abroad.

# Features and Advantages of MBO

- Motivation – Involving employees in the whole process of goal setting. Increasing employee empowerment 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 enterprise and also solves many problems faced during the period.
- The Smart Method

# MBO: Key Advantages and Disadvantages

## Advantages

- MBO programs continually emphasize what should be done in an organization to achieve organizational goals.
- MBO process secures employee commitment to attaining organizational goals.

## Disadvantages

- The development of objectives can be time consuming, leaving both managers and employees less time in which to do their actual work.

# Advantages

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- Better utilization of resources,
- Aid in Planning,
- Development of personnel,
- Better Team Work,
- Concentration on Key Result Areas,
- Objective Evaluation,
- Result Orientation,
- Sound Organizational Structure.

# Disadvantages

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- ❑ Incurs Time & Cost,
- ❑ Failure to teach MBO Philosophy to employees,
- ❑ Problems in Objective setting,
- ❑ Emphasis on short-term objectives,
- ❑ Inflexibility,
- ❑ Frustration of employees.

# Policies

## Policy

A policy is described  
government, private  
"Statement of Inter  
important organiza

# Policies

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- The set of basic principles and guidelines formulated and enforced by the governing body of an organization.
- General guideline for decision making
- Setting up boundaries around decisions
- Channelizes the activities towards achieving objectives

# Types

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Basis of  
Sources

Basis of  
Functions

Basis of  
Organizational  
Level



# Basis of Sources

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- Originated - Top Managers to guide
- Appealed - Appealed made by subordinates
- Implied – neither Stated nor written but based on the behaviour
- Externally Imposed – gov.t & trade unions

# Basis of Functions

- Production
  - ▣ Method of Production, Output, Inventory, research
- Sales
  - ▣ Market Price, Packaging & Distribution Channel
- Finance
  - ▣ Capital, working capital, Dividend
- Personnel
  - ▣ Recruitment, Training ,Working Conditions

# Basis of Organizational Level

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- Company Policy
- Departmental Policy
- Subordinate Policy

# Guidelines for Effective Policy Making

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- Writing
- Define methods, actions & responsibilities
- Participation
- Stability and flexibility
- Support one another
- Comprehensive
- Periodically reviewed

# Planning Premises



# Premises

- Certain assumptions about the future on the basis of which plan will be ultimately formulated.
- The anticipated environment in which the plans are executed .
- Internal /Controllable/Tangible
  - Manpower, Raw material usage, Pricing, Organization structure, Profit, Shares, strategies, policies etc
- External/Uncontrollable/Intangible
  - Political trend, Customer behaviour, Climate, Competition, population growth etc

# Internal & External

- Sales Forecast
- Policies
- Capital Investment
- Skill of Labour Force
- Behaviour of employees
- Beliefs & Values of Owner and Employees
- General Business environment
- Technological Change
- Government Policies
- Population Growth
- Demand
- Political Stability

# Tangible & Intangible

- Capital Invested
- Population growth
- Demand
- Resources invested
- Political Stability
- Sociological factors
- Business & Economic environment
- Attitude, Philosophies and behaviour of owners



# Controllable & Non-Controllable

- Policy
- Skill of labour force
- Availability of resources
- Attitude and behaviour of owners
- Wars
- Strikes
- Natural calamities
- Emergency

# Strategic Management



# What is Strategy

- a plan/ course of action designed to achieve a long-term or overall goal.
- The plans for how the organization will do what its in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.



# In other words

- Where is the business trying to get to in the long-term (**direction**)
- Which markets should a business compete in and what kind of activities are involved in such markets? (**markets; scope**)
- How can the business perform better than the competition in those markets? (**advantage**)?
- What resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete? (**resources**)?
- What external, environmental factors affect the businesses' ability to compete? (**environment**)?
- What are the values and expectations of those who have power in and around the business?

# Strategic Management

- What a manager do to develop the organization's strategies?



- Privacy Issue of FB.
- Walmart Vs. Kmart (Discount Retailers)

# Business Model

- How the company going to make Money. Its mainly focuses on Whether,
  - ▣ Customers value the company
  - ▣ Make money doing tha

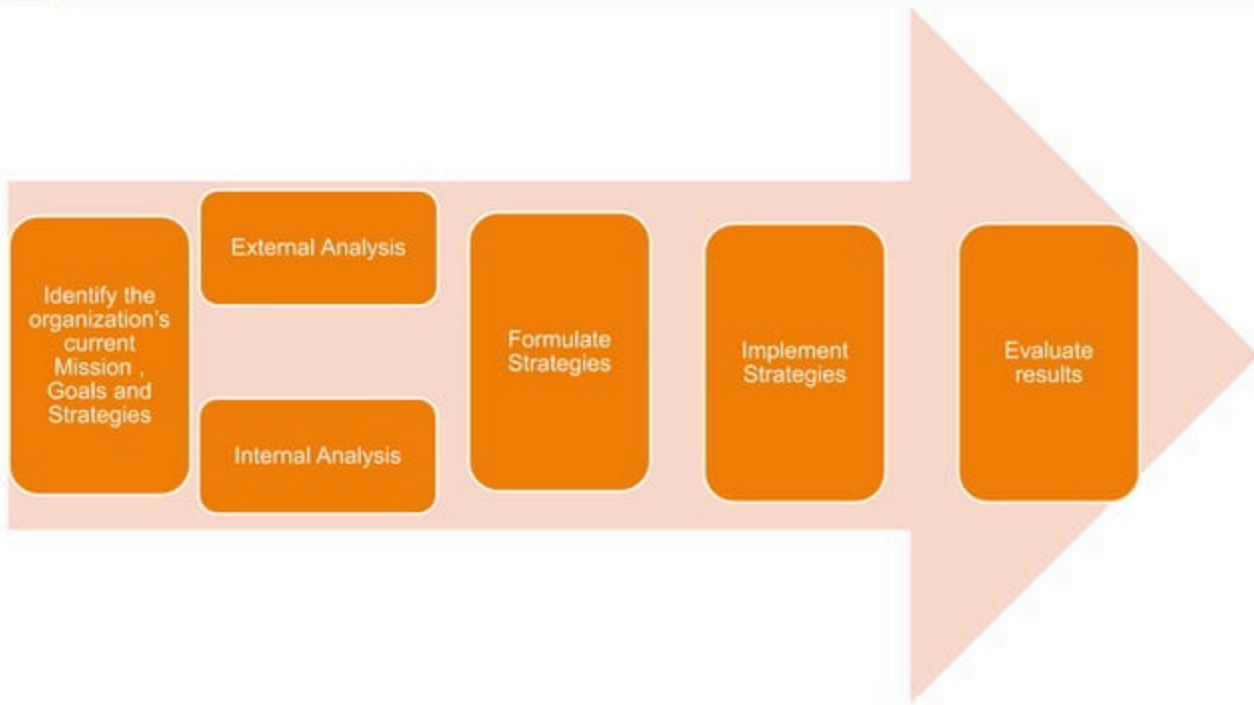


Dell → Computer Sales online.(New B-Model)

# Why SM is important?

- **Makes differences** in how well the organizations performs.
- How to **cope up with uncertainty/continually changing situations.**
- **Helps to coordinate** complex and diverse organizations.
  - Walmart employees → Focus

# Strategic Management Process





# Identifying the Organization's Current Mission, Goals, and Strategies

- Every organization needs a mission—a statement of its purpose
- Mission of FB “A social utility that connects you with the people around you”
- Mission of Infosys “To achieve our objectives in an environment of fairness, honesty and courtesy towards our clients, employees, vendors and society at large”
- Its important for managers to identify current goals and strategies.

# Doing an External Analysis

- ▣ What the competition is doing?
- ▣ What labour supply available.
- ▣ What legislation could affect the organization?
- ▣ Opportunities are positive trends in the external environment;
- ▣ threats are negative trends.
  
- ▣ Gen-M

# Doing an Internal Analysis

- Resources are its assets—financial, physical, human, and intangible—that it uses to develop, manufacture, and deliver products to its customers.
- Capabilities are its skills and abilities in doing the work.
- Core Competency
  - Major value creating capabilities.
- Strength & Weakness.

# SWOT

- The combined external and internal analyses are called the SWOT analysis, which is an analysis of the organization's strengths, weaknesses, opportunities, and threats.



# Formulating Strategies

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- As managers formulate strategies,
- they should consider the realities of the external environment and their available resources and capabilities in order to design strategies that will help an organization achieve its goals.

# Implementing Strategies

- Once strategies are formulated, they must be implemented.



# Evaluating Results

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- The final step in the strategic management process is evaluating results.
  - ▣ How effective have the strategies been at helping the organization reach its goals?
  - ▣ What adjustments are necessary?
  - ▣ After assessing the results of previous strategies and determining that changes were needed

# Strategic Planning Process

Evaluate and improve last year's strategic plan

Reaffirm the organization's Vision, Mission, Values & Goals

Review organization's operational performance for the prior year

Evaluate the external environment to prepare

Conduct SWOT

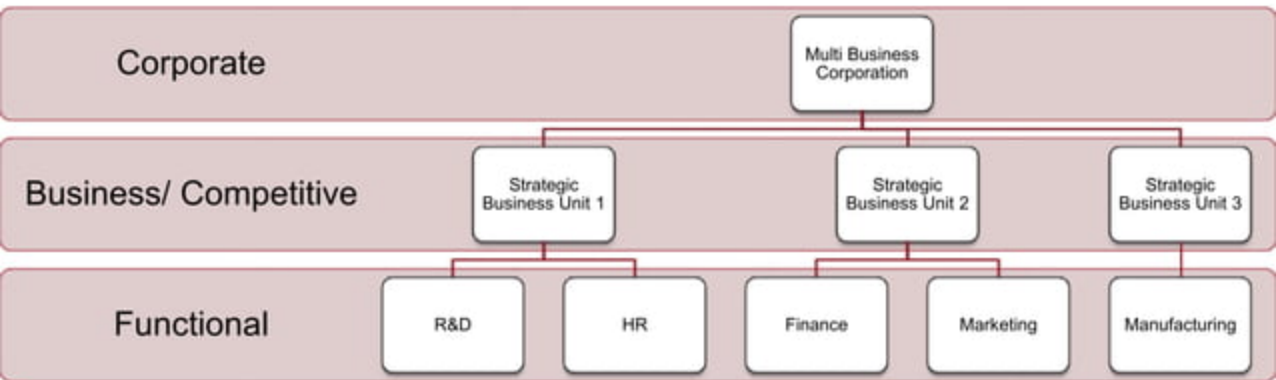
Identify, Evaluate and select alternative approaches

Deploy the modified Plan

Provide for updates and tracking



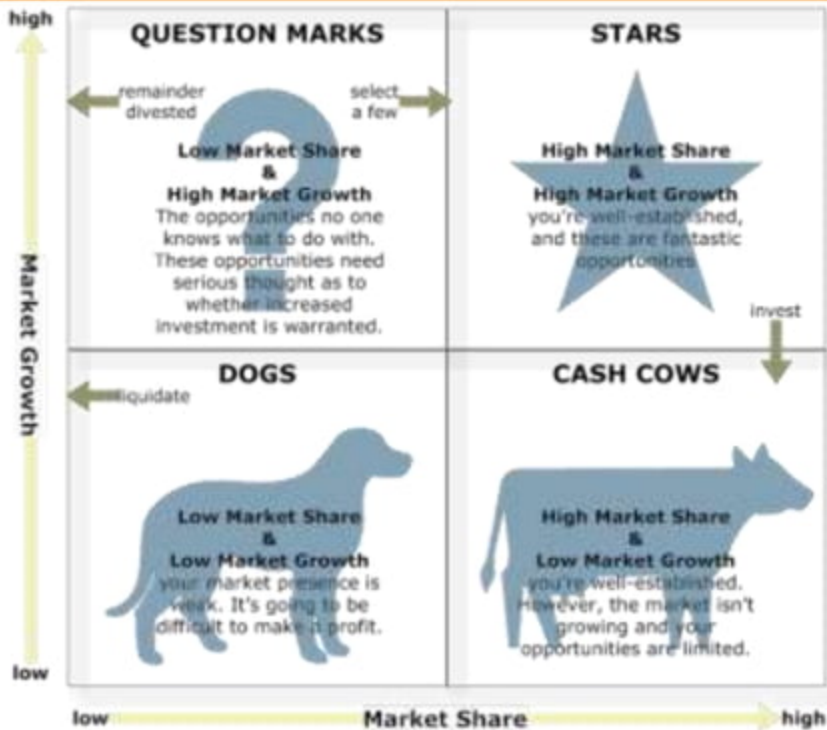
# Types of Strategy



# Corporate Strategy

- An organizational strategy that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses.
- Growth Strategy
  - A corporate strategy that's used when an organization wants to expand the number of markets served or products offered, either through its current business(es) or through new business(es)
- Stability
  - A corporate strategy in which an organization continues to do what it is currently doing
- Renewal
  - A corporate strategy designed to address declining performance

# BCG Matrix



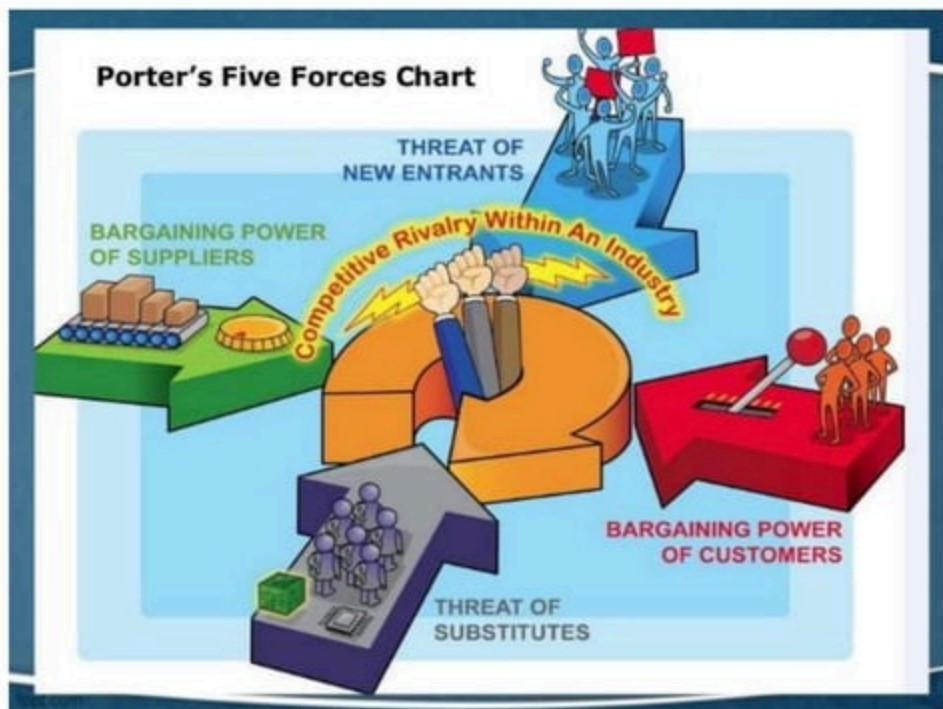
# What are the Strategic implications of the BCG matrix?

- The dogs should be sold off or liquidated as they have low market share in markets with low growth potential.
- Managers should “milk” cash cows for as much as they can, limit any new investment in them, and use the large amounts of cash generated to invest in stars and question marks with strong potential to improve market share.
- Heavy investment in stars will help take advantage of the market’s growth and help maintain high market share.
- The stars, of course, will eventually develop into cash cows as their markets mature and sales growth slows.

# Competitive Strategy

- An organizational strategy for how an organization will compete in its business(es)
  - Competitive Advantage
    - What sets an organization apart; its distinctive edge
    - **Cost Leadership**
    - Quality
      - Low Cost Leader → WalMart
    - **Differentiation**
    - High Quality, Extra ordinary service, Positive brand image
      - Air Deccan → Customer Service
      - Liberty → Comfort & Durability
      - Apple → Product Design
    - **Focus**

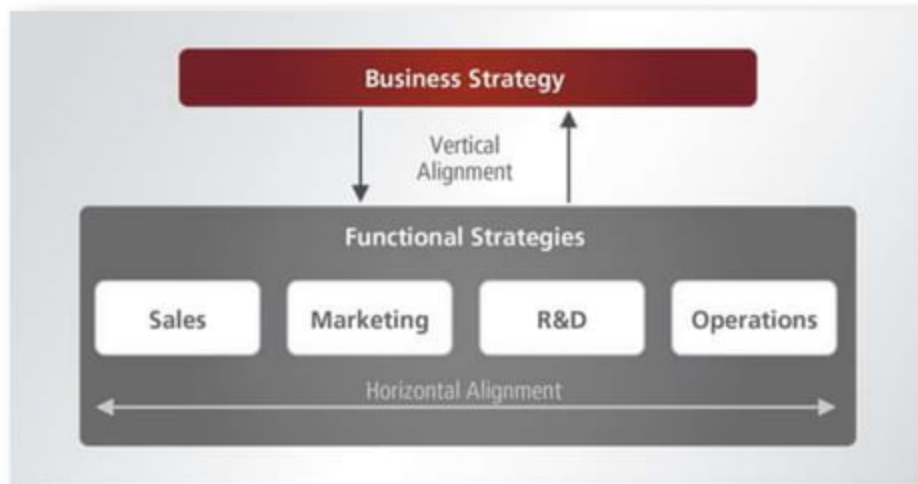
# Porter's 5 Forces Model



- In any industry, five competitive forces dictate the rules of competition. Together, these five forces determine industry attractiveness and profitability, which managers assess using these five factors:
- 1. Threat of new entrants. How likely is it that new competitors will come into the industry?
- 2. Threat of substitutes. How likely is it that other industries' products can be substituted for our industry's products?
- 3. Bargaining power of buyers. How much bargaining power do buyers (customers) have?
- 4. Bargaining power of suppliers. How much bargaining power do suppliers have?
- 5. Current rivalry. How intense is the rivalry among current industry competitors?

# Functional Strategies


- The strategies used by an organization's various functional departments to support the competitive strategy





# Planning Tools & Techniques



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- Techniques for assessing the environment,
  - Techniques for allocating resources, and
  - Contemporary planning techniques.

# Techniques for assessing the environment

- Environmental Scanning
  - Is the screening of large amount of information to anticipate and interpret changes in the environment.(reveals issues and concerns that would affect the firm's planned and current activities)
- Forecasting
  - Predictions of the outcome
- Benchmarking
  - The search for the best practices among competitors or on competitors that leads to their superior performance.

# Environmental Scanning

## □ GLOBAL SCANNING

- The world markets are complex and dynamic, managers have expanded the scope of their scanning efforts to gain vital information on global forces that might affect their organizations

## □ COMPETITOR INTELLIGENCE

- It's a process by which organizations gather information about their competitors and get answers to questions such as Who are they? What are they doing? How will what they're doing affect us?

# Forecasting

- Forecasting is an important part of planning and managers need forecasts that will allow them to predict future events effectively and in a timely manner.
  - Quantitative forecasting applies a set of mathematical rules to a series of past data to predict outcomes.
  - Qualitative forecasting, in contrast, uses the judgment and opinions of knowledgeable individuals to predict outcomes.

# Quantitative forecasting

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- Time series analysis
- Regression models
- Econometric models
- Economic Indicator
- Substitution Effect

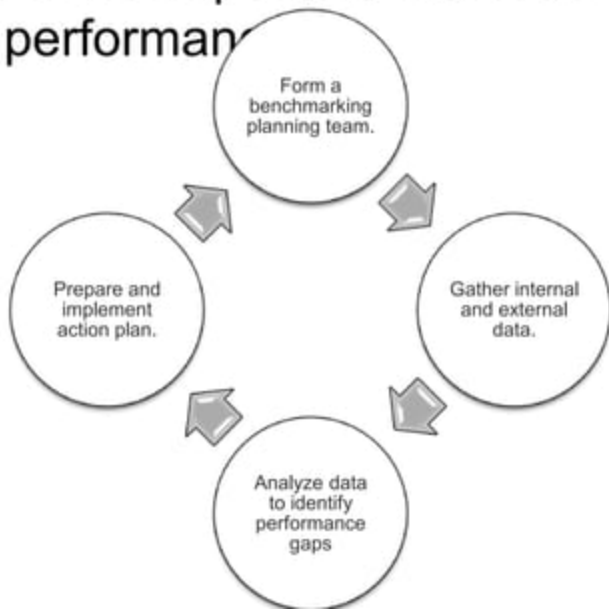
# Qualitative forecasting

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- Jury of opinion
- Sales force composition
- Customer evaluation

# Benchmarking

- The search for the best practices among competitors or noncompetitors that lead to their superior performance





# Techniques for Allocating Resources

## □ Budget

- ▣ A budget is a numerical plan for allocating resources to spend

### Types of budgets



# How to Improve Budgeting

- Collaborate and communicate.
- Be flexible.
- Goals should drive budgets—budgets should not determine goals.
- Coordinate budgeting throughout the organization.
- Use budgeting/planning software when appropriate.
- Remember that budgets are tools.
- Remember that profits result from smart management, not because you budgeted for them.

# Scheduling

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- ▣ Detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed.

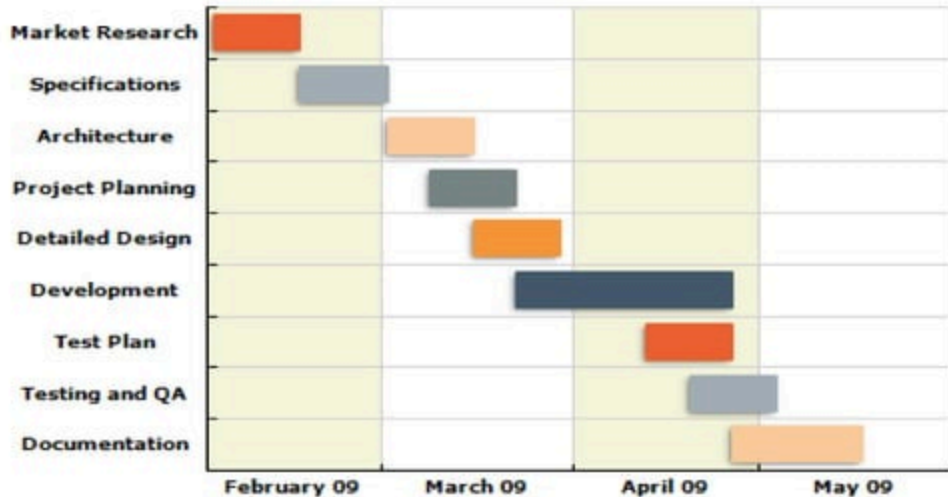
# Scheduling

## □ GANTT CHARTS

- A Gantt chart is a horizontal bar chart developed as a production control tool in 1917 by Henry L. Gantt, an American engineer and social scientist.
- A Gantt chart provides a graphical illustration of a schedule that helps to plan, coordinate, and track specific tasks in a project.
- It's a simple but important device that lets managers detail easily what has yet to be done to complete a job or project and to assess whether an activity is ahead of, behind, or on schedule.

# GANTT CHARTS

*Gantt*





## □ LOAD CHARTS

- A load chart is a modified Gantt chart. Instead of listing activities on the vertical axis, load charts list either entire departments or specific resources.

# PERT NETWORK ANALYSIS

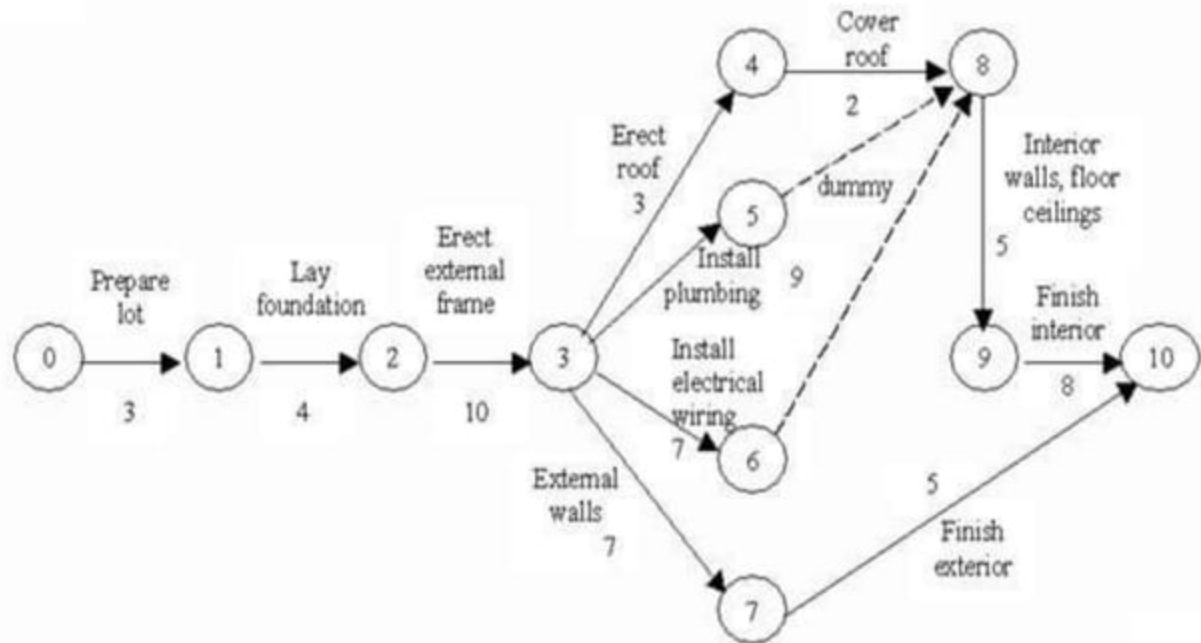
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- A PERT network is a flowchart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity.
- With a PERT network, a manager must think through what has to be done, determine which events depend on one another, and identify potential trouble spots.

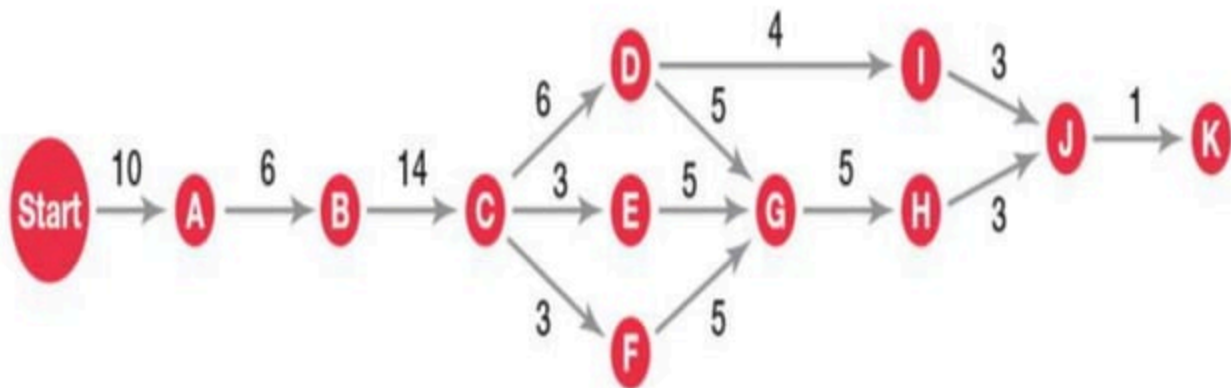
# How to construct a PERT network

- Events are end points that represent the completion of major activities.
- Activities represent the time or resources required to progress from one event to another.
- Slack time is the amount of time an individual activity can be delayed without delaying the whole project.
- The critical path is the longest or most time-consuming sequence of events and activities in a PERT network





Event	Description	Expected Time (in weeks)	Preceding Event
<b>A</b>	Approve design and get permit	10	NONE
<b>B</b>	Dig Foundation	6	A
<b>C</b>	Erect frame	14	B
<b>D</b>	Construct floor	16	C
<b>E</b>	Install windows	3	C
<b>F</b>	Put on roof	3	C
<b>G</b>	Install internal wiring	5	D,E,F
<b>H</b>	Install elevator	5	G
<b>I</b>	Put in floor covering and paneling	4	D
<b>J</b>	Put in doors and interior decorate	3	I,H
<b>k</b>	Turn over to building management group	1	J



# Breakeven Analysis

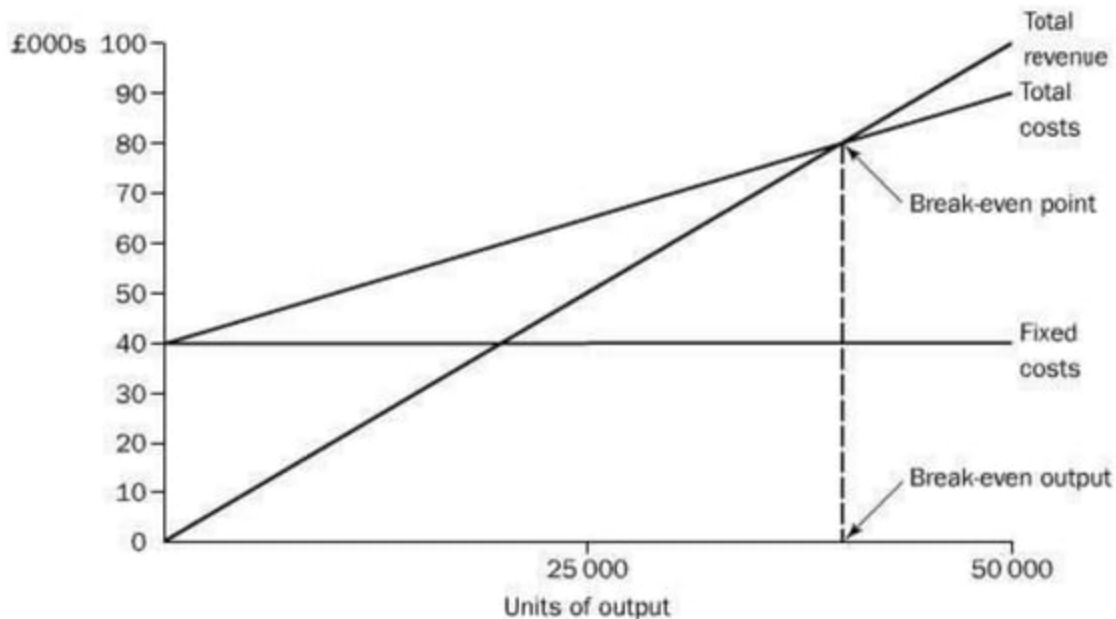
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- Breakeven analysis is a widely used resource allocation technique to help managers determine breakeven point.
- A technique for identifying the point at which total revenue is just sufficient to cover total costs

# Costs


- **Variable costs** are those **costs** that vary depending on a company's production volume; they rise as production increases and fall as production decreases.
- Raw materials, Labor Costs and energy costs
- **Fixed costs** are expenses that have to be paid by a company, independent of any business activity.
- Rent, Insurance, Property taxes.

# Breakeven Analysis



# Linear Programming

- **Linear programming** (LP; also called **linear optimization**) is a method to achieve the best outcome (such as maximum profit or lowest cost) in a mathematical model whose requirements are represented by **linear** relationships.
- **Linear programming** is a special case of mathematical programming (mathematical optimization).
- A mathematical technique that solves resource allocation problems

- 
- to find the best possible solution in allocating limited resources (energy, machines, materials, money, personnel, space, time, etc.)
  - to achieve maximum profit or minimum cost.



# What kinds of problems can be solved with linear programming?

- Some applications include selecting transportation routes that minimize shipping costs,
- allocating a limited advertising budget among various product brands,
- making the optimal assignment of people among projects, and
- determining how much of each product to make with a limited number of resources

# Contemporary planning techniques.

- Project Management
- A project is a one-time only set of activities that has a definite beginning and ending point in time.
- Projects vary in size and scope
- Project management is the task of getting a project's activities done on time, within budget, and according to specifications
- More and more organizations are using project management because the approach fits well with the need for flexibility and rapid response to perceived market opportunities

# PROJECT MANAGEMENT PROCESS

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Define objectives.

Identify activities and resources.

Establish sequences.

Estimate time for activities.


Determine project completion date.

Compare with objectives.

Determine additional resource requirements

# Scenario Planning

- A scenario is a consistent view of what the future is likely to be.
- Developing scenarios also can be described as contingency planning; that is, if this event happens, then we need to take these actions.
- an outbreak of deadly and devastating tornadoes ,Tsunami,etc
- 9/11 terrorist attacks -no one could have envisioned this scenario
- Risk experts suggests “Early Warning Systems”

- 
- Planning tools and techniques can help managers prepare confidently for the future. But they should remember that all the tools we've described in this chapter are just that—tools. They will never replace the manager's skills and capabilities in using the information gained to develop effective and efficient plans.

# Decision Making Steps & Process



# Decision Making

- Managers at all levels and in all organizations make decisions , that is they make *choices*;
  - ▣ Top Level Managers → Where to set new manufacturing unit /which market to enter.
  - ▣ Middle & Lower Level Managers → Work schedule/Employee disciplines etc.

“Decision making is a process of identifying and selecting a course of action to solve a specific problem.”





# Identifying a Problem

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- My team need a new computer.



# Identifying Decision criteria

- Brand
- Graphic Card
- Warranty
- Battery Life
- Weight



# Allocating weights to the criteria

- |                |      |
|----------------|------|
| □ Brand        | □ 8  |
| □ Graphic Card | □ 6  |
| □ Warranty     | □ 9  |
| □ Battery Life | □ 10 |
| □ Weight       | □ 7  |

# Developing Alternatives

- HP
- Sony Valo
- Lenova
- Dell Inspiron
- Toshiba
- Apple



# Analysing Alternatives

- HP
- Sony Valo
- Lenova
- Dell Inspiron
- Toshiba
- Apple



# Selecting an Alternative

- HP
- Sony Valo
- Lenova
- Dell Inspiron**
- Toshiba
- Apple



# Implementing the alternative

- **Dell Inspiron**



# Evaluating Decision Effectiveness

- Check whether the decision made and alternative chosen meet the demand of the team.






# Types of Decisions

- Structured Problem & Programmed Decisions
  - ▣ Straight forward, familiar, easily defined.
  - ▣ Ex: Delay in Supply, Student dropping out

## Programmed Decisions:

- ▣ A repetitive decision that can be handled using a routine approach.
  - ❖ Procedure
  - ❖ Rules
  - ❖ Policy

- 
- Un-Structured Problem & Non-Programmed Decisions:
    - ▣ Problems that are unusual
    - ▣ Ex: New unit at China ??

### Non-Programmed Decisions

Unique, non-recurring and involve custom made solutions.

# Programmed Decisions vs, Nonprogrammed Decisions

- Type of problem :Structured  
**Unstructured** Managerial level: Lower levels  
**Upper levels** Frequency: Repetitive, routine  
**New, unusual** Information : Readily available  
**Ambiguous or incomplete**
- Goals: Clear, specific **Vague**
- Time frame for solution: Short **Relatively long**
- Solution relies on: Procedures, rules, policies  
**Judgment and creativity**