C P PATEL & F H SHA COMMERCE COLLEGE, ANAND

B. COM SEM. - I

BUSINESS ORGANISATION AND MANAGEMENT – I

Course Content		
Unit No.	**Description**	**Weightage (%)**
2.	**Planning & Decision Making:** • **Planning:** Meaning and Definitions, Importance of Planning, Types of Plans, Process of Planning. • **Decision Making:** Meaning, Types, Factors affecting Decision Making, Modern Techniques of Decision Making, Steps in Decision Making Process • Case Studies on Poor Planning Failure, Strategic Planning Success, and Decision-Making Under Pressure	**25%**
3.	**Organizing & Staffing** **Organizing:** • Meaning and Importance • Steps for Organizing Process • Types of Organization: Linear, Functional, Linear and Staff • Delegation of Authorities: Meaning, Importance & Process • Difference between Centralization & Decentralization • Case Studies on Delegation Failure, Centralization & Decentralization and Organizational Structure Change **Staffing:** Meaning, Purpose of staffing, Overview of Recruitment & Selection process	**25%**
4.	**Directing & Controlling:** **Directing:** • Meaning, Qualities of a good leader, Leadership styles (Autocratic, Democratic and Free Rein) **Controlling:** • Concept of Controlling • Importance of Controlling • Controlling Process and Modern Techniques of Controlling • Case Studies on Successful Control System and Production Control Failure • Role Play on Manager vs Employee (Control Conflict)	**25%**

UNIT 2
PLANNING AND DECISION MAKING

2.	**Planning & Decision Making:** • **Planning:** Meaning and Definitions, Importance of Planning, Types of Plans, Process of Planning. • **Decision Making:** Meaning, Types, Factors affecting Decision Making, Modern Techniques of Decision Making, Steps in Decision Making Process • Case Studies on Poor Planning Failure, Strategic Planning Success, and Decision-Making Under Pressure	**25%**

PLANNING

1. INTRODUCTION

All organizations operate in an environment of uncertainty. To be successful, an organization must anticipate changes and make plans to adapt itself to the environment. Without planning, an organization is like a boat without a rudder. By setting goals and deciding how to achieve them, planning provides a steering mechanism for an organization.

Planning is the process of bridging the gap between where we are and where we want to be in the future. In other words, planning is "looking ahead, relating today's events with tomorrow's possibilities." It is the process of deciding in advance what to do, how to do, when to do it, and who does what. Proper planning minimizes risk and ensures that resources are efficiently and effectively utilized.

Planning and controlling are inseparable. Planning involves determining organizational objectives and developing strategies to achieve the objectives, while controlling involves establishing standards of performance and comparing actual results with the planned results. Controlling without planning is meaningless. Unless one knows where to go, one cannot tell whether one is going in the right direction or not. Planning gives an organization the required focus and direction. Thus planning is a prerequisite of the control function.

In this chapter, we will discuss the definition, nature and significance of planning, types of plans, steps in the planning process, prerequisites for effective planning and the limitations of planning.

2. DEFINITIONS OF PLANNING

In simple words, planning is deciding in advance what action to take, how and when to take a particular action, and who are the people to be involved in it. It involves anticipating the future and consciously choosing the future course of action.

According to Peter Drucker, "Planning is a continuous process of making present entrepreneurial decisions (risk taking) systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the result of those decisions against the expectations through an organized systematic feedback."

In the words of George R. Terry, "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results." Thus, while planning, a manager makes use of facts and reasonable premises and also considers the relevant constraints. The manager then decides what activities are needed, how they are to be carried out and how they would contribute to the achievement of the desired results.

Dalton E. McFarland's definition of planning takes into account the dynamic nature of the environment. He defines planning as follows:

"Planning is a concept of executive function that embodies the skills of anticipating, influencing and controlling the nature and direction of change."

According to Heinz Weihrich and Harold Koontz, "Planning involves selecting mission and objectives and the actions to achieve them; it requires decision-making that is, choosing from alternative future courses of action." Thus, planning involves determining organizational objectives and deciding how best to achieve them. It involves looking ahead and relating today's events with tomorrow's possibilities.

3. IMPORTANCE OF PLANNING/ SIGNIFICANCE OF PLANNING

In a complex business situation, planning helps managers meet the challenges posed by the environment, while at the same time minimizing the risks associated with them.

Planning is a prerequisite not only for achieving success but also for surviving in a complex and competitive world.

Planning is very important in all types of organizations. It forces organizations to look ahead and decide their future course of action so as to improve their profitability. Organizations that plan in advance are more likely to succeed than those which fail to plan for the future.

Planning is the first step in the management process. It ensures that the employees of an organization carry out their work in a systematic and methodical manner. It also helps coordinate and control various tasks and makes sure that resources are used optimally. The role and significance of planning is discussed below.

3.1. Focuses Attention on Objectives

Every organization seeks to achieve certain objectives. The planning process helps the organization devise means to achieve these objectives. Sometimes, it is only through planning that these objectives can be made concrete and tangible. Since plans focus on the achievement of objectives, they prevent the manager from being distracted by less significant activities.

3.2. Offsets Uncertainty and Risks

An important element of planning is to accumulate information for use in forecasting. This information is then used to develop action plans or detailed guidelines for achieving organizational objectives. The action plans can either be primary or contingent in nature. Primary plans are formulated by managers on the basis of their future expectations of political, legal, economic, technological and social environments. A contingency plan is a plan that is implemented when certain unforeseen events occur. By forecasting the future, managers can try to reduce the risk of uncertainties and be prepared for unexpected events.

3.3. Provides Sense of Direction

The first step in planning is setting goals and objectives for the organization. Setting goals and objectives facilitates the smooth progress of organizational activities. The absence of planning makes it difficult for managers to have a sense of focus or direction regarding the future of the organization.

3.4. Provides Guidelines for Decision Making

Plans elaborate the actions necessary for achieving organizational objectives and thus help in deciding the activities to be taken up in the future. Planning involves identifying alternatives and choosing among those courses of action that are necessary for carrying out a given task. Thus it helps people take futureoriented decisions.

3.5. Increases Organizational Effectiveness

Planning ensures the effective functioning of an organization. To be truly effective, an organization must be able to achieve its objectives with the available resources. Planning facilitates the optimum utilization of available resources since, while planning, objectives are set by taking into account the resources of the organization. Planning ensures that each resource is used in a specific manner at a particular time. Thus, planning and control ensure that the resources are used in accordance with organizational specifications.

3.6. Provides Efficiency in Operations

Planning results in the use of the most efficient methods for achieving organizational objectives. The planning process can be a valuable method for improving performance at any organization level. It improves performance by focusing management's attention on objectives and by helping management establish priorities and cope with the ever-changing external environment.

3.7. Ensures Better Coordination

Planning is essential for coordinating the activities of an organization. Well-developed organizational plans unify interdepartmental activities so that the various departments work together to achieve organizational goals.

3.8. Facilitates Control

Planning provides the basis for control. The function of control is to ensure that the activities being carried out conform to the plans that have been developed. Thus, control cannot be exercised without plans. Planning makes two important contributions to the control process. First, it leads to the development of an early warning system which allows managers to detect possible deviations from the plan. Second, it provides managers with quantitative and concrete data that helps them compare actual performance with planned performance.

3.9. Encourages Innovation and Creativity

By involving employees, the process of planning encourages a healthy work atmosphere. Planning also encourages managers to devise new ways of doing things. It facilitates innovative and creative thinking among managers, which is a prerequisite for the long-term survival and growth of a business.

3.10. Facilitates Delegation

The planning process facilitates the delegation of authority. Well-established plans act as a guide to subordinates, thus eliminating the need for constant guidance by managers.

4. TYPESOF PLANS

Plans can be classified in a number of ways, on the basis of the organization level, the frequency of use and their time-frame.

4.1. Plans Based on Organizational Level

Just as organizations define goals at different levels, they also establish plans at different levels. On the basis of the organization level, plans can be strategic, tactical or operational. Figure given below illustrates the types of plans developed for different organizational levels.

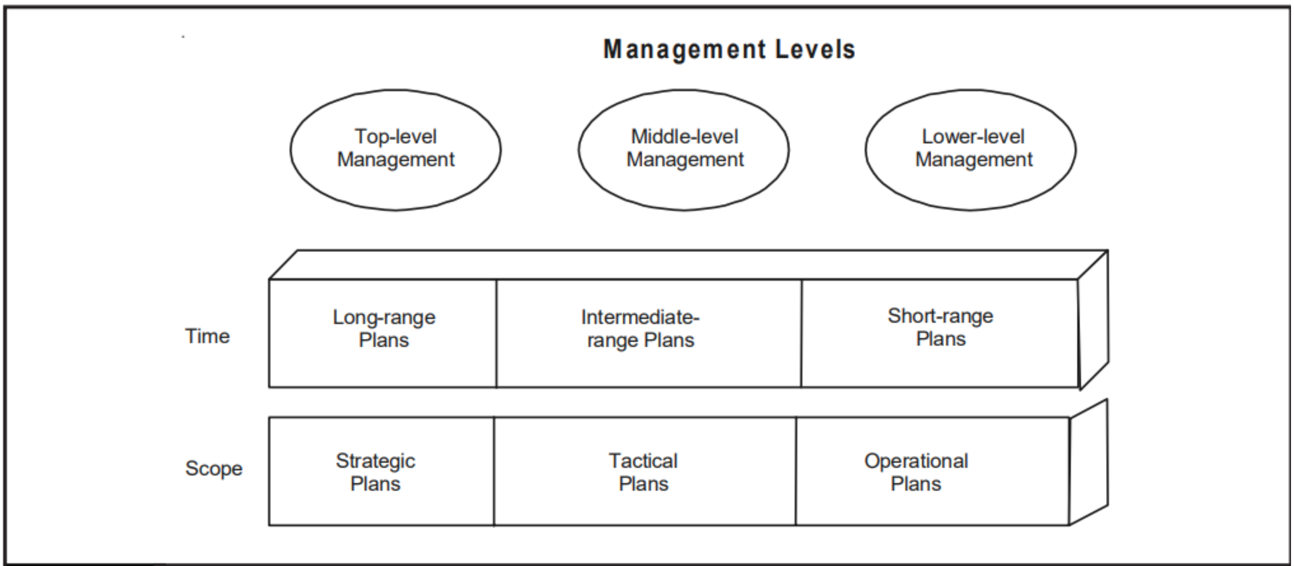

Fig. 4.1 *Planning and Management Levels*

Figure 1

Source: Gene Burton and Manab Thakur, Management Today: Principles and Practice (New Delhi: Tata McGrawHill Publishing Company Limited, 1995) 151.

4.1.1. Strategic Plans

These plans are designed to achieve strategic goals. More precisely, strategic plans are general plans that indicate the resource allocation, and priorities and actions necessary for achieving strategic goals. These plans which establish overall objectives for organizations, analyse the various environmental factors that affect organizations. Table 4.1 describes eight major areas for strategic goals.

Table 4.1: Eight Major Areas for Strategic Goals

Major Areas	Description
Market Standing	Desired share of present and new markets, including areas in which new products are needed, and service goals aimed at building customer loyalty.
Innovation	Innovations in products or services as well as innovations in skills and activities required to supply them.
Human Resources	Supply, development and performance of managers and other organization members; employee attitudes and development of skills; relations with labour unions, if any.
Financial Resources	Sources of capital supply and how capital will be utilized.
Physical Resources	Physical facilities and how they will be used in the production of goods and services.
Productivity	Efficient use of resources relative to outcomes.
Social Responsibility	Responsibilities in such areas as concern for the community and maintenance of ethical behaviour.
Profit Requirements	Level of profitability and other indicators of financial well-being.

Source: *Peter F. Drucker, Management: Tasks, Responsibilities and Practices (New York: Harper and Row, 1974) 100-117.*

Strategic plans are applicable to the entire organization and are generally developed by top management in consultation with the board of directors and the middle management. They tend to cover an extended period of time – usually three years or more. Managers who are involved in developing strategic plans work in an environment of uncertainty and are required to make assumptions about future threats and opportunities. To develop such plans, they require large amount of information, especially with regard to the future of the external environment.

4.1.2. Tactical Plans

They aim at achieving tactical or short-term goals. These plans help support the implementation of strategic plans. Tactical plans essentially indicate the actions that major departments and sub-units should take to execute a strategic plan. Such plans are more concerned more with actually getting things done than with deciding what to do. They are thus essential for the success of strategic plans.

Tactical plans are developed by middle-level managers, who may consult lower-level managers before finalizing the plan and communicating it to top-level management.

Compared to strategic plans, tactical plans cover a shorter time frame (usually 1 to 3 years). A middle-level manager acting as a tactical planner deals with much less uncertainty and risk than the strategic planner. The information that he requires is also less and most of it can be derived from internal sources.

4.1.3. Operational Plans

Operational plans are developed to determine the steps necessary for achieving tactical goals. They are stated in specific, quantitative terms and serve as the department manager's guide to day-to-day operations. Operational plans are developed by lower-level managers. These plans generally consider time frames of less than a year, such as a few months, weeks, or even a few days. They spell out specifically what must be accomplished over short time periods in order to achieve operational goals. Lower-level managers who develop operational plans work in an environment of relative certainty. Hence, the amount of risk involved in making operational plans is lesser than that involved in making tactical plans. The information needed for operational planning can be obtained almost completely from within the organization. Unless operational goals are achieved, tactical and strategic goals will not be achieved. Therefore, operational plans are necessary for the success of tactical and strategic plans.

4.2. Plans Based on Frequency of Use

Plans can also be categorized on the basis of their frequency of use. Based on the extent of use, plans can be of two types: single-use plans and standing plans.

4.2.1. Single-use plans

A single-use plan is aimed at achieving a specific goal and is designed to deal with a unique, nonrecurring situation. Once the goal has been achieved, the plan ceases to exist. In other words, a singleuse plan is a one-time plan and is created in response to non-programmed decisions of managers (nonprogrammed decisions are specific solutions to atypical or non-routine problems and are arrived at through an unstructured, undefined process). The major types of single-use plans are programmes, budgets and projects.

4.2.1.1. Programmes

Programmes are large scale single-use plans that coordinate a complex set of activities to achieve important non-recurring goals. They are concrete or well-defined schemes designed to accomplish specific objectives. Programmes spell out clearly the steps to be taken, the resources to be used and the time period within which the task is to be achieved. They also indicate who should do what and how. Programmes serve as useful guides for day-to-day operations. They are action-based and result-oriented management approaches that facilitate the smooth and efficient functioning of organizations.

4.2.1.2. Budgets

A budget outlines the expected results of a given future period in numerical terms. It is a plan of action or blueprint designed to achieve a specific goal. A budget may be expressed either in financial terms or in terms of units of products, labour-hours, machine-hours, or any other numerically measurable term. A budget generally quantifies the plan and establishes the target for actual operations. It indicates the financial resources necessary for supporting the various activities included in a programme. Many organizations use the budget as a basis for planning and coordinating other activities.

4.2.1.3. Projects

A project is similar to a programme, but is smaller in scale and less complex. A project may be a component of a programme, or it may be a self-contained, single-use plan. A project helps in the precise allocation of duties and effective control and easy implementation of the plan.

4.2.2. Standing plans

Standing plans refer to specific actions which have been developed for dealing with recurring situations. While single-use plans are used for situations that are unique, standing plans are used for situations which may be encountered by managers on a regular basis.

Standing plans are developed in response to programmed decisions of managers (programmed decisions refer to solutions to routine problems and are arrived at by following rules, procedures or habits). They speed up the decision-making process and allow managers to handle similar situations in a consistent manner. Since standing plans are predetermined courses of action, they make it possible for managers to delegate authority. Since every course of action has been clearly defined by these plans, they do away with the need for continuous supervision by managers. They also provide a ready reference for executive action as they spell out what is to be done in a particular situation. The three main types of standing plans are policies, procedures and rules:

4.2.2.1. Policies

A policy is the most general form of a standing plan. It specifies the broad parameters within which organization members are expected to operate in pursuit of organizational goals. Policies do not specify what actions should be taken, but provide general boundaries for action. They indicate the direction in which top management wants to channelize the energies of people in the organization. Policies are generally flexible and broad in their scope.

4.2.2.2. Procedures

A procedure is a chronological sequence of steps to be undertaken to achieve an objective. It is more specific than a policy as it outlines the steps to be followed under certain circumstances. Procedures are guides to action that specify in detail the manner in which activities are to be performed. Well-established and formally laid down procedures are often called standard operating procedures (SOPs). They ensure uniformity in action. Unlike policies, which tend to be fairly general, procedures provide detailed step-by-step instructions regarding the action to be taken. Thus, procedures help in simplifying and streamlining the administrative activities of an organization.

4.2.2.3. Rules

These are the simplest type of standing plans. A rule is a statement that spells out what should or should not be done in a particular situation. Unlike procedures, rules do not specify a series of steps but dictate exactly what must or must not be done. Thus, rules are rigid and definite plans that do not allow for deviation. They provide very little flexibility. However, rules help ensure that employees behave in the desired manner and make their actions predictable. They regulate the day-to-day conduct of affairs by providing detailed instructions.

4.3. Plans Based on Time Frame

Organizational plans should not extend beyond specific time frames. Plans based on the time horizon can be classified into three types – long-term plans, intermediate-term plans and short-term plans.

4.3.1. Long-term Plans

These are the strategic plans of an organization, and have a time frame exceeding five years. A long-term plan is derived from the vision developed for the organization by its founders or the top management. It involves setting up broad objectives and establishing procedures for achieving these objectives.

4.3.2. Intermediate-term Plans

While long-term plans provide a direction for the organization, intermediate-term plans specify the activities to be carried out. These plans generally cover time periods ranging from one to five years. Intermediate plans define the organization's activities and provide direction for middle management. When a firm's long-term plans are not very clear due to high levels of uncertainty, the focus of planning activity shifts to intermediate-term plans because they are made for a shorter duration of time and therefore their outcomes are certain and predictable.

4.3.3. Short-term Plans

These plans generally cover time periods up to one year. They provide lower-level managers with guidelines for carrying out the day-to-day activities of an organization. They take care of the individual activities needed to achieve the overall objectives outlined by long-term planning. They guide a manager by stating what he has to do; how, where and when he has to do it; and the resources available for performing the specified task. Short-term plans thus help managers make better use of manpower and other resources in the immediate future.

Apart from the different types of plans mentioned in this section, an organization can also have specific plans and directional plans. Specific plans are those which have clearly defined objectives. They are very specific and unambiguous. For instance, a manager who seeks to increase his firm's sales by 10 per cent over a period of one year might establish specific procedures, budget allocations, and schedules of activities for reaching that goal. These represent specific plans. To be effective, specific plans require an environment of certainty and predictability, which often does not exist. When there is high uncertainty and management is required to be flexible in order to respond to unexpected changes, it is preferable to use directional plans. These plans establish general guidelines. They provide managers with a focus, but do not confine them to specific courses of action. Instead of following a specific plan to cut costs by 5 per cent and increase revenues by 10 per cent in six months, a directional plan may chalk out a course for improving corporate profits within a broad range, say 10 to 15 per cent, over the next six months. Thus, directional plans provide flexibility but do not provide clearly defined objectives, as specific plans do.

5. STEPS IN PLANNING PROCESS

Planning is an endless process. The process is constantly modified to suit changes in environmental conditions and changes in objectives and opportunities for the firm. As organizations differ in terms of their size and complexity, no single planning procedure is applicable to all organizations. However, all planning processes contain some basic steps, which are represented in Figure 4.4.

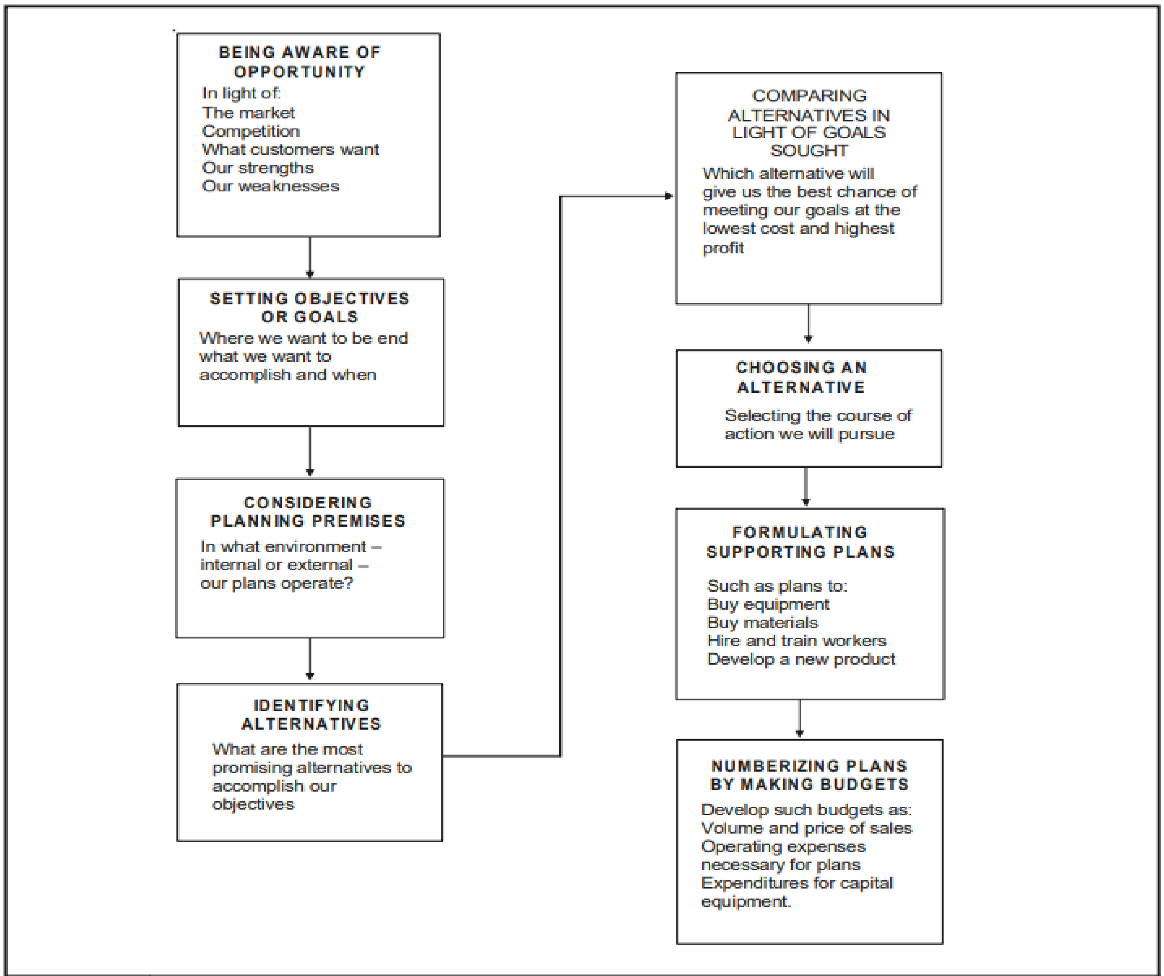

Fig. 4.4 *An Extended Model of the Planning Process*

Source: Heinz Weihrich and Harold Koontz, Management: A Global Perspective (Singapore: McGraw-Hill, Tenth edition, 1994) 131

5.1. Analysing Opportunities

Managers should be aware of the opportunities in the external environment, as well as those within the organization. They should understand the firm's strengths and weaknesses and the ways in which they can utilize the firm's strengths to make the most of an opportunity. A thorough understanding of the opportunities available outside the business enterprise enables managers to set realistic objectives. Once managers perceive the presence of an opportunity which can be exploited, the other steps of the planning process can be undertaken.

5.2. Establishing Opportunities

The second step is to establish objectives for the entire organization and for every work unit within the organization. Objectives specify the results expected from a particular course of action and define the areas that should receive special attention. In addition, objectives specify what should be achieved by the network of strategies, policies, procedures, rules, budgets and programmes. Organizational objectives provide direction to the major plans. These plans help the various departments of an organization prepare their objectives in line with the organizational objectives. Thus, there exists a hierarchy of objectives in an organization.

Objectives must be stated clearly and must be established for all key areas where performance affects the well-being of the organization. They should be specified in measurable terms like costs, targets or quality specifications.

5.3. Determining Planning Premises

After establishing organizational objectives, the next step is determining planning premises. Planning premises are assumptions about the environment in which the plan is to be carried out. They lay down the boundary or limitations within which plans are to be implemented.

Planning premises include both external and internal premises. External premises include social, economic, political and technological factors; competitor's plans and actions; government policies, etc. Internal premises include an organization's policies, resources, ability to withstand environmental pressure, etc. Plans are formulated taking into account both external and internal premises.

Since the future is highly unpredictable, it is not possible to make assumptions about every aspect of the environment in which a plan has to be carried out. Premises should therefore be confined to those assumptions that are strategic or critical to a plan. According to the principle of planning premises, "The more thoroughly individuals charged with planning understand and agree to utilize consistent planning premises, the more coordinated enterprise planning will be." In other words, the planners must understand and agree upon the planning premises to develop well-coordinated plans for the enterprise.

5.4. Identifying Alternatives

Various alternative courses of action can be identified after establishing organizational objectives and planning premises. A particular objective can be achieved through various actions. For instance, if expansion is an organization's objective, it can be achieved by expansion in the same field, or diversification, or amalgamation, or by introducing a new product variant in the market and so on. Thus, there are many ways of achieving the same goal. A common problem at this stage is selecting the most promising alternatives for further analysis. The planner must examine these alternatives and decide on the best ones through careful analysis. These alternatives lay the foundation for the next step in planning.

5.5. Evaluating Available Alternatives

After identifying alternative courses of action and examining their advantages and disadvantages, the next step is to evaluate the alternatives keeping in mind the goals of the organization and the available resources. Each alternative may have some positive and negative aspects. For instance, one alternative may be highly profitable but may require heavy investment and may have a long gestation period; another one may be less profitable but may also involve less risk. Since the future is uncertain, the planner can never be sure of the outcome of any alternative. Thus, many variables and limitations have to be considered when evaluating alternative courses of action. The use of planning and decision-making techniques, such as operations research, helps in the evaluation of alternatives.

5.6. Selecting the Most Appropriate Alternative

After carefully evaluating the alternative courses of action, the most appropriate one is selected. At this point, a decision is made about the course of action to be taken. Sometimes, after evaluating a few alternative courses of action, a planner may choose more than a single alternative, as two or more alternatives may seem advisable. Another reason for choosing more than one alternative plan is that the planning premises may change (since the future is unpredictable). In such a case, the planner must be ready with an alternative plan (normally called a contingency plan) that can suit the changed situation.

5.7. Implementing the Plans

This involves putting the plan into action. In order to implement the actions stated in the plan, managers have to make a series of decisions. A manager can implement the plans of a firm through the use of authority, persuasion or policy. Authority is a legitimate form of power that comes with the position and is not associated with a person. It is often sufficient to implement relatively simple plans that do not cause a significant change in the status quo. But a complex and comprehensive plan cannot be implemented through authority alone. Persuasion is another tool used by managers for implementing their plans.

Persuasion is “the process of selling a plan to those who must implement it, by communicating relevant information so that the individuals understand all the implications.” Thus, persuasion requires convincing others, so that the plan is accepted on the basis of its merits rather than on the authority of the manager. When long-term plans are developed, managers generally formulate policies for implementing them. Policies are usually written statements that provide guidelines for selecting particular courses of action for achieving a firm’s objectives. Effective polices are those that are flexible, comprehensive, coordinated, ethical and clear.

5.8. Reviewing the Plan

Once a plan has been implemented, it has to be reviewed. A review helps managers to evaluate the plan and also identify deviations from the established course of action. It thus helps managers take the necessary corrective measures. At every stage of the review, the outcomes must be compared with the expected results. This will help the organization develop future plans. A periodic review of plans enables an organization to update them in the light of changes in the business environment.

DECISION MAKING

Decision Making:

- Meaning,
- Types,
- Factors affecting Decision Making,
- Modern Techniques of Decision Making,
- Steps in Decision Making Process

1. INTRODUCTION

Decision-making describes the process by which a course of action is selected as the way to deal with a specific problem. People at all levels in an organization are constantly making decisions and solving problems. For managers, the decision-making and problem-solving tasks are particularly important aspects of their jobs. Which employee should be assigned a particular task? How should profits be invested? Whether the problem is large or small, it is usually the manager who has to confront it and decide what action to take. Managers make decisions dealing with both problems and opportunities. For instance, making decisions about how to cut costs by five per cent reflects a problem. The manager also has to make decisions when there is an opportunity that can be exploited. If the firm has surplus funds, the manager has to decide whether the extra funds should be used to increase shareholder dividends, reinvested in current operations, or to expand into new markets.

The quality of managers' decisions is the yardstick of their effectiveness and value to the organization. Managers are usually evaluated and rewarded on the basis of the importance and results of their decisions. This indicates that managers must necessarily develop decision-making skills. In this chapter, we will discuss the significance and limitations of rational decision-making, and look at managers as decision-makers, the decision-making process, types of managerial decisions and decision making under certainty, uncertainty and risk. This will be followed by a discussion on the distinction between the management information system and the decision support system, and the systems approach to decision-making, group decision-making and decision-making techniques.

2. DEFINITION

Andrew Smilagyi, *"Decision-making is a process involving information, choice of alternative actions, implementations, and evaluation that is directed to the achievement of certain stated goals."*

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

D.E. McFarland, *"A decision is an act of choice wherein an executive forms a conclusion about what must be done in a given situation. A decision represents a behaviour chosen from a number of possible alternatives."*

Henry Sisk and Clifston Williams, *"A decision is the selection of a course of action from two or more alternatives; the decision-making process is a sequence of steps leading to that selection."*

R. S. Davar, *"Decision making may be defined as the selection based on some criteria of one behaviour alternative from one or more possible alternatives."*

3. TYPES OF DECISION

3.1. Programmed decisions

They are also called routine or structured decisions. The reason is that these types of decision are taken frequently and they are repetitive nature. This decision is taken within the purview of the policy of the organisation. Only lover level management takes programmed decision and has short-term impact. Granting over time work, placing purchase order (for materials) etc. are some of the examples of programmed decisions. There is a clear-cut procedure to take programmed decision. The decision maker need not ask anything from the Personnel Manager or Board of Directors while taking programmed decisions.

3.2. Non-programmed decisions

They are otherwise called strategic decision or basic decision or policy decisions or unstructured decisions. This decision is taken by top management people whenever the need arises. A careful analysis is made by the management before taking a policy decision. The management may publish its policy in small book which is known as policy manual. Policy decision involves heavy expenditure to management. Starting a new business, whether to export or not, acquisition of a business etc. are some of the examples of non-programmed decisions. This decision has a long-term impact on business. A slight mistake in the policy decision is based to injure the entire organisation.

3.3. Major decision

Major decision relates to the purchases of fixed assets with more value. The purchase of land and building is an example of major decisions. This decision is taken by the top management.

3.4. Minor decision

Minor decision relates to the purchase of current assets with less value. Purchase of pencil, pen, ink, etc. are some of the examples of minor decision. This decision is taken by lower-level management people.

3.5. Operative decision

A decision which relates to day-to-day operation of an organisation is known as operative decision. This type of decision is taken by middle level management people normally. The reason is that they are working at supervisory level and have a good knowledge of the operations. The time of payment of overtime wages if fixed by middle level management people. It is an example of operative decisions.

3.6. Organisational decision

The decision maker takes a decision and implements it for effective functioning of organisation and it is called organisational decision. He takes this decision on this authority and capacity.

3.7. Personal decision

The decision maker takes a decision for his personnel life which is known as personal decision. He implements this decision in his home and sets right his personal life. This decision does not reflect the functioning of an organisation. The decision maker is not a member of an organisation while taking a personnel decision.

3.8. Individual decision

Confusion exists regarding the difference between individual decision and personnel decision. They are not one and the same. The decision maker is member of an organisation while taking an individual decision. He can implement it in the organisation. He is delegated while taking an individual decision. He considers the policy and situation prevailing in an organisation while taking individual decision.

3.9. Group decision

A committee id formed by the top management for specific purposes. Here, the top management feels that no individual can take effective decision to solve a problem. The top management fixes the time within which the committee is expected to submit its report with concrete decisions.

3.10. Departmental decision

Here, the decision maker is department head or department manager. He takes a decision to run the department. Department decision has no impact on other departments. This decision is implemented with the concerned department itself.

3.11. Non-economic decision

Non-economic decision refers to a decision which does not incur any expenses. These types of decisions are taken at all levels of management. A decision which relates to setting right the morale behaviour of workers is termed as non-economic decision.

3.12. Crisis decision

A decision is taken to meet unexpected situations. There is no possibility and time for the decision maker for getting through investigation while taking a crisis decision. It may be otherwise called spot decision. The reason is that whenever a need arises, the decision maker has to take a decision without wasting a second.

3.13. Research decision

A decision is taken after analysing the pros and cons of a particular matter. There is no pressure on the decision maker to take such a decision. Research decision requires a lot of information. The quality of research decision is fully depending upon the availability of reliable information.

3.14. Problem decision

A decision is taken to solve the problem. The problem may be an expected one or unexpected one. Besides, they arrived decision does not create any more problem to the organisation.

3.15. Opportunity decision

This pertains to the decision taken to make use of the advantages available to the company or organisation. The advantages may be increasing the turnover, introducing a new product, building of another similar unit to avoid competition etc.

3.16. Certainly decision

Here, the term certainty refers to accurate knowledge of the outcome form each choice. For example, ascertaining how much profits will be maximized by introducing a new product or increasing the selling price and the like. There is only one outcome for each choice. The decision maker himself knowns the outcome and consequences of choice.

3.17. Uncertainty decision

The decision is not accurate or several outcomes are possible whenever a decision is taken. The reason is that the decision maker has incomplete knowledge and he does not know the consequences. For example, while marketing a new product, the decision (number of profits) depends upon the prosperity period of that product. If the prosperity period is long, the amount of profit is high and vice versa.

Management people takes a number of decisions every day. These decisions are aimed at solving the existing problems. No decision creates any new problem to the management. There should be justices in taking a decision.

4. Factors affecting Decision Making

Decision making in management is influenced by various factors that can impact the outcome and effectiveness of the decisions made. Some of the key factors affecting decision making in management concepts include:

1. **Internal and External Environment**: The internal and external factors of an organization, such as its culture, structure, resources, competition, market conditions, and legal and regulatory frameworks, can significantly influence decision making. Managers need to consider these factors to make informed decisions that align with the organization's goals and objectives.
2. **Information Availability and Quality**: The availability and quality of information play a crucial role in decision making. Managers need accurate, timely, and relevant information to assess the situation, identify alternatives, and evaluate potential outcomes. Insufficient or inaccurate information can lead to poor decision making.
3. **Risk and Uncertainty**: Decision making involves dealing with risks and uncertainties. Managers need to assess the potential risks associated with different alternatives and evaluate the likelihood of success or failure. They must also consider the level of uncertainty in the business environment and adapt their decision-making approach accordingly.

4. **Decision-Making Styles**: Different managers have different decision-making styles, which can impact the decision-making process. Some managers may prefer a more autocratic approach, making decisions independently, while others may adopt a participative or collaborative approach, involving others in the decision-making process. The decision-making style can influence the speed, quality, and acceptance of decisions.
5. **Ethical Considerations**: Ethical considerations are essential in decision making. Managers need to consider the ethical implications of their decisions and ensure they align with the organization's values and ethical standards. Ethical decision making promotes trust, integrity, and long-term sustainability.
6. **Cognitive Biases**: Cognitive biases are inherent tendencies that can affect decision making. Biases such as confirmation bias (favouring information that confirms pre-existing beliefs) or anchoring bias (relying too heavily on initial information) can lead to suboptimal decisions. Managers need to be aware of these biases and take steps to mitigate their impact.
7. **Organizational Culture**: Organizational culture influences decision making by shaping the values, norms, and beliefs within the organization. A culture that encourages innovation, risk-taking, and open communication can foster effective decision making. In contrast, a culture that is resistant to change or promotes hierarchical decision making may hinder the decision-making process.
8. **Individual and Group Dynamics**: Individual characteristics, such as personality, experience, and cognitive abilities, can influence decision making. Additionally, group dynamics, such as groupthink (conforming to group opinions) or social loafing (reduced effort in a group setting), can impact decision-making outcomes. Managers need to understand these dynamics and foster an environment that encourages diverse perspectives and constructive debate.

   In summary, decision making in management is influenced by various factors, including the internal and external environment, information availability, risk and uncertainty, decision-making styles, ethical considerations, cognitive biases, organizational culture, and individual and group dynamics. Understanding and considering these factors can enhance the quality and effectiveness of decision making in management concepts.

5. Modern Techniques of Decision Making

A number of sophisticated techniques or tools which are useful in the decision-making process are available. In this section, each of these techniques is discussed in brief.

5.1. Marginal Analysis

This technique is used in decision-making to figure out how much extra output will result if one more variable (e.g. raw material, machine, and worker) is added. In his book, 'Economics', Paul Samuelson defines marginal analysis as the extra output that will result by adding one extra unit of any input variable, other factors being held constant. Marginal analysis is particularly useful for evaluating alternatives in the decision-making process.

5.2. Financial Analysis

This decision-making tool is used to estimate the profitability of an investment, to calculate the payback period (the period taken for the cash benefits to account for the original cost of an investment), and to analyse cash inflows and cash outflows. Investment alternatives can be evaluated by discounting the cash inflows and cash outflows (discounting is the process of determining the present value of a future amount, assuming that the decision-maker has an opportunity to earn a certain return on his money).

5.3. Break-even Analysis

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure by which the level of sales necessary to cover all fixed costs can be determined. Using this technique, the decision-maker can determine the break-even point for the company as a whole, or for any of its products. At the break-even point, total revenue equals total cost and the profit is nil.

5.4. Ratio Analysis

It is an accounting tool for interpreting accounting information. Ratios define the relationship between two variables. The basic financial ratios compare costs and revenue for a particular period. The purpose of conducting a ratio analysis is to interpret financial statements to determine the strengths and weaknesses of a firm, as well as its historical performance and current financial condition.

5.5. Operations Research Techniques

One of the most significant sets of tools available for decision-makers is operations research. Operations research (OR) involves the practical application of quantitative methods in the process of decision-making. When using these techniques, the decision-maker makes use of scientific, logical or mathematical means to achieve realistic solutions to problems. Several OR techniques have been developed over the years. Some of the most widely used techniques are discussed briefly in this section.

5.6. Linear Programming

Linear programming is a quantitative technique used in decision-making. It involves making an optimum allocation of scarce or limited resources of an organization to achieve a particular objective. The word ‘linear’ implies that the relationship among different variables is proportionate. The term ‘programming’ implies developing a specific mathematical model to optimize outputs when the resources are scarce. In order to apply this technique, the situation must involve two or more activities competing for limited resources and all relationships in the situation must be linear.

Some of the areas of managerial decision-making where linear programming technique can be applied are: ’ Product mix decisions ’ Determining the optimal scale of operations ’ Inventory management problems ’ Allocation of scarce resources under conditions of uncertain demand ’ Scheduling production facilities and maintenance.

5.7. Queuing or Waiting-line Method

This is an operations research method that uses a mathematical technique for balancing services provided and waiting lines. Waiting lines (or queuing) occur whenever the demand for the service exceeds the service facilities. Since a perfect balance between demand and supply cannot be achieved, either customers will have to wait for the service (excess demand) or there may be no customers for the organization to serve (excess supply). When the queue is long and the customers have to wait for a long duration, they may get frustrated. This may cost the firm its customers. On the other hand, it may not be feasible for the firm to maintain facilities to provide quick service all the time since the cost of idle service facilities have to be borne by the company. The firm, therefore, has to strike a balance between the two. The queuing technique helps to optimize customer service on the basis of quantitative criteria. However, it only provides vital information for decision-making and does not by itself solve the problem. Developing queuing models often requires advanced mathematical and statistical knowledge

5.8. Game Theory

This is a systematic and sophisticated technique that enables competitors to select rational strategies for attainment of goals. Game theory provides many useful insights into situations involving competition. This decision-making technique involves selecting the best strategy, taking into consideration one's own actions and those of one's competitors. The primary aim of game theory is to develop rational criteria for selecting a strategy. It is based on the assumption that every player (a competitor) in the game (decision situation) is perfectly rational and seeks to win the game.

In other words, the theory assumes that the opponent will carefully consider what the decision-maker may do before he selects his own strategy. Minimizing the maximum loss (minimax) and maximizing the minimum gain (maxi-min) are the two concepts used in game theory.

5.9. Simulation

This technique involves building a model that represents a real or an existing system. Simulation is useful for solving complex problems that cannot be readily solved by other techniques. In recent years, computers have been used extensively for simulation. The different variables and their inter-relationships are put into the model. When the model is programmed through the computer, a set of outputs is obtained. Simulation techniques are useful in evaluating various alternatives and selecting the best one. Simulation can be used to develop price strategies, distribution strategies, determining resource allocation, logistics, etc.

5.10. Decision Tree

This is an interesting technique used for analysis of a decision. A decision tree is a sophisticated mathematical tool that enables a decision-maker to consider various alternative courses of action and select the best alternative. A decision tree is a graphical representation of alternative courses of action and the possible outcomes and risks associated with each action. In this technique, the decision-maker traces the optimum path through the tree diagram. In the tree diagram the base, known as the 'decision point,' is represented by a square. Two or more chance events follow from the decision point. A chance event is represented by a circle and constitutes a branch of the decision tree. Every chance event produces two or more possible outcomes leading to subsequent decision points.

6. STEPS IN DECISION MAKING PROCESS

Decision making is not an easy job. It requires a lot of skill. A decision making is affected by a number of factors. So, the manager can take good decisions by adopting a procedure.

A manger may not be able to take good decisions if he fails to follow a sequential set of steps. The decision-making process depends upon the nature of problems and the nature of organisation. The following is the simple process followed in taking a decision in normal situations:

6.1. Identification of a problem

Identifying of a problem means recognition of a problem. Problem arises due to difference between what is and what should be. The changes of business environment form the main reason for creating of a problem. So, the manager should find the causes of a problem. This is not an easy job. Finding of causes of a problem is used to take quality decision. The manager should continuously watch the decision-making environment and understand the real problem and its causes.

The manager may look into the management reports, find deviations from budget, if any, compare the company's results with the competitor's results and efficiency of employees etc. these are used to identify the problem correctly. Here, the manager has to use his experience, imagination ad judgment in order to find out the real nature of the problem.

6.2. Diagnosing the problem

There is a slight difference between problem identification and diagnosing the problem. A doctor can diagnose the disease of a patient. A patient cannot find out what is the real disease. But a doctor can do so with the information given by a patient. Information is very useful to the doctor. In management, the manager is acting as a doctor while diagnosing the problem.

6.3. Collect and analyse the relevant information

The next step is that required at various levels information should be collected by the manager. Then, the manager has to study the information with great care. It is very useful to analyse the problem from different angles. If the problem is analysing the problem from different angles, a quality and quick decision may be taken by the manager. The manager should see that only relevant information alone is collected and analysed.

6.4. Discovery of alternative course of action

Creative thinki8ng is necessary to develop or discover many alternative courses of action. If there is no alternative, there is no need of taking a decision. A problem can be solved in many ways. At the same time, a solved problem should not arise again in the future.

It is advisable to the manager that he should discover a number of alternatives. The problem of limiting factors is also considered by the manager. Some alternatives cannot be selected due to limiting factors. Time and cost are the probable limiting factors of an organization.

6.5. Analysing the alternatives

Next, the pros and cons of available alternatives are analysed. Some alternatives offer maximum benefits than others. An alternative is compared with other alternatives. The decision maker can prepare a list of limits for each alternative.

6.6. Screening of alternatives

The available alternatives are screened in the order of maximum benefits derived from them. Each alternative is evaluated in terms of risks involved in implementing them. Both tangible and intangible factor include public relations, goodwill of the company, loyalty of employees etc. sometimes, two or more alternatives are equally suitable by nature. The decision maker should find the actual difference of alternatives which will be the deciding factor to select an alternative.

6.7. Selection of best alternatives

Now, the decision maker can select the best alternative after careful evolution. An alternative which gives maximum benefits to the organizational is selected. At the same time, the selected alternative should fit with the organizational objectives. The following approaches may be adopted while selecting an alternative.

(a) **Experience:** A manager can select an alternative on the basis of his past experience. The past prevailed situation cannot be the same as the present prevailing situation. Situation changes from time to time. Past decision may be rationally amended to suit the present situation. So, the past experience helps a lot to the manager in taking a decision.

(b) **Experimentation:** Each alternative is put into practice and the results are observed under this approach. An alternative which gives best result will be selected. For example, before an organization selects a production technique which result in a quality production with minimum loss and expenses. This approach, being expensive and time consuming, should be used only on limited scale.

(c) **Research and analysis:** This approach is also rarely adopted. In case of critical situation, a decision is taken under this approach. If a lot of calculations are required, they are completed with the help of computers.

6.8. Conversion of decision into action

The future course of action is scheduled on the basis of selected alternative or decision. Here, the manager has to consider the policy of the management.

The selected alternative decision is communicated to concerned persons. These communication facilities are easy implementation of decision. The language of decision should be simple and easily understandable.

6.9. Implementation

Next, the manager has to implement the decision to achieve desired goals. Decision-making process comes to an end with the actual implementation of decision. Implementation is equally important to the selection of alternatives. Implementation plan should provide for time and procedure sequence. Necessary resources should also be allocated and responsibility for specific tasks should be assigned to individuals.

6.10. Verifying the decision

It is the duty of every manager to see whether the decision is properly implemented or not. Verification of implementation of decision ensures the loss to the organization. This can be measured with the help of verifying the decision if the manager feels that the selected alternative is not the best one; an amendment may be made to achieve desired goals. This is the simple process of decision making.

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