2.5 DECISION MAKING

In the past, decision making was thought of as a management function all by itself, but now almost everyone places it with planning. Regardless of how you view it, decision making is a critical part of being an effective manager. Managers make dozens of decisions every day. Many are quite small but some are huge. Your success as a manager depends on how well you make decisions.

A decision is a choice between alternatives and decision making is the process of choosing one alternative over the others. Making good decisions should be a process. It is a process of identifying problems and resolving them, or of identifying opportunities and taking advantage of them.

The process is made up of two components: (1) Judgment and (2) Choice

Judgment – a process of evaluating alternatives **Choice** – a process of selecting a specific alternative to implement Judgment can occur without being followed by choice. However, some level of judgment will always precede choice.

2.5.1 Characteristics of Human Information Processors

Selective perception - Human beings can handle only limited amounts of stimuli simultaneously, we all "choose" what we will attend to and what we will ignore. The key to successful organizational decision making is to "select" the relevant information and ignore irrelevant information.

Framing - This refers to how a decision is oriented and organized. A typical contrast of "framing" is for a choice to be represented as a problem to solve versus an opportunity to take advantage of. Simply known as positive versus negative. Framing is important because different outcomes result depending upon how the decision is framed, even when the decision maker has the same information.

Escalation of commitment to a failing course of action - Failure to ignore sunk costs (investments that are already gone and cannot be recovered) and see that the original choice is not achieving--and will not achieve—the initial objectives. The "sunk cost" doesn't have to be financial. It can be just personal effort and self-esteem that someone has invested in a course of action.

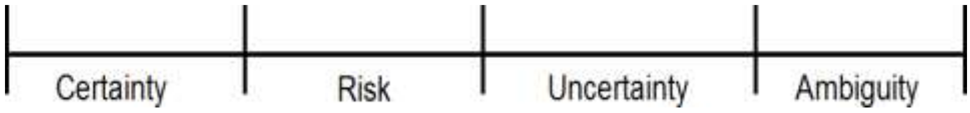
Risk propensity - The orientation of the decision maker to either seek risk or avoid it. While each of us has an individual risk propensity, all of us are typically risk seeking for gains and risk averse for losses. This means that if something has been working, we will continue to do more of the same even though the situation has changed. Coupled with selective perception, framing, and escalation of commitment, this phenomenon of choice can have dire consequences of overly conservative behavior to the point that we fail to be creative.

Hindsight bias - this is the inability of a decision maker to remember correctly the circumstances that existed prior to implementing a choice once action has been taken. You can recognize this behavior when someone says, "I KNEW that was going to happen!" This is a problem because we fail to learn from our decisions.

Over-confidence, complacency - Pilots know these two. Over-confidence is where we give ourselves credit for being more capable than we actually are, particularly with respect to risky situations. We take more risky actions than are objectively justifiable. Complacency is becoming more comfortable with a situation than is warranted by the level of risk that objectively exists (Kilburn, 2006). Both of these can cause us to make poor choices.

Background Factors for Decision Making

Degree of Certainty



Certainty: All information relevant to the decision is known or available to the decision maker, including specific goals, alternatives, and outcomes associated with each alternative action.

Risk: Decision maker has specific goals and good information relevant to alternatives, but there is some risk associated with the outcomes of each

Alternative—but the risk can be assessed. Uncertainty: Decision maker has specific goals, but information about alternatives and outcomes of alternatives is incomplete.

Ambiguity: The situation is so new or unclear that goals are vague, alternatives are difficult to specify, and outcomes of alternatives are unknown.

2.5.2 Decision Making Process

There are many decision-making models. Here is another that is not nearly as insightful as the one above, but it is one that many of the students will be familiar with.

1. **Identify the problem**

   The first step is to recognize there is a problem and a decision must be made. Some people just react to problems, but good managers seek to understand the problem. Defining and clarifying the problem helps. Decision making is essentially a problem-solving process. This involves understanding the situation and trying to resolve it.

2. **List alternatives**

   Managers need to develop a list of possible courses of action that

Will solve the problem. Managers must look for standard answers and also creative answers. The technique “brainstorming” is an example of creative thinking that can take place between a manager and the subordinates. In brainstorming, everyone comes up with as many alternatives as possible. A critical point about brainstorming sessions is that no criticism should be allowed. You want to foster a nurturing environment where everyone will feel like contributing. Shooting down an idea will stop the free flow of exchange.

3. **Select the best alternative**

   In some models, the next step is evaluating your alternatives, but we are combining the evaluation with the selection. Evaluating is part of selecting. As part of the evaluation, you should list the potential effects of each choice. You should also weigh the advantages and disadvantages. Discuss those effects and make the decision based on what is best for the organization.

4. **Implement the chosen alternative**

   Put the alternative into action. This is critical. All of your successful analysis won’t do any good if you are afraid to act. Whether the implementation is easy or hard, you must take action.

5. **Evaluate**

   Earlier we evaluated the alternatives, but now this final step means to evaluate the action. This is done with feedback. Collect the best feedback you can. If the problem is not resolved, a manager must go back through the process and look at other alternatives

Meeting the Challenge of Resource Scarcity

Resource scarcity is a very important consideration for any organization today. There would be no need for planning if material, financial and human resources were unlimited and cheap.

Planners in both private business and public agencies are challenged to stretch their limited resources through intelligent planning. Otherwise, wasteful inefficiencies would give rise to higher prices, severe shortages and great public dissatisfaction.

Facing Environmental Uncertainty

The second most important conceptual reason is that organizations continually face environmental uncertainty in the course of accomplishing the tasks. Organizations meet this challenge largely through planning safeguard. Some organizations do this job better than others partly because of their differing patterns of response to environmental factors beyond the organization's immediate control.

2.1 INTRODUCTION

Planning is the most basic of all managerial functions. It is the process by which managers establish goals and define the methods by which these goals are to be attained.

According to We irich and Koontz, "Planning involves selecting missions and objectives and the actions to achieve them; it requires decision making, which is choosing from among alternative future courses of action."

Planning is taken as the foundation for future activities. Newman has thus defined it as, "Planning is deciding in advance what is to be done; (i.e. a plan is a projected course of action)." So, planning can be thought of as deciding about a future course of action. It may also be treated as a process of thinking before doing.

Planning involves determining various types and volumes of physical and other resources to be acquired from outside, to allocate these resources in an efficient manner among competing claims and to make arrangement for systematic conversion of these resources into useful outputs.

As it is clear from the above discussion, plans have two basic components: goals and action statements.

- Goals represent an end state — the targets and results that managers hope to achieve.
- Action statements represent the means by which an organization goes ahead to attain its goals.

Planning is a deliberate and conscious act by means of which managers determine a course of action for pursuing a specific goal.

Planning to a manager means thinking about

- What is to be done?

- Who is going to do it, and
- How and when he will do it.

It also involves thinking about past events (retrospectively) and about future opportunities and impending threats (prospectively). Planning enquirers about organizational strengths and weaknesses and involves decision making about desired ways and means to achieve them.

2.2 NATURE AND PURPOSE OF PLANNING

The nature of planning can be understood by examining its four major aspects. They are;

1. Its contribution to objectives,
2. Its primacy among the manager's tasks.
3. Its pervasiveness, and
4. The efficiency of resulting plans.

(a) Contribution of Planning to the Attainment of Objectives

Since plans are made to attain goals or objectives, every plan and all its support should contribute to the achievement of the organization’s purpose and objectives. An organized enterprise exists to accomplish group objectives through willing and purposeful co-operation.

(b) Primacy of Planning

That planning is the prime managerial function is proved by the fact that all other functions such as organizing, staffing, leading and controlling are designed to support the accomplishment of the enterprise's objectives.

Planning quite logically therefore comes first before execution of all other managerial functions as it involves establishing the objectives necessary for all group efforts. Also, all the other managerial functions must be planned if they are to be effective.

Likewise, planning and controlling are inextricably bound up. Control without plan is meaningless, because plan provides the basis or standard of control.

(c) Pervasiveness of Planning

Planning is a unique and universal function of all managers. The character and scope of planning may vary with each manager's authority and with the nature of the policies and plans outlined by superiors, but all managers must have some function of planning.

Because of one's authority or position in the managerial hierarchy, one may do more or less planning, but some kind or amount of planning a manager must do. According to We ihrich and Koontz; “All managers, from presidents to first-level supervisors - plan.”

(d) The Efficiency of Plans

Plans should not only be effective, but also efficient. Effectiveness of a plan relates to the extent to which it accomplishes the objectives.

The efficiency of plan, however, means its contribution to the purpose and objectives, offset by the costs and other factors required to formulate and operate it. Plans are efficient if they achieve their objective at a reasonable cost, when such a cost is measure not only in terms of time, money or production, but also in terms of satisfaction of the individual or group.

Both conceptual and practical reasons are put forward in support of planning. Two conceptual reasons supporting systematic planning by managers are limited resources and an uncertain environment.

2.3 Purpose

- Plans guide our investment decisions
- Plans help us know who needs to be available to work on a project during a given period.

- Plans help us to know if a project is on track to deliver the functionality that users need and expect

A good planning process supports this by

- Reducing risk
- Reducing uncertainty
- Supporting better decision making
- Establishing trust
- Conveying information

(a) Reducing Risk

Planning increases the likelihood of project success by providing insights into the project's risks. Some projects are so risky that we may choose not to start once we've learned about the risks. Other projects may contain features whose risks can be contained by early attention.

(b) Reducing Uncertainty

Throughout a project, the team is generating new capabilities in the product. They are also generating new knowledge—about the product, the technologies in use, and themselves as a team. It is critical that this new knowledge be acknowledged and factored into an iterative planning process that is designed to help a team refine their vision of the product. The most critical risk facing most projects is the risk of developing the wrong product. Yet this risk is entirely ignored on most projects. An agile approach to planning can dramatically reduce (and ideally eliminate) this risk.

(c) Supporting Better Decision Making

Many of the decisions made while planning a project are tradeoff decisions. For example, on every project we make tradeoff decisions between development time and cost. Often the cheapest way to develop a system would be to hire one good programmer and allow her ten or

Twenty years to write the system, allowing her years of detouring to perhaps master the domain, become an expert in database administration, and so on. Obviously, though, we can rarely wait twenty years for a system, and so we engage teams. A team of thirty may spend a year (thirty person-years) developing what a lone programmer could have done in twenty. The development cost goes up, but the value of having the application nineteen years earlier justifies the increased cost.

(d) Establishing Trust

Frequent reliable delivery of promised features builds trust between the developers of a product and the customers of that product. Reliable estimates enable reliable delivery. Estimates also help a customer decide how much of a feature to develop. Reliable estimates benefit developers by allowing them to work at a sustainable pace. This leads to higher-quality code and fewer bugs.

2.2 PLANNING PROCESS

There are several models that could be used for planning, but they are all very similar. This one should work fine as an example of effective planning.

The planning process contains six steps:

1. Stating organizational objectives this is a necessary beginning point of successful planning and should remain a focal point throughout the planning process.
2. Listing alternatives for reaching objectives Managers should list many different ways to possibly reaching the objectives.
3. Developing assumptions about each alternative Managers should spend time thinking about what might happen depending on which alternative is chosen. Managers need to use their knowledge and experience to make solid assumptions.
4. Choose the best alternative Evaluate the assumptions and choose the best alternatives
5. Develop plans to pursue the chosen alternative Manager begins to develop plans.
6. Put the plans into action This is where the organization benefits from all the planning

2.2.1 TYPES OF PLANNING

(a) Strategic planning

It is a very popular concept that has been around for years. Most if not all companies and organizations spend time on their strategic plans. Strategic planning is defined as long-range planning that focuses on the entire organization. Strategic planning involves managers at the highest levels. Executive directors and presidents, leaders of the organization, are involved. Fig 1 shows the levels of Strategic planning.

They must have a part in where the organization is headed and how it

Will get there. The leaders are asking what must be done in the long run to achieve the organizational goals and objectives. Three years or longer is usually considered long range; however, many organizations seem to think five years is the right amount of time for planning long term. The nature of strategic planning is to develop strategies for achieving your objectives. Strategies must of course be consistent with the purpose and mission of the organization. The fig 2 shows the strategic planning process.

There are three major level of strategy planning

1. Corporate-level strategy : It is concerned with deciding which Industries a firm should compete in and how the firm should enter or exit industries.

2. Business-level strategy : It is concerned with deciding how the firm Should compete in the industries in which it has elected to participate.

3. Operating strategy : It is concerned with the actions that should be taken at the level of individual functions, such as production, logistic, R&D, and sales, to support business-level strategy.

Fig 1 Level of Strategic Planning

Source: Stephen A. Robbins & David A. Dec Enzo & Mary Coulter, ―Fundamentals of Management‖ Pearson Education, 7th Edition, 2011

(b) Tactical planning

It is characterized as short-term planning. This type of planning is usually confined to one year or less. It is more concerned with current operations, and as such, usually involves mid-level managers instead of the highest level managers. Tactical planners are thinking about tomorrow and next week or next month and planning is much more detailed than strategic. Strategic is more broad.

(c) Contingency planning

It is worth a brief mention. This is a term that is frequently used within organizations. It simply means what does an organization do when something unexpected happens or when something needs changing. Contingency plans may cause a manager to go back to the original planning and look at other alternatives. Contingency planning should continue to be more important with organizations as the world and businesses become more complicated

There are two types of contingency plans:

1. Crisis management plans and
2. Scenario plans.

Crisis Management Planning

A crisis is a discrete event that can have a severe negative impact on an organization or its stakeholders. A crisis management plan is a plan formulated specifically to deal with possible future crises.

Example – 1: In the wake of the September 11, 2001, terrorist attacks on the United States—an obvious crisis if ever there was one—a number of government organizations drew up crisis management plans that detailed how they would respond to specific terrorist incidents, including the deliberate release of biological pathogens (such as smallpox or anthrax) or chemicals (such as saran gas). One of the companies experiencing the largest loss of life on September 11 was the bond trading company Cantor Fitzgerald, which occupied the top floors of one of the destroyed twin towers. Nearly 700 of its 1,000 U.S. employees died that day.

Yet the company was able to resume business almost immediately because after the 1993 bombing of the World Trade Center, the company had formulated a crisis management plan that included backup computer systems in New Jersey. Crises take many different forms—from terrorist attacks and industrial disasters, such as the gas leak from a Union Carbide plant in Bhopal, India, that killed almost 4,000 people to natural disasters like the December 26, 2004, tsunami that devastated parts of Southeast Asia and left 180,000 people dead. Drafting a plan to effectively manage a crisis involves three main steps: prevention, preparation, and containment. The best way of dealing with a crisis is to prevent it from happening in the first place if possible. In the wake of the September 11, 2001, attacks the U.S. government took a number of steps to prevent future terrorist attacks, including creating the Department of Homeland Security and implementing new regulations for screening passengers and baggage at airports.

Example – 2: Nobody could have predicted or stopped the December 26, 2004, tsunami. So managers need to plan for such events. This is the preparation stage of a crisis management plan. Preparation requires an organization to designate a crisis

Management team and a spokesperson that will cope with crises that arise. Preparation also requires a detailed plan of the steps that will be taken to deal with the crisis, to coordinate crisis management efforts, to manage its aftermath, and to communicate important information to affected people and organizations.

Example – 3: Another prevention tactic is to build positive relationships with key stakeholders, such as customers, suppliers, investors, and communities. These relationships can act as an early warning system, providing managers with information about an impending crisis. In some cases quick action can limit its impact.

Scenario Planning

Scenario planning is based on the realization that the future is inherently unpredictable and that an organization should plan for a range of possible futures. Scenario planning involves formulating plans that are based on "what if " scenarios. In the typical scenario planning exercise, some scenarios are optimistic and some pessimistic. Teams of managers are asked to develop specific strategies to cope with each scenario. A set of indicators is chosen as "signposts" to track trends and identify the probability that any particular scenario is coming to pass. The idea is to get managers to understand the dynamic and complex nature of their environment, to think through problems in a strategic fashion, and to generate a range of strategic options that might be pursued under different circumstances. The Fig 3 shows the Scenario Planning.

The scenario approach to planning has spread rapidly among large companies. One survey found that over 50 percent of Fortune 500 companies use some form of scenario planning methods

The oil company Royal Dutch Shell has perhaps done more than most to pioneer the concept of scenario planning, and its experience demonstrates the power of the approach. Shell has been using scenario planning since the 1980s. Today the firm uses two main scenarios to refine its strategic planning. The

Scenarios relate to future demand for oil. One ("Dynamics as Usual") sees a gradual shift from carbon fuels such as oil and natural gas to renewable energy.

The second scenario ("The Spirit of the Coming Age") looks at the possibility that a technological revolution will lead to a rapid shift to new energy sources. 9 Shell is making investments that will ensure the profitability of the company in either scenario, and it is carefully tracking technological and market trends.

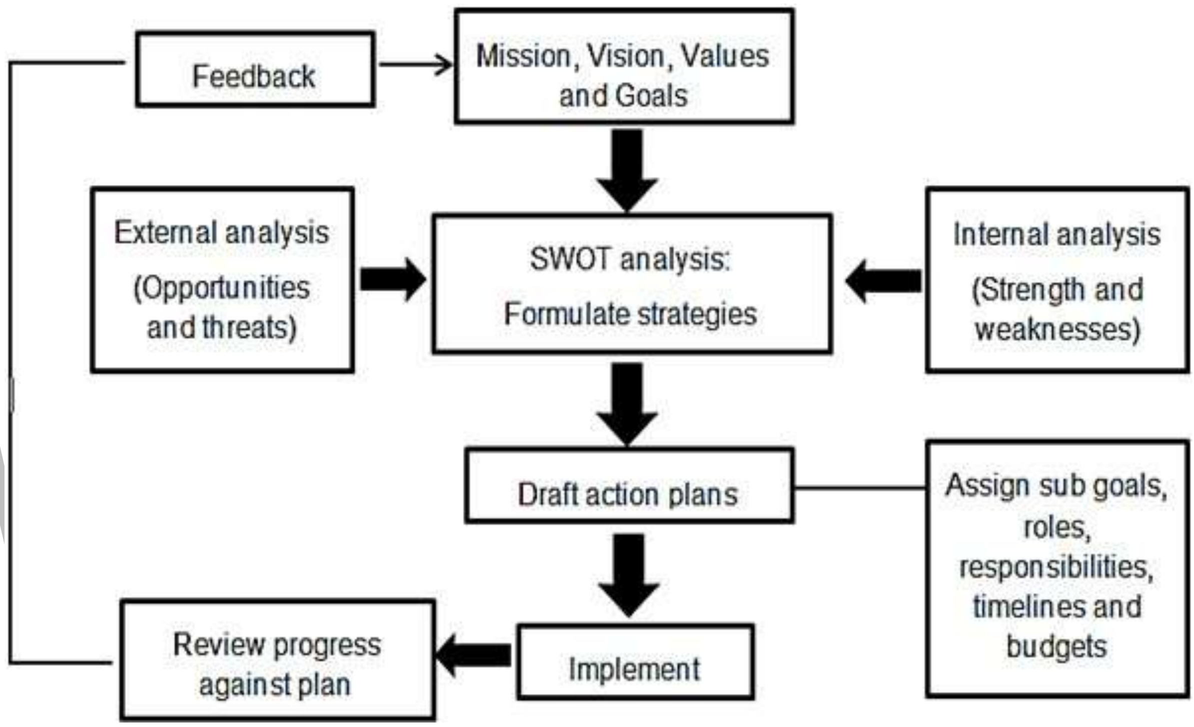


Fig 2 Strategic Planning Process

Source Robert Reinter & Magmata Mohapatra, — Management‖, Biztantra, 2008.

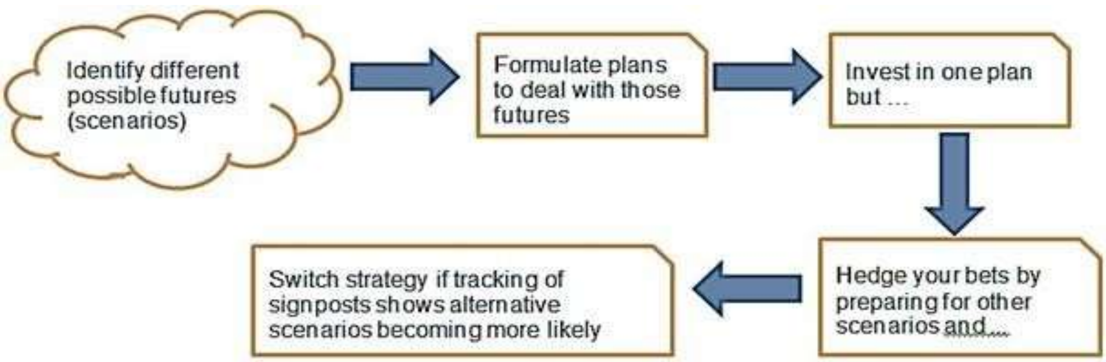


Fig 3 Scenario Planning

Source Robert Kreitner & Mamata Mohapatra, — Management‖, Biztantra, 2008.

2.2.3 OBJECTIVES

Purposes, missions, goals or targets are the terms used to refer to objectives. Mission is usually used in military enterprises and occasionally in churches and government. "Goals" and "targets' often carry the notation of specific quantitative end. Sometimes the end can be qualitative also

SOCIAL OBJECTIVES

The objectives of a private enterprise have to be in harmony with the ends for which a society is organized. Whenever the actions and objectives of a private enterprise are thought be against the objectives of the society, legal action is initiated to regulate it or suppress it.

United States has a statement of nation purpose set forth in the Declaration of Independence. The preamble of the Constitution of USA states:

We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

All subordinate enterprises in USA, be it a school, church, hospital, government agency or business firm should have objectives which are harmonious with and supportive to national objectives.

ENTERPRISE OBJECTIVES

The plural form is used to stress the fact that enterprises have multiple objectives. Drucker asserted that there are eight areas in which objectives of performance and results have to set by all enterprises. They are:

- Market Standing,
- Innovation,
- Productivity,
- Physical and Financial Resources,

- Profitability,
- Manager Performance and Development,
- Worker Performance and Development, and
- Public Responsibility.

For each area or function that company identifies as necessary for survival there has to be objective.

Principles to be followed in setting objectives:

1. Objectives have to be practically achievable. The organization must be able to do something to achieve each objective that it has set.
2. The objectives have to support the enterprise purpose, its contribution to the customer.
3. If long range objectives and short range objectives are specified, there must be integral relationship between them.
4. At various points of time prioritization among objectives may be required.
5. Objectives have to be specific and actionable and verifiable
6. Objectives have to plan their result of planning process or activity.
7. Objectives have to be communicated to those charged with building plans to meet them.

2.3 POLICIES

2.3.1 POLICIES OF PLANNING

The Strategic Planning Process

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

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

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

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

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

6. **Present and Future External Environment**: The present and future external environment must be assessed in terms of threats and opportunities.

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

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

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

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

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

2.3.2 PLANNING 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"

Premises are the assumptions of the future environment on which plans are to be carried out. Premises are anticipated environment. It is to forecast sales volume, cost, political and legal environment, technological change, availability of labor.

Premises are important because they give important information’s about future to managers. Establishment of premises is important step in planning. Premises are the forecast of future expectations about:

(a) Demographic trend: - It is related with human population, its distribution, size, composition and migration.
(b) Future economic business condition: - Related to business cycle. Condition of business cycle such as growth, prosperity, recession and recovery.
(c) Forecast about political and legal of the country.
(d) Technological change and innovations
(e) Resource availability
(f) Socio cultural forces

Types of Planning Premises

Different types of planning premises are:

1. Internal and External Premises
2. Controllable, semi-controllable and non-controllable premises

Tangible and Intangible premises

Internal and external premises:

Internal premises originate from factors within the enterprise. They relate to premises. Sales forecasts, personnel forecasts (skills and abilities of personnel) etc. these premises may be strengths or weaknesses of the organization. Strength represents a positive attitude which provides strategic advantage to the company over competitors and weakness is a limitation or constraint that provides strategic disadvantage.

Managers analysis their strengths and weaknesses through corporate analysis and when corporate analyses (internal) is combined with environmental analyses (external), it is called SWOT analyses (Strength, Weaknesses, Opportunities. Strengths). External premises

Originate from factors outside the organization. These are the indirect action environmental factors (social, political, technological etc.) which affect the organization. They are also non- controllable premises beyond the control of the organization.

Controllable, Semi- controllable and non-controllable premises:

Controllable premises are those within the control of a business enterprise. Such as, men, Monet, materials, policies, procedure, programmers etc. They can be controlled but a business enterprise to ensure better sales of its products. Semi- controllable premises are those which can be partially controlled by a business enterprise like, labour position on the market. Non-controllable premises are those that lie beyond the control of a business enterprise. Ware, natural calamities and external environment factors are non- controllable premises.

Tangible and intangible premises:

Tangible premises can be estimated in quantitative terms like, production units, cost per unit etc. Intangible premises cannot be quantified, for example, good will of the firm, employer - employee relationships, leadership qualities of the managers, motivational factors that get employees to work etc.

2.4STRATEGIC MANAGEMENT

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

2.4.1 STRATEGIC MANAGEMENT PROCESS HAS FOLLOWING FOUR TOOLS:

1. **Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
2. **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
3. **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and

Managing human resources.

4. **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.

Strategy Formulation vs. Strategy Implementation

The main differences between Strategy Formulation and Strategy Implementation are listed below.

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organization's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is placing the Forces before the action.	In short, Strategy Implementation Is managing forces during the action.
Strategy Formulation is an Entrepreneurial Activity based on strategic decision-making.	Strategic Implementation is mainly an Administrative Task based on strategic and operational decisions.
Strategy Formulation emphasizes On effectiveness.	Strategy Implementation emphasizes On efficiency.

Strategy Formulation is a rational process.	Strategy Implementation is basically an operational process.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of initiative and logical skills.	Strategy Implementation requires specific motivational and leadership Traits.
Strategic Formulation precedes Strategy Implementation.	Strategy Implementation follows Strategy Formulation.

Strategy Evaluation

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

The process of Strategy Evaluation consists of following steps-

1. **Fixing benchmark of performance -** While fixing the benchmark, strategists encounter questions such as –
   (a) What benchmarks to set?
   (b) How to set them and
   (c) How to express them.

In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation.

The organization can use both quantitative and qualitative criteria for

Comprehensive assessment of performance. A quantitative criterion includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as - skills and competencies, risk taking potential, flexibility etc.

2. **Measurement of performance -** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as manager's contribution are difficult to measure. Similarly divisional performance is sometimes difficult to measure as compared to individual performance. Thus, variable objectives must be created against which measurement of performance can be done. The measurement must be done at right time else evaluation will not meet its purpose. For measuring the performance, financial statements like - balance sheet, profit and loss account must be prepared on an annual basis.

3. **Analyzing Variance -** While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

Taking Corrective Action - Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be

Lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two.

Characteristics/Features of Strategic Decisions

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

e. Strategic decisions are complex in nature.

f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions.

Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. **Operational decisions** are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

Strategic Decisions	**Administrative Decisions**	**Operational Decisions**
Strategic decisions are long-term decisions.	Administrative decisions are taken daily.	Operational decisions are not frequently taken.
These are considered where The future planning is concerned.	These are short-term based Decisions.	These are medium-period based decisions.
Strategic decisions are taken in Accordance with organizational Mission and vision.	These are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall Counter planning of all Organization.	These are related to working of employees in an Organization.	These are related to production.
These deal with organizational Growth.	These are in welfare of Employees working in an organization.	These are related to Production and factory growth.

Benefits of Strategic Management

(a) Possibility for newer products, newer markets, and newer forays into business lines are only possible if firms indulge in strategic

Planning.

(b) Strategic management allows firms to take an objective view of the activities being done by it and do a cost benefit analysis as to whether the firm is profitable.

Just to differentiate, by this, we do not mean the financial benefits alone (which would be discussed below) but also the assessment of profitability that has to do with evaluating whether the business is strategically aligned to its goals and priorities.

The key point to be noted here is that strategic management allows a firm to orient itself to its market and consumers and ensure that it is actualizing the right strategy.

Financial Benefits

It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management.

When firms engage in forward looking planning and careful evaluation of their priorities, they have control over the future, which is necessary in the fast changing business landscape of the 21st century.

It has been estimated that more than 100,000 businesses fail in the US every year and most of these failures are to do with a lack of strategic focus and strategic direction. Further, high performing firms tend to make more informed decisions because they have considered both the short term and long-term consequences and hence, have oriented their strategies accordingly. In contrast, firms that do not engage themselves in meaningful strategic planning are often bogged down by internal problems and lack of focus that leads to failure.

Non-Financial Benefits

(a) Apart from the financial benefits, the firms may have the following non-financial, if they engage in strategic management are More aware of the

External threats

(b) Improved understanding of competitor strengths and weaknesses

(c) Increased employee productivity.

(d) Lesser resistance to change and a clear understanding of the link between performance and rewards.

The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to rationalize change and actualize change and communicate the need to change better to its employees. Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

Closing Thoughts

In recent years, virtually all firms have realized the importance of strategic management. However, the key difference between those who succeed and those who fail is that the way in which strategic management is done and strategic planning is carried out makes the difference between success and failure. Of course, there are still firms that do not engage in strategic planning or where the planners do not receive the support from management. These firms ought to realize the benefits of strategic management and ensure their longer-term viability and success in the marketplace.

2.4.2 Strategic Planning techniques

1. **Conventional Strategic Planning**

This is the most common model of strategic planning, although it is not suited for every organization. It is ideal for organizations that have sufficient resources to pursue very ambitious visions and goals, have external environments that are relatively stable, and do not have a large number of current issues to address. The model usually includes the following overall phases:

Develop or update the mission and optionally, vision and/or values statements.

(a) Take a wide look around the outside and a good look inside the organization, and perhaps update the statements as a result.

(b) As a result of this examination, select the multi-year strategies and/or goals to achieve the vision.

(c) Then develop action plans that specify who is going to do what and by when to achieve each goal.

(d) Identify associated plans, for example, staffing, facilities, marketing and financial plans.

(e) Organize items 1-3 into a Strategic Plan and items 4-6 into a separate one-year Operational Plan.

2. Issues-Based Strategic Planning

This model works best for organizations that have very limited resources, several current and major issues to address, little success with achieving ambitious goals, and/or very little buy-in to strategic planning. This model might include the following phases:

(a) Identify 5-7 of the most important current issues facing the organization now.

(b) Suggest action plans to address each issue over the next 6-12 months.

(c) Include that information in a Strategic Plan.

After an issues-based plan has been implemented and the current, major issues are resolved, then the organization might undertake the more ambitious conventional model. Many people might assert that issues-based planning is really internal development planning, rather than strategic planning. Others would argue that the model is very strategic because it positions the organization for much more successful outward-looking and longer term planning later on.

3. Organic Strategic Planning

The conventional model is considered by some people to be too confining and linear in nature. They believe that approach to planning too often produces a long sequence of orderly activities to do, as if organizations will remain static and predictable while all of those activities are underway. Other people believe that organizations are robust and dynamic systems that are always changing, so a plan produced from conventional planning might quickly become obsolete.

That is true, especially if planning is meant to achieve a very long-term vision for many people, for example, for a community or even generations of people. The organic model is based on the premise that the long-term vision is best achieved by everyone working together toward the vision, but with each person regularly doing whatever actions that he or she regularly decides to do toward that vision. The model might include the following phases:

(a) With as many people as can be gathered, for example, from the community or generation, articulate the long-term vision and perhaps values to work toward the vision.

(b) Each person leaves that visioning, having selected at least one realistic action that he or she will take toward the vision before the group meets again, for example, in a month or two.

(c) People meet regularly to report the actions that they took and what they learned from them. The vision might be further clarified during these meetings.

(d) Occasionally, the vision and the lists of accomplished and intended actions are included in a Strategic Plan.

4. Real-Time Strategic Planning

Similar to the organic model of planning, this model is suited especially for people who believe that organizations are often changing much too rapidly for long-term, detailed planning to remain relevant. These experts might assert that planning for an organization should be done continuously, or in "real time." The real-time planning model is best suited, especially to organizations with very rapidly changing environments outside the organization.

(a) Articulate the mission, and perhaps the vision and/or values.

(b) Assign planners to research the external environment and, as a result, to suggest a list of opportunities and of threats facing the organization.

(c) Present the lists to the Board and other members of the organization for strategic thinking and discussions.

(d) Soon after (perhaps during the next month) assign planners to evaluate the internal workings of the organization and, as a result, to suggest a list of strengths and of weaknesses in the organization.

(e) Present these lists to the Board and other members of the organization for strategic thinking and discussions, perhaps using a SWOT analysis to analyze all four lists. Repeat steps 2-5 regularly, for example, every six months or year and document the results in a Strategic Plan.

5. Alignment Model of Strategic Planning

The primary purpose of this model is to ensure strong alignment of the organization's internal operations with achieving an overall goal, for example, to increase productivity or profitability, or to successfully integrate a new cross-functional system, such as a new computer system. Overall phases in this model might include:

(a) Establish the overall goal for the alignment.

(b) Analyze which internal operations are most directly aligned with achieving that goal, and which are not.

(c) Establish goals to more effectively align operations to achieving the overall goal. Methods to achieving the goals might include organizational performance management models, for example, Business Process Re-engineering or models of quality management, such as the TQM or ISO models.

(d) Include that information in the Strategic Plan.

Similar to issues-based planning, many people might assert that the alignment model is really internal development planning, rather than strategic planning. Similarly, others would argue that the model is very strategic because it positions the organization for much more successful outward-looking and longer term planning later on.