

DESIGN OF CORPORATE PLANNING SYSTEMS
[VOLUMES I AND II]

VOLUME II

Development of a 'design framework'
and its application to a specific
setting

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SUMMARY OF MAJOR FINDINGS AND THEIR IMPLICATIONS FOR THE
SITUATIONAL DESIGN OF CORPORATE PLANNING SYSTEMS

Having described the characteristics of corporate planning systems in our sample of fourteen companies, an attempt will be made to pull together the main findings and evaluate their implications for the situational design of corporate planning systems.

Firstly, the usefulness of the 'situational framework' (outlined in Chapter 3) for describing the characteristics of a firm and its environment will be considered.

Secondly, specific features of corporate planning systems in the fourteen companies will be summarized on the basis of five parameters:

- their initial development
- role of planning and specific responsibilities of corporate planning departments
- organization and structure of corporate planning departments, reporting relationship of the most senior planners and extent of formal planning at the divisions
- types of plans developed and their time horizon
- the planning process.

Thirdly, situational factors which, according to those interviewed, had determined the companies' planning needs and subsequently influenced their planning capabilities will be discussed, using the five parameters outlined above. On the basis of these findings, a number of guidelines/hypotheses will be proposed explaining the 'association/interrelationship' between situational factors and corporate planning system characteristics. These propositions are derived from the case studies and are subsequently used as 'tentative design guidelines'.

Finally, on the basis of our findings, a 'situational design framework' is proposed in Section 10.2. Its application will be illustrated in Chapter 11 by referring to the case of a Midland-based engineering company.

10.1 Summary of major findings

10.1.1 Evaluating the usefulness of the 'situational framework'

The framework outlined in Chapter 3 was used to describe the situational settings of four companies: British Leyland, Fisons, Cadbury/Schweppes and L.C.P. Holdings. These cases indicated that while the framework was useful for describing the companies' formal and 'visible' characteristics including their 'industry' profile, strategic development and organizational structure, it was inadequate for providing an insight into their less tangible and evolving features such as their cultural orientation and the nature, influence and composition of the main coalition groups.

This problem was further compounded during the course of this research by the inadequacy of access to members of different managerial hierarchies within the companies. This was partly due to the researcher's status as an 'outsider' and partly due to the fact that although the participants were willing to discuss these issues informally, they were of the opinion that information of a more 'political' quality was confidential and could not be divulged outside or even to fellow colleagues within the company. Such insights, useful though they were during the course of the research, were difficult to corroborate and even more unlikely to be incorporated into a situational framework. Furthermore, since an outside researcher gains access to the company through a member of one of the coalition groups, he is likely to be confronted with a considerable degree of suspicion by members of other groups. Although the framework was used to examine the characteristics of the companies' senior executives, this was often restricted to a mere exposition of their background, duration of service within the company and to a lesser extent, their particular managerial style.

Since the composition and characteristics of existing coalition groups are likely to exert a substantial degree of influence on the orientation and eventual effectiveness of a corporate planning system, they should be taken into account at the outset of the design process.

BL's case illustrates the significant part played by senior executives in shaping the company's internal

configuration and its planning system. Having undergone a major change in the composition of its senior management (including the Chairman) towards the end of 1977, the Group witnessed a major change in its organizational structure and adopted planning system. Prior to this change, the car manufacturing operations had been managed on the basis of a large integrated concern with a central planning department responsible for product and market planning. The new Chairman favoured a decentralized structure which could cater for the 'volume' and 'luxury' car operations on a separate basis. This resulted in the adoption of a different planning system, which delegated product/market planning responsibility to the separate divisions while retaining a smaller staff at the Group's Central Planning Department for integrating the divisional plans and providing a supportive service for senior corporate executives.

All the cases however, indicated the presence of three distinctive managerial levels whose relationship and composition varied according to the company under investigation. These consist of:

- the 'Strategic Planning Level' whose members are represented on the Main Board and major policy-making committees. Their responsibilities include those of broad policy making, strategy formulation and resource allocation. In effect, they identify a strategy of survival and/or growth and expansion for the firm and implement it through policy. The

issues with which this level is basically concerned tend to be ill-structured and laden with conflicting criteria, ambiguity and multi-dimensionality;

- the 'Intermediate Planning Level' comprised of members of the main H.Q. departments. They act as a filter between the operating units and senior corporate executives. Their responsibilities are tactical in nature and they perform the delicate task of interpreting and implementing strategic policies devised by members of the 'Strategic Planning Level';

- the 'Operational Planning Level' consists of senior management of the divisions. Since the divisional chief executives are often represented on the Main Board and major policy committees, it is difficult to draw a distinctive boundary between those and members of the 'Strategic Planning Level'. Their primary concern however, is the efficient management of their divisions and operating units.

One view expressed by some of the planning managers interviewed during the course of this research was that if a planning system is to be responsive to the company's special requirements, it would need to take account of the views and secure the support of those organizational members who are likely to participate in the planning process. The

characteristics and composition of this Group would differ considerably depending on the company in question. At BL for example, all the functional departments of the divisions provide crucial information input for the development of the divisional plans. If a new planning system is to be devised for such a company, it would clearly be difficult to canvass the views of all the divisional and corporate managers and arrive at the required consensus. However, it might at least be possible to circulate a standard questionnaire amongst all the participants and provide the designer with more information than would otherwise be available.

L.C.P. Holdings represents an entirely different situation. The main participants in the planning process are the Chairman and the divisional chief executives, all of whom are represented on the Main Board and major committees. Canvassing the views of a relatively smaller number of people would represent an entirely different task.

The existing planning system at Cadbury/Schweppes was set up after an internal 'task force' had identified the 'planning' needs of the divisions and senior corporate executives over a 'sixteen-month' period. Having recognized the need for a formalized planning system which would enhance the flow of information between the centre and the divisions, lack of total commitment on the part of the senior corporate executives reduced the effectiveness of the adopted planning system, especially during the initial stages. However, members of the Corporate Planning Department were aware of

the constraints and difficulties likely to be encountered 'prior' to the establishment of the planning system. The incorporation of an 'opinion survey' during the initial stages of the design process would therefore provide an indication of the existing power groups and their attitude toward planning.

During the course of the research, a number of participants were asked to comment on the usefulness of the framework for describing a firm and its environmental setting. In the light of their comments, a 'revised framework' has been developed which takes account of a wider range of variables, such as market share of the competitors, growth and profitability of 'industries' in which the firm is engaged, capital structure (i.e. debt/equity ratio and the power to raise capital) and the companies' cash flow situation. Appendix 3 outlines this 'revised framework'.^[1]

10.1.2 Situational factors associated with the 'initial development' of corporate planning systems

In our sample of fourteen companies, corporate planning systems had initially been set up as the result of a combination of factors [see Table 32] which were as follows:

- increasing complexity and turbulence in the environment highlighting the need for a systematic evaluation of emerging developments of strategic importance to the firm;

- strategic and geographic diversity of their business portfolio emphasizing the need for a 'central integrative' mechanism;
- decentralized organizational structure, with autonomous divisions and operating companies and the accompanying need for improved communication, co-ordination and control, enhancing the flow of information between the centre and the operating units;
- marked deterioration in the companies' performance, highlighting the need for an evaluation of their existing portfolio;
- change in the composition of senior management, particularly the 'Chairman' and 'Chief Executive' committed to a systematic approach to planning for the future;
- maturity of existing businesses and/or dependence on a declining geographic market emphasizing the need to search for diversification/expansion opportunities.

British Leyland's (BL) planning system for example, was set up in January 1978 in an attempt to facilitate the systematic development of an overall Group strategy and to specify its total funds requirement for eventual submission to the Government and the National Enterprise Board. In addition, it was to co-ordinate the various divisional

strategies and to provide a basis for allocating resources amongst its various divisions. With the appointment of Michael Edwardes [later Sir Michael Edwardes] the organizational structure was changed, becoming more decentralized and detailed planning responsibility was transferred to the divisions. From a corporate perspective, the new planning system was to monitor the progress of the divisions, to consolidate the divisional plans and to prepare an overall 'corporate plan' for submission to the Government.

Fisons' Corporate Planning Department was set up in 1967 on the initiative of George [later Sir George] Burton, the newly-appointed 'Chairman and Chief Executive'. Environmental complexity and uncertainty generated by a mounting volume of regulations [affecting the agrochemical and pharmaceutical divisions] and the entry of oil companies into its traditional fertilizer business highlighted the need for a central information service which would monitor significant developments, although other factors were of more crucial importance. The discovery of 'INTAL' [for the treatment of asthma sufferers] had prompted the Group to search for new markets; the establishment of a decentralized organizational structure based on autonomous 'product divisions', highlighted the need for improved communication and flow of information between the centre and the divisions and the Chief Executive's preferred strategy to reduce the Group's dependence on its traditional but relatively mature fertilizer business, emphasized the need for a systematic approach to the formulation of a coherent strategy on the basis of which resources could be allocated.

Cadbury/Schweppes' 'revised' corporate planning system was established in 1978 after the Company's expansion in the United States [through the acquisition of Peter Paul Inc.] had resulted in a changed organizational structure based on regional groupings. The new structure had necessitated the adoption of a systematic approach to evaluation of existing businesses in the context of which a coherent strategy could be formulated. Moreover, it highlighted the need for enhanced communication between the centre and the divisions and improved flow of information.

The case of 'L.C.P. Holdings' exemplifies the need for a central control mechanism due to a diversified business portfolio and a decentralized organizational structure. Its formal planning system which is used for capital budgeting and resource allocation purposes was set up in the early 1970s in order to enhance the centre's control over the strategic direction of the divisions.

The origins of Shell's existing planning system go back to 1965, although 'physical' and 'project' planning had been in use since the end of World War II. The Group's involvement in different geographic regions, its large size and decentralized organizational structure had highlighted the need for a 'unified planning machinery' which would monitor significant developments on an international basis and facilitate communication and the flow of information between the centre and the operating companies. It can be characterized as an elaborate procedure which brought the operating

companies together in a co-ordinated process for the first time. Increasing levels of environmental complexity and uncertainty prompted the 'Group Planning Department' to undertake a lengthy study of the future 'up to the year 2000' in 1967. This suggested that 'Shell's world' was likely to be confronted with growing turbulence and convinced its senior executives that a new approach to assessing the future was required. This led to the subsequent development and use of 'multiple scenarios', initiated during the early 1970s, in the context of which the operating companies could formulate their plans.

Reed International illustrates the way in which a corporate planning system can be set up as a consequence of a change in the composition of its senior management and a marked deterioration in its overall performance. Although this situation had been partially brought about by a relatively mature portfolio and intense competitive pressure, the newly-appointed Chief Executive (Sir Alex Jarrett) considered a corporate planning system to be a suitable mechanism for a systematic evaluation of its portfolio, identifying divestment candidates and businesses which offered considerable potential for future growth.

An advanced form of extended budgeting was introduced in Dunlop in 1963, following the decentralization of the Company's organizational structure. A Corporate Planning Department was set up in 1968, following further re-organization and charged with the responsibility of co-ordinating the

divisional planning effort and providing a basis for the allocation of resources. In order to assist the Company's senior management in the formulation of a coherent strategy in a large diversified and decentralized firm, the Department monitored environmental developments and conducted studies on issues of strategic significance.

The declining prospects confronting the U.K. automotive industry prompted Lucas' senior management to consider a number of strategic options which would reduce the Group's dependence on a stagnant market. With this in mind, a non-executive director was appointed to co-ordinate the Group's strategic efforts. By 1976, a Corporate Planning Department had been established to monitor environmental developments, evaluate diversification/expansion opportunities and consolidate the divisional strategic plans.

A number of factors led to the initial development of ICI's formal corporate planning system in 1967. The Company's geographic expansion and strategic diversification programme embarked upon during the 1960s had highlighted the need for a central information service, particularly in view of increasing complexity and turbulence of its environment. A decentralized organizational structure with autonomous 'product divisions' necessitated the use of an 'integrative mechanism' which would co-ordinate and evaluate the divisional strategies. The need for a systematic approach to the evaluation of its business portfolio was particularly highlighted due to the Company's deteriorating performance during the mid-1960s.

Serck's Chief Executive provided the initial impetus for the establishment of a Corporate Planning Department which would enhance the flow of information between the centre and the autonomous operating companies, encourage 'strategic thinking' at the divisions and provide a basis for a systematic approach to the formulation of a coherent Group strategy in the context of which its growth-oriented businesses would be provided with adequate resources to expand their operations.

Redland's 'control-oriented' planning system was used to monitor the performance and strategic direction of its autonomous operating companies. The adoption of an overseas expansion strategy during the early 1970s resulted in the appointment of a manager charged with the specific responsibility of assisting the Chairman in his search for potential acquisition candidates and evaluating their attractiveness.

The initial impetus for the adoption of a formalized approach to 'corporate planning' at Lex came from Trevor Chinn, the Company's newly-appointed Managing Director who set out to reduce the Group's dependence on the relatively mature U.K. automotive sector by embarking upon a 'transport-related diversification strategy'.

Albright & Wilson's financial planning and control system had been in use since the early 1960s. In 1975/6, the Group's declining profits [due to the aftermath of the 'Oil Crisis' and the ensuing recession] prompted the appointment of a 'Main Board Director' who was to co-ordinate the Group's 'corporate development' programmes. His small department which was

located at the Head Office, was to provide a central information service in addition to reviewing the divisional strategic plans.

Chloride's planning system, incorporating a central information service [monitoring the environment and emerging technologies] was set up in 1974/5 as a response to the uncertainty generated by the Oil Crisis. The planning staff were to assist the Chief Executive in conducting a systematic appraisal of the Group's business in the context of changing market requirements.

All the fourteen companies' corporate planning systems were therefore set up due to a combination of factors, ranging from the need to monitor emerging trends and developments in their environment to the maturity of their existing product/market sectors. The support of senior management however, appears to have been vital as the cases of Fisons, Reed and Lex Service Group clearly illustrate.

Table 32 Initial development of corporate planning systems

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
BL	<ul style="list-style-type: none"> - product planning - existing planning system was set up in 1978 	<ul style="list-style-type: none"> - appointment of a new Chairman - decentralized organizational structure - need to submit 'corporate plan' to the Government to secure funds 	<ul style="list-style-type: none"> - to review and integrate the divisional plans and coordinate their planning effort - to consolidate the divisional plans into the Group corporate plan
Fisons	1967	<ul style="list-style-type: none"> - need to search for international markets, prompted by discovery of Intal and devaluation of the Pound - increasing volume of regulations - increasing competitive pressure with entry of oil companies into its traditional business - conscious policy of reducing the Group's dependence on its traditional fertilizer business 	<ul style="list-style-type: none"> - appraisal of worldwide opportunities for development - reviewing and forecasting prospects for the Company, evaluating their impact & monitoring the progress of the divisions

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
Fisons		<ul style="list-style-type: none"> - consolidating non-fertilizer operations through decentralized organizational structure, based on product divisions - commitment of Group Chairman & Chief Executive to formal planning 	
Cadbury/Schweppes	1975 subsequently changed in 1978	<ul style="list-style-type: none"> - 1975: change in senior management - deteriorating performance - 1978: expansion in the U.S. - change in organizational structure (based on regions) - senior management's need for information to develop strategy 	<ul style="list-style-type: none"> - monitoring environmental developments and evaluating the strategic implications of divisional capital expenditure proposals in 1975 - provide 'central information service' and co-ordinate divisional planning effort in 1978

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
L.C.P. Holdings	1971-2	<ul style="list-style-type: none"> - enlarged and diversified portfolio [specially after the acquisition of P.J. Evans] - holding company structure and autonomous operating units - need for a central control mechanism 	<ul style="list-style-type: none"> - capital budgeting - evaluating divisional capital expenditure proposals - monitoring their performance
Shell	basis of existing corporate planning system was laid down in 1965/6, although 'physical' & 'project' planning was already being undertaken	<ul style="list-style-type: none"> - decentralized organizational structure with autonomous operating companies - active in different geographic markets on an international basis - complexity and uncertainty of the environment 	<ul style="list-style-type: none"> - need to improve communication & flow of information between the centre & the operating companies - to monitor environmental developments in a complex & uncertain world
Reed International	1976	<ul style="list-style-type: none"> - deteriorating performance highlighting the need to evaluate its business portfolio - change of the Group Chief Executive, committed to a formalized system of planning 	<ul style="list-style-type: none"> - systematic examination of the Group's business portfolio - devise information format in order to enhance the flow

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
Reed International			<p>of information between the centre and the divisions</p> <ul style="list-style-type: none"> - co-ordinate the planning efforts of the divisions
Dunlop Holdings	<p>1963: extended budgeting</p> <p>1968: establishment of corporate planning department</p>	<ul style="list-style-type: none"> - decentralized organizational structure - top management's need for information on divisional strategies to allocate resources 	<ul style="list-style-type: none"> - to co-ordinate the planning activity of the divisions - to evaluate and consolidate the divisional plans for resource allocation purposes
Lucas Industries	1971 consolidated in 1976	<ul style="list-style-type: none"> - decline of the U.K. automotive industry and impending competitive pressure due to Britain's entry into the E.E.C. 	<ul style="list-style-type: none"> - need to develop a strategy which would reduce the Group's dependence on the U.K. automotive industry
ICI	1967	<ul style="list-style-type: none"> - product diversification and geographic expansion programmes - declining profits 	<ul style="list-style-type: none"> - to provide a central information service

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
ICI		<ul style="list-style-type: none"> - decentralized organizational structure based on product divisions - complexity and uncertainty in the environment [oil companies diversified into chemicals] 	<ul style="list-style-type: none"> - to enhance communication and flow of information between the centre and the divisions
Serck	1978/9	<ul style="list-style-type: none"> - increasingly diversified portfolio - mixed 'growth' prospects for its existing portfolio - need to search for opportunities to expand geographic sphere of its activities due to declining position of U.K. economy - threat of 'take-over'; need for central monitoring service - M.D.'s desire for a systematic approach to strategy formulation and resource allocation 	<ul style="list-style-type: none"> - to provide central information service & internal consultancy - to encourage strategic thinking at the divisions - to review the divisional strategies
Redland	- capital budgeting & financial control: early 1960s	<ul style="list-style-type: none"> - decentralized holding company organizational structure 	<ul style="list-style-type: none"> - monitoring progress of subsidiaries and evaluating

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
Redland	<ul style="list-style-type: none"> - business development manager appointed during early 1970s - enlargement of Group Treasurer's Department to incorporate planning responsibilities: mid-1970s 	<ul style="list-style-type: none"> - need to expand overseas, especially after Britain's entry into the E.E.C. 1972/3 	<ul style="list-style-type: none"> - capital expenditure proposals - search for and evaluation of acquisition targets overseas
Lex Service	1971/2	<ul style="list-style-type: none"> - appointment of new M.D. committed to adopting a systematic approach to strategy-formulation - anticipated decline of U.K. automotive industry emphasized the need for other diversification options 	<ul style="list-style-type: none"> - supporting service for M.D. - provision of a central information service - evaluation of potential acquisition targets
Albright & Wilson	<ul style="list-style-type: none"> - financial planning since the early 1960s - corporate development 1976 - financial planning & control: 1979/80 	<ul style="list-style-type: none"> - complexity and uncertainty of the environment after the Oil Crisis - vulnerability to takeover bids after Tenneco increased its shareholding 	<ul style="list-style-type: none"> - to monitor environmental developments - to review divisional strategic plans as an input for the development of an overall Group strategy

Companies	Initial date of establishment of Corporate Planning Dept	Factors prompting its establishment	Nature of main responsibilities
Chloride	1974/5	<ul style="list-style-type: none"> - uncertainty due to Oil Crisis - need to monitor technologies etc. on a systematic basis - senior management 	<ul style="list-style-type: none"> - evaluation and consolidation of the divisional five-year rolling plans - provision of a central information service

10.1.3 Role of corporate planning and responsibilities of the Corporate Planning Departments

All the fourteen corporate planning systems studied during the course of this research undertake three roles with varying degrees of emphasis. These are:

1) to facilitate the 'adaptation' of the company's strategic posture to the emerging opportunities and threats in its environment accomplished through:

i) the provision of a comprehensive 'information service' monitoring environmental developments of strategic significance to the firm such as competitors' strategies, impact of new technology and macro-economic and political developments. Shell, ICI and Fisons had structured their corporate planning departments in such a way that one of the planning units would

be specifically responsible for scanning the environment and compiling strategically-relevant information.

Shell's 'Business Environment Unit' for example, which has a staff of 35, monitors the environment, compiles a network of information on the basis of which contrasting sets of strategic scenarios [providing an indication of the Group's future environment] can be developed. These are subsequently used by the operating companies and members of the Managing Directors' Committee [i.e. senior corporate executives] in order to develop the Group's future strategy.

ICI's 'Data Centre' [one of the three units comprising its Corporate Planning Department] is specifically responsible for scanning the environment, collecting relevant information and preparing special reports concerning likely developments in its various markets, competitors' strategy and macro-economic trends. Similarly, Fisons' 'Economic Research Unit' is considered to be the Corporate Planning Department's 'information centre' conducting special studies at the request of other planning units, senior corporate executives and the divisions.

Although the corporate planning departments of all fourteen companies monitored environmental developments in varying degrees of emphasis [see Table 33], these three companies are singled out for having 'separate' information units, emphasizing the importance attached to this aspect of the planning department's responsibilities.

ii) corporate planning staff can enhance the process of strategy-formulation by generating a contrasting set of strategic scenarios, outlining a range of possible future environments. These can be of value to senior policy-makers and help them evaluate the merits of alternative strategic options. Planning managers of Shell, Reed International and ICI mentioned the development of scenarios to comprise one of the tasks undertaken by their planning staff.

Shell was the pioneer of the 'scenario approach', started in the early 1970s to take account of increasing environmental uncertainty. Different types of scenarios are developed by members of the 'Business Environment Unit'. The more 'generalized' ones contain descriptions of possible world developments in a variety of interrelated spheres [i.e. economic, political, social and technological issues]. Almost invariably, at least two very different scenarios are developed, so that the planner and manager are presented with a wide range of probability.

ICI's 'Planning Department' [one of the three departments of 'Group Planning'] is also responsible for the development of strategic scenarios which are subsequently presented to senior directors, although this task is undertaken by a staff of six as opposed to thirty five at Shell's 'Business Environment Unit'.

The corporate planning staff at Reed International consider a range of alternative strategies for each of its business groups and evaluate the potential interactive effect

of likely changes through a computerized planning model. An economist is specifically responsible for developing macro-economic scenarios and assessing the impact of an alternative range of economic assumptions on the Group's portfolio.

iii) corporate planning departments provide the services of an 'internal consultancy' undertaking special studies of strategic significance on behalf of senior corporate directors as well as the divisions. These studies can be related to:

- diversification strategies likely to be embarked upon in order to reduce the company's dependence on a mature market and/or business portfolio. This is one of the responsibilities of the 'Corporate Strategy Department' at Lex Service Group;
- more specific evaluation of potential acquisition candidates and their likely impact on the Group as exemplified by Redland's 'Business Development' Department;
- examining the potential of different geographic regions likely to constitute the Company's future markets. This is one of the responsibilities of the planning staff at Lucas [interview with Group Strategic Planning Manager, September 1979], although members of other H.Q. [and in some instances divisional] departments are drafted in to join the 'special task force' if necessary;

- more general studies concerning competitors' strategies, impact of new technologies and the political vulnerability of 'raw material' producers [such as oil in the case of Shell and ICI, lead in the case of Chloride, cocoa for Cadbury/Schwepes and phosphates for Fisons].

BL's 'special task force' deals with the issues of strategic significance and its composition and responsibilities vary depending on the Group's strategic priorities. Since January 1981, the 'task force' has been working on a number of projects related to 'likely collaboration agreements' with other manufacturers.

Chloride also has a 'Projects Unit' which is part of its Corporate Planning Department, conducting special studies on behalf of senior directors and the regional companies.

2) Secondly, corporate planning departments perform an 'integrative' task, facilitating communication and flow of information between the centre and the divisions or operating companies. They co-ordinate the divisional planning effort [especially in those companies which have no full-time planning staff at the divisions such as Serck and Redland] specify the information requirements of the 'centre' by devising 'planning documents' to be filled in by the divisional chief executives [as is the case at Cadbury/Schwepes, Reed International, Lucas, Serck and Lex Service Group] and review and consolidate the divisional plans for subsequent presentation to senior corporate directors.

The corporate planning staff of all fourteen companies fulfilled this role in varying degrees of emphasis [see Table 33]. In BL, Fisons, Cadbury/Schweppes, Shell, Reed International, ICI, Lucas, Serck and Chloride, those interviewed emphasized the importance of this aspect of their responsibilities. The divisional plans and the information covering the companies' external environment [i.e. the 'adaptation' role of planning] provide the basis for the development of an overall Group strategy. In addition, the divisional plans specify their funds requirement and provide a basis for central control of the divisions' strategic direction through the 'resource allocation process'.

3) Having decided on the companies' strategic priorities, the senior policy-makers need to ensure that these are implemented through the 'resource allocation process'. In addition, the centre needs to monitor the progress of the divisions toward the achievement of these strategies.

The third role of a corporate planning system is therefore that of 'control' to ensure the implementation of pre-defined strategic priorities. Corporate planning departments in our sample of companies assist senior executives in the fulfillment of this task by:

- evaluating the divisional strategic plans and capital expenditure proposals;
- monitoring the financial performance of the divisions in order to assess their progress toward the fulfillment of their adopted strategies.

L.C.P. Holdings, Dunlop, Redland and Albright & Wilson illustrate the manner in which 'control of the divisions through the resource allocation process' can be an important role of the corporate planning system.

L.C.P. Holdings' capital-budgeting process is used to direct the divisions towards the Group's strategic priorities. The Corporate Planning Manager works in close conjunction with members of the 'Group Finance' Department in order to evaluate the divisional capital expenditure proposals.

The 'funds allocation process' is central to Dunlop's corporate planning system. It is the mechanism used to direct and control the development of its constituent divisions. The Corporate Planning Department provides an assessment of the divisions' capital requirements. The use of these funds is a matter for local management, although detailed funds' utilization is monitored through operating plans and monthly operating statements.

The emphasis placed by Redland on the 'resource allocation and control' aspect of the planning function is illustrated by the fact that the General Manager in charge of corporate planning is also the 'Group Treasurer'. His Department's responsibilities, apart from the provision of a comprehensive information service, include an evaluation of the divisional capital investment proposals and monitoring their performance through 'monthly meetings' during the course of which their 'performance against target' is evaluated.

Since the Group's takeover by the U.S.-based 'Tenneco Inc.' in September 1978, Albright & Wilson's planning system has become more 'control-oriented' and is used for the purpose of allocating resources amongst its divisions. The 'five-year divisional strategic plans' which are financial and highly quantitative, provide the Head Office with the means to assess the direction of the divisions and to allocate resources accordingly.

Two additional functions associated with corporate planning systems were also identified during the course of this study, although they are derived on the basis of a limited number of cases. Three companies: Shell, Dunlop and ICI, considered their corporate planning departments to be suitable for the purpose of 'management development'. They would enable the divisional executives to understand the complex nature of their businesses and the variety of influences which affect such large and diversified companies operating in different types of countries on an international basis.

Secondly, through the mechanism of formal planning which is managed by the corporate planning department, divisional managers are encouraged to 'think strategically' and 'adopt a longer-term horizon'. Reed International's planning system for example, has encouraged its divisional managers to think in a more disciplined manner. The Group has become clearer about the performance expected from the divisions. In the words of one of its divisional executives [Financial Times, 21 July 1980]:

' ... the system makes you think much more clearly about whether you can meet these requirements and if not, why not. It is quite useful to have something which forces you to stand outside your business, take a deep breath and have another look'.

According to Serck's 'Corporate Development Manager' (interview February 1980) one of the major contributions of formalized planning, especially during its initial stages of development, has been to enhance the level of strategic thinking amongst the Group's divisional executives. This is all the more significant due to the 'production orientation' of its senior managers.

Although those interviewed in all fourteen companies emphasized the importance of 'adaptation', 'integration' and 'control' for the success of corporate planning systems, their particular emphasis on these three roles varied considerably. One category comprises those companies where all three planning roles are emphasized more-or-less equally. Fisons, Shell, Reed International and ICI are representative of this category. Fisons' 'Economic Research Unit' monitors the environment and prepares special reports on issues of strategic significance; the 'Strategic Planning' and 'International Development' Units review the strategy documents of the U.K. divisions and overseas companies and subsequently evaluate the strategic and commercial implications of their capital expenditure proposals in close conjunction with the 'Central Finance Department' which is responsible for assessing their financial implications.

These 'consolidated plans' form the basis for allocation of resources which are discussed in the Group 'Strategy' and 'Finance' Committees.

The two units of Shell's 'Group Planning Department' [i.e. 'Business Environment' and 'Strategic Analysis'] perform the 'adaptation' and 'integration' tasks; the former monitors environmental developments, generates contrasting scenarios, thereby providing a framework which can focus attention on those factors which are of particular significance for the development of strategies. The 'Strategic Analysis Unit' reviews the divisional/regional plans and consolidates these for subsequent presentation to senior policy-makers who ultimately make a decision on the allocation of resources.

The three units of ICI's 'Group planning' perform a similar role. The 'Data Centre' monitors the environment, the 'Planning Department' develops strategic scenarios and conducts special studies and the 'Policy Department' reviews and consolidates the divisional plans on the basis of which senior policy-makers can decide on the Group's strategic priorities and allocate resources accordingly.

Reed's corporate planning system attempts to analyse the impact of external factors on its existing businesses, monitor macro-economic and political developments in countries of strategic importance, consider alternative strategies for each of Reed's businesses and evaluate the likely implications of such changes and the divisional plans for resource allocation purposes.

The second category of companies comprising Lucas, Lex Service Group and Chloride, emphasize the 'adaptation' role of their corporate planning systems. According to Chloride's Corporate Planning Manager [interview September 1979] their 'revised' planning system is directed toward assisting the Chief Executive and senior directors formulate a coherent strategy for the Group. This is conducted on the basis of monitoring potential opportunities and threats and undertaking an internal assessment of the Group's activities.

Lucas' 'Group Planning Department' is used as an 'internal consultancy' working on special projects of strategic significance. In addition, the planning staff assist the 'Group Policy Executive Committee' by reviewing and consolidating the divisional strategic plans.

Lex's 'Corporate Strategy Department' provides a central information service, evaluates the feasibility of alternative diversification/acquisitions options (especially in view of the Group's intended strategy of expansion in the United States) and conducts an annual 'strategic audit' of the existing businesses by reviewing the divisional strategic plans.

The third category of companies, comprising British Leyland, Cadbury/Schweppes and Serck, emphasize the importance of corporate planning as an 'integrative' device, although the other two planning roles [i.e. adaptation and control] are also pursued.

At BL, the divisional 'five-year plans' are reviewed and consolidated by one of the three central planning units and form the basis of the Company's 'corporate plan' which is then submitted to the Government and the 'National Enterprise Board' [i.e. its shareholders] in order to secure funds. Capital resources are subsequently allocated on the basis of these plans, having been discussed in a number of key central committees.

The Corporate Planning Department of Cadbury/Schweppes attempts to enhance the flow of strategic information between the centre and the largely autonomous divisions. Its members evaluate the divisional plans which are subsequently discussed in a number of strategy committees. It is hoped that this would facilitate the systematic development of an overall Group strategy in a large, decentralized and international organization.

Although Serck's planning system is going through its initial stages of development, it has already resulted in improved communication between the centre and the operating companies. The 'Group Corporate Development Manager', whose main responsibility is to co-ordinate the divisional planning effort and to review and consolidate their three-year strategic plans, hopes that once the system has been in use for some time, its scope of responsibilities would be extended [interview February 1980].

The final category of companies comprising L.C.P. Holdings, Dunlop, Redland and Albright & Wilson, emphasizes the importance of corporate planning for controlling the strategic direction of the divisions through the resource allocation process [these were discussed earlier in this section].

Table 33 Role of planning and specific responsibilities of the Corporate Planning Departments

Companies	Existing role of planning and specific responsibilities of the Corporate Planning Departments
BL	<ul style="list-style-type: none"> - to provide a central information service - to work on 'strategically-significant' projects such as possible collaborative ventures with other manufacturers - to review and consolidate the divisional plans into a Group 'corporate plan' for submission to the Government - to provide a basis for allocation of resources
Fisons	<ul style="list-style-type: none"> - to provide a 'central information service' monitoring developments (including competitors' actions) and conducting studies of strategic significance - to evaluate divisional strategies by reviewing and consolidating their strategy documents. These are subsequently used for the purpose of resource allocation - to co-ordinate planning activities of the divisions and develop planning capabilities for the smaller divisions

Companies	Existing role of planning and specific responsibilities of the Corporate Planning Departments
Cadbury/ Schweppes	<ul style="list-style-type: none"> - to provide a 'central information and consultancy service' - to enhance the flow of 'strategic information' between the centre and the divisions - to co-ordinate the 'planning output' of the divisions, & review and consolidate these for the use of senior corporate executives - to systematize the 'strategy formulation process' at Group level and provide a basis for the rational allocation of resources
L.C.P. Holdings	<ul style="list-style-type: none"> - to assist Group Chairman in the formulation of an overall strategy, conducting studies on potential acquisition targets, etc. - to monitor the performance of the divisions and control their strategic direction through the evaluation of capital expenditure plans and allocation of resources
Shell	<ul style="list-style-type: none"> - to enhance communication between the centre and the divisions - to monitor macro-environmental factors on the basis of which strategic scenarios can be developed - to review the plans of the operating companies and consolidate them for the 'Managing Directors' Committee' - the 'scenarios' and 'consolidated plans' can then be used as a basis for developing an overall Group strategy and allocating resources
Reed Inter- national	<ul style="list-style-type: none"> - to analyse the impact of external factors on the existing businesses and to assess their relative international standing - to consider alternative strategies for each of the business groups and to assess the potential interactive effect of changes - to evaluate the likely implications of these changes and strategies for resource allocation purposes

Companies	Existing role of planning and specific responsibilities of the Corporate Planning Departments
Dunlop Holdings	<ul style="list-style-type: none"> - to monitor the performance of the divisions - to control their strategic direction through the resource allocation process - to review and consolidate the divisional plans for the benefit of senior corporate executives - to provide a 'central information service' - monitoring environmental developments and conducting studies of strategic significance
Lucas Industries	<ul style="list-style-type: none"> - to generate information concerning the business environment of the Group and conduct studies of strategic significance - to evaluate the adopted strategies and action plans of the operating companies - to generate information on the basis of which the 'Group Policy Executive' can formulate a long-term strategy - to enhance level of strategic thinking at the divisions and improve communication between the centre and the divisions
ICI	<ul style="list-style-type: none"> - to provide a central information service, monitoring the environment, generating scenarios and undertaking special studies of strategic significance - to review, consolidate and integrate the divisional strategic plans as an input for the formulation of an overall Group strategy - to provide a rational basis for the allocation of resources - to provide a training ground for management development purposes
Serck	<ul style="list-style-type: none"> - to provide a central information and consultancy service for the benefit of senior corporate and divisional directors - to generate information on the prospects of the operating companies and their preferred strategies - to enhance communication between the centre and the divisions and to provide a basis for a systematic approach to development of strategy and allocation of resources

Companies	Existing role of planning and specific responsibilities of the Corporate Planning Departments
Redland	<ul style="list-style-type: none"> - evaluation of potential acquisition targets (Business Development Department) - evaluation of divisional capital expenditure proposals - monitoring the performance of the subsidiaries - provision of a central information and consultancy service
Lex Service Group	<ul style="list-style-type: none"> - to monitor 'macro-economic' developments and to prepare special reports on issues of strategic concern - to evaluate diversification/acquisition options at the request of the Chairman and senior directors - to conduct a 'strategic audit' of the Group's business portfolio by reviewing the divisional strategic plans - to co-ordinate the planning effort of the divisions and enhance communication between the Head Office and the operating companies
Albright & Wilson	<ul style="list-style-type: none"> - to monitor the progress and performance of the divisions - to evaluate the divisional plans as a basis for the allocation of resources
Chloride	<ul style="list-style-type: none"> - to provide a 'central information service' for Chief Executive and senior directors - to work on special projects of strategic significance - to review and consolidate the divisional plans

10.1.4 Situational factors associated with the role and functions of corporate planning departments

Although the planning managers interviewed in all fourteen companies considered their corporate planning departments (managing the planning system) to be concerned with all three planning roles of 'adaptation', 'integration' and 'control', the degree of emphasis, as was just described, varied considerably. Those interviewed have identified a number of 'situational factors' which are likely to be associated with the degree of emphasis placed on the three roles of planning. These situational factors will be described and a number of propositions/hypotheses will be proposed explaining the nature of interrelationship/association between these and the three functions of corporate planning systems. These propositions have been derived from the case studies and will be subsequently used as 'tentative design guidelines' for our approach to planning system design.

According to the respondents, the following factors are likely to be associated with the degree of emphasis placed on the three planning functions of 'adaptation', 'integration' and 'control':

- the degree of complexity of a firm's environmental setting
- the degree of 'volatility', level of 'turbulence' and 'uncertainty' associated with a firm's environmental setting

- the extent of 'maturity' of a firm's product/market portfolio
- the business and geographic 'diversity' of a firm's portfolio
- its organizational structure
- level of commitment of senior management to corporate planning

[see Table 34].

10.1.4.1 Degree of environmental complexity

Increasing complexity of the environment was one of the factors mentioned by four of our respondents at Shell, Reed International, Fisons and ICI as being associated with the 'adaptation' role of their corporate planning departments. For example, Shell's environment is considered to be highly complex [interview with the Head of 'Strategic Analysis Unit' August 1979]. The Group's operating companies handle about 8% of the world's oil and natural gas, exploring for and producing it, purchasing, processing and selling it. In addition, they are major chemical, metal and coal producers and to a lesser extent are involved in the business of nuclear energy. The Group is active in more than 100 countries, ranging from the highly industrialized countries of Europe and North America to the least developed countries of Africa, Asia and South America. There is a wide range of macro-economic, political, social and technological factors which need to be monitored on a continuous basis. These include

quantifiable factors such as GNP, inflation rate, level of economic activity, production levels of OPEC countries, Third World industrialization and political aspirations, threat from extremism, role of the United States, energy efficiency, technological breakthroughs and a whole host of societal and consumer pressures. All of these factors are likely to influence the Company's future development and need to be taken into account in developing corporate plans and strategies [Beck 1980: 12]. There is therefore clearly a need for its Corporate Planning Department to monitor these developments and evaluate their implications for the Group's future strategy on a continuous basis. This task is undertaken by the 35 staff members of the 'Business Environment Unit' who use such information to formulate a contrasting range of scenarios. Prospective business decisions and plans are then examined against these scenarios to see how they stand up under different circumstances.

By contrast, the environment of 'L.C.P. Holdings' is relatively 'less complex'. Although the Group's portfolio is composed of a variety of businesses (construction, property, distribution, metal manufacture, vehicle distribution) they are comparatively small in size (total Group turnover in 1978/9 amounted to £140 million as opposed to Shell's total of nearly £30 billion). Moreover, its businesses are mainly active in the West Midlands region of the U.K., often dealing with local municipalities and industries. According to the 'Group Chairman' (interview March 1980) there is no need for a large planning department at the Group's Head Office

which can monitor environmental developments of strategic significance to the Company. This task is undertaken by the Chairman who is assisted by one full-time planning manager.

The degree of 'complexity' of a firm's environmental setting can therefore be determined on the basis of:

- the number, type and size of 'business sectors' in which the company is actively engaged
- the number and type of markets in which the company operates on a worldwide basis
- the range of macro-environmental factors of strategic significance to the company.

The proposition explaining the association between a firm's 'environmental complexity' and role of its corporate planning system would therefore be as follows:

- I *The more 'complex' a firm's environmental setting, the greater the degree of emphasis placed on the 'adaptation' role of corporate planning.*

This task can be accomplished by a central information unit [part of the Corporate Planning Department] whose members would monitor macro-environmental developments of strategic significance to the firm.

The corporate planning departments of Fisons, Shell and ICI all have separate information/data centres [in the case of Reed one full-time staff of Group Planning Department] in

order to monitor these developments for the use of other planning staff, the divisions and senior corporate executives.

10.1.4.2 Degree of environmental 'volatility', 'turbulence' and 'uncertainty'

All the respondents considered their environments to be confronted with a high level of turbulence and uncertainty. As indicated in Section 10.1.2, increasing levels of environmental uncertainty was one of the factors which according to the respondents had led to the initial establishment of corporate planning departments, in order to monitor significant developments and by picking up 'weak signals' [Ansoff 1979] to reduce the element of 'surprise'. As Peter Beck, Planning Director of Shell (U.K.) commented:

' ... Life is no more or less uncertain than it has ever been. What has changed is the general consciousness of uncertainty brought about by feelings of insecurity during periods of major social transition and disruption ... Moreover, there has been enormous growth, particularly over the last 20 to 30 years, in the size and complexity of systems we are dealing with'. [Beck 1980: 4]

A number of respondents emphasized that the type of uncertainties with which they had to contend are likely to be so significant that they may result in a transformation of their strategic posture in the future. Consequently, the role of their corporate planning departments had been adjusted in order to cope with these uncertainties.

BL, Shell, Reed International, ICI, Lucas and Chloride are all active in 'technologically-dynamic' industries which are undergoing a period of major structural transition (i.e. emergence of the 'world car' concept and re-organization of car companies on an international scale, associated need for the use of standard components, increasing use of coal and nuclear energy to counteract the high price and fluctuating supplies of oil, emergence of 'bio-technology' influencing the production of food, chemicals, pharmaceuticals, and the transformation of information technology and office equipment). Moreover, due to the international scale of their operations, these companies are likely to be confronted with uncertainties associated with political, economic and social upheavals in their markets, especially in the Developing countries.

BL's 'Group Planning Department' has a special 'task force' which is working on 'collaboration projects', considered necessary if the Company is to survive in the intensely competitive environment of the 1980s. The corporate planning departments of Chloride and Lucas undertake special studies of strategic significance concerned with the impact of new technologies and the 'rating' of different geographic markets, in order to assist senior policy-makers make the 'right strategic choices' in the context of the widest range of information available. Indeed, such a proliferating variety of information can result in 'paralysis through analysis' (Beck 1980: 4), where the information generated becomes so prolific that it ceases to be informative and results in confusion which in turn can lead to indecision.

Reed's computerized planning models evaluate the impact of emerging and likely changes on alternative ranges of strategies for its different business groups and at Shell and ICI, alternative types of scenarios are developed in order to depict possible future environments.

By contrast, although L.C.P. Holdings and Lex Service Group are also subject to uncertainties generated by the deteriorating position of the U.K. economy, contraction of the U.K. automotive industry and declining position of the West Midlands industry, there are relatively fewer factors which need to be taken into account.

The degree of uncertainty of a firm's environment can therefore be determined on the basis of:

- involvement in technologically-dynamic industries
- characteristics of its markets and their associated degree of political, economic and social stability
- whether its industries are undergoing major structural transition.

As the cases of Shell, Reed, ICI, Chloride, Lucas and BL have indicated:

II *The more 'volatile/turbulent' the firm's environmental setting, the greater the emphasis placed on the 'adaptation' role of corporate planning.*

Such a capability [i.e. use of interactive planning models, multiple scenarios, project teams and special task forces set up to work on issues of strategic significance] facilitates the detection of 'weak signals' which might be of strategic significance to the company in the future.

10.1.4.3 The extent of 'maturity' of a firm's product/market portfolio

Maturity of a firm's product sectors and/or existing markets can result in the adoption of an 'adaptation' role by corporate planning departments as in the cases of 'Lex Service Group' and 'Lucas Industries'. Lex's case illustrates the manner in which its 'Corporate Strategy Department' is used to assist its Chairman and senior directors search for and evaluate diversification and expansion opportunities in order to enhance its future growth potential and reduce the Group's dependence on its traditional U.K.-based motor distribution business. It has also necessitated an evaluation of the Group's existing businesses through the process of an annual 'strategic audit', in the context of which 'divestment' candidates are identified and resources are subsequently allocated in order to expand those sectors which offer better growth opportunities. In the pursuit of this objective the Company has recently diversified into the motor components distribution business in the United States through the acquisition of a number of companies. It has also divested its hotels and a number of its forklift truck companies in the U.K.

Similarly, Lucas' 'Group Planning Department' assists members of its 'Policy Executive' evaluate the potential offered by various geographic markets which might reduce the Group's dependence on its traditional U.K. 'automotive components businesses'. These have been adversely affected by the deteriorating prospects of the U.K. automotive industry. The Department also evaluates the divisional strategic plans in order to provide a basis for the allocation of resources amongst its various businesses. This is likely to result in the expansion of the Group's 'aero-space components' business which offers considerable growth potential.

Reed's corporate planning system has also been used to transform the company 'from a debt-ridden, motley collection of businesses into a financially-sound enterprise' [Financial Times, 21 July 1980]. The turnaround is the result of both the massive divestment programme undertaken since 1977 [when Reed's new corporate planning system was being consolidated] and an all-round tightening of the Group's co-ordination and control. The influence of the new planning system on Reed's divestment programme should not however be exaggerated. Many of the disposals would have occurred anyway, but Sir Alex Jarrett, the Company's Chief Executive, is adamant that it played a significant role in several ways, including the choice of timing and acceptance or rejection of the preferred prices [Financial Times, 21 July 1980]. With the help of its planning system, its Board was armed throughout this period with a series of detailed calculations of the cash flow

and profit implications of selling a particular business at a particular price and at a particular time. Without these, it might have been tempted to sell several businesses as fast as possible and at giveaway prices [Financial Times, 21 July 1980]. By reviewing the various divisional plans [i.e. through its 'integrative' role] the planning system gave management an indication of the likely implications of shedding one business or another, in any one of a number of possible circumstances. This massive divestment programme was prompted by Reed's financial problems at the time (a high debt/equity ratio which was cut during 1977-1980 from almost 200 percent to just 34 percent) and the relative maturity of a number of its businesses, particularly its pulp and paper operations.

Factors which can contribute to the relative maturity of a particular business sector have been the subject of discussion in the planning literature, particularly by practising consultants. Michael Younger of Arthur D. Little for example, suggests the following parameters for determining the relative maturity of a particular industry:

- growth rate and growth potential
- distribution and stability of market share
- breadth of product line
- number of competitors
- customer stability
- ease of entry
- technological stability.

In order to illustrate how these parameters can provide an indication of relative maturity of an industry, Younger (1978: 8) goes on to comment:

' ... During the late growth and early maturity phases, a few companies tend to supply a large portion of the market'.

However, the relative maturity of the geographic markets on which a company might be dependent to a considerable extent, can also prompt them to search for alternative markets which are likely to enhance their growth potential as in the case of 'Lex Service Group' and 'L.C.P. Holdings', both of which are dependent on the U.K. market for nearly 90% of their total sales and profits.

On the basis of these cases the following proposition is advanced:

III *The higher the level of 'maturity' of a firm's product/ market portfolio, the greater the degree of emphasis placed on the 'adaptation' role of corporate planning.*

This involves the search for and evaluation of a number of strategic options which would reduce the firm's dependence on a mature business sector and/or geographic market and enhance its future growth potential. Strategic options include:

- diversification into new products
- expansion into new geographic markets

as exemplified by Lucas Industries, Lex Service Group and L.C.P. Holdings.

The planning staff can provide an additional supporting service by conducting a 'strategic audit' of the companies' existing businesses through an evaluation of their strategic plans. On the basis of this and other information, divestment candidates can be identified and resources generated and diverted to growth-oriented business sectors as in the case of Reed International and Lex Service Group.

10.1.4.4 The business and geographic 'diversity' of a firm's portfolio

All the fourteen companies are engaged in a variety of businesses and operate in different geographic markets, although they differ in terms of 'relative' extent of their business and geographic diversity.

'Reed International' for example, has a diversified 'business portfolio'. Under Sir Don [later Lord] Ryder, the Group considered itself to be in the 'paper' business, whether in its raw forest state, as paper proper, made into containers or used as substrates for publishing or wall covering. Having examined its business portfolio more clearly after Sir Alex Jarrett's appointment, its planning staff arrived at the conclusion that there was very little 'inter-supply' amongst their wholly-owned subsidiaries and that there are 60 different substantial businesses serving identifiably separate market sectors. According to its 'Planning Director' (interview August 1979) the Group is clearly a 'conglomerate'.

By contrast, Chloride has a less diverse 'business' portfolio. The Group is mainly engaged in the production and marketing of rechargeable batteries used in a wide range of products, from automobiles and forklift trucks to emergency lighting and oil rigs. Although the Group has built up its interests in fire alarms, smoke detectors, emergency lighting and other electrical systems over the last few years, batteries still account for over two-thirds of the Group's total sales (in 1979).

The Shell Group of companies exhibit a high degree of 'geographic' diversity, although it is less diversified by product line. Attempts have been made over the last decade to reduce the Group's dependence on its traditional oil business by diversifying into metals, coal and nuclear energy. By 1979 however, its non-oil business (including chemicals) accounted for only 15% of the Group's total turnover. However, as indicated in Section 9.1.1, Shell is actively engaged in over 100 countries in Africa, Europe, North and South America, Australasia, Middle East and the Carribean, characterizing a highly diversified 'geographic' portfolio.

L.C.P. Holdings by contrast is mainly active in the West Midlands region of the U.K., although it has recently embarked on an 'overseas expansion' programme in Europe and North America. It therefore exemplifies an undiversified 'geographic' portfolio.

The extent of a firm's relative 'business diversity' can therefore be determined on the basis of:

- number of identifiably separate businesses in which the firm is engaged [on the basis of product or product lines with identifiable independence from other products or product lines in terms of competition and substitutability of products]
- nature of the relationship between the firm's existing businesses and extent of inter-business transactions.

As indicated in Sections 10.1.4.1 and 10.1.4.2, the geographic and business diversity of a company influences the complexity and volatility of its environment and subsequently the 'adaptation' role of its corporate planning system. Moreover, it also necessitates the adoption of a decentralized organizational structure with autonomous operating units/divisions. This will be elaborated further in the ensuing section.^[2]

Our findings indicate that the extent of 'business' and 'geographic' diversity of a company seems to be associated with the 'integration' role of a corporate planning system, emphasizing the need for improved communication and flow of information between the centre and the divisions. Although the corporate planning systems of all fourteen companies in our sample were concerned with improving the flow of

information and providing senior corporate executives with sufficient information to evaluate the divisional strategies (i.e. an integrative role), the adoption of this role had been particularly influenced by 'geographic' and 'business' diversity in Cadbury/Schweppes and Serck.

The 'geographic' expansion of Cadbury/Schweppes' sphere of activities after the acquisition of the U.S.-based 'Peter Paul Inc.' in 1977 and the organizational re-structuring which followed, highlighted the need for improved means of communication and flow of 'strategically relevant' information between the centre and the regional groups. During the initial stages, the main responsibility of the newly-established Corporate Planning Department was to systematize the flow of information between the centre and the divisions and evaluate the 'five-year divisional rolling plans'. With the appointment of a new Planning Director in December 1980 and the consolidation of the Corporate Planning Department, it is hoped that the information provided in the divisional plans will be used by the senior executives (particularly the Group Chief Executive, who has shown a greater degree of commitment toward planning during the past year or so) to devise a suitable strategy and direct the divisions toward the desired strategic objectives through the resource allocation process. This is of crucial significance in a company which is active in stable but relatively mature business sectors in many regions of the world.

Serck's corporate planning system is still going through its initial stages of development (see Section 9.6.2). The increasing diversity of the Group's business portfolio and its decentralized organizational structure had highlighted the need for a planning system which would enhance the systematic evaluation of the divisional strategies and improve communication of strategic priorities between the centre and the operating companies.

The Group's business portfolio had become increasingly diversified during the 1970s and is at present composed of three large divisions (manufacturing industrial valves, heat transfer equipment and exchange parts for motor vehicles) and three smaller ones (providing supervisory control, environmental control and water treatment systems) which offer considerable potential for growth. This increased degree of diversity implied that there was an urgent need for senior corporate executives to have sufficient information on the operating companies' competitive position, growth prospects, financial requirements and preferred strategies. This information would facilitate the formulation of a systematic strategy on the basis of which resources would be subsequently allocated.

On the basis of these cases, the following proposition is advanced:

IV *The more 'diversified' the firm's business and geographic portfolio, the greater the degree of emphasis placed on the 'integrative' role of corporate planning.*

This would improve the flow of strategically-relevant information between the centre and the divisions and provide the centre with the means to influence the strategic direction of the divisions.

10.1.4.5 Organizational structure

Our sample of fourteen companies all have decentralized organizational structure based on either product divisions (as in the case of British Leyland, Fisons, Lucas, ICI and Albright & Wilson), autonomous operating companies based on specific businesses (as in the case of L.C.P. Holdings, Serck, Redland and Lex Service Group) or a combination of product divisions and geographic/regional groupings as in the case of Cadbury/Schwepes, Shell, Reed International, Dunlop Holdings and Chloride.

The adoption of a decentralized organizational structure based on autonomous divisions/operating units was one of the factors which according to our respondents had influenced the need for improved communication and flow of information between the centre and the operating units, emphasizing the 'integrative' role of their corporate planning systems. This was the case at British Leyland (particularly after the establishment of autonomous divisions following Sir Michael Edwardes' appointment as Chairman, which transferred detailed product/market planning to the divisions), Fisons, Cadbury/Schwepes (following the adoption of an organizational structure based on regional groupings in 1977), Shell (with 270 operating companies active in over 100 countries), Reed

International, ICI, Lucas, Serck, Lex Service Group and Chloride. After the review and consolidation of the divisional plans, the centre would be in a position to influence the strategic direction of the divisions (through the resource allocation process) and formulate a coherent strategy for the Group as a whole, in terms of expansion, diversification, divestment, etc.

In four specific instances however, decentralized organizational structure was cited by the respondents as one of the main reasons which was associated with the adoption of a 'control' function by their corporate planning systems. The centre would thus be in a position to exercise its control over the strategic direction of the divisions through the resource allocation process and by monitoring their performance. This was the case at L.C.P. Holdings, Dunlop, Redland and Albright & Wilson, although other factors had also been significant.

At L.C.P. Holdings for example, an entrepreneurial style of management and short lines of communication between the centre and the operating companies implied that strategic decisions concerning the Company's future overseas expansion and acquisition programmes could be arrived at through a process of consultation between the Group Chairman and the divisional chief executives, all of whom are represented on the Main Board and policy committees. The formal planning process involves the evaluation of the divisional capital expenditure programmes (by member of the Group Finance

Department and the Planning Manager] in the context of which resources can be subsequently allocated. The three-year financial plans of the operating companies also provides a basis for monitoring the performance of the divisions.

The 'funds allocation' process is central to Dunlop's corporate planning system [Rossiter 1979]. It is the mechanism used to direct the divisions towards the Group's strategic priorities and according to the General Manager in charge of planning [Rossiter 1979: 18]:

' ... is necessary to knit together the strategies of an international, multi-product, multi-market, decentralized association of semi-autonomous businesses where the only common denominator appears to be money, although that by itself is inadequate as a directing and controlling mechanism'.

Redland's 'holding company' form of organizational structure and the nature of its businesses [i.e. need to maintain close contact with local builders and be aware of local conditions] imply that the operating companies need to have complete autonomy in order to manage their businesses efficiently. The centre has to ensure that they are directed in accordance with the Group's strategic priorities and that their performance is satisfactory. In the pursuit of this objective, the corporate planning staff evaluate the divisional capital budgets and monitor the performance of the operating companies by holding a series of monthly meetings with their chief executives. A separate department

[the Business Development Department] assists the Group Chairman search for and evaluate potential acquisition candidates which would expand the Group's geographic sphere of activities and generate growth opportunities.

The planning system at Albright & Wilson has become more control-oriented since the Group was acquired by the U.S.-based Tenneco Inc. in 1978. The divisions take the initiative for generating strategic proposals through their five-year financial plans [which provide an indication of their proposed capital investment programmes] and the small London Head Office maintains contact between the divisions and Tenneco's headquarters in Houston. Since the takeover, the organizational structure has become more decentralized and a number of supporting functions have been transferred to the divisions.

On the basis of our findings, two propositions will be forwarded with respect to the association/interrelationship between the functional orientation of a corporate planning system and the firm's organizational structure:

- v *The more decentralized the firm's organizational structure, the greater the degree of emphasis placed on the 'integrative' role of corporate planning.*

This would enhance communication and flow of information between the centre and the divisions/operating companies.

VI *The more decentralized the firm's organization structure, the greater the degree of emphasis placed on the role of corporate planning as a 'control' mechanism.*

This would facilitate an evaluation of the divisional capital investment proposals, provide a basis for the allocation of resources and monitoring the performance of the divisions.

10.1.4.6 Level of commitment of senior management to corporate planning

The corporate planning departments of all fourteen companies provide a supporting service for senior corporate (and in some cases divisional) management. These range from the provision of a central information service, monitoring environmental developments (as in the case of Fisons, BL, Shell, Reed International, Dunlop Holdings, Lucas, ICI, Redland, Lex and Chloride) to the evaluation of divisional strategies and assessing their implications for the purpose of resource allocation. In six specific instances (British Leyland, Fisons, Reed, Serck, Lex and Chloride) the commitment of senior management particularly the Chairman and Chief Executive had been crucial for the initial development of a formal approach to corporate planning and subsequent adoption of a systematic approach to formulation and evaluation of group and divisional strategies.

The enthusiasm of Reed's Chairman and Chief Executive is evident in the priority given to planning since he took over in 1975:

'Planning helps you to direct attention at the ways you might go and to set up priorities or combination of strategies'.

[Sir Alex Jarrett, Financial Times, 21 July 1980].

The Group's planning system has been used to divest a number of its unprofitable and mature businesses and to reduce its debt/equity ratio from over 200 percent to 34 percent in three years.

Similarly, Trevor Chinn, Lex Service Group's entrepreneurial Chairman, provided the initial impetus for setting up a planning system during the early 1970s and uses the services of the planning staff in order to reduce the Group's dependence on its traditional U.K. automotive distribution business.

L.C.P.'s entrepreneurial Chairman prefers to adopt a more personalized approach to the development of the Group's overseas expansion strategy, using the financial planning system to monitor the performance of the divisions and control their direction through the mechanism of resource allocation.

The commitment of the firm's senior management, particularly the Chairman and Chief Executive, is crucial if the planning system is to influence actual decision-making within the firm. The Chairman and Chief Executive is in a position to mould the functional orientation of the system on the basis of his preferences as illustrated in the case of Lex, Serck and L.C.P. Holdings. This leads us to the following proposition:

VII *The functional orientation of a corporate planning system is influenced by the attitude of the firm's senior management (particularly the Chairman and Chief Executive) and their degree of commitment and support for planning.*

Table 35 summarizes the characteristics of all fourteen companies on the basis of six sets of situational factors which are likely to be associated with the degree of emphasis placed on the three planning functions of adaptation, integration and control. Six 'simple contingency tables' have been drawn up in order to illustrate the inter-linkages between these attributes and the degree of emphasis placed on the three planning roles in our sample of companies (see Appendix 4). These reflect the nature of problems and difficulties associated with this type of research. Firstly, it has been difficult to determine the extent of these firms' environmental complexity, diversity, maturity, etc. on the basis of objective criteria. By drawing upon previous research and the present study, a number of factors have been identified which may serve as a checklist for determining the 'relative' complexity, uncertainty, etc. of their environments. These have been used as guidelines for the purpose of compiling Table 35. These problems however, were highlighted while classifying the fourteen companies on the basis of high, medium and low categories as far as different attributes of their settings were concerned.

Secondly, lack of evenly-balanced information on all fourteen companies made it difficult to determine the degree of complexity, volatility, maturity etc. of the companies on

the basis of similar type of information, explaining the 'tentative' nature of the propositions put forward in this study. It is hoped that their validity (or otherwise) will be tested in future studies by using a larger sample of companies. Although our results are not conclusive (as indicated by the simple contingency tables in Appendix 4), the difficulties associated with the inadequacy of information and measurement problems should be kept in mind.

Two additional points need to be clarified at this stage. Firstly, the seven propositions related to the degree of emphasis placed on the planning functions are all interrelated and should be taken together while evaluating the planning needs of the company (this is illustrated in Chapter 11 while evaluating the planning needs of Company X). Secondly, the planning systems of three of the four companies with high scores on all three planning roles (Fisons, Shell and ICI), have been established for a longer period of time, going back to the late 1960s. It may well be the case that during its initial stages of development, the formal planning system is primarily concerned with generating information and co-ordinating the information flow of the operating companies on a systematic basis as in the cases of Serck and Cadbury/Schweppes.

Companies	Situational factors associated with role of planning and responsibilities of the Corporate Planning Department
Redland	<ul style="list-style-type: none"> - senior management's need for supporting service - integral part of existing control system to monitor performance of the operating companies
Lex Service Group	<ul style="list-style-type: none"> - Chairman's commitment to a formal approach to 'portfolio planning' and need for supporting service - maturity of existing geographic market (dependence on the U.K. automotive business) need to expand geographically - decentralized 'holding company' organizational structure
Albright & Wilson	<ul style="list-style-type: none"> - decentralized organizational structure and autonomous product divisions - Tenneco's need to control the Group's strategic direction through the resource allocation process and monitoring the performance of the divisions
Chloride	<ul style="list-style-type: none"> - uncertainty of the environment; changing nature of technology - senior management's need for information in order to formulate strategy and supporting department to evaluate plans and monitor the environment - changing nature of its traditional automotive market; need to diversify and expand its other businesses - decentralized organizational structure

Table 34 Situational factors associated with the role of corporate planning depts in the fourteen companies

Companies	Situational factors associated with role of planning and responsibilities of the Corporate Planning Department
BL	<ul style="list-style-type: none"> - decentralized organizational structure - need to submit the 'corporate plan' to the Government in order to secure funds - need for collaborative ventures with other manufacturers due to intensity of competition and changing nature of its industry - senior management's preference for a systematic approach to formulation of strategy and allocation of resources - need to co-ordinate the divisional planning effort
Fisons	<ul style="list-style-type: none"> - need to monitor the environment due to the complex and uncertain nature of its environment - intensity of competition - active in different geographic markets - need to provide support for smaller divisions with potential for growth - decentralized organizational structure - senior management's need for information (external and internal) in order to formulate strategy and decide on the allocation of resources
Cadbury/ Schweppes	<ul style="list-style-type: none"> - decentralized organizational structure - diverse business and geographic portfolio - active in stable but relatively mature business sectors - senior management's need for information on the Group's various activities

Companies	Situational Factors associated with role of planning and responsibilities of the Corporate Planning Department
L.C.P. Holdings	<ul style="list-style-type: none"> - decentralized and 'holding company' form of organizational structure - entrepreneurial style of management - elaborate financial control mechanism - overseas expansion strategy due to maturity of U.K. market
Shell	<ul style="list-style-type: none"> - complexity and uncertainty of its environment [active in technologically-dynamic industry with long lead times and high degree of capital intensity] - decentralized organizational structure with over 270 companies operating in over 100 countries on a worldwide basis - need to diversify into other businesses in order to reduce its dependence on its oil operations - senior management's need for information to formulate strategy and allocate resources
Reed International	<ul style="list-style-type: none"> - complexity and uncertainty of its environment - relative maturity of one of its main businesses (i.e. paper manufacture) - international character of its markets - decentralized organizational structure - diversified business portfolio - senior management's commitment to formal planning and their need for information on the basis of which strategies can be formulated and resources subsequently allocated
Dunlop Holdings	<ul style="list-style-type: none"> - decentralized organizational structure - diversified business portfolio - active in different geographic markets - senior management's need to influence the strategic direction of the divisions through the resource allocation mechanism

Companies	Situational factors associated with role of planning and responsibilities of the Corporate Planning Department
Dunlop Holdings	<ul style="list-style-type: none"> - planning as part of its control mechanism, closely allied to Group Finance and Treasury - need to monitor environmental developments, particularly macro-economic factors
Lucas Industries	<ul style="list-style-type: none"> - decentralized organizational structure and autonomous operating companies - maturity of U.K. automotive industry - need to search for alternative strategic options - senior management's need for information
ICI	<ul style="list-style-type: none"> - complexity and uncertainty of the Group's macro-environment - diversified business portfolio - decentralized organizational structure - active in different countries on an international basis - technologically-dynamic business sectors with long lead times and high degree of capital intensity - senior management's need for information in order to evaluate divisional strategies and allocate resources
Serck	<ul style="list-style-type: none"> - Group Managing Director's desire for a systematic approach to strategy formulation and resource allocation - diversified business portfolio - decentralized 'holding company' organizational structure - production orientation of the divisional management and the associated need to enhance strategic thinking at the divisions
Redland	<ul style="list-style-type: none"> - decentralized 'holding company' organizational structure with a network of associate and subsidiary companies overseas - need to expand geographically through acquisition

Companies	Situational factors associated with role of planning and responsibilities of the Corporate Planning Department
Redland	<ul style="list-style-type: none"> - senior management's need for supporting service - integral part of existing control system to monitor performance of the operating companies
Lex Service Group	<ul style="list-style-type: none"> - Chairman's commitment to a formal approach to 'portfolio planning' and need for supporting service - maturity of existing geographic market [dependence on the U.K. automotive business] need to expand geographically - decentralized 'holding company' organizational structure
Albright & Wilson	<ul style="list-style-type: none"> - decentralized organizational structure and autonomous product divisions - Tenneco's need to control the Group's strategic direction through the resource allocation process and monitoring the performance of the divisions
Chloride	<ul style="list-style-type: none"> - uncertainty of the environment; changing nature of technology - senior management's need for information in order to formulate strategy and supporting department to evaluate plans and monitor the environment - changing nature of its traditional automotive market; need to diversify and expand its other businesses - decentralized organizational structure

Companies	Environmental complexity H/M/L	Environmental volatility H/M/L	Market Maturity H/M/L	Diversity H/M/L	Organizational structure centralized/decentralized	Senior management attitudes High/Low commitment	Degree of emphasis on planning functions		
							Adaptation High/Medium/Low	Integration High/Medium/Low	Control High/Medium/Low
BL	Medium	High	High	Low	decentralized product divisions	High commitment	Medium	High	Medium
Fisons	Medium	Medium	Medium (mixed)	Medium	decentralized product divisions	High commitment	High	High	High
Cadbury/Schwepes	High	Medium	Medium-High	Medium	decentralized regional and product groups	Low commitment, gradually increasing	Medium	High	Low
L.C.P. Holdings	Low	Low	High	High	decentralized (holding company)	High commitment	Low	Medium	High
Shell	High	High	Mixed	High for market	decentralized regional and product groups	High commitment	High	High	High
Reed International	High	High	Medium (mixed)	High	decentralized product and regional sectors	High commitment	High	High	High
Dunlop Holdings	High	Medium	High (for major sector)	Medium	decentralized product and geographic divisions	Medium commitment	Medium	Medium	High
Lucas Industries	High	Medium	High (for automotive component sector)	Medium	decentralized (product divisions)	Medium to High	High	Medium	Medium
ICI	High	High	Medium	High	decentralized matrix	High commitment	High	High	High
Serck	Medium	Medium	Mixed	Medium	decentralized (holding company)	High commitment	Medium	High	Low
Redland	Medium	Medium	Medium	Low-Medium	decentralized (holding company)	High commitment	Medium	Medium	High
Lex Service Group	Low	Medium	High	Low	decentralized (holding company)	High commitment	High	Medium	Medium
Albright & Wilson	Medium	Medium	Medium	Medium	decentralized product divisions	Low commitment	Low	Medium	High
Chloride	Medium	High	High (for major sector)	Low-Medium	decentralized geographic divisions	High commitment	High	Medium	Low

H/M/L: High, Medium, Low

Table 35 Situational characteristics and degree of emphasis placed on the three planning functions of adaptation, integration and control

10.1.5 Situational factors associated with the organization and structure of the corporate planning departments

The term 'organization and structure' of the corporate planning department refers to the following:

- the number of sub-units comprising the corporate planning department and their staff
- the reporting relationship of the most 'senior' staff planner with senior corporate management and his membership of the Main Board and major committees
- extent of formal planning at the divisions.

These particular features of our sample of fourteen companies are summarized in Table 36. They range from 'one-man corporate planning departments' as in L.C.P. Holdings and Serck to the large departments of Shell and ICI with a full-time staff of forty and thirty respectively. In the case of L.C.P. Holdings and Serck however, the planning managers had been appointed fairly recently, whereas the planning departments of Shell and ICI were set up during the mid-1960s.

If the planning departments have been established for a longer period of time and are responsible for a wider range of tasks, there is a greater need for a larger number of full-time planning staff who can co-ordinate the activity.

Two situational factors appear to be associated with the 'organization and structure' of the corporate planning departments [see Table 37].

- role of planning and specific responsibilities of the corporate planning departments: this seems to be associated with the number and type of sub-units comprising the corporate planning department, number of planning staff and the reporting relationship of the most senior planner. Attitude of senior management toward planning also seems to be associated with the status of the chief planner and his membership of the Main Board and major policy-making committees;
- the firm's organizational structure, size and complexity of the divisions and their particular need for formal planning departments appear to be associated with the nature and extent of formal planning at the divisions.

For example, with the establishment of four autonomous divisions in 1977/78, BL's corporate headquarters has assumed a 'strategic role' delegating operational responsibility to the divisions. The planning department of every division is now responsible for the development of the divisional plans and co-ordinating the information provided by the various functional departments. The role of the Corporate Planning Department is to review and consolidate the divisional plans



into an overall 'corporate plan' for eventual submission to the Government. However, due to the strategic significance of possible 'collaboration' ventures, a 'task force' has been set up to work on specific options available to the Company in this particular field. The commitment of senior management to formal planning and the urgency of the need to develop a coherent strategy imply that there is a director responsible for 'business strategy' who heads the Corporate Planning Department. Reporting to the 'Group Vice-Chairman', the 'Business Strategy' Director is also a member of major policy-making committees.

The three units of Fisons' Corporate Planning Department are responsible for different aspects of the planning function. The 'Economic Research Unit' is an information centre (i.e. adaptation role of planning) monitoring environmental developments and working on special projects of strategic significance. The 'Strategic Planning Unit' is concerned with the 'integrative' and 'control' aspects of planning, reviewing and consolidating the divisional 'strategy documents' and evaluating their implications for the purpose of resource allocation. The 'International Development Unit' provides a comprehensive planning service to the overseas subsidiaries and evaluates the impact of their capital investment programmes on the Group's strategic posture. Due to the Group's decentralized structure and the large size and complex nature of the divisional businesses, there are divisional planning departments whose size and scope of responsibilities varies depending on their particular requirements.

According to L.C.P.'s Chairman [interview June 1979] there is no need for a large planning department at their Head Office. Instead, the 'Planning Manager' assists the Chairman in his search for suitable acquisition and expansion opportunities. The finance departments of the operating companies are responsible for formulating their three-year capital budgets; their size and scope of operations do not warrant the establishment of separate planning departments; issues of strategic significance can be discussed with the Head Office on an informal basis due to short and open lines of communication.

The organization of Shell's Corporate Planning Department reflects the importance attached to the provision of a central information service [i.e. adaptation role of planning] and the review and consolidation of the divisional plans [i.e. integration]. The 'Business Environment Unit' monitors external developments and prepares a set of strategic scenarios. The 'Strategic Analysis Unit' evaluates and consolidates the plans of the operating companies. Group planning staff are frequently called upon to advise senior management [particularly members of the Managing Directors' Committee] on issues of strategic importance, with whom they have a close working relationship. The 'Planning Co-ordinator' who heads the 'Group Planning Department' reports directly to the Chairman and members of the 'Managing Directors' Committee'. As indicated in Section 9.1.2, every operating company also has a planning department, considered necessary in a large, decentralized organization, active in

technologically-dynamic industries with long lead times and a high degree of capital intensity.

The conclusions which have emerged from our cases suggest that:

VIII *The more 'decentralized' the firm's organizational structure and the larger the size and complexity of the divisions, the greater the need for a 'differentiated' planning system with separate divisional planning departments.*

There are separate divisional planning departments at BL, Fisons, Cadbury/Schweppes, Shell, ICI, Reed International, Dunlop and Lucas. Albright & Wilson has full-time 'planning' managers at each of the divisions who co-ordinate the development of their five-year plans. There are part-time 'strategy managers' at the operating companies of Lex Service Group who provide liaison with the 'Corporate Strategy Department'. At L.C.P. Holdings, Serck and Redland, there are no full-time divisional planning staff. Instead the divisional finance departments prepare the 'three-year plans' in conjunction with the office of their Chief Executives.

IX *The more 'strategic' the functional orientation of the corporate planning department's responsibilities (i.e. emphasis on adaptation and integration) the closer its reporting relationship to senior corporate management.*

Senior directors who are members of the Main Board and corporate committees are specifically responsible for the corporate/business strategy function at BL, Reed International,

Lucas, ICI, Ilex and Chloride, emphasizing the degree of importance attached to the status of the planning departments. The 'Group Planning Co-ordinator' at Shell reports directly to the Chairman and the 'Managing Directors' Committee', while the 'General Manager' in charge of planning at Fisons reports to the Group Chairman and Chief Executive and is also a member of all the divisional boards. Serck's 'Group Corporate Development Manager' reports to the Managing Director while the 'Planning Manager' at L.C.P. Holdings, who works specifically for the Chairman, reports directly to him. The status of the Planning Director at Cadbury/Schweppes is likely to be enhanced if, as is anticipated, he becomes a member of the Main Board. At present, he reports to the Group Chief Executive.

x *The more 'control-oriented the functional emphasis of the planning department's responsibilities, the greater the need for close liaison with the 'Group Finance Department'.*

This is indicated by the situation at Redland, Dunlop, Albright & Wilson and L.C.P. Holdings. At Redland for example, the 'Group Treasurer' who is also in charge of the Corporate Planning Department, reports to the 'Finance Director and Deputy Managing Director'. Members of the Department work in close conjunction with the 'Chief Accountant' and 'Group Finance Department' particularly in relation to evaluation of the divisional capital expenditure proposals and monitoring their performance through a series of monthly meetings.

As Table 36 illustrates, corporate planning departments of the fourteen companies exhibited considerable variation in terms of their size, number and type of sub-units, reporting relationships as well as the use of formalized planning at the divisional level.

Table 36 Organization of the corporate planning departments and their reporting relationships with senior management

Company	No of planning staff at centre	Sub-units comprising the Corporate Planning Departments	Reporting relationships	Extent of divisional planning
BL	12	1 Business Planning(2) 2 Flexible task force (collaboration studies)(4) 3 Consolidation and review of divisional plans (6)	Corporate Strategy Director (Main Board member) reporting to Vice-Chairman	Business and product planning at the four divisions organized on functional basis
Fisons	9	1 Strategic Planning Unit (3) 2 International Development (3) 3 Economic Research (2) headed by the General Manager	General Manager reporting to the Chairman & Chief Executive. Also a member of all the divisional boards	Each division has its own planning department varying in size and scope of responsibilities

Company	No of planning staff at centre	Sub-units comprising the Corporate Planning Departments	Reporting relationships	Extent of divisional planning
Cadbury/ Schweppes	8	International Planning Dept	International Planning Co-ordinator reporting to the Planning Director (not a Main Board member) who reports to the Managing Director	Each division has its own planning dept mainly responsible for market planning
L.C.P. Holdings	1	Corporate Planning Manager	General Manager reporting to the Group Chairman	No formal planning at divisional level. Financial planning and capital budgeting undertaken by divisional finance depts
Shell	40	1 Business Environment 2 Strategic Analysis	Group Planning Co-ordinator reporting to the Chairman & Managing Directors' Committee	Extensive planning at sectoral & regional levels
Reed International	6	Corporate Planning Department	Planning Director reporting to the Chief Executive	Divisional planning

Company	No of planning staff at centre	Sub-units comprising the Corporate Planning Departments	Reporting relationships	Extent of divisional planning
Dunlop Holdings	12	1 Economic research 2 Market research 3 Financial planning 4 Business planning	General Manager (corporate planning) reporting to Main Board member and Managing Director	Divisional planning co-ordinated by their finance departments and planning managers
Lucas Industries	4	Corporate planning	Group Strategic Planning Manager reporting to Strategy Director (Main Board member)	Formalized planning at the divisional level co-ordinated by planning managers
ICI	30	1 Data Centre (12) 2 Planning Dept (6) 3 Policy Dept (12)	Planning Director (Main Board member) reporting to Chairman	Each division has its own planning dept
Serck	1	Corporate Strategy Department	Group Corporate Development Manager reporting to the Group Chief Executive	No planning department at the divisions divisional chief executive responsible for planning

Company	No of planning staff at centre	Sub-units comprising the Corporate Planning Department	Reporting relationships	Extent of divisional planning
Redland	7	1 Corporate planning 2 Project appraisal 3 Business development	Corporate Planning Manager (also Group Treasurer) report- int to the Finance Director (Main Board member) Business Development Manager reporting to the Chairman	Specialized (financial mainly) planning at divisional level
Lex Service Group	4 2	1 Corporate strategy 2 Operations Development	General Manager report- ing to the Main Board member responsible for corporate strategy	Divisional planning undertaken by strategy managers in a part-time capacity
Albright & Wilson	3	Office of Deputy M.D.: Operations	Divisional Planning Manager reports to Divisional Chief Exec. who in turn reports to Dep.M.D.:Op.	Formalized planning at divisional level co-ordinated by full-time planning managers
Chloride	6	1 Strategic planning 2 Project appraisal	Main Board Director responsible for Business Strategy	Formalized planning at the regional level

Table 37 Situational factors associated with the structure and organization of the corporate planning departments

Companies	Situational factors associated with sub units of corporate planning dept and number of planning staff	Situational factors associated with reporting relationship of the most senior planner	Situational factors ass. with nature and type of formal planning at the divisions
BL	<ul style="list-style-type: none"> - role of planning at corporate level: i.e. emphasis on integration and adaptation [task force working on collaboration ventures] 	<ul style="list-style-type: none"> - importance of formal planning for the development of the Group 'corporate plan' [for submission to the Government] and development of future strategy 	<ul style="list-style-type: none"> - integrated nature of vehicle manufacturing & decentralized organizational structure transferring detailed planning responsibility [product/market/financial planning] to the divisional planning depts
Fisons	<ul style="list-style-type: none"> - role of planning emphasis on adaptation, integration & control - number of overseas countries in which the firm is operating 	<ul style="list-style-type: none"> - status of General Manager in charge of planning [working at Fisons since 1952] - commitment of senior management 	<ul style="list-style-type: none"> - decentralized organizational structure with large and autonomous product divisions
Cadbury/Schweppes	<ul style="list-style-type: none"> - role of planning emphasis on integration and provision of a central information service 	<ul style="list-style-type: none"> - unenthusiastic support of senior executives during the initial stages, although degree of commitment is increasing 	<ul style="list-style-type: none"> - decentralized organizational structure with large & autonomous divisions

Companies	Situational factors associated with sub units of corporate planning dept and number of planning staff	Situational factors associated with reporting relationship of the most senior planner	Situational factors ass. with nature and type of formal planning at the divisions
L.C.P. Holdings	<ul style="list-style-type: none"> - recent appointment of the Planning Manager - entrepreneurial style of management 	<ul style="list-style-type: none"> - role of the Planning Manager: providing a supportive service for the Group Chairman 	<ul style="list-style-type: none"> - nature of activities & size of the operating units - short lines of communication between H.Q. & operating companies
Shell	<ul style="list-style-type: none"> - role of planning (adaptation and integration undertaken by the two units of the Group Planning Department) 	<ul style="list-style-type: none"> - commitment of senior executives to planning and their need for information due to the size and complexity of operations 	<ul style="list-style-type: none"> - decentralized organizational structure & operating companies' need for formal planning - technological-dynamism
Reed International	<ul style="list-style-type: none"> - role of planning (emphasis on adaptation, integration and control) 	<ul style="list-style-type: none"> - commitment of Group Chairman & Chief Executive 	<ul style="list-style-type: none"> - decentralized organizational structure; large and autonomous divisions, operating in different countries

Companies	Situational factors associated with sub units of corporate planning dept and number of planning staff	Situational factors associated with reporting relationship of the most senior planner	Situational factors ass. with nature and type of formal planning at the divisions
Dunlop Holdings	- role of planning (emphasis on control and provision of information service)	- importance of planning department's role in the resource allocation and control process	- decentralized organizational structure; large & autonomous divisions operating in different countries
Lucas Industries	- role of planning (emphasis on adaptation; working on projects of strategic significance)	- importance of developing a strategy which would reduce the Group's dependence on its traditional U.K. automotive components business	- decentralized organizational structure; large & autonomous divisions with their own planning needs
ICI	- role of planning (emphasis on adaptation, integration and control)	- importance of formal planning & senior management's need for information	- decentralized organizational structure with large and autonomous divisions
Serck	- role of planning and its recent origin (established for three years)	- Group Managing Director's need for information and his support and commitment	- production-orientation of the divisional management - nature of the divisional businesses - size of the divisions

Companies	Situational factors associated with sub units of corporate planning dept and number of planning staff	Situational factors associated with reporting relationship of the most senior planner	Situational factors ass. with nature and type of formal planning at the divisions
Redland	<ul style="list-style-type: none"> - separation of 'adaptation' and 'control' aspects of planning 	<ul style="list-style-type: none"> - control-orientation of the corporate planning department: close relationship to the Finance Director - strategic orientation of the Business Development Dept. and close relationship to the Chairman 	<ul style="list-style-type: none"> - nature of business of the operating companies
Lex Service Group	<ul style="list-style-type: none"> - role of planning (emphasis on adaptation & integration) - provision of a 'support' service for the divisions (projects appraisal) since they do not have their own planning depts 	<ul style="list-style-type: none"> - commitment of the Group Chairman to portfolio planning - importance of developing a strategy which would reduce the Group's dependence on the mature U.K. automotive market 	<ul style="list-style-type: none"> - nature of the divisional business
Albright & Wilson	<ul style="list-style-type: none"> - role of planning (emphasis on control) - changing nature of its organizational structure since the takeover by Tenneco 	<ul style="list-style-type: none"> - enhanced position of Deputy M.D.: Operations since the Tenneco takeover 	<ul style="list-style-type: none"> - decentralized organizational structure with autonomous product divisions
Chloride	<ul style="list-style-type: none"> - role of planning (emphasis on adaptation) 	<ul style="list-style-type: none"> - support of Chief Executive - need to develop strategy to take account of changing nature of the automotive market and technology 	<ul style="list-style-type: none"> - decentralized organizational structure based on regional groups

10.1.6 Situational factors associated with 'types of plans'
and their adopted time horizon

Our respondents were of the opinion that 'written plans' are the means by which information concerning the activities of the companies, their likely future environment, competitive position, growth prospects and capital expenditure proposals can be conveyed to the centre. This information is subsequently used to evaluate the divisional strategies and monitor their performance, providing a basis for determining a suitable strategic direction for the Group. As indicated in Table 38 all fourteen companies, or more specifically their divisions and/or operating companies, develop some kind of formal planning document, which is subsequently reviewed and consolidated by the planning staff at the centre. In the case of a company such as BL, the divisional plans are consolidated into an overall 'corporate plan' for submission to the Government in order to secure funds. It outlines the Group's intended future strategy (including its manpower and product plans) on the basis of which the Government can reach a decision.

In other cases such as L.C.P. Holdings, Redland and Albright & Wilson, the divisional plans which are mainly 'financial', are used by the centre to monitor the performance of the divisions and to provide a basis for the evaluation of their capital expenditure proposals. 'Written plans' are therefore used to enhance communication and flow of strategically-significant information between the centre and the

divisions. As such, they are closely associated with the nature of their 'planning functions', i.e. to provide information on the basis of which the firm can adapt its strategic posture to the emerging opportunities and threats in the environment [i.e. adaptation], to ease the flow of information between the centre and the divisions [i.e. integration], and to provide a basis for monitoring the divisional performance and influencing their strategic direction through the resource allocation process [i.e. control].

The time horizon adopted for planning purposes appears to be associated with the extent of the firm's involvement in technologically-dynamic industries, the complexity and capital intensity of their operations and the lead times associated with their particular activities/industries.

At BL for example, detailed divisional product plans are required for developing a suitable 'model strategy' which demands co-ordination of the different functional plans [i.e. manpower plans, financial and marketing plans, etc.]. 'Manufacturing' plans have to be in line with the 'components' strategy; product volumes need to be carefully projected and capital requirements evaluated in detail; projected market share, competitors' strategy and macro-economic and political considerations [such as exchange rates and a change in Government policy] need to be taken into account. Moreover, in the motor industry it takes approximately seven years to design, develop and manufacture a new type of vehicle;

capital requirements have to be estimated well in advance; machine tools need to be procured, facilities planned and manpower requirements carefully considered. The divisional plans extend over five years and are up-dated annually in order to take account of unforeseen developments. The consolidated 'corporate plan' however, considers the Company's strategic direction over a five to ten-year period, especially in view of the changing nature of the motor industry worldwide.

The 'strategy documents' which are prepared by all the divisions at Fisons extend over a five to seven-year period and are used as discussion documents in a number of corporate committees where issues of strategic significance are generally discussed. The long lead times associated with the pharmaceutical and agrochemical industries necessitate looking at likely developments on the basis of extended time horizon and the documents provide an indication of potential future environment of the businesses and their strategic priorities. In addition, the divisions prepare 'capital expenditure plans' which translate strategic priorities into specific action plans and investment proposals over a three-year period.

The five-year divisional rolling plans at Cadbury/Schweppes are used to enhance the flow of information between the centre and the divisions. These plans provide an indication of strategically significant issues [developing trends in each business area, strengths and weaknesses of the divisions], alternative strategies considered, detailed action

plans and associated resource requirements. On the basis of this information, the senior corporate directors are able to evaluate the divisional strategies and consider their request for funds.

The operating companies of L.C.P. Holdings develop 'three-year capital budgets' which outline their future investment programmes. Key strategic issues however, are not usually incorporated in the plans. These form the basis of discussion in corporate committees whose members comprise the Group Chairman and all the chief executives of the divisions. Written financial plans are used to evaluate the likely performance of the divisions and to control their strategic direction through the resource allocation process; according to the Group Chairman [interview June 1979], the geographic proximity of the Group's operations and close contact between the centre and the operating companies imply that there is no need for 'written strategic plans'; issues of strategic concern can be discussed at meetings and over the telephone if necessary.

The strategic and operating plans of Shell's group of companies are developed in the context of scenarios, initially formulated by members of Group Planning and subsequently modified by the regional and operating companies. Each company prepares three sets of plans:

- financial operating plans [extended budgets];

- medium-term five-year plans which are likely to be discontinued because they are increasingly inappropriate in the changing environment of the oil industry where technological developments and long lead times necessitate consideration of strategic issues over a ten to twenty-year period;
- long-term strategic plans which are highly qualitative and concerned with the strategic issues. They extend over a five to ten-year period at present but their time horizon is likely to be increased due to the changing environment of the industry (interview with Head of Strategic Analysis Unit, January 1981).

The following propositions express the main conclusions which have been drawn regarding the types of plans produced by the companies and their associated time horizon:

- XI *If the main role of the corporate planning system is to control the strategic direction of the divisions/operating companies through the allocation of funds and to monitor their performance, the written plans will be of a 'financial' nature.*

This was the case at L.C.P. Holdings, Dunlop, Redland and Albright & Wilson where the divisional plans were used to evaluate the performance of the divisions and allocate resources.

XII *If the firm is active in 'technologically-dynamic industries, the time-horizon adopted for planning purposes is likely to be longer.*

This was the case at BL, Fisons, Shell and ICI where the 'strategic plans' extend over a seven to ten-year period. These cases also suggest the following proposition:

XIII *The more 'capital intensive' the firm's business portfolio, the longer the time-horizon adopted for planning purposes.*

This is because the divisional requirements for funds need to be specified well in advance as illustrated by the example of BL.

Table 38 Types of plans generated, their content and time

horizon

Companies	Types of plans	Content of plans	Time Horizon
BL	1 Divisional development plan	- Environmental assumptions - Product strategy	1 year
	2 Divisional corporate plan	- Product volumes - Plan timetable - Performance review - External pressures	5 year
	3 Group corporate plan	- Divisional strategy - Performance projections	5-10 year
	4 Annual budgets	- Product assumptions - Non-product management action - Group-wide product strategy - Group market strategy - Issues & constraints - Financial projections - Financial requirements	1 year
Fisons	1 Divisional 'strategy' document	- Divisional strategies (inc. production/market plans)	5-7 year
	2 Capital-expenditure plans	- Likely capital expenditure requirements	3 year
	3 Annual budgets	- Financial projections - Working capital requirements	1 year
Cadbury/ Schweppes	1 Environmental assumptions for all the product/market sectors	- Macro-economic environment - Competitive pressures - Likely market share	5 year

Companies	Types of plans	Content of plans	Time Horizon
Cadbury/ Schweppes	2 Divisional rolling plan	- Performance review - Opportunities and threats - Divisional product/ market strategy	5 year
	3 Annual budgets	- Financial projections - Financial requirements	1 year
L.C.P. Holdings	1 Divisional capital budgets	- Capital expenditure requirements	3 year
	2 Annual budgets	- Working capital requirements	1 year
Shell	1 Environmental assumptions [scenarios]:		
	i) local scenarios	- Developments of specific relevance to operating comps.	
	ii) short-term global scenarios	- Macro-economic considerations	
	iii) global scenarios	- Socio-political, technological developments worldwide	
	2 Sectoral/ regional plans		
	i) operating plans	- Financial plan & performance review	2 year
	ii) medium-term plans	- Product/market plan - Competitive pressures - Capital expenditure	5 year
iii) long-term strategic plans	- Future environmental developments and strategic options	5-10 year	

Companies	Types of plans	Content of plans	Time Horizon
Reed International	1 Long-range plans	- Divisional strategic prospects and likely strategies	3 year
	2 Annual business plans (budgets)	- Working capital requirements, financial review of divisional position	1 year
Dunlop Holdings	1 Group corporate plan	- Environmental issues - Sectoral/regional strategies	5 year
	2 Divisional strategic plan	- Divisional prospects - Divisional strategies	5 year
	3 Management plan	- Performance review action plans	3 year
	4 Operations plans	- Production and market planning	1 year
Lucas Industries	1 Group strategy statement	- Environmental issues - Sectoral/regional strategies - Growth prospects	5 year
	2 Divisional strategic plan	- Divisional strategies and prospects and capital budgets	5 year
	3 Operating plans	- Budgets and performance review	1 year
ICI	1 Group corporate plan	- Environmental issues - Sectoral/regional strategies and action plans	10 year
	2 Divisional plans	- Divisional prospects capital expenditure requirements,	5 year
	3 Annual budgets	adopted strategies	1-2 year

Companies	Types of plans	Content of plans	Time Horizon
Serck	1 Strategic plans	<ul style="list-style-type: none"> - Summary of divisional strategies - Markets and competitors' profile - Manufacturing & facilities - Development programmes - Organization & personnel - Financial projections 	3 year
	2 Annual budgets	- Working capital requirements	1 year
Redland	1 Divisional strategic plans	- Likely divisional prospects, strategy and capital requirements	3 year
	2 Annual budgets		1 year
Lex Service Group	1 Macro-environmental assumptions mainly concerned with economic developments	- Environmental opportunities and threats	5 year
	2 Divisional strategies	- Divisional prospects performance review divisional strategies	3 year
	3 Annual budgets	- Budget requirements	1 year
Albright & Wilson	1 Divisional strategic document	- Divisional prospects likely strategies and required capital	5 year
	2 Operating plans	- Annual budgets	1 year

Companies	Types of plans	Content of plans	Time Horizon
Chloride	1 Group strategic plan	<ul style="list-style-type: none"> - consolidation of regional companies' product/market strategy - Competitive pressures - Environmental opportunities - Action plans 	5 year
	2 Budget and financial forecast	<ul style="list-style-type: none"> - Working capital requirements and profit forecasts 	2 year

10.1.7 Situational factors associated with the planning process

The 'planning process' constitutes the final dimension of the corporate planning systems examined during the course of this study. As indicated in Table 39 all fourteen companies have formal planning processes which specify the various stages of the planning activity. These are as follows:

Stage One: specifying the type of information which is to be incorporated in the divisional plans. This is the responsibility of the corporate planning departments which co-ordinate the planning activity. This task is undertaken in consultation with the divisional planning staff at BL, Fisons, Shell, ICI and Lucas, whereas the corporate planning staff of Cadbury/Schwepes, Serck, Lex Service Group and Chloride are solely responsible for specifying the required information and devising the planning forms for completion by the divisions/operating companies. In a third category of companies this is undertaken by the staff of the 'planning' and 'group finance' departments on a joint basis, emphasizing the financial orientation of the plans and their importance for control and resource allocation purposes. L.C.P. Holdings, Redland, Albright & Wilson and Reed International are in this category.

Stage Two: having specified the type of information required for planning purposes, the second stage involves the formulation and preparation of plans. In all the fourteen companies, this was the responsibility of the divisions/

operating companies. This task is co-ordinated by the divisional planning departments at BL, Fisons, Cadbury/Schweppes, Shell, Reed, ICI and Lucas, by the planning/strategy managers at Lex Service Group, Albright & Wilson and Chloride and by the divisional finance departments at Dunlop, Redland and L.C.P. Holdings. During this stage, contact would be maintained between the divisions and the corporate planning staff in order to clarify unresolved issues.

Stage Three: once the plans are formulated by the divisions, they are submitted to the corporate planning departments for evaluation purposes. This stage involves a continuous dialogue between the planning departments and the divisions, frequently resulting in the modification of the plans. The various divisional plans would subsequently be consolidated for final presentation to senior corporate management. In the case of BL, the divisional plans are consolidated into an overall 'corporate plan' for eventual submission to the Government.

Stage Four: the final stage of the 'planning process' involves discussing the divisional strategies outlined in the plans and their resource requirements. This is conducted through the mechanism of corporate committees whose members comprise senior corporate and divisional executives. Once these plans are approved, they provide a basis for allocation of resources which can result in the subsequent implementation of strategies outlined in the plans.

These four stages provide a broad indication of the various cycles of the planning activity. The nature and frequency of contact between the centre and the divisions varies according to the company in question. In all fourteen cases, the planning managers emphasized that they are in contact with the divisions throughout the entire planning cycle, often in an informal manner. At Cadbury/Schweppes for example, the planning process has been modified in order to incorporate more meetings between the divisional chief executives, the Group Chief Executive and their planning staff.

According to the respondents, the planning process brings together senior corporate and divisional management and their planning staff, thereby enhancing communication of strategic priorities and environmental information of importance. At Reed International for example, a 'planning conference' is held in the autumn of every year in order to bring together corporate and divisional executives. The purpose of this conference is to discuss emerging developments likely to have an impact upon Reed's businesses and to review the future of those sectors where substantial strategic changes may be justified.

The annual planning process in all fourteen companies was the 'bottom up' variety, where plans were formulated by the divisions. The respondents were of the opinion that the process for developing a plan and discussing it with others would provide an opportunity for the divisional chief executives to reflect upon their strategic setting in a

relatively systematic and complete manner. By stating their strategies and action plans in an explicit way and communicating these to others, they would go through a valuable learning experience, particularly during the initial stages of the formalization of the planning activity, as illustrated by the situation at Serck.

All the respondents expressed the opinion that a formalized planning process was necessary in order to generate information at the divisions and communicate these to the centre in a systematic and consistent manner, especially in large and decentralized organizations with diverse business portfolios, autonomous divisions and a whole host of overseas subsidiary companies. Shell is a good case in point; its large size, multiplicity of its operating companies, complex nature of its businesses and its involvement in over 100 countries on a worldwide basis, necessitates the use of a formal planning process in order to ensure the systematic flow of strategically-significant information between the centre and the operating companies. The 'planning process' specifies the procedures and the timetable in the context of which the divisions/operating companies are required to develop their plans, submit them to the centre for evaluation and procure resources in order to implement their strategies.

On the basis of our findings, the following proposition is advanced:

XIV *A decentralized organizational structure with autonomous divisions/operating companies necessitates a formal planning process in order to specify the various stages of the formal planning activity and to provide a standard basis for the generation and discussion of strategic information between the centre and the divisions/operating companies.*

All fourteen companies taking part in this study had decentralized organizational structures which were necessary because of their large size, diversified business portfolio and active participation in different geographic markets.

One point needs to be clarified at this stage: although the planning process of all fourteen companies comprised four interrelated stages described already, there were frequent iterations between these stages. The respondents emphasized that there is a continuous dialogue between the corporate planning staff and the divisions/operating companies, often on an ad-hoc and informal basis.

Table 39 Different stages of the planning process

Companies	Stage I	Stage II	Stage III	Stage IV	Planning cycle/ timetable
BL	Group planning in consultation with divisional 'Business & Product Planning Departments	Divisional Business & Product Planning Depts using information provided by functional units	Group planning	Corporate committees	February/December
Fisons	Group planning (strategic planning unit) and the divisions	Divisions	Group planning (strategic planning unit) & Group Finance Depts	Corporate 'Strategy' & 'Finance' Cttees	January/September
Cadbury/ Schweppes	Group planning	Divisions	Group planning	Corporate committees	January/July followed by budgetary cycle

	Stage I	Stage II	Stage III	Stage IV	
Companies	Specification of the planning context & required information	Preparation of plans	Review, evaluation and consolidation of plans	Approval and implementation of plans	Planning cycle/timetable
L.C.P. Holdings	Group planning & Finance Depts	Divisions	Group planning and Finance Depts	Corporate Committees	October/March with the budgetary cycle
Shell	Group planning 'Strategic Analysis Unit' & 'Business Environment' Dept	Divisions at regional/sectoral/local levels	Group planning 'Strategic Analysis Unit'	Managing Directors' Committee at Group level	March-December
Reed International	Group planning & Finance Depts	Divisions	Group planning dept	Corporate Committees	January-July followed by the 'Autumn Planning Conference'
Dunlop Holdings	Group planning & Group Finance Depts	Divisions	Group planning dept	Corporate Committees	January-June (strategic plans) July-December (management plans)

	Stage I	Stage II	Stage III	Stage IV	
Companies	Specification of the planning context & required information	Preparation of plans	Review, evaluation and consolidation of plans	Approval and implementation of plans	Planning cycle/ timetable
Lucas Industries	Group planning in consultation with divisions	Divisions	Group Planning Dept	Group 'Policy' Committee	March-January
ICI	Group 'Policy Unit' in consultation with divisions	Divisions	Group Planning: 'Policy Dept'	Corporate Committees	January-October
Serck	Group Corporate Development Manager	Divisions	Group Corporate Development Manager	Group Strategy Committee	January-June (strategy documents) June-September (budgets)
Redland	Group Planning & Treasurer's Dept	Divisions	Group Planning & Treasurer's Dept	Corporate Committees & Treasurer's Dept	February/October
Lex Service	Group Planning Dept	Divisions	Group Planning Dept	Corporate Committees	Quarterly or half-yearly review of divisional strategies dep. on strategic priorities

	Stage I	Stage II	Stage III	Stage IV	
Companies	Specification of the planning context & required information	Preparation of plans	Review, evaluation and consolidation of plans	Approval and implementation of plans	Planning cycle/ timetable
Albright & Wilson	Group Finance and Planning Depts	Divisions	Group Finance & Planning Depts	Corporate Committees	January-September
Chloride	Group Planning Dept	Divisions	Group Planning (Strategic Planning Dept)	Corporate Committees	January-July

10.2 Implications of the findings for the situational design of corporate planning systems

The conclusions which have emerged from this study form the basis of a 'situational' approach to the design of corporate planning systems. The stages involved in such an approach are envisaged as follows:

1) The 'situational framework' initially proposed in Chapter 4 and subsequently modified [see Appendix 3] in the light of comments received from a number of our respondents, can be used to describe the firm's situational setting and the characteristics of its environment. This is intended to highlight the organizational and environmental factors which according to our findings are likely to influence the firm's planning needs and desired planning capabilities.

2) The specific set of factors which prompted the firm's senior management to consider setting up a formal corporate planning system need to be taken into account. This insight would provide an indication of the 'expected role' of the corporate planning system in that particular setting. For example, if the decision to formalize the corporate planning activity had been taken due to a marked deterioration in the firm's profitability and overall performance, management of the operating companies/divisions might envisage the planning system as a mechanism which would strengthen the centre's control over the divisions.

3) The designer needs to evaluate the company's 'planning needs' apart from those already specified by the firm's senior management. This would provide an indication of the desired 'functional capability' of the planning system. According to our findings, the following factors need to be taken into account during the course of this assessment process:

- i) 'complexity' of the firm's environmental setting which is determined on the basis of:
 - number of 'business sectors' in which the company is actively engaged;
 - number and type of 'markets' in which the company operates;
 - range of macro-environmental factors of strategic significance;
- ii) the degree of 'volatility/turbulence/uncertainty' associated with the environment, which is determined on the basis of:
 - involvement in technologically-dynamic industries;
 - characteristics of its markets and their stability;
 - whether its industries are undergoing major structural transition;

- iii) the 'maturity' of the firm's product/market portfolio determined on the basis of:
- growth rate and growth potential of its businesses;
 - distribution and stability of market share;
 - breadth of product line;
 - number of competitors;
 - customer stability;
 - ease of entry;
 - technological stability;
- iv) the 'geographic' and 'business' diversity of its portfolio, determined on the basis of:
- number of identifiably separate businesses which comprise its portfolio;
 - extent of inter-unit transactions;
 - number of geographic regions in which the firm is active and their associated degree of homogeneity/heterogeneity;
- v) its organizational structure determined on the basis of:

- the nature of the firm's organizational structure [i.e. whether it is organized on the basis of functional departments, product divisions, geographic divisions, matrix structure, 'holding company' structure];
 - extent of autonomy enjoyed by the divisions;
- vi) the attitude of the firm's senior management toward formalized planning and their degree of commitment and support.

These factors are likely to provide an indication of the degree of emphasis which needs to be placed on the 'adaptation', 'integration' and 'control' aspects of the planning system's expected role within the firm. The seven propositions which were forwarded in Section 10.1.4 can be used as 'tentative design guidelines' in order to specify the functional capabilities which are likely to cater for the firm's planning needs. For example, if the firm operates in a complex and volatile environment, emphasis needs to be placed on the 'adaptation' role of planning.

4) Having determined the corporate planning system's 'functional orientation', the designer needs to consider the 'organization and structure of the corporate planning department'. The cases of Serck and L.C.P. Holdings indicated that during the initial stages, the number of planning staff is generally kept to a minimum [one full-time planning manager in both cases] although this might not be

applicable if the subject of evaluation is a planning department which has been already established for some time.

According to our findings, two 'situational factors' are likely to influence the structure and organization of the corporate planning department and nature of formal planning at the divisions/operating companies:

- i) functional orientation of the planning department's assigned role and responsibilities seems to be associated with the number of sub-units comprising the department, number of planning staff and the reporting relationship of the most senior planner with the Chairman/Chief Executive and other senior directors. Propositions IX and X indicated that if the members of the planning department were to be primarily concerned with the adaptation/integration tasks, they would have a close working relationship with the Chairman/Chief Executive [i.e. senior corporate planners]. However, if the emphasis were to be placed on 'control', the planning staff would need to work in close conjunction with members of the 'finance department';
- ii) the firm's organizational structure and the size and complexity of the divisional task appears to be associated with the need for a 'differentiated' planning structure with separate planning departments at the divisions.

5) 'Written plans' are the means by which information concerning the activities of the divisions/operating companies can be conveyed to the centre. According to our findings, the nature and type of plans produced by the constituents of a firm appears to be influenced by the functional orientation of the planning system. If emphasis is to be placed on 'control' of the divisional activities, it is likely that the formulated plans will contain mainly 'financial' information. Moreover, it seems that companies which are active in technologically-dynamic industries (characterized by long lead times and a high degree of capital intensity) are more likely to adopt long time horizons for planning purposes compared with those which are not.

6) The final dimension of a corporate planning system considered for design purposes is the 'planning process'. This specifies the process necessary for the formulation, evaluation, consolidation, approval and eventual implementation of the plans, specifying the nature and frequency of contact between the centre and the divisions. All the designer can do here is to specify the different stages involved, since the actual timetable and frequency of contact depend on other processes such as the budgetary cycle.

The process for developing a plan and discussing it will provide an executive with the opportunity to reflect upon his strategic setting in a relatively systematic and complete manner. Stating his strategy and plans in an explicit way and communicating these to others might provide a valuable

learning experience, particularly during the initial stages of the planning activity.

The 'design framework' which is thus proposed on the basis of our findings can be used to evaluate a firm's planning needs and its subsequent planning capabilities either in those firms which have no formal corporate planning system or in those which already have one but need to consider whether their particular system is wholly appropriate for their setting. A planning system needs to be continuously 'tuned' in order to adjust its features and capabilities to the evolving circumstances of the firm. The particular planning needs of a company can seldom be constant partly because of the changes which might occur in the firm's environment, and create new strategic priorities. Revised planning needs might also stem from internal changes within the firm. The relationship between the planning system and its corporate setting must therefore be continuously monitored so that major changes affecting the latter are taken into account through a re-structuring of the former.

The proposed design framework cannot be used to predict how the planning system is likely to fit into the organizational setting of which it becomes a part. There is an inherent risk that the dynamics of the 'social system' of the firm might come into conflict with the planning system itself. Managers could subsequently lose their enthusiasm and envisage 'planning' to be a meaningless ritual, bearing no direct relevance to the critical issues with which they

are confronted on a daily basis.^[3] Therefore in practice, the designer needs to consider formal planning system design in conjunction with the characteristics of the firm's social system. An adaptive and experimental approach, used as a complement to our proposed design framework, could assist the designer monitor and improve the functioning of a planning system over a period of time.

Malm [1975] has proposed such an approach in his 'Process-Diagnostic Design Principle' while conducting his research in a Swedish building materials manufacturer. This principle uses the 'heuristic method' as its basic point of departure which is defined by Beer [1972: 69] as:

' ... a set of instructions for searching out an unknown goal by exploration, which continuously or repeatedly evaluates progress according to some known criterion ... In dealing with unthinkable systems, it is normally impossible to give a full specification of a goal and therefore impossible to prescribe an 'algorithm' [i.e. a comprehensive set of instructions for reaching a known goal]; but, it is not usually too difficult to prescribe a class of goals, so that moving in some general direction will leave you better off, by some definite criterion than you were before. To think in terms of 'heuristics' rather than 'algorithms' is at once a way of coping with proliferating variety; instead of trying to organize it in detail, you organize it only somewhat; you then ride on the dynamics of the system in the direction you want to go'. [p. 69]

The adoption of the 'heuristic' method would imply an assumption that certain aspects of a system design which are efficient in one time period might be dysfunctional in the next because of the dynamics or learning effects in the social system as well as the changes which might occur and eventually influence the need for planning in the considered setting. The planning system would therefore need to be continuously monitored since its efficiency can only be evaluated on the basis of a 'current' assessment of the need for planning.

In addition, one could argue that in order to improve the planning system continuously, the designer needs an operational assessment of the system's present functioning (the term 'operational' is defined as the extent to which the diagnosis/assessment can be related to top management's decision variables).

This approach to the design of planning systems implies that the actual design is no longer only determined by the state of the relevant situational variables discussed earlier, but is generated as well by a continuous diagnosis of the 'change process' itself. What then follows is a comparison of the existing process with an assessment of the required change process. If the existing process is considered to be unsatisfactory by those directly involved in the activity, the comparison would result in defining deficiencies or desired improvements to the planning system.

Therefore one of the main advantages of Malm's 'Process-Diagnostic Design Principle' is that the designer does not have to assume that he fully understands all those factors which could potentially influence the workings of a corporate planning system. It is important to appreciate the difference between understanding a firm's situational setting and its implications in terms of the requirements imposed on the problem-solving capability of the planning system proposed in this research and designing a system which could actually satisfy these requirements while taking account of the firm's 'social system'.

The decision issue cannot therefore be viewed as a method of designing comprehensive and self-contained formal systems, but as a way of assessing how the inherent potential for learning and self-organization in every social system (in this case the firm) can be amplified and moulded to serve the needs of the organization. The design of a planning system's formal aspects should therefore be accompanied by an assessment of its likely impact on the firm's social cohesion.

Emshoff (1978) has also addressed a subject which is highly relevant to this particular field of inquiry. His research is concerned with the process whereby an organization changes a relatively ineffective planning activity into something that meets the characteristics prescribed by the planning theorists. The crux of his thesis is that the conversion process needs as much planning as the process being planned, which is consistent with Malm's approach.

His aim has been to define on-going programmes in order to improve the effectiveness of planning systems, eliminating much of the unproductive but expensive crisis-oriented change processes which he considers to be characteristic of many corporate planning systems.

Emshoff's research was conducted in a private sector, consumer-goods manufacturing company, which was itself a subsidiary of a much larger concern. He had been called in as a consultant in order to examine the company's planning system and the reasons for its ineffectiveness. This system which had taken two years to be designed had virtually no impact on the firm's decision-making processes. Emshoff and his team began their investigations by interviewing each member of the company's executive, including key managers. The purpose of this exercise was to understand the different perspectives of these managers regarding the company's overall strengths and weaknesses as well as their opinions concerning the proper role for strategic planning in setting directions for future growth.

In addition, a meeting of senior executives was arranged in order to discuss the strengths and weaknesses of the company's planning efforts. It became apparent that since senior management's day-to-day operational activities had become the focus of their primary concern, they had not committed themselves sufficiently to the implementation of the planning system.

Eventually, after a series of lengthy interviews and meetings, it was decided that the planning system ought to be primarily concerned with gathering, integrating and interpreting factual information which would be of value to members of the 'Executive Planning Committee' (comprising senior executives) for the purpose of resolving corporate issues.

Emshoff's research illustrates a way in which the 'Process-Diagnostic' approach can be used if the planning system proves to be ineffective. It can also be of value in determining the system's basic shortcomings.

Finally, the usefulness of the 'design framework' which has been developed on the basis of our findings will be further assessed by illustrating its practical application in a Midland-based engineering company which was in the process of setting up a planning system during the period of this study.

Chapter 11 will illustrate how this framework can be used to determine the company's planning needs, on the basis of which the 'desired' features of its planning system would be specified. It is hoped that this case study will highlight the limitations and shortcomings of the framework as well as its practical benefits.

- [1] There is a wide range of factors likely to comprise the firm's 'situational setting'. The additional variables which have been incorporated into the 'revised framework' on the basis of the feedback from a number of our respondents are significant for the following reasons:
- 'market share' of the company in relation to its competitors provides an indication of its position within its industry[ies];
 - 'growth and profitability of its industries' provides an indication of their growth potential and the need to search for other diversification/expansion opportunities;
 - additional factors which enhance our understanding of the financial position of the firm (such as cash flow position and debt/equity ratio) provide an indication of the firm's ability to embark upon diversification/expansion programmes and the urgency of divesting a number of its existing businesses.
- [2] The argument can be put forward that 'geographic' and 'business' diversity of a firm's portfolio does not necessarily influence the 'volatility' of its operating environment, especially if it has diversified into a range of 'placid' environments. However, the chance of 'an unexpected event' occurring is likely to increase, the greater the number of environments in which the company is active. Moreover, if it is active in a number of different geographic markets, it is likely to be confronted with a greater degree of uncertainty because of the possibility of unexpected events which might affect the position of its markets.
- [3] If the planning system is adjusted/designed to suit the situational setting of the firm, 'planning' is less likely to be considered a 'meaningless ritual'. However, since 'planning' is likely to involve the institution of a greater degree of central control, the divisional managers may be inclined to consider it to be a 'meaningless ritual' for political reasons.

APPLICATION OF THE 'DESIGN FRAMEWORK' IN A SPECIFIC SETTING:

THE CASE OF COMPANY X

11.1 Introductory remarks

This chapter illustrates how the 'design framework' outlined in Section 10.2 can be used in a specific setting. Such an opportunity was afforded by the Chairman of Company X, a Midland-based engineering group with interests ranging from building and consumer products to stockholding and distribution of engineering tools, fastenings, bearings, air compressors and associated goods and services.

The Chairman of the Company had initially recognized the need for a formal corporate planning system during 1977 when a marked deterioration in the Group's profitability [see Figures 45 and 46] had highlighted the need for a systematic assessment of its business portfolio and a coherent approach toward formulating an overall strategy. A manager was appointed in February 1977 in order to set up a formal planning system. It was during this period that contact was established with the firm with a view to further collaboration. Having explained the objective of the present study [i.e. to identify situational factors likely to influence a firm's planning needs and subsequently shape its planning capabilities through examining the situational settings and corporate planning systems of fourteen large U.K.-based companies] the newly-appointed Planning Manager expressed his

interest in the study and the firm's willingness to grant access to information and personnel in order to illustrate the practical application of the 'design framework' which was to be developed as a result of the 'fourteen company investigation'.⁽¹⁾ For our purposes [i.e. to illustrate the practical application of the framework] this firm was considered to be an appropriate setting for a number of reasons:

- its senior management had systematically identified the need for a formal planning system and had appointed a manager in order to devise such a system. This provided an opportunity to compare the actual planning system which was to be developed by the Planning Manager in an incremental fashion with the broad features of a system recommended on the basis of our 'design framework'. This would subsequently be useful for ascertaining the practical utility of the 'design framework', its likely contribution and its shortcomings;
- since the Group Head Office and most of its operating companies are based in the West Midlands area, close geographic proximity minimized the constraints of time and expense, likely to have been incurred by the researcher;
- the Planning Manager had expressed his interest in the present study and was willing to spend some time discussing his approach to designing

a system and the difficulties encountered.

Moreover, he assured the researcher that once the design framework had been developed, he would be willing to provide sufficient information so that its practical application could be illustrated.

In the event, the Planning Manager left the firm in May 1978 after a number of disagreements with the 'Deputy Chairman and Chief Executive'. This disagreement had apparently been brought about by the abrupt changes which the Planning Manager had recommended and which, according to the Deputy Chairman, were likely to upset the delicate balance of harmony which existed between senior staff at the Head Office and the chief executives of the operating companies. The exact nature of these proposed changes was not made clear to the researcher since by the time she had found out about the departure of the Planning Manager, he had already left the Company and his successor was not willing to discuss the issue.

Apparently, the first Planning Manager wanted to operationalize the devised system too quickly in order to influence the actual decision-making processes of the Company; this was likely to reduce the personal influence of the chief executives of the operating companies and the Group Deputy Chairman who were of the opinion that 'you cannot revolutionize the existing management philosophy overnight' [interview with the newly-appointed Planning Manager January 1979].

Once again, the researcher had to explain the nature of the present study and the way in which the firm's co-operation could be of real value. The new Manager agreed to the request but was less willing than the previous Manager to discuss the social issues which were likely to influence his choice of a particular approach to devising a planning system.

By the time the 'fourteen-company investigations' were concluded in December 1980 and the 'main findings' had been used to devise our 'design framework', Company X's planning system had become fully operationalized. The main features of the system arrived at on the basis of our 'design framework' could therefore be compared with the planning system which was adopted and was actually being used.

This chapter will illustrate how this framework was applied to the specific setting of Company X. Firstly, the Company's 'situational setting' will be described on the basis of the framework outlined in Chapter 3 and subsequently revised. Secondly, the planning needs of the firm will be assessed on the basis of six sets of factors which, according to our findings, are likely to influence a firm's planning needs. These are:

- the complexity of its environmental setting;
- the volatility/uncertainty associated with its environment;
- the maturity of its existing product/market portfolio;

- the diversity of its existing businesses;
- its organizational structure;
- the attitude of senior management toward formalized planning and their degree of commitment.

In order to determine the 'desired' capabilities of the planning system, the propositions which were derived on the basis of our findings will be used as 'tentative design guidelines'. These will specify the planning system's desired functional orientation [i.e. degree of required emphasis on adaptation/integration and control], the structure and organization of the Corporate Planning Department, its reporting relationship to senior management and extent of formal planning at the operating companies, types of plans which are to be developed, their time horizon and the planning process.

Finally, the specific features of the adopted planning system will be compared with that which was recommended, exploring the reasons for any divergences which might become apparent. Moreover, the problems which, according to the Planning Manager, were encountered during the initial stages of its operationalization will also be discussed.

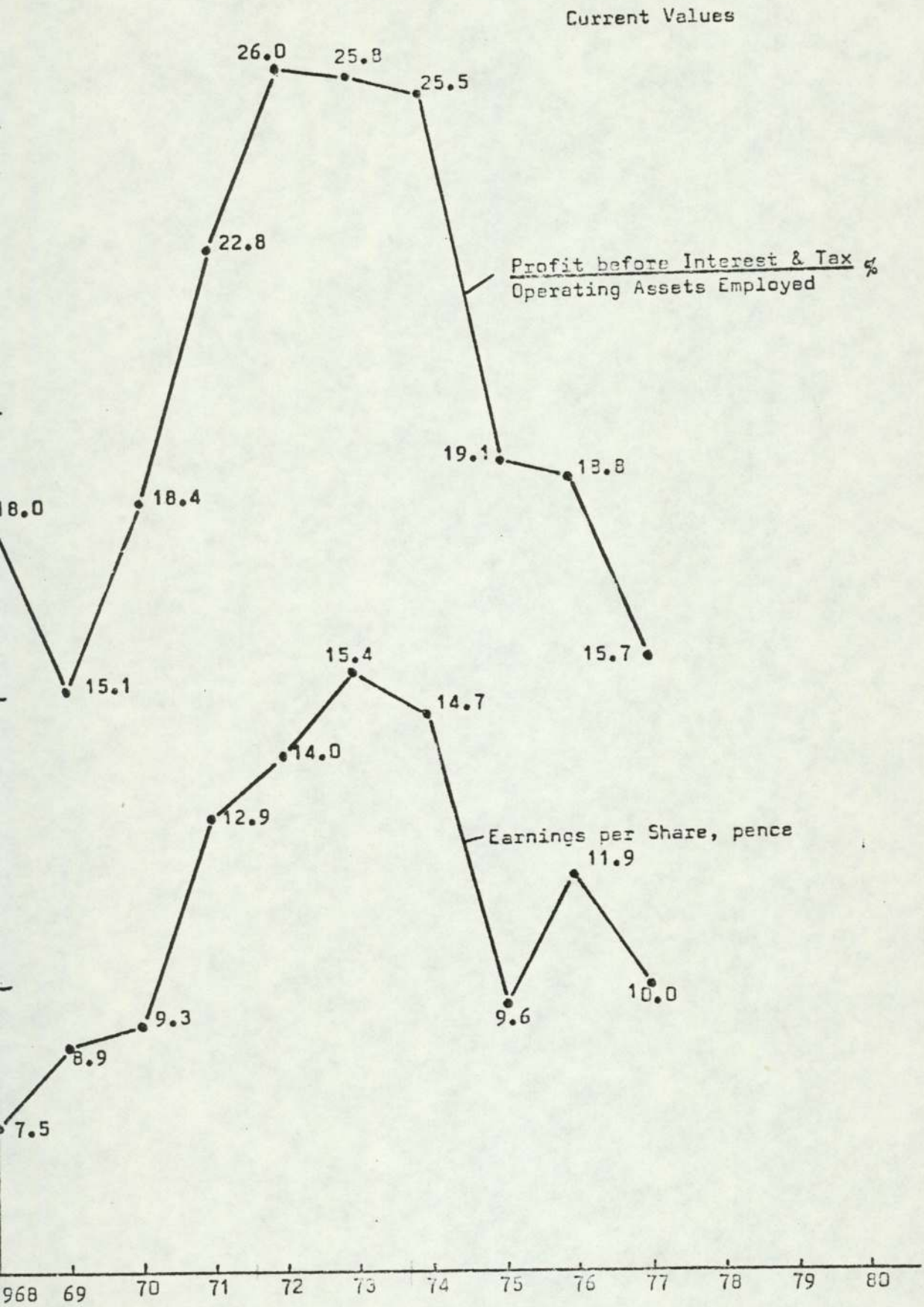


Figure 45 Performance of Company X: 1968-1977

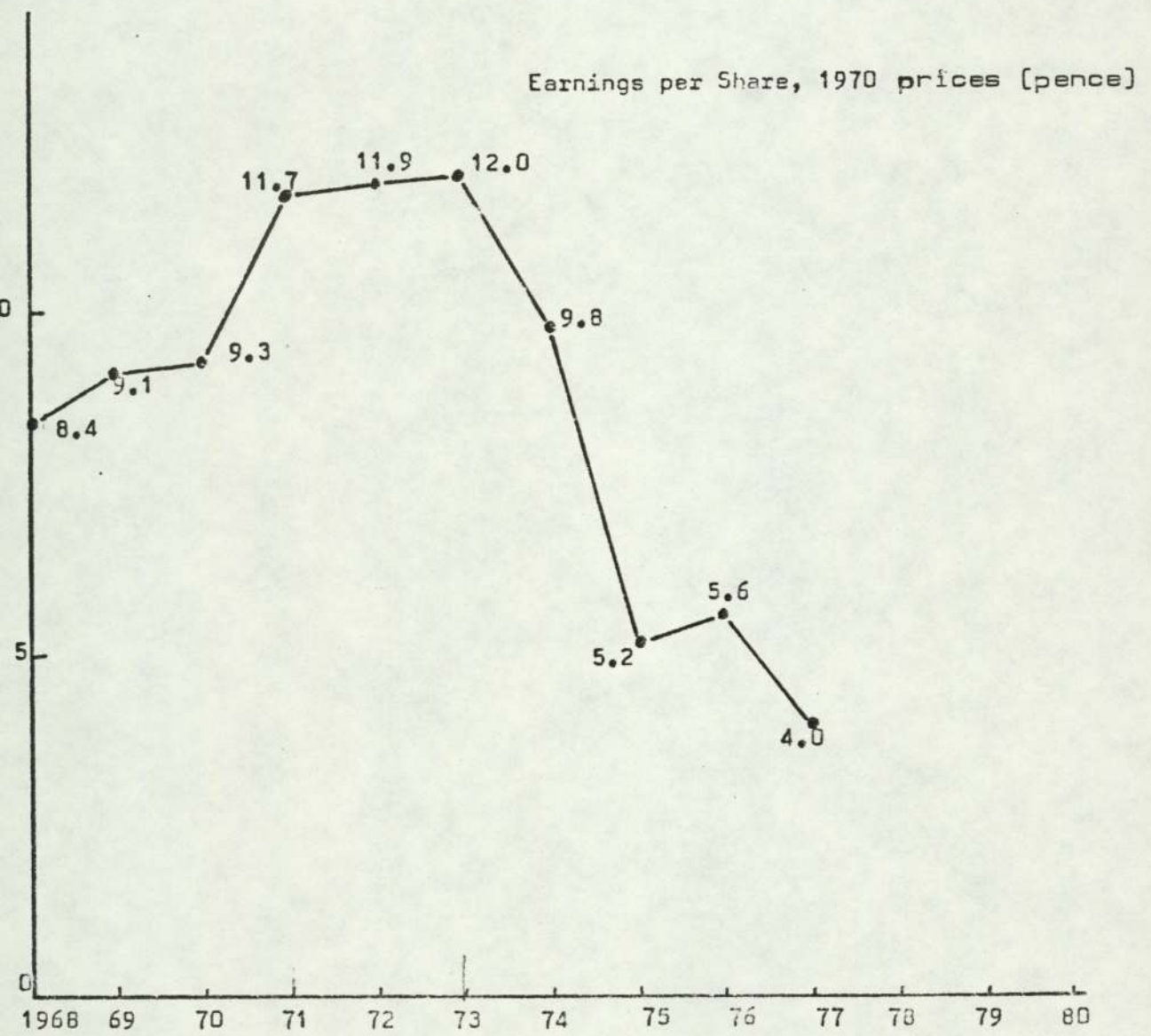


Figure 46 Performance of Company X: 1968-1977

11.2 The firm's situational setting

11.2.1 Historical development

Company X is an industrial holding company, which through its subsidiary firms manufactures engineering and building products such as steel bars and strips, copper tubes and fittings, castings, fabrications, plastics, screws and fasteners, domestic appliances such as cookers, heaters, baths and sinks as well as being a major stockholder and distributor of fastenings and bearings.

The Group in its present form is the outcome of a merger in 1969 between

- a tubes and fittings manufacturer and
- a firm specializing in certain building products such as pipes, baths, sinks, kitchen units and related products.

These two firms, although roughly equal in size, expanded through a number of ad-hoc acquisitions going back to their initial formation in the last quarter of the 19th century. In the case of both companies however, acquisitions did not signal the beginning of any major diversification programme; they merely expanded the production capacity of their operations. [See Appendix 5a for details of these acquisitions].

Both companies had been managed as a loose federation of a number of individual operating units, which implied that the merger would present a number of 'rationalization' problems. The rationalization programme was somewhat

facilitated due to both firms' strong presence in the West Midlands region; geographical proximity could potentially reduce a number of constraints such as the use of the same production facilities.

After the merger in 1969, a new corporate headquarters was established in order to co-ordinate the different rationalization programmes and to provide a corporate focus and identity, regarded as essential for a firm which comprised a collection of autonomous operating units.

During the 1970s, acquisitions continued. The firm's fortunes were closely tied to those of the mechanical engineering and the building trades. This heavy dependence could have adverse consequences for the firm, since major fluctuations in these sectors' prospects could directly influence its potential viability. During the early 1970s, it embarked on a 'related-diversification programme' in order to reduce this dependence. In 1970 and 1972, it acquired a number of distribution outlets for some of its steel products. Since these were also based in the West Midlands and enjoyed the benefits of sound reputation amongst their major customers, X expected this move to enhance the position of the rest of its products. In addition, it represented a move towards 'forward integration', since the Company's products could be sold through its own distribution outlets. It also increased the degree of interdivisional transactions, providing a greater sense of collaboration between the different operating units.

The economic recession which followed the 1973 Oil Crisis affected the Group's profitability adversely. It was during this period that its senior management began to evaluate the future viability of the Group's business sectors in a critical manner. Since most of the Company's divisions operate in stable but mature market sectors with few prospects for growth, they considered a number of acquisitions which would diversify their business portfolio. These consisted of a small electronics concern and a specialist plastics manufacturer. Two other factors influenced the move towards a diversification strategy.

The first involved the heavy dependence of the Group's engineering operations on the West Midlands automotive industry. They produced castings, nuts and bolts and other goods, which were used directly either in the manufacture of automotive parts or as in the case of castings, for the assembly operation itself. During the 1970s, the British motor industry had witnessed a continuous decline and X's further reliance on this market could have potentially disastrous consequences. The second factor was the threat of cheap imports from a number of emerging Third World nations, which was likely to affect its domestic sales. Due to lower labour costs and the installation of newer machinery these countries were better placed to market their goods in the U.K., traditionally X's major foothold. Therefore, in order to remain viable in its traditional businesses, the firm either had to expand geographically (in order to minimize the threat from the Third World) or to diversify into new product/

market sectors. It eventually opted for a combination of the two. Traditionally its only direct links with the markets outside the U.K. had been through a South African subsidiary and a Dutch outlet covering the European countries. Towards the end of the 1970s therefore, the Company embarked on a major study examining the viability of expansion in a number of overseas territories [the firm's acquisitions since the merger in 1969 are outlined in Appendix 5b].

In summary, X's strategic development can be characterized in the following manner:

- 1) it had grown through a loose amalgamation of individual operating units, bound together by a holding company structure. This implied that its subsidiaries had traditionally taken the initiative for major acquisitions;
- 2) it is firmly based in the West Midlands, relying on the automotive, mechanical engineering and the building sectors for the sale of most of its products;
- 3) its strategic development has been marked by a series of ad-hoc acquisitions, lacking a coherent long-term strategic outlook. New acquisitions were considered to be potential investments, rather than implementing a long-term strategic objective;
- 4) it supplies components for other makers of finished products [i.e. an 'intermediate producer'].

11.2.2 Characteristics of the firm's 'industry' environment

The Group operates in three distinctive product-market sectors:

1) Building and Consumer Products Group:

this Group consists of four divisional groups which are in turn composed of a number of smaller companies; Section 11.2.3 on the Company's organizational structure will further clarify this. These four divisional groups are:

a) tubes and fittings operations, manufacturing:

copper tubes and fittings

welded stainless steel and nickel alloy tubes

chemical waste drainage systems and fabrications,

brass laboratory fittings, injection mouldings

and vacuum forming;

b) bathroom and kitchen products, manufacturing:

cast iron and acrylic baths, hand basins and

shower trays

sinks and hand basins

vanity units

shower cubicles

steel, acrylic and glass fibre baths;

c) domestic and heating appliances, producing:

gas cookers and fires

commercial boilers, room heaters and open fires

catering equipment;

d) integrated services, manufacturing:

steel flooring, handrails, stairways and fabrications, fabrication of pipeworks and pressure vessels, heating, ventilating, air conditioning and engineering contracting and associated building services.

The majority of this Group's products are marketed through builders merchants to the construction industry. Certain specialized products such as gas boilers are sold directly to large customers such as the Gas Board.

Competition is intensely fierce and since product differentiation is minimal there is a significant threat of entry posed by the developing Third World countries.

The sector uses metals such as copper, steel and lead; the general position of these commodities and their optimal purchase influences the divisional total cost structure and subsequent profitability. The market for its products, although relatively stable, is considered to be mature offering limited growth prospects, particularly in the domestic market. Its products are distributed through builders merchants, although recently, due to the popularity of DIY hyper centres, a large proportion are retailed through these outlets. It should also be stated that these outlets are fairly local in nature and therefore the divisions strive to maintain a close degree of contact with their local marketing intermediaries.

Most of its products are used in the construction and building industry; the general level of Government expenditure on house building and the availability of capital for private construction programmes exert a direct impact on the subsequent level of demand for its products. Its products are also used for home improvement purposes. In addition, Government regulations affecting construction projects would influence its product design and would also need to be closely monitored by the divisions.

2) The Steel and Engineering Group comprises three divisional groups which are:

- a) the steels division, whose activities include:
- re-rolling hot rolled steel, carbon and alloys
 - bright drawn steel bars, rods and flats
 - hot forgings and general press work;
- b) the screws and fastenings division which manufactures:
- high tensile bolts, paint cleaning screws
 - steel and malleable iron pipe fittings and castings
 - rivets and cable clips
 - belts and non-standard fasteners for the railway coal, scaffolding and heavy plant industries
 - press-on welding and fabrication of sheet metal for high technology industries;

c) the foundries division, manufacturing:

- cast iron drainage products
- automotive and engineering castings.

These divisions operate in a relatively declining market, with increasing competitive threat from the Third World countries. This threat is likely to have serious repercussions since product differentiation is minimal and most of the activities are labour-intensive, although recent improvements in process-technology have reduced its labour force. These products are mainly sold to the automotive and the mechanical engineering sectors, and large engineering firms such as GKN, TI, Duport, Delta and IMI are its major competitors.

The biggest single difficulty facing the foundries is the crisis in the British motor manufacture. Increased imports of foreign cars raised their share of registrations in Britain to 56% by early 1980 and the foundries have continued to lose key business from the automotive industry as home production has declined.

This sector is a large user of steel and a customer of the British Steel Corporation, although it has a number of alternative sources of supply. The price of steel has a major impact on its cost effectiveness. 'Energy' constitutes another important cost factor and the industry has witnessed sharp increases in the price of electricity and oil.

Some of this Division's outputs are sold directly to its main customers, although traditionally their products are marketed through an intermediary, namely the steel stockholders. The divisions have direct transactions with the stockholding and distribution operations, which form the third arm of X's business portfolio.

Although the technology utilized in this sector is relatively unsophisticated, the firms most determined to stay in business are securing their future by investing in new facilities and new techniques. The industry is now settling into a pattern of rationalization and reform which will result in a smaller volume of business [especially in the foundry sector] in the 1980s and 1990s - perhaps only 75% of recent levels - and handled by a much smaller number of companies and installations than at present. Traditional market sectors such as the automotive industry are being replaced by a new generation such as the aerospace and the electronics industries; the requirements imposed by these are however, different to those of the traditional sectors, demanding high-value components which are made to a much higher level of accuracy and finish.

The sector needs to monitor developments influencing the mechanical engineering [and especially the automotive] sector. In addition, since a certain percentage of its products are used by defence contractors, the level of Government expenditure on defence can alter the demand for some of its products significantly.

3) The stockholding and distribution activity comprises three divisions:

- a) Steel Stockholding Division whose operations include stockholding of stainless and general steels and steel products, scrap merchants and machine tool dealers;
- b) Distribution Division: stockists of all screwed products, bearings, chains, engineers' tools and builders' castings;
- c) the Wholesale Chemist Division, which had been acquired prior to the merger in 1968 and is a wholesale supplier to retail chemists.

These divisions [with the exception of the wholesale chemist operations, whose activities are totally unrelated] supply the mechanical engineering and the construction industries.

With the exception of very large customers with whom the divisions transact business directly, the stockholding and distribution group acts as a marketing intermediary for the other two divisions, dealing with the smaller customers.

Generalizations concerning steel stockholding operations are always difficult. The overall market breaks down into so many sectors with specific products aimed at particular customers that even experts within the industry confess to their lack of knowledge about the details. This activity is characterized by the large capital outlay

initially required for building the warehouses and purchasing the high levels of stock. Stockholders are, by the nature of their business, intensive users of working capital. Low profits and shortages of capital were two of the factors that sparked off the wave of rationalization among the 300 stockholding companies serving the British market.

A third important factor was the determination of the British Steel Corporation to secure a significant presence for itself in the stockholding business, through its own stockholding area.

Given the pressure upon margins, stockholders are seeking to improve their position through greater efficiency. Companies are investing in modern facilities and more sophisticated handling techniques in order to reduce costs. Competition is not just on price but more and more on quality and service; it is also becoming more intensive as there is an increasing trend toward mergers resulting in the emergence of larger units. Its markets, although relatively stable, are in mature sectors which restricts their future growth potential. The failure of British manufacturers to meet the peak demand of 1974 meant that customers were not only prepared to look, but often were forced to buy abroad in order to meet their requirements. Since the stockholding arm of X's business portfolio mainly supplies the West Midlands region, its fortunes are heavily intertwined with the prospects for the West Midlands industry. As its primary role is to supply materials for other makers of finished

products, its volume of business is largely governed by the level of demand in the mechanical engineering and construction industries.

4) Other activities and the corporate role:

Since most of the divisional activities are active in mature or relatively declining sectors, the Company has embarked upon a diversification programme during the latter part of the 1970s. This had led to the acquisition of a number of small concerns whose products, although aimed at the growing industrial sectors, are nonetheless partially related to X's traditional operations. For example, through its acquisition of a small plastics company, it has extended the range of products manufactured for the automotive trade. The plastics' operations cover the following fields:

- a) manufacture of PVC coated fabrics for wall coverings, upholstery, footwear;
- b) polyurethane coated nylons for marine safety equipment & oil booms;
- c) acrylic coated fabrics for curtain linings and other domestic applications;
- d) automotive trim, machined components and railway track insulations;
- e) felt manufacture and moulded felt components;
- f) precision machined engineering components in plastic;

g) PVC window frames.

The product range of this newly-acquired company serves the firm's existing markets in the automotive and construction sectors [although its growth prospects are less restricted than its traditional businesses].

Anticipating the growing importance of electronics in everyday industrial activities, a small firm manufacturing electronic controls for domestic and industrial applications was acquired in 1977. This also extended the firm's participation in sectors with better potential for growth.

One of the distinguishing characteristics of Company X is that it is strongly dependent on the U.K. market for the sale of most of its products. Its only overseas outlets are located in South Africa and Holland. The former is mainly engaged in the manufacture of domestic appliances such as electric and gas stoves, washing machines, dishwashers, vacuum cleaners, tumble dryers and cast iron and steel baths, whereas the latter specializes in the production of chemical waste drainage systems and fabrications, injection moulding and commercial irrigation equipment. Recently the Company has expanded its overseas activities through a number of acquisitions in Australia and the United States.

Management at the corporate headquarters is mainly concerned with the consolidation of the newly-acquired business in addition to monitoring the performance of its established businesses.

This firm has a number of distinguishing characteristics which characterize its corporate setting. These are as follows:

- almost all the divisional units supply components for other makers of finished products. This implies that their prospects are closely related to the performance of other industries [e.g. mechanical engineering, automotive and construction industries];
- the Group can be regarded as a 'holding company' since all its subsidiaries have the status of limited liability companies;
- growth has been mainly generated through acquisition; senior corporate management considers the centre to act as an investment company, using financial criteria to assess the relative success of its operations;
- most of the firm's activities are based in the U.K. [particularly in the West Midlands region] operating in stable but mature or relatively declining sectors;
- due to the autonomous status of the subsidiaries and the Group's 'acquisitive' expansion there is a distinct absence of a corporate identity;

- metals especially steel, copper and lead form a basic raw material for all the operations and constitute a significant portion of the total cost of its products;
- since its businesses operate in 'low-technology' sectors there is a distinct threat of competition from the more industrialized Third World nations which have lower labour costs and more modern plant and equipment;
- due to its limited growth prospects in the U.K., the Company embarked on a programme of expansion in other geographic areas in order to reduce its dependence on the U.K. economy.

11.2.3 Organizational structure

The two firms which merged in 1969 to form the present concern had expanded their operations through the acquisition of smaller concerns; there were no rationalization programmes integrating the acquired businesses. Instead they were allowed to operate as limited liability companies, strictly assessed on the basis of their financial performance. This allowed the operating units to remain autonomous in the management of their activities, while the corporate centre was regarded as an investment bank to whom capital expenditure proposals were presented. The corporate headquarters which was set up in 1970 [following the merger] initially fulfilled a number of financial roles in line with the firm's strategic outlook and structural orientation, although in recent years it has expanded the range of central services.

The firm is organized along three broad divisional groups based on their product-market scope. Each group is in turn composed of a number of divisions, formed through an amalgamation of smaller companies. These three divisional groups are:

- 1) Building and Consumer Products, which consists of four divisions:
 - i) Tubes and Fittings Limited: this is composed of four smaller companies specializing in the manufacture of:

- a) copper tubes and fittings
- b) lead sheets and pipes
- c) welded stainless steel and nickel alloy tubes
- d) chemical waste drainage systems, injection mouldings and vacuum formings;

ii) Bathroom and Kitchen Products Limited, consisting of two companies manufacturing:

- a) bathroom products including cast iron and acrylic baths, hand basins and shower trays
- b) kitchen products including sinks and hand basins, vanity units, shower cubicles, steel, acrylic and glass fibre baths;

iii) Domestic and Heating Appliances Limited, consisting of five companies producing:

- a) F. gas cookers and fires
- b) L. gas cookers and fires
- c) A. cookers, domestic and commercial boilers, room heaters and open fires
- d) catering equipment
- e) metal flow-formed products.

[F., L. and A. are specific trademarks of these appliances].

iv) Integrated Services Limited composed of four companies producing:

- a) steel flooring, hand rails, stairways and fabrications
- b) fabrication of pipework, pressure vessels
- c) heating, ventilation, air conditioning and engineering contracting
- d) contract journey and associated building services.

Each of the four divisional units is headed by a chief executive or managing director, who is the head of a functionally-organized management team. The above divisions are represented separately at the H.Q. level and no attempt has been made to fuse their management structures. Each division operates as a 'limited liability company' and has complete autonomy for the management of its operations. The 'corporate headquarters' exerts its control through the allocation of funds for major capital expenditure programmes.

2) Steel and Engineering: this is the second divisional grouping, which consists of three divisions each composed of a number of smaller units. These are:

- i) Steels Division Limited, composed of five smaller companies operating as:
 - a) re-rollers of hot-rolled steel, carbon and alloys
 - b) producers of hot, rolled steel strip, cold rolled flats

- c) producers of bright drawn steel bars and rods, hot forgings and general press work
 - d) re-rollers of hot-rolled steel, carbon and alloys
 - e) producers of cold-rolled strip;
- ii) Screws and Fastenings Limited, composed of seven companies manufacturing:
- a) high tensile bolts, pre-assembled screw and washer units, self locking and prevailing torque bolts
 - b) bright and high tensile studs and bolts
 - c) steel and malleable iron pipe fittings and iron castings
 - d) semi-tubular rivets, masonry nails and cable clips
 - e) high strength friction grip bolts, load indicator washers, rivets, railway, mining and construction bolts and nuts
 - f) bolts and non-standard fasteners for the railway, coal, scaffolding and heavy plant industries
 - g) precision welding and fabrication of sheet metal for high technology industries.

Two chief executives are in charge of the above divisions and each smaller unit is in turn managed by a general manager. The chief executive of 'Steels Limited' is also a Main Board member.

iii) Foundries Limited, composed of five works units producing:

- a) cast iron drainage products and automotive castings
- b) engineering and automotive castings
- c) Meehanite engineering castings
- d) cast iron drainage products
- e) engineering and automotive castings.

Since the Company has embarked upon a major rationalization programme affecting its foundries, this division is at present being managed by the Group Deputy Chairman and Chief Executive.

3) The stockholding and distribution operations consist of three divisions:

i) Steel Stockholding Limited comprising three concerns operating as:

- a) stockholders of stainless and general steels, scrap merchants and machine tool dealers
- b) stockholders of carbon and alloy steel bars in bright and hot-rolled
- c) stockholders of stainless steel products;

ii) Distribution Limited comprising five companies:

- a) stockists of all screwed products
 - b) stockists of bearings, chains and sprockets
 - c) stockists of engineering tools
 - d) stockists of builders' castings and roof outlets
 - e) factors of fastening;
- iii) Wholesale Chemists Limited comprising two companies operating as wholesale suppliers to retail chemists.

The steel stockholding and distribution divisions are headed by two chief executives. The wholesale chemists' division is managed by a general manager reporting directly to the Group Chief Executive.

In addition to these three divisional groups, companies which have been acquired recently operate as limited liability companies, managed by their own chief executives, although they are partially supervised by the Group Deputy Chairman and Chief Executive. Figure 47 illustrates the firm's organizational structure.

Some of the divisional activities interact with one another on a competitive basis; for example, the Foundries Division produces castings for the 'Domestic and Heating' and 'Distribution' Divisions. The latter also obtains the majority of its stocks from the 'Steels' and 'Screws and Fastenings' Divisions, whereas the Steel Division supplies the steel stockholding subsidiary. Most of these business

transactions take place between the distribution and the two manufacturing divisions; the former providing the distribution outlet for the products of the two manufacturing divisions. These transactions are managed by the divisions themselves with no formal co-ordination at the corporate headquarters.

The corporate headquarters is fairly recent in origin [it was set up in 1970, following the merger] and provides the following services:

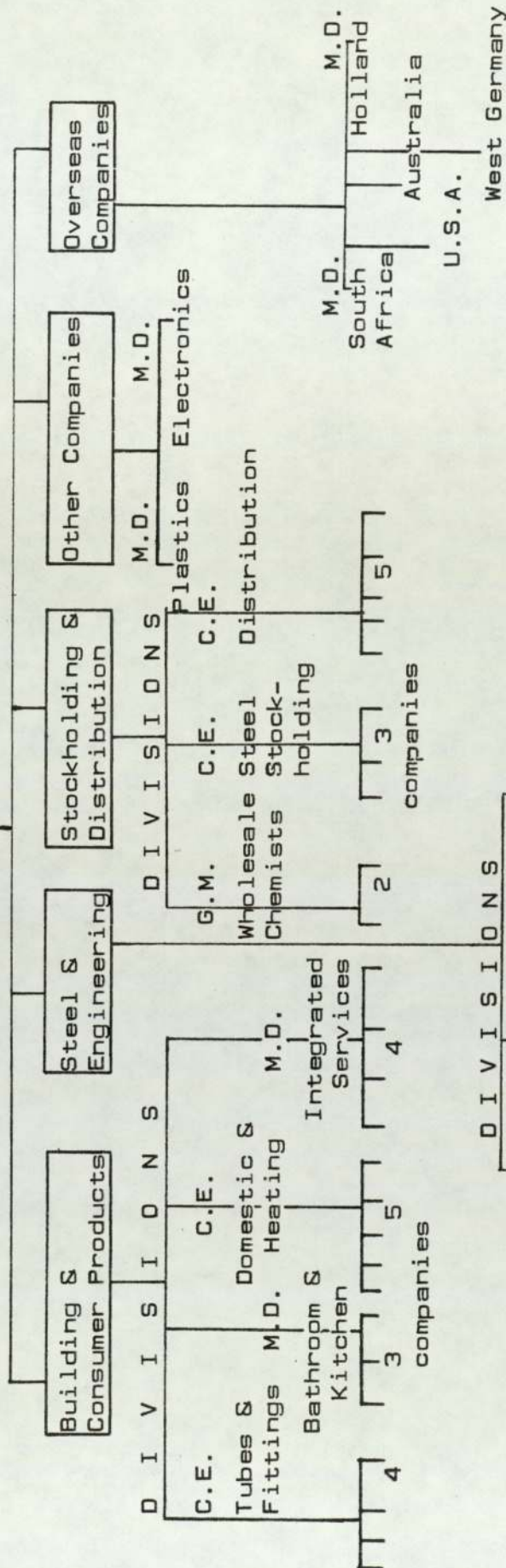
- accounting, including tax assessments
- finance
- central research and development, conducting detailed work on improving the design of a number of divisional products; a Technical Director is in charge of this department
- computer services, advising all the subsidiary companies
- Overseas and Export Department, responsible for the export of all the divisional products, as well as maintaining contact with the overseas subsidiary companies
- secretarial services
- conference facilities for members of the Company
- international audit
- property management, responsible for the management of all the Group's properties

- personnel and corporate relations:
this is by far the largest H.Q. department.
It is responsible for the Group's industrial relations, employee benefits, as well as maintaining liaison with the external bodies through its 'Public Relations Department'
- purchasing [mainly basic metals] for the Group as a whole
- a specialized department arranging exhibitions for the Group.

The centre has centralized a number of functions such as 'Purchasing', 'Personnel' and 'Research and Development' in its attempt to provide a number of services for all the divisions.

CORPORATE H.Q.

Chairman
 Deputy Chairman & Chief Executive
 H.Q. Services
 Finance
 Personnel
 R & D
 Computing
 Planning
 Secretarial



Total no. of divisions = 10
 Total no. of smaller companies = 50

Figure 47 X's organizational structure

11.2.4 Composition and characteristics of senior management

Senior management at the corporate level comprises the 'Chairman', 'Deputy Chairman and Chief Executive', the 'Finance Director' (who are all members of the Main Board), the 'Personnel Director', 'Overseas/Export Director' and the 'Technical/Research Director' who are not members of the Main Board.

The 'Group Chairman' who spends two days a week at the Head Office in Birmingham is a merchant banker and his main responsibilities include liaison with external bodies, banks, financial institutions and trade associations. He also deals with acquisitions and oversees the progress of the Company's strategic programme.

The 'Deputy Chairman and Chief Executive' monitors the progress of the operating companies and deals with the day-to-day problems. He has a pragmatic style of management and has recently become involved in managing the 'Foundry' and 'Electronics' businesses. A chartered accountant with nearly 30 years' working experience within the Group, he is not in favour of diluting his considerable personal authority by delegating to other senior managers [interview with Planning Manager February 1978].

Each of the three main business groups (i.e. consumer and building products, steel and engineering, stockholding and distribution) are represented by their chief executives on the Main Board and major committees. In contrast to the

'Chairman' and 'Deputy Chairman' who have a financial background, the divisional chief executives and general managers have a production orientation; two are engineers who have served in the Company for over ten years; the third joined the Group after his stockholding business was acquired in 1972/3 and still retains a considerable shareholding in the firm.

11.2.5 The firm's performance

As indicated in Figure 48 X's turnover has increased steadily throughout the 1970s from £54 million in 1969 to nearly £320 million in 1978. It is not clear however, what proportion of this increase reflects 'growth by acquisition' and what proportion can be attributed to the Group's indigenous businesses. The 'Steel and Engineering' Group has been a steady performer both in terms of turnover and profits [see Figures 49 and 51] in contrast to the 'Distribution' and 'Consumer and Building Products' Divisions which exhibit a higher degree of fluctuation.

In 1980, the contribution of overseas companies (including exports) had increased to 28.2% of total sales compared with 18.5% in 1979. However, this increase reflects the increased contribution of a number of newly-acquired companies in France and the United States.

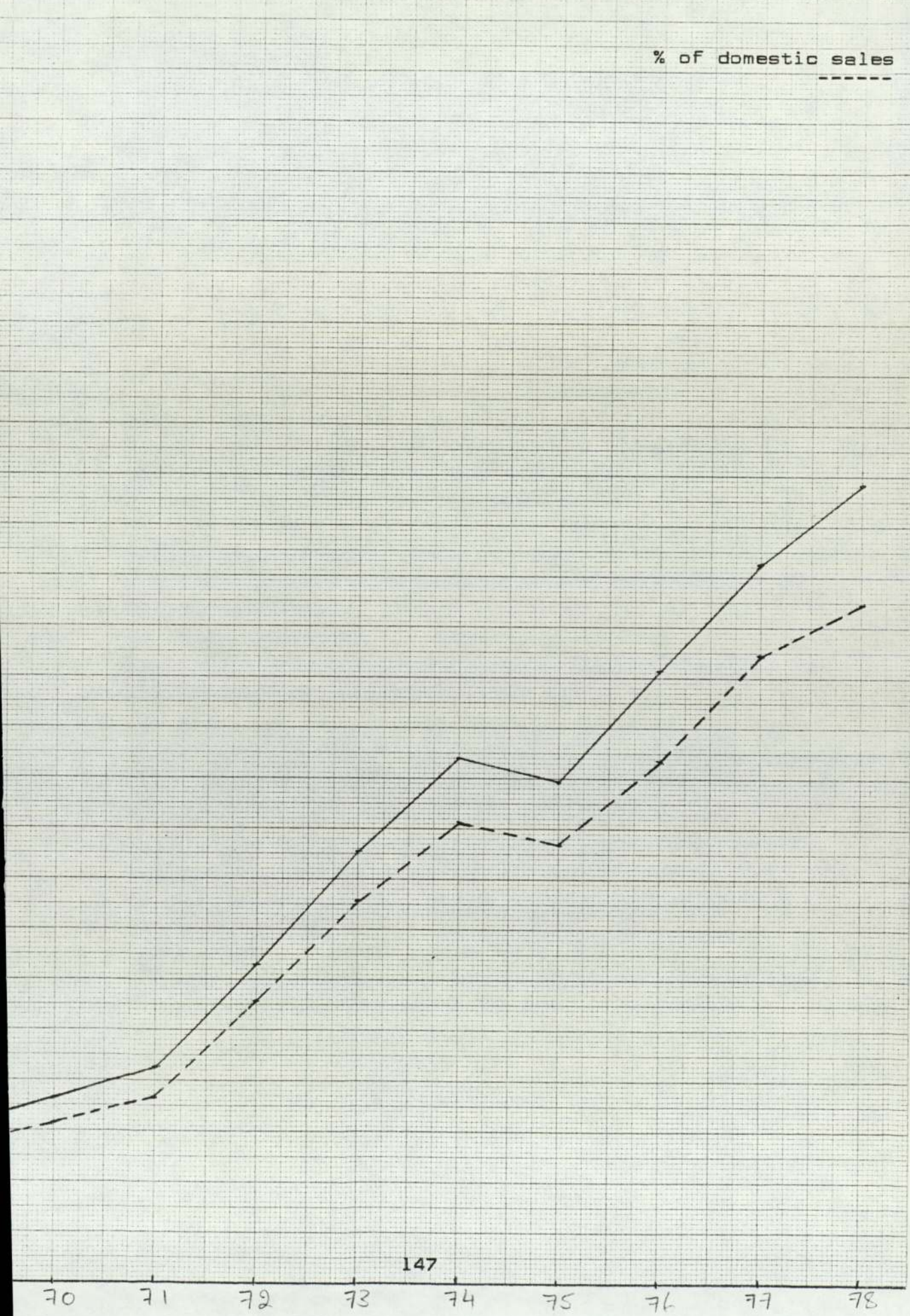
The 'Building and Consumer Products' Group in the U.K. contributed 41% of total U.K. sales and 48% of profits in 1980. The 'Steel and Engineering' and 'Stockholding and

Distribution' operations accounted for 29% and 27% of U.K. sales and 41% and 11% of profits respectively.

South Africa is the Group's largest overseas market accounting for 20.1% of total sales, mainly in the 'household and industrial appliance' sector. Other geographic regions in which the Company is active comprise Europe (accounting for 3.3% of total sales in 1980), Middle East (largest export market accounting for 1.9% of sales), Asia and Australasia (0.5% of sales) and North and South America (2.4% of sales).

Figure 48 Total turnover of Company X: 1969-1978

% of domestic sales



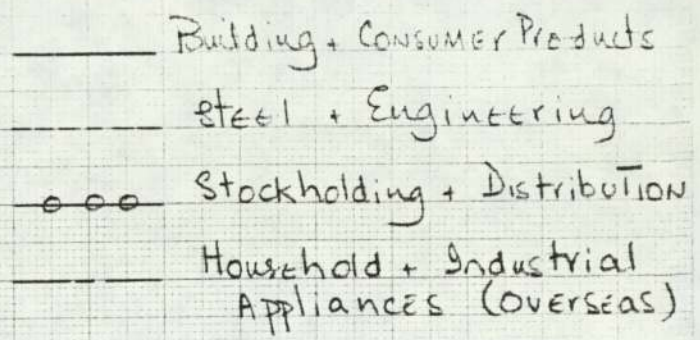


Figure 49 Turnover of various product divisions: 1969-1978

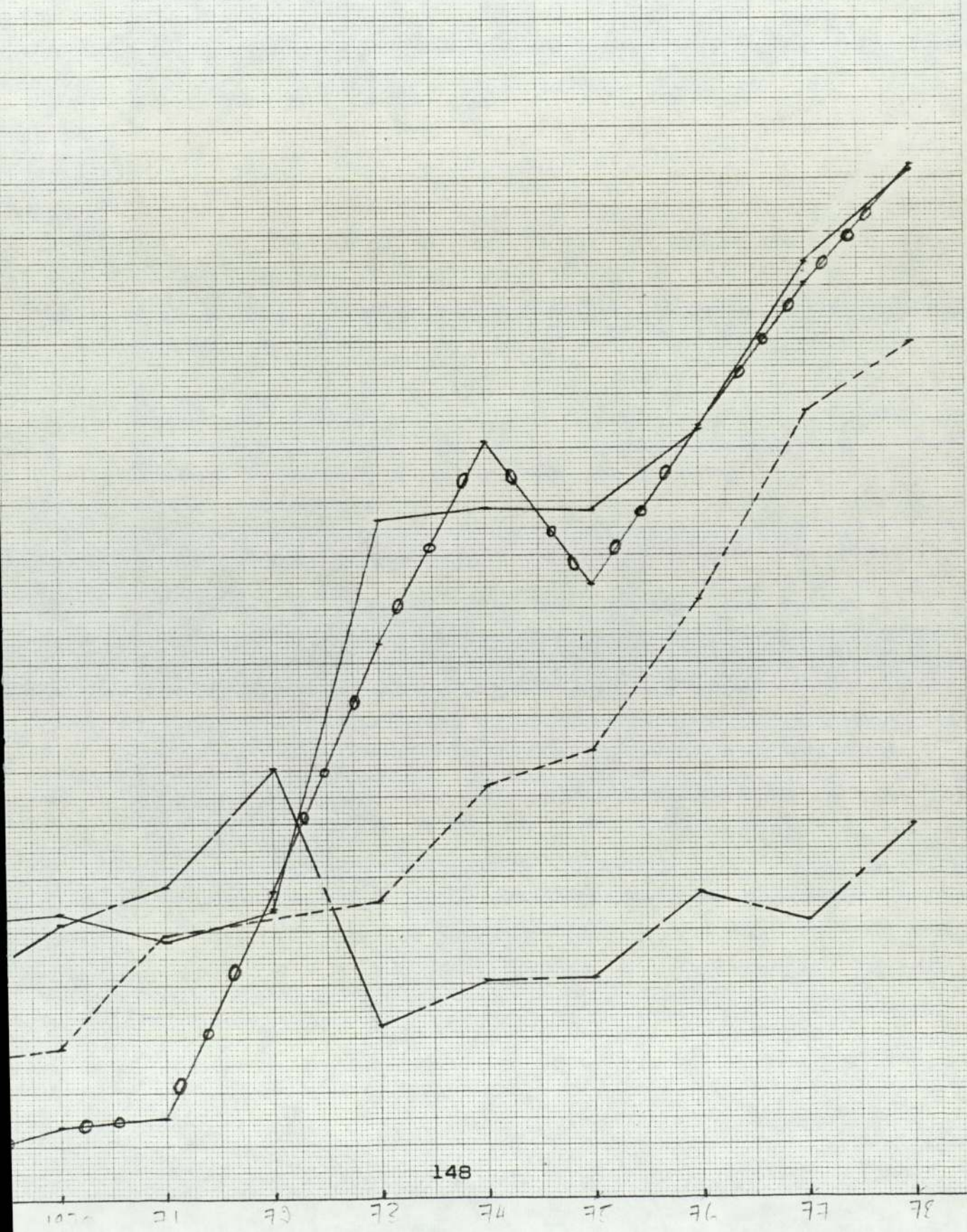


Figure 50 Total profits (before tax): 1969-1978

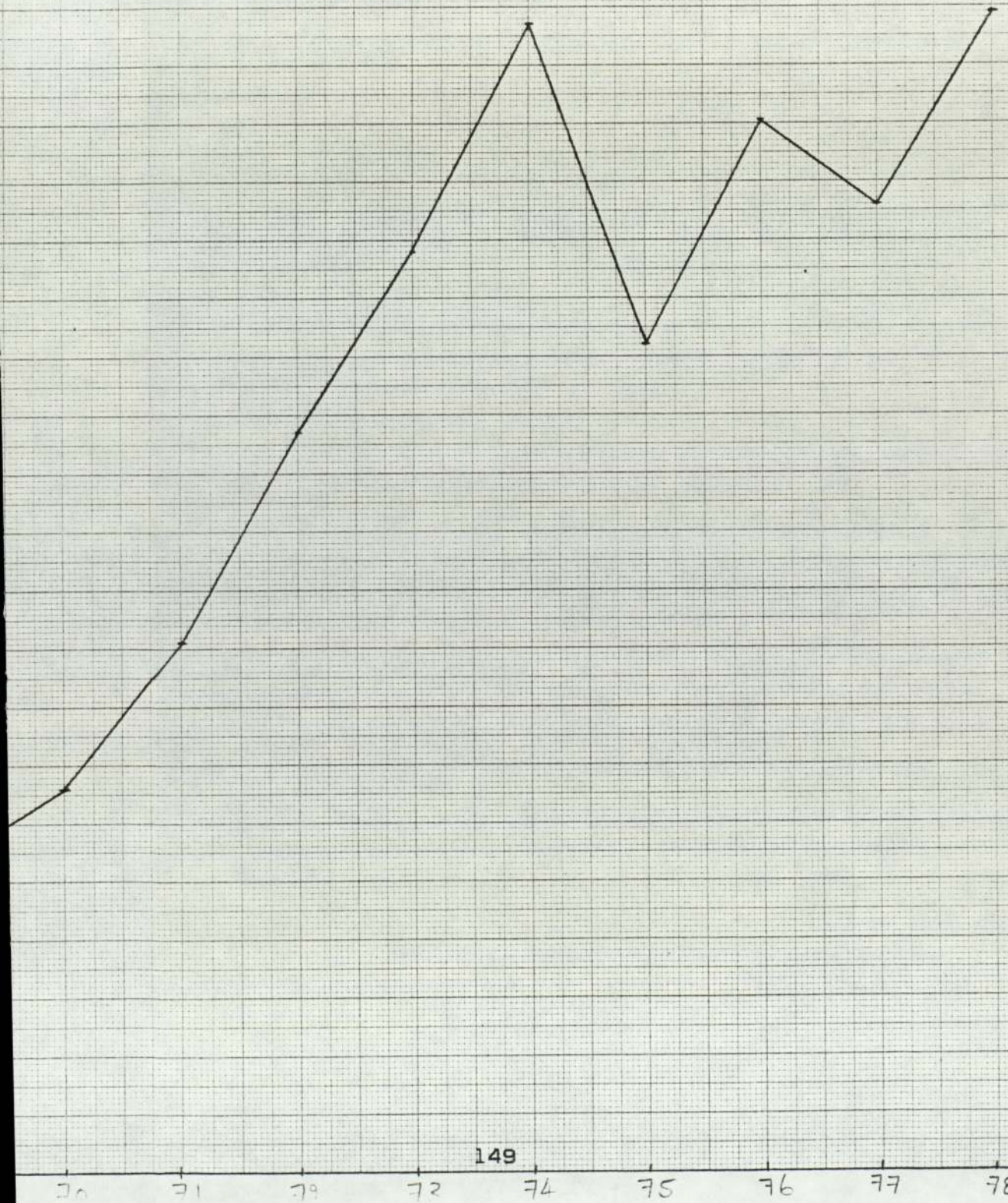
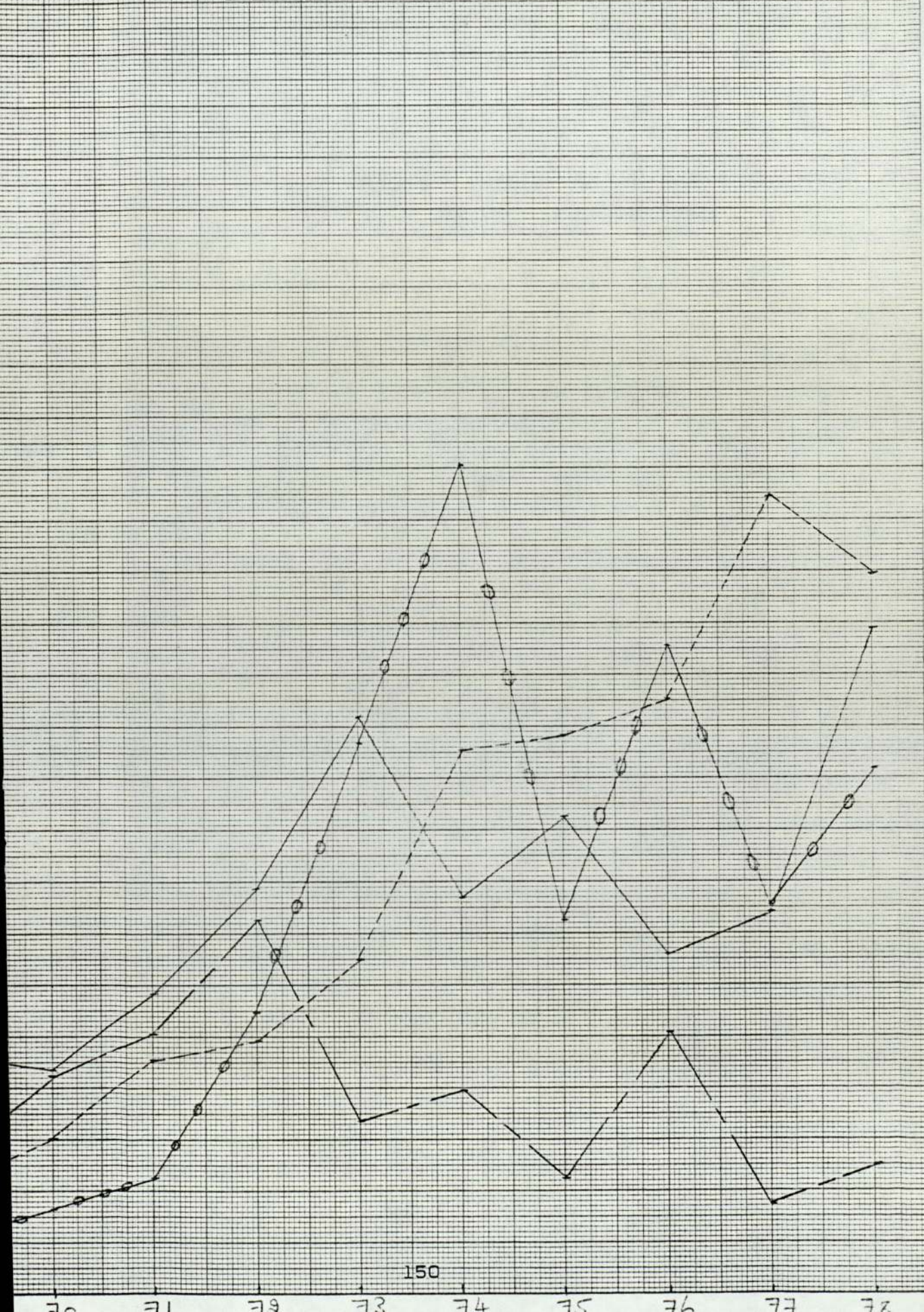


Figure 51 Profits of various product divisions: 1969-1978



11.2.6 Co-ordination and control mechanisms

Due to the decentralized nature of its operations, formal co-ordination processes are relatively underdeveloped and the managerial initiative for instituting these processes has been hard to come by. 'Purchasing' of basic metals is one area where the Central H.Q. Department attempts to co-ordinate the divisional requirements. There is also a Central Export Department which is responsible for the export of all the Group's products, although these comprise a relatively small portion of total Group turnover (8% of total sales in 1978).

The Company's 'control' processes are well-developed providing an effective method for monitoring divisional performance. The 'control' process embraces the following:

- allocation of working capital: having outlined their requirements, the divisional budgets are then submitted to the Central Finance Department for further evaluation and are finally approved by the 'Central Finance Committee' comprising senior corporate executives;
- the centre exercises control over the future direction of the divisions through the allocation of funds for the divisional investment programmes. Divisional estimates for capital expenditure requirements are completed on the basis of 'expenditure

categories' such as expenditure on 'land and buildings' and 'plant and equipment'. The 'payback period' and the 'rate of return on capital' are then estimated so that the centre can assess the relative merit of the different divisional proposals. Having been evaluated by the Finance Department, the Corporate Planning Manager assesses their impact on the firm's strategic direction and their commercial implications. Finally, the central 'Executive' Committee (composed of the Chairman, the Deputy Chairman, the Finance Director, the Personnel Director and the Divisional Chief Executive, whose proposal is being considered) examines the proposals and approves those which in their opinion warrant capital expenditure.

The Group's internal decision making processes are relatively underdeveloped and are characterized by a distinct lack of formalization. This further reinforces the 'holding company' nature of the Group, with autonomous operating units and relatively underdeveloped central management services.

11.3 Determining the firm's 'planning' needs

Six specific attributes of a firm's environmental and organizational setting were associated with the role of corporate planning systems in our sample of fourteen companies. As indicated in Section 10.2, they are used to evaluate the firm's planning 'needs', highlighting the desired 'functional' capabilities of its corporate planning system. These are as follows.

11.3.1 Complexity of the firm's 'environmental' setting

This is determined on the basis of:

1. number of 'business' sectors in which the firm is actively engaged: Company X operates in three distinctive product/market sectors:

- building and consumer products
- steel and engineering
- stockholding and distribution.

In addition, it has a secondary business portfolio comprising a 'wholesale chemist', an 'electronics' business and a 'plastic components' manufacturer. Although the varied nature of these businesses represents a rather complex business environment, they share a number of characteristics:

- all operate in the 'intermediate' manufacturing sector since their products are sold to other manufacturers and assemblers;

- most of the Group's main businesses are located in the West Midlands region;
- there is a considerable amount of business transactions between its three main businesses. The 'Stockholding and Distribution' Division for example, is a marketing outlet for a wide range of the products of other divisions;

2) number and type of 'markets' in which the Company operates: Company X is mainly dependent on the U.K. market for most of its sales, although recent attempts have been made to increase its volume of exports and expand its overseas manufacturing facilities. While its non-U.K. sales [including exports] accounted for 19% of total sales in 1979, this had increased to 28% by 1980, mainly due to the acquisition of two U.S. companies [steel stockholding and fabrication-manufacturers of welding positioning equipment]. The Group's 'South African' subsidiary accounted for 71% of total 'overseas sales', followed by Europe [12%], North and South America [9%], Middle East [its biggest export market: 7%] and Asia and Australasia [2%];

3) range of macro-environmental factors of strategic significance: according to the 'Group Planning Manager' [interview February 1980], key macro-environmental factors which need to be monitored on a continuous basis are as follows:

- general level of public expenditure, particularly on housing programmes;
- availability and price of steel;
- metal prices (particularly lead, copper and steel);
- prospects for the U.K. automotive industry;
- level of activity in the construction sector;
- level of expenditure on 'defence' equipment;
- E.E.C. 'steel rationalization' programmes;
- general economic indicators such as interest and exchange rates, level of consumer expenditure and inflation rate;
- developments in the Third World countries which are likely to pose a 'competitive threat' such as Korea, Taiwan, Brazil and India.

Although no measurement scales are used to determine the complexity of X's environment, compared to companies such as Shell, Reed and Dunlop, its environment is not 'highly complex' in view of the following:

- the Group is mainly active in two business sectors (steel and engineering and construction and building products);
- the firm's operating companies generate most of their sales in the U.K. domestic market, although recent attempts have been made to expand their volume of exports and overseas' manufacturing facilities.

Proposition I was advanced in Chapter 10 in order to hypothesize the impact of environmental complexity on the functional orientation of a corporate planning system. It will therefore be used as a tentative design guideline:

I 'The more 'complex' the firm's environmental setting, the greater the degree of emphasis placed on the 'adaptation' role of corporate planning'.

This proposition emphasizes the importance of the role of the corporate planning department as an 'information centre' monitoring macro-environmental developments of strategic significance to the firm.

Since Company X's environment is not as complex as those of Shell, Reed, ICI, Dunlop and Lucas for example, there is no need for a highly sophisticated 'environmental monitoring and information processing' capability. This task can be undertaken by the planning manager through access to special reports prepared by various research institutes, Government departments and 'trade associations'.

11.3.2 Degree of 'volatility' associated with the firm's
environment

This is determined on the basis of:

1) involvement in technologically-dynamic industries:

The Group is not active in technologically-dynamic industrial sectors although recent developments in 'process-technology' have altered the type of machinery used for the manufacture of its products;

2) characteristics of its markets and their associated

degree of political, economic and social stability: The Group has traditionally been active in the U.K. domestic market, accounting for over 80% of its total sales in 1979. Its largest overseas subsidiary is in South Africa which is representative of a highly volatile environment.

3) Major structural changes likely to affect its

industries: the revolution in the electronics industry and the use of 'microprocessors' are likely to have a profound impact on the mechanical engineering industry. The U.K. automotive industry is also undergoing major structural changes, likely to result in a contraction of its market. The pattern emerging at present is that only companies which operate on a world scale (with an annual capacity of at least 2 million vehicles) would be contesting in the world market battles of the 1980s (Financial Times, 30 July 1979). Many smaller specialized companies are likely to survive only in marginal or protected domestic markets. Few of them can afford the astronomical cost of developing new models without

associating with larger companies or turning directly to governments for loans, subsidies or even partnerships [Financial Times, 30 July 1979]. These changes are likely to affect X's 'Steel and Engineering' Division which manufactures castings for the automotive industry. This leads to Proposition II which indicates that:

II 'The more 'volatile' the firm's environmental setting, the greater the emphasis placed on the 'adaptation' role of corporate planning'.

This capability would enable the senior management of the firm to evaluate the impact of impending changes on the viability and future potential of their existing activities. Although X's 'steel and engineering' business is particularly subject to a structural adjustment brought about by the emergence of new technology and the declining prospects of its main customers, according to the 'Group Planning Manager' [interview November 1980], these changes and their impact can be ascertained with a considerable degree of certainty. The Planning Manager can play a useful role by informing the senior management of the divisions about the consequences of these changes and the penalties associated with remaining strategically 'inactive'. The challenge confronting the corporate planning staff/manager is not only to detect these developments and evaluate their impact on the firm's business, but to bring about a transformation of its strategic posture which would take account of such impending changes.

11.3.3 'Maturity' of the firm's product/market portfolio

This is determined on the basis of:

- growth rate and growth potential
- breadth of product line
- number of competitors
- customer stability
- ease of entry
- technological stability.

According to the Planning Manager [interview November 1980] X's operating companies are active in relatively stable but mature market segments with limited prospects for growth in their traditional U.K. market. The mechanical engineering sector, as already mentioned, has been subject to major structural changes brought about by the impact of new technology and the increasing use of microprocessors. The U.K. automotive industry has contracted considerably over the last few years. Throughout the Western world, the motor industry has suffered from the expected cyclical downturn in demand and the change in the pattern of demand toward smaller cars, stimulated by the shortage of oil and its escalating price [Financial Times, 4 May 1979]. The impact of this and the ensuing recession has been felt amongst the European and American automotive companies. The prospects for the U.K. industry as a whole are heavily dependent on the future of BL.

The 'Society of Motor Manufacturers and Traders' summed up the reasons for the decline of the U.K. motor industry to a committee of MPs blaming:

' ... the use by Government in the latter part of the 1960s of the industry as a regulator for the economy which resulted in an artificial contraction of its home market and a consequent lack of profitability which prevented the generation of capital for investment in modernization and new models'.

[Source: Financial Times, 30 July 1979]

Britain's entry into the 'European Economic Community' and the gradual removal of tariff protection from the British home market further exacerbated the situation. The contraction of the U.K. automotive industry implies that X's reliance on this particular sector should be gradually diminished.

The 'building and construction' industry needs to be evaluated in the context of two distinctive categories of business. The first is concerned with 'new' construction projects which due to their capital intensity are affected by the availability and cost of capital. In the opinion of the Planning Manager [interview November 1980] this type of activity is unlikely to gather momentum in the present economic climate. The cutback in local authorities' cash grants by the Government has also restricted the scope for new building projects. Although this picture is likely to change with an upturn in the rate of economic activity, the construction industry is cyclical in nature and dependent upon the volatile position of the economy.

The second category of business is the 'repair and maintenance' sector which is flourishing at present due to the cheaper cost of 'repairing existing buildings' rather than 'building new ones'. According to the Planning Manager [interview November 1980] however, this does not favour the manufacturers because of reduced margins and lower volumes of sales.

The construction of North Sea oil platforms has resulted in an increase in the volume of sales associated with 'pipes' and related products. The expansion of this business however, is unlikely to be sustained.

Company X operates in sectors which are characterized by 'low barriers to entry', an 'undifferentiated range of products' and relatively unsophisticated technological processes. Consequently, it is confronted with increasing competitive pressure from a number of Developing countries (such as Taiwan, Korea, India and Brazil) which have lower labour costs, new machinery and equipment and buoyant domestic markets.

In an attempt to diversify into those sectors which offer better prospects for growth, a number of small companies have been acquired during the latter half of the 1970s, specializing in electronic controls and precision-machined engineering components. These acquisitions however, were carried out in an ad-hoc and opportunistic fashion [interview with the first Planning Manager February 1978].

Company X is therefore active in those industries which offer limited potential for future expansion. Over 80% of its sales [in 1979] were generated in the U.K., its largest subsidiary being in South Africa which is itself undergoing major upheavals. As 'intermediate' manufacturers, X's operating companies are dependent on other manufacturers and assemblers for their volume of business. The anticipated decline of the U.K. manufacturing base has prompted many of its larger competitors such as Tube Investments, Delta and G.K.N. to expand their overseas operations in order to offset the decline in the volume of orders from other U.K. companies.

There is therefore an urgent need to search for diversification/geographic expansion opportunities which would enhance the Group's future growth prospects. This is related to Proposition III which states that:

III 'The higher the level of maturity of a firm's product/market portfolio, the greater the degree of emphasis placed on the adaptation role of corporate planning'.

The maturity of X's main businesses and its traditional dependence on the U.K. market necessitate the search for new diversification options and/or expansion into other geographic regions, especially in the Third World countries, which are developing their local infrastructure and experiencing a construction boom. The search for and evaluation of new strategic options could potentially constitute the most significant and urgent undertaking of the corporate planning manager.

The Corporate Planning Manager could also conduct a 'strategic audit' of the Group's existing businesses in order to identify 'divestment' candidates and those areas which offer better potential for future expansion.

This task would accompany the search for new diversification/expansion opportunities. Resources generated by divesting a number of its existing mature businesses can be used to subsidize expansion into growth-oriented sectors. By reviewing the existing position of all the Group's constituent businesses and assessing their future growth potential, the corporate planning manager can identify 'cash cows' (operating in mature markets where cash use is low but cash generation is high due to high market share), 'dogs' (unattractive businesses with low market share and grim growth prospects), 'stars' (growth-oriented businesses requiring large amounts of capital for investment purposes) and 'question marks' (businesses in growth markets with high cash need, requiring substantial capital investment before becoming 'stars'). Such an assessment would provide senior corporate executives with a network of information on the basis of which they can decide on the allocation of resources and rationalization of existing businesses.

11.3.4 The business and geographic diversity of a firm's portfolio

This is determined on the basis of:

- number of identifiably separate businesses in which the firm is engaged and their inter-relationship;
- number of different geographic markets in which the firm is active and their associated degree of homogeneity/heterogeneity.

Although the Group operates in three main sectors of 'building and consumer products', 'steel and engineering' and 'stockholding and distribution', each one of these comprises a number of businesses producing different ranges of products for identifiably separate market sectors.

The 'Building and Consumer Products Group' for example, comprises four divisions serving 54 separate market sectors with products such as tubes, drainage systems, castings, foundry equipment, bathroom and kitchen products, cookers, domestic and commercial boilers, catering equipment, steel stairways, handrails and flooring in addition to providing services such as ventilating, air conditioning and engineering contracting mainly for the building industry.

The 'Steel and Engineering Group' manufactures a variety of screws and fasteners, bolts, rivets and castings used in different industries ranging from coal, railway and heavy plant to the automotive and mechanical engineering sectors.

The 'Stockholding and Distribution Group' is the marketing intermediary for a variety of the firm's products ranging from steel bars to fastenings, bearings and engineering tools, air compressors and castings. In addition, Company X has three other mainstream businesses in the U.K. which comprise:

- wholesale chemists
- manufacturers of plastic components
- electronic controls for domestic and industrial application.

In the opinion of the Group's Chairman and Deputy Chairman, the firm is clearly a 'conglomerate' comprising a number of unrelated businesses which are managed on an autonomous basis [interview with the Planning Manager February 1980]. However, they have a number of features in common, such as their position as 'intermediate' manufacturers, their usage of metals such as lead, copper and steel and their extent of dependence on the U.K. domestic market.

The Group's overseas subsidiaries are in South Africa and Holland. Recent acquisitions have expanded its operations in France and the United States. Although these acquisitions have increased the contribution of overseas subsidiaries, 71.8% of the Group's total volume of sales in 1980 was accounted for by its U.K. businesses. Company X therefore has a diversified business portfolio, although this is more limited in terms of the geographic sphere of its operations. According to Proposition IV:

IV 'The more diversified the firm's business and geographic portfolio, the greater the degree of emphasis placed on the 'integrative' role of corporate planning'.

This would provide a network of information on the activities of the operating companies for senior corporate executives. This information could subsequently be used to make decisions concerning investment/divestment proposals. It is therefore closely related to the 'integrative' task of the planning manager which was discussed in Section 11.3.3.

11.3.5 Organizational structure

The strategic development of Company X is characterized by 'acquisitive expansion' which has subsequently resulted in the adoption of a 'holding company' type of organizational structure. The Group is organized on the basis of three business groups (building and consumer products, steel and engineering, stockholding and distribution). Each of these in turn comprises a number of operating companies which are managed on an autonomous basis. Newly-acquired companies (such as the plastics and electronics firms) have not been integrated into the existing organizational structure and operate as separate subsidiary companies. In the opinion of the Planning Manager (interview February 1980), close and personal contact with local marketing outlets (such as builders' merchants) is necessary in their businesses and this can best be maintained through a large number of smaller companies with which they can establish close working relationships.

There are 42 operating companies in the U.K. in addition to ten overseas subsidiaries in South Africa, the United States, France, Holland and Australia. Although the Head Office provides a number of services for all the operating companies such as personnel, overseas exports and purchasing, each one of these is managed by a 'general manager' reporting to the chief executives in charge of the three main business groups who are members of the Main Board and central committees.

The Group clearly has a decentralized organizational structure. According to Propositions V and VI, this would tend to emphasize the 'integrative' and 'control' tasks of corporate planning. The former has already been discussed in relation to other attributes such as 'maturity' and 'diversity'.

According to Proposition VI :

VI: 'The more decentralized the firm's organizational structure, the greater the degree of emphasis placed on the role of corporate planning as a 'control' mechanism'.

This would imply that the corporate planning manager would need to become involved in the resource allocation process and monitor the performance of the divisions. Although the adoption of this role would be necessary at some stage, the argument could be advanced that limited

resources of the corporate planning department especially during the initial stages of its establishment might restrict the scope of planning manager's participation in the control of the operating companies. At present, this task is the responsibility of the 'Central Finance Department'. At a later stage however, the corporate planning staff/manager would need to participate in a strategic evaluation of capital expenditure proposals in order to contribute to the actual implementation of strategic options.

11.3.6 Level of commitment of senior management to corporate planning

Proposition VII emphasized the significant influence exerted by senior management in shaping the functional orientation of the corporate planning system. Even if all the other features of a firm's environmental and organizational setting necessitate the adoption of a particular role by its corporate planning system (in terms of its emphasis on adaptation, integration and control), such a system is unlikely to affect the actual decision-making processes of the firm without the commitment of its senior managers, particularly the Chairman and the Chief Executive.

According to both Planning Managers interviewed during the course of this research (February 1978, November 1980), the 'Deputy Chairman and Chief Executive' has a considerable degree of influence and personal authority, having worked in the Company for over 25 years. His preference for a pragmatic approach to managing the Company

was emphasized by both Planning Managers. Moreover, he has an autocratic style of management and prefers to make all the important decisions himself instead of delegating them to others. One of the factors which apparently led to the disagreement with the first Planning Manager was that his proposed planning system was likely to reduce the personal authority of the Group Chief Executive and systematize the decision-making processes. The 'Group Chairman', a merchant banker by background, only spends two days a week in the Group Head Office and considers liaison with financial institutions and the search for suitable acquisitions to be his main responsibilities. While the Chief Executive has an 'internal' focus and deals with the affairs of the operating companies, the Chairman has an 'external' orientation and is more in favour of adopting a systematic approach toward formulating a coherent strategy. The general managers of the operating companies have a practical orientation and a pragmatic style of management and the chief executives of the three main business groups are engineers and are primarily concerned with the day-to-day running of the business rather than long-term strategic considerations [interview with the Group Planning Manager February 1980].

The characteristics and practical outlook of the firm's senior management imply that:

- the Planning Manager should establish a close working relationship with the Group Chief Executive and the three chief executives of the main business groups;

11.4 The corporate planning system's desired functional capabilities

On the basis of the seven propositions which were used as tentative design guidelines in Section 11.3, a number of specific functional capabilities were identified. In the opinion of the writer, the most urgent tasks of the proposed corporate planning department are as follows:

- firstly, due to the maturity of its existing product/market portfolio, the planning manager/staff should assist the firm's 'Chairman' and 'Chief Executive' search for and evaluate diversification/expansion options which would enhance its future growth potential. The emphasis of the corporate planning department's responsibilities should therefore be on 'adaptation'. In conjunction with this role, the department should also provide a central information service monitoring international developments of strategic significance for the use of corporate and divisional executives;
- secondly, the maturity of the Group's existing product/market portfolio and its decentralized organizational structure imply that the planning staff/manager should also undertake an 'integrative' task by generating a network of information on the present position of the operating companies, their likely future environments and their strategic priorities [Proposition V]. This information

could subsequently be used by senior corporate executives in their evaluation of divestment candidates and those existing businesses which warrant further investment. It would also provide a basis for controlling the strategic direction of the operating companies in a diversified and decentralized organization. The 'integrative' role of planning would encourage 'strategic thinking' at the divisions. If the general managers of the operating companies are required to submit a 'planning document' to the Head Office in order to describe the prospects confronting their businesses and their specific strategic priorities and action plans, they would have to stand back from their day-to-day operating problems in order to 'reflect' on their strategic settings. In this context, a number of informal talks/seminars should be arranged by the planning staff/manager in order to convey the benefits of adopting a systematic approach toward formulating and evaluating specific strategies. The role and benefits of formalized planning can then be clearly spelled out;

- X's decentralized organizational structure implies [Proposition VI] that the corporate planning system should also be concerned with the provision of a 'control' mechanism, evaluating the divisional capital expenditure proposals and monitoring their performance. However, this task is already undertaken

by the 'Central Finance Department' and due to the importance of searching for alternative diversification and expansion opportunities (i.e. adaptation role of planning) and providing a network of information on the prospects and strategies of the operating companies (i.e. integration role of planning), it would be desirable for the planning staff/manager to be primarily concerned with these tasks, especially during the initial stages. Once their position is consolidated, the planning staff could become involved in evaluating the strategic implications of the divisional capital expenditure proposals in conjunction with members of the Group Finance Department (as is the case at Fisons).

11.5 Organization of the planning department, 'reporting relationship' of the senior planner and extent of formalized planning at the divisions

The size of the corporate planning department and number of the planning staff should be kept small during the initial stages of the establishment of formal planning systems [as in the case of Serck and L.C.P. Holdings]. This is because a planning manager is initially appointed in order to devise a suitable planning system in those firms with no such systems. No additional planning staff are therefore required until the firm's planning needs are evaluated. Secondly, introduction of formalized planning is likely to arouse a certain measure of internal opposition [Ansoff 1977]. Apart from the fact that a large planning department might be unnecessary for a company's needs during the initial stages, it might actually result in the alienation of the divisional managers who might consider it to be an extra layer of bureaucracy [interview with Corporate Development Manager: Serck, June 1979]. All those interviewed in our sample of fourteen companies were of the opinion that size of the planning departments and scope of responsibilities of the planning staff should be 'gradually' enlarged.

According to our findings, two factors seem to be associated with the organization and structure of corporate planning departments, the reporting relationship of the senior planning manager and extent of formalized planning at the divisions. These should therefore be taken into account

during the design process. The first factor is the desired functional capabilities of the corporate planning department. In the course of our assessment of Company X's 'planning needs' [Sections 11.3 and 11.4] it was indicated that during the initial stages the Planning Manager should be primarily concerned with 'adaptation' [helping senior executives in their search for and evaluation of diversification/expansion opportunities and providing a central information service] and 'integration' [providing a network of information on the activities of the operating companies and their strategic intentions] tasks of planning. According to Proposition IX:

'The more 'strategic' the functional orientation of the corporate planning staff's responsibilities, the greater the need for a close working and reporting relationship with senior corporate executives'.

The Planning Manager of Company X should therefore establish a close working relationship with the Chairman, Deputy Chairman and other senior executives [such as the 'Overseas Director'] since the primary focus of his responsibilities is to facilitate the adaptation of the firm's strategic posture to the opportunities and threats present in the environment.

The need for a 'differentiated' planning system with separate divisional planning departments appears to be associated with a decentralized organizational structure and the size and complexity of the divisional tasks. According to Proposition VIII:

'The more decentralized the firm's organizational structure and the larger the size and complexity of the divisions, the greater the need for separate planning departments at the divisions'.

Company X is composed of a large number of operating companies which function as a confederation of autonomous business groups [see Section 11.2.3]. For example, the 'Building and Consumer Products Group' comprises four main divisions and nineteen operating companies. Each of these is managed by a 'general manager' and according to X's 'Planning Manager' [interview February 1980], the nature of their businesses is such that there is no need for elaborate planning procedures as is the case at BL, Shell, Fisons, Cadbury/Schweppes and ICI. Separate planning departments would not therefore be required for the divisions.

The following suggestions are put forward on the basis of the foregoing analysis:

- during the initial stages of the formalization of planning, the planning department should be small in size with one full-time manager who can evaluate the firm's planning needs and gain an insight into its cultural norms;
- the planning manager should establish a close working relationship with senior corporate executives since on the basis of our assessment

[Sections 11.3 and 11.4] the manager should be initially concerned with 'adaptation' and 'integration' tasks of planning;

- the 'holding company' structure of the group, multiplicity of small operating companies and nature of their businesses is such that there is no need for separate planning departments at the divisions, at least for the time being;
- the need for a close working relationship with the Chairman and Chief Executive is all the more important because of the central 'concentration of power' in this Company and the considerable authority of the 'Deputy Chairman and Chief Executive' in strategic and operational matters.

11.6 Types of plans and their time-horizon

The third dimension of a corporate planning system considered for design purposes is the 'type[s] of plans' which need to be developed and their adopted time-horizon. According to Proposition XI :

'If the planning system is to be primarily used as a control mechanism, written plans [developed at the divisions] are likely to be financial in nature'.

The time-horizon used for planning purposes is likely to be associated with the 'technological dynamism' and 'capital intensity' of the firm's activities [Propositions XII and XIII]. As indicated by our findings, the divisional plans in companies such as BL, Shell and ICI extend over a long time-horizon because of the need to plan major projects and assess their resource requirements years in advance.

Since our recommendations imply that corporate planning in Company X should be primarily concerned with the 'adaptation' and 'integration' tasks [rather than 'control'], there is a need for qualitative information concerning the operating companies' present position, likely future environment, strategic priorities and specific action programmes. This information can be subsequently used by senior corporate executives in their assessment of the Group's strategic direction. Although specific strategies are generally implemented through the allocation of resources and there is

a need for financial plans which provide an indication of the financial implications of particular strategies, this information is already provided in the divisional 'three-year' capital budgets.

In order to determine the appropriate time-horizon for planning purposes, the following factors need to be taken into account:

- X's operating companies are not active in technologically-dynamic industries which necessitate the use of long time-horizons for planning purposes;
- existing capital expenditure plans which are prepared by the divisions/operating companies extend over a three-year period and are up-dated on an annual basis;
- its existing businesses are active in 'mature' sectors. According to the Planning Manager [interview January 1979] the divisional chief executives are primarily concerned with the short-term performance of their companies. If the divisional plans were to extend over an unrealistically long period of time, they are likely to be perceived as highly irrelevant by the divisional management [interview with the Planning Manager January 1979].

On the basis of this analysis, the following suggestions are put forward:

- the divisional plans [which are required for 'integration' purposes] should incorporate qualitative information concerning their present position, likely future environment, strategic intentions and specific action programmes. The formulation of such plans would also serve a secondary purpose by prompting the divisional management to consider longer-term strategic issues;
- the time-horizon adopted for planning purposes should be perceived to be 'relevant' by the divisional management. Since the Group is not active in capital intensive and/or technologically-dynamic industries with long lead times, there is no need to adopt long time-horizons for planning purposes. The 'three-year' time period which is at present being used for 'capital budgeting' could also serve the purpose for the discussion of more qualitative, strategic issues. This is likely to be perceived as 'relevant' by the divisional management since it is already being used for 'financial planning'.

11.7 The planning process

This is the final dimension of a corporate planning system which is to be considered for 'design' purposes. It specifies the various stages of the formal planning activity and the nature and frequency of contact between the corporate and divisional managers. Our findings indicated that the planning process is composed of four interrelated stages. Firstly, the type of information which is to be incorporated in the divisional plans is to be specified. In our sample of companies this was generally the responsibility of the corporate planning staff. The plans are subsequently formulated at the divisional level before being submitted to the corporate planning department, where they are reviewed by the planning staff and are generally sent back to the divisions for further modification. Finally, the plans are discussed in corporate committees whose members comprise senior corporate and divisional executives.

A formal planning process is necessary in large and decentralized organizations if strategic (and other) information is to be generated, evaluated and discussed in a systematic and coherent manner. A major contribution of a formal planning process is that it encourages discussion of strategic issues between the centre and the divisions. The planning process in Cadbury/Schweppes for example, was modified in order to incorporate more meetings between the senior corporate and divisional executives.

Company X has a decentralized organizational structure with a large number of autonomous operating companies. The formal planning process should therefore incorporate frequent meetings between corporate and divisional executives throughout the planning cycle: before the formulation of plans and after their evaluation by the planning staff. These meetings would provide a forum for discussing issues of strategic significance and can be of considerable benefit, especially during the initial stages of the formalized planning process.

Recommendations for Company X's 'planning process' can thus be characterized on the following basis:

- the 'Planning Manager' should devise the 'planning document' thereby specifying the type of information which is to be incorporated in the plans;
- these documents are subsequently circulated amongst the divisional chief executives, who are responsible for 'filling in' the required information;
- having been formulated the divisional plans are sent back to the Planning Manager who would evaluate them and ask for specific modifications to be made [if these are considered to be necessary];

- once the divisional plans are evaluated and consolidated, they form the basis of discussion between the senior corporate and divisional executives. The Group and divisional strategic priorities are clarified and discussed during the course of these meetings, thereby providing a basis for the subsequent allocation of resources.

The need for incorporating frequent meetings between corporate and divisional management throughout the planning process is all the more significant in the case of Company X due to the Group's holding company organizational structure, multiplicity of its operating units and lack of a distinctive corporate identity which is partially a result of the Company's acquisitive expansion strategy.

11.8 Development of Company X's corporate planning system

The main features of the corporate planning system which was developed by Company X's 'Planning Manager' will be described in this section. Its broad characteristics will subsequently be compared with the writer's recommendations which were made on the basis of the design framework described in Chapter 10, Section 10.2.

It took approximately two years for the 'Planning Manager' to evaluate the needs of the Company and devise a system which would take account of these needs. During the first year of his appointment, the Planning Manager provided the services of an information centre, monitoring developments of strategic significance such as the position of the mechanical engineering and construction industries, E.E.C. steel rationalization plans and the price and availability of metals. This information was subsequently disseminated to the operating companies and senior corporate executives. During the course of informal discussions, the attitudes of senior managers toward the use of a formal planning system were canvassed in order to identify their specific requirements.

During this period, the Chairman and Chief Executive had recognized the need to increase the Group's volume of exports, to expand the geographic sphere of its activities and to diversify into those business sectors which offered better potential for growth in the future. This strategy was aimed at reducing the firm's dependence on its traditional U.K.

operations which were in a mature stage of development. The Planning Manager was therefore charged with the responsibility of assisting the Chairman and the Chief Executive evaluate the potential attractiveness of various options. During 1979/80 for example, the Planning Manager provided a supporting role in relation to the Group's U.S. acquisitions by evaluating their impact on the firm's strategic development. A number of reports were presented to the 'Overseas/Export' Director on the social, political and economic stability of the Group's largest export markets such as Iraq and Saudi Arabia.

Having recognized the need to involve the operating managers in the formal planning process, a 'strategy/planning document' was devised in order to generate a network of information on the activities of the operating companies, their competitive position and future strategic intentions. This document was circulated amongst the chief executives of the operating companies by May 1979 and was devised on the basis of the following format:

- 1) The divisional strategic objectives.
- 2) Brief statement of the present state of their businesses covering issues such as:
 - i) products sold and services provided
 - ii) market position
 - iii) existing and planned sales
 - iv) existing and projected size of the market

- v) distribution channels
- vi) pricing strategy
- vii) effects of external environmental factors such as social and economic trends or raw material shortages on the market
- viii) a statement of important competitors, their market shares, pricing strategies and strengths and weaknesses
- ix) a statement of major suppliers and their reliability
- x) an assessment of major customers with evaluations of their strength and reliability
- xi) if the customers are not the end users, an assessment of the strength of the end users
- xii) impact of technological changes and new materials and processes
- xiii) new products/processes being developed by the operating companies
- xiv) production report including a statement of existing plants and buildings, their utilization, additional capacity required and their cost and timing
- xv) availability, cost and productivity of labour

- xvi) availability and cost of materials
 - xvii) an account of stocking policy
 - xviii) a general assessment of costs, particularly in comparison with those of competitors
 - xix) if costs are comparatively high, an assessment of methods of reducing them
 - xx) personnel reports covering topics such as planned changes in manpower numbers, developments on union matters, training to be undertaken and an account of the health and safety position
 - xxi) financial report covering capital expenditure proposals and their underlying assumptions. Past turnover and expected future sales, past and projected profits and return on capital employed
- 3) Courses of action open to the divisions and operating companies which might include the following:
- i) to expand or to reduce capacity
 - ii) to launch a new product or product range
 - iii) to drop a product or product range
 - iv) to undertake a new venture

v) to continue without significant change.

The final section of the report would incorporate an assessment of the major implications of the chosen courses of action.

These planning documents which covered a three-year period were to be compiled by the chief executives of the divisions by the end of June [allowing two months for completion] and subsequently reviewed by the Planning Manager, ready for discussion in the meetings of the 'Central Strategy Committee' during September. It is interesting to note that members of this committee are entirely composed of senior corporate executives [Chairman, Deputy Chairman and Chief Executive, Finance Director, Overseas/Export Director, the Planning Manager], although during the past year or so, an attempt has been made to involve the divisional chief executives in these discussions. Before the first planning cycle got under way in May 1979, a number of informal seminars were given by the Planning Manager to the chief executives of the divisions/operating companies. The purpose of these talks was to inform the divisional managers about the role of formalized planning and its likely contributions. According to the Planning Manager [interview February 1980] a number of the divisional executives had expressed their apprehensions concerning the impact of formal planning on their operational autonomy and the extra paperwork involved.

In order to give an indication of the theme of these seminars, an excerpt will be quoted from the talk given by the Planning Manager to the senior management of the divisions in March 1979:

'All companies plan in one form or another and if the planning is not formal and written, it is done in the heads of the chief executives. Sometimes the change to formalized planning is forced by the weight of information which is required, but there is a positive gain to be derived from formal planning as well. In its absence, management neglects strategy because managers are often too busy to develop plans for future growth and profitability of the company. Formal corporate planning ensures that the future direction of a company is based on a considered strategy, provided of course that strategy is carried out'.

During the first year of the introduction of the formal planning exercise, a brief series of meetings were arranged between the Chairman, Deputy Chairman, Planning Manager and the chief executives of the divisions in order to set out the objectives of the Group and to clarify issues of major strategic significance before the planning documents were completed by the divisions. The Planning Manager was ready to admit that there was a need for more frequent meetings between the centre and the operating companies (interview February 1980). An attempt has been made to overcome this shortcoming during the 1980/81 planning cycle with the incorporation of a number of 'strategic review meetings' prior to the compilation of the 'three-year strategy/planning document' by the chief executives. The purpose of these strategic reviews is to clarify the basic components of the divisions' plans before they are actually formulated and written in the planning documents.

According to the Planning Manager [interview February 1980], the greatest short-term gain from these 'strategic reviews' would result from the common purpose given to all the chief executives. In a decentralized company with a diverse portfolio of interests such as X, the divisions must have a common purpose or

'... they will fly off in all sorts of directions and have to be periodically brought back on track after wasting a lot of energy. The existence of a written strategy, agreed and interpreted with the divisional heads, prevents the wasted effort'.

[Source: interview with the Planning Manager February 1980].

The number of planning staff has been kept to a minimum. There was only one full-time Planning Manager until February 1980, whose main task was to provide a central information service, co-ordinate the planning activity and work on specific projects related to acquisitions, divestments and other strategic considerations. As his scope of responsibilities has increased gradually, a Deputy Manager has been appointed in order to provide some assistance. The Planning Manager reports to the 'Deputy Chairman and Chief Executive' emphasizing the strategic importance of his role. There are no planning staff at the divisions, since the purpose of formalizing the planning process was to bring the chief executives of the divisions into closer contact with the centre. According to the Planning Manager [interview February 1980], this is fulfilled if they participate directly in the planning process and complete the divisional plans

themselves although no doubt they are assisted by their own functional departments.

How does Company X's corporate planning system compare with the 'desired capabilities' recommended by the writer on the basis of the proposed design framework outlined in Section 10.2? Such a comparison seems to be warranted at this stage for two specific reasons:

- firstly, it would provide some indication of the practical utility of the proposed 'design framework';
- secondly, it would reflect the special circumstances of the Company, its internal political situation and the relevance of key personalities.

Our assessment of the firm's planning needs came up with the following recommendations on its 'desired planning capabilities' which were reported to the Planning Manager in 1980:

- due to the maturity of its existing product/market portfolio, emphasis should be placed on the 'adaptation' role of planning so that senior corporate executives can be assisted in their search for expansion/diversification opportunities;
- the firm's decentralized organizational structure and its diverse business portfolio highlight the need for a planning system with an 'integrative'

capability so that a network of information can be generated on the position of the divisions, their preferred strategies and action programmes. This information can be used to evaluate the strategic direction of the divisions and to monitor their progress toward the accomplishment of their strategic objectives and priorities;

- due to the practical orientation of the divisional chief executives, the Planning Manager should provide information and guidance concerning the practical benefits of adopting a formal approach to developing a coherent strategy for the future;
- although the Group has a decentralized organizational structure, the nature of the divisional businesses is such that the establishment of separate divisional planning departments is not warranted. The multiplicity of the operating companies and the pragmatic style of the divisional chief executives would also imply that even if such departments were to be set up, they would be anathema to the firm's cultural orientation, at least for the time being;
- due to the strategic orientation of the Corporate Planning Department's functional responsibilities, there is a need for a close working and reporting relationship between the Planning Manager and the Chairman and Deputy Chairman;

- the time-horizon adopted for planning purposes should not extend over a long time period. This is because the firm is not involved in technologically-dynamic industries which would require the use of long lead times for planning purposes [e.g. such as the motor industry]. Moreover, since it operates in mature product/market sectors, the adoption of long lead times would seem to be irrelevant by its divisional managers who have a pragmatic approach toward running their businesses;
- due to the Group's decentralized and 'holding company' organizational structure and the practical orientation of its divisional managers, the planning process should be devised so as to enhance communication of strategic considerations between the centre and the divisions. The planning process should therefore incorporate frequent meetings between senior corporate and divisional executives.

The above recommendations are similar to the broad features of the corporate planning system which was developed by the Group's Planning Manager. For example, the Planning Manager considers his most important responsibility to be assisting the Chairman and Deputy Chairman develop a coherent strategy in order to enhance the Group's future growth potential. In this context he acts as their 'eyes and ears' monitoring environmental developments, evaluating potential acquisitions/divestment options, preparing special reports

on geographic regions of likely significance and consolidating the information provided in the divisional three-year plans. During the past year or so, he has also become involved in evaluating the strategic implications of the divisional capital expenditure proposals in conjunction with the 'Group Finance Department'. The primary emphasis of the planning system is therefore on 'adaptation' and 'integration' as exemplified by the specific responsibilities of the Planning Manager.

The structure and organization of the Department is also in line with our recommendations. There are no planning departments at the divisions; the size of the Corporate Planning Department has been kept small with only two full-time staff. The Planning Manager works in close liaison with the Chairman and Deputy Chairman, reporting directly to the Deputy Chairman. He is also a member of the 'Group Strategy Committee'.

The plans which are prepared by the divisions extend over a three-year period which is considered to be 'long enough' for the development and specification of the divisional strategies. As the Planning Manager stressed:

'... a five-year planning period would be superfluous to our needs since it would be perceived to be irrelevant by our divisional and even corporate management'.

[Interview with the Planning Manager February 1980]

There was one point of divergence however, between our recommendation and the characteristics of the adopted planning system. The writer specified the need for frequent meetings between the divisional chief executives and senior corporate management because of the firm's decentralized organizational structure, multiplicity of its operating companies and the pragmatic orientation of the divisional chief executives. It was suggested that one of the main benefits of formalizing the planning process, especially during the initial stages, would be to enhance communication of strategic considerations between senior corporate and divisional executives. During the first planning cycle however, there was only one series of such meetings prior to the development of the three-year divisional plans. The Group Strategy Committee was entirely composed of senior corporate executives. However, the Planning Manager had recognized this deficiency later and incorporated a number of 'strategic review meetings' in the ensuing planning cycle. At present, these meetings are arranged prior to the commencement of the formal planning cycle in May and after the consolidation of the divisional plans in September.

By using our proposed design framework to assess the planning needs and desired planning capabilities of Company X, two issues have therefore been clarified. Firstly, we have illustrated how such a framework can be used in a practical situation, although the writer did not have access to the full range of information [such as information on market share of the operating companies] which would have

been required in order to conduct a more thorough assessment of factors such as environmental complexity and market maturity. Moreover, there was no opportunity to canvass the views of senior corporate and divisional executives and their attitude toward formalized planning. Since the writer had initially established contact with the first Planning Manager who left rather abruptly, she could not gain the fullest confidence of the second Planning Manager although he was willing to discuss a variety of issues related to their planning system during the course of a number of lengthy interviews.

The design framework can be used to provide an assessment of a company's planning needs and its desired planning capabilities, although our propositions are tentative design guidelines and their validity needs to be tested in future studies. It does not explain how the planning system is likely to affect the firm's internal social and political interactions. As Ansoff [1977: 20] has pointed out there are likely to be profound social, psychological and political ramifications once formalized planning is introduced within a firm. Managers might not for example, understand the nature and purpose of planning; they might not be motivated to plan, because it interferes with the type of work which yields recognition and rewards; they might feel threatened with a loss of personal power and a loss of control over resources through the process of making public their private knowledge; they might fear the uncertainty and ambiguity which planning brings into their lives. As Ansoff [1977: 20] states:

'Typically, introduction of firm-wide planning is a traumatic, turbulent experience. It does require focus of top management attention; it does take three to five years to arrive at a satisfactory planning process and this is accompanied by latent, if not overt organizational resistance. If top management support lapses too soon, then planning is either rejected or becomes an annual exercise in managerial frustration'.

In the opinion of Company X's Planning Manager (interview February 1980) the introduction of formal planning did not arouse a considerable degree of internal opposition mainly because it was introduced in a 'piecemeal' fashion and more importantly because all those who were to play a key role in the planning process had been fully consulted prior to its consolidation. The Chief Executive of the 'Steel and Engineering' Group for example, had expressed his doubts in relation to the potential usefulness of a formal planning system. In his opinion, this would ensure that channels of communication between the Head Office and the operating companies would be lengthened and the latter would have to cope with extra paperwork which in the long-run was likely to restrict their autonomy. However, as the Planning Manager was keen to point out, the complete support of the 'Chairman' and the 'Chief Executive' for a formal planning system proved to be a crucial factor in influencing the attitude of the 'dissenting' voices amongst the chief executives of the operating companies.

Our design framework does not propose a method for dealing with organizational problems which are likely to accompany the introduction of a formal planning system. It provides a checklist of factors which need to be taken into account in order to assess the firm's planning requirements. Our fourteen propositions provide an indication of the way in which these planning needs can be catered for by the incorporation of certain capabilities in the planning system. One of the practical contributions of the proposed design framework is that it can speed up the design process by providing such a checklist. These and related issues will be explored further in the concluding chapter.

Footnote

- [1] The Group is referred to as 'Company X' in order to preserve anonymity at the request of its senior management.

Chapter 12

CONCLUSIONS

The present research was undertaken in order to explore the nature of association/interrelationship between situational factors and specific features of corporate planning systems. It was therefore necessary to identify those situational factors likely to have determined the planning needs of the investigated companies and which had subsequently characterized their corporate planning systems. In the pursuit of this objective, corporate planning systems of fourteen large, U.K.-based companies were studied on the basis of five dimensions:

- i) the specific set of circumstances which prompted their establishment and initial development
- ii) role of planning and existing responsibilities of the corporate planning departments
- iii) the organization and structure of corporate planning departments, the reporting relationship of the most senior staff planner and the extent of formalized planning at the divisions
- iv) types of plans developed and their time-horizon
- v) the planning process.

An attempt was subsequently made to identify specific situational factors which had determined the planning needs

of the companies and subsequently influenced their planning capabilities. This was conducted through a number of interviews with senior managers in charge of the corporate planning departments. The information obtained by means of these interviews as well as published sources was more detailed in four companies, especially in relation to their situational settings. These were presented as separate case studies.

On the basis of these findings, fourteen propositions were advanced in order to explain the nature of association between situational factors and characteristics of corporate planning systems. These form the basis of a 'design framework' which was proposed in order to expedite the systematic design of corporate planning systems in different types of setting. An attempt was made to encapsulate the findings of the study into this design framework. Finally, the manner in which this can be used in specific situations was illustrated in a Midland-based engineering company, whose Planning Manager was in the process of developing a corporate planning system during the period of the field study.

12.1 Summary of major findings

Corporate planning systems in the fourteen companies were initially set up in response to a number of factors. These were:

- 1) increasing environmental 'complexity and turbulence': this highlighted the need for a central information department which would monitor external developments of strategic significance;
- 2) increasing diversity of the firm's product/market portfolio which highlighted the need for systematic

generation and evaluation of information concerning the present position and future strategies of the divisions/operating companies;

- 3) deterioration in the firm's profitability and/or maturity of its existing product/market sectors which emphasized the need for an evaluation of its existing portfolio and the search for new strategic options likely to enhance its future growth potential;
- 4) in three specific instances (British Leyland, Fisons and Reed International) the appointment of a new Chairman/Chief Executive led to the establishment of corporate planning systems.

The specific role of formalized planning and responsibilities of the planning staff at the time of the field study appeared to be associated with these needs. Firstly, planning systems are used in order to facilitate the 'adaptation' of the firm's strategic posture to the opportunities and threats present in the environment. This task is conducted in the following manner:

- corporate planning staff monitor external developments of strategic significance to the firm, thus providing a central information service;
- on the basis of this information, a range of contrasting strategic scenarios are developed by the staff planners. These are subsequently used

by the divisions/operating companies during the process of 'plan formulation' as is the case at Shell;

- corporate planning departments provide the services of an 'internal consultancy' undertaking special studies of strategic significance. In this respect the planning staff assist the firm's senior management in their search for diversification/expansion opportunities.

Secondly, corporate planning departments perform an 'integrative' task, facilitating communication and flow of information between the centre and the divisions/operating companies. The planning staff co-ordinate the divisional planning effort, specify the information requirements of the 'head office' and review and consolidate the divisional plans for subsequent presentation to senior corporate management. The divisional plans and information on external developments provide the basis for the formulation of an overall group strategy.

Thirdly, corporate planning systems are used as a central 'control mechanism' in order to monitor the performance of the divisions and their progress toward the accomplishment of strategic priorities. Corporate planning staff evaluate the divisional strategic plans and capital expenditure proposals which are subsequently used for the purpose of 'resource allocation'.

Corporate planning departments are also used as a training ground for the purpose of management development in the larger companies [such as Shell, ICI] in our sample. By working in the corporate planning departments, the managers of the divisions/operating companies are exposed to the variety of factors which are likely to influence the firm's strategic development from a corporate perspective. Furthermore, by taking part in the formal planning process divisional managers are encouraged to think strategically and adopt a longer-term outlook.

Our findings concerning the role of corporate planning are consistent with those of previous studies, namely that:

- formalized corporate planning facilitates the firm's adaptation to the opportunities and threats present in the environment [Gilmore & Brandenburg 1962, Ansoff 1965, Ackoff 1970, Grinyer 1971, Malm 1975, Vancil & Lorange 1977, Lorange 1980];
- it provides a basis for the allocation of corporate resources and control of the strategic direction of the divisions [Anthony 1965, Bower 1970, Lorange 1980];
- corporate planning is used for 'integrative' purposes. The planning staff evaluate and consolidate the divisional plans thereby enhancing the flow of information between the centre and the divisions [Warren 1966, Steiner 1969, Lawrence & Lorsch 1967];

- it encourages the adoption of a systematic approach to management development [Ansoff 1976, Lorange 1980].

There was some variation concerning the degree of emphasis placed on the three planning functions of adaptation, integration and control. In BL, Fisons, Shell, Reed and ICI for example, the respondents emphasized the importance attached to all three planning tasks. In Lex Service Group and Lucas, emphasis was primarily placed on 'adaptation'; in Cadbury/Schweppes and Serck on 'integration' and in L.C.P. Holdings, Dunlop, Redland and Albright & Wilson, formal corporate planning was primarily used to control the strategic direction of the divisions through the 'resource allocation process'.

The respondents identified a number of factors which had determined their planning needs and had subsequently characterized the functional orientation of their corporate planning systems. These were:

- the 'diversity' of its product/market portfolio
- the 'complexity' of the firm's environment
- its associated degree of 'volatility/uncertainty'
- the 'maturity' of its product/market portfolio
- its organizational structure
- the attitude of its senior management toward formal corporate planning.

The components of each of these factors were specified. For example, environmental complexity is determined on the basis of number of 'sectors' in which the firm is actively

engaged, number of markets in which it operates and range of macro-environmental factors of strategic significance. The 'diversity' of a firm's business and geographic portfolio is determined on the basis of number of its identifiably separate business sectors, extent of inter-unit transactions, number of geographic regions in which the firm is active and their associated degree of homogeneity/heterogeneity.

An attempt was made to synthesize information derived from the study into seven propositions based on the reported interlinkages between situational factors and the functional orientation of corporate planning systems. These are as follows:

- I The more 'complex' the firm's environmental setting, the greater the degree of emphasis placed on the 'adaptation' role of corporate planning.
- II The more 'volatile/turbulent' the firm's environmental setting, the greater the emphasis placed on the 'adaptation' role of corporate planning.
- III The higher the level of 'maturity' of a firm's product/market portfolio, the greater the degree of emphasis placed on the 'adaptation' role of corporate planning.

- IV The more 'diversified' the firm's business and geographic portfolio, the greater the degree of emphasis placed on the 'integration' role of corporate planning.
- V The more decentralized the firm's organizational structure, the greater the degree of emphasis placed on the 'integration' role of corporate planning.
- VI The more decentralized the firm's organizational structure, the greater the degree of emphasis placed on the role of a corporate planning system as a 'control' mechanism.
- VII The functional orientation of a corporate planning system is influenced by the attitude of the firm's senior management (particularly the Chairman and Chief Executive) and their degree of commitment and support for planning.

These were elaborated in greater detail in Chapter 10, Section 10.1.4.

The second dimension used for studying the fourteen corporate planning systems was the structure and organization of the corporate planning departments, reporting relationship of the most senior planner and extent of formalized planning at the divisions/operating companies. This varied

considerably from a 'one-man corporate planning' department working in close collaboration with the Chief Executive and no planning department at the divisions as was the case at Serck, to large, multi-unit corporate planning departments in addition to divisional planning departments as in the case of BL, Fisons, Shell and ICI. There were more planning staff undertaking a wider range of functions in those companies where they had been in use for a considerable period of time.

Two situational factors appear to be associated with this aspect of corporate planning systems in our sample of fourteen companies:

- role of planning and specific responsibilities of the corporate planning departments seem to be associated with the number of sub-units comprising the departments, number of planning staff and the reporting relationship of the most senior planner. Attitude of senior management toward planning also seems to be associated with the status of the chief planner and his membership of the Main Board and major committees;
- the firm's organizational structure, size and complexity of the divisions seems to be associated with the extent of formal planning and the use of separate divisional planning departments at the divisions.

Three propositions were put forward in order to elaborate on the association between these situational factors, the reporting relationship of the senior staff planner and the use of separate planning departments at the divisions:

- VIII The more decentralized the firm's organizational structure, the larger the size of the divisions and the more complex the nature of their tasks, the greater the need for a 'differentiated' planning system with separate divisional planning departments.
- IX The more strategic the functional orientation of the corporate planning department's responsibilities [i.e. emphasis on adaptation and integration], the closer the reporting relationship of the senior staff planner to senior corporate management.
- X The more 'control-oriented' the functional emphasis of the corporate planning department's responsibilities, the greater the need for close liaison with members of the Group Finance Department.

Written plans are developed by the divisions/operating companies of all fourteen firms. Apart from 'annual budgets' which specify their working capital requirements and are dealt with by the Group Finance Departments, three to five-year

strategic plans are also developed by the divisions/operating companies. These provide a network of information on the divisions' operating environments, their existing positions, future strategic intentions and capital expenditure requirements. In companies such as L.C.P. Holdings, Dunlop, Redland and Albright & Wilson, where the purpose of corporate planning was to control the strategic direction of the divisions through the allocation of resources, written plans are highly quantitative, mainly dealing with financial information. Others such as 'Fisons' strategy documents' are qualitative statements on the future strategic intentions of the divisions and likely environmental pressures.

The time-horizon adopted for planning purposes appears to be associated with the extent of the firms' involvement in technologically-dynamic industries, the complexity and capital intensity of their operations and lead times associated with their particular activities/industries. Most of the fourteen firms in our sample use a three to five-year planning horizon. In some such as Shell and ICI, strategic intentions are also spelled out over a ten-year period.

Three propositions were advanced in order to elaborate on the association between situational factors, types of written plans and their time-horizon. These are as follows:

XI If the main role of the corporate planning system is to control the strategic direction of the divisions/operating companies through

the allocation of funds, and to monitor their performance, the 'written plans' will be of a 'financial' nature.

XII If the firm is active in 'technologically-dynamic industries, the time-horizon adopted for planning purposes is likely to be longer.

XIII The more capital intensive the firm's business portfolio, the longer the time-horizon adopted for planning purposes.

All fourteen companies had a formal process which specifies the timetable and different stages of the planning activity. The respondents expressed the view that a formal planning process is necessary in large and decentralized organizations if information is to be generated in a systematic and consistent manner. The formal planning process enables the divisional chief executives to reflect upon their strategic setting and to communicate and discuss these with senior corporate management. The planning process in the main comprises four interrelated stages:

- specifying the type of information which is to be incorporated in the plans. This is the responsibility of the corporate planning staff;
- generation and development of plans by the management of the divisions/operating companies;

- review, evaluation and consolidation of the divisional plans by the corporate planning staff. During this stage, the plans are generally sent back to the divisions for further modification;
- discussion and approval of plans in corporate committees comprising senior corporate and divisional management.

The strategies specified in the plans are subsequently implemented/rejected through the allocation of resources. This process is 'iterative' and involves continuous dialogue between the corporate planning staff and the divisions. The nature and frequency of contact between the centre and the divisions varies in the fourteen companies. In Redland for example, there is a monthly meeting between the Corporate Planning Manager, Chief Accountant and the chief executives of the operating companies in order to review their performance. In Reed International, there is an annual 'planning conference' during the course of which significant strategic developments are discussed between the corporate and divisional executives. As indicated in Proposition XIV, a formal planning process is necessary for the systematic generation and discussion of strategic information in large, decentralized organizations with a multiplicity of business units operating in different parts of the world.

These findings have been used as a basis for the development of a 'design framework' which was outlined in Section 10.2. The framework specifies the components of a firm's situational setting (such as its strategic development, specific features of its 'industry' environment and

organizational structure), outlines those factors which need to be taken into account in order to determine the planning 'needs' of a firm [such as the complexity and volatility of its environment, maturity of its businesses, diversity of its portfolio, attitude of its senior management toward formalized planning] and subsequently incorporates the fourteen propositions as 'tentative design guidelines' in order to explain the way in which these needs can be catered for by the inclusion of specific capabilities in the corporate planning system. For example, if the firm operates in a complex and volatile environment, there is a need to emphasize the 'adaptation' role of planning in terms of providing an information centre which can monitor external developments of strategic significance. The use of this framework was illustrated in a Midland-based engineering company whose Planning Manager was in the process of developing a corporate planning system during the period of the field study. The recommendations which were made by the writer on the basis of using the design framework were subsequently compared with the characteristics of the corporate planning system devised by its Planning Manager. These recommendations were similar to the characteristics of the adopted corporate planning system, differing as far as the planning process was concerned. The writer had arrived at the conclusions that frequent meetings should be incorporated in the planning process so that issues of strategic significance could be discussed between the senior corporate and divisional management. This was considered to be necessary due to the decentralized

and 'holding company' nature of its organizational structure with a large number of autonomous operating companies. The Planning Manager had subsequently recognized the need for more frequent meetings and incorporated a number of 'strategic review' meetings in the planning process.

The 'design framework' was found to be of value for specifying the broad and formal features of the corporate planning system, such as its functional orientation, size of the planning department and reporting relationship of the senior planner, time-horizon adopted for planning purposes and the planning process. It can therefore speed up the design of such systems by providing a checklist of factors which need to be taken into account in order to ascertain the planning needs of a firm and subsequently determine its desired planning capabilities.

12.2 Implications for the design of corporate planning systems

As Ansoff [1977: 20] comments:

' ... today in anticipation of previously-noted shortcomings and sources of resistance, introduction of planning is increasingly preceded by a diagnosis of the 'planning readiness' of the firm. An important step is to answer that the proposed system is capable of treating the problems and challenges that management wishes to address'.

The proposed 'design framework' can therefore be used in order to evaluate the planning requirements and needs of the firm. The propositions which were advanced in order to explain the interlinkages between situational factors and characteristics of corporate planning systems can be used as tentative design guidelines in order to determine the planning capabilities likely to cater for these needs. The framework however, does not address the question of how the firm's cultural norms and internal politics can be taken into account during the design process.

All enterprises adopt a style of operating and accepted ways of functioning. Edwards [1977: 14] has argued that in some organizations, the established persona of the enterprise is sufficiently ingrained through tradition, habit, custom or reactive capacity to pinpoint a distinctive corporate style and that studies dealing with the process of strategy-formulation should take account of the inner nature of the enterprise. The designer of a corporate planning system needs to evaluate how critical or significant is the style of the

enterprise, how to use its advantageous characteristics, minimize its drawbacks and how to heighten the sensitivity that a well-developed corporate style can bring to perceptions of future opportunity.

Corporate style and culture of an enterprise is defined by Edwards [1977: 16] as: 'the distinctiveness of character and operating methodology that gives an enterprise a personality uniquely its own'. However, according to Edwards, although most people in the organization are aware of its culture and style, many will find it difficult to describe in such a way that is analytically useful. It can be argued that such insight can only be gained if the researcher spends a considerable amount of time in the organization as an 'in-house consultant' [Malm 1975] or as a practising manager. Since this was not possible for the purpose of the present study, the 'design framework' is not equipped to handle these issues. For example, it does not predict how the planning system is likely to fit in with the firm's 'cultural, political and social' sub-systems. There is an inherent risk that the dynamics of the social system might come into conflict with the planning system itself. Managers could lose their enthusiasm, consider planning to be a meaningless ritual and the written plans as desk products, bearing no relevance to the critical issues with which they are confronted on a daily basis.

Malm's [1975] 'Process Diagnostic Design Principle' might be of value since it is based on the assumption that

certain aspects of the planning system which are efficient in one time period, might be dysfunctional in the next, because of the dynamics or learning effects in the social system as well as the changes likely to have influenced the firm's situational setting, thereby altering its planning needs. This raises the question of managing the evolution of the planning system over time which has been articulated by Newman [1971-72], Greiner [1972], Ansoff, Declerck & Hayes [1976], Janstsch & Waddington [1976], Hedberg, Nystrom & Starbuck [1977], Malm [1977], Schein [1977], Zaltman & Duncan [1977] and Lorange [1980]. They argue that there is a need to up-date the design of planning systems in order to facilitate the development of new planning capabilities which are likely to meet the emerging needs. Although it would be ideal to have a continuous process of improvement and incremental up-dating of corporate planning systems, as Lorange [1980: 249] comments:

' ... Given the high cost of such major overhauls [of the planning system], not only in money terms but also in terms of the disruption they might cause in the managerial strategic process, it seems clear that too frequent major changes in the planning process should not become the norm'.

12.3 Limitations of the study

It seems pertinent at this juncture to reflect upon the limitations of the present study. The point has been made already that the design framework developed on the basis of our findings does not address the question of the way in which the planning system is likely to fit in with the firm's cultural norms and internal political situation. It can be used to determine the firm's planning needs and point towards the types of capabilities likely to cater for these needs.

A further criticism likely to be raised is related to methodological issues: the size of our sample, differences in the level of detail incorporated in the four main case-studies as opposed to the ten mini case-studies and problems associated with interviewees' biases and perceptions. It would have been preferable if all fourteen cases could have been compiled in considerable depth and interviews held with a range of people involved in the planning process, such as the chief executives of the divisions/operating companies and the Group Chairmen/Chief Executives. Our findings concerning the interlinkages between situational factors and characteristics of corporate planning systems are derived from interviews arranged with corporate planning managers and those working in planning departments. The problems of gaining access to the companies and securing sufficient information have already been elaborated in Chapter 4 and will therefore not be repeated here. This study is exploratory in nature, attempting to report on the characteristics of

corporate planning systems already in use and the manner in which they have been developed in response to specific needs over time. Our objective is to enhance an understanding of the overall features of such systems and to cite the respondents' opinions concerning the situational factors which had determined their planning needs and subsequently influenced and characterized their planning capabilities. A number of propositions have been put forward which encapsulate our findings. It is hoped that the validity of these will be tested in future studies, using a larger sample of companies.

Moreover, no attempt was made to evaluate the 'match' between these corporate planning systems and the companies' planning needs. It was beyond the scope of this study to determine whether the planning systems which were studied actually did cater for the specific needs of the companies or whether there was a 'mis-match'. It was felt that once we have enhanced our understanding of situational factors likely to determine such needs, we are in a better position to explore the way in which a specific corporate planning system might/might not cater for them. The present study could therefore be built upon in order to expedite such an evaluation. This is also related to the question of how corporate planning systems actually function in practice (as opposed to how they are 'supposed' to function). Our cases are based on the characteristics of corporate planning systems as reported by the planning managers interviewed during the course of the study. In order to be in a position to find out how these actually work in practice, it would have been

necessary to observe the workings of the system from inside the companies and/or to have interviewed a large number of people involved in various stages of the planning activity. As explained already, it was not possible to canvass the views of a large number of people or to observe the process from inside. Even if this had been possible, it is unlikely that the respondents would have been willing to articulate their views to an outsider. It would be possible to gain such an insight by working in the organization as an in-house consultant and/or as a practising manager.

The argument can be raised that we should have only examined corporate planning systems of successful companies since these are more likely to have catered for their needs. However, how can one be sure that a firm's success and profitability can be attributed to effective corporate planning systems? It can be an outcome of sound managerial judgement, opportunistic insight, involvement in growth-oriented business sectors and sheer luck. A number of companies studied during the course of the present study [such as Shell and Reed International] are acknowledged to have sound planning systems as articulated by Lorenz in the Financial Times [7 November 1979, 21 July 1980]. This however, does not imply that the planning system used at Shell can be applicable to other types of corporate setting, even those that operate in highly complex and volatile environments. In order to gain a better understanding of the complex range of factors likely to determine the planning

needs and capabilities of a firm, it was considered necessary to study systems used in different types of setting. The present study attempts to enhance an understanding of these issues by examining the way in which such systems have been developed over time and in response to specific sets of factors. Further studies are therefore needed in order to evaluate the way in which such systems actually influence the firm's decision-making processes and their impact upon the firm's adaptation to its environment.

12.4 Suggestions for future research

It is hoped that this study has contributed to the development of theory in the field of 'corporate planning systems'. It was with this aim in mind that corporate planning systems of fourteen companies were studied in order to explore interlinkages between such systems and specific situational factors. The ground has been prepared to ascertain the validity of our findings and propositions in future studies employing larger samples of companies.

Secondly, the 'design framework' which has been developed on the basis of our findings should be built upon in future studies in order to take account of the firm's prevailing cultural norms and political and social pressures. It would be useful to take account of studies on 'multiple goal structures of organizations' [such as Simon 1964 and Georgiou 1973], 'politics of strategic decisions [Zelevnik 1970, Bauer & Gergen 1968, Pettigrew 1972], 'executive bargaining and negotiation processes' [Cyert & March 1963, Carter 1971, Miles & Snow 1978] and 'the role of coalition groups' [Riker 1962, Guth 1976]. It would be interesting to gain such an insight by observing the process from inside the organization. The researcher can work as an 'in-house consultant' or a practising manager and observe the way in which introduction of a corporate planning system affects the internal politics of the organization, composition of major coalition groups and the decision-making process.

A number of points were raised during the course of the study which impinge upon issues of broader strategic significance . The Planning Manager of Serck [interview January 1981] for example, pointed out that the 'structure of financing' in the U.K. is likely to have an impact on the attitude of senior management toward long-term planning. In contrast to the situation in Germany and Japan [where industry is financed through long-term loans], U.K. companies have traditionally raised their capital through 'equity' finance. There is therefore a greater tendency to adopt a short-term strategic outlook, especially in smaller companies which are likely to feel vulnerable to potential takeover bids. The recent trend toward the provision of long-term loans by banks and other financial institutions is likely to enhance the adoption of a longer-term strategic outlook and reduce the degree of financial uncertainty with which the firm has to cope.

This level of uncertainty has been further compounded due to lack of initiative on the part of successive U.K. Governments to develop a long-term industrial strategy which would be adhered to by the two main political parties. A number of the planning managers expressed the view that this situation is also not conducive to the adoption of a long-term strategic outlook. Having examined the experience of Government planning in the U.K., Michael Shanks [1977: 105] makes the following observation:

' ... no large organization, least of all a Government which has to commit resources far into the future, can afford not to seek to develop a strategy for the best use of its resources. A greater degree of certainty concerning the Government's long-term industrial strategy would enhance the use and effectiveness of planning in other British companies'.

Institutions such as 'National Economic Development Office' are likely to expedite the formulation of a long-term industrial strategy by providing a forum where industrialists, bankers, trade unionists and the Government can discuss the country's long-term industrial development and arrive at the required degree of consensus concerning a blueprint for action.

The changing nature of the global setting, the inter-relationship between the industrialized and the Third World countries, political significance of raw materials producers (such as OPEC), impact of new technologies and the likely transformation of the pattern of work and leisure point to a complex and interdependent network of relationships likely to characterize the future. The notion of the 'legitimacy of the firm' is also coming under close scrutiny. Consumer pressures of the 1960s and the notion of 'social responsibility' which gathered momentum in the 1970s have altered the position of the private firm. In these conditions, there is a need to keep up with and respond to environmental pressures since as Lorange (1980: 284) puts it:

' ... today more than ever there seems to be a survival of the fittest'.

Challenges facing formalized planning need to be viewed in a dual perspective. On the one hand it should enable the firm to adapt to opportunities and threats present in the environment; it should also facilitate the handling of 'integrative' challenges facing the firm. These should facilitate the allocation of resources on the basis of a coherent strategy which would develop a better sense of direction and provide an early sensitivity to problem areas.

In recent years however, there has been an increasing chorus of discontent concerning corporate planning. Many managers are concerned that despite elaborate planning systems, most important strategic decisions seem to be made outside the formal planning structure, even in organizations with well-accepted planning cultures [Quinn 1980a]. Although individual staff planners might identify potential problems and develop management's awareness of them during interim discussions and presentations, the actual planning process itself is rarely the initiating source of new corporate issues or radical departures into entirely different product/market sectors. As Quinn's [1980a:17] studies have indicated:

'Formal annual planning was typically merely the point at which earlier strategic decisions were confirmed - in the guidelines or instructions issued from the top or in the goals negotiated with subordinate groups'.

Due to the changing environment of the firm, it seems reasonable to expect that the need to develop coherent strategies in the light of fullest possible range of

information will be of crucial significance in the future. A corporate planning system will increasingly become a tool that senior management can use to influence the strategic direction of the firm. The challenge confronting academics and practitioners alike concerns the issue of how to develop corporate planning systems which are likely to cater for the firm's specific needs; how such systems can be used effectively in order to develop strategies which integrate the firm's major goals, policies and action programmes into a cohesive whole; how this can help marshal and allocate resources which result in the adoption of a viable strategic posture based upon its competences and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents. Corporate planning systems might become a distinctive competitive advantage to those companies which are able to develop effective systems.

An attempt was made in this study to survey current planning systems and to enhance our understanding of factors likely to influence the firm's planning needs and capabilities. These findings however, have not resulted in the development of a 'blueprint' which can be used to devise effective corporate planning systems in different types of setting. Each setting is unique and subject to a conflux of multi-variate influences which are likely to determine its planning needs. The propositions put forward in this study attempt to encapsulate potential interlinkages between situational factors and corporate planning systems.

It is hoped that these findings will be tested in future studies and extended further so that they can be used to develop corporate planning systems which can help the firm adjust to the new and complex challenges with which it is being confronted.

A P P E N D I C E S

THE UNIVERSITY
OF ASTON
MANAGEMENT CENTRE

Date as postmark

158 Corporation Street, Birmingham B4 6TE
Telephone: 021.359 3611 Ex6289

MC/HB/SIB

Dear

I am currently undertaking a piece of research concerned with 'Corporate Planning Practice' in manufacturing industry. Briefly, I intend to compare the different approaches employed and their relative success.

I would very much appreciate an opportunity to discuss how corporate planning is undertaken in your organisation.

Looking forward to hearing from you,

Yours sincerely

Homa Bahrami (Miss)

APPENDIX 2

Interview Schedule

- 1) Questions concerning the firm's 'situational setting':
 - i) Can you elaborate upon the 'historical development' of your Company, including major strategic moves and diversification ventures?
 - ii) On what basis is your Company structured?
 - iii) How would you summarize the important characteristics of 'industry[ies]' in which you are active in terms of:
 - a) competitors
 - b) importance of other sources of supply
 - c) marketing intermediaries
 - d) characteristics of your major market(s)
 - iv) Would you consider your main markets to be in growth-oriented, stable, mature or declining sectors?
 - v) What are your important geographic markets?
 - vi) What is the importance of 'technology' for your main business activities in terms of its impact upon:
 - a) product development
 - b) process machinery
 - vii) How 'capital intensive' do you consider your businesses to be?

viii) How would you describe the characteristics and management style of your Chairman and Chief Executive?

ix) What are 'critical success factors' in your industries?

Due to the limited number of interviews held with the planning managers of the ten companies which are presented as mini case-studies, the interview schedule concerning the 'situational setting' was mainly used for the purpose of compiling an information base on the four companies which were investigated in greater detail. In the ten other companies, published material was mainly used for compiling a profile of their situational settings.

2) Questions concerning the 'corporate planning system':

- i) When was a Corporate Planning Department initially set up in your Company?
- ii) What specific set of circumstances led to its initial establishment?
- iii) Can you explain its evolution over this period?
(i.e. since its initial development)
- iv) What are the specific responsibilities of the Corporate Planning Department?
- v) How is the Department structured? What are its main sub-units (if any) and what is the nature of their responsibilities?

- vi) How many 'staff planners' are employed in the Corporate Planning Department?
 - vii) What is the position of the person in charge of the Corporate Planning Department? Who does he report to?
 - viii) Is the Planning Manager/Director a member of the Main Board and major policy-making committees?
 - ix) Are there separate planning departments at the divisional level?
 - x) What are the 'written plans' developed in your Company?
 - xi) What type of information do they incorporate and what are they used for?
 - xii) Do you have a formal planning cycle/timetable? If so, what are its different stages?
- 3) Questions concerning the nature of association/inter-relationship between situational factors and the corporate planning system:
- i) Can you look at this table [Table 1 in Volume I] and identify specific factors (such as strategic development of your Company, characteristics of senior management, etc.) likely to have influenced the development of your corporate planning system in terms of its initial development, existing range of functions, its structure and organization, types of plans developed and the planning process?

- ii) Why do you think members of the Corporate Planning Department are specifically responsible for these ... tasks? What factors are likely to have determined the planning 'needs' of your Company?
- iii) Why do you [if the senior person in charge of the Planning Department is being interviewed] report to the ...?
- iv) Why is there a need for separate planning departments at the divisions [if any]?
- v) Why do you have these particular types of 'written plans'? What factors are likely to influence the adoption of a - year time-horizon for planning purposes?
- vi) Why is there a need for a formal planning process?

APPENDIX 3

Revised framework for describing the firm's 'situational setting'
in the context of comments received from five of the planning
managers interviewed during the course of the study; these were:

- Manager of the divisional 'Business Planning Department':
'Light and Medium Cars' British Leyland
- Group Strategic Planning Manager: Fisons
- Group International Planning Co-ordinator: Cadbury/
Schweppes
- Group Corporate Development Manager: Serck
- Planning Manager: Company X.

New additions to the revised framework are underlined.

1) External environment:

- i) macro-economic influences
- ii) political influences
- iii) social influences
- iv) technological influences
- v) legal and legislative influences
- vi) consumer pressure

2) Industry environment:

- i) competition:
 - a) entry barriers in terms of economies of scale,
product differentiation, degree of product
differentiation and capital requirements

- b) prime determinant(s) of attractiveness or otherwise
- c) number of competitors and their market share
- d) distribution of market shares

- ii) suppliers profile:
 - a) strategic significance of raw materials and/or finished components, constituting an important source of supply for the firm
 - b) degree of supplier concentration
 - c) extent of dependence on single suppliers
- iii) marketing intermediary and its strategic significance
- iv) the market:
 - a) relative bargaining position and special features of the firm's main customer groups
 - b) type, number and size of market sectors
 - c) geographic diversity of its existing markets and extent of dependence on different markets
 - d) the relative maturity of its market(s) and likely growth prospects
 - e) relative market share of the company
 - f) growth and profitability of the 'industry(ies)'
- v) technological influences:

- a) likely impact of technological developments in terms of introduction of new products and their impact on 'production processes'
 - b) impact of technology on capital investment programmes and adopted time-horizons for planning purposes
- 3) Internal environment:
- i) strategic development including major diversification moves and expansion into different geographic markets
 - ii) organizational structure including number and size of divisions/operating units, nature of their businesses and their relative contribution; extent of inter-divisional transactions and range of H.Q. services
 - iii) composition and characteristics of senior management
 - iv) historical performance of the Company:
 - a) growth of turnover and profits of the Group and its constituent divisions over a ten-year period
 - b) geographic distribution of turnover and profits
 - c) capital structure in terms of debt/equity ratio
 - d) rate of return on capital employed
 - e) cash flow situation

v) internal mechanisms used for:

a) co-ordination of the divisional activities

b) control of the divisional activities

vi) reward (compensation) system for:

a) corporate executives

b) divisional executives

APPENDIX 4

'Simple Contingency Tables' indicating the interrelationships between specific situational factors and the degree of emphasis placed on the planning functions of adaptation, integration and control in the sample of fourteen companies (see Table 35 in Volume II).

Emphasis on 'adaptation'

		High	Medium	Low
Degree of environmental 'complexity'	High	4	2	0
	Med.	2	3	1
	Low	0	0	2

Emphasis on 'adaptation'

		High	Medium	Low
Degree of environmental 'volatility'	High	4	1	0
	Med.	2	4	2
	Low	0	0	1

Emphasis on 'adaptation'

		High	Medium	Low
Degree of market 'maturity'	High	3	3	1
	Med.	4	2	1
	Low	0	0	0

Emphasis on 'integration'

		High	Medium	Low
Degree of geographic business 'diversity'	High	3	1	0
	Med.	3	4	0
	Low	1	2	0

Emphasis on 'integration'

		High	Medium	Low
organizational structure	Centralized	0	0	0
	Decentralized	7	7	0

Emphasis on 'control'

		High	Medium	Low
organizational structure	Centralized	0	0	0
	Decentralized	8	3	3

Xi's strategic development

This Company was formed in 1939 through a merger between two companies manufacturing 'copper tubes and fittings' and 'lead sheet and pipes' [the former being established in 1921 and the latter in 1890].

1941 Company Xi was made public.

A number of acquisitions made throughout the following two decades included:

1953 a manufacturer of steel products

1954 a manufacturer of steel flooring, steel hand-rails, steel stairways and fabrications

1957 re-rollers of hot rolled steel, carbon and alloys

1965 a 'stockist of screwed products', thus entering the field of distribution of steel goods

1966 a manufacturer of welded stainless steel and nickel alloy tubes

1967 Xi consolidated its 'fastenings business' by merging two of its companies and establishing its 'Fastenings Sector'.

Xii's strategic development

This Company was originally founded in 1929, as a result of a series of mergers between small manufacturers of 'cast iron products'. During the ensuing period, Xii acquired a number of smaller companies in order to expand the scope of its activities. These included:

1936 a manufacturer of cookers, domestic and commercial boilers, room heaters and open fires.

1955 a manufacturer of kitchen products (e.g. sinks and hand basins, steel and glass fibre baths, etc.) and gas cookers and fires

1959 four companies whose areas of business activity covered the following:

light iron castings

bath manufacturing and enamel ware products

iron foundry

chemical waste drainage systems and

fabrications, injection mouldings and

vacuum forming

1964 a plastics manufacturing company and a building products manufacturer

1968 a wholesale supplier to retail chemists.

Company X's strategic development

1969 Xi acquired Xii, forming X.

1970 X acquired a 'steel distribution' outlet.

1971 This year was significant for X, since it acquired six companies manufacturing:

- i) automotive trim, machined components and railway track insulations [established 1880]
- ii) plastic fabrications [established 1961]
- iii) hot-rolled steel strip, cold-rolled flats and bright drawn steel bars, rods and flats [established 1895]
- iv) semi-tubular rivets and masonry nails and cable clips [established 1890]
- v) iron castings.

1972 X acquired four companies: two stockholders and processors of steel sheet, steel bars, sections and stainless steel [established 1872 and 1909] and two manufacturers of gas cookers and fires [established 1939].

1973 X acquired two companies:

- i) steel stockholders of bright, carbon and alloy steel bars [established 1923]
- ii) re-rollers of hot-rolled steel, carbon and alloys [established 1945].

1974 X acquired three companies operating as stockists of bearings, chains and sprockets.

1975 X acquired a manufacturer of high strength friction grip bolts, load indicator washers, rivets, split cotter pins, railway, mining and construction bolts, standard and high tensile bolts and nuts.

1977 X acquired two companies:

- i) manufacturers of cold-rolled steel strips
- ii) manufacturers of electronic controls for domestic and industrial applications.

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