I. SHORT TYPE QUESTIONS AND ANSWERS:

Q.1. What is planning?

Ans: Planning is a process of selecting the objectives & determining the course of action required to achieve these objectives. EG: The goal set for limited period like five year plans

Q.2. Important observations subjected about planning?

Ans: a) Planning is obtaining a future course of action in order to achieve an objective.

b) Planning is looking ahead.

c) Planning is getting ready to do something tomorrow.

d) Plan is a trap laid down to capture the future.

Q.3. Define mission and vision?

Ans: Mission may be defines as a statement which defines the role that an organization plays in the society. EG: Canara Bank "Good People to Grow With".

A vision statement indicates how the organization should be, after a particular time Period.

Q.4. Define policies?

Ans: Policies are general statement or understanding which provides guidance in decisions making to various managers.

5. Defining planning premises?

Ans: Planning premises are defined as the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future & known conditions that will effects the operation of plans.

6. Explain in brief about the two approaches in which the hierarchy of objectives can be

explained?

Ans: There are two approaches in which the hierarchy can be explained.

1. Top-down approach

2. Bottom-up approach

In the top-down approach, the total organization is directed through corporate objective provided by the top-level management. In the bottom up approach, the top level management needs to have information from lower level in the form of objectives.

Q.7. Definitions of MBO:

Ans: According to KOONTZ &WEIHRICH, " Management by objectives (MBO) is defined as a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of organizational and individual objective".

Q.8. Define strategy?

Ans: A strategy may be defined as special type of plan prepared for meeting the challenges posted by the activities of competitors and other environment forces.

Q.9. Steps involved in strategic planning:

Ans: 1. Mission and objectives.

2. Environmental analysis

3. Corporate analysis

4. Identification of alternatives.

5. Strategic decision making

6. Implementations review & control.

Q. 10. Name the classification of planning premises?

Ans: 1. Internal and external

2. Tangible and intangible premises.

3. Controllable and uncontrollable premises

Q.11. Define Decision Making?

Ans: Decision Making is defined as selection of a course of action from among alternatives. It is a core of planning. A plan cannot be said to exist unless a decision – a commitment of resources, direction or reputation has been made. Until that point, there is only planning studies and analysis.

Q.12. What are the three approaches in selecting an alternative?

Ans: 1. Experience

2. Experimentation

3. Research and Analysis

Q.13. What is tows metrics?

Ans: The tows metrics is a conceptual frame work for a systematic analysis, which facilitates matching the external threats and opportunities with the internal weakness & strength of the organization. In the tows metrics „T‟ stands for threat‟s‟ stands for opportunities „W‟ for weakness and „S‟ for strength.

Q. 14. Define forecasting?

Ans: Forecasting is the process of predicting future conditions that will influence and guide the activities, behavior and performance of the organization. EG: forecasting the output by sales department.

II. LONG TYPE QUESTIONS AND ANSWER

Q.1. What do you mean by Planning? Discuss its Characteristics and various elements.

Ans: Planning means looking ahead and chalking out future courses of action to be followed. It is a preparatory step. It is a systematic activity which determines when, how and who is going to perform a specific job. Planning is a detailed programme regarding future courses of action.

Characteristcs of Planning

1. **Planning is goal-oriented.**
    a. Planning is made to achieve desired objective of business.
    b. The goals established should general acceptance otherwise individual efforts & energies will go misguided and misdirected.
    c. Planning identifies the action that would lead to desired goals quickly & economically.
    d. It provides sense of direction to various activities. E.g. Maruti Udhyog is trying to capture once again Indian Car Market by launching diesel models.
2. **Planning is looking ahead.**
    a. Planning is done for future.
    b. It requires peeping in future, analyzing it and predicting it.
    c. Thus planning is based on forecasting.
    d. A plan is a synthesis of forecast.
    e. It is a mental predisposition for things to happen in future.
3. **Planning is an intellectual process.**
    a. Planning is a mental exercise involving creative thinking, sound judgement and imagination.
    b. It is not a mere guesswork but a rotational thinking.
    c. A manager can prepare sound plans only if he has sound judgement, foresight and imagination.
    d. Planning is always based on goals, facts and considered estimates.
4. **Planning involves choice & decision making.**
    a. Planning essentially involves choice among various alternatives.
    b. Therefore, if there is only one possible course of action, there is no need planning because there is no choice.
    c. Thus, decision making is an integral part of planning.
    d. A manager is surrounded by no. of alternatives. He has to pick the best depending upon requirements & resources of the enterprises.
5. **Planning is the primary function of management / Primacy of Planning.**
    a. Planning lays foundation for other functions of management.
    b. It serves as a guide for organizing, staffing, directing and controlling.
    c. All the functions of management are performed within the framework of plans laid out.
    d. Therefore planning is the basic or fundamental function of management.
6. **Planning is a Continuous Process.**
    a. Planning is a never ending function due to the dynamic business environment.
    b. Plans are also prepared for specific period f time and at the end of that period, plans are subjected to revaluation and review in the light of new requirements and changing conditions.
    c. Planning never comes into end till the enterprise exists issues, problems may keep cropping up and they have to be tackled by planning effectively.

Elements of Planning

A plan has the following elements:-

1. Aim: Any organisation should have definite aim. The aim should be clearly defined so that it can guide and direct the activities of the enterprise. The main aim of a cooperative organisation is to do service and to improve the economic conditions of members. Calvert's definition of cooperation clearly exhibits this aim.

2. Objectives: Webster's Dictionary defines objectives as "that towards which effort is directed or end of action or goal". Hence objectives or goals may be described as the ends towards which the group activities are aimed.

People say "Effective management is management by objectives". A cooperative organisation can have sub-objectives for each department or sections and they can be united to have board based objective.

3. Policies: A policy is a verbal, written or implied basic guide that provides direction to a manager for action. Policies guide the actions of an organization's performance and its objectives in the various areas of operation.

4. Procedures: Procedures spell out the actions to be taken out in practice to achieve the organizations objectives as stated in the policies. Procedures may be static or changed often. Organizations have set procedures for procuring raw materials, recruitment of personnel etc.

5. Methods: Methods are work plans, since they provide the manner and order, keeping the objectives, time and facilities available. Methods involve only one department and one person. They contribute to the efficiency in working and help work planning and control. Methods are used in manufacturing, marketing and office work.

6. Rules: Rules are different from procedures and policies. A rule requires a specific and definite action be taken or not taken with respect to a situation. Rules do not allow any discretion in their application. Also they do not allow any leniency to come in the way of their application.

7. Budget: Budget is essentially a plan expressed in quantitative terms. Budgets involve both planning and control element. Like the plan, budget is flexible, realistic and operates within a framework. A budget is differentiated from other plans in the following respects:-

a. It is a tool for planning and control.

b. A budget covers specific period.

c. Budget is expressed in financial terms.

8. Programmes: Programmes show the way and lay down procedure for activities to take place within a time limit for accomplishing, the stated objectives. The constituents of a programme are objectives, policies, procedures, rules, methods and resources to be made use for obtaining the objectives. Programmes enable the management to anticipate and prepare them ahead to meet future eventualities.

9. Strategics: Koontz and O'Donnell consider this as an important planning element. "Strategy concerns the direction in which human and physical resources will be deployed and applied in order to maximize the chance of achieving a selected objective in the face of difficulties".

Q.2. Discuss in details the steps involved in the planning process?

Ans: Planning function of management involves following steps:-

1. **Establishment of objectives**
    a. Planning requires a systematic approach.
    b. Planning starts with the setting of goals and objectives to be achieved.
    c. Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
    d. Moreover objectives focus the attention of managers on the end results to be achieved.
    e. As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
    f. As far as possible, objectives should be stated in quantitative terms. For example, Number of men working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.
    g. Such goals should be specified in qualitative terms.
    h. Hence objectives should be practical, acceptable, workable and achievable.
2. **Establishment of Planning Premises**
    a. Planning premises are the assumptions about the lively shape of events in future.
    b. They serve as a basis of planning.
    c. Establishment of planning premises is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
    d. It is to find out what obstacles are there in the way of business during the course of operations.
    e. Establishment of planning premises is concerned to take such steps that avoids these obstacles to a great extent.
    f. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
    g. Internal premises are controllable whereas external are non- controllable.
3. **Choice of alternative course of action**
    a. When forecast are available and premises are established, a number of alternative course of actions have to be considered.
    b. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.
    c. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
    d. After objective and scientific evaluation, the best alternative is chosen.
    e. The planners should take help of various quantitative techniques to judge the stability of an alternative.
4. **Formulation of derivative plans**
    a. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
    b. Secondary plans will flow from the basic plan. These are meant to support and expediate the achievement of basic plans.

c. These detail plans include policies, procedures, rules, programmes, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.

d. Derivative plans indicate time schedule and sequence of accomplishing various tasks.

5. **Securing Co-operation**
   a. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.
   b. The purposes behind taking them into confidence are :-
      i. Subordinates may feel motivated since they are involved in decision making process.
      ii. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.
      iii. Also the employees will be more interested in the execution of these plans.
6. **Follow up/Appraisal of plans**
   a. After choosing a particular course of action, it is put into action.
   b. After the selected plan is implemented, it is important to appraise its effectiveness.
   c. This is done on the basis of feedback or information received from departments or persons concerned.
   d. This enables the management to correct deviations or modify the plan.
   e. This step establishes a link between planning and controlling function.
   f. The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

Q.3. Define Planning Premises? State its Types. Also explain the Planning Premises Process in details.

Ans: Meaning of Planning Premises

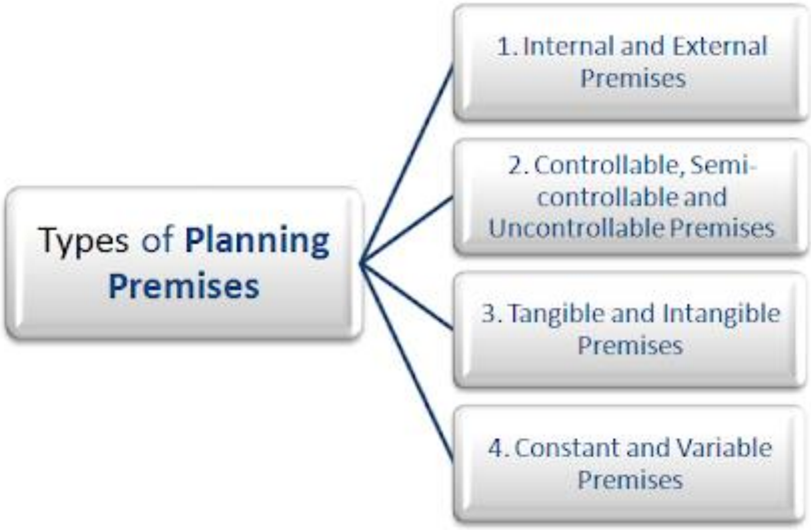
Planning premises are the basic assumptions about the environment. These assumptions are essential to make plans more realistic and operational. Planning premises provide a framework. All plans are made within this framework. There are many environmental factors, which influence the plan. Assumptions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

According to H. weihrich and H.koontz, " Planning premises are identified as the anticipated environment in which plans are expected to operate."

According to C.B.Gupta, "Planning premises are the critical factors which lay down the boundary for planning"

Types of Planning Premises

Different types of planning premises are depicted in the picture (figure) below.



Types of Planning Premises are briefly explained as follows:-

1. Internal and External Premises

Internal Premises come from the business itself. It includes skills of the workers, capital investment policies, philosophy of management, sales forecasts, etc.

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

2. Controllable, Semi-controllable and Uncontrollable Premises

Controllable Premises are those which are fully controlled by the management. They include factors like materials, machines and money.

Semi-controllable Premises are partly controllable. They include marketing strategy.

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

3. Tangible and Intangible Premises

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

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

4. Constant and Variable Premises

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

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

Process of Planning Premises:

Wrong premises can lead to failure of plans.

Since environmental factors affect business plans (also non-business plans) to a great extent, premises must be developed rationally and scientifically through the following process:

1. Selection of the premises: Though there are innumerable factors in the environment, all of them do not affect operations of the business enterprise. Top managers should select the premises which have direct impact on developing organisational plans. There are many factors that affect business decisions, some of which are general in nature while others are selective.

The general factors affect all the firms alike but specific factors affect different firms differently. While developing premises, organisations should focus more on specific factors (or its micro environment) as they have immediate impact on making the plans.

In order to analyse the factors that affect developing the premises, two factors have to be taken into account:

I. The probability of impact of factors: If represents whether the factors under study affect or do not affect the planning premises. This probability can be high, medium or low.

II. The degree of impact of factors: Given the factors which have the probability of developing planning premises, it represents the degree to which these factors affect the planning premises. This can also be high, medium or low.

Based on these two broad factors, nine different combinations can be formed which broadly result into four categories:

1. Critical factors: These are the factors with: (i) High probability of impact, and (ii) High degree of impact.

These factors must be thoroughly analysed as they significantly affect making of the planning premises.

2. High priority factors: Though these factors are not as important as critical factors, they rank high in priority in developing the planning premises.

These are the factors with: (i) Medium probability of impact, and High degree of impact (ii) High/Medium probability of impact, and Medium degree of impact

These factors also must be thoroughly analysed by managers as they significantly affect the making of planning premises.

3. Factors to be watched: These are the factors with: (i) Low probability of impact, and (ii) High degree of impact.

Thus, while these factors may not affect the planning premises, but if they affect, their degree of impact is high. A close watch must be kept on these factors so that their impact may not be ignored.

4. Low priority factors: These factors rank low in priority in affecting the planning premises as either their probability of impact is low or the degree of impact is low.

These are the factors with: (i) Low probability of impact, and Medium degree of impact (ii) High/Medium/Low probability of impact, and Low degree of impact.

These factors do not significantly affect making of the planning premises and, therefore, do not require extensive scanning by managers.

The factors covered under various categories are not generic and determination of these factors depends upon the judgement of managers, nature and size of the organisation and nature of environment in which the organisations are operating:

Probability of impact of factors	**Degree of Impact of factors**		
	High	**Medium**	**Low**
High	Critical	High priority	Low Priority
Medium	High Priority	High Priority	Low Priority
Low	To be watched	Low Priority	Low Priority

2. Development of alternative premises: Since factors affecting organisational plans cannot be perfectly predicted, managers should develop alternative premises i.e., plans under different sets of assumptions about the future events. This helps in developing contingent plans. Contingent plans are the alternative plans for alternative premises. Since the premises keep changing, some slowly and some fast, to keep pace with such changes, alternative plans must be developed.

As developing too many plans is costly in terms of time and money, the following factors should be considered in developing contingent plans:

(a) They should be made for those factors which are important for corporate decisions like economic factors, competitors' policies, consumers' tastes etc.

(b) They should be made on the basis of cost-benefit analysis, that is, the alternative whose cost seems to be more than its benefits should be dropped out.

(c) Though maximum details should be covered in each contingency plan, all the plans cannot cover extensive information. Contents or details should depend on the order of priority of plans.

3. Verification of premises: Planning staff at different levels of different departments makes plans according to their judgement. These premises are then sent to top executives for their approval. The premises which involve both staff and line managers are more consistent than those that are developed by executives alone.

4. Communication of premises: After the premises are developed, they are supported by budgets and programmes and communicated to all those concerned with development of plans at different levels in different departments. Planning premises are contained in documents like environmental threat and opportunity profile (ETOP) and communicated to managers concerned. The premises, thus, help to develop sound plans followed by strategies, policies, procedures etc. which further help in effective implementation of plans.

Q.4. Explain the term MBO along with its features and steps involved in the process?

Ans: The Concept Of Management By Objectives (MBO)

MBO concept was popularized by Peter Drucker. It suggests that objectives should not be imposed on subordinates but should be decided collectively by a concerned with the management. This gives popular support to them and the achievement of such objectives becomes easy and quick.

It concentrates attention on the accomplishment of objectives through participation of all concerned persons, i.e., through team spirit.

Features Of Management By Objectives MBO

1. Superior-subordinate participation: MBO requires the superior and the subordinate to recognize that the development of objectives is a joint project/activity. They must be jointly agree and write out their duties and areas of responsibility in their respective jobs.

2. Joint goal-setting: MBO emphasizes joint goal-setting that are tangible, verifiable and measurable. The subordinate in consultation with his superior sets his own short-term goals. However, it is examined both by the superior and the subordinate that goals are realistic and attainable. In brief, the goals are to be decided jointly through the participation of all.

3. Joint decision on methodology: MBO focuses special attention on what must be accomplished (goals) rather than how it is to be accomplished (methods). The superior and the subordinate mutually devise methodology to be followed in the attainment of objectives. They also mutually set standards and establish norms for evaluating performance.

4. Makes way to attain maximum result: MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focussing on attainable goals. It permits lot of freedom to subordinate to make creative decisions on his own. This motivates subordinates and ensures good performance from them.

5. Support from superior: When the subordinate makes efforts to achieve his goals, superior's helping hand is always available. The superior acts as a coach and provides his valuable advice and guidance to the subordinate. This is how MBO facilitates effective communication between superior and subordinates for achieving the objectives/targets set.

Steps In Management By Objectives Planning :-

1. Goal setting: The first phase in the MBO process is to define the organizational objectives. These are determined by the top management and usually in consultation with other managers. Once these goals are established, they should be made known to all the members. In setting objectives, it is necessary to identify "Key-Result Areas' (KRA).

2. Manager-Subordinate involvement: After the organizational goals are defined, the subordinates work with the managers to determine their individual goals. In this way, everyone gets involved in the goal setting.

3. Matching goals and resources: Management must ensure that the subordinates are provided with necessary tools and materials to achieve these goals. Allocation of resources should also be done in consultation with the subordinates.

4. Implementation of plan: After objectives are established and resources are allocated, the subordinates can implement the plan. If any guidance or clarification is required, they can contact their superiors.

5. Review and appraisal of performance: This step involves periodic review of progress between manager and the subordinates. Such reviews would determine if the progress is satisfactory or the subordinate is facing some problems. Performance appraisal at these reviews should be conducted, based on fair and measurable standards.

Q.5. Discuss in details the advantages and limitations of MBO?

Ans: Advantages of Management By Objectives MBO :-

1. Develops result-oriented philosophy: MBO is a result-oriented philosophy. It does not favor management by crisis. Managers are expected to develop specific individual and group goals, develop appropriate action plans, properly allocate resources and establish control standards. It provides opportunities and motivation to staff to develop and make positive contribution in achieving the goals of an Organisation.

2. Formulation of dearer goals: Goal-setting is typically an annual feature. MBO produces goals that identify desired/expected results. Goals are made verifiable and measurable which encourage high level of performance. They highlight problem areas and are limited in number. The meeting is of minds between the superior and the subordinates. Participation encourages commitment. This facilitates rapid progress of an Organisation. In brief, formulation of realistic objectives is me benefit of M[BO.

3. Facilitates objective appraisal: NIBO provides a basis for evaluating a person's performance since goals are jointly set by superior and subordinates. The individual is given adequate freedom to appraise his own activities. Individuals are trained to exercise discipline and self control. Management by self-control replaces management by domination in the MBO process. Appraisal becomes more objective and impartial.

4. Raises employee morale: Participative decision-making and two-way communication encourage the subordinate to communicate freely and honestly. Participation, clearer goals and improved communication will go a long way in improving morale of employees.

5. Facilitates effective planning: MBO programmes sharpen the planning process in an Organisation. It compels managers to think of planning by results. Developing action plans, providing resources for goal attainment and discussing and removing obstacles demand careful planning. In brief, MBO provides better management and better results.

6. Acts as motivational force: MBO gives an individual or group, opportunity to use imagination and creativity to accomplish the mission. Managers devote time for planning results. Both appraiser and appraise are committed to the same objective. Since MBO aims at providing clear targets and their order of priority, employees are motivated.

7. Facilitates effective control: Continuous monitoring is an essential feature of MBO. This is useful for achieving better results. Actual performance can be measured against the standards laid down for measurement of performance and deviations are corrected in time. A clear set of verifiable goals provides an outstanding guarantee for exercising better control.

8. Facilitates personal leadership: MBO helps individual manager to develop personal leadership and skills useful for efficient management of activities of a business unit. Such a manager enjoys better chances to climb promotional ladder than a non-MBO type.

Limitations of Management By Objectives MBO :-

1. Time-consuming: MBO is time-consuming process. Objectives, at all levels of the Organisation, are set carefully after considering pros and cons which consumes lot of time. The superiors are required to hold frequent meetings in order to acquaint subordinates with the new system. The formal, periodic progress and final review sessions also consume time.

2. Reward-punishment approach: MBO is pressure-oriented programme. It is based on reward-punishment psychology. It tries to indiscriminately force improvement on all employees. At times, it may penalize the people whose performance remains below the goal. This puts mental pressure on staff. Reward is provided only for superior performance.

3. Increases paper-work: MBO programmes introduce ocean of paper-work such as training manuals, newsletters, instruction booklets, questionnaires, performance data and report into the Organisation. Managers need information feedback, in order to know what is exactly going on in the Organisation. The employees are expected to fill in a number of forms thus increasing paper-work. In the words of Howell, "MBO effectiveness is inversely related to the number of MBO forms.

4. Creates organizational problems: MBO is far from a panacea for all organizational problems. Often MBO creates more problems than it can solve. An incident of tug-of-war is not uncommon. The subordinates try to set the lowest possible targets and superior the highest. When objectives cannot be restricted in number, it leads to obscure priorities and creates a sense of fear among subordinates. Added to this, the programme is used as a 'whip' to control employee performance.

5. Develops conflicting objectives: Sometimes, an individual's goal may come in conflict with those of another e.g., marketing manager's goal for high sales turnover may find no support from the production manager's goal for production with least cost. Under such circumstances, individuals follow paths that are best in their own interest but which are detrimental to the company.

Q.6. Write a short note on Management by exception (MBE)?

Ans: Management by exception (MBE) is a practice where only significant deviations from a budget or plan are brought to the attention of management. The idea behind it is that management's attention will be focused only on those areas in need of action.

5 main process of management by exception are:

The process of MBE may be briefly outlined as follows:

1. Set norms or standard

2. Let subordinates measure performance and compare it to standard.

3. If performance does not deviate from standard, or deviates within tolerable limits from standard, no action is necessary.

4. If performance deviates appreciably from standard the matter has to be brought to the attention of the superior officer.

5. Necessary action will be taken by him.

(a) If performance is less than standard, he has to take corrective measures and even punish those responsible for the shortfall.

(b) If performance is more than standard, he should reward those who are behind it and use it as an example for others to follow.

Advantages of Management by Exception:

1. It saves time. Manager attends to real problems at a particular point of time.

2. Concentrated efforts are possible, as this system enables the manager to decide when and where he should pay his attention. It identifies crisis and critical problems.

3. Lesser number of decisions is required to be taken, which enables the manager to go into detail.

4. This enables to increase span of control and increase the activities for a manager.

5. Use of past trends, history and available data can be made fully.

6. It alarms the management about the good opportunities as well as difficulties.

Management by exception is not a solution to all management problems; it has its limita-tions as well.

Some of them are:

1. It requires a comprehensive observing and reporting system.

2. It increases paper work.

3. The system is silent till the problem becomes critical.

4. Some important factors, like human behaviour, are difficult to measure.

Q.7. Differentiate between MBO and MBE?

Ans: MBO VS MBE

Basis of Difference	**MBO**	**MBE**
Employee Participation	Employee participation is essential for an MBO model as it needs a common objective acceptable for management and employees.	Employee participation in objective setting and decision making is minimal in an MBE model as that responsibility is rested with senior management.
Role Ambiguity	In MBO, the clarity of personal responsibility towards organizational goals is better communicated and understood by the employee.	In MBE, the clarity will be lacking, and employees will perform a generic responsibility without understanding his role in the overall objective achievement.

Dependency	In MBO, the dependency on one department or group is less as operations are handled with organizational wide participations.	In MBE, the dependency on one department especially of financial analysis / account is high as they are responsible for forecasting, budgeting and monitoring. Further, they are responsible for communicating significant deviations.
Efficiency	In MBO, the active involvement of whole organization in decision making can lead to delays and complex procedures which can reduce efficiency.	In MBE, as only a certain group makes important decisions and investigations are performed only in instances of significant deviation the time devoted to daily work is more which can result in better efficiency.

Q.8. Define the term 'Decision-Making'? State the types of decision-making. Also explain the decision-making process.

Ans: A decision is a choice made between two or more available alternatives decision making is a process of choosing the best alternative for reaching objectives.

According to Stephen P. Robbins, "decision making is defines as the selection of a preferred course of action from two or more alternatives."

Types of Decision Making

There are two types of decision making:

Programmed decision making - Programmed decisions are routine and repitative, and the organization typically develops specific ways to handle them. A programmed decision might involve determining how product will be arranged on the selves of the supermarket. For this kind of routine, repetitive problem, standard-arrangement decisions are typically made according to established management guidelines.

Nonprogrammed decision making - Nonprogrammed decision, in contrast is typically on shot decision that are usually less structured than programmed decision. An example of the type of nonprogrammed decision that more and more and more managers are having to make is whether a supermarket should carry an additional type of bread.

Steps in decision making

1. Identification of problems: the first step of decision making is identification of problems. First of all, managers must identify the problem. The problem has to be found and defined. Symptoms are identified and problems should be judged, symptoms are not problems. They are warning signs of problems. So, managers should search for symptoms for identification of problems. Such symptoms can be falling of sales, profit etc. It is said that problem identified is half solved is identification of problem should be effective.

2. Analysis of problem: after identification of problems, the problem should be analyzed by the decision maker. It is the assembly of fact and clarifying it. Relevant information must be collected and analyzed according to the complexity and nature of problems.

3. Developing the alternative solution: after identification and analysis of problems different probable solutions have to be developed which is known as developing the alternative solutions. there may be many alternative past experience, expert opinion, discussions etc which may be helpful to develop the alternative

4. Evaluation of best alternative: after developing the alternative solution evaluation of best alternative is done. It is determined that which alternative has how much advantage and disadvantages. in other words, alternatives are evaluated in so many factors like cost factors, risk , benefits, facilities etc. therefore it is very important

5. Selection of best alternative: after evaluating alternative, the best alternative is to be selected from various alternative. After developing alternative, the managers should taste each of them by imagining things that he has already put in effect. He should try to foresee the desirable consequences of adopting each alternative. It is done for best selection. therefore it is very important

6. Implementation of best alternative: after selection of finest alternative, it must be used in the organization effectively. Effectiveness of decisions in achieving the desired goals depends upon its implementation. It they are not implemented effectively then best results can’t be obtained. Therefore proper implementation of best alternative is necessary.

7. Review of implementation: it is the last step of decision making process. When the implementation of best alternative is reviewed, the process of decision making is finished. The result of implementation should be monitored and evaluated through which effectiveness can be measured.

Q.9. Write a note on:

a) Decisions Under Risk and Uncertainty

b) Participation of Employees in Decision-Making

Ans:

a) Decisions Under Risk and Uncertainty

When managers make choices or decisions under risk or uncertainty, they must somehow incorporate this risk into their decision-making process. This chapter presented some basic rules for managers to help them make decisions under conditions of risk and uncertainty. Conditions of risk occur when a manager must make a decision for which the outcome is not known with certainty. Under conditions of risk, the manager can make a list of all possible outcomes and assign probabilities to the various outcomes. Uncertainty exists when a decision maker cannot list all possible outcomes and/or cannot assign probabilities to the various outcomes. To measure the risk associated with a decision, the manager can examine several characteristics of the probability distribution of outcomes for the decision. The various rules for making decisions under risk require information about several different characteristics of the probability distribution of outcomes: (1) the expected value (or mean) of the distribution, (2) the variance and standard deviation, and (3) the coefficient of variation.

While there is no single decision rule that managers can follow to guarantee that profits are actually maximized, we discussed a number of decision rules that managers can use to help them make decisions under risk: (1) the expected value rule, (2) the mean–variance rules, and (3) the coefficient of variation rule. These rules can only guide managers in their analysis of risky decision making. The actual decisions made by a manager will depend in large measure on the manager's willingness to take on risk. Managers' propensity to take on risk can be classified in one of three categories: risk averse, risk loving, or risk neutral.

Expected utility theory explains how managers can make decisions in risky situations. The theory postulates that managers make risky decisions with the objective of maximizing the expected utility of profit. The manager's attitude for risk is captured by the shape of the utility function for profit. If a manager experiences diminishing (increasing) marginal utility for profit, the manager is risk averse (risk loving). If marginal utility for profit is constant, the manager is risk neutral.

If a manager maximizes expected utility for profit, the decisions can differ from decisions reached using the three decision rules discussed for making risky decisions. However, in the case of a risk-neutral manager, the decisions are the same under maximization of expected profit and maximization of expected utility of profit. Consequently, a risk-neutral decision maker can follow the simple rule of maximizing the expected value of profit and simultaneously also be maximizing utility of profit.

In the case of uncertainty, decision science can provide very little guidance to managers beyond offering them some simple decision rules to aid them in their analysis of uncertain situations. We discussed four basic rules for decision making under uncertainty in this chapter: (1) the maximax rule, (2) the maximin rule, (3) the minimax regret rule, and (4) the equal probability rule.

b) Participation of Employees in Decision-Making

Participation of workers in decision-making process has resulted in successful value creation in many organizations.

However, there are a number of ways through which employees can participate in decision-making process of any organization.

Participation at the Board Level: Representation of employees at the board level is known as industrial democracy. This can play an important role in protecting the interests of employees. The representative can put all the problems and issues of the employees in front of management and guide the board members to invest in employee benefit schemes.

Participation through Ownership: The other way of ensuring workers' participation in organizational decision making is making them shareholders of the company. Inducing them to buy equity shares, advancing loans, giving financial assistance to enable them to buy equity shares are some of the ways to keep them involved in decision-making.

Participation through Collective Bargaining: This refers to the participation of workers through collective agreements and by deciding and following certain rules and regulations. This is considered as an ideal way to ensure employee participation in managerial processes. It should be well controlled otherwise each party tries to take an advantage of the other.

Participation through Suggestion Schemes: Encouraging your employees to come up with unique ideas can work wonders especially on matters such as cost cutting, waste management, safety measures, reward system, etc. Developing a full-fledged procedure can add value to the organizational functions and create a healthy environment and work culture. For instance, Satyam is known to have introduced an amazing country-wide suggestion scheme, the Idea Junction. It receives over 5,000 ideas per year from its employees and company accepts almost one-fifth of them.

Participation through Complete Control: This is called the system of self management where workers union acts as management. Through elected boards, they acquire full control of the management. In this style, workers directly deal with all aspects of management or industrial issues through their representatives.

Participation through Job Enrichment: Expanding the job content and adding additional motivators and rewards to the existing job profile is a fine way to keep workers involved in managerial decision-making. Job enrichment offers freedom to employees to exploit their wisdom and use their judgment while handling day-to-day business problems.

Participation through Quality Circles: A quality circle is a group of five to ten people who are experts in a particular work area. They meet regularly to identify, analyze and solve the problems arising in their area of operation. Anyone, from the organization, who is an expert of that particular field, can become its member. It is an ideal way to identify the problem areas and work upon them to improve working conditions of the organization.

Employees can participate in organizational decision making through various processes mentioned above. However, there are other ways such as financial participation, Total Quality Management, participation through empowered teams and joint committees and councils through which they can contribute their share in making the organizations a better place to work.

Q.10. Define Creativity in decision-making? Write the components of creativity. Explain the process of creativity in decision –making.

Ans: Creativity means creating something new. In the context of business, it means creation of new ideas, new method or new product/service.

Creativity is the "cognitive process of developing an idea, concept, commodity, or discovery that is viewed as novel by its creator or a target audience." — Max H. Bazerman

"Creativity is not a quality of a person; it is a quality of ideas, of behaviours or products." — Teresa M. Amabile

Components of Creativity:

Teresa M. Amabile enumerates three components of creativity.

1. Domain skills:

A manager can be creative in decision-making if he is theoretically and conceptually aware of the problem and its relevance to the environmental factors. In other words, he must have knowledge of the problem area and also the talent and ability to solve that problem. This is known as domain skill.

2. Creativity skills:

The skills to do creative things; to think of new ways of doing the work, to think of new avenues of marketing are the creative skills that help to carry out the decision-making process.

3. Task motivation:

Managers do not perform organisational tasks for earning only financial rewards. Money or financial considerations are not the only motives for taking up a novel task. Ego satisfaction and morale boost up are also the considerations that lead to creativity in decision-making.

Process of Creativity:

The process of creativity consists of the following steps:

1. Problem finding or sensing: The entrepreneur faces a problem and selects to work on it. He feels curious to solve that problem. He thoroughly familiarizes himself with the problem, analyses its importance for the business and its relationship with other segments of the business.

This helps in identification of the problem as close as possible to reality so that alternatives can be generated which analyse the problem and provide solutions in the right direction. Curiosity leads to development of ideas.

2. Preparation: Once the problem is identified, the decision-maker concentrates on the problem and starts working on it. He collects information, analyses how others are using it and formulates hypotheses to work on. Information may be collected on the basis of past experience, through experience of others and also through study of new researches and innovations done in that field. If he wants to introduce a new product in the market, he studies the consumer buying behaviour before converting that idea into reality.

3. Gestation or Incubation: If, in the preparation stage, the decision-maker is not able to arrive at creative solution to the problem, he moves away from conscious deliberation to sub-conscious development of ideas. He moves away from the problem and engages in other routine activities while still thinking of the problem in his sub-conscious mind.

He thinks over collected information and makes decisions in his sub-conscious mind. He appears to be idle but actually he is trying to correlate what runs in his sub-conscious mind with the happenings around. As lot of information and ideas are already stored in his mind, sub-consciously they are combined and related to each other and help in generation of new ideas important for solving the problem.

4. Insight or Illumination: He thinks of all possible solutions at all times. He thinks of ideas while eating, walking or going to sleep. These ideas are put in writing so that he does not forget them in his conscious mind. In this process, there is flash of ideas in his mind.

These ideas come and go at the speed of light, some of which are spontaneously rejected while others are accepted for further analysis. Sometimes, it results in ideas which the decision -maker may not have even thought of in his conscious mind.

Social gatherings and meetings may also result in new ideas. Compaq computer company was found as a result of social encounters. Rough sketch of portable computer was drawn on a paper napkin by three friends over lunch which turned into setting up of Compaq computer company.

5. Verification and application: The entrepreneur proves by logic or experiment that the idea can solve the problem and, therefore, can be implemented. He tests the ideas empirically through mathematical models and experimentation. If it is feasible, he applies it to solve the problem. Verification is an essential step in the creativity process because an idea that cannot be implemented is of no use howsoever good it may be.