UNIT II

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PLANNING

Definition: Planning is the fundamental management function, which involves deciding beforehand, what is to be done, when is it to be done, how it is to be done and who is going to do it. It is an intellectual process which lays down an organisation's objectives and develops various courses of action, by which the organisation can achieve those objectives. It chalks out exactly, how to attain a specific goal.

Planning is nothing but thinking before the action takes place. It helps us to take a peep into the future and decide in advance the way to deal with the situations, which we are going to encounter in future. It involves logical thinking and rational decision making.

Importance of Planning - Planning is of paramount importance both for an organisation and an economy. Sound plans are essential to effective management, because they serve as guides to all management functions. The common cause of failure . "Failure to plan is planning to fail. Planning is useful to an organisation in the following ways:

(i) Focuses attention on objectives and results. Every organisation exists to achieve certain objectives. Planning concentrates attention on the dominant goals of the organisation. It forces the members of the organisation not to get lost in the maze of routine activities and lose sight of the broad objectives for which the organisation was established.

(ii) Reduces uncertainty and risk. Uncertainty and change are inevitable and planning cannot eliminate them. But planning enables an organisation to cope with uncertainty and change. With the help of planning, an enterprise can predict future events and make due provision for them.

(iii) Provides sense of direction. Planning saves an organisation from drifting and avoids aimless activities. It directs human efforts into endeavours that contribute to the accomplishment of goals. Planning makes work more meaningful and activities more orderly. It bridges the gap between where we are and where we want to go. Without planning action is likely to become random activity,producing nothing but chaos.

(iv) Encourages innovation and creativity. Innovation and creativity are prerequisites to continuous growth and steady prosperity of business. Planning is forward looking and it enables an enterprise to cope with technological and other developments, Planning requires continuous monitoring of environment for new ideas and developments. As a result the enterprise becomes dynamic.

(v) Helps in coordination. Planning is the best stage for the integration of diverse forces at work. Sound planning interrelates all the activities and resources of an organisation. It also helps to relate internal conditions and processes to external events and forces. The activities and efforts of various departments and divisions can be harmonised with the help of an overall plan. It provides a unifying framework.

(vi) Guides decision-making. Planned targets serve as the criteria for the evaluation of different alternatives so that the best course of action may be chosen. By predicting future, planning helps in taking future-oriented decisions. Sound plans prevent hasty judgement and haphazard action. Therefore, decisions automatically get a future orientation. In the absence of plans, there is no sound basis for making future-oriented decisions.

(vii) Provides a basis for decentralisation. Planning helps in the delegation of authority to lower levels of management. Well-established plans serve as guides to subordinates and reduce the risk involved in delegation of authority. Planning also helps to improve the motivation and morale of employees by providing targets of performance.

(viii) Provides efficiency in operations. Planning facilitates optimum utilisation of available resources. It helps to reduce costs and to increase economy. It makes it possible for things to occur which would not otherwise happen. It improves the competitive strength of an organisation by helping it to discover and exploit opportunities. It saves time, effort and money.

(ix) Facilitates control. Planning provides the basis for control. Plans serve as standards for the evaluation of performance. Sound planning enables management to control the events rather than be controlled by them. It permits control by exception. Control cannot be exercised without plans because the function of control is to ensure that the activities conform to the plans. Any

Purpose of Planning

The main purpose of planning is to achieve the following:

1. To Increases efficiency
2. To reduce business related risks
3. To facilitate proper coordination
4. To help in organizing

5. To give right direction
6. To Keep good control
7. To help achieve objectives
8. To motivate the personnel
9. To encourage creativity /innovation
10. Helps in decision making

Features/Nature/Characteristic of Planning:

1. Planning contributes to Objectives- Planning starts with the determination of objectives. We cannot think of planning in absence of objective. After setting up of the objectives, planning decides the methods, procedures and steps to be taken for achievement of set objectives. Planners also help and bring changes in the plan if things are not moving in the direction of objectives. For example, if an organisation has the objective of manufacturing 1500 washing machines and in one month only 80 washing machines are manufactured, then changes are made in the plan to achieve the final objective.

2. Planning is Primary function of management - Planning is the primary or first function to be performed by every manager. No other function can be executed by the manager without performing planning function because objectives are set up in planning and other functions depend on the objectives only. For example, in organizing function, managers assign authority and responsibility to the employees and level of authority and responsibility depends upon objectives of the company. Similarly, in staffing the employees are appointed. The number and type of employees again depends on the objectives of the company. So planning always proceeds and remains at first place as compared to other functions.

3. Pervasive - Planning is required at all levels of the management. It is not a function restricted to top level managers only but planning is done by managers at every level. Formation of major plan and framing of overall policies is the task of top level managers whereas departmental managers form plan for their respective departments. And lower level managers make plans to support the overall objectives and to carry on day to day activities.

4. Planning is futuristic/Forward looking - Planning always means looking ahead or planning is a futuristic function. Planning is never done for the past. All the managers try to make predictions and assumptions for future and these predictions are made on the basis of past experiences of the manager and with the regular and intelligent scanning of the general environment.

5. Planning is continuous - Planning is a never ending or continuous process because after making plans also one has to be in touch with the changes in changing environment and in the selection of one best way. So, after making plans also planners keep making changes in the plans according to the requirement of the company. For example, if the plan is made during the boom period and during its execution there is depression period then planners have to make changes according to the conditions prevailing.

6. Planning involves decision making - The planning function is needed only when different alternatives are available and we have to select most suitable alternative. We cannot imagine planning in absence of choice because in planning function managers evaluate various alternatives and select the most appropriate. But if there is one alternative available then there is no requirement of planning.

7. Planning is a mental exercise- It is mental exercise. Planning is a mental process which requires higher thinking that is why it is kept separate from operational activities by Taylor. In planning assumptions and predictions regarding future are made by scanning the environment properly. This activity requires higher level of intelligence. Secondly, in planning various alternatives are evaluated and the most suitable is selected which again requires higher level of intelligence. So, it is right to call planning an intellectual process**.**

Limitations of Planning:

1. Planning leads to rigidity - Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

2. Planning may not work in dynamic environment- Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment.

3. It reduces creativity - With the planning the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

4. Planning involves huge Cost - Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.

5. It is a time consuming process - Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

6. Planning does not guarantee success - Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans. It is not true that if a plan has worked successfully in past, it will bring success in future also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.

7. Lack of accuracy - In planning we are always thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail.

Planning Process

1. Setting up of the objectives

In planning function manager begins with setting up of objectives because all the policies, procedures and methods are framed for achieving objectives only. The managers set up very clearly the objectives of the company keeping in mind the goals of the company and the physical and financial resources of the company. Managers prefer to set up goals which can be achieved quickly and in specific limit of time. After setting up the goals, the clearly defined goals are communicated to all the employees.

2. Developing premises

Premises refer to making assumptions regarding future. Premises are the base on which plans are made. It is a kind of forecast made keeping in view existing plans and any past information about various policies. There should be total agreement on all the assumptions. The assumptions are made on the basis of forecasting. Forecast is the technique of gathering information. Common forecast are made to find out the demand for a product, change in government or competitor policy, tax rate, etc.

3.Listing the various alternatives for achieving the objectives

After setting up of objectives the managers make a list of alternatives through which the organisation can achieve its objectives as there can be many ways to achieve the objective and managers must know all the ways to reach the objectives. For example, if the objective is to increase in sale by 10% then the sale can be increased:

(a) By adding more line of products;

(b) By offering discount;

(c) By increasing expenditure on advertisements;

(d) By increasing the share in the market;

(e) By appointing salesmen for door-to-door sale etc. So, managers list out all the alternatives.

4. Evaluation of different alternatives

After making the list of various alternatives along with the assumptions supporting them, the manager starts evaluating each and every alternative and notes down the positive and negative aspects of every alternative. After this the manager starts eliminating the alternatives with more of negative aspect and the one with the maximum positive aspect and with most feasible assumption is selected as best alternative. Alternatives are evaluated in the light of their feasibility.

5. Selecting an alternative

The best alternative is selected but as such there is no mathematical formula to select the best alternative. Sometimes instead of selecting one alternative, a combination of different alternatives can also be selected. The most ideal plan is most feasible, profitable and with least negative consequences.

After preparing the main plan, the organisation has to make number of small plans to support the main plan. These plans are related to performance of routine jobs in the organisation. These are derived from the major plan. So, they are also known as derivative plans. These plans are must for accomplishing the objective of main plan. The common supportive plans are plans to buy equipment, plan for recruitment and selection of employees, plan to buy raw material, etc.

6. Implement the plan

The managers prepare or draft the main and supportive plans on paper but there is no use of these plans unless and until these are put in action. For implementing the plans or putting the plans into action, the managers start communicating the plans to all the employees very clearly because the employees actually have to carry on the activities according to specification of plans. After communicating the plan to employees and taking their support the managers start allocating the resources according to the specification of the plans. For example, if the plan is to increase in sale by increasing the expenditure on advertisement, then to put it into action, the managers must allot more funds to advertisement department, select better media, hire advertising agency, etc.

7. Follow-up

Planning is a continuous process so the manager's job does not get over simply by putting the plan into action. The managers monitor the plan carefully while it is implemented. The monitoring of plan is very important because it helps to verify whether the conditions and predictions assumed in plan are holding true in present situation or not. If these are not coming true then immediately changes are made in the plan.

During follow up many adjustments are made in the plan. For example, if the expenditure planning is done keeping in mind 5% inflation rate but in present situation if the inflation rate rises to 10% then during follow up the managers make changes in the plans according to 10% inflation rate.

Types of Plans

Planning is a pervasive function which means it is not the task of top level managers only but managers working at different levels perform planning function. The plans framed by top level manager may differ from the plans formed by middle and lower level managers. The different types of plans or common plans formed by the managers at different levels are:

Objectives – Rules - Strategy – Programmes - Policies – Methods - Procedures – Budgets

1. Objectives:

Objectives are the ends towards which the activities are directed. They are the end result of every activity. An objective:

(a) Should be related to single activity;

(b) Should be related to result and not to activity to be performed;

(c) It should be measurable or must be measured in quantitative term;

(d) It must have a time limit for achievement of objective;

(e) It must be achievable or feasible.

For example, increase in sale by 10% or decrease in rejections by 2%.

2. Strategy

A strategy is a comprehensive plan to achieve the organisational objectives. The dimensions of strategy are:

(i) Determining long term objectives.

(ii) Adopting a particular course of action.

(iii) Allocating resources for achieving the objectives.

Strategy formulation is the task of top level people and it is must to scan and understand clearly the business environment before framing the strategy. The common decisions in strategy are whether to introduce a new product or not. If to introduce then how, finding out customer for your products making changes in existing products etc. All the strategic decisions are greatly influenced by the business environment. Strategy defines the future decisions regarding the organisation’s direction and scope in the long run.

For example, Choice of advertising media, sales promotion techniques, channels of distribution, etc.

3. Policies

Policy can be defined as organisation’s general response to a particular problem or situation. In simple words, it is the organisation’s own way of handling the problems. Policies are made at every level because the managers at every level need to decide or predetermine the way of handling a situation and policy acts as a guide to take decisions in unexpected situation.

Policy formation always encourages initiatives of employees because employees have to deal with situations and the way of handling the situation is decided in consultation with the employees. Then they will be able to handle the situation in a much better way. For example, a school may have policy of issuing admission form only to students who secured more than 60% marks.

“No credit sale policy”, etc. Introduction of new product in the market.

4. Procedures

Procedures are required steps established in advance to handle future conditions. The sequence of steps to be followed by employees in different situations must be predetermined so that everyone follows same steps. The procedure can be defined as the exact manner in which an activity has to be accomplished.

For example, the procedure for admission in a particular school can be:

(a) Set up a file for applicants;

(b) Accept the field forms and put them in a file;

(c) Ask for other certificates to verify score or marks of students;

(d) Put those documents also in the file;

(e) Give the file to admission in-charge.

Procedures are made common for all the departments to co-ordinate their activities. So procedures cut across all the departmental lines. For example, the procedure to handle the order by manufacturing department may involve sales department also.

5. Rules

Rules spell out special actions or non-actions of the employees. There is no discretion allowed in rules, i.e., they must be followed strictly and if rules are not followed then strict actions can be taken against employees who are disobeying the rules. Rules are spelt out to create the environment of discipline in the organisation. For example, there can be rule of no smoking in the organisation. Rules generally guide the general behaviour of the employees and employees cannot make any changes in them.

6. Programmes

Programmes are the combination of goals, policies, procedures and rules. All these plans together form a program. The programmes are made to get a systematic working in the organisation. The programmes create relation between policies, procedures and goals. The programmes are also prepared at different levels. A primary programme is prepared by the top level and then to support the primary programme supportive programmes of different levels are prepared for smooth function of the company.

For example, construction of shopping mall, Development of new product.

7. Methods

Methods can be defined as formalized or systematic way of doing routine or repetitive jobs. The managers decide in advance the common way of doing a job. So, that

(a) There is no doubt in the minds of employees;

(b) There can be uniformity in actions of the employees;

(c) These help in applying the techniques of standardization and simplification;

(d) Act as guide for employees.

If the common way of doing the job is not decided in advance then there will be confusion and comparison will not be possible. For example, for the valuation of stock, the organisation must decide in advance what method has to be adopted .So that everyone follows the same method and comparison with the past value of stock can be done, method for calculation of depreciation.

8. Budget

Budget is the statement of expected result expressed in numerical terms. In budgets the results are always measurable and most of the time these are financial in nature but it does not mean that company prepares only financial budget. Financial budget is also known as profit plan of the company because it includes the expected income and related expenditures with that income and the profit which the company will earn in the coming year. Along with financial budget capital budget is prepared to find out the expected capital requirement.

Operational budget is prepared where instead of finance hourly units are used stating expected hours the employees will be working. Budgets are prepared by managers at every level and lower level managers generally prepare operational budgets. The most common budget prepared by managers at different levels is cash budget. This budget estimates the expected cash inflow and cash outflow over a period of time. Cash inflow comes from sales and cash outflow is in the form of expenses. Businessmen can find out net cash position by subtracting cash outflow from cash inflow.

BUSINESS FORECASTING

Forecasting is a technique that uses historical data as inputs to make informed estimates that are predictive in determining the direction of future trends. Businesses utilize forecasting to determine how to allocate their budgets or plan for anticipated expenses for an upcoming period of time. This is typically based on the projected demand for the goods and services offered. Forecasting, especially where widely participated by all in the organisation, may help to unify and co- ordinate plans. By focussing attention on the future, it assists in bringing a singleness of purpose to planning.

ESSENTIALS OF FORECASTING

Forecasting helps us to know the future. It also helps us to compare, to estimate and to analyse the data to arrive at the estimated results. It leads to regular investigation of different aspects of production and management within and outside the organisation. Forecasting prepares a ground to work together and brings better co-ordination, co-operation and control in the organisation. Under forecasting, future prospects, stability and the discrepancies are properly weighed and studied. This helps the management to remove any hindrances that may come in the way of management. Thus company results are compared with the estimated ones, the other element which is quite conspicuous with forecasting. Whenever large difference is found, further investigation is undertaken to find out the reasons for such discrepancy.

Forecasting, therefore, helps to know the expected profits or losses and just by going through certain reports and records of the company, enables the forecaster to take necessary decisions. Decision-making becomes better and easier when forecasting is undertaken on scientific basis.

1. Developing the ground work - It carries out an orderly investigation of products, company and industry.

2. Estimating future business - This follows a clear-cut plan for working out future expectancies in the form of natural undertaking with key executives.

3. Comparing actual with estimated results- Checking the attained with anticipated results of the business periodically and tracking down reasons for major differences.

4. Refining the Forecast Process- Once familiarity with estimating the future of the business is gained through practice, sharpening the approach and refining the procedure becomes quite easy.

DECISION MAKING

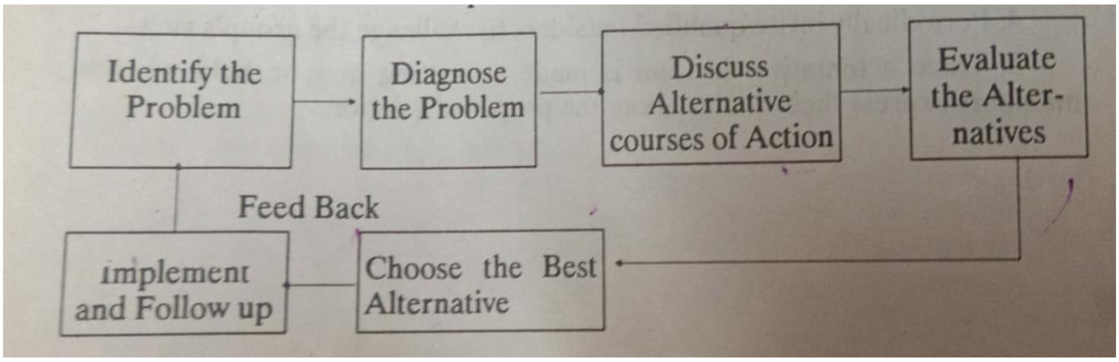
A decision is the selection of a course of action (or decision) out of many available alternatives. The marketing manager may be arrived to a particular decision by analyzing, evaluating and carefully planning. The decision making is the basic and fundamental key of all managerial activities. It is the study of identifying and choosing best possible choice (or option) based on the values and preferences of the business organization.

Koontz & O'Donnel: "Decision is the selection from among alternatives of a course of actions."

DECISION MAKING PROCESS

Decision Making process is a systematic process consisting of following elements:

DECISION MAKING PROCESS



Step 1: Identify the decision

Decision making process starts with recognition of a problem that requires decision. Imagination, experience and judgement are required for identifying problems. The problem may arise due to gap between present and desired state of affairs. The threats and opportunities created by environmental changes may also create decision problems, At this stage, a manager should identify and define the real problem. A problem well defincd is half solved. In order to recognise the problem quickly,A manager must continudusly monitor the decision-making environment,. Imagination, experience and judgement are required for detection of problems that require managerial decisions.

Step 2: Diagnose the Problem.

Diagnosing the real problem implics analysing it in terms of its elements, its magnitude, its urgency, its courses, and its relation a manager with other problems. In order to diagnose the problem correctly, a must obtain all pertinent facts and analyse them carefully. The most important part of diagnosing the problem is

finding out the real causes or sources of the problem.

Step 3: Discover Alternatives.

The next step is to search for the various possible alternatives, A reasonably wide range of alternatives increases the manager's freedom of choice. But it is wise for management to limit itself to the discovery of those alternatives which are critical or strategic to the problem. The idea is to keep the range of alternatives within a manageable limit. Time and cost constraints should be kept in mind. Development of alternatives is a creative process requiring research and imagination. Management must ensure that the best alternatives are considered before a course of action is selected. Relevant information must be collected and analysed for this purpose.

4. Evaluate Alternatives. Once the alternatives are discovered, the next stage is to evaluate or screen each feasible alternative. Evaluation is the process of measuring the positive and negative consequences of each alternative. Management must set some criteria against which the alternatives can be evaluated.

5.Select the Best Alternative. After evaluation, the optimum alternative is selected, Optimum alternative is the alternative that will maximise the results under given conditions, and choice of the best alternative is the most critical point in decision-making. The ability to select the best course or action from several possible alternatives separates the successful managers from the unsuccessful ones, Past experience, experimentation, research and analysis are useful in selecting the best alternative.

6. Implementation and Follow up. Once a decision is made it needs to be implemented. Implementation involves several steps. First, the decision should be communicated ta those responsible for its implementation, Secondly, acceptance of the decision should be obtained. Finally, procedures and time sequence should be established for implementation. Necessary resources should be allocated and responsibility for specific tasks should be assigned to individuals, The implementation of the decision should be constantly monitored. The effects of the decision should be judged through periodic progress reports. In case the feedback indicates that the decision is not yielding the desired results, necessary changes should be made in the decision or in its implementation, Herbert Simon has identified three phases in the decision-making process:

(i) Intelligence activity involves a search for the conditions underlying the decision. It includes identification and diagnosis of the problem, definition of objectives and collection of information.

(ii) Decision activity is concerned with the generation and evaluation of alternative courses of action.

(iii} Choice activity implies selection of the best course of action. Post choice activity involves implementation of the decision.

TYPES OF DECISIONS

Programmed and non-programmed decisions

Programmed decisions are concerned with the problems of repetitive nature or routine type matters.

A standard procedure is followed for tackling such problems. These decisions are taken generally by lower level managers. Decisions of this type may pertain to e.g. purchase of raw material, granting leave to an employee and supply of goods and implements to the employees, etc. Non-programmed decisions relate to difficult situations for which there is no easy solution. These matters are very important for the organisation. For example, opening of a new branch of the organisation or a large number of employees absenting from the organisation or introducing new product in the market, etc., are the decisions which are normally taken at the higher level.

2. Routine and strategic decisions

Routine decisions are related to the general functioning of the organisation. They do not require much evaluation and analysis and can be taken quickly. Ample powers are delegated to lower ranks to take these decisions within the broad policy structure of the organisation. Strategic decisions are important which affect objectives, organisational goals and other important policy matters. These decisions usually involve huge investments or funds. These are non-repetitive in nature and are taken after careful analysis and evaluation of many alternatives. These decisions are taken at the higher level of management.

3. Tactical (Policy) and operational decisions

Decisions pertaining to various policy matters of the organisation are policy decisions. These are taken by the top management and have long term impact on the functioning of the concern. For example, decisions regarding location of plant, volume of production and channels of distribution (Tactical) policies, etc. are policy decisions. Operating decisions relate to day-to-day functioning or operations of business. Middle and lower level managers take these decisions.An example may be taken to distinguish these decisions. Decisions concerning payment of bonus to employees are a policy decision. On the other hand if bonus is to be given to the employees, calculation of bonus in respect of each employee is an operating decision.

4. Organisational and personal decisions

When an individual takes decision as an executive in the official capacity, it is known as organisational decision. If decision is taken by the executive in the personal capacity (thereby affecting his personal life), it is known as personal decision.

Sometimes these decisions may affect functioning of the organisation also. For example, if an executive leaves the organisation, it may affect the organisation. The authority of taking organizational decisions may be delegated, whereas personal decisions cannot be delegated.

5. Major and minor decisions

Another classification of decisions is major and minor. Decision pertaining to purchase of new factory premises is a major decision. Major decisions are taken by top management. Purchase of office stationery is a minor decision which can be taken by office superintendent.

6. Individual and group decisions

When the decision is taken by a single individual, it is known as individual decision. Usually routine type decisions are taken by individuals within the broad policy framework of the organisation. Group decisions are taken by group of individuals constituted in the form of a standing committee. Generally very important and pertinent matters for the organisation are referred to this committee. The main aim in taking group decisions is the involvement of maximum number of individuals in the process of decision- making.

PROBLEMS IN DECISION MAKING

It is just not possible to be fully rational and objective in making decisions in rcal life due to the following reasons:

1.Inadequate goal formulation. In most decision situations goals cannot be formulated explicitly. Organisational goals are often no more than vague aspirations or expectations mixed with personal values and bias of top managers. As goals of the top management percolate down to lower levels they tend to become distorted and diluted. Moreover, multiple goals may conflict with and contradict each other. Therefore, the decision-maker does not fully understand the goals to be maximised by decision-making.

2. Vaguely defined problems. It is often impossible to define the problem precisely and clearly. So long as current performance is satisfactory managers may think that there is no problem.

3.Imperfect knowledge. In practice, managers do not have full information on all alternatives and their consequences. Their information is fragmented and incomplete. Many uncontrollable and unknown factors influence the outcome of a choice. Therefore, it is impossible to anticipate the consequences of various alternatives with cont percent accuracy. Consequences of a decision occur in future which is uncertain. Therefore, the decision maker has to depend upon his imagination and judgement.

4.Limited time and resources. Managers are required to make decisions within limited lime or quickly, They cannot wait till the full information is collected. Moreover, gathering full information may be too costly. In such a situation the search for facts is limited and does not continue until all the data are obtained. Under severe time and cost constraints, managers have to make decisions on the basis of partial data. They cannot waste time and effort in finding out the ideal solution.

5. Human limitations. Most of the decision-makers do not have the ability to process the information intelligently. They are invaded with so many details that they become over-loaded. In order to avoid confusion they select only those details which they consider pertinent to the decision, Therefore, the choice is made within a restricted area. Human beings cannot be completely objective and rational while making decisions.

6. Power politics. Very often a decision has to be a compromise accommodating conflicting interests of different groups. The information which a decision maker needs may be distorted to suit vested interests. The decision-maker has to depend upon filtered data. He may not have the full freedom to choose rationally.

7. Environmental dynamics. The environment of decision-making is very uncertain and turbulent. It keeps on changing rapidly. It is probabilistic not deterministic. Moreover, managers prefer to choose paths of least resistance and hesitate to take unfamiliar postures.

Thus, the rational economic model is based on defective reasoning and on unrealistic assumptions, It is a naive model that does not allow for the impact of numerous environmental forces. The complexities of the real world force us to reject the concept of full rationality in decision-making.