NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCE

COURSE CODE: PSM 817

PLANNING AND DECISION MAKING

COURSE GUIDE

PSM 817
PLANNING AND DECISION MAKING

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INTRODUCTION

PSM 817 Planning and Decision Making is a first semester course of two-credit units. It is available to students of Master of Science in Public Sector Management in the School of Management Sciences, National Open University of Nigeria (NOUN).

This course guide gives you a brief summary of what the course is all about. It stipulates the guidelines on how long you have to spend on each unit so that you will complete it at the stipulated time and not lag behind. The course guide tells you how you can work through the course material. It also provides assignments for you, these assignments are referred to as tutor-marked assignments. The tutor-marked assignments are to test your understanding of a particular unit.

It is therefore recommended that you go through this course guide so as to know what you are to expect in the main course material.

COURSE AIM

This course aims at equipping you with the concept of planning and the nitty-gritty of decision making that we employ as managers and individuals in carrying out our day-to-day activities and smooth running of organisations.

COURSE OBJECTIVES

At the beginning of each unit there are specific objectives for that unit which you should study before you study the main content of the unit. You should also endeavour to go back to the objectives once you finish a unit in order to affirm if you have learnt or done what is required of you.

COURSE MATERIAL AND STRUCTURE

You are encouraged to go through this course guide as this will explain what you are to expect in the material. You are expected to read the study units, you are also expected to complete and submit all tutor-marked assignments found at the end of each unit. There will be an examination at the end of the course; the course should take you about 18 weeks to complete. You are also advised to go through the recommended sources for further reading.

COURSE OUTLINE

This course is expected to give you an in-depth understanding of the core concept of planning and decision making. The contents are as follows:

Module 1 Overview of Planning

Unit 1 Primacy of Planning
Unit 2 Types of Planning
Unit 3 Planning Process
Unit 4 Strategic Planning
Unit 5 Types of Strategic Planning
Unit 6 Barriers to Strategic Planning

Module 2 Forecasting Techniques

Unit 1 Budgeting
Unit 2 Management by Objective
Unit 3 Forecasting

Module 3 Decision Making Concept

Unit 1 What is Decision Making?
Unit 2 Types of Decision Making
Unit 3 Conditions of Decision making
Unit 4 Models of Decision Making
Unit 5 Management Science Approaches to Decision Making
Unit 6 Nature of Managerial Decision Making

ASSESSMENT

Assessment for this course is divided into two: the tutor-marked assignment and the end of semester examination. Result from these two is what you will be graded upon to achieve the total score at the end.

TUTOR-MARKED ASSIGNMENTS (TMAs)

This is your continuous assessment and you must write three continuous assessments of 10 marks each. The TMA is designed to cover all areas and topics treated in the material. The best three of the four TMAs will be regarded and accounts for 30% of the total score.

FINAL EXAMINATION AND GRADING

The examination for PSM 817 accounts for 70% of the total course grade. It will be added to your TMA score to get the grading. You will be informed when the time for examination comes.

WHAT YOU WILL LEARN IN THIS COURSE

The course consists of 15 units including the overview and concept of planning and critical decision making in government and businesses. The course sets out simplified methods, tools, techniques and parameters for decision making process. Each unit requires at least 2 hours of reading with undivided attention. The units are prudently chosen, designed and arranged to ease understanding and reinforce your learning skills and competency through careful study of course material and references made.

In order to make a positive impact on your study and provide progress, the tutor-marked assignment (TMA) will be of great relevance and significance. You should pay serious attention to the tutor-marked assessments and refrain from any form of procrastination will in no small measure accelerate your success.

COURSE DELIVERY

For an open and distant learner there are quite a number of ways of learning. Learning is done when interaction is made with the study material as it is the case in conventional institution where students interact with their lecturer. By reason of studying the course material you might have questions and as such, services such as counselling support, tutorial sessions, etc. are organised to assist you. Attendance of this services is not compulsory but it will assist you if you utilise the opportunity.

SUMMARY

The course PSM 817 - Planning and Decision Making is designed to provide you with the basic foundation which helps you to understand the fundamental principles and practices involved with planning and decision making both at organisational and individual levels. It is expected that the knowledge gained will be used in performing effective and efficient managerial skills as managers, decision makers, or planners, in order to add to the expansion of successful organisations which will in turn impact the economy and the nation as a whole.

All the best and good luck as you study the course. I hope you find PSM 817 very satisfying and useful.

MAIN COURSE

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MODULE 1 OVERVIEW OF PLANNING

UNIT 1 PRIMACY OF PLANNING

CONTENTS

1.0 INTRODUCTION

In our increasingly complex and fast growing organisations of today, making decision through instinct alone cannot be relied upon; hence the need for planning. Planning takes place in all types of activities we might engage ourselves in. Whether you are proposing a get-together, an excursion, or the next step in your career, planning is the essential process by which you come to a decision on what your goals are and ways in which you will achieve them (Stoner, 1978).

Although planning is helpful in our everyday lives, it is much more essential in organisations for their growth and sustenance. Organisational planning takes pre-eminence over all other functions of management. This is because the other functions operate only to carry out the decisions of planning (Stoner, 1978). Stainer (1969:7) opines that managers of organisations decide 'what is to be done, when it is to be done, how it is to be done, and who is to do it.' What then is planning?

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain what planning is
- describe the importance and the need for planning
- explain the characteristics of a good plan
- identify the barriers to effective planning.

3.0 MAIN CONTENT

3.1 Definition of Planning

A plan is like a map, when following a plan you can always make out how much you have advanced towards the achievement of your project, goals and how much you will still have to cover to get to your desired destination. Having knowledge of this is essential for making good decisions on what next is to be done.

Planning is the process of deciding what objectives to pursue and choosing strategies that will help the organisation reach those objectives. According to Robins & Coulter (1999), "Planning involves defining the organisation's objectives or goals, establishing an overall strategy for achieving those goals and developing a comprehensive hierarchy of plans to integrate and coordinate activities."

Planning as put forward by Agabi (1995), is "a process which essentially involves deciding in advance the specific future course of action to be adopted with a view to optimising the use of limited organisational resources toward desirable and specified goal attainment." A plan (which is the result of a planning process) is a written design or document for achieving a purpose as it usually indicates the predetermined course of action.

Planning is a continuous process because factors both within and outside the organisation might change which may affect the initial plan. As managers or planners we must regularly monitor the situation of the organisation to determine if there are changes to be made to the goals and objectives of the organisation and the procedures for achieving them. Hence, flexibility is an important aspect of planning and it determines whether an organisation succeeds or not.

3.2 Purpose of Planning

The purpose of planning is quite numerous but for the purpose of this study we will limit ourselves to four basic reasons:

- gives direction
- minimises waste
- sets standards used for controlling
- reduces the impact of change.

Firstly, planning helps us to focus on the organisational goals which make it simpler to coordinate the organisation's resources more efficiently. It also assists in defining the activities and purposes of an organisation. Furthermore, planning helps to minimise the risk and uncertainty by compelling us as managers to focus ahead, prepare for and deal with change and also know the appropriate responses to these.

Planning also provides us with reference points against which achievements can be measured. This enables the organisation do away with the possibility of progressing erratically or incorrectly. In addition, planning trims down wasteful activities; this is because when means and ends are clear, inefficiencies become obvious and they can be corrected or eliminated (Robins & Coulter, 1998).

In management terms, expected behaviours are performance standards. These standards can be used to measure actual performance. Planning helps management develop a rational, objective basis for performance standards, without planning performance standards are likely to be non-rational and subjective (Donnelly *et al*, 1984:101).

Planning also enables us as managers to rationally allocate resources among departments within the organisation. It leads to organisational success, feeling of success and fulfilment by employees. Glueck (1980:201) is of the opinion that "... planning does not guarantee success." Nevertheless, studies have shown that companies that plan consistently outperform those that do not plan. The effective performance of other management functions like leading and controlling, organising, staffing, etc. is dependent on good planning.

3.3 Characteristics of a Good Plan

For us to say that we have a good plan, there are certain characteristics that the plan must contain or adhere to. The characteristics are as follows:

a. Specific

A good plan must be specific i.e. it must have a particular issue that it is addressing. For example, a plan for your academic attainment in the next 5 years should only include academic attainment for the stated period. It should address the main reason for your planning and not something else like your marital plans. In this case, the plan will no longer be specific because planner's focus is now divided or altered. So for you to have a good plan make sure it is specific.

b. Measurable

For a plan to be classified as good it must be measurable. This in essence means that it is capable of being measured. Your plan should have limits; its exact size can be ascertained.

c. Accurate

A good plan must be accurate. This means that the information on which you are basing your plan is up–to-date, without any form of falsification or inaccuracy in the plan - especially if it contains figures or facts about certain things. The exact and correct information must be used before making your plan on such information.

d. Realistic

A good plan must be realistic; targets and objectives set must be reasonable and practical in all ways. For instance, having a plan to construct a gigantic bridge and setting the completion of it for six weeks is not realistic.

e. Time Bound

A good plan must have a time limit of achieving the set goal. Having a plan without a duration for which it would be completed is not a good plan. Hence, for a plan to be considered good, it must have a set time target for each phase of the project.

3.4 Barriers to Planning

There are a number of factors that inhibit an effective and successful planning in the organisation. For us to have an effective plan as managers, we must litigate against common barriers in planning. The barriers are as follows:

- **Obsolete Information**

In a situation where we plan but the facts and information at our disposal are out of date, there is no way that plan will be effective, it will most probably fail. As managers we must therefore equip ourselves with the right information and also go to the right source to obtain information or facts.

- **Fear of Failure**

Some of us are afraid to fail hence we would rather not plan. But we are quick to forget that he who does not plan has already planned to fail without even noticing.

- **Concentrating on the Present at the Expense of the Future**

Failure to look at the long term effects of plan rather than highlighting or placing too much emphasis on short term basis will lead to poor planning. As managers, we are to have the picture of the future in mind while developing our plans.

- **Lack of Knowledge of the Planner's External Environment**

Some managers still find themselves focusing on things that are out of their control. For example, in the development of a new product, managers fail to consider the interaction of outside factors such as the economic instability of the country.

- Another very important barrier to effective planning is the **unwillingness of managers to give up already established alternative goals**.

For managers to have a successful plan they need to make use of effective communication, acquire adequate information and knowledge about planning and they should also involve others in the planning. These are some of the ways to deal with the barriers mentioned above.

4.0 CONCLUSION

The unit has looked extensively at the primacy of planning. We have seen what makes a good plan. Planning has been identified as the beginning of the process of management. It was also highlighted that managers who do a good job in carrying out other management functions may not achieve the best results if they are not good planners. We also saw in this unit that due to the situation of change which no one has control over, inventing a new plan when old ones fail is expensive and takes a lot of time to create a new one. It is advisable to allow for as many contingencies as possible which in turn lead to the plan having built-in flexibility which makes it susceptible to change at any time.

5.0 SUMMARY

This unit has looked at what planning is and the reason we plan. It was said that if we fail to plan, we plan to fail and this led us to the importance of planning to individuals, managers, and everyone. The ingredients that make up a good plan were also considered. Also, the various barriers to planning were considered and different measures to mitigate against such barriers were discussed. Planning has primacy over other functions of management and as such is an all-encompassing element in the organisation. By planning, managers reduce uncertainty and help focus on the organisation's goals.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss what planning is.
2. List and explain the characteristics of a good plan.

7.0 REFERENCES/FURTHER READING

James, A. F. Stoner (1978). *Management*. New Jersey: Prentice–Hall Incorporation.

Stephen, P. Robins & Coulter, Mary (1998). *Management.* (6th ed.). London: Prentice-Hall.

UNIT 2 THE TYPES OF PLANNING

CONTENTS

1.0 INTRODUCTION

From the previous unit, it was established that planning has primacy over the other functions of management. We established that planning helps managers to minimise uncertainty while they focus on their organisational goals. This unit will expose you to the different types of plans we have that you can adopt. Also in this unit, we will also consider the classification of plans and that of planning.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- identify the different types of plans
- explain how a manager can minimise uncertainty through careful planning
- discuss plan classification and its usefulness
- elaborate on importance of plan classification.

3.0 MAIN CONTENT

3.1 Types of Plans

As stated in the earlier unit, a plan is a format drawn at the present for accomplishing a future purpose, or a written document for achieving a purpose. It usually indicates the predetermined courses of action. A general plan at the top level of management will give rise to series of increasingly detailed plans contributing to the success of the general plan. For example, if the top management of Dangote Group made a decision to start producing soap, this singular decision would generate a whole lot of plans in the production, sales, and marketing departments.

The types of plans can be categorised into 3 major parts in which planners or managers are to take adequate note, because the understanding of these divisions will lead to the plan being effective. The 3 major categories are goals, single-use plans, standing plans.

- **Goals**

This is defined as a desired result a person or system envisions, plans, and commits to achieve. Goals make available the fundamental sense of direction for activities in the organisation. It consists of purpose, mission, objectives and strategies of the organisation. These we will consider in a more detailed sense.

a. Purpose

The purpose of an organisation is its primary or basic role or function as defined or assigned to it by the society in which it operates. For instance, the purpose that is the basic function of a business is to make profit by producing goods for sale to customers or services to their clients within certain procedures and boundaries set by the society. The purpose of universities is to impart knowledge to students through research and teaching programmes, banks are expected to keep people’s money, hospitals are expected to provide health care (Stoner, 1978:98).

b. Mission

A mission statement is a formal short written statement of the purpose of an organisation. The mission statement is what acts as a guide of action for an organisation, it spells out the organisation’s overall goal, gives a sense of direction and helps in making decisions. Stoner (1978) defines mission as the broad unique aim that sets an organisation apart from others of its type. Mission is used interchangeably with purpose by many writers and authors.

The general purpose of business organisations is the production of goods and services, but the mission of a particular organisation will be to produce a specific type of goods or services. For instance, the National Open University of Nigeria (NOUN) is an institute of learning like other universities but its own specific mission is to provide specific service to learners: i.e. an open and distance learning which allows for flexible learning and very cost effective. The mission of an organisation determines to a large extent its survival, this is because the mission is what the organisation run or works with and it informs whatever decision they take.

c. Objectives

An organisation's objectives are those ends that it must achieve in order to carry out its mission. Objectives are more specific than the mission statement; for instance, the mission statement for NOUN is 'to provide functional, cost effective, flexible learning that can add lifelong value to quality education.' This broad mission can then be translated into a specific objective: which is 'to reduce the cost, inconvenience and hassle of and access to education and its delivery' and 'to provide a wider access to university education in Nigeria.'

d. Strategies

Strategy refers to a plan of action designed to achieve a particular goal. Strategies are broad agenda plans for realising the organisation's objectives and thus, implementing its mission. Strategies establish a combined direction for the organisation in terms of its many objectives. It channels the resources that will be used to move the organisation towards such objectives.

- **Single–Use Plan**

These are plans that are developed to accomplish a specific end, and when the particular project is completed the plan is dissolved. Single–use plans are plans used to carry out courses of action that will probably not be repeated in the same form in the future. For example, if a company wants to start distributing its products to 3 new areas, the company will need to have a specific single–use plan for this project. The company cannot use the same plan that was used in the existing areas they were distributing before. This is because the new areas are different locations with their own peculiarities different from those of the existing ones in which the company distributes to before.

Single–use plans are majorly divided into programmes, projects and budgets.

a. Programme

This is a plan covering relatively large set of activities showing major steps required to reach an objective, the resources to be employed, the individual or organisation responsible for each step, and the order and timing in which the steps will be completed. The programme may be accompanied by a budget or a set of budgets for the activities required (Stoner, 1978).

b. Project

This is a single – use plan that consists of the same steps as a programme but does not cover as large a set of activities. A project can be formulated and executed as an independent plan or as a relatively separate and clear-cut part of a programme (Stoner, 1978).

c. Budget

A budget is a financial document used to project future income and expenses (Jean Murray, 2011). Budget is a tool used to control all activities in the organisation. As a financial control device, budgets are of course important components of programmes and projects. Budgets can be regarded as single – use plans, this is because more often than not managers use the budget–developing process as a guide to making decisions on how to distribute resources among different activities the organisation engages in. When the distribution of resources during the budgeting process does not take strategic objectives into consideration; the organisation's strategy can at best have only a limited effect on its actual activities. The budgeting process is often the key planning process around which other activities are planned and coordinated (Stoner 1978).

- **Standing Plans**

These are devised for activities in the organisation that reoccur repeatedly. This is because once the plan is established it can be used for the different activities that reoccur severally. Standing plans enable managers to conserve planning time and decision making time to handle related situations in a consistent manner.

A disadvantage of this is that because it allows managers to make use of the decisions used in the past, it however limits them in bringing new ideas or methods in handling a new situation. The major types of standing plan are policies, procedures, and rules.

a. Policies

A policy is a general guideline for decision making. It sets up boundaries around decisions including those that can be made and shutting out those that cannot. Weihrich & Koontz (1996) considers policies as plans in that they are general statements or understanding that guide or channel thinking in decision making. Policies, they argue, "define an area within which a decision is to be made and ensure that the decision will be consistent with and contribute to an objective."

b. Procedures

A procedure provides a detailed set of instructions for performing a sequence of actions that occurs often or regularly. Policies are carried out by means of more detailed guidelines called 'Standard Procedure'.

c. Rules

These are statements that specific action must or must not be taken in a given situation. Rules are also the simplest type of plan, they are not guides to decision making or thinking but rather, they serve as substitute for them. Rules are signs of managerial decision that certain action must or must not be taken. For example, "No Loitering" or "No Entry" on a company's gate is a rule and not a policy or procedure.

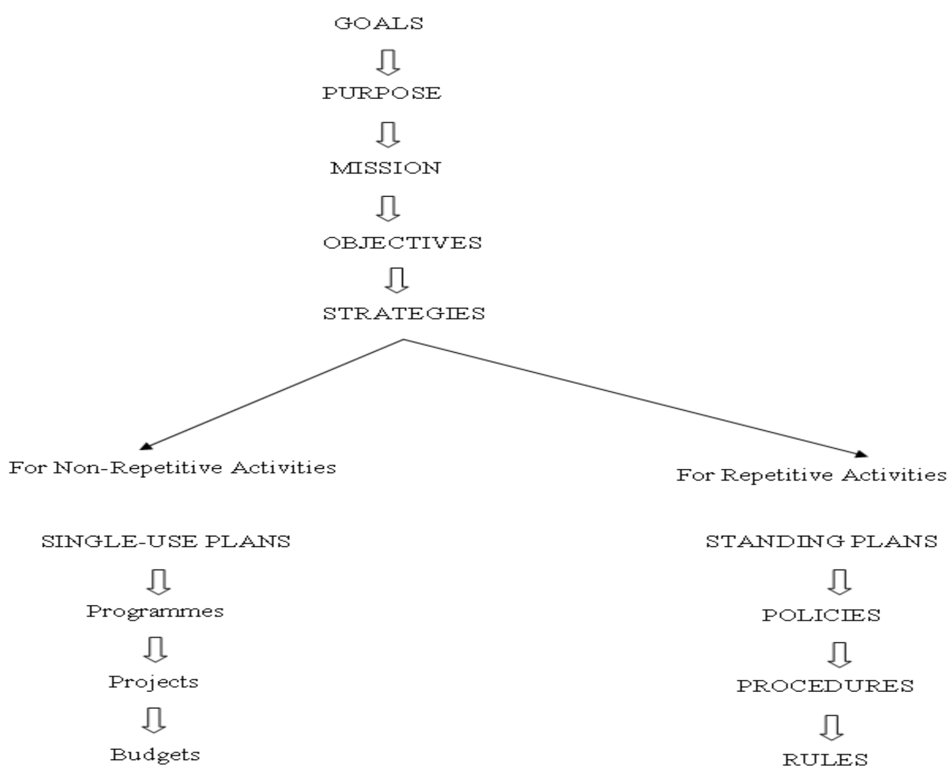

Fig. 1: Types of Planning
Adapted from Stoner (1978)

3.2 Classifying Plans and Planning

Planning in practice takes many forms though the planning process is same for all managers. This is because every organisation has their peculiarity and as such adopts different approach. A planning approach that organisation 'A' adopts might not work for organisation 'B' hence, 'B' adopts an approach that suits it.

Plans and planning can be classified in the following ways:

- **The Time Horizon**

In planning we try to tell when certain events will occur in the future. Using the time horizon, planning can be subdivided into short term, medium term or long term. Short term planning is usually not more than one year, medium term plan is usually between two to five years; long term planning lies between five to ten years or even more. Whatever the type of plan taken it should be for a period of time and can sustain the desired objectives to be attainted.

- **Strategic and Tactical Planning**

Strategic planning is a process of collaborative thinking and decision making that is usually bottom-top and top-bottom about the major directions and initiatives necessary to respond to the dynamic external environment in order to provide greater competitive distinctiveness to an organisation and achieve internal goals. It enables the organisation to systematically analyse its strengths, weaknesses, opportunities and threats (Paris, 2003).

Tactical planning involves deciding specifically how organisation's resources will be utilised in the achievement of the organisation's strategic goals. Tactical planning is usually more detailed and involves a shorter period of time than strategic planning (Stoner, 1978).

- **Scope of the Plan**

Here we have the micro-level planning and macro level planning. Planning at the departmental or unit level is referred to as micro level planning; while planning done at the national or the highest echelon of an organisation is called macro level planning. For example, making a policy or setting the general target for the organisation as a whole.

Government is also involved in planning but at different levels of involvement which includes: imperative, incentive, indicative and laissez-faire.

a. Imperative planning

Here the government is fully involved from goal setting to implementation and the provision of services to citizens.

b. Incentive planning

This is a situation whereby government sets the targets and provides incentives to encourage individuals and companies to invest in the socially desirable areas.

c. Indicative planning

This approach can be regarded as one devoid of planning. The government does not set desirable targets but leaves everything to the market mechanisms to regulate (Tibi, 1970).

4.0 CONCLUSION

In this unit we have considered the different types of plans and the classification of plans and planning. As we earlier noted, it is of great importance that both planners and managers should understand and recognise the several types of plans explained in the unit and should know which will be best suitable for the project being planned for.

5.0 SUMMARY

We have looked at the different types of plans that can be engaged in; we saw that the type of plan to be adopted will be dependent on the planner's level in the organisation, the size and type of organisation. As earlier discussed, a plan can be divided into three broad categories of the organisation which includes the organisation's purpose, mission, objectives and strategies. Single-use plans are built up for specific activity that will most likely not be repeated while standing plans are used for methods of operation that have become standardised.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and explain the different types of planning.
2. Explain the government level of involvement in planning.

7.0 REFERENCES/FURTHER READING

Paris, Kathleen A. (2003). *Strategic Planning in the University: Quality Improvement*. Madison: Office of Quality Improvement, University of Wisconsin.

Peretomode, V. F. (2008). *Fundamentals of Management and Organisational Behaviour*. Lagos: Onosomegbowho Ogbinaka Publishers Ltd.

Stoner, James A. F. (1978). *Management*. New Jersey: Prentice-Hall Inc.

Weihrich, H. & Koontz, H. (1996). *Management: A Global Perspective*. New York: McGraw-Hill Inc.

UNIT 3 PLANNING PROCESS

CONTENTS

1.0 INTRODUCTION

Planning generally goes through some processes or stages, though there is no specific number of stages or processes among planners and the titles given to each planning process. This unit discusses the steps in the planning process.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- mention the stages or steps involved in the planning process
- discuss monitoring and evaluating a plan.

3.0 MAIN CONTENT

3.1 The Planning Process

3.1.1 Reasonable Analysis of the Current Situation

A critical analysis of the current situation will enable the planner to know the extent to which the goals set are being met or how far they are from the achievement of the organisation's goals and objectives.

3.1.2 Setting Organisational Objectives

This has to do with setting objectives for the whole organisation and its sub-units. It also has to do with deciding exactly what the organisation wants to achieve in the short and long term. The objectives need to be set as they give direction to the plans of the organisation and point out areas that need to be emphasised.

3.1.3 Determining Resources and Constraints

The next stage after planners have analysed the organisational situation in which they currently are and new objectives set, is to find out the resources available and the constraints. Personnel available, finances, equipment, etc. are the resources we are referring to, and they are the resources that facilitate the accomplishment of set goals and objectives.

3.1.4 Developing Various Realistic Alternatives to the Plan

For realising the set objectives and goals, planners must have realistic alternative course of action for the achievement of the objectives and goals they set so that if an existing plan is not working or not successful they can employ another.

3.1.5 Evaluating the Alternatives

Here the planner or manager generating possible positive and negative consequences possibly to be associated with each of the alternative courses of action developed earlier, that is 'the manager/planner estimates the cost of carrying out each alternative and balances it against the probable benefits that will be derived from it.'

3.1.6 Choosing a Course among the Alternatives

At this stage the manager will select a plan that will likely yield the desired result after striking the balance between the costs and benefits associated with each alternative course of action.

3.1.7 Implementation

This means making use of the plan that is the ways and means of carrying out the selected plan must be included in the plan. This is important because when a very good plan is made without implementation, it cannot lead to the achievement of the organisational objectives.

3.1.8 Monitoring and Evaluating the Plan

Measures should be put in place as ways of monitoring and evaluation of the implementation of the plan and also this will allow for review as at when due.

4.0 CONCLUSION

Planning has a process and knowing the stages and what to be done at each stage is very important and crucial to the planner or the management of an organisation as the case may be as this serves as a guide when they are about to make a plan.

5.0 SUMMARY

This unit has examined critically the planning processes, the stages involved and what is done or considered at each level. It was also observed that a good planning process will lead to the achievement of the organisation's overall goals and objectives. It should be noted that once plans have been made, they must be implemented and monitored in order to have practical effects. As a result of this, other functions of management particularly controlling are closely related to the planning function.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and carefully examine the various steps involved in the planning process.

7.0 REFERENCES/FURTHER READING

Peretomode, O. (2008). *Fundamentals of Management and Organisational Behaviour*. Lagos: Onosomegbowho Ogbinaka Publishers Ltd.

Stoner, James A. F. (1978). *Management*. New Jersey: Prentice-Hall Incorporation.

UNIT 4 STRATEGIC PLANNING

CONTENTS

1.0 INTRODUCTION

In the previous unit we discussed the planning process that can be adopted by managers or planners in general. In this unit we will focus on a specific type of planning referred to as strategic planning. Strategic planning is what managers use to describe the basic mission of their organisation and decide what resources will be devoted to its accomplishment. Strategic planning becomes advantageous for managers and planners to understand, this is because strategic planning is the most important type of planning done. Managers direct the detailed operation of their organisation only after they have decided on what goals are to be pursued and how the goals will be achieved. The performance of an organisation from its survival and growth will eventually depend on its strategic plan. Strategic planning will give managers/planners a useful insight into the operations of an organisation and the concerns of managers at different levels of the organisation.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- describe the importance of strategic planning to planners and the organisation as a whole
- explain the concept of strategic planning
- describe the types of strategic planning.

3.0 MAIN CONTENT

3.1 Why Strategic Planning?

The importance of strategic planning for managers and organisations has grown in recent years. Managers discovered that by defining the mission of their organisation in specific terms, they were better able to give their organisation direction and purpose. Thus, strategic planning helps managers or planners to develop a clear-cut concept of their organisation. This will make it easier for managers to formulate the plans and objectives that will bring the organisation closer to its goals. Also, by defining the mission of the organisation in specific terms, managers will be able to focus the organisation's resources more efficiently and effectively.

Another importance of strategic planning is that it allows managers to prepare for and deal with the fast changing environment of their organisations. When the speed of life was slower, managers operated on the assumption that the future would be considerably like the past. Then, managers could establish goals and plans simply by extrapolating from past experience.

Today, events are moving rapidly for experience to always be a reliable guide. According to Stoner, since World War II, there have been several major developments that have increased the importance of strategic planning. These include:

a. The Mounting Complexity of the Managerial Job

Management today must deal with such matters as the growing size and diversity of organisation, increasing overhead cost, shift of people and markets from cities to suburbs, and the relationship between social responsibility and managerial practice. It is only through long-range planning that managers can anticipate such problems and opportunities.

b. The Mounting Complexity of the External Environment

Management can no longer enjoy the luxury of focusing exclusively on the firm's internal affairs, changes in social values, government relations, union activities, etc. must be considered by the management.

c. The Tempo of Technological Change

In the midst of the post-war technological explosion, new industries have sprang up, we have moved from typewriters to laptops. This new tempo has made it necessary for firms to actively seek new opportunities instead of reacting defensively to competition.

d. The Longer Lead Time between Current Decisions and their Future Results

Quite a number of management decisions rest more upon long term profit expectations than upon immediate sales prospects. This means that planners must look farther ahead than ever before. Through strategic planning better preparation can be made for the future.

3.2 The Concept of Strategy

To devise an effective strategy, the first thing to be done is to find 'common thread' or subject for the activities of organisations. For example; if MTN Nigeria has defined the common thread of the company as 'providing network'; it would not have distinguished them from their competitors. The management of MTN would have had a difficult time devising a marketing strategy for the company, but the management of MTN defined the network as 'providing network everywhere you go' which is an effective marketing strategy. Finding the common thread allows the managers to determine the future capability of their organisation. This however enables them to plan strategically how they will best apply these capabilities. Managers have to explore several possibilities and make many false starts before finding a useful theme. Many managers find the common thread of their organisations by asking themselves some of the following questions:

1. What is our business and what should it be?

If an organisation's business or purpose is defined too broadly the organisation may lack a sense of direction. On the other hand, if its business or purpose is defined too narrowly, the organisation may overlook effective opportunities.

2. Where our customers are and who they are?

Knowing what customers need and will demand for will help put the organisation on the right track.

3. Where is the organisation heading?

When an organisation produces generally unrelated goods or services, managers can find its common thread by determining in which direction the organisation is.

4. What major competitive advantages does the organisation enjoy?

Managers can identify and isolate those factors that give the firm a strong competitive position Doing this will enable managers focus on mission that hold the greatest promise for the future development of the organisation.

5. **Will the organisation acquire new resources or develop them internally?**

Managers must decide whether their organisation will emphasise internal growth or growth through acquisition. Growing through acquisition may be preferred if the organisation wants the resources it is purchasing fairly quickly. For example, if an oil palm company wants to expand into making soaps, it may prefer to purchase a soap making company with its existing facilities and experienced personnel rather than go through the time consuming process of obtaining a licence and building its own industry from the scratch.

3.3 Approaches to Strategic Planning

Once the organisation has found its common thread, managers can begin the strategic planning process. The type of strategic planning that would be adopted by managers will depend on the personal style of the manager and the type of organisation involved. Before focusing on the formal steps in strategic planning, we will consider the different ways strategic plan and decision can be made. According to Henry Mintzberg (1973), there are three modes of managerial strategy making: the entrepreneurial mode, the adaptive and the planning mode.

- **Entrepreneurial Mode**

Here, one strong leader usually the founder of the business makes risk-taking decision more or less intuitively. That is, personal judgement formed by experience is relied upon. Power is centralised in the chief executive's hands and as such the entrepreneurial organisation is motivated essentially by one overriding goal: constant growth. Strategy making here is dominated by an active search for new opportunities with choices guided not by charted rule but by the chief executive's personalised plan of attack.

- **The Adaptive Mode**

This has been referred to as "the science of muddling through". Where the entrepreneur confronts the environment as a force to be controlled the adaptive manager reacts to each situation as it arises. The entrepreneur constantly seeks to beat competition to the punch; the adoptive manager on the other hand tends to react defensively to the action of the adaptive manager.

- **The Planning Mode**

This provides the guiding framework and strong sense of direction the other modes lack. The entrepreneur relies on judgement and the adaptive manager waits to see the shape of the future, the planner turns to the professional practitioners of management science: the analysts, model stimulators and computer programmers. Planners also make risk-taking decisions, their choices are systematic and structured, and it is based on rational estimate of costs and benefits and adapted to fit the overall strategy of the organisation. For an organisation to make use of this mode it must be able to afford the costs in manpower and finance of financial analysis. A good sized firm in a basically non-competitive industry would be in the best position to adopt this.

However, in practice, most organisations put together these three modes in various ways to meet their particular needs. For example, plant managers who deal with specific production goals and schedules may lean towards the planning mode. Marketing department which has to do with imagination and boldness the managers might take action in a more entrepreneurial way. The adaptive approach might be used in personnel section which must deal with complicated labour market.

4.0 CONCLUSION

This unit has carefully considered the concept of strategic planning. Managers have found that describing the mission of the organisation in specific terms helps to give the organisation a purpose and direction. Strategic planning enables management to be better prepared for the future which in turn helps them to keep away from costly investment in services that will not be demanded for. To devise correct strategy, managers/planners must find the ‘common thread’ of their organisation the way in which the organisation should be heading; doing these will help determine the true potentials of the organisation and create the most effective strategy.

Goal setting as we have discussed is a major step in strategic planning and as a result it is essential to consider correctly the strengths and weaknesses of the organisation before choosing its goals.

5.0 SUMMARY

In summary, strategic planning helps organisations to define their mission in definite terms; this makes it simpler for managers to give their organisation a sense of purpose. Furthermore, the changing environment of organisations has shown planners the importance of preparing for the future.

The different modes and types of strategic planning managers can adopt was also considered and it was found that the formal approach is more effective than the informal. It was also noted that large organisations are likely to adopt the formal planning approach. These organisations make use of specialised planning staff to devise strategies, goals and to organise other planning activities of the organisation unlike the smaller organisations that may not have formal planning staff.

6.0 TUTOR-MARKED ASSIGNMENT

1. Describe the importance of understanding strategic planning.
2. Explain the steps involved in the formal planning approach.
3. Describe the entrepreneurial, adaptive and planning modes of strategy making and give conditions under which each can be used.
4. As planners/managers, how can you find the common thread in your organisation and in what ways will it help in devising strategy?

7.0 REFERNCES/FURTHER READING

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UNIT 5 TYPES OF STRATEGIC PLANNING

CONTENTS

1.0 INTRODUCTION

This unit will consider the types of strategic planning that could be adopted by managers. McCaskey (1974) distinguishes between two types of strategic planning, planning with specific goals and directional planning.

Planning with Specific Goals

This type of planning tends to be formal and structured; here, it is managers that decide what organisation is going to do and the way it will be done. Through goal oriented plans, managers give the organisation a strong sense of focus and ultimately channel the organisation's resources.

Directional Planning

In directional planning, managers decide what they would like to do rather than what they should do, the direction they want the organisation to go. When managers have selected a desired direction or activity for their organisation, it is at this point they make a decision on how to make their desire a reality. Directional planning may involve greater expenditures than planning with goals because managers may have to spend more before finalising plans. Directional plan is more flexible than planning with goals. As a result of this, directional planning may be more suited to the early stage of an organisational life before managers decide specifically what the organisation should do.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- describe the types of strategic planning
- state when to use each strategy.

3.0 MAIN CONTENT

3.1 Formal Approach to Planning

Despite the type of planning adopted by managers, it has been proved that formal step-by-step, long term approach to the planning process is more useful than a short term informal approach. Managers who take time and effort to plan cautiously and logically are more likely to be successful. Also, organisations in which their managers engage in formal planning are going to be better prepared for the future.

The following are steps involved in the formal approach planning as given by Stoner (1980).

Step 1- Select the Goals

Setting the goals of the organisation is the most critical step in the strategic planning process. The goals selected will take up a large amount of the organisation's resources and will govern many of its activities for a considerable length of time. As a result of this, strategic goals are often set by upper level or top managers; this is done after several possible goals have been considered carefully. Most importantly, the type of goal selected by the manager will rely to a large extent on a number of factors such as: the mission of the organisation, the values its managers hold, the strengths and weaknesses of the organisation.

Step 2 – Analyse the Environment

When managers are selecting goals they must think about the problems and opportunities given by the environment. This is an essential step because whatever the goals they may be affected by factors outside the organisation.

Step 3 – Establish Measurable Goals

Like earlier mentioned in our discussion in unit 1 of this module, our goals must be 'SMART'. It can be specific as a desired rate of growth. Irrespective of the type of goal selected, it will be most effectively met if it is spelt out in precise, measurable terms.

Step 4 – Sub Units Develop their Own Plans

When management has selected and stated their basic long term goals, it is pertinent for the lower – level managers to decide what their own sub units will do to help meet these goals. Lower level manager’s planning is essential because they will do a better job of implementing the strategic plan if they contributed towards it.

Step 5 – Compare Lower Level Plans with the Strategic Plan

Once the lower level managers have come up with their plans, they send these plans up through different levels of the organisations management for review and approval. The plans for sub units in a particular division are integrated and made part of an overall plan for division. Be it at the sub unit or the top management level, plans are examined to see how close to or far from the strategic goals they are. For example: if the strategic plan for Honeywell Superfine company is ₦5m profit in 2 years, the profit goal for each unit will be put together to see if it amounts to the overall figure (₦5m). If it does not reach the stated figure, then a breach exits between the organisation’s goal and what it actually expects to achieve.

Step 6 – Close the Gap

When a gap exists or occurs between the overall strategic plan goal and those of the organisation’s sub units, new changes in the strategic plan must be made. In which case the managers have to develop several new alternatives to make the original plan workable; they might suggest for example cost cutting, the managers however create a variety of alternatives to bridge the gap between goals they desire and the present capabilities of their organisation.

Step 7 – Select the Best Alternatives

Managers are responsible for the development of as many alternatives that will help make their strategy feasible. It is however worthy of note that not all the alternatives will eventually be part of the strategic plan; this is because not all will be necessary. Managers will have to decide which alternative will help bridge the gap most efficiently and effectively. Whatever alternative is chosen becomes part of the revised strategic plan.

Step 8 – Implement the Strategic Plan

Once the final strategic plan has been formulated, its broad goals must be translated into the detailed day to day operations of the organisation.

The middle and lower level managers must draw up the appropriate plans, programmes and budget for their sub units.

Step 9 – Measure and Control the Progress of the Plan

The process of controlling is a crucial aspect of any plan. It is essential for managers to check the development of their plans so that they can take any necessary action in order to make the plan work or if they need to change the original plan if it is unrealistic.

To have a good control system four elements are involved: standard of performance, the feedback loop, evaluation, and corrective action (Stoner, 1980).

The Standard of Performance

This is the benchmark against which the progress of a plan can be measured. Most strategic plans at least in their preliminary stages use budgets as standards of performance rather than profit and loss statements. This is because strategic plans usually involve considerable start up costs or investment at the beginning and do not show profit until fairly late in the time period covered by the plan. It has also been found out that budget do not in all situation provide an adequate standard of performance, this is because a plan can be on budget and still off course or misguided; for example, the development of a new product may be proceeding smoothly but its demand may have declined. In situations like this, managers use variety of standards to measure progress of the plan.

The Feedback Loop

For the control process to be effective there must be free flow of information between the managers and their operating units. Managers must receive feedback from subordinates whenever a major deviation from the plan occurs.

Evaluation

As information is received, managers must evaluate it to see if some corrective action should be taken. There is no perfect plan, some digression from the plan is bound to occur. Managers must decide how great a deviation can be tolerated for what length of time.

Corrective Action

When subordinates have digressed too much from the plan, managers must decide what action is necessary to bring them back on track. Often, a manager's course of action will be suggested by contingency plans that have been drawn up along with the basic strategic plan. For example, if sales of a new product is less than what was expected, contingency plan will be adopted for cutting prices to increase sales or simply revising the original sales estimate.

3.2 The Place of Strategic Planning in Organisations

Organisations' approach to strategic planning differs from organisation to organisation. In small organisation the manager might decide to communicate their strategic plan verbally as against writing it down which makes the approach less formal. On the other hand, in larger organisations the strategic process is likely to be more formalised.

The following factors affect the way an organisation structures its planning activities:

The size of the organisation

Larger organisations tend to have a well structured planning department unlike small organisations.

Centralised or Decentralised Management

In a centrally controlled organisation strategic goals are set up by top management, planning instructions will flow down from the top management to the middle managers and then the lower level managers. However, in a decentralised organisation, planning authority is more circulated. Divisional managers or planning staffs may set the strategic goals for their division. They may work together with the central planning authority of the organisation to help set its overall strategic goals.

Nature of the Product

The planning structure of an organisation will also vary with goods or services it produces. For example, in an organisation like Peak Milk that deals with the production milk, a formal long term planning may not be necessary this is because consumer demand and habits can be predicted from year to year. But in a company like Toyota, all aspect of the formal planning process are probably essential, this is because huge investment is involved; a planning error will however have serious financial implications.

Personality of Top Executives

Some top executives like to work independently and as such may avoid hiring a separate planning staff instead they do the planning on their own.

3.3 Responsibilities of a Planning Staff

The major responsibility of the planning staff is to help top managers devise their strategies and goals. This is done by regular monitoring through research and survey of those factors that may likely affect the organisation. They may also evaluate the strategies and goals that top managers propose.

Another responsibility of the planning staff is to coordinate the planning efforts of the organisation, as discussed before; when the top level strategic plans have been made, lower level managers are asked to make up plans for their own sub units to help top managers accomplish their goals. It is the planning staffs that provide lower level manager with the background information they will need to make up their plans. Such as the organisational resources each lower level manager can count on. When the lower level manager has completed their plans they then send to a higher level manager to check. The planning staffs then go over these plans and measure them with the strategic plan. If gaps exist, the planning staffs work with the top and lower level managers to find ways the gaps can be closed. The final major responsibility of the planning staff is to help divisional managers who are inexperienced with formal, long term planning develop such plans for their divisions.

3.4 Advantages and Disadvantages of Strategic Planning

It is essential for us to know the problems and opportunities strategic planning can generate, as a decision of whether to adopt strategic planning in the organisation or not needs to be made.

Advantages of Strategic Planning

The main advantage of strategic planning is that it gives consistent guidelines for the organisation's activities. The use of strategic planning enables managers give their organisations clearly defined goals and methods for achieving these goals; thus, their organisations have purpose and direction. Another essential advantage of strategic planning is that it helps planners make decisions. At times, opportunities that appear too risky might in fact be quite practicable; again opportunities that seem quite safe might prove disastrous to the organisation. Without strategic planning managers would have a difficult time discovering the pertinent facts in each case.

Another advantage of strategic planning is that it minimises the chance of mistakes and bad surprises, this is because strategies and goals are analysed several times. They are therefore less likely to be faulty. It also helps managers to predict future events and as such managers who use it are more likely than others to adjust successfully to change. The edge given by strategic planning is essential in organisations where there is a long period between a manger's decision and its results.

Disadvantages of Strategic Planning

We can infer from our discussion that the major disadvantage of strategic planning is that it requires a substantial investment in time, money, and people. It may take years before the planning process in an organisation begins to work smoothly. Based on these, smaller organisations are usually unable to adopt a formal strategic planning programme.

Another disadvantage is that it sometimes tends to limit the organisation to the most logical and risk-free opportunities, but it is found out that attractive opportunities that involve high degrees of uncertainty might be avoided or overlooked.

4.0 CONCLUSION

This unit has considered the processes involved in strategic planning that managers/planners can adopt. It was discussed that the type of goal selected will depend on the number of factors such as the basic mission of the organisation, the values its managers hold, and the strengths and weaknesses of the organisation before deciding on the goal to be chosen. Goal setting is a major step in strategic planning and managers need to ask questions such as: how realistic is it for them to achieve their goals considering the talent, resources and limitations of the organisation, this question is important to planners/managers if their competitors are trying to achieve same goals.

5.0 SUMMARY

There are many types of strategic planning managers can use, each is best suited to a particular organisation or situation. It has been seen that the formal approach is more effective than the informal approach. The formal approach involves managers selecting their goals, analysing the environment of their organisation, establishing measurable goals so that their goals will be easy to work with. These basic steps in the formal planning approach are likely to be structured differently in various types of organisation.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain why strategic planning is important to managers and the organisation.
2. Describe the responsibilities of a planning staff.
3. Critically evaluate the advantages and disadvantages of strategic planning.

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UNIT 6 BARRIERS TO STRATEGIC PLANNING

CONTENTS

1.0 INTRODUCTION

This unit will research into the various barriers or problems that managers encounter when planning. We will start by realising that there are typical problems that occur when managers establish or attempt to put their plans into operation. This problem becomes barriers to effective planning when managers cannot beat or has failed to realise them. We have basically two types of obstacles to effective plans. One is the planner's internal resistance to establishing goals and making plans to establish them. This can be referred to as the individual's unwillingness to take on meaningful goal-oriented activities.

The other type of barrier is that which exists outside the planner, this is the general lack of enthusiasm of members of the organisation to acknowledge planning, this is as a result of the kind of changes this bring into organisation. It should be noted that it is not the actual 'planning' idea that is discarded but the new activities and goals it forces on those who implement the plan.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- state the barriers to effective planning, what it entails, factors responsible, etc.
- describe and identify the likely barriers planners face.

3.0 MAIN CONTENT

3.1 Resistance to Change

The barrier to planning involves the planners' internal resistance themselves. Resistance to change on the other hand occurs among members of the organisation i.e. from the top management to the employees who must perform the planned activities. This has been pointed out by a writer as 'the most universal' barrier to planning. This is because those that are meant to perform the planned changes resist them and as such it becomes hard to implement these changes. There is no single reason for members of an organisation being resistant to change, but we could say that the fear of the unknown is a common factor. Some people also prefer the security of the activities they are used to rather than yield to potentially threatening new situations and responsibilities. Generally, people are not comfortable when they feel they are being controlled, this occurs when they feel the plans were established with their involvement or contribution.

In addition, people or members of an organisation are resistant to change when a new plan conflicts with their interest: that is, it may remove or reduce certain benefits or rewards that they enjoy; e.g. power, influence, etc. For instance, managers might object to a plan that reduces the size of their unit or department. Planning may also be resisted if it limits people's freedom to be involved in work or activities of their choice or unwanted tasks are imposed on them or just because they fail to see the value of the planned changes. Most members of an organisation will begrudge new policies that will add to their workload especially if workload is increased without corresponding increase in salary.

After the discussion on the likely causes to resistance to change, Stoner (1978) also identified ways to reduce or eliminate this objection to planned change, they are:

1. Giving members of the organisation the necessary information needed about plan so they have an understanding on the need for the change and the benefits of such change on the organisation.
2. Taking into consideration the feelings of those that will be affected.
3. Rewarding organisational members when contribution is made towards planning activities and its implementation.
4. Encouraging the members of the organisation in the planning process.

3.2 Barriers to Formal Strategic Approach

Long term planning or strategic planning is more complex, expensive and it takes a lot of time than short term planning; and its outcome are much less clear-cut. The features that make formal strategic planning distinct in several ways are the same reason its barriers are also unique to it. The obstacles that discourage strategic planning include:

i. Inconsistency between strategic planning and management style

When formal planning and control are imposed on managers who are not willing to accept the responsibility the result and effect of this can be harmful to the organisation. Naturally, quite a number of managers will desire to make quick decisions when problems or difficulties occur, rather than make decisions slow with more logical approach which is the requirement of strategic planning. As a result of this, many executives will more often than not resist formal planning.

ii. Possible inappropriateness of strategic planning

Business organisations with restricted resources that face strong competition must focus on making profits now and in the future. Small organisations cannot practice formal strategic planning, this is simply because they cannot afford the time, money, and personnel needed to establish and maintain a formal strategic planning system. Also, the establishment of a formal planning system has to do with regular written communications such as reports, budgets, etc. which is not too common with small organisations.

iii. Cost of strategic planning

Formal strategic planning is expensive, the energy and time of members of the organisation with significant amount of money is needed to set up a practicable planning system. Planners who want to bring the system must be able to defend the huge cost involved.

iv. Too much emphasis on measurable aspect of strategic planning

Formal planning system stresses so much on quantitative and economic facet of strategic planning and not much on the creative aspect

v. Vulnerability of strategic planning to the unexpected

Unforeseen changes in the environment can disrupt strategic planning. Formal strategic planning relies heavily on predictions about the future environment based on long term predictions.

3.3 Obstacles to the Effectiveness of Strategic Planning

The various obstacles to effective implementation of strategic planning will be discussed. According to Stoner (1978) when failure occurs in planning, two or more of the following reasons we will be considering will take place at the same time in the organisation. The reasons are:

1. Formal planning is not accepted into the organisation's total system of management: Managers who do not have proper understanding of the potential benefits of formal planning fail to cooperate when the development of the planning system is on-going, this they achieve by not dedicating time and energy needed to make the plan succeed.
2. Planners not having full understanding of some aspects of formal planning: Managers might fail to notice a crucial step(s) in the planning process due to lack of understanding of the process.
3. Not all managers in an organisation take part in the planning activities: Those who must execute plans should be actively involved in producing the plan. Hence, top management must give direction to an organisation's planning effort and ensure all managers are involved.
4. Planning department is given the sole responsibility of planning: Management most times leaves the sole responsibility of planning to planning department alone without carrying the managers that would actually see to the implementation of the plan along.
5. Managers choose an inappropriate system: Plans fail because the system employed is not right for the people involved. For instance, the system might be too complex for the organisation using it.
6. A good plan is not regarded by managers: A plan might be developed that meets the organisation's needs, but more often than not, managers are found to develop plans and then go back to old patterns of behaviour.
7. Managers/planners confuse forecasting and budget projections with planning: - Taking past events and results into the future is forecasting and not planning; although forecasting is a part of planning but not the whole. Initially, management may substitute forecasting for planning, it may work for a while but when future events do not conform to what is expected the organisation will

be in trouble. In the same vein they always confuse budgeting with planning. In doing that too much importance is placed on finance and other measurable results and little attention is paid to the underlying factors such as regular monitoring and revising of plans.

8. Inadequate information for planning: Managers fail in their planning effort because they do not realise that the data usually available to them; e.g. monthly report is usually prepared for the aim of controlling and may not be useful for planning.

4.0 CONCLUSION

The unit examined the various barriers and obstacles to effective planning and some of the reasons why planning fails. Managers most times pay so much attention to little details that they eventually lose sight of what they were trying to achieve through their planning efforts initially. Planners should carefully consider the points raised in this unit and try to overcome the obstacles.

5.0 SUMMARY

Various barriers to planning were considered and it was found that strategic planning may not be suitable for certain managers, in some type of organisation or even under certain conditions. Also, in organisations where strategic planning is used, it may not be applied properly. For example, managers may not take part adequately in planning activities or the strategic plan may not be amended to replicate changing conditions in the organisation. Hence, this will affect the outcome of the planning for the organisation. This also is a barrier to planning.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain why members of an organisation resist plans and also give ways to overcome this.
2. What are some of the obstacles to effective strategic implementation of strategic plans?

7.0 REFERENCES/FURTHER READING

Mockler, R.J. (1972). *Readings in Business Plan and Formulation*. New Jersey: Prentice-Hall Incorporation.

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MODULE 2 FORECASTING TECHNIQUES

UNIT 1 BUDGETING

CONTENTS

1.0 INTRODUCTION

This unit will expose you to what budget is, its various types and approaches. Budgeting lays out the financial targets for our businesses, it helps predict problems and compare what has actually happened with what is expected; it is the most widely used means for planning and controlling activities at every level of an organisation. This will be discussed in details in this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define budgeting
- state the various types of budgets
- describe types of budgeting process.

3.0 MAIN CONTENT

3.1 What is Budgeting?

Most of us have at least a little knowledge or understanding about budgets, because one way or the other we have learnt to apportion our resources carefully so that we do not waste it or use it carelessly without being able to account for it.

Robins & Coulter (1998) defines budget as ‘a numerical plan for allocating resources to specific activities’. Budgeting lays out the financial targets for your business. It helps to predict problems and compare what has actually happened with what was expected.

Budgets are also reports of the financial resources separated for carrying out specific activities (Stoner 1978). Hence, they are devices used to manage all activities the organisation is involved with; for example, sales budget shows sales target for a given area in which sales force operates. Budgets can also be considered singularly in its own way this is because managers and even individuals often use budget–developing process as a guide to making decisions on how to assign or apportion resources among many alternative activities. According to Stoner (1978), if allocation of resources during the budgeting process does not take strategic objectives into account, the organisation’s strategy can at best have only a limited effect on its actual activities. As a result of this, the budgeting process is often the key to planning process around which all other activities are coordinated and planned.

A budget could also be defined as a plan that outlines an organisation’s financial and operational goals. It could also be considered as an action plan; preparing a budget helps a business allocate resources, evaluate performance and formulate plans. Budget preparation can take place at any time. For many business organisations, budget planning is done annually whereby the previous year’s budget is reconsidered and then projections are made for the next 3 or 5 years.

Budgets form an essential part of the organisation because the monetary phase of budget means that they can expressly convey information on a key organisational resource - capital and on a key organisational goal - profit. This is mostly used by profit–oriented organisations; another reason budget is widely used is because it creates clear and unambiguous measures of performance and as such digression can be easily detected and acted upon. Thus, for these reasons budgets are not only a major control device but also one of the major means of coordinating the activities of the organisation, Stoner (1978).

3.2 Budgeting Process

For the budgeting process we will consider four major areas; how budgets are drawn and approved, the role of the budget department and committees, budget revision, and the problems of budget when being developed.

1. Budget Drawing and Approval

The budgeting process starts when managers get the economic forecast of sale and profit objectives for the coming year from the organisation's management. A timetable stating when the budget must be completed will also be sent. Managers of different departments will develop their budget based on the forecast and objective given by top management. In some organisations, the top managers establish the overall goals and the detailed objectives and also impose the budget on the lower managers without discussing with them or seeking their advice.

However, most organisations now adopt the 'bottom-up' type of budgeting in which the budget is prepared by lower-level managers and then sent to the management for approval and then if accepted, implementation follows. It is believed that with this approach the morale and satisfaction are usually higher when individuals participate actively in making decisions that affect them.

After each unit has prepared its own budget proposal within the limits given by upper management, it is passed on to the manager for approval or adjustment as the case may be and these are then taken to another authority for approval. Finally, the master budget goes to the board of directors. The plan goes into effect when the board approves (Stoner 1978).

2. Role of Budget Department and Committees

Many large organisations have formal budget departments and committees. The budget department provides budget information and support to organisational units, they design the budget systems, they also put together the various departmental proposals into a master budget for the whole organisation and gives report on actual performance relative to the budget. The budget committee on the other hand reconsiders individual budget of various units, bring together differing views, amend or approve the budget proposals and refers the integrated budget to the board of directors. Thereafter, when the plans have been implemented the committee reviews the control report that monitor progress. The budget committee need to approve any changes made during the budget period.

3. Budget Revision

No individual can revise a budget at their discretion; otherwise, the whole process of review and approval would be a sham. In preparing a budget, provision must be made in order to allow for changes or revisions. This is because budgets are based on forecasts which may not be adequately correct and as such things may go wrong. Where budget is used mainly as a tool for planning; formal updating periods may be set up at declared times. In a situation where the budget is a main part of the control and evaluation system, revisions are restricted to cases where variations have made the approved budget unrealistic. The intention is to make a reasonable stability and firmness into the budget without being unnecessarily rigid.

4. Problems in Budgeting when being Developed

There are a number of anxieties that commonly arise during the budget development process. During that process, the organisation's limited resources are allocated, managers may fear that they will not be given their allocation; tension will rise as the competition with other managers increases. They are also aware that they will be judged by their ability to meet or beat budgeted standards and as such anxious about what those standards will be. Conversely, their superiors are concerned with establishing aggressive budget objectives, and so will often be anxious to trim their subordinates' expenditure requests or to raise their revenue targets (Stoner 1978).

3. 3 Types of Budget

The most common type of budget can be categorised into expense, revenue, and profit budget.

Expense Budget

According to Stoner (1978), this has been divided into: engineered cost budgets and discretionary cost budgets.

Engineered Cost Budget

These usually describe the material and labour costs involved in each production item as well as approximated overhead costs. They are designed to measure efficiency: going beyond the budget will mean that operating costs were higher than they should have been. The manager here is meant to produce reliable cost estimates when preparing the budget and who controls many of the variables that will affect manufacturing efficiency. This is used in organisations where output can be accurately measured; it also does not need a higher level management to approve when budget is exceeded.

Discretionary Cost Budgets

This type of budget is used by departments whose output cannot be measured accurately. Cost here is controlled by setting limits on tasks that will be carried out and the effort used to carry out those tasks. Example of such department that uses this type of budget is administrative and accounting. Higher level management approval is needed when budgets is exceeded.

Revenue Budgets

This is a vital part of a profit budget, this budget is based on proposed future sales and as a result it is usually uncertain. Revenue budget are meant to measure marketing and sales effectiveness. Organisations with limited sales volume can make more accurate revenue forecasts than organisations with an unpredictable market. A revenue budget consists of the expected quantity of sales multiplied by the expected unit selling price of each product.

Profit Budgets

According to Stoner 1978, profit budgets are used by managers who are responsible for both the expenses and revenues of their units. Profit budget consists of a set of projected financial statements and schedules for the coming year. One of the uses of profit budget is that it provide standard that are useful in judging the adequacy of expense budgets. For example, if the budget indicates that profits will be low the expense budget might be revised downward.

Capital Expenditure Budgets

This reveals important projects the organisation will embark on and the financing that will be involved for the number of years into the future; for example, the purchase of a new manufacturing plant.

Cash Budget

This will regularly disclose information on the level of funds flowing through the organisation which states the cash receipts and disbursements the organisation expect will occur during the next year (Starke & Sexty, 1998). Cash budget also shows the organisation's budgeted estimates for revenues, expenses and new capital expenditures.

Finance Budgets

They are developed to assure the organisation of the availability of funds to meet the shortfalls of revenues relative to expenses in the short run and to plan medium and longer term borrowing. This is prepared along with cash budget to provide the funds the organisation will need at the time the need arises (Stoner, 1978).

Balance Sheet Budgets

This combines all of the other budgets to project how the balance sheet will look at the end of the period if actual results conform to planned results; this is called proforma balance sheet which can be considered as a final check on organisations planned programmes and activities. The analysis of the balance sheet may propose problems or opportunities that will necessitate managers to alter some of the other budgets.

Variable versus Fixed Budgets

A major difficulty with budget is that it is often too rigid and as such it is not considered appropriate to be used for situations that change beyond the control of those in charge. In a bid to solve these managers adapt what is called a variable budget. Fixed budgets state what individual costs should be at one specified volume; variable budget on the other hand are cost schedules that show how each cost should vary as the level of activity or output varies. Variable costs are therefore useful in identifying in a fair and realistic manner how costs are affected by the amount of work being done (Stoner, 1978).

3.4 Approaches to Budgeting

This section will consider three fundamental approaches to the budgeting processes: incremental budgeting approach, zero-based budgeting and planning-programming budgeting system (PPBS).

Incremental Budgeting

Here, the relative fraction of the entire budget made available to each unit in the organisation changes very little year in year out. In most companies each department's budget is largely determined by what the budget was last year with an amount for inflation. A major disadvantage of this budget is that little analysis is taken into consideration before the funds are allocated to the departments. This type of analysis is not enough as it may over look changes occurring in the organisation's external environment that demand alterations in budget allocation (Starke & Sexty 1978).

Zero-Based Budgeting

This has to do with allocating the funds of an organisation on the basis of a cost-benefit analysis of each of the organisation's major activities. Zero-based budgeting allows the organisation to consider its activities and priorities afresh unlike the incremental budgeting in which the previous year's resource allocations considered the basis of the year's allocations. As an alternative under the zero-based budgeting each departmental head have to justify afresh their entire budget request. The process involves three major steps:

- The activities of the various departments in the organisation are divided into 'decision packages'. These provide information that allows top management to compare the costs and benefits of each activity of the department.
- Evaluate the various activities and rank them in order of decreasing benefit to the organisation: More often than not each manager will grade the activities they are responsible for, a superior together with a lower manager establish rankings for all activities in the department. The process is done throughout the departments in the organisation until selection is made by the top management (Stoner, 1978).
- Allocate Resources: Organisation's resources are budgeted according to the final ranking that has been established.

Planning-Programming Budgeting System

This focuses on allocating budget money to programmes instead of departments. It was designed to recognise costly duplication of programmes by different departments and agencies to analyse the potential impact of government programmes and to tie in those programmes closely with the annual budget.

The following are the processes involved in the PPBS:

a. specify and analyse basic objectives in each major area of activity
b. the output of each programme is compared to the objectives of the programme
c. the total annual costs of the programme are determined for a period of several years

d. the most effective way to achieve programme objectives is determined
e. the programme is systematically monitored to see if programme objectives are met.

3.5 Functional and Dysfunctional Aspects of Budget Systems

Budgets have several facets with the possibility of helping organisations achieve their goals. The turnout of functional budgets when practiced will depend largely on the manager's effectiveness in conceiving and carrying out the budgeting process. It is important that the budgeting process like other types of control be clear and acceptable to the people whose activities it is intended to control.

Potentially Functional Aspects of Budgets

The potentially functional aspects of budgets discussed here are given by V. Bruce Irvine (1970) and they are:

1. Budgets can have a positive impact on motivation and morale. A vital human need is to belong to and be accepted by one's group. Budgets activate this motivational factor by creating the feeling that everyone is working toward a common goal.
2. Budgets make it possible to coordinate the work of the entire organisation
3. Budgets can be used as a signalling device for taking corrective action; one major reason for a control system is to notify the appropriate department/unit that a standard has being violated.
4. Budgets improve the allocation of resources.
5. The budget system helps people learn from past experience.
6. Budget serve as a means of evaluation, this is because performance can more easily be measured against previously benchmarks.
7. Budgets help lower level managers see where they fit in the organisation- it gives these managers goals around which organise their activities.
8. Budgets allow new employees see where the organisation is going. Here, the budget can enhance the morale of junior managers because it helps them become acclimated to the organisation's goal and priorities. It also helps them to easily determine the nature of their responsibilities.

Potentially Dysfunctional Aspects of Budgets

Often after the preparation of a budget it is found that unintended and unanticipated consequences arise from the budget systems. This can interfere with the attainment of the organisation's goal. The dysfunctional aspects of the budget are:

1. Differing perceptions of budgets by line members and by budget staff members. Irvine (1970) identified some reasons why budget is said to be dysfunctional.

    i. Budgets are useful for analysing the past and charting the future, but they are seen as little help in handling the here and now problems that supervisors have.
    ii. Budgets are used to evaluate results, but the causes of failure or success are not frequently investigated. Budgets would be regarded as more fair and useful if the reasons for budget deviations and mitigating circumstances were taken into account.
    iii. Budgets are often too rigid, sometimes the approved standards have been left unchanged for two or three years: meeting budget in such cases would hardly represent efficient performance.

2. Mechanical Difficulties with budgets: Certain negative effects of budgets can be traced to the mechanics of budgets and the budgeting process. There are expenses involved in installing and operating a budget system; if these costs outweigh the benefits obtained by the system, the organisation's goal are not being effectively achieved. The fact that budgets involve estimates of future costs and events may also lead to problems since these estimates may prove to be grossly inaccurate.

3. Goal Difficulty and Achievement: According to Stoner (1978) he said that 'much of what management writers have noted about negative reactions to budgets is related to two common faults:

    i. Budget goals may be perceived as too high – for example, a very high sales or production level may have been set.
    ii. The amount of resources allocated to attain the budgeted goals may be perceived as inadequate – for example the expense budget may be too restrictive for the goals to be accomplished.

4.0 CONCLUSION

Budgeting as we have discussed in this unit is among the most widely used devices for controlling and coordinating the activities of an organisation. Its process also begins with top management setting the goals and strategies for the organisation. How a budget is being drafted and approved was also considered and we saw that it is the lower-level managers that draft budget for their unit within the confines of the guidelines set by top management which is then reviewed by the senior managers who will then pass them on to the board for the final approval of the budget for the organisation.

The functional and dysfunctional aspect of budget was discussed; the functional aspect we said includes higher motivation and morale, improved coordination, etc. and the dysfunctional aspect include mechanical problems and unnecessary and harmful pressures on organisational members. It was discussed that if some of these pressures are reduced if attainable budget goals are set.

5.0 SUMMARY

This unit has extensively considered what budgeting is, the major types of budgeting that we have. The functional and dysfunctional part of system; it was concluded that budgeting is also a form of control for the organisation. It was considered that an organisation's budget may be operating or financial. Specific types of budgets include expense, revenue, profit, cash expenditure, etc. Budgets may also be fixed, variable or semi-variable. The two special budgeting approaches are the Planning-Programming Budgeting System (PPBS) which evaluates organisational programmes more closely, and Zero-Based Budgeting (ZBB) which base resource allocations on current rather than historical needs.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the budgeting process.
2. List and explain the types of budget.
3. Critically evaluate the functional and dysfunctional aspect of budgeting.

7.0 REFERENCES/FURTHER READING

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UNIT 2 MANAGEMENT BY OBJECTIVES

CONTENTS

1.0 INTRODUCTION

The importance of bureaucracy to any organisation cannot be over emphasised and the efforts of Max Weber has not been in vain considering the fact that a number of criticisms has been put up on the theory. As a result of the criticisms which basically focused on non-recognition of environmental factors by Max Weber, some researchers have given some techniques and strategies that would help to advance the performance of some organisations. One of such techniques is management by objectives (MBO). It has been found out by scholars that by using MBO managers can do away with some of the barriers and pitfalls of planning.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- explain in-depth what MBO is
- describe the application of MBO in an organisation
- state the advantage and disadvantages of MBO.

3.0 MAIN CONTENT

3.1 What is Management by Objectives (MBO)?

The term MBO is linked with Peter Druker (1954) who thought that it would improve the effectiveness and efficiency of organisations. MBO is a process of identifying goals and objectives, defining managerial responsibilities in terms of expected results and measuring performance and achievement against these goals and objectives. It connects the goals and targets of the organisation with those of its managers.

In this approach, the top managers and subordinate managers in the organisation identify objectives in the main areas of responsibility that will be worked on. The managers come up with an action plan to accomplish expected results in those areas and place performance standard for acceptable work. In MBO, effective planning depends on every manager having clearly defined objectives that apply specifically to his or her individual functions within the company. Each manager's objectives must also contribute to the objectives of higher management and the company as a whole. As Drucker points out, managers must either set their own objectives or at least be actively involved in the objective setting process, forcing predetermined objectives on managers runs the real risk of either refusal to cooperate or half hearted attempts to implement someone else's objective. Drucker also advises that managers at every level should participate in setting the objective for higher levels than their own, with this they get to understand the broader objectives of the organisation. The main purpose of employing MBO is to achieve an efficient operation of the total organisation through the efficient operation and integration of its parts.

Another theorist, Douglas McGregor supports MBO because of its significance as a performance appraisal programme. He is of the opinion that individual managers after agreeing on their basic job responsibilities with their immediate boss should set their own performance objectives for a short period of time. This way the vagueness and tensions that usually accompany most other appraisal programmes can be reduced.

3.2 The Philosophy behind the MBO Concept

To aid our understanding of MBO, some assumptions and theories upon which MBO is based will be considered. McGregor gave two assumptions on how people are motivated to work. The theory x and y assumption; theory X assumption is based on the traditional view that human beings see work as what must be done to live on. Hence avoids work whenever possible for them to do so, according to this view managers have to be strict with subordinates otherwise little or no work will be done.

Theory Y on the other hand, represents a much positive evaluation of human behaviour. Here people do not naturally dislike work but can find it a great source of satisfaction, if some people avoid responsibility, lack purpose and are concerned with security only, it is as a result of life experience or situation. The extent to which managers subscribe to one theory or another will radically affect their attitudes to subordinates. Managers complain about the difficulty of maintaining high productivity; this complaint is usually based on theory X assumption that workers are not ambitious, theory Y on the other hand gives no such rationalisation for failing to reach an organisation's goals as lack of motivation among employees rather they assume that the failure is from the management in their not being able to provide a good working environment for the employees in order to realise their full potentials.

The manager's task according to theory Y assumption is not to control subordinates but to help them achieve their full capabilities within the organisation. This assumption (theory Y) forms the basis for the Management by Objective (MBO) system.

3.3 The MBO Process

MBO programme may differ from one organisation to the other there are also varying differences in emphasis, managers concentrate on human needs and on increasing subordinate participation in goal setting rather than on strategy. Nevertheless, in most effective MBO systems, there are common elements such as:

a. Top Level Goal Setting

Effective planning programmes for an organisation usually start with top managers setting preliminary goals after checking with other managers in the organisation. These goals are usually declared in specific terms. This also helps the employee to have a clearer insight of what top management wants to achieve.

b. Individual Goal Setting

One characteristic of effective MBO programme is that each manager and subordinate will have clearly defined job descriptions and objectives. The purpose of these is to help managers and subordinates have a realisation of what is to be achieved. To be useful, the objectives for each individual are reached by joint manager-subordinate consultation.

c. Participation

The degree of subordinate involvement in the setting of objectives can vary; on one hand subordinates might participate only by being present when objectives are laid down by management, on the other hand subordinates might be free to set their own objectives and methods for accomplishing them. Neither of these is likely to be effective. As a broad rule, the greater the joint participation of managers and subordinates in the setting of goals, the more likely it is that the goals will be accomplished.

d. Autonomy in Implementation

Once the objective has been set and consented to, the individual has a wide range of discretion in choosing the means for achieving the objective. This phase of MBO is one that is most appreciated by managers in an MBO programme.

e. Review of Performance

Normal periodic interviews are held between manager and subordinate to re-examine progress towards previously set objectives. For it to be just the review must be based on specific, measurable performance results rather than on subjective criteria such as ability.

f. Commitment to the Programme

For an MBO to be successful it requires time and energy for implementation, as a result of this full support of all in the organisation from top management down the hierarchy is needed.

3.4 The Advantages of MBO

MBO allows individuals in the organisation to have an understanding of what their superiors expect from them, which will enable them to focus their effort where it is needed and probably get rewarded for it. Subordinates will also not need to get agitated of being assessed on their personal traits or attitudes, but rather will be examined on how well they have achieved specific objectives that they have helped to create. The resultant effect of these is that individuals in the MBO process are more likely to carry out their responsibilities well than others.

Another advantage of MBO is that since all levels of the organisation help in setting objectives, the organisation's goals and objectives will be more realistically based. Also, the improved communication that results from MBO can assist the organisation in accomplishing its goals as its activities will be better organised. MBO aids organisations to implement its policies and programmes on time. It emphasises the importance of time in delivering goods and services to the people. MBO converts paper plan into definite accomplishments.

Above all, MBO enhances the sense of unity in the whole organisation: subordinates are more aware of top management's expectations and in turn assist in establishing attainable objectives.

3.5 The Disadvantages of MBO

The disadvantages of MBO are divided into two:

First is the disadvantage as a result of the MBO process, this includes the significant time and effort involved and the manager's unwillingness to carry out the paper work required. The second aspect is those that theoretically should not exist but that do occur during the implementation of MBO programmes. Firstly, it had been discovered that verifiable, attainable, and unambiguous objectives is not easy to develop this problem is more pronounced in public service institutions where many objectives are not clear and definite, expected results would be mere misapprehension.

Another disadvantage is that managers often come up with arbitrary, unchallenging objectives or goals to the point that the basic organisational goal would not realised in the long run.

Finally, when MBO is used as a performance appraisal method, there is always an error of the use of standards that cannot be applied to all workers. Such standardised rating procedure might be devoid of any consideration of environmental or situational forces and influences. For instance, environmental forces can limit the performance of some workers in a certain location than those of others doing the same job in a better environmental condition. For example: if the same standard is used for all marketers in Access Bank all over Nigeria, it may be found that those in Lagos State would be rated higher, this is as a result of the economic activities and business potentials, the presence of blue chip companies, than their counterparts in Sokoto State or Taraba State whose population is majorly made of salary earners and the religious unrest which do not encourage industrialisation.

3.6 The Practice of MBO in the Public Service

According to Obasi (1983), objectives in the public sector are ambiguous, undecided and lopsided and they are not easy to quantify measure or verify. There is no common agreement to what public goals and needs will be; this might be as a result of varied ideological beliefs. Public policies are mostly decided by those in power but these changes as government is changed hence, goals created may be abandoned.

Government ministries, departments and agencies are more vulnerable to unrelated factors and pressures than those of private organisations. The demand of public accountability puts more emphasis on correctness regardless of cost rather than an efficiency and effectiveness. The nature of the public service is one that does not encourage participatory style of management, public servants are told what is to be done even decisions are made for them from above. It is therefore pertinent to emphasise that public service managers should try to adopt MBO in their work place. The use of MBO may not be entirely successful in the public sector as in the private sector but conscious and dedicated effort to install and operate it may bring desired result. The time when public servants are told what to do, how it is to be done has gone. Inefficiency and effectiveness that cripple the public service can be forestalled through the committed use of MBO.

4.0 CONCLUSION

MBO is majorly known as a system for corporate planning or strategy development. When MBO is properly introduced it motivates the employees. It was discussed that the MBO programme should include (1) the establishment and acceptance of specific goals, (2) timely and accurate feedback on performance against those goals and (3) the active involvement of individuals and organisation's performance.

It should also be noted that MBO do not solve all the problems in an organisation.

5.0 SUMMARY

This unit has considered extensively the concept MBO, it essentially involves managers and their subordinates meeting to come up with detailed objectives and reviewing periodically the progress towards the achievement of the objectives. It was also seen that MBO does not require a great deal of time and energy to make it work effectively and when executed properly it leads to improved performance and high morale.

6.0 TUTOR-MARKED ASSIGNMENT

1. Identify and discuss the elements of effective MBO programmes.
2. Discuss the major strengths and weaknesses of MBO.
3. Distinguish between theory X and theory Y assumptions, how does these affect a manager's approach to subordinates.

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UNIT 3 FORECASTING TECHNIQUES

CONTENTS

1.0 INTRODUCTION

Forecasting is habitually has to do with the environment in an unusual way this is because it includes predictions of how other individuals, groups or organisations will respond to the actions that are planned; Forecasting means predicting the future events that will have positive or negative effect on the organisation (Starke & Sexty 1998). Forecasts can be based majorly on intuition or on systematic studies that costs lots of money.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- state the importance of forecasting
- discuss comfortably the various forecasting techniques.

3.0 MAIN CONTENT

3.1 Forecasting and Production Planning

Forecasting is a vital tool for effective production planning. Production planning is a set of related activities that are concerned with such diverse responsibilities as the determination of what units of product to manufacture, the kind of material to be used, how the product will be requested for the type of production routine to be adopted, etc. After certain period of time the area of production planning is one in which the organisation is concerned with the attainment of the following basic objectives:

- the production of the required quantity of a given product or service
- the production of that required quantity at the appropriate or scheduled time
- the minimisation of the unit cost of production
- the maximisation of the efficiency of the whole production system (Unyimadu, 2007).

In achieving the first two objectives mentioned is an important factor on forward planning. It is crucial for organisations to have planned their production activities before the demands of their customers come; this is because it takes different products different times for its production to be completed. The most advantageous number of machines, materials, etc. to have ready is stated by the scale of operations, it is therefore pertinent to anticipate the level of customers' demands and map out to get ready the productive capacity that the expected demand will require. Identifying what the anticipated demand level will be would help the production manager to convert the likely sales level into demands that will be generated for productive resources. The act of knowing what the expected demand or sales level will be is known as forecasting; this is the core of production planning, demand forecasting is thus the first step in production planning.

3.2 Demand Forecasting

Forecasting is an important aspect of managerial planning and particularly production planning (Unyimadu, 2007). Managerial decisions are taken based on forecasts or predictions of future occurrence. For example, if an individual wants to entrust large amount of money into business, the individual will need to do some estimations based on the expected rate of demand on the product he is about to produce and predict on a certain amount of sales he would likely make on the new product, all this individual would achieve through forecasting.

Furthermore, according to Unyimadu (2007), forecasting is useful in the balancing of sales and production requirements thus, helping to minimise the considerable problems caused by unexpected gap between units produced and units sold; Based on the sporadic level of demand forecasting permits the operations manager to shift resources from one product to the other as it is assumed that if one product decreases in demand and the other increases in demand. Forecasting is a nonstop process, that as changes occur operating forecasts are tailored to replicate current happenings. For managers to perform managerial planning and decision making it is done majorly by forecasting, for this to be totally depended on it must be founded on accurate information if the right decision is to be gotten.

For forecasts to be accurate it depends on the following factors as given by Unyimadu (2007):

- the method or methods used in forecasting
- the type and quality of data made available for forecasting and the adequacy of such data
- the time horizon available during which to prepare the forecast
- the expertise of the forecaster or the forecasting team either within the organisation or outside it
- the available computing facilities for forecasting within the organisation, or the ease with which such facilities can be made available to the company from outside.

3.3 Forecasting Techniques

Forecasting techniques are used to predict future problems and events, this is because it is mainly concerned with the future and as such involves many uncertainties. Hence, most forecasting techniques tend to be qualitative rather than quantitative; forecasters have observed that 'the only certain thing about a forecast is that it will be wrong'. These points to the fact that forecasts do not have to be 'right' to be significant, it simply have to predict future events closely enough to make actions in the present valid and purposeful. Hence, forecasts assist managers' access alternatives and improve their chances of reaching effective decisions (Morrell, 1972).

Based on the importance of forecasting future economic and sales information, our discussion on forecasting techniques will centre on these areas; same techniques can be applied for forecasting other variables; for example: The management of NOUN can use any of the forecasting techniques in predicting the number of students applying for admission into the university for a particular session or year. The three main types of forecasting techniques will be discussed which are:

- the qualitative or judgemental approach
- time series analysis
- economic forecasting models.

3.3.1 The Qualitative or Judgemental Approach

This approach depends largely on human judgement that is the opinion, instinct and influence of people. This method is suitable when hard data are scare or difficult to use, for instance, when a new product is launched experiences from the past is not a reliable channel for appropriating what the close effects will be. The reason for this technique is to collect information in a logical, unbiased and orderly manner. According to Stoner (1978), examples of qualitative techniques are (i) the jury of executive opinion (ii) Sales force composite, (iii) Customer expectation methods.

i. The Jury of Executive Opinion

The manager may assemble top executives form major functional areas of the organisation, the manager provides the group with backdrop information on the issue to be forecasted; the manager then takes an average of the group's view on the issue. An advantage of this technique is that complex mathematical calculations are not needed.

ii. Sales Force Composite

This technique as the name implies is restricted to sales organisations and its approach is similar to that of the executive jury, except that in this case the opinion of sales people and those in the field is what is required, the focus will be on forecasting the outlook for precise products.

iii. Customer Expectation Methods

This has to do with researching the organisation's customers. The research is done either by survey or by the sales force interviewing selected customers, the reason for this is to establish the customer's needs and requirements.

3.3.2 Time Series Analysis

Here, managers or planners make use of projection of future possibilities based on current trend. A capable way to make such a projection is to extrapolate from past experiences. For instance, a livestock farmer in the long-term planning may want to know what his product sales will likely be in the next 6years; what the farmer needs to make his projection is his sales trend from the past and with that he can for sure predict if the pattern will continue in the future.

Time series analysis is a procedure for discovering patterns in information that has been accumulated over time, for example; let's assume Cadbury Nigeria want to project what their sales will be per month for the next two years; a time series analysis would need to be carried out on the sales record they had in the last four years, to do this they will need to divide the sales record into months by so doing Cadbury's sales department would be able to forecast what their sales would be as there would be a pattern of sale from month to month and a pattern of growth from year to year, doing this will give them a rough information of what they need.

3.3.3 Economic Forecasting Model

This is used in knowing the cause and effect relationships that exist among variables. This assist in identifying those causative factors which describes changes in the variable we want to know about, it can also be used for prediction. For instance, a rise in the sales volume of cement can be described either as a rise in income or a drop in the per unit price, subsequently an increase in the number of houses built can be expected to be followed by an increase in the sale of cement.

An example of the economic forecasting model is the simple linear regression model.

- The Simple Linear Regression Model

A regression model as given by Unyimadu (2007) is a statistical tool that utilises the relationship between two or more quantitative variables can be predicted from the other. This attempt to state a functional relationship between a dependent variable called Y and an independent variable called X. this is written as:

$Y=f(x)$

Which means the behaviour of Y is a function of X

The relationship between Y and X can be expressed as

$Y=a+bx$

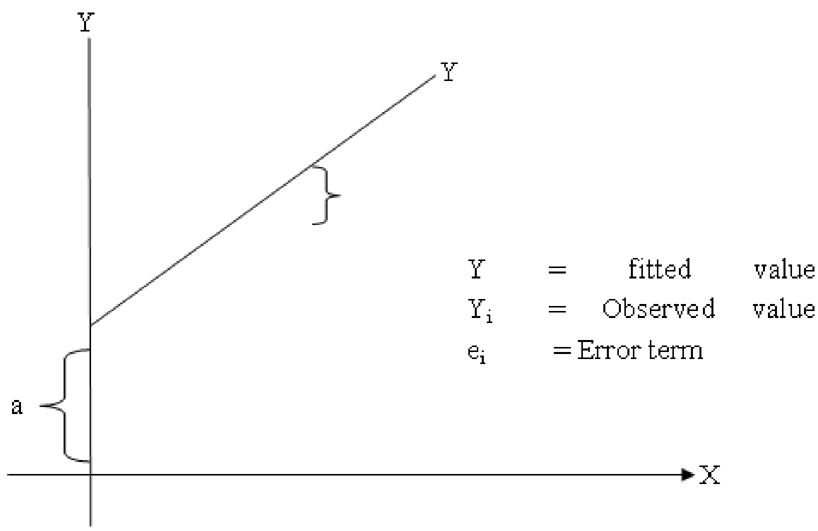
Simple linear regression model is written as

$Y_i= a + bx + e_i$

Where,

Y_i is the value of the dependent variable in the ith trial

a= the intercept
b= the slope of the regression line
e_i= the error term
x_i= the value of the independent variable in the ith trial



The Simple Linear Regression Model
Source: Unyimadu S.O. 2007

The intercept 'a' gives the value of Y when X = 0 while the slope 'b' indicates the amount of change in Y with various levels of X. Both a and b are called regression coefficients or regression parameters.

Where the relationships between these variables and the factor to be forecasted are known, the econometric forecasting model can be constructed. If managers have information about the relevant variables the model allows them to make a prediction about the matter affected by those variables.

4.0 CONCLUSION

Forecasting as we have dwelt with in this unit is used to anticipate future problems and events because they are mainly concerned with the future. Forecast help managers weigh options and advance their chances of reaching effective decisions.

Forecasting and production planning was considered and it was seen that forecasting has to do with our day to day living in our individual lives, as managers or even decision makers that is however, you want to view it from will determine the type of forecast, for instance; as an individual we choose what we wear based on our prediction of the day's weather and as such our lives is built around making forecast hence its importance in the determination of the success or failure of an organisation.

5.0 SUMMARY

This unit has dealt extensively with the study of forecasting and areas such as forecasting and production planning, demand forecasting and the techniques of forecasting was considered; It was also mentioned that forecasts are essential, because without them we are at the mercy of future occurrence. When we predict the future, we make it more likely that our decisions and actions will be good. We also discussed that in putting together plans and making decisions, managers and decision makers enables them to consider the alternatives available to them; in effect, predict how occurrences within and outside the organisation will affect each option and what the result of each option will be. These forecasts are the basis upon which manager's planning and decision making are based.

6.0 TUTOR-MARKED ASSIGNMENT

1. Clearly explain the role of forecasting when planning.
2. Discuss in your own understanding the different forecasting techniques with practical examples.

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MODULE 3 DECISION MAKING CONCEPT

UNIT 1 WHAT IS DECISION MAKING?

CONTENTS

1.0 INTRODUCTION

Making a decision is part of our daily life. This is because at every point on a daily basis we take decisions; for example, decision on whether to take breakfast before leaving home or not. No matter how unimportant we feel a matter is a decision must still be made. This unit will look at decision making, what it involves, its types and all.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- state the different definitions of decision making
- identify and explain the types of decision making
- define what decision making is.

3.0 MAIN CONTENT

3.1 What is Decision Making?

Different writers have given decision making in different perspective and as such refined their definition to reflect such. Cregg (1957) says that in organisations, decision making is a central responsibility of the manager and it is at the core of planning. He sees it as a vital part of the administrative process and leadership, thus equating management with decision making. As Weihrich & Koontz (1994) notes, managers see decision making as their central job because they must constantly choose what is to be done? Who is to do it? etc.

Decision making is defined as the process of thought and deliberation that results in individuals or members of an organisation choosing from among alternative ways of achieving an objective or responding to both opportunities and problems and providing a solution to a problem (Peretomode 2008). Making decision is a very important step in planning; a plan cannot be said to exist unless a decision is taken.

Decision making according to Starke & Sexty (1998) is the process of choosing between alternative courses of action to cope with crises, solve a problem or take advantage of an opportunity. The substance and focus of managerial decisions differs across organisations but the cause of the process of decision making is still the same. Problem solving refers only to those managerial actions that are crucial to determine what the problem is and why it took place. Thus, decision making has to do with the entire process while problem solving is one part of the process, Starke & Sexty (1998).

3.2 Definitions of Decision Making

A decision is defined as the selection process leading to a particular action. It is sometimes difficult to distinguish without being pedantic between action and a decision but strictly an action is the realisation of a decision (Gregory, 1988).

The word decision is derived from the Latin root *decido* meaning to cut off. The generic concept of decision therefore is settlement, fixed intension, bringing to a conclusive result, judgement and resolution. A decision is a choice made by a decision maker about what should or should not be done in a given situation'. It tries to trace the root of the courses (Steiner, 1969).

3.3 Types of Decision

Different types of decisions are made by managers, they can be categorised under programmed and non-programmed decisions. This dichotomy by March & Simon (1958) is based on the nature or type of problem to be dealt with or opportunities to be tackled.

Programmed Decisions

Programmed decisions are reoccurring decisions on everyday matters that are made using established procedures. More often than not, there are specific rules and procedures written or unwritten policies for handling them; for example, the Registry Department of NOUN making a decision on how to register students each semester. For a programme decision, the decision maker uses a performance programme, a standard sequence of behaviours that organisational members follow routinely whenever they encounter a particular type of problem or opportunity.

Programme decisions are also referred to as ‘routine decisions’ it is also easy for managers or administrators to make because there are guidelines or procedures that can be followed easily instead of thinking afresh how to go about certain problems or opportunities. High risk is not involved therefore it can be easily delegated (Peretomode, 1991).

Also according to Stoner *et al.* (1995) programme decisions to an extent limit our freedom because the individual has less liberty in deciding what is to be done. However, programmed decisions are essentially intended to be liberating. The policies, rules, or procedures by which we make programmed decisions serve time, allowing the decision maker (us) to dedicate attention to other more important activities.

Non-Programmed Decisions

The non-programmed decisions are those that are made in response to relatively novel problems and opportunities in the organisation. If a problem has not come up often enough to be covered by a policy or is so important that is worthy of special treatment. Problems such as how to allocate an organisation’s resources, what to do when a product is failing; most problem a manager faces usually requires non-programmed decisions. For instance, how to manufacture a newer and stronger product to tackle typhoid is a non-programmed decision for GlaxoSmithKline.

As one moves up the organisational hierarchy, the ability to make non programmed decisions becomes more important. When making non programmed decisions the manager or administrator must search for any information that may be useful will depend largely on their problem-solving ability, intuition, tolerance for ambiguity and good judgement. Non-programmed decision making entails high risk that cannot be easily assessed.

4.0 CONCLUSION

This unit has considered what decision making is, its various types and its definitions. Decision making is a key part of a manager's activities this is because when managers plan they decide such matters as what goals or opportunities their organisations will follow, the resources to use and what task will be performed by whom. The whole planning process involves them regularly in a series of decision making situations and this will to a large extent determine how good their plan will be. Programmed and non programmed decision was discussed, programmed decision we said is the easiest for managers to make because it simply refer to a policy that is already in existence rather than having to think and proffer a solution on one's own while in non-programmed decision help to differentiate between effective and non effective managers this is because managers will have to depend totally on their problem solving ability.

5.0 SUMMARY

Managers make decisions that must be carried out by others, their decision making approach must be modified to suit particular problems and situation. Programmed decisions are those that are given by habit or policy, non programmed decisions are those that are new and original, important decisions will be non-programmed as they will require careful and logical consideration.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain with practical examples the link between planning and decision making.
2. Critically examine programmed and non-programmed decisions and in your opinion state the one you think is better and why?

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UNIT 2 TYPES OF DECISION MAKING

CONTENTS

1.0 INTRODUCTION

An individual's life is filled with taking decisions daily; for instance, decisions need to be made whether to go out or not, or to dress in a particular way or not, etc. When it comes to an organisational setting, managers are also saddled with the responsibility of constantly making decision like where to invest profits, what to do about a persistent challenge in the organisation, etc. Hence, decision making is an important aspect of a manager's activity. We will also see that planning has a lot to do with decision making, how good a decision is will determine to a large extent how effective the manager's plan will be.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- describe the different conditions under which decisions can be made
- explain the processes involved in decision making
- state the factors that affect decision making.

3.0 MAIN CONTENT

3.1 Conditions of Decision Making

When making decisions all managers must weigh alternatives many of which involve future events that are difficult to predict such as a competitor's reaction to a new price list or the reliability of a new supplier. Decision making conditions are categorised on a scale ranging from certainty (highly predictable); risk and uncertainty (highly unpredictable) Stoner *et al.* (1995). The categorisation is based on the adequacy of information or data available to the decision maker.

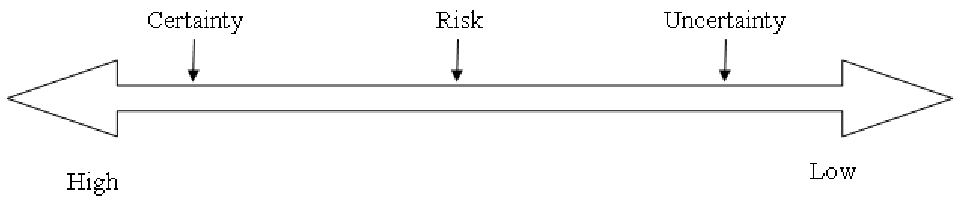

Fig. 1: The Scale of Decision Making Conditions Adapted from Stoner *et al.* (1995)

3.1.1 Decision Making under Certainty

A decision is made under conditions of certainty when manager knows the available alternatives and benefits or costs associated with each. In this type of situation there is a perfect knowledge about available alternatives and their consequences. These decisions are 'routine decisions' as Gleuck (1980) observed that the trouble is that in today's real complex and rapidly changing organisational life, few significant problems or opportunities fit these characteristics of conditions of certainty; conditions that are exceptions rather than rule.

3.1.2 Decision Making under Risk

This occurs in a condition where the risk manager does not have enough information or total knowledge of the problem or opportunity. This risk exists when the manager is able to define the problem clearly, can list many alternatives and can estimate the probability of the payoffs for each alternative. In this state there is no way to certify that a particular alternative will lead to a particular payoff; for example, if Guinness decides to open new outlet in another location, Guinness cannot predict how much profit or sales the new outlet would produce. However, because of the amount and quality of information that the manager has, he is sure that the result will most likely fall within a certain range of outcomes. In other words, the decision maker has some probabilistic estimates of the outcomes of each alternative and consequently 'the probabilities of the various possible outcomes associated with the decision' (Peretomode, 2008).

Probability theory is often used by managers to cope with risk. There are two types of probabilities:

a) Objective Probabilities

These are based on quantifiable facts. The simplest example of these is the tossing of a coin; the probability of it being head is 50 percent because there are only two sides to a coin. Objective probabilities are not infallible (perfect) since circumstances change over time and data developed in one period may not be useful in another.

b) Subjective Probabilities

These are based on management intuition, values, preferences and experience with similar situations. For instance, if the human resource manager is recruiting someone for the position of brand manager and the organisation has never had such a position before, the human resource manager can only make subjective estimate of the probability of success of a candidate probably based on the interview(s) he had with the candidate before he was given the position.

Hence, in decisions under risks alternatives are recognised but their outcomes are usually in doubt. Managers however usually assess the likelihood of various outcomes occurring based on past experiences, research and other information.

3.1.3 Decision Making Under Uncertainty

A decision is made under conditions of uncertainty when a manager does not know the available alternatives, the likelihood of their occurrence or their potential outcome. Decisions under conditions of uncertainty are the most difficult; in such situations, a manager has no knowledge on which to even estimate the likelihood of various outcomes.

In most cases, managers have some experiences upon which to base their decisions but there are situations such as launching new businesses, developing new products, or expanding into foreign markets where conditions of near uncertainty do exist. In each case, the number of factors to be weighed and evaluated could be overwhelming.

Glueck (1980) identified three strategies which decision-makers use to deal with uncertainty:

- Avoid uncertainty: Ignore the sources of uncertainty and hope for the best. This is an uncommon strategy.
- Reduce the uncertainty to certainty: Pretend that the future will be like the past and decide as in the past. This is a frequent strategy
- Reduce the uncertainty in the environment: Negotiate with the source of uncertainty. Thus, if supplies are uncertain, the manager may sign a long-term contract (to reduce the uncertainty of future prices).

3.2 The Decision Making Process

Decision making has been identified as a process of thought and consideration that results in a decision. Decision is what mangers used to respond to problems and opportunities a comprehensive search for information is required by organisations especially if it involves non-programmed decisions, an in-depth understanding of the processes involved in rational decision making is vital because the process to a large extent determines how good or bad the decision is likely to be.

Decision making involves quite a number of stages and as such managers need to go through these stages before taking a decision because this helps them think thoroughly about the problem and establish alternative strategies. It should be noted that there are no universally accepted laid down procedures or stages for managers to follow before making a decision, what is of upmost importance is that whatever process or stages, managers want to adopt it must be rational, reasonable and systematic. For this unit, we will consider the following processes involved in decision making:

Stage 1

Recognise, diagnose and define the problem. The first stage of the decision making process is the recognition that a problem or opportunity exists working against achieving objectives and finding out the origin of the problem and then describing the real problem. Pounds (1969) identified 3 sources of information helpful to managers in the recognition of problem:

- Historical data: This is gotten using the organisation's performance, when the current data show a relative decline in performance when compared to past performance data then a decision is likely.
- Planning data: When the results do not meet the planned objectives.

- Criticism: When outsiders point out problems or when results are compared unfavourably of those of similar enterprises a decision is likely.

This first stage in decision making can be affected by problems such as:

i. The decision maker ignoring information and thus becoming blind to the problem,
ii. The wrong problem and or causes are identified from information,
iii. The decision maker skips over the problem recognition stage, attempting to solve the problem before it is clearly defined and recognised (Watson, 1976).

Stage 2

Search for, gather and analyse relevant facts or information. Once we have defined our problem, the manager would now decide what he will do about it; to go about this the manager must first decide what facts they will need to make an accurate decision and then try to obtain as much of this information as possible to be able to put together possible solutions (Stoner, 1978).

Stage 3

Develop Alternative Solutions - After identifying and defining a problem and putting together relevant information, managers must at this stage develop possible alternative solutions from which a choice will be made. These alternatives represent different responses to the problem or the opportunity.

Stage 4

Evaluate the Alternative Solutions – Once managers have built up a set of options for the solutions, they must source for new information that will enable them further evaluate each of the alternatives in terms of the goods and resources of the organisation and how it will help solve the problem or confront the opportunity. This stage has to do with listing the possible outcome of each alternative. Stoner, 1976 put forward that managers based on their intuition, knowledge, experiences each arrange alternatives in a hierarchy from most preferred to least preferred and decide which alternatives are most desirable or attractive. This is done after both the positive and negative consequences of all the alternatives have been examined.

Stage 5

Select the best alternative solutions – the decision maker must choose one of the identified alternatives. The alternative chosen will be one that best solves all the factors of their problem at the lowest cost to their organisation.

Stage 6

Implement the decision – The process of decision making is not complete if the alternative chosen has not yet being implemented. Decision implementation involves communicating the chosen option/alternative to those to be affected by it or the members of the organisation and assigning resources and responsibility in implementing it (Gleuck, 1980).

Stage 7

Evaluate and Control – At these stage managers should set up a procedure for regular, periodic feedback in form of reports on the progress of the course of action that has been implemented. They should also set up 'early warning system' to let them know as soon as possible of some problem with the action being implemented (Stoner, 1979); a form of control system.

3.3 Factors Affecting the Decision Making Process

Decision making varies from one organisation to the other. The different decisions made by managers are often dependent on several factors which are:

- significance of the decision
- time pressure
- factors in the decision environment
- factors affecting decision maker(s) decision mode, politics and individual or group processes, attitudes, feelings, abilities motives and his personality.

4.0 CONCLUSION

In conclusion, we have seen that the conditions under which managers make decisions will vary with the amount of information they have. Under conditions of certainty, managers know precisely what the results for each option available to them will be. Under the conditions of risk, they know within a small margin of error the probable outcome of each option. For conditions of uncertainty on the other hand, the probabilities are not known precisely.

In most organisations decisions are made under some degree of uncertainty, this is one reason managers try to reach satisfactory stage, rather than ideal decisions. Managers do not wait for problems to arise but they actively look for opportunities and problems.

5.0 SUMMARY

Managers make decisions that must be carried out by others, the types of decisions made and the conditions under which they are made will vary and as such they shape their decision making approach to the particular problems and circumstances. The conditions under which managers make decisions will vary with the amount of information they have; under conditions of certainty managers know precisely what the results will be of each of the alternatives available to them, under conditions of risk, they know within a small margin of error the probable outcome of each alternative. Most management decisions are made under some degree of uncertainty. This is one reason managers try to reach satisfaction rather than ideal decisions.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and explain the types of decision making we have.
2. Critically examine the decision making process.
3. Do a critique of the probabilities involved in decision making.

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UNIT 3 CONDITIONS OF DECISION MAKING

CONTENTS

1.0 INTRODUCTION

We have said that managers must frequently make decisions when the information they have is not complete, the major reason for this is that managers cannot always predict the aftermath of their decisions. Quite a number of techniques have been developed to help managers make better decisions, in this unit, we will be considering six of the most popular decision making techniques.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- demonstrate the various decision making techniques
- explain the type of decision making technique to apply for each problem or challenge they come across
- describe the decision making matrix.

3.0 MAIN CONTENT

3.1 Decision Making Trees

Managers are faced with difficult problems in which the likely result of each of the alternative solutions available to them will be difficult to predict. Decision trees were developed to assist managers make a series of decisions that has to do with uncertain events. A decision tree is a device that displays graphically the various actions that a manager can take and how these actions will relate to the various future events that occur (Stoner, 1978). It should be noted that using a decision tree will not make a decision for the manager, the manager will still be required to make a judgement; Although, in proper situations using a decision tree will help to decrease the potential confusion in a complex problem and allow the manager to analyse the problem rationally.

We will look at a typical problem and see how a decision tree is used in making a decision: for example, assuming Honda Motor Company Ltd. at present is producing vehicle or cars which are only gasoline powered. The company's managers however, considered that the market potential for solar vehicles is growing fast. They must decide whether to keep on producing only gasoline vehicles or start producing only solar vehicles. If they decide to continue to produce only gasoline motors they may subsequently decide to invest in new facilities that will enable them to produce both gasoline and solar vehicles.

To create the decision tree that would help their company decide on what to do according to Stoner (1978), the managers involved would go through a 3-step procedure:

a. Identify the decision points (that is the points at which a decision might be made) the alternative actions available at each point and the possible events associated with each alternative action. In this case there are two possible decision points with two alternatives available at each point; first, 'continuing to produce gasoline vehicles' versus 'producing only solar vehicles' and second 'invest in new facilities to produce both vehicle types' versus 'do not invest in new facilities. The possible outcomes of each alternative action are illustrated in the tree.
b. Estimate the probability of each possible event and the payoff associated with each action event combination. As was stated earlier, under conditions of risk, managers will be able to assign precise probabilities for each event; under conditions of uncertainty; approximate probabilities will have to be assigned. In any case, the probability figures give managers a measurable basis for deciding which events are most and least likely to occur. Similarly, the estimated payoffs (return) will be put in measurable terms; e.g. profits in a naira.
c. Analyse the decision tree to determine which decision will have the highest expected value in terms of its payoff and the probability that it will occur.

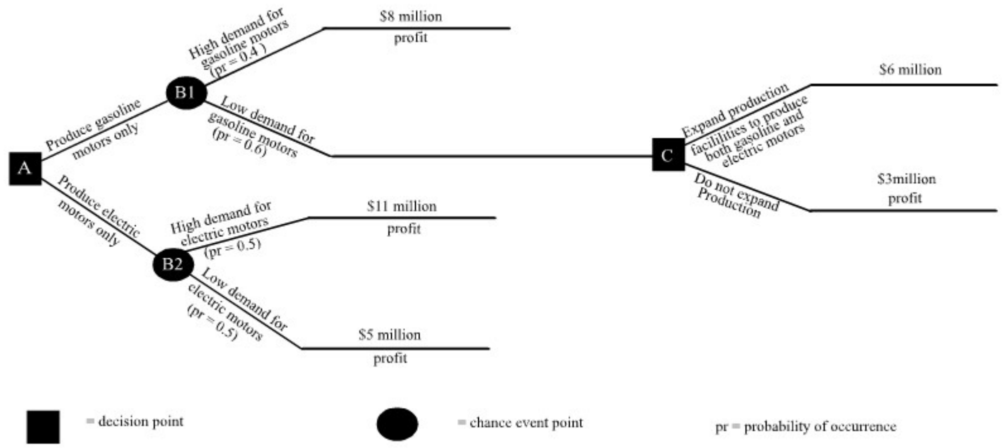

Fig. 1: Decision Tree Diagram
Adapted from Stoner (1978)

When the appropriate information has been put into graphic form as a decision tree, the managers must evaluate the tree to see which action has the highest expected value. The action with the highest expected value would normally be the most attractive based on assumptions and expectations underlying the tree. The managers begin the analysis by working backwards on the tree, from its end branches toward the first decision point. (This process is called 'rolling back' the decision tree). At each stage the expected value is determined by multiplying the probability of each event by the appropriate payoff; the results for all the possible outcomes of each managerial action are then added together, this figure becomes the expected value of the action it represents the average result the manager can reasonably expect from that action.

Note: The company conducts market tests and concludes that two levels of sales are possible for each product; high (probability =0.6) or low (probability = 0.4), the predicted profits in million.

The company managers of Honda would start their analysis with the decision at point C, at that point the outcome is presumed to be known. The decision to expand production would be the most logical one to make, since its payoff (₦6 million) is greater than the payoff for not expanding production (₦3 million). Thus, the expected value of this decision - ₦6 million will become the payoff in the event that there is a low demand for gasoline vehicles at event point.

Moving backwards to event fork $A_{1,}$ the expected value for the two possible outcomes is calculated.

Expected value for decision to produce gasoline only: i.e A_1
(0.4 x 8m) + (0.6 x 6m) = 6.8m

Expected value for decision to produce solar vehicles: A_2
(0.5 x 11m) + (0.5 x 5m) = 8m

Note: A 0.5 probability was used for product A_2 because it is a new product and we are projecting that the demand for the product will be 50/50 chance of demand.

On the basis of the expected value calculation, the decision to stop producing gasoline vehicles and start producing solar vehicles would be most profitable- however, the managers will still have to use their judgement before making a final decision. For example, although the decision to produce only solar vehicles has the highest expected value, this decision also has the lowest profit if things do not work out well (₦5m versus ₦6 million) if the managers are reluctant to accept risk of a profit as low as ₦5 million, they may not wish to produce solar vehicles despite its higher expected value.

Decision trees can become quite detailed and complex if the number of possible alternatives, events, and payoffs increases. Nevertheless, they can help managers think about their decisions in a more logical way and make them more aware of the possible outcomes of their decisions (Stoner, 1978).

3.2 Decision Matrix

Managers are more often than not forced with problems in which various criteria must be considered before a decision can be made. In such cases a decision matrix can be useful, a decision matrix helps the decision maker to systematically develop and weigh the criteria that are to be used in making a decision. Starke & Sexty (1998) describes the steps that are involved in the decision matrix:

1. Listing alternatives: Listing the alternatives involved; for instance, Producer A, B, C, etc.
2. Establishing criteria: For a decision matrix to be used criteria must be decided upon, for instance; for credit terms, discount, etc.
3. Weighing the criteria: The manager or department involved in making a decision will choose the most important criterion and would be assigned a weight to it based on its importance, e.g. a weight of 200 and the other criteria would also be weighed accordingly.
4. Rating each alternative on each criterion. For instance, credit terms can be judged based on the firm’s financial condition;

reputation, etc. and this will inform how many points will be given to each of the alternatives based on this.

5. Calculating the score for each alternative: For each alternative, the weight for each criterion was multiplied by value for each criterion. Then the weighted ratings for each alternative were added together.
6. Choosing the alternative with the highest score: After the calculation on the 5th stage the alternative with the highest score will be chosen.

The decision matrix may be used in either individual or group decision making. In the individual the manager simply decides on the criteria that will be used to assess the problem, and the weights that should be attached to each criterion. In a group setting, debates may occur about the criteria and the weights and lengthy group discussions may take place before a consensus is achieved.

3.3 Brainstorming

This is designed to encourage creativity by having group members present freewheeling solutions to problems in a non-judgemental setting. Brainstorming usually involves getting 8 – 12 people together for about an hour to come up with creative solutions to problems, the design in brainstorming is to create an atmosphere of zeal and spontaneity so that suggestions flow without fear of being judged. This technique was developed by Alex Osborn (1957); the following guidelines are used in brainstorming sessions:

i. Criticism of ideas is not allowed.
ii. No idea is considered too ridiculous, people are encouraged to express any idea that come to mind.
iii. Participants are encouraged to build on the suggestions of other group members. The emphasis is on group, not individual, development and ownership of ideas.
iv. As many ideas as possible are encouraged, the greater the number of ideas the greater the chance that one will be found that is useful.

Brainstorming technique has been used in many firms in both the public and private sector. Some managers use it because it helps achieve broad goals like building team spirit, making work more enjoyable, and improving communication among employees and management, Starke & Sexty (1998). Brainstorming also has its shortfalls, during the 1960s and 1970s studies were carried out which consistently indicated that brainstorming actually produced fewer and lower quality ideas than those produced by individuals working alone, it appears that brainstorming is not as effective as it might be because people do not work as hard in groups as they do individually, this is because they are reluctant to express their ideas for fear of ridicule and because everyone cannot talk at once Gallupe (1991).

Advancement in computer technology enhances the performance of both when individuals work alone and then combine their ideas and situations where individuals interact during discussion of the problem. In electronic brainstorming group members type ideas into a computer; these ideas then show up at the same time on the computer screens of other group members, studies showed that electronic brainstorming indicate that performance increases as group size increases.

3.4 The Delphi Technique

This is a procedure for getting consensus among experts through the use of questionnaires and the feedback of results. This method is mainly used for forecasting future events or assessing current needs, the procedure for this method is:

1. The organisation identifies about 15 to 20 experts on a particular area they are interested in and then prompts each expert to give an individual opinion. The experts are not brought together to form a group nor do they talk to each other.
2. A questionnaire is sent to the experts asking them to give numerical estimates of the likelihood that a particular future event will occur. These questions can deal with practically any issue ranging from interest rates to prices of products.
3. The responses of the experts are tabulated and a summary of the results is given to each one. The summary shows the average and medium responses, as well as the range of answers on each question; the experts are asked to consider the information in the summary and then fill out the same questionnaire again.
4. The second round of questionnaires is summarised to give the same type of information as the first round. This summary may draw some conclusions about what the emerging consensus is on the issue under examination; experts who have given responses that are not close to the emerging consensus may be asked to justify their opinions.
5. The experts are then asked to make a third estimate. A final summary is developed from these answers and presented to the management of the organisation doing the study.

The Delphi technique has one major advantage over other group decision-making techniques it is free of any face-to-face interaction among participants. As a result it is impossible for particular strong-willed individuals to dominate the group; experts simply give their responses on the questionnaires and consider the summaries they receive. They know that the other respondents are also experts in the field and so take the other views that are expressed seriously.

3.5 Nominal Grouping

Nominal grouping is a decision making technique emphasising the equal contribution of a group member through the mechanism of voting (Delbecg, 1975). Five to ten individuals are assembled in a room and asked to write solutions to a problem that has been given to them by the group moderator. An example of the task that might be given to the group is 'How to Train Employees so they can be more Productive', etc.

Procedure for using nominal grouping is:

1. Listing: This is a situation whereby individuals write down their solutions to the problem without discussing them with other members of the group.
2. Recording: At this stage after like 20 minutes individuals are asked to give the solutions they have written down to the group recorder. The recorder writes each person's solution on a flip chart, no discussion of any solution is permitted until all solutions have been written on a flip chart.
3. Clarification: After all solutions are listed on the flip chart, a general discussion takes place. The purpose of this discussion is to clarify what each solution involves; critiquing solutions is not allowed.
4. Voting: Ballots are distributed to members of the group and they are asked to rank the solutions that are listed on the flip chart. The ballots are then tabulated and the alternative with the highest score is designated as the choice of the group.

A review of the study shows that nominal grouping with comparison with other techniques shows that it is as good with respect to decision quality and participant satisfaction. This technique also motivates people to implement decisions that have been made using nominal grouping.

3.6 Dialectical Inquiry

This is an approach to group decision making that deliberately introduces conflict into decision making deliberations so that conflicting assumptions and solutions will be seriously considered (Mason, 1969). Dialectical inquiry has most frequently be used in strategic management decision making where a group of 15 or more people make decisions that will affect the entire organisation.

This process has four basic phases: (1) clarifying manager's assumptions about the problem and the ways in which they feel it should be solved; (2) identifying assumptions that are opposite to those identified in the first phase; (3) integrating the opposing assumptions and (4) deciding what course of action to take. The purpose of dialectical inquiry is to develop and clarify opposing points of view.

However, introducing conflict into group deliberations may also reduce participant commitment because negative interpersonal feelings may develop during the discussion process. As a group decision making technique, dialectical inquiry appears most promising in situations where the participants are in agreement on fundamental issues. For instance, the organisation's reason for existence, and they wish to develop some specific strategies to fulfil the organisation's mission.

Furthermore, if participants are hostile to each other at the beginning of a dialectical inquiry session, it is unlikely that very much will be accomplished (Nutt, 1982).

3.7 Advantages of Group Decision Making

Group decision making has several advantages which are as follows:

- Group posses the knowledge of more than one individual all of which can be brought to bear on the problem that needs to be solved or the opportunity that might be exploited.
- Each person views a situation from a different perspective a group can consider various approaches to a problem or opportunity. An individual making decisions without ideas from others may become stuck in a pattern of thinking that is unsuitable for solving the problem at hand.
- Group decision making means increased participation by the individuals in the group. Although the participation of many people does not guarantee a high-quality decision, it does increase member satisfaction. Employees who have been involved in making a decision are more likely to support and accept it than those who have simply had the decision imposed on them.
- Collective decision making tends to improve the participants' understanding of the issues in the decision. Through group discussions on a specific issue, a person gains insight into the

need for a decision; the factors that influence the decision and people's feelings about the issue.

3.8 Disadvantages of Group Decision Making

- The most obvious disadvantage of group decision making is the time required to make decisions. In most organisations, the need for action is urgent but groups have a reputation for being slow. Decisive individuals can become frustrated waiting for a group to make up its mind.
- Problem of dominance: Certain individuals dominate group discussions, as a result, the dominant person's preferences and ideas may be accepted while other equally worthy ideas may be ignored.
- The compromise that may occur as groups try to work through controversial issues; this may mean low commitment to the decision since, neither side got what they wanted.
- Social loafing: This is the tendency of individuals to put forth less effort in a group than they do when they work individually, it will most likely occur when the nature of the task makes it difficult to tell how hard a person is working and when the person's interest in the task is low.
- Another is that the group members maybe concerned about solidarity that they fail to come to grips with the problem facing them.

A technique used to litigate these disadvantages is one referred to as 'step ladder technique'. This reduces the probability of some of these problems by structuring the entry of group members into a core group. In a four-person group for example, two members (the core) first work on a problem together, a third member then joins the core and presents his or her solution, after a three-person discussion follows. A fourth person then presents his or her solution and a four-person discussion ensues. According to Rogelbert *et al.* (1992), the step ladder group produce significantly higher quality decisions than conventional groups.

4.0 CONCLUSION

In conclusion, managers do not only wait for problems to come up but they also keenly look for opportunities and as we have seen not all problems that the managers face need the same decision making technique to be solved. One of the most important duties of managers is to determine which opportunity or problem they should react to first an example of this as was seen in this unit is the decision making matrix.

5.0 SUMMARY

The unit considered the decision making technique that could be used by managers or decision makers to make decisions. Whenever we want to make a choice between options that have multiple characteristics that must be weighted we saw that employing the decision matrix will be appropriate in the case, while decision trees are used when payoffs can be measured and chances can be stated with assurance. The dialectical inquiry however, intentionally brings conflict into group decision making so that differing views are considered.

The unit also examined the advantages and disadvantages of group decision making and it was concluded that group decisions are generally of higher quality than those made by the average group member but lower than those of the best members.

6.0 TUTOR -MARKED ASSIGNMENT

1. Differentiate between decision matrix and decision tree technique and give the conditions under which they can be applied
2. With the aid of a diagram only explain the decision tree.
3. Describe the brainstorming technique and give its advantages and disadvantages.

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UNIT 4 MODELS OF DECISION MAKING

CONTENTS

1.0 INTRODUCTION

The process that managers use to make decisions has been the subject of much research. Several competing models of managerial decision making behaviour have been identified. Managers will often say that they follow rational procedures when making decisions, but if asked to analyse a successful decision they may attach more significance to the process than is warranted.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- state the models of decision making
- explain the garbage can model.

3.1 The Rational Model

The rational model of decision making assumes that decision makers proceed through a series of well defined steps before a decision is made. If the decision maker is dealing with a problem or crisis, the process starts at step 1; for opportunity decisions, the process starts at step 5.

A. **Problem Analysis Phase:** The decision maker's goal is to come to a clear understanding of what the problem is, four steps are involved in this phase.

Step 1

Develop Standards

Standards indicate the level of performance that should be achieved under normal conditions. Standards can be stated qualitatively or quantitatively but because quantitative measurement is easier to achieve and subject to less interpretation it is preferred. Unfortunately, the development of standards often causes much controversy and conflict. Individuals who will be governed by the standard may feel that they have too little input when the standard is first set. Even if workers are involved in setting the standard, they may feel that the way in which output is measured is inappropriate; employees may also feel that management will use performance standards against them or that their jobs cannot be quantified.

Step 2

Observe Deviations from the Standard

The performance of either a machine or a person is observed in order to determine if there is a deviation from the standard such deviation may be either above or below the standard, but getting agreement on whether or not a deviation exists may be difficult even if everyone agrees on a standard.

Step 3

Describe the Deviation Specifically

A problem cannot be solved until it is clear what the problem is, this step requires that the observed deviation be described in detail. This involves stating the location, magnitude, and timing of the deviation as well as any additional information that gives the decision maker a better understanding of the deviation. Failure to describe the deviation specifically often results in failure to find the root cause of the problem.

Step 4

Determine the Cause of the Deviation

This requires the use of information that has been gathered in the previous three steps. If clear standards are set, if the deviation from the standard is observed and if this deviation is described in detail; the decision maker will be successful in determining the cause of the problem.

B. The Decision Making Phase

When the cause of a problem is known, the decision maker must decide how to resolve it. In this phase the decision maker develops a solution to the problem or capitalises on an opportunity that has arisen, 4 steps are required here:

Step 5

State the Objectives of the Decision

For problem decisions the objective is to solve the problem that has been defined 'step 4', for opportunity decisions the objectives must first be stated. These objectives deal with issues such as the level of profit or service desired, employee productivity, absentee rates or any other area where management would like to improve. It may be difficult to arrive at a consensus about the objectives because of human peculiarity that the organisation should pursue even with agreement on general objectives, different parts of an organisation may find themselves in conflict over specific issues.

Step 6

Develop Alternative Solutions

Here, the decision maker develops as many possible solutions to the problem as can be generated. Creativity is an important aspect in this step since innovative solutions often resolve problems that traditional measures will not, when people attempt to develop alternative solutions, they tend to suggest those that have worked in similar circumstances in the past. The conservative nature of most decision makers means that innovative alternatives are dismissed because 'we have never done it that way'.

Step 7

Evaluate Alternative Solutions

Once a list of potential courses of action has been created it must be analysed and the alternatives ranked. Some sort of criterion must be used so that the alternatives can be compared to each other. In practice, individuals neglect evaluating the alternatives because they lack the necessary motivation to do the evaluation or the timing involved.

Step 8

Choose the Best Alternative

As soon as steps 1-7 or steps 5-7 have been completed the decision maker can choose the best alternative according to the criterion established once an option is selected the decision making phase is complete.

C. The Implementation Phase

The goal is to put into practice the solution that has been chosen. In this phase, thoughts must be converted into actions and the key skill required is the ability to introduce change.

Step 9

Plan the Action

When a detailed plan of action is being developed certain questions must be answered for example: Who will monitor the implementation to see if it is working properly? What criteria will be used to determine if the proposed course of action actually solves the problem or achieves the desired objective? Problems in this step arise when people fail to plan their actions adequately, thereby rendering the actions ineffective.

Step 10

Implement the Solution

The most effective decisions are those that are of high quality and that are accepted by those they affect, as indicated in the following important formula:

Decision Effectiveness = Quality x Acceptance

A high quality decision that is not accepted by those who must live with it is useless; likewise a low quality solution that is implemented strictly because the employees will accept it will not be very effective either.

This stage can be exceptionally frustrating for decision makers. This is because those that will be affected by the change raise objections and therefore interrupt the change, these problems can be avoided by allowing those who will be affected to take part in the decision making phase but this process is often resisted by manager's because it takes much time and energy in their opinion.

Step 11

Follow Up

When a solution is implemented, management must monitor the extent to which it achieves what it is supposed to achieve. Hence, a control system must therefore be put in place to measure the success of the solution.

3.2 The Bounded Rationality Model

The bounded rationality model tries to explain how managers actually make decisions unlike the rational model which prescribes how managers 'should' make decisions. This model makes the assumption that managers do not have perfect information about problems and that they do not use logical decision processes when they make decisions; this model is an attempt to take into account the fact that human beings cannot possibly deal with all aspects of all problems that they confront.

An important concept in this model is the idea of satisfying; satisfying means choosing an alternative that is acceptable but that is not ideal. For example you want to drink tea and needs sugar to take it but you suddenly found out that you have ran out of sugar and what is available is honey, in which you used for your tea. This decision is not optimal but it does allow you to achieve your fundamental goal of sweetening the tea.

The idea of bounded rationality helps to explain why managers sometimes stick with a course of action long after it has become unwise or unprofitable, a situation in which a manager becomes increasingly committed to a previously chosen course of action even though it has been shown to be ineffective, this is referred to 'Escalation of commitment'. It was found out that managers may fall into the trap of over commitment to a project as a result of one of these reasons:

- unwillingness to accept mistake
- they are hard-driving and success oriented and as such are motivated to defend their original decisions
- the fear that if the project does not come up successfully it may affect their career

- they are usually of the opinion that hard work will solve the problems faced during a project (Starke & Sexty 1998).

The setback of over commitment can be done away with by managers if they set precise goals ahead of time which states the amount of money to be used for the particular project and as soon that the maximum is attained managers should discard the project.

3.3 The Garbage Can Model

The basis of this model is that the decision making process in organisations is complex and that makes it unworkable to illustrate how decisions are made, the garbage can model has to do with decisions that are made only when several factors are : i) a solution to problem is discovered, ii) the solution does not require excessive amounts of organisational resources and, iii) the problem and its solution are known to a decision maker who happens to have the time and interest in making the decision. Thus, in two situations that look very similar, two different decisions may be made (Starke & Sexty, 1998).

3.4 The Political Model

This model assumes that the organisational decisions are made on the basis of whether or not they will increase the status, power or economic welfare of the decision maker. Like the bounded rationality model, it explains how managers actually make decisions. Different from either the rational or bounded rationality model, the political model is of the opinion that individuals will follow after their own self-interest, even if doing that will affect negatively others in the organisation. For example, if the manager of a particular marketing department makes a submission for the Public Relations department to be merged with his department. The submission will most likely be made on the rational of administrative competency, but what the manager really has at the back of his mind is his selfish interest of having more subordinates to control and a bigger budget or impress that would be accrued to him.

4.0 CONCLUSION

This unit has reviewed the different models of decision making such as the rational model, the political and the garbage can model, the bounded rationality model we said is an attempt to take into consideration the reality that human beings cannot possibly deal with all aspects of the problems they face day-in day-out. The steps required for each phase of decision making was considered in this unit as well.

5.0 SUMMARY

The unit considered extensively the models of decision making. The rational model shows managers how decisions should be made; it breaks the decision model into three phases as discussed in the unit. The bounded rationality model on the other hand thinks that managers deal with complex problems by choosing the first option that comes rather than seeking for the best solution. We also looked at the political model which assumes that decisions are made in an organisational setting where individuals are influenced by power, status and economic climate when they make decisions, unlike the garbage can model which sees the organisation as a very complex place where decision makers, problems and solutions all fluctuates. Decisions like we considered are best made when these three factors come together.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the major phases in the rational model of decision making and give the major goal of each phase.
2. Using example, explain the term ‘satisfying’ as a concept in bounded rationality model.

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UNIT 5 DECISION MAKING PERSPECTIVE

CONTENTS

1.0 INTRODUCTION

Lately, the operations of organisations have grown to be more multifaceted and expensive to the extent that it has become both more difficult and more important for managers to make effective plans and decisions, to aid or assist managers in making the quality of their planning and decision making better; a number of techniques have been developed. In this unit the focus will be on the management science approaches to decision making, operations research techniques, etc. which helps in the decision making process.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- explain the major features in an operations research programme
- describe the steps in the management science approach to problem solving
- the advantages and disadvantages of operations research.

3.0 MAIN CONTENT

3.1 Management Science Approach to Decision Making

Management science or operations research (OR) gives the manager a scientific and quantitative way of scrutinising a problem and evaluating the aftermath of each possible decision. By employing the techniques of science and mathematics, operations research hopes to increase the logic and dependability of managerial decision making. There are six main features of an operations research (OR) programme which are as follows:

a. A decision making focus: The result of operations research should help managers make a decision. It must not proffer something for managers that would be impossible to achieve. Hence, it is essential for managers to supply the OR process with enough information.
b. Economic Effectiveness: The financial return on any action given by the OR should defend the cost of the action in terms of savings or revenues. An idea that will bring solution to the problem but would also lead to a net financial loss is not effective.
c. The use of a mathematical model: OR reduces the elements of a complex problem to their mathematical equivalent. These are then used to construct a model on which experiments are made. It is presumed that these results would occur in the real situation if it were similarly manipulated (Stoner, 1978).
d. Reliance on a computer: A computer typically is essential to process the model, as the computations entailed are too complex for human beings to deal with efficiently. As a result managers must sort out their assumptions and objectives earlier, so that the information supplied to the computer will accurately describe their problem.
e. A team approach: Difficulties tackled by OR are usually too complex for an individual to solve independently the skills and knowledge of quite a number of specialists is needed.
f. Systems orientation: OR considers what is best for the organisation as a whole rather than for a department or unit. Problems arises when the OR process must not only mediate differences between the parts and the whole but between the parts too.

3.2 Steps in the Management Science Approach

According to Stoner (1978) there are five basic steps in the management science approach to problem solving. They are:

1. Diagnosis of the problem: The main elements of a problem must be identified before solving can begin. OR staff will seek answers to questions such as what are the most central parts of the problem situation

2. Formulation of the problem: Immediately the main elements of the problem have been spotted, the OR team must start to formulate the problem in precise terms
3. Model Building: To determine the best solution to the problem many solutions must be examined. The OR team finds it difficult to experiment in real life, this is because of the changes in price, production rates, etc. Hence, OR team sets up a mathematical model that symbolically incorporates the elements of the problem.
4. Analysis of the model: As soon as the basic model is setup, a solution to the problem must be generated. What is done is, the values of the controllable variables will be changed and with each change the model will be analysed with the computer. The value that best meet the manager's intention will represent the solution to the problem.
5. Implementation of findings: The OR process will have meaning only if the manager implements the results.

3.3 Types of Models and Management Science Techniques

Models established in OR must reflect certainty as much as possible if not it would not be useful. There are different types of models and management science techniques that are used for different types of problems. A useful distinction we can create is between normative and descriptive models; a normative model tries to explain what ought to be done, it is used to present managers with the best premium solution, an example of this is linear programming which will be considered later in this unit. A descriptive model on the other hand tries to portray things as they are. It gives managers information they require to make decisions which implies that it does not provide solutions to problems but suggests what would happen if problem variables were changed.

Out of the many problem-solving management science models and techniques, we shall discuss two models among the most popular.

1. Linear Programming Models: These are mostly used to decide the best way to assign limited resources to accomplish some desired end. The problems for which linear programming might be used are the ones that can be expressed in terms of linear - that is directly proportional relationships. Because they seek optimum solutions, linear programming models are regarded as normative.
2. Simulation Models: All models use the process of simulation in that they replicate reality. Simulation models are particularly designed to be used for problems that are too complex to be described or solved by standard mathematical equations. They try

to imitate a part of an organisation's operation in order to see what will happen to that part over time, or to experiment that part by changing certain variables.

Simulation models have a variety of uses including the testing of machine, systems and large scale operations such as airports. Like all models they permit experimentation to take place without interfering with actual operations. Another main advantage of simulation model is that they can be speed up to a point out within minutes what would happen in real life situation over a period of years. Simulation models are also descriptive rather than normative (Stoner, 1978).

3.4 Advantages and Disadvantages of Operations Research

Advantages of OR

The first advantage of OR is that it makes it feasible to break down complex, large-scale problem into smaller parts that can be easily detected and manipulated. Another advantage of OR is that it advances the possibility of a good decision. This is because OR researchers pay rapt attention to details and follow logical systematic procedures. Hence, it is difficult to make errors.

A third advantage of OR is that it is helpful in assessing alternatives for managers.

Disadvantages of OR

A major disadvantage of OR is that its projects are too expensive. As a result of this each OR study has to be subjected to its own cost benefit analysis before the decision to go ahead is made. Another disadvantage of OR is that it cannot be effectively used in many situation. This is because some problems are too complex to be dealt with using mathematical tools that are available.

Furthermore, OR can easily become a technique divorced from reality, this might be as a result of shortcomings in the initial assumptions about a problem or because essential variables are ignored. Another shortfall of OR is that researchers tend to pay no attention to important aspects of a problem because they are not measurable.

4.0 CONCLUSION

The term management science or operations researchers are used interchangeably. If found out that the decision making process relies on logic while OR normally relies on a mathematical model. It is important to note that OR can provide guidance on a problem but it is not a substitute for managerial judgement.

5.0 SUMMARY

In the course of discussion in this unit it was established that management science or operations research techniques assists managers in advancing the effectiveness of their decisions by systematically analysing a problem and alternative solutions. Some widely used OR tools are linear programming models and simulation models just as examined in the unit. The linear programming is normative because it put forwards a best solution, others such as simulation are descriptive and they suggest what will happen if a specific solution is adopted.

6.0 TUTOR-MARKED ASSIGNMENT

1. Describe the major features of an OR programme.
2. State the steps involved in the OR approach to problem solving.
3. Explain the distinction between normative and descriptive models with examples.

7.0 REFERENCES/FURTHER READING

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UNIT 6 NATURE OF MANAGERIAL DECISION MAKING

CONTENTS

1.0 INTRODUCTION

In every organisational endeavour, one of the key functions of management is to make decisions on issues that affect the functionality of the enterprise. However, decision situation differ, not all decisions have the same level of importance, hence different decision situations demand the attention of different level management. Some decisions are taken by top level managers, others are made by middle level managers and the lower level manager also make decisions as it affects the day-to-day running of the organisation. Decisions can also be delegated to subordinates under certain circumstances.

Thus, the following considerations should be made when organisational managers are presented with decision situations.

- What is the nature of the problem?
- Can the problem solve itself?
- Is it necessary for the manager to make the decision or delegate it to others?

The above considerations will help the manager conserve time and make effective decisions.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- define the decision making situation

- describe how managers find problems to work on
- explain the methods that managers use to find problems to work on
- describe the ways to improve the effectiveness of decisions
- explain how to match the decision-making approach to the problem.

3.0 MAIN CONTENT

3.1 Defining the Decision Making Situation

For effective decision making, the decision maker should first define the decision making situation. This can be done by understanding the nature of decisions to be taken. Not all decisions require the attention of the top managers as effective manager’s reserve and conserve their time and efforts for those problems that really demand their decision making ability. Minor decisions or decisions of less strategic importance should be delegated to subordinates or other lower level managers. To determine whether or not to delegate a decision, decision makers should ask themselves the following questions:

1. What is the nature of the problem? - Is the problem easy to deal with or not? While some problems are very difficult to deal with and require a great deal of time and have far reaching implications for the organisations. For example, decisions on expansion, merger and acquisitions, and whether or not to acquire a subsidiary have far reaching implications, are time consuming and require extensive consideration of top management. Others are relatively easy to deal with and consume little amount of time. For example, a carton supplier might quickly decide to order better grade ink if he finds out that the ink in some of the cartons is fading or bleeding, such quick decisions should be taken since they resolve insignificant problems.

   To be more effective, managers reserve the formal decision making process for those problems that are of strategic importance to the organisation.

2. Can the problem solve itself? - When prioritised, some problems occupy bottom position in the list. Therefore, effective managers pay attention to problems at the top first then later attend to those at the end. Considering that most times, managers have more problems than they can handle, they rarely have time for problems at the bottom, these problems worsens, and it simply achieves a higher priority and is then handled by the manager.

3. Is it necessary for the manager to make the decisions or delegate it to others? - Here, a manager should determine whether he should handle the problem or leave it for someone else. Usually less decisions are passed to the top and more decisions are passed to those lower down the hierarchy since the managers still retain ultimate responsibility; managers can decide to pass the problem on to a superior when:

    - the issue affect other departments
    - when it will have a major impact on the superior's area of responsibility
    - when it requires information available only at a higher level
    - when it involves a serious breach of departmental budget.

If a manager is faced with an issue that is difficult to deal with, if it is an important problem that will not resolve itself, and if the manager must decide what to do about it, then he is in a 'decision making situation'. It will require the careful and logical decision making processes.

3.2 Finding the Problem to Work On

Managers always try to anticipate problems and decide how to prevent them from occurring or what will be done if these problems arise. Also, they actively seek opportunities; they decide first which opportunities they pursue and then what to do to make them a reality. Therefore, the manager should be armed with the ability to select the right problem or opportunity to work on. The types of problem or opportunity a manager chooses to work on will be influenced by his values or background. For instance, if a manager is motivated primarily by economic values, he will want to make decisions on practical matters such as those involving production or profit.

3.3 Methods of Problem Finding

Stoner (1978), presents four methods managers use to find problems to work on: 'when there is a deviation from past experience, when there is a deviation from the plan, when other people present problems to the manager and when competitors outperform the manager's organisation.

- When there is a deviation from past experience: This will occur when for instance, sales are falling, expenses have suddenly increased, employee turnover is rising or the organisation is passing out too many defective products. These events represent a deviation from the past therefore the manager should figure out the causes of the problem and ways to correct them.

- When there is a deviation from the plan: When profit levels are lower than anticipated, a department is exceeding its budget, a project is off schedule. These events call for the attention of the manager.
- When other people present problems to the manager: Such problems may come from the customers who may complain about the late deliveries, high level managers may set new performance standards for the manager's department, subordinates may resign.
- When competitors outperform the manager's organisation: This represents challenges posed by the competition. Competitive forces present a lot of problems for managers; for instance, other companies may develop new processes or improvements in operating procedures.

3.4 Matching the Decision Making Approach to the Problem

Vroom & Yelton (1948) developed a method to help managers decide when and to what extent they should involve subordinates in solving a particular problem as summarised below:

1. You solve the problem or make the decision yourself, using information at your disposal at the time.
2. Get essential information from subordinates, and then make a decision on the problem. Managers may decide not to inform the subordinates what the problem they want to use the information to solve is. The major role of subordinates in making the decision is to get the necessary information needed from them rather than generating or evaluating alternative solutions.
3. Managers can decide to share the problem with relevant subordinates individually, getting ideas and suggestions from them without bringing them together as a group. Then you make the decision to either reflect or not their influence.
4. Share the problem with your subordinates as a group, collectively obtaining their ideas and suggestions. Then you make the decision that may or may not reflect the subordinates' influence.
5. Share the problems with your subordinates as a group. Together you generate and evaluate alternatives and attempt to reach agreement (consensus) on a solution. Your role is much like that of a chairman; you do not try to influence the group to adopt your solution, and you are willing to accept and implement any solution that has the support of the entire group.

Vroom & Yelton (1948) is of the view that since there are many problems where more than one management style applies, managers select the one that would cost them less in terms of time or resources.

4.0 CONCLUSION

Organisational endeavour require that critical decisions be made always by top management in areas that will impact on the growth of the enterprises. However, care should be taken to ensure that managers adequately identify areas or situations where decisions are needed, properly analyse each decision situations, correctly match decisions taken with situation and make effort to seek opinions from subordinates either as individuals or as groups.

5.0 SUMMARY

This unit discussed the nature of decision making in formal organisations. It began with defining the decision making situation where it identified three pertinent questions that managers should ask themselves when presented with decision problems. Next, it considered how managers find problems to work on. Four methods of problem finding were identified as follows: when there is a deviation from past experience, where there is a deviation from the plan, when other people bring problems to the manager, and when competitors outperform the organisations. Other issues discussed by the unit are: improving the effectiveness of decisions by fully diagnosing the decision situation and matching the decision making approach to the problem by seeking the opinion of subordinates.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the two criteria by which managers can evaluate their decisions before they are implemented?
2. What are the five methods managers can use to help them find answers to problems?
3. What Vroom & Yelton's five styles of managerial decision making? How would you match each style to the appropriate decision making situation?

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