

# Principles of Management Unit 2: Planning

PREPARED AND PRESENTED BY,

**VEERAPANDIAN.K**  
**AP/MECH**



# Content

- ▶ Nature and purpose of planning
- ▶ Planning process
- ▶ Types of plan
- ▶ Objectives
- ▶ Management by objectives (MBO)
- ▶ Types of strategies
- ▶ Policies
- ▶ Decision making
- ▶ Type of decision
- ▶ Decision making process
- ▶ Rational decision making process
- ▶ Decision making under different conditions

# Essentials of planning

- ▶ Planning involves **selecting missions and objectives and deciding on the actions to achieve** them.
- ▶ Requires decision making – **course of action from among alternatives.**
- ▶ Plans thus furnish the standards of control

# Type of plans

- ▶ Plans can be classified as
  1. Missions or purposes
  2. Objectives or goals
  3. Strategies
  4. Policies
  5. Procedures
  6. Rules
  7. Programs
  8. Budgets

# 1. Mission

- ▶ The basic purpose or function or task of an organization/enterprise/agency/any part of it.
- ▶ (what they want to do)
- ▶ For an example: The purpose of business – **generally is the production and distribution of goods and services**

## 2. Objectives or goal

- ▶ Objectives or goals – end towards the activity is aimed (this is what organization want to accomplish)

### 3. Strategy

- ▶ The determination of the basic long term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals.

## 4. Policies

- ▶ General statement or undertakings that guide or channel thinking in decision making
- ▶ Policies define an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to an objective.



## 5. Procedures

- ▶ Plans that establish a required method of handling future activities.
- ▶ (e.g.) leave procedure

## 6. Rules

10

- ▶ They spell out specific required actions or non actions, allowing no discretion
- ▶ Rule that allows no deviation from a stated course of action
- ▶ Must and must not's (set of rules)

## 7. Program

- ▶ A complex of goals, policies, procedures, rules, tasks assignments, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action

## 8. Budget

12

- ▶ A statement of expected results expressed in numerical terms
- ▶ Also called “Quantified” plan.
- ▶ Expressed in financial terms.
- ▶ Budget – necessary for control (standards established)

1

2

3

4

5

6

7

8

- ▶ The planning done in different stages in the organization from the top level management to operational level

# Planning process

14

- ▶ The purpose and nature of planning
  1. **Principle of contribution to objective** – purpose of every plan and supporting plan – to promote accomplishments
  2. **Principle of objectives** – objectives are to be meaningful to people, clear, attainable and verifiable
  3. **Principle of primacy of planning** – planning logically precedes all managerial functions
  4. **Principle of efficiency of plans** – Efficiency of plans – measured by the amount it contributes to purpose and objectives

# Steps in planning

15



# 1. Being aware of opportunities

- ▶ Analysis of external environment – **real starting point for planning**
- ▶ **Setting realistic objectives** depends on the awareness of external environment or opportunities.
- ▶ Planning requires a realistic diagnosis of opportunity situation

1

2

3

4

5

6

7

8



## 2. Establishing objectives

17

- ▶ Objectives – **specify the expected results** and indicate the end points of what is to be done.
- ▶ Enterprise/ Company's objective give direction to major plans

# 3. Developing premises

- ▶ Premises – assumptions about the environment in which plan is to be carried out.

**Principle of planning premises** – the more thoroughly individuals charged with planning understand and agree to utilize the consistent planning premises, the more coordinated enterprise planning will be.

## 4. Determining alternative courses

- ▶ It is to search for and examine alternative course of action
- ▶ **Number of alternative that can be thoroughly examined**
- ▶ The planner must usually make a preliminary analysis to find out best alternative.

1

2

3

4

5

6

7

8

## 5. Evaluating alternative courses

- ▶ After examining the strong and weak points of alternatives
- ▶ **Evaluate the alternatives** by weighing them as compared with goals or objectives of a firm.
- ▶ One course may appear to be most profitable – **but high risk and not match firm's or company's goal**

## 6. Selecting a course of action

21

- ▶ Real point of decision making
- ▶ Alternative course of action – one or more advisable
- ▶ Manager decide to follow several courses rather than one but course

## 7. Formulating derivative plans

22

- ▶ Derivative plans/supporting plans – invariably required to support the basic plan

1

2

3

4

5

6

7

8

## 8. Quantifying – Budgeting plans

23

- ▶ To quantify them by converting them into budgets
- ▶ The overall budget of a firm/an enterprise represents **the sum total of income and expenses**
- ▶ Budgets become a **means of adding the various plan and set important standards against which planning process can be measured**

# Objectives

- ▶ Objectives were defined as important ends towards which organizational and individual activities are directed
- ▶ The emphasis is on verifiable objectives
  - means at the end of the period –
  - whether or not objective has been achieved



# Nature of objectives

- ▶ Objectives state end result and overall objectives need to be supported by sub-objectives
- ▶ Objectives forms a hierarchy as well as network

# Hierarchy of objectives

- ▶ Objectives form a hierarchy, ranging from the broad aim to specific individual objectives
- ▶ Zenith of hierarchy – mission/purpose
- ▶ General objectives and strategies, such as designing, producing and marketing reliable, low cost, fuel efficient automobiles
- ▶ KRA – Key result area – These are the areas in which performance is essential for the success of the enterprise.

# Illustration of Hierarchy of Objectives

27



## Setting Objectives and Organizational hierarchy

- ▶ Managers at different levels in the organizational hierarchy are concerned with different kinds of objectives
  1. **Board of Directors and top level managers** – involved in determining the purpose, the mission and overall objectives of firm.
  2. **Middle level managers** – Vice president or marketing/production division objectives and department objectives
  3. **Low level managers** – setting the objectives of departments and units as well as their sub-ordinates

1. Top down approach
2. Bottom up approach

# Multiplicity of approaches

- ▶ Objectives – normally multiple
- ▶ The objectives should be verifiable and all the objectives are realistic, attainable and precise.

# How to set objectives

Examples of non verifiable objectives:

1. To make a reasonable profit
2. To improve communication
3. To improve productivity of the production department

Contd...

## Examples of Verifiable objectives:

1. To achieve a return on investment of 12% at the end of the current fiscal year
2. To issue a two page monthly newsletter beginning July 1 2005, involving not more than 40 working hours of preparation time.
3. To increase production output by 5% by December 31, 2005 without additional costs while maintaining the current quality level

The management, people or a group of individual can't work without clear aim.



# Quantitative and Qualitative objectives

- ▶ Quantitative objectives – are verifiable objectives can be **measured in terms of numerical values** (e.g.) financial reports; profits and loss, cash flow
- ▶ Qualitative objectives – are difficult to verify objectives - **can be measured in terms of attributes or characteristics** (e.g.) quality of products

# Guidelines for setting objectives

34

- ▶ There are certain guidelines for setting the objectives of an enterprise or firm. It is indeed a difficult task
- ▶ It requires intelligent coaching by the superior and extensive practice by the sub-ordinate
- 1. List of objectives **should not be too long**, yet cover main features
- 2. Objectives **should be verifiable** and state what is to be accomplished

Contd...

3. Objectives **should present a challenge**, indicate priorities
4. Objectives **should be consistent** throughout the organization
5. Objectives **should be precise and identifiable**
6. Objectives should **cover on the area of resources and authority**

The above mentioned are some of the important guidelines for establishing objectives

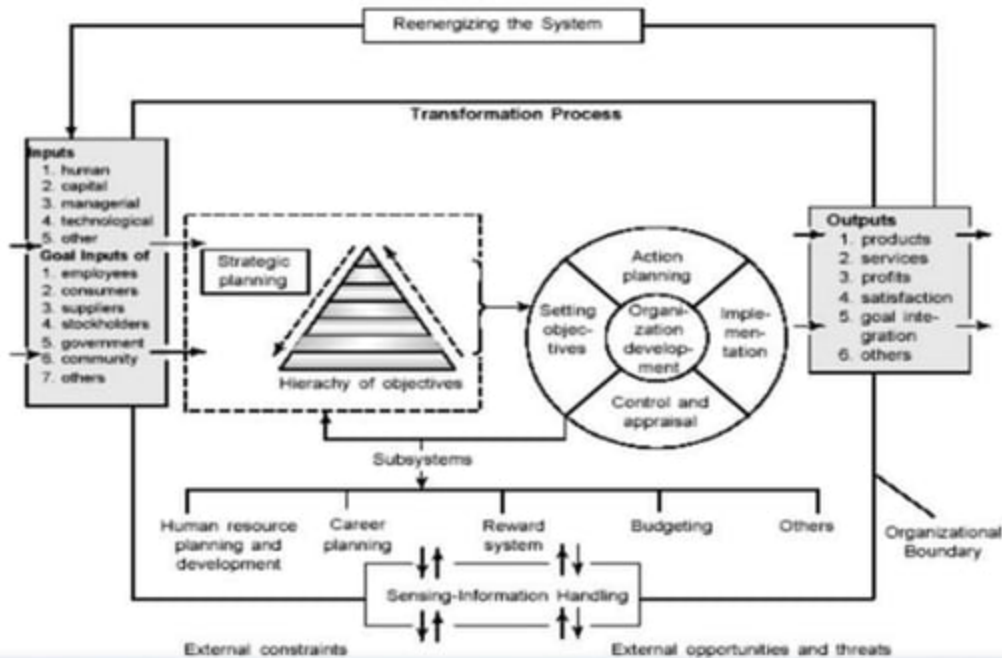
# Management by Objectives (MBO)

36

- ▶ MBO – the concept and use is not always clear
- ▶ MBO (Management by Objectives) – is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and is consciously directed toward the effective and efficient achievement of organizational and individual objectives.

- ▶ MBO – a comprehensive goal driven, success oriented management system. It is used for performance appraisal, instrument for motivating individuals and in strategic planning.
- ▶ Managerial sub-systems – Human resources planning and development, career planning, the reward system, budgeting and other managerial activities integrates MBO process

# Systems Approach to MBO



# Benefits of MBO

1. Improvement of management through results – oriented planning
2. Clarification of organizational roles and structures as well as delegation of authority (results expected of the people occupying the roles)
3. Encouragement of commitment to personal and organizational goals.
4. Development of effective controls that measure results and lead to corrective action

## Failures of MBO and recommendations to avoid failures

Despite all its advantages, MBO system has a number of weaknesses. It is due to applying the concepts not properly.

1. **Failure to teach the philosophy of MBO** – one of major weaknesses
2. **Failure to give guidelines to the goal setters.**  
Managers should need to know planning premises of company.
3. **Difficulty of setting verifiable goals** with the right degree of flexibility

Contd...



4. The **excessive concern over the economic results** puts pressure on individuals that **may encourage unethical behavior**
5. The **emphasis on short term goals** can be done at the expense of longer range health of the organization
6. **To reduce the probability of resorting to unethical means to achieve results**, top management must agree to reasonable objectives, clearly state behavioral expectations, and give high priority to ethical behavior
7. **Over use of quantitative goals** and the attempt to use numbers in areas where are not applicable, may cause troubles to managers.

# Strategies

42

- ▶ Strategic planning is a **systematic approach for identifying and analyzing factors external to the organization** and matching them with the firm's capabilities
- ▶ Complex process
- ▶ Planning is **done in an environment of uncertainty**
- ▶ People **make assumptions for forecasts about the anticipated environment**
- ▶ So the strategic planning process – identifies the critical aspects of formulating a strategy

## Nature and purpose of strategies and policies

- ▶ Strategies and policies are closely related, they are framework for plans
- ▶ Strategy – the determination of mission or purpose and basic long term objectives of an enterprises; adoption of course of action.
- ▶ Policies – general statements or undertakings that guide managers' thinking in decision making

# The strategic process

1. Industry analysis
2. Enterprise profile
3. Orientation, values and vision of executives
4. Mission, Major objectives and strategic intent
5. Present and future environment
6. Internal environment

Contd...

7. Development of alternative strategies
8. Evaluation and choice of strategies
9. Consistency testing and consistency planning
10. Medium and short range planning and implementation

# The TOWS Matrix

46

- ▶ A modern tool for analysis of the situation
- ▶ Many years, the SWOT analysis – used to identify a company's strengths, weaknesses, opportunities and threats
- ▶ SWOT is static – not included the development of distinct alternative strategies based on it

# Illustration of TOWS matrix

47



- ▶ Tows matrix has been introduced for analyzing the competitive situation of a company
- ▶ - development for four distinct set of strategic alternatives.
- ▶ SWOT – orderly fashion strength, weakness, opportunity and threat
- ▶ To systematize the choices, TOWS matrix – used
- ▶ TOWS model starts with Threats, then opportunity and in the order alike
- ▶ A company undertakes strategic planning as a result of a perceived crisis, problem or threat



## Identify the strength, weakness, opportunity and threat for a company

1. Sales of this year increased as compared to previous year.
2. Employees are taking long leave and production decline.
3. New R&D (research and development) department is going to be established
4. Government announced incentives in tax rates
5. SEBI lowered their regulation in issue of new shares

Contd...

6. High court imposed ban on the import of a raw materials used in our production
7. Retained earnings are low as dividend payout increased to shareholders, so there is hindrances of business growth
8. There is a high demand for our product in new market (i.e.) outside country research report
9. Gross profit is high as compared to previous year – profit and loss account – financial report
10. One of the powerful CEO retires from his position at the end of tenure

# TOWS matrix for strategy formulation

1. **The WT strategy** – aims to minimize both weaknesses and strengths – called “mini-mini” strategy (e.g.) Retrench, liquidation
2. **The WO strategy** – aims to minimize the weaknesses and maximize the opportunities - called “mini-maxi” strategy (e.g.) Technology up gradation, Employee training

Contd...

- ▶ **The ST strategy** – aims to maximize strength and minimize threats – called – “Maxi mini” strategy (e.g.) Marketing strength of company to cope up the threats of new products introduced by competitors.
- ▶ **The SO strategy** – aims to maximize both strength and opportunities called – “Maxi – Maxi” strategy (e.g.) the company uses its R&D department and innovate new product – demanded by people

# Tows matrix table

53

	Internal factors	Internal strength (S)	Internal Weaknesses (W)
External factors			
External opportunities (O)		SO strategy Maxi-mini	WO strategy Mini-maxi
External threat (T)		ST strategy Maxi-mini	WT strategy Mini-mini

## Time dimension and TOWS matrix

- ▶ TOWS matrix pertains to analysis at a particular point of time.
- ▶ How ever external and internal environments are dynamic – change over time
- ▶ Strategy designers must prepare several matrices at different points in time.

## Blue ocean and red ocean strategy

- ▶ **Red ocean strategy** – making attempts to beat the existing competition in the saturated market.
- ▶ **Blue ocean strategy** – company – search intensely for opportunities that have not been exploited by its competitors – untapped and potential market

## The portfolio matrix: BCG matrix

- ▶ The Boston consultancy group (BCG) – developed the business portfolio matrix
- ▶ Portfolio matrix developed for large corporations with several divisions – strategic business units (SBU's)
- ▶ Portfolio analysis – popular in the year 1970's
- ▶ Measurement of company's performance based on two metrics viz., Business growth and market share

Contd...



## 4 quadrants in business portfolio matrix

1. High Business growth and high market share – strong position – “STARS”
2. High business growth and low market share – medium position – “QUESTION MARKS”
3. Low business growth and high market share – medium position – “CASH COWS”
4. Low Business growth and low market share – weak position – “DOGS”

# Illustration of Business portfolio matrix



# Hierarchy of company strategies

1. **Corporate level strategy** – A portfolio of businesses is often selected to achieve synergies among the business units
2. **Business strategy** – Gain a Competitive advantage in a particular area of product line
3. **Functional strategy** – Strategies are devised for departments – such as finance, production, marketing and personnel

# Illustration of Hierarchy of company strategies

60



## Porter's industry analysis and generic strategies

- ▶ Professor Michael porter suggests that strategy formulation requires an analysis of the attractiveness of an industry and the company's position within that industry

## Industry analysis – Porter's five force model

1. **Competition among companies**
2. **Threat of new companies entering the market**
3. **Possibility of substitute products/services**
4. **Bargaining power of suppliers**
5. **Bargaining power of buyers or customers**

On the basis of industry analysis, a company may adopt generic strategy

## Different types of strategies

1. Overall cost leadership strategy
2. Differentiation strategy
3. Focused strategy

A company may use one or more combination of strategy

# Decision making

64

- ▶ Decision making - defined as the selection of a course of action from among alternatives
- ▶ Core of planning
- ▶ A decision – a commitment of resources, direction or reputation
- ▶ It is the central job of a manager



# Rational decision making

65

MSM-MBA Odd Semester 2019

The process leading to decision making

1. Premising
2. Identifying alternatives
3. Evaluating alternatives
4. Choosing alternatives – decision making

Contd...

- The effective decision making must be rational
- The manager **have the information and the ability to analyze and evaluate alternatives in light of goals to be achieved**
- Decision making – for future course action – future involves uncertainties

## Limited or Bounded rationality

67

- ▶ A manager **must settle for limited or “bounded” rationality** limitation in terms of information and time
- ▶ Managers can't be completely rational – but pick the best alternative
- ▶ Managers do attempt to make the best decisions they can within the limits of rationality and in light of the degree and nature of risks involved

## Principle of limiting factor

- ▶ **Limiting factor** – stands in the way of accomplishing a desire objective
- ▶ **Principle of limiting factor** – recognizing and overcoming those factors that stand critically in the way of a goal, the best alternative course of action can be selected

## Quantitative and qualitative factors

- ▶ **Quantitative factors** - factors that can be measured in numerical terms
- ▶ **Qualitative factors** - factors that are difficult to measure numerically

- ▶ **Marginal analysis** – comparing the additional revenue and the additional cost arising from incremental output
- ▶ **Cost-effectiveness analysis** – seeks the best ratio of benefit and cost
  - least costly way of reaching an objective with high benefits.

## Selecting an alternative

- ▶ Managers can use three basic approaches:
  1. Experience (past)
  2. Experimentation
  3. Research and analysis

# Experience

72

- ▶ Reliance on past – 2 sides of decision making by experience
  1. **Good side** – It is relied and get same effect as before without much effort
  2. **Bad side** – wrong decisions and things changes with time



# Experimentation

73

MSM-MBA, Odd Semester 2019

- ▶ Experimentation – often used in scientific enquiry
- ▶ The experimental technique is likely to be the most expensive of all techniques

1

2

3

# Research and analysis

74

MSM-MBA, Odd Semester 2019

- ▶ Most effective techniques for selecting from alternatives
- ▶ Solving a planning problem requires breaking it into its component parts and **studying various quantitative and qualitative factors**
- ▶ Major step in research and analysis approach – **develop a model simulating the problem**

1

2

3

# Programmed decisions

75

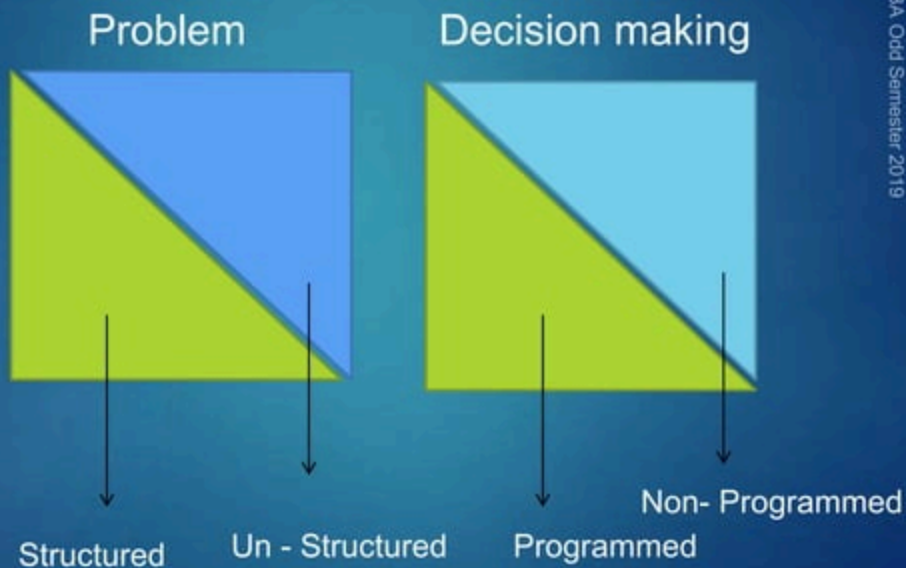
- ▶ are used for structured or routine work  
(e.g.) Re-ordering of standard inventory items
- Kind of decision
- Used for routine and repetitive work

## Non – programmed decisions

- are used for unstructured, novel and ill defined situations of a non – recurring nature

(e.g.) Product design and development – car model design

## Illustration of Programmed and un programmed decisions



## Decision making under different situations

### 1. Certainty :

In situation involving certainty, people are reasonably sure about what will happen when they make a decision.

The information is available and considered to be reliable

- cause and effect relationship known

1

2

3

## 2. Uncertainty:

In situation of uncertainty, people have only a meager database, not sure about data reliable or not

- cause and effects relationships to be studied

1

2

3

### 3. Risks

- ▶ In a situation with risks, factual information may exist, but are incomplete
- ▶ Estimation of probabilities by using mathematical models, based on judgment and experience may be used



# Creativity and Innovation

81

- ▶ **Creativity** – the ability and power to develop new ideas
- ▶ **Innovation** – the use of new ideas

## 4 phases of creative process:

1. Unconscious planning
2. Intuition
3. Insight
4. Logical formulation

# Brain storming

Best known technique for facilitating creativity – developed by Alex F. Osborn - Father of Brain storming

- Emphasis on group thinking

The rule of brain storming :

1. No ideas are ever criticized
2. The more radical the ideas are the better
3. The quantity of idea production is stressed
4. The improvement of ideas by others - encouraged

**Invention:** pertains to new ideas and process

**Innovation:** the application of the ideas to products and services

# The End