DESIGN OF CORPORATE PLANNING SYSTEMS

(VOLUMES I AND II)

VOLUME I

Exploring the interrelationship between situational factors and characteristics of corporate planning systems in fourteen large, U.K.-based companies

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ABSTRACT

This thesis reports on a study which examines characteristics of existing corporate planning systems in order to identify specific situational factors likely to have influenced their development. In this context, corporate planning systems of fourteen large, U.K.-based companies have been studied on the basis of: their initial development, existing range of functions, structure and organization of the planning departments, types of plans developed and the planning process. Situational settings and corporate planning systems of the investigated companies are described on a case-study basis; this is followed by an exploratory investigation of the nature of association between situational factors and characteristics of such systems, based on a number of interviews held with senior managers in charge of their corporate planning departments. Four companies [BL, Fisons, Cadbury/Schweppes and L.C.P. Holdings] which have been studied in greater detail, are presented as separate case-studies.

A 'design framework' is subsequently proposed in Volume II, incorporating the main findings of the study. Fourteen propositions are put forward in order to explain the possible interrelationship between situational factors and corporate planning systems. These explain the manner in which specific situational factors such as environmental complexity and volatility, market maturity, product and geographic diversity, organizational structure and attitudes of senior management, are likely to influence the functional orientation of a corporate planning system [in terms of the degree of emphasis placed on the 'adaptation', 'integration' and 'control' roles of planning]. The use of the framework for designing 'tailor-made' corporate planning systems is illustrated in a U.K.-based engineering company whose Planning Manager was in the process of developing such a system during the course of this research. This framework was found to be useful for providing a systematic analysis of the firm's situational setting, identifying its planning needs and specifying the appropriate capabilities likely to cater for these needs. It was however inadequate for examining social and political forces within the firm and their impact upon the introduction of a corporate planning system.

Key words: situational, design, corporate planning system.

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Chapter 1

INTRODUCTION

The objective of this study is to explore the nature of association between situational factors and characteristics of corporate planning systems. With this objective in mind, situational settings and corporate planning systems of fourteen large, U.K.-based companies have been investigated on a case-study basis. Our findings concerning the nature of these associations are subsequently incorporated into fourteen propositions which form the basis of a 'design framework'. This is proposed in order to facilitate the systematic design of corporate planning systems in different types of firms. The practical use of this framework for designing such systems is finally illustrated by referring to the case of a Midland-based engineering company.

The environment within which companies now operate is complex and rapidly-changing. The period following World War II was characterized by general stability and only gradual change in global political conditions. Inflation was not considered to be a major problem; increased levels of disposable income were anticipated; business growth was perceived as desirable and investment funds were readily available from low-cost borrowing. As a result of this favourable climate, firms grew rapidly and gradually became diversified, both by product-line and geography [Channon 1973].

The favourable climate of the 1950s and 1960s however, has been transformed mainly as a consequence of the traumatic shock of the 'Oil Crisis' and subsequent environmental discontinuities. There is an increasing pressure to cope with uncertainties which have been compounded by the intensity of competition [especially from the Third World countries], government regulations and the growing politicisation of relationships with customers and suppliers [Ansoff 1980a].

It is now realized that resources are finite leading to enforced shortages with associated strategic implications; inflation combined with exchange rate oscillation has had a profound impact on corporate profitability. Moreover, in these circumstances, share price is no longer solely determined by 'earnings per share' but rather cash flow, liquidity, strategic positioning and technology portfolios all play their part in determining corporate long-term success. Unmitigated growth has given way to a 'selective optic' emphasizing the growth potential of specific business sectors rather than the corporation as a whole. As a result of these considerations, it is evident that the past is no longer an adequate guide to the future. Moreover, it serves to show why 'planning for the future', as a way of even partially controlling one's destiny, has never been more essential, nor more difficult [Ansoff 1980b].

Not only are companies confronted with unpredictabilities such as inflation, economic growth, competition, technology, and complex international developments, but industries [such as steel] can rapidly become outdated as their life cycles accelerate [Wynne-Jones 1979].

All firms are, in varying degrees, dependent on their environments, particularly for the resources they require [i.e. labour, capital, information, technology] and in terms of markets, level and stability of demand and growth prospects. Every firm must therefore accommodate itself to changes which are often beyond its control or influence.

This rapid rate of change and increasing complexity of the environment has led many companies to set up 'in-house planning systems' in order to monitor environmental developments and formulate their strategies in a structured and consistent manner. The assumption that the future will not be an extrapolation of the past necessitates visualizing different possible scenarios of the future. Decisions concerning the future must therefore be flexible in order to accommodate unpredictable variability [Ansoff 1980b].

Formal planning systems are increasingly being regarded as the mechanisms through which environmental changes are monitored, corporate capabilities assessed and strategies developed which underscore the company's objectives. It should be emphasized however, that although such systems facilitate the development and implementation of a company's strategy, they cannot compensate for managerial insight and the 'will' to manage strategically. It is argued that superior 'strategic thinking' underlies successful competitive strategies [Morrison and Lee 1979]. As Quinn's [1980a: 17] studies indicate, the most important contributions of corporate planning systems are actually in the 'process' rather than the 'decision' realm [a point previously made by Ackoff 1970]. They create a network of information, which would not otherwise be available; they force operating managers to extend their time horizons and consider their daily decisions in a larger framework; they create an attitude about the future and they stimulate longer-term 'special studies' which could have high impact at key junctures for specific strategic decisions.

Every company exhibits certain unique, multi-dimensional characteristics; its strategic development, the business and geographic diversity of its portfolio, the specific features of those industries within which it operates, its organizational structure, the attitudes of its senior management and its overall 'climate'. It is therefore conjectured in this study that corporate planning systems need to be designed with due regard to a firm's situational setting in order to cater for its specific requirements.

The need for 'tailor-made' corporate planning systems has been frequently articulated by Lorange and Vancil [1977], Lorange [1979], Malm [1975] and more recently by Grinyer and Al-Bazzaz [1980, 1981].

Lorange [1979: 239] highlights the need for a 'contingency-based' approach to the design of planning systems:

> '... the thrust of future research efforts should be toward a better understanding of the situational design and implementation of formal planning systems. It is in the area of specific, contingency-based research

that new efforts are particularly needed rather than within areas of more global planning issues ... until we more fully understand how to better tailor-make formal planning systems to particular situational settings, the use of such systems to help corporations formulate and implement strategy, will probably not be nearly as effective as it might be'.

This view is echoed by Malm [1975: 176] who expresses it in rather different terms:

'... If one views the design of corporate planning systems as a process without restrictions, all the characteristics of a particular setting become design variables; however, we need a conceptual design model which would provide a language and a logic, a set of concepts which make it possible to analyze the need for planning and theoretical notions about how a planning system could be designed; this would be an invaluable aid to the designer'.

The need for a situational approach to the design of corporate planning systems is also emphasized by Grinyer and Al-Bazzaz [1980: 41]:

'The better the design of a corporate planning system matches the needs of the situation which stimulates its creation i.e. the better it meets the situational needs, the less intense its difficulties should be compared with its contributions and the longer it should survive before the adverse effects it inevitably creates mount to an insupportable level. A contingency approach to the design of corporate planning systems is [therefore] clearly required'.

A number of studies have been focussed on different aspects of the design of planning systems; several early attempts at such studies stemmed from the 'Harvard Business School Data Bank Project'. During 1970-71, under the direction of Vancil, an extensive set of data was collected from 90 large American corporations encompassing detailed measures of several situational characteristics of the businesses, a number of planning system design practices and variables as well as several criteria purporting to measure the 'effectiveness' of such systems. Leaving aside their pioneering importance, the implications of these research findings for many of the more specific design issues is succinctly articulated by Lorange [1973: 22]:

> 'We must conclude that the present study has been unable to contribute very many new insights. Research is needed to identify other situational factors which might be relevant. Probably, more factual objective elements of the situational setting dealing with factors such as financial strengths and weaknesses of the company, its organizational structure, product characteristics, market measures of the degrees of competition, should be identified'.

The more recent 'prescriptive' literature, providing a normative view of how planning systems should be designed [e.g. Lorange and Vancil 1977, Lorange 1980], does not take account of a wide range of situational characteristics [for example, the situational factors considered by Lorange and Vancil are those of 'size' and business 'diversity']. Descriptive studies [Lindsay and Rue 1976, Grinyer and Al-Bazzaz 1980] explore the interrelationships between 'situational'and 'planning system characteristics' in large samples of companies [199 and 48 respectively]. These studies however, do not indicate how an understanding of such 'inter-relationships' can be utilized for design purposes.

The present study encompasses the 'descriptive' and 'prescriptive' research traditions. It attempts to identify those situational factors which have determined the planning needs and subsequently characterized the planning capabilities of companies with formal corporate planning systems. With this objective in mind, situational settings and corporate planning systems of fourteen large U.K.-based companies are studied. All have formal corporate planning departments which have been set up for a minimum of two years and their annual turnovers are in excess of £100 million. Four companies [BL, Fisons, Cadbury/Schweppes and L.C.P. Holdings] are described in some detail, whereas due to time and resource constraints, the remaining ten are discussed briefly, with particular reference to their corporate planning systems. Secondary data such as company reports, newspaper articles, planning manuals and internal documents, supplement the information collected initially by means of unstructured, open-ended and subsequently structured interviews with senior executives in charge of the corporate planning departments. Where possible, the views of senior corporate and divisional executives are also incorporated in the study. It was considered that face-to-face interviews provide an opportunity to clarify complex issues and to develop further a number of research questions.

On the basis of these findings, a number of propositions are put forward as tentative design guidelines; these elaborate on the nature of association/interrelationships between 'situational factors' and characteristics of 'planning systems'. They form the basis of the 'design framework' which is subsequently proposed in order to facilitate the systematic design of tailor-made corporate planning systems in different types of setting.

In order to illustrate the application of this framework to a specific setting, it has been used to recommend a corporate planning system for a Midland-based engineering company. A continuous deterioration in the Group's overall profitability, coupled with the perceived likelihood of a contracting domestic market and increasing competitive pressure from a number of Developing countries, had prompted its senior management to consider setting up a formal corporate planning system in order to improve their strategic decision-making processes. Following the appointment of a manager, assigned with the responsibility of developing such a system, its senior management expressed their willingness to co-operate with the present study. The proposed 'design framework' was thus used to arrive at a series of recommendations, characterizing the features of a 'suitable' corporate planning system.

The structure of the thesis reflects the 'dual' purpose [academic and practical] of the study. Chapter 2 reviews the 'planning' literature in an historical context, focussing on those studies specifically concerned with the situational design of planning systems.

An analytical framework, used to characterize the companies' situational settings and their corporate planning systems, is proposed in Chapter 3. It is considered that a firm's situational setting comprises three inter-related environments which have been extensively discussed in the literature [i.e. 'contextual', 'industry' and 'internal']. Five attributes are used to characterize the corporate planning systems. These are the planning system's 'initial development', its existing role and range of 'functions', structure and composition of the corporate planning department, types of plans formulated and the planning process. The final section of Chapter 3 discusses the questions which were asked during the course of interviews in order to ascertain the nature of association/interrelationships between situational factors and characteristics of planning systems.

The choice of a suitable methodology and the 'research process' are discussed in Chapter 4. Due to its exploratory nature, the present study is not cast in the traditional 'hypothesis-testing' mode. It seeks to identify relevant variables and important relationships on the basis of which hypotheses can be developed.

Using a case-study approach and the framework outlined in Chapter 3, Chapters 5 to 9 provide an account of the situational settings and corporate planning systems of the fourteen companies. Situational factors which have determined their planning needs and subsequent planning capabilities are also discussed. Four companies [BL, Fisons, Cadbury/Schweppes and L.C.P. Holdings] are described in some detail in Chapters 5 to 8, whereas the remaining ten are all discussed briefly as 'mini case-studies' in Chapter 9. Due to the limited number of interviews which were held with the planning managers of these ten companies, emphasis is primarily placed on describing their corporate planning systems and exploring the nature of association between these and situational factors. A brief account of their situational settings is also provided.

Chapter 10 summarizes the main conclusions which have emerged from these studies; on the basis of these findings a set of propositions are formulated which elaborate on the nature of association between situational variables and planning system characteristics. The cogency of the 'analytical framework' used to characterize the companies' situational settings is also discussed. These form the basis of the 'situational design framework' proposed in order to facilitate the systematic design of 'tailor-made' corporate planning systems in different types of setting.

The practical application of this framework in a Midland-based engineering company is described in Chapter 11. The characteristics of the 'recommended' planning system are compared with the one which was eventually adopted.

Finally, Chapter 12 provides a summary of the main findings. The study's theoretical and practical contributions and limitations are discussed and a number of suggestions are put forward concerning possible areas for further research.

Chapter 2

PERSPECTIVES AND RESEARCH ON CORPORATE PLANNING

The 'planning literature' is diverse and multi-faceted. It ranges from the 'descriptive' literature, examining planning practices in different types of organizations to specific tools and techniques concerned with individual steps in the planning process. This chapter will not provide an exhaustive discussion of the planning literature, but rather the background in previous thinking and research relevant to the present study.

Our starting point is a brief review of the 'early' writing where planning is treated as an identifiable part of the managerial activity. The 'mainstream literature' of the 1960s and much of the 1970s will then be examined. Attention is focussed on the 'descriptive' planning literature concerned with planning practices undertaken in different types of organizations, major problems which have been encountered and the benefits likely to result from formalized planning.

Thirdly, the 'contingency-based' research will be briefly examined. These seek a middle-ground between:

i) the view that there are universal views of organization and management;

ii) the view that each organization is unique and each situation must be analysed separately [Steiner 1979: 405].

An assumption of the present study is that because there is no single planning system suitable for all types of companies, it is useful to identify those situational factors which are likely to determine the company's planning needs and subsequent planning capabilities. A brief review of the main contingency-based research studies will thus permit an assessment of the usefulness of adopting such an approach to the design of corporate planning systems.

Finally, specific studies which have explored the nature of interrelationship between situational factors and planning systems will be examined.

2.1 Early planning literature

The genesis of thinking about planning goes back to the early part of this century despite the paucity of writings before the mid-1950s [Ewing 1956]. The first writer who recognized planning as a major managerial activity was Fayol [1916] who according to Ansoff [1965: 20]:

> '... anticipated imaginatively and soundly most of the more recent analyses of modern business practice'.

Fayol considered 'planning, organization, command, co-ordination and control' to comprise all managerial activities. In addition, he stressed the importance of formal structure, the plan of action as the chief manifestation of planning:

> '... the plan of action is, at one and the same time, the result envisaged, the line of action to be followed, the stages to go through and the method to use'.
> [Fayol 1916: 43]

The unity of 'structure' and 'process' is thus clearly spelled out:

> 'The entire plan is made up of a series of separate plans called forecasts: there are yearly forecasts, ten-yearly forecasts, special forecasts and all these merge into a single programme which operates as a guide for the whole concern'.
> [Fayol 1916: 46]

He therefore considered the generic nature of planning by linking it to foresight and emphasized the 'art of handling men' as a pre-requisite of a 'good plan of action'. Fayol's contribution therefore foreshadowed much that was to come later.

Despite the emphasis given by Fayol, a practising manager, to planning, little planning activity is evident even by the late 1930s. In one of the earliest empirical studies investigating the planning practices of large, U.S. organizations, it was found that only two out of the 31 studied had formal five-year plans, while half had 'annual' plans for some or all of their operations:

> 'One of the greatest needs observed during the course of this study is for more adequate planning and clarification of future objectives, both near-term and long-range'.
> [Holden, Fish and Smith 1941: 4]

World War II is considered to have been the most significant factor influencing the development of long-range planning, especially in the U.S. [Scott 1965: 52], although widespread use of formalized planning did not gather momentum until the early 1950s [Gustafson 1958: 29].

The use of formalized planning by large U.S. companies was in part influenced by the changing environment of the business. The adoption of a 'marketing' orientation [pioneered by General Motors in the 1930s and symbolized by the introduction of annual model change] meant a shift from an internally-focussed, introverted perspective [characterizing the mass production era: Ansoff 1979: 44] to an open, extroverted one. This implied acceptance of new levels of uncertainty about the future and the development of new problem-solving approaches [planning being one of these]. However, it was not until after World War II that many companies, propelled by new technologies, adopted such a marketing orientation [Ansoff 1979a:45].

Early post World War II developments include the conceptualization of planning as a process with specific sequential steps, the emergence of planning as a problem-solving decision process and the specification of a structural definition of planning in terms of its components [Naor 1976]. Drucker [1954: 284] provides an early contribution by stating that

> 'planning and doing are separate parts of the same job, the job being managing; there is no work that can be performed effectively unless it contains elements of both'.

Much of the literature during the 1950s reflects a growing need for practical guidance concerning the planning task [Dick 1954, Percy and Roberts 1956]. In addition, this period witnesses a continuation of 'planning versus control' controversy, the formal recognition of the closed-loop nature of the planning process and a pioneering attempt at the development of planning theory [Le Breton and Henning 1961].

One of the major contributors to the 'planning versus control' controversy during this period is Koontz [1958: 47] who maintains the distinction between planning [i.e. selection from alternatives] and controlling [measurement and correction of activities] as separate, though overlapping managerial activities. Drucker [1959: 239] advocates a fully-integrated concept of planning including the measurement of results and the feedback process whereas Branch [1962: 41] considered implementation [including measurement of performance] to be part of the planning process. Its four phases of 'objectives, plans, integration, decisions and implementation' comprise a 'procedural cycle of inter-dependence'.

Drucker [1959: 240] considered planning to be:

> 'the continuous process of making present entrepreneurial decisions systematically and with the best possible knowledge of their futurity, organizing systematically the effort needed to carry out these decisions and measuring the results of those decisions against the expectations through organized systematic feedback'.

This definition incorporates structural aspects implicitly and implementation explicitly as well as control and feedback features that close the planning loop. Furthermore, the emphasis placed on the 'futurity of present decision making' highlighted the 'desirable nature of the future' that planning could help bring about. This dimension of the planning effort received a powerful impetus during this period by a relatively novel idea expressed by the Chairman of Ford Motor Company, that a company could 'make trends; [it need] not follow them' [Breech 1956: 17]. The pre-World War II notion that business could and should only react to market conditions was replaced by the belief that the 'future can be shaped'; a theme elaborated further by Ackoff [1974] and Ozbekhan [1977].

Since formalized planning was being widely adopted by U.S. firms during this period [Steiner 1963] a number of writers became specifically concerned with line management opposition and resistance to planning, particularly during the initial stages [e.g. Wrapp 1957, Koontz 1963]. Suggested solutions ranged from the advocacy of top management support for planning [Wrapp 1957: 39] to the participation of all managerial levels in the planning process [Koontz 1963: 84].

By the early 1960s therefore, much progress had been made toward laying a foundation of systematic thinking about planning and the practice was being widely adopted by large U.S. corporations. By 1963, 60% of the 500 largest U.S. industrial companies had organized formalized planning and 24% had indicated that they intended to develop formalized planning processes [Steiner 1963].

2.2 Descriptive planning literature

2.2.1 Problems associated with formalized planning

The character of the planning literature changed during the 1960s; this was a period of consolidation of approaches rather than bold innovative thinking [Naor 1976]. Apart from the emergence of a number of planning models [Gilmore & Brandenburg 1962, Ansoff 1965, Steiner 1963 & 1969] major planning problems encountered by the practitioners were also investigated during this period. Steiner [1963] summarized the main problems faced by 17 major U.S. corporations involved in the use of formalized planning as:

- excessive stress on comprehensiveness
- lack of flexibility in plans
- establishing the appropriate role for 'staff' planners
- assuring executive involvement
- stabilizing the best procedural steps
- use of computers for planning purposes.

Berg [1965] emphasized the importance of behavioural and administrative problems. These were considered to include:

- how top management of a corporation decide [plan] where [in what business] to invest its resources;
- variability of interests and risk perceptions at the corporate and divisional levels;

- the use of appropriate reward system in order to achieve the desired risk-taking attitudes amongst the managers.

Ewing [1967] considered the main planning problems confronting the practitioners to comprise the following:

- plans are extensive in detail and organization but were not having the desired impact on creating change because of the failure to incorporate behavioural and motivational issues;
- there is confusion and frustration in developing 'planning-minded organizations' as differentiated from 'formal planning systems';
- the inadequacy of the traditional predictive economic aspects of forecasting.

During the course of his investigation of planning practices adopted by 350 U.S. and European-based companies, Ringbaak [1971] revealed 10 common reasons for the malfunction of formal planning systems:

1] corporate planning had not been properly integrated with the rest of the companies' management systems;

2] there may be a lack of understanding concerning certain dimensions of planning, such as lack of consideration of alternative strategies or exclusion of alternative courses of action;

3) various levels of management in the organization may not be effectively participating in the planning activity;

4) the extent and type of responsibilities allocated to the 'staff planning departments';

5) lack of realization of planning objectives;

6) lack of willingness amongst operating managers to implement the plans in the context of their operating decisions;

7) confusion of the differences in the role of forecasting and planning;

8) inadequate input to the planning process, such as environmental input or contributions of the various functional departments;

9) concern with the details of plans as opposed to the overall view of planning;

10) having started formalized planning, too much may be attempted at once.

It is not clear however, whether these difficulties affected all the firms in the sample or those utilizing a particular type of planning system [Lorange 1979: 231].

More recently, Steiner and Schollhammer [1975] have investigated the planning difficulties of 460 large multi-national companies based in the U.S., Canada, Japan, Britain, Italy and Australia. Their conclusions indicate that major planning problems encountered stem from:

- delegation of planning responsibilities to staff planners;
- lack of involvement by senior managers;
- failure to specify goals within whose context plans are to be formulated;
- failure to create a suitable climate conducive to planning;
- lack of involvement by operating executives in the planning activity;
- separation of formalized planning from other management processes;
- lack of understanding amongst senior corporate and divisional executives concerning the proper role of planning within the organization;
- relatively low status of staff planners;
- failure to use plans as standards for evaluating managerial performance.

Their findings tend to confirm those of Ringbaak [1971]. It is significant to note that although Steiner and Schollhammer report on the 'contingency results' of their study, many of the demographic factors which were taken into account, such as size and location of H.Q., do not appear to play as important a role as expected, However, they found that the 'degree of diversity', extent of 'decentralization' and the 'age of the planning system' influence its relative success.

The planning problems experienced by U.K. companies taking part in a survey undertaken by Martin [1979] are similar in nature to those identified by Ringbaak and Steiner and Schollhammer. These include:

- getting line managers to plan
- lack of adequate support from top management
- inadequate thinking about the future
- poor business understanding by managers
- lack of realism in plans
- need for better forecasting.

In conducting a survey of the planning practices of 48 U.K. companies, Grinyer & Al-Bazzaz [1980: 32] found that the difficulties most frequently-mentioned by the planning staff were related to the interface with line management, integration of planning within the 'culture' of the organization, attitude of senior management and the technical problems associated with forecasting, obtaining necessary information for planning purposes and its excessive quantification.

Apart from highlighting technical problems associated with formalized planning [such as the need for better fore-casting, use of computers for planning purposes], a synthesis of the findings of these studies illustrates the need for planning systems which are designed in the context of the firms' specific characteristics and requirements. For example, 'assuring executive involvement' [Steiner 1963, Ringbaak 1971, Steiner and Schollhammer 1975, Martin 1979, Grinyer & Al-Bazzaz 1980], 'establishing the appropriate role for planning and planning staff' [Steiner 1963, Ringbaak 1971, Steiner and Schollhammer 1975] and 'integration of the planning system with the firms' other management and decision processes' [Ringbaak 1971, Steiner and Schollhammer 1975, Grinyer & Al-Bazzaz 1980] are difficulties which can be overcome if the planning system is designed on the basis of the firm's unique features (including characteristics of its management, its organizational structure and other management processes] and its specific 'planning' needs [such as the need for planners to provide a central information service as opposed to assisting the process of organizational control].

2.2.2 Characteristics of planning practices

While the planning literature of the early and mid-1960s was mainly concerned with the problems associated with the widespread adoption of formal planning systems, another set of writings during the late 1960s and early 1970s reviewed the 'state-of-the-art' investigating the extent and role of planning especially amongst the U.K. companies.

Taylor and Irving [1971] undertook a survey study of corporate planning practices in 27 large U.K. companies. They summarized the main tasks of formal planning as:

- to improve co-ordination between divisions
- to achieve successful diversification

- to ensure a rational allocation of resources
- to anticipate technological changes.

In nearly half of the investigated companies, the introduction of corporate planning had been accompanied by a change of the chief executive or a member of the main board [Taylor and Sparkes 1977: 5]. Major internal 'political' problems were encountered when the formal planning system was seen to embrace activities traditionally carried out by other functions.

Denning and Lehr's [1971, 1972] study was concerned with 'the extent to which long-range planning for the company as a whole had been introduced into U.K. companies'. Out of a total sample of 300 companies to which an initial questionnaire was sent in 1967, 75% replied in some form. Their results indicated that:

- planning companies tend to confront a higher rate of technological change;
- there is a clear tendency for planning companies to have a higher degree of capital intensity;
- there is little to suggest that variability of growth and profits helps explain the existence or non-existence of planning;
- larger companies are more likely to plan formally;
- corporate planning is more frequently found in more complex organizations and these would have been introduced at a much earlier date;
- over half of the foreign-owned companies in the sample were engaged in corporate long-range planning;

- the co-ordination needs peculiar to conglomerate companies do not result in a greater tendency toward the introduction of long-range planning;
- corporate long-range planning is a managerial response to two separate sets of needs: strategic and co-ordinative;
- if long-range planning is introduced to meet different managerial needs, it is appropriate that the organization of the process should be different in companies with different key parameters.

Hayashi [1978] had studied planning practices in 19 Japanese multinational companies. He concludes that when the ratio of overseas production to total worldwide production is substantial, i.e. over 20%, there is a greater need for the full-range planning procedures [p. 223]. This is because:

- more efficient communication is required between the Japanese H.Q.s and foreign subsidiaries;
- turbulence and greater uncertainty in multinational environments necessitates the incorporation of specialized information concerning these environments;
- there is a need to control the activities of the subsidiaries.

In a survey of 113 large U.S. corporations, Aug and Chua [1979] conclude that:

- 94% of the investigated firms have some form of documented long-range plans;

- of these, 55% have centralized planning functions with a separate planning staff; the rest being de-centralized;

- there are difficulties in obtaining useful input data for generating forecasts;

- behavioural/political problems are encountered in relation to communication between various levels of management and co-ordinating decentralized planning efforts.

2.2.3 Benefits of formal planning systems

A number of studies have attempted to investigate the potential payoff of using formal planning systems. Thune and House [1970]'s study was designed to investigate the impact of formalized planning on a firm's performance. Questionnaires were sent to 145 companies of which 92 responded and 36 were matched for size and industry and subsequently categorized into six industrial groupings. The companies were compared on the basis of the following economic criteria:

- sales
- share prices
- earnings per share
- return on equity
- return on capital employed.

Having compared the performance of formal and informal planners they concluded that:

> 'formal planners ... significantly outperformed informal planners with respect to earnings per share, earnings on common equity and earnings on total capital employed. Furthermore, the companies outperformed their own records based on an equal period of time before they began formal planning. Finally, informal planners did not surpass formal planners on any of the measures of economic performance, after long-range planning was introduced'. [Thune and House 1970]

Their industry analysis showed that planners in the pharmaceutical, chemical and machinery industries consistently outperformed informal planners on all five measures. However, in the food, oil and steel industries, formal planners outperformed informal planners even before formal planning had been initiated in their companies. Superior performance could not therefore be solely attributed to formal planning. In addition, these industries are characterized by a low rate of technological change and new product introduction. Moreover, the oil and steel companies' high level of dependence on government policies led the researchers to conclude that the advantages associated with formal planning are to be found primarily in the more rapidly-changing industries and those which rely primarily on negotiation with a dominant government counterpart.

Herold [1972] has extended the Thune and House study. A new independent variable, 'profits', was used to cross-validate the planning questionnaire of the original study. In addition, it was hypothesized that 'research and development' expenditure would be higher for the formal planners.

Using a sample of five pairs of formal and informal planners over a seven-year period, it was shown that formal planners outperform informal planners on sales and profits and that they spend considerably more on research and development projects, emphasizing their involvement in technologically-dynamic industries, a finding which corresponds to those of Denning and Lehr [1971,1972].

A study addressed to 'diversification planning at the corporate level' was undertaken by a team of researchers under the direction of Ansoff [1971]. 93 corporations were studied during the course of this investigation. It was concluded that the planners significantly outperformed the non-planners on virtually all the relevant financial criteria.

Sheehan [1975] has investigated the relationship between long-range planning and 'firm size, firm growth and firm growth variability' in a sample of 63 Canadian firms. His research was concerned with:

- whether firms that plan perform better than those that do not;
- whether larger firms that plan grow more or less rapidly than less large firms.

The study's conclusions indicated that 'planning firms' did outperform the non-planners, but was inconclusive as to whether larger planning firms grow more rapidly than smaller planning firms.

The general conclusions of these studies indicate that formal long-range planning is an accepted management tool and that it is beneficial for those companies which have incorporated it into their other management systems. However, such a finding is not particularly helpful for the purpose of the present study [i.e. situational design of corporate planning systems] since it does not provide an indication of potential benefits associated with different types of planning systems. With the exception of Ansoff [1971] other studies do not specify the type of planning investigated [i.e. corporate/divisional/financial, etc.]. It is therefore impossible to evaluate their usefulness in different types of setting.

Secondly, it is difficult to evaluate the impact of formalized planning on a firm's performance in isolation from other situational factors, such as its management systems, quality of strategic choices made by senior management, nature of decision making processes, etc. These studies do not further our knowledge concerning the 'match' between a particular company's planning needs and its specific planning capabilities.

In contrast to these studies, a number of writers have questioned the value of formalized planning:

> 'Just as bad money has always driven out good, so the talented general manager - the person who makes a company go, is being overwhelmed by a flood of so-called 'professional' text book executives, more interested in the form of management than the content, more concerned about defining, categorizing

and quantifying the job than getting it done ... they have created false expectations and wasted untold man-hours by making a religion of formal long-range planning'.
[Wrapp 1979]

These comments highlight the need for different types of planning that can respond to the company's special requirements; there is a danger that too 'sophisticated' a planning system can create new problems if it is not congruent with the company's other decision processes:

> 'Planning activities in major enterprises often become bureaucratized, rigid and costly paper-shuffling exercises divorced from actual decision processes. Instead of stimulating creative options, innovation or entrepreneurship, formal planning often becomes just another aspect of controllership and another weapon in organizational politics'.
> [Quinn 1980b:1]

Moreover, a study by Grinyer and Norburn [1975] calls into question many of the assumptions underlying strategic planning. This study examined the impact of strategic planning on the financial performance of 21 British companies. Information from 91 executives on their formulation of objectives, policies and plans were compared with five years of data on financial performance; twenty-nine variables denoting objectives, role perceptions, formal planning, channels of information received and used, extent of common perceptions and desire for change were systematically analysed for their associations with one another and with the companies' rate of return on net assets. The authors found no evidence that these variables were related to financial performance.

Rather, factors related to financial performance in this study included the search for information and the use of information to trigger performance reviews by executives and to review company actions as a whole. These findings are consistent with the works of Aguilar [1967], Mintzberg [1973], Rhenman [1973] and Weick [1969] who noted the high degree to which managers value marginal information and the use of informal networks that rapidly up-date information. These and other studies [Lindblom 1959,1968, Wrapp 1967, Quinn 1977,1978,1980] imply that organizations do not rely upon strategic planning to reach decisions.

It can be argued however, that the most important contribution of these planning systems is actually in the 'process' rather than the 'decision' realm; they provide a network of information which would not have otherwise been available; they periodically force operating managers to extend their time horizons and consider the future impact of their day-to-day decisions; they facilitate communication of strategic issues and resource allocation decisions and they often create an attitude about and a 'comfort factor' concerning the future [Quinn 1980a:17].

In contrast to earlier studies which have attempted to assess the benefits of formalized planning by relating it to a company's overall performance, a recent study by Dyson and

Foster [1980] investigates the relationship between the 'effectiveness' of planning systems and 'extent of participation' of various managerial levels in the planning process. This study was undertaken in a sample of ten public and private sector organizations in the U.K. The planning system's'effectiveness' was evaluated on the basis of the following criteria:

- clear statement of objectives
- integration of planning function
- richness of formulation of plans
- depth of evaluation
- treatment of uncertainty in evaluation
- resources planned
- data used
- iteration in the process
- assumptions made
- quantification of goals
- control measures
- feasibility of implementation.

The 'extent of participation of various managerial levels in the planning process' was determined on the basis of the following criteria:

- interest groups participating
- degree of communication in the planning process
- involvement in strategic decision making.

Their findings indicate that strategic planning in the 'profit-making organizations' participating in the study is more effective than that in the non profit-making ones. They conclude that this is a reflection of the greater level of participation evident in the non profit-making sector. An effective planning system is therefore one which harnesses the 'positive tendencies of participation and mitigates the negative tendencies'.

A major shortcoming of the study is that it is not clear what is meant by the 'positive and negative tendencies of participation'. Furthermore, it does not take account of the way in which strategic planning systems in the sample of investigated organizations cater for their specific requirements and how this might (or might not) contribute to their effectiveness. It can be argued that strategic planning is more 'effective' in their sample of profit-making organizations because of:

- more structured decision making processes
- greater degree of central control
- more pressure on the operating managers to 'come up with the goods at the end of the day'.

The study's major contribution however, is that it emphasizes the importance of 'varying degrees of participation by different managerial levels in the planning process'; this was considered to have been a major obstacle to successful planning by Ringbaak (1971) and Steiner and Schollhammer (1975).

2.3 The mainstream 'contingency' literature

An 'effective' planning system is one which caters for a firm's specific planning needs [Lorange 1979]. Since organizational needs differ, there is therefore no one planning system suitable for all types of organizations. In order to design effective planning systems, we therefore need to take account of the firm's situational characteristics and adopt a 'contingency-based' approach to the design of corporate planning systems. Michael [1979: 62] summarizes the essence of the contingency approach:

> 'The advocacy of the contingency approach to management is based upon the idea that there are few, if any, universal solutions for varying problems of management, even if these are categorized as problems of leadership, organizational design, decision making or whatever ... An inevitable variable in each category is the 'situation' in which the problem is embedded and solutions for specific problems must take account of situational differences'.

Since we are adopting a contingency-based approach to the design of corporate planning systems, it seems pertinent to review briefly 'contingency theories' which identify environmental and situational factors influencing the adoption of specific strategies and organizational structures and their relative effectiveness.

Although one cannot speak of a unified body of contingency theories, a number of 'partial contingency theories' are accounted for in the literature [Malm 1975].

A start was made by the organizational researchers of the 1960s. Woodward [1958,1965] showed that successful organizations with different technologies also had different organizational structures; subsequent research has substantiated a number of her original findings and modified others [Pugh et al 1969, Child and Mansfield 1972, Blau et al 1976, Donaldson 1976].

Burns and Stalker [1961] examined the relationship between the appropriate system of management and the rate of technological and market change, concluding that in a changing environment, an 'organic' form of management is functional, whereas in a stable environment, the 'mechanistic' forms seems to be more suitable. Their research therefore indicated that the adoption of a specific type of organizational structure is contingent upon the rate of change in the environment.

Lawrence and Lorsch [1967] studied ten firms in three different industries. Using measures of perceived hierarchical influence, they showed that 'high performing firms' in an uncertain environment had more differentiated functions which were nevertheless successfully integrated:

> 'The most successful organizations tended to maintain states of differentiation and integration consistent with the diversity of the parts of the environment and the required interdependence of these parts'. [1967:134]

Their study therefore indicated that 'high performers' had achieved a 'fit' with their environments.

Fiedler [1967] has attempted to identify the most effective leadership style in different situations; he concludes that leadership effectiveness or success is dependent upon the appropriate matching of individual leader's style of interacting and the influence of the group situation.

Galbraith [1970] has contributed to the theory of organizational design by integrating a number of empirical contingency studies into a more general theory of organizational design. For example, the information-processing capacity required by an organization is taken to be dependent upon a number of situational variables, such as 'predictability of tasks', 'number of elements relevant for decision making' and 'the extent of interdependence' amongst these factors.

The first major analysis of the interrelationships amongst the 'environment' and 'strategy' and 'structure' of the firm was that of Chandler [1962]. In an historical study of 70 American companies, he formulated several hypotheses which have stimulated much of the subsequent work in this field. Firstly, he proposed the principle that organizational structure follows the growth strategy of the firm. Secondly, he postulated a multi-stage developmental sequence for the strategies and structures of American enterprises. Thirdly, he theorized that organizations do not change their structures unless they are provoked by inefficiency to do so.

Following Chandler's pioneering work, a number of related studies have since been undertaken at Harvard. Wrigley [1970] refined the theory of diversification strategy by distinguishing between different types of diversification.

Moreover, he identified different types of multi-divisional structures. These categories have been subsequently used to conduct 'strategy/structure' studies of the largest European enterprises [Channon [U.K.] 1973, Pooley-Dyas [France] 1972, Pavan [Italy] 1972, Thanheiser [Germany] 1972]. These studies indicate that diversification of firms in these European countries increased considerably between 1950 and 1970. There was also an increase in the use of multi-divisional structures at the expense of 'functional' and 'holding company' alternatives.

Rumelt [1974] has elaborated the various strategies of diversification. Using subjective judgement and a series of quantitative measures, he has devised nine different strategies to characterize a sample of U.S. companies. His conclusions support the Chandler thesis [that structure follows strategy].

A second group of studies related to the original Chandler thesis, are referred to as the 'Harvard International Project' [Fouraker and Stopford 1968, Stopford and Wells 1972, Franko 1974,1976]. These studies have examined the 'structural' changes, following the adoption of international expansion strategies by U.S. and European firms.

Stopford [1968] has studied a sample of American firms listed in 'Fortune top 500 companies'. In tracing the development of these firms as they expanded internationally during the 1960s, he has found that they adopted common structures in the pursuit of common strategies. The first major structural change adopted by these firms was the establishment of an 'International Division' added to the existing 'product divisionalized' structure, thus differentiating all international activity from domestic business.

The 'international' division however, gave way to a more 'global' form of structure depending on the firm's international growth strategy. Those firms that expanded their entire diversified domestic product line abroad eventually adopted worldwide product divisions, whereas international expansion of the firms' 'dominant business' led to the adoption of 'geographic divisions'.

Franko's [1974,1976] sample of European firms indicated that, whereas the vast majority of European multinational companies in 1961 were organized on the basis of an 'international holding company/domestic functional' model, by 1972 a large number [44 out of 70] had adopted a multidivisional form of organizational structure.

Several other studies were also related to the 'strategy-structure' school. Berg [1965] examined 'structural' differences in order to account for the effectiveness of the conglomerate firms of the 1960s. They had allocated all functional responsibilities within the divisions, reducing the need for central co-ordination. Corporate/divisional relationships were then dealt with by means of an appropriate reward system.

Lorsch and Allen [1973] studied six divisionalized firms, varying in their extent of 'diversity', 'uncertainty of their environments' and the degree of 'inter-divisional transactions'. The main question addressed by the study was to determine the extent to which their organizational structures were 'centralized'. Three of the conglomerates utilized the form outlined by Berg [1965]. They had small corporate offices with few inter-divisional transactions. The vertically-integrated firms by contrast had larger corporate headquarters, performing a variety of functions. Their findings indicate that lower-performing conglomerates used more complex organizational devices to achieve effective corporate-divisional co-ordination/integration and that these resulted in less effective 'corporate/divisional' relations.

A number of contingency-based research studies have attempted to identify factors influencing the adoption of various types of strategies. One of the most significant of these is that undertaken by Hofer [1975] who considers the most fundamental factor in determining an appropriate strategy for a firm to be the stage of its 'product life cycle'. After examining six sets of variables [market and consumer behaviour, industry structure, competitors, suppliers, broad environmental features, organizational characteristics and resources] characterizing the firm's specific setting, he proposes a number of strategies appropriate for the various stages of the product life cycle.

Anderson and Paine [1975] have also developed a theory of strategy content on the basis of two environmental contingency variables: the perceived uncertainty of the environment [i.e. certain/uncertain] and the perceived need for strategic change [high/low].

While Anderson and Paine and Hofer's studies were essentially concerned with strategy content, Bower [1970] has examined the capital allocation 'process' in a large U.S. corporation over a two-year period. He distinguished three sequential steps that took place at three different levels in the organization:

- the 'definition' phase at the divisional level, where a need for investment was recognized and a proposal generated in order to reduce this discrepancy;
- the proposal was then given 'impetus' when a divisional chief executive agreed to commit himself to it;
- Finally, there was the 'approval' by corporate management on the basis of which resources were allocated.

One large-scale empirical attempt at determining the critical environmental factors which influence the economic performance of a business is the so-called 'PIMS' Project [Profit Impact of Markets Strategies], carried out at the Strategic Planning Institute. Three reasons justify a brief discussion of PIMS at this point: the detail, scope and ambitiousness of the project, the real-life strategic decision making orientation of its design and the wide impact and use that its results have had on actual corporate planning practices [Abell and Hammond 1979].

Over 1200 businesses [i.e. product/market sectors] from more than 100 companies are in the PIMS data base. The objective of the project is to isolate those variables which determine 'return on investment' by means of a multiple regression model containing 37 independent variables. These have been categorized into nine groups and will be listed in order of the magnitude of their impact on 'ROI':

- investment intensity
- productivity
- market position
- growth of the served market[s]
- quality of product/service
- innovation and differentiation
- vertical integration
- cost push influence
- current strategic thrust.

A firm can utilize the 'PIMS' data base in order to identify the 'normal return on investment' for a business sector within a specific industry and for a given set of situational factors.

Lorange [1980: 89] considers the 'Boston Matrix' to represent the most significant contribution to strategic management over the last two decades. This approach evaluates the strategic position of a business on the basis of a two-dimensional grid [see Figure 1] representing 'relative market share' and 'business growth prospects'.

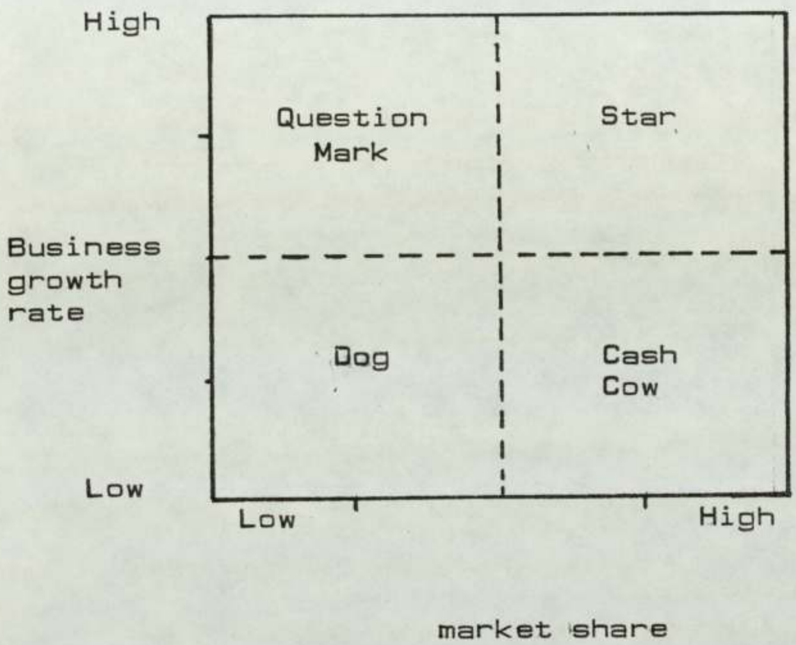


Figure 1 Strategic position grid for a product/market sector developed by the 'Boston Consulting Group'

This brief review of the contingency-based studies illustrates the analytical advances that have been made in recent years.

The organizational theories [e.g. Burns and Stalker 1961, Woodward 1965, Lawrence and Lorsch 1967] explore the broad relationship between environmental attributes and specific features of a firm's organizational structure. The 'strategy/structure' projects enhance our understanding of environmental developments, their impact on company strategies and the subsequent need to accommodate changes in strategy by means of structural adjustment.

The contingency approach seeks to determine a relationship in which observable behavioural response in and to organizations is dependent upon specified environmental conditions [Steiner 1979]. In the ensuing section, we will examine the literature concerned with examining the nature of interrelationship between situational factors and characteristics of a planning system in order to clarify their contribution to the development of a 'contingency approach' to planning system design.

2.4 Situational design of corporate planning systems

There have been a number of special-purpose studies that focus on different aspects of the design of corporate planning systems. Several early attempts at such contingency-based studies stemmed from the Harvard projects. During 1970-1971, under the direction of Vancil, a Data Bank was set up in order to facilitate the conduct of survey research studies concerned with formal planning practices of U.S. companies.

Questionnaires sent to 90 companies enabled the researcher to collect information on three sets of variables:

- situational factors [size, historical performance, complexity of management task, organization and management style];

- planning system characteristics [planning philosophy and purpose-planners' role and relationships, planning processes, planning techniques and procedures];

- effectiveness criteria [perceived impact of planning, bias and accuracy].

This information which was developed into a 'Data Bank' has subsequently been used to conduct a number of studies, attempting to explore various aspects of the interrelationship between 'situational factors' and 'planning system characteristics'.

One of these studies [Lorange 1972, 1973] addressed the problems of designing formal planning systems, specifically concerned with major investment decisions in large companies. Lorange attempted to evaluate the supposition that in order to be 'effective', a formal planning system for 'capacity expansion' would have to be designed in such a way that the firm's situational characteristics would be taken into account. Focussing attention on behavioural variables in particular, he proposed ten 'controllable system design factors' or 'dependent variables' to be considered as constituents of such a planning system and seven 'human behaviour' factors or 'independent' variables to characterize the firm's situational setting. The system design factors were:

- incorporation of time value of money
- incorporation of uncertainty
- incorporation of risk preference
- incorporation of shape of cash flow patterns
- type of solution method
- number of data components in analysis
- top down versus bottom up analysis
- degree of generality of analytical approach
- linkage of projects to long-range plans and budget
- commitment to method improvement.

The independent/situational variables considered

- management's 'R & D' orientation
- management's 'marketing' orientation
- management's behaviour [forcing their solutions onto the subordinates]

- management behaviour (confrontation)
- planner's formal skills
- planner's experience
- management's production and financial orientation.

In order to explore the interrelationships between dependent and independent variables, an index of 'perceived effectiveness' was developed. Out of a total of 87 respondents (using a questionnaire approach) 30 considered their planning systems to be 'highly effective', ten were in the 'middle' and seventeen were considered to be 'less effective'. The findings indicated that a number of independent variables had an impact on the capital budgeting design process. It was concluded that in the 'effective' systems:

- the degree of linkage of the project to plans and budgets tended to be more explicit;

- the incorporation of the shape of the cash flow pattern tended to be more explicit;

- the degree of generality of the analytical approach tended to be less;

- the commitment to improvement of the planning method tended to be higher. (Lorange 1973: 19)

As far as the 'situational design of planning systems' is concerned, this study marked an important departure from the more traditional types of planning literature (i.e.

describing state-of-the-art, planning problems encountered by practitioners, etc.]. It attempted to explore the inter-relationship between situational variables and planning system characteristics, providing an early contribution to the contingency approach to the design of planning systems. However, as Lorange [1973: 22] comments:

> 'When it comes to the implications of the research findings on many of the more specific design issues, we must conclude that the present study has not been able to contribute very many new insights'.

Another of the Harvard studies, undertaken by Vancil [1971] attempted to develop a series of guidelines for the design of 'business level planning' systems [as differentiated from 'corporate level portfolio planning']. Having explored the relationship between a number of 'industry' and 'business' characteristics, he concluded that a number of 'paired relationships' seemed to exist although any one 'industry' or 'business' characteristic might be related to several others. However, according to Lorange [1979] the study did not propose any useful guidelines for design purposes.

Other Harvard studies, exploring various dimensions of planning system design, have been conducted by Greiner [1970: concluding that the 'track record' of the planner was often important for effective planning]; Aguilar [1970: goal-setting process was found to be an important part of the planning process] and Lorello [1976: formal planning system and the planner might play a useful role in identifying areas of acquisition].

However, relatively few potential generalizations seem to emerge from these studies and even these are tentative in nature. Perhaps a more qualitatively descriptive approach, especially during the exploratory stages, might have been more appropriate. These might have facilitated the identification of key relationships between the dependent and independent sets of variables, without including an arbitrarily-defined measure of 'effectiveness' [i.e. Lorange 1973]. Lorange [1979: 238] in fact comments on the methodological difficulties encountered by the Harvard studies:

> 'Many of the research designs were inadequate for studying such a large and apparently complex set of problems ... the causal relationships among the variables may well be so unique for each case that it may be unrealistic to expect general relationships to emerge through such cross-sectional studies ... In some of these studies, there was a tendency to 'overkill' the data by 'forcing' it to be analysed by means of powerful multivariate techniques. Simple gross classification schemes and cross-tabulations might often have yielded more meaningful research insights than were generated through the use of techniques such as correlation, multiple regression and factor analysis'.

In a later work, Lorange and Vancil [1977] propose a normative approach to the design of planning systems, illustrating their views by the use of selected case studies. They specify three planning 'cycles':

- 'objective setting': determining overall 'portfolio' and 'divisional' objectives;

- 'programming': focussing on the development of specific plans for each organizational unit;

- 'budgeting': arriving at detailed and shorter-term budget choices consistent with the firm's desired strategic direction.

While expressing the view that there is no one planning recipe which can be used by all firms, Vancil and Lorange outline a few 'universally acceptable musts' of strategic planning, namely that:

- planning systems should help formulate strategic choices and not serve merely as an 'extrapolative number-generating' exercise;

- plans must be understood at all levels in the organizational hierarchy;

- plans must be consistent in formats, methods, deadlines, etc. so that confusion in planning reviews and consolidations can be minimized;

- the planning system should be integrated with other management systems;

- line managers must be centrally involved in planning, otherwise the necessary commitment to carry out the planning decisions will not be achieved [in line with Naor 1978 and Dyson and Foster 1980].

In addition, they specify six issues where an explicit choice must be made depending on the firm's situational setting [i.e. these are considered to be the 'design parameters']:

- communication of goals for corporate performance
- goal-setting process
- environmental scanning
- subordinate managers' focus
- role of the corporate planner
- linkage of planning and budgeting.

They then proceed to illustrate the utility of these dimensions in specifying the characteristics of strategic planning systems in 'small' and 'large' companies.

As far as the 'environmental scanning' task is concerned, Vancil and Lorange consider this to be located at the strategic level in smaller companies, going beyond the mere gathering of data about markets, competitors and technological change. In larger companies, the task is too complicated to be performed by senior corporate management alone; the divisional managers are therefore expected to study the external environment, relevant to their businesses:

> 'Typically in these circumstances, corporate managers will provide only a minimal number of environmental assumptions, primarily statistical economic forecasts in order to reinforce the importance of divisional thinking about future environmental conditions'.
>
> [1977: 144]

Vancil and Lorange's work, although useful in that it clarifies 'musts' of strategic planning and illustrates the utility of various design parameters through a number of cases, has a number of shortcomings.

Firstly, their six 'design parameters' are not comprehensive enough to include all the important design variables. For example, the various planning tasks which need to be fulfilled in different situations, the different types of plans suitable for the accomplishment of the stated planning tasks, etc.

Secondly, the range of situational factors taken into account for design purposes are limited. In their conceptual scheme 'size' and 'diversity of operations' are considered to be significant situational characteristics, excluding factors such as the firm's historical performance, characteristics of its environment, its organizational structure, etc.

Finally, they do not propose general guidelines prescribing the manner in which situational characteristics are likely to influence planning system design parameters.

A practitioner's view on 'how to design strategic planning systems' is outlined by MacGinnite [1973]. Using his practical experience in different types of firms, he lists a range of 'company characteristics' which need to be taken into account for design purposes:

- information availability
- nature of products/services
- competition
- management system
- nature of distribution systems.

He proceeds to explain the way in which each of these company characteristics are likely to influence the 'planning system design parameters' which include:

- scope: what should be covered in the plans?
- time-scale: how long a period should the plans cover?
- frequency: how often should the plans be updated and revised?
- process: how should these plans be formulated?

In order to explain the impact of 'situational' characteristics on 'planning system design parameters' he refers to his experience in a large American firm:

> 'While voluminous reports were produced on a quarterly basis, they did not provide sufficient information to revise the plans each quarter. Annual plan revisions therefore seemed to be adequate with quarterly projection of the year's results. On the other hand, the nature of the company's distribution system made it necessary that any plan for such a system should cover a period of at least five years'. [1973: 109]

MacGinnite advises future practitioners and designers of planning systems to build a system specifically set up to cater for the needs of their own company. In addition, he emphasizes the importance of top management commitment to the success of the planning effort. Although his views as a practitioner are valuable, he does not propose a framework comprehensive enough to cover the entire design area and the wide range of situational variables which need to be taken into account. However, his article is useful since it illustrates the way in which one such system was devised for a specific company.

Lindsay and Rue [1976] have conducted an empirical study of 199 corporations in order to determine the impact of their environment (specified on the basis of its 'complexity' and instability') on their adopted planning processes. Their findings support the hypothesis that as 'environmental turbulence increases, the completeness of the long-range planning process also increases' [p. 119]. Furthermore, the degree of completeness of the planning process in their sample appears to be 'directly' related to the environmental turbulence confronting larger firms and 'inversely' related to that of the small firms. Finally, they found an 'inverse' relationship between 'planning review frequency' and 'the extent of environmental turbulence. They conclude that since it is more difficult to forecast under turbulent environmental conditions, managers see less of a need for frequent evaluation of their long-range plans. Their study also indicates that 'large business firms in a variety of industries are attempting to fit their planning processes to their perceived environmental conditions'. [p. 119].

Lindsay and Rue's research is significant in that the planning practices of a large number of firms are investigated. However, as in the case of the Harvard studies, they do not consider a wide enough range of situational and planning system characteristics. Moreover, the authors do not elaborate on the way in which planning system should be designed in order to take account of the situational characteristics. Indeed, as Lindsay and Rue [1976: 119] comment:

> '... Efforts to develop a fuller understanding of the planning process must be undertaken if a contingency approach to business policy is to be developed. Decision makers in today's turbulent environment appear to be ready to deal with the complexity of contingency theories in order to improve their decisions'.

Malm [1975] has attempted to develop a conceptual and theoretical framework which can help 'a firm's top management create a sufficient capacity for change in the organization ... a company's ability to change its objectives and structure as a response to changes in the environment or as a response to internal re-evaluation of the situation depends on a number of properties and mechanisms in the organization. Formal systems for strategic planning are one of the major means suggested by the literature' [p. 2].

After reporting a survey of strategic planning systems used in two organizations, Malm elaborates on the role of planning within these firms [adopting Ackoff's 'strategic' and 'tactical' planning for the purpose of classification] and the various organizational levels likely to participate in the process [strategic planning level, resource planning level, operational planning level]. Two conceptual design models are subsequently developed. The first is based on a 'situational' approach to design, while the second is what Malm calls a 'process-diagnostic' approach.

According to Malm, the 'situational design approach' involves two complementary stages: firstly, the designer tries to identify important situational characteristics and the requirements which these are likely to impose on the problem-solving capability of a planning system. Secondly, the designer uses available theories to identify important situational variables and the way in which these are likely to influence the design process: 'Ideally, one needs a set of situational design theories which cover every important aspect of a total system design' [p. 197]. However, apart from the scarcity of theories specifying the relationship between situational characteristics and planning system design variables, he cites two reasons likely to inhibit the applicability of the 'situational design principle':

The first is what he refers to as 'the internal dynamics of an organization'; he argues that it is impossible to design a planning system solely on the basis of certain situational variables; the design must be considered as a development stage in the evolution of a complex social system [1975: 202].

The second is the 'complexity of the system in relation to the designer's mental equipment'. On the basis of this assumption, it is therefore impossible to achieve a complete and efficient planning system in one single process. However, a start can be made by designing only the 'visible' aspects of the system [p. 203]:

> 'We can use the situational design model to determine a rough outline of a system design, especially its formal and visible aspects ... However, we cannot predict how it will fit in with the social system, how it will affect the less visible parts of the system ... In order to combine this kind of rough design blue print with the social system, we apparently require a complement to the 'situational design model' ' [p. 204]

Malm's 'process-diagnostic design principle' can be used to improve the functioning of existing planning systems by a continuous diagnosis of its functioning, in relation to top management's decision variables [p. 208]:

> 'This approach to design means that the system design is no longer determined only by the state of relevant situational variables but is instead generated by a continuous diagnosis of the change process itself' [p. 209].

He further specifies the circumstances where the different approaches can be effectively utilized. The 'situational design' approach can be used to develop a completely new planning system in an organization which does not have any formalized planning, or to develop a planning system, if an existing one functions so badly that the development of a new one appears to be the best alternative. The 'process-diagnostic' principle on the other hand can be used to improve an existing system.

Malm's work, in my opinion, represents the most significant theoretical contribution to the field of planning system design, although in his view, he merely re-arranges the existing building blocks, rather than creating new ones [p. 12].

Firstly, he elaborates on the theories used as a basis for the development of his design models [organization-systems and cybernetics, and planning literature]. Secondly, he specifies the limitations of the 'situational design principle' enhancing the need for a complementary approach [i.e. the process-diagnostic principle]. In addition, he describes the circumstances in which the two approaches can be most effectively utilized. The applicability of the 'process-diagnostic' principle is in fact evaluated by its use in a Swedish building materials company, where Malm undertakes the role of a researcher/consultant.

However, the main contribution of Malm's research is the development of the process-diagnostic model. Although he refers to the inadequacy of existing 'situational design theories', he does not attempt to develop such guidelines himself. This further emphasizes the need for situational design guidelines which will be developed during the course of this study.

Grinyer and Al-Bazzaz [1981] have explored the inter-relationships between environmental, company and planning system characteristics by means of structured interviews in 48 large U.K. companies. The variables whose interrelationships have been investigated comprise the following:

1) Company characteristics:

- status (parent or independent legal unit, division or subsidiary)
- charter (service, manufacturing or both)
- size (employees, capital employed, net profits)
- number of important sites and their geographic distribution
- organizational structure
- degree of diversification
- flexibility of technology
- investment gestation period.

2) Environmental characteristics:

- extent of dependence on parent company, suppliers of raw materials, customers
- rate of technological change within the industry
- need for new product introduction
- factors adversely affecting the companies' three most important markets within the last three years and those expected to do so during the next three years
- market share and rank in the most important market
- percentage of total sales to government and industry, wholesalers, retailers and direct to general public.

3) Corporate planning system characteristics:

- age of planning system
- reporting level of the most senior planner

- frequency of attendance by planners at important meetings
- number of specialist corporate planners
- annual cost of the planning activity
- forecasting and evaluative techniques used
- number of areas of business for which plans existed
- number of written documents, other than plans relating to and defining the planning activity.

Apart from investigating the relationship between the contextual variables [i.e. environmental and company characteristics] they have explored the impact of these on specific features of the planning systems by means of a series of statistical analyses.

Their findings indicate that the initial introduction of formal planning systems was largely influenced by 'technological' and 'market' uncertainties [i.e. technological inflexibility, a high rate of technological change and less secure markets] making the company's 'central logistic process more vulnerable to environmental changes'. Firms subject to 'inflexible technologies' [i.e. complex specialist expensive equipment, longer investment gestation period and more limited alternative sources of supply] concentrated their planning resources on technological forecasting and evaluation of alternative proposals; this is because these companies were forced to either predict the future accurately or influence their environments in such a way that the level of demand for their products would be by and large maintained.

In these instances, the planning staff were more active, attending a larger number of meetings more frequently [particularly at group and functional levels] and participating with line managers in generating and developing alternative proposals.

The scope and number of plans significantly correlated with the difficulty of finding alternative supplies [i.e. addition of long-term purchasing plans]. The size of the companies was associated with the sophistication and number of planners, the range of plans formulated and the frequency of planners' attendance at various meetings; extent of 'diversification' and 'divisionalization' of the firms comprised other contextual variables considered for the purposes of the study. It was found that where the companies were more diversified, a greater degree of emphasis was placed on the planning system's role as a 'control mechanism', more written plans were produced within a more formal system and planners attended group planning meetings more frequently.

The study undertaken by Grinyer and Al-Bazzaz enhances our understanding of the way in which contextual variables influence the characteristics of existing planning systems. In comparison with previous studies [e.g. Lindsay and Rue 1976] they take account of a larger number of contextual and planning system characteristics. However, they do not enlist 'all' the factors likely to be significant for 'design' purposes; For example, the various planning 'functions' accounted for in the literature. Although they conclude that the planning systems utilized in diversified and divisionalized firms are likely to be more 'control-oriented', they do not extend their analysis to include other types of planning functions, such as facilitating the process of strategy-formulation, co-ordination of divisional activities and the use of planning for management development purposes [Lorange 1980].

Moreover, having explored the interrelationships between situational variables and planning system characteristics, they do not go on to indicate the way in which these can be used as guidelines for design purposes. This is briefly touched upon however, in their discussion of companies active in technologically-dynamic environments [i.e. the need to concentrate planning efforts on technological forecasting and evaluation of alternative proposals]. Their findings could therefore be utilized in order to propose 'guidelines' which can be used for design purposes.

Lorange [1980] has extended his previous research to prescribe a method for designing strategic planning systems at corporate and divisional levels. The first step he suggested, is to identify those critical sources of strategic pressure likely to necessitate the adoption of various planning approaches:

> 'However, factors which are significant in identifying the planning needs at corporate/portfolio level differ from those at the divisional/strategy centre level'. [1980: 105]

Lorange suggests that the divisional planning needs can be determined after a close examination of the 'business attractiveness', 'competitive strength' and 'consolidation attractiveness' positions of the various business sectors. Pressures likely to give rise to planning needs at the corporate level are categorized into two groups:

1] Corporate financial pressures [the firm's overall financial position assessed in terms of unused debt capacity and debt/equity ratio, as well as its short-term financial performance in terms of profits, return on investment, earnings per share].
According to Lorange these influence the 'integration' aspects of the planning function; a weak financial position creates an urgent need for 'integration' planning at the corporate level because the relatively modest unused debt capacity cannot provide a basis for more aggressive expansion; this implies that planning efforts should be directed toward consolidating the firm's present position. This argument is extended to justify the need for 'integration planning' when the firm's 'short-term' performance is also unsatisfactory. This proposition is justified on the grounds that if the firm is to improve its financial performance, its 'internal operations' need to become more efficient. 'Integration planning' can thus be used to accomplish this task.

2] The firm's 'structural' position is also likely to influence the planning needs at the corporate level.

This involves an assessment of the firm's existing business portfolio on the basis of:

i) 'cash flow' projections to determine the financial rates of return associated with different businesses;

ii) 'environmental opportunities and threats' likely to necessitate the modification of the portfolio;

iii) 'risk analysis' to determine the overall level of risk associated with various portfolios.

> 'Structural processes are more long-term in nature and will create a need for adaptation at the corporate level. The ability to identify new long-term business opportunities and the insight to develop strategic programs to make shifts happen, the foresight to shift one's emphasis in time are all critical adaptation needs'. [1980: 113]

The essence of Lorange's approach toward determining planning needs and prescribing appropriate planning functions are encapsulated in Figure 2. Lorange discusses a set of six tailor-making 'systems design devices' which might be controlled or manipulated by the system designer to achieve the desired adaptation and integration capabilities of the overall planning process. These are:

- the design of a planning system format to meet a strategy centre's planning needs;

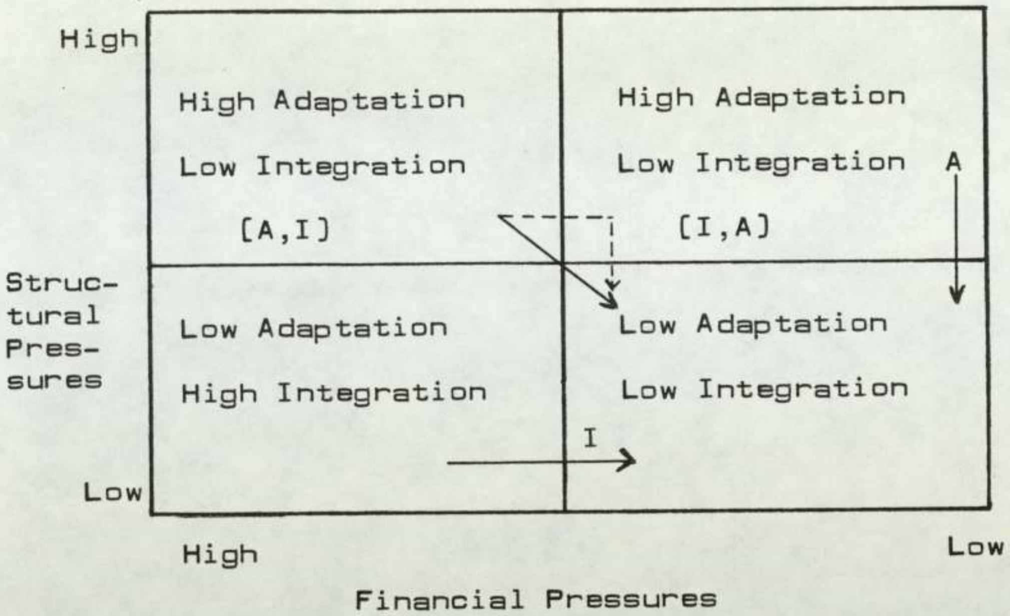


Figure 2 Portfolio level adaptation and integration planning needs (Lorange 1980: 113)

- the choice of relative emphasis on 'top down' versus 'bottom up' focus of the strategy identification and review activities;

- the relative amount of executives' involvement and time spent on each of the five cycles of the planning process (i.e. objectives setting, strategic programming, budgeting, monitoring and implementation);

- the lay-out of the planning calendar;

- the nature of the linkage among each of the five cycles in the planning process: tight versus loose;

- the relative emphasis in the control system on monitoring front-end versus near-term phenomena;

- the relative emphasis in managerial incentive schemes on assessing long-term versus short-term performance fulfillment [p. 178].

The relative orientation of these design parameters depends on the appropriate planning function required to fulfil the firm's needs [i.e. adaptation and integration]:

> 'A relatively bottom-up emphasis might tend to strengthen the organization's capabilities for internal growth through 'adaptive' moves of its existing businesses. A relatively heavy top-down emphasis will have the effect of strengthening the 'integrative' planning capabilities with respect to the firm's on-going businesses ... If the firm is having an overall need for adaptation, relatively more time should be allotted to the objective-setting stage of the planning cycle'. [pp. 188, 191]

Lorange provides a useful prescriptive view of the role of strategic planning systems, the way in which the planning needs of a company can be determined and how the various elements of a planning system can be designed to respond to these needs. The main plank of his thesis is that in order to be effective, there should be a match between a company's planning needs and the system's capabilities [p. 211]. Although he prescribes a useful method for identifying the company's planning needs [i.e. determining financial and structural pressures through cash flow projections, risk analysis, environmental assessment] the 'tailor-making' of the planning system is solely conducted on the basis of the appropriate planning functions [i.e. adaptation/integration].

Other situational variables such as the firm's 'organizational structure' are not taken into account, although these can influence the management and operation of the planning activity.

A number of general points emerge from the studies reviewed in this chapter. There seems to be substantial empirical evidence that long-range and strategic planning has been used extensively in large companies and is beneficial for those that use it. The planning process might significantly facilitate the formulation of a coherent strategy; a planning approach might provide the discipline for periodic strategic reviews; it can provide a basis for systematic learning and the delegation of strategic and operational responsibility throughout the organization [Lorange 1980]. It can also serve as a basis for control of lower organizational units [Berg 1973].

Extensive empirical studies have also identified general pitfalls/problems associated with the planning activity which might detract from its overall effectiveness [e.g. Berg 1965, Ringbaak 1971, Steiner and Schollhammer 1975]. There is some empirical evidence highlighting the 'multi-faceted' nature of the planning process, necessitating the adoption of a 'contingency-based' approach to the design of planning systems [Lorange 1979].

The literature specifically concerned with the situational design of corporate planning systems can be divided into two broad categories:

1) descriptive literature surveying 'state-of-the-art' in planning systems and exploring the interrelationships between situational variables and planning system characteristics [e.g. Lindsay and Rue 1976, Grinyer and Al-Bazzaz 1981]. These enhance our understanding of the influence of situational factors in shaping the characteristics of planning systems. However, because of the large sample of firms investigated in these studies [199 by Lindsay and Rue and 48 by Grinyer and Al-Bazzaz] and the methods adopted for collection and analysis of the data [questionnaires and statistical analysis], it has been difficult to consider a large number of 'situational' and 'planning system characteristics'. For example, Lindsay and Rue only consider two contextual variables, namely the uncertainty and complexity of the firm's environment. Moreover, although these studies provide an indication of the interrelationships between situational and planning system characteristics, it is not clear how such findings can be used for design purposes.

2) the second category of literature concerned with the situational design of planning systems is 'prescriptive' in nature [MacGinnite 1973, Malm 1975, Vancil and Lorange 1977, Lorange 1980]. These prescribe the manner in which planning systems should be designed in order to cater for the firm's specific requirements. Although useful, in that they clarify the important design parameters, these studies are not comprehensive enough to cover the entire design area. For example Lorange's [1980] 'situational design method' considers the planning functions of 'adaptation' and 'integration' to be

the contingent variables on the basis of which the appropriate posture of the planning process will be determined.

What is therefore needed is the type of research that crosses the descriptive and prescriptive boundaries of the literature. On the one hand, we need to know the characteristics of existing planning systems and their interrelationship with contextual/situational variables. This understanding however, can be extended further so that general guidelines, encapsulating the essence of these relationships, are developed in order to facilitate the design process; this sentiment is echoed by Lorange [1979: 229]:

> 'Continued emphasis will need to be placed on contingency-based research, so that one can continue the progress of being able to understand how to tailor-make the design of corporate planning systems so that they are as responsive as possible to each given setting'.

The preceding review of the main body of literature which examines the nature of interrelationship between situational factors and characteristics of corporate planning systems highlights the embryonic state of formal theory in this specific field of inquiry. As Steiner [1979: 414] comments:

> 'Very little research has been done on factors influencing the design of formal planning systems. Each organization is unique and each system therefore differs from all others ... We have not clearly identified major types of planning systems nor those factors that most influence their design'.

The present study is therefore directed toward exploring possible relationships and developing propositions which can be tested in future studies. In order to contribute to the development of theory in this field, situational settings and corporate planning systems of fourteen large, U.K.-based companies have been studied on a case-study basis in order to explore their likely inter-relationships. The ensuing chapter will specify the components of the analytical framework which was used to study the situational settings and corporate planning systems of these companies. This framework was developed on the basis of existing literature on 'organization', 'concept of the environment' and 'corporate planning systems'.

Chapter 3

CORPORATE PLANNING SYSTEMS AND THE SITUATIONAL SETTING: THE ANALYTICAL FRAMEWORK EMPLOYED

The existing literature on 'corporate planning systems', 'concept of the environment' and 'organizations' provides a sufficient basis for the development of an 'analytical framework' which is used to study and subsequently describe the characteristics of the situational settings and corporate planning systems of our sample of companies. The components of this framework are specified and the main sources of literature which have been used are further elaborated in this chapter.

During the early stages of the research, a number of preliminary interviews were arranged with corporate planning managers of two engineering companies which did not take part in the main study. The purpose of these interviews was to find out whether the concepts used for the development of the 'analytical' framework were meaningful to those in charge of corporate planning departments in specific companies. While agreeing with the usefulness of the analytical framework, they expressed the view that a firm's situational setting is too complex and influenced by too many variables, some of which are difficult to describe. For the purpose of conducting this study however, there is a need to specify those dimensions on the basis of which one can attempt to examine the situational settings and corporate planning systems of the investigated companies in order to ascertain the likely association/inter-relationship between the two.

3.1 The firm's 'situational setting'

The firm's 'situational setting' is considered to consist of three interrelated environments:

1) The 'contextual' environment

2) The 'industry' environment

3) The 'internal' environment.

Having specified these environments, it becomes necessary to identify their main components. The detailing that such analyses involve is extensive in the case of the 'internal' environment, somewhat less so for the 'industry' environment and merely indicative for the 'contextual' [Ozbekhan 1977: 526].. The description and subsequent analysis of these environments provide a complicated, loosely-structured yet orderly snapshot of the firm's 'situational setting'; this is necessary in order to ascertain its influence in determining the planning needs and subsequently shaping the characteristics of corporate planning systems used in our sample of companies.

The ensuing section will outline the relevant sources of literature which have been drawn upon in order to compile the framework and will proceed to clarify the specific components of these environments.

3.1.1 Concept of 'environment'

For the first half of this century, management and organization theorists tended to ignore the environment, or at least regard it as a constant. Taylor [1911] viewed his principles of scientific management as universally-applicable and treated environmental demands and organizational objectives as 'fixed' in his search for one best way[1]. Later developers of administrative principles gave little attention to environmental differences as they attempted to integrate experiences from the church, the military and business into a common set of practical prescriptions [e.g. Mooney and Reilly 1931]. Economists were concerned with organizational adjustments to the environment, but by and large, these were simply treated as formal exercises in profit-maximizing logic. In their models, market forces set the prices for goods and services and the entire organization was characterized as a production function whose blend of capital and labour was indicated by the quest for cost minimization[2].

Attacks on universalistic organization and management principles began in the 1930s and 1940s and intensified in the 1950s. The initial criticism concerned the alleged inability of bureaucracies to adapt to the needs of individuals and changes in the environment. Gouldner [1954] provided case-study evidence suggesting that bureaucratization could be efficacious in one setting [an office] and damaging in another [a mine]. Burns and Stalker

[1961] extended this notion of contingent organizational responses by noting that successful firms in a stable environment tended to have 'mechanistic' or highly-bureaucratized structures and processes, while successful firms in changing and uncertain environments tended to have 'organic' or flexible structures and processes. The impact of Burns and Stalker's work was augmented by the growing acceptance of the 'systems' view of organizations which portrayed them as socio-technical mechanisms drawing resources from the environment at one end and exporting goods and services into the environment at the other [e.g. Emery and Trist 1965, Katz and Kahn 1966, Thompson 1967].

Throughout the late 1950s and early 1960s, a series of increasingly elaborate models portraying the linkages among the environment, technology, structure and processes were developed. Most of these however, dealt with only a limited aspect of the full adjustment sequence such as tying particular technologies to specific products or markets or relating types of production processes to organizational structure and staffing [e.g. Woodward 1965]. It is therefore apparent that a clearer model of the organization-environment relationship is needed in order to determine the various constituents of a firm's situational setting.

3.1.2 Environmental 'boundaries'

It is usually taken for granted that there is some boundary separating the organization from its environment;

environment potentially being everything which is outside the organization. Starbuck [1976] has compared the problem of finding the organization's boundary to that of finding the boundary of a cloud. In defining a cloud, we can measure the density of its moisture and by selecting some specific level of density determine what properly 'belongs' to the cloud and what 'belongs' to its environment. However, in dealing with organizations, the 'boundary problem' poses a more difficult question. Clearly, interaction patterns and degrees of involvement of various individuals or groups [e.g. unions, suppliers, etc.] vary depending upon whether our concern is with planning, wage and salary issues or the continued viability of a firm. Since organizations are 'open' systems, they are constantly changing and their boundaries fluctuate accordingly. Perhaps the best that can be hoped for is that the definition of the organization's boundary should correspond to the problem under investigation.

3.1.3 Different dimensions of 'environment'

Assuming that one can distinguish between the organization and its environment, how can the environment be defined in a way which is analytically useful? Simon [1968] has made the distinction between the 'inner' and 'outer' environment of the artifact where:

> 'An inner environment ... [is] ... the substance and organization of the artifact itself and an outer environment, the surroundings in which it operates'.

However, the term 'outer' or 'external' [the latter is used more frequently] can have different meanings. In general, it is taken to mean all that lies outside the boundaries of the organization as a judicial entity. This view can also be observed in the work of Christensen, Andrews and Learned [1969] and Ansoff's 'corporate strategy' [1965].

Drucker [1946; 1972] discusses the stakes which 'society' has in the corporation and also points out that the firm has an external end: it must satisfy the needs of the consumer. In the epilogue of the 1972 version of his book 'Concept of the Corporation' he observes:

> 'Today G.M. is clearly in deep trouble, not because its cars do not sell or because it lacks efficiency. G.M. is in trouble because it is seen increasingly by more and more people as deeply at odds with basic needs and basic values of society and community'.

This indicates that influences, other than those in the market, have gained importance.

Levitt [1962] also draws attention to the importance of environmental influences for the firm. He mentions three areas of change which have particular relevance to the strategy of the firm:

1] Technological developments leading to product changes
2] Changes brought about by shifts in the attitudes and values of people

3] Institutional changes.

The emphasis is on those factors which influence the market. He goes on to suggest that management should increase its sensitivity to these changes since they are relevant to the future of the firm.

The main focus of Drucker and Levitt is on environmental forces affecting the market. In more recent years however, much has been written about environmental influences in a wider context. Votaw and Sethi [1969] investigated why corporations do not keep up with their changing environments and ascribe this to the corporation's misconception of its role in society. They suggest that the firm should be less self-centred and more open to environmental issues.

Hall [1972] distinguishes between the 'general' and the 'specific' environments. The former consists of those factors which influence all organizations, such as technology, economic policies, law, demographic factors and cultural influences. The latter is composed of those factors with which the organization is in direct interaction. Within this context, he refers to Evan's concept of the 'organization-set'. In a similar vein, Elbing [1974] has put forth the concepts of 'direct-action' and 'indirect-action' environments.

Kast and Rosenzweig [1974] make a distinction between a 'societal' environment and a 'specific' environment based largely on Hall's distinction. The upshot of their argument is that the 'societal' environment is largely composed of the same elements as mentioned by Hall. The 'specific' environment consists of customers, suppliers, competitors, socio-political factors and technology, the last two being interpreted in the narrower sense of their specific impact on a certain industry. The factors comprising the 'specific environment' have in turn been adopted from Duncan [1972] who uses the following dimensions to determine the nature of a firm's environment:

1] Simple/Complex: the extent that the factors in the decision-unit's environment are few in number and are similar to one another, in that they are located in a few components.

2] Static/Dynamic: the degree to which the factors in the decision-unit's internal and external environment remain basically the same over time or are in continual process of change.

A narrower view of the environment can be found in the work of Thierry [1971] who makes a distinction between the 'environmental system' and the 'competitive system'. The latter is composed of the economic and competitive conditions within an industry, its market strategy and structure and the existence of cartels.

The preceding arguments imply that the firm operates in an environment which influences it 'directly'; this 'direct' environment is in turn influenced by a 'general/ contextual' environment which has an 'indirect' impact upon the firm.

This distinction between the 'direct' and 'indirect' environments has been used to categorize the firm's situational setting on the basis of the three interrelated environments. The 'contextual' environment corresponds to the 'indirect' and the 'industry' environment to the 'direct'. The 'internal' environment of the firm represents the manner in which the organization has responded to the challenges present in its environment [i.e. its strategic development], the internal structure for organizing this response and its resultant health/success [i.e. its performance].

The components of these environments will be further elaborated in the ensuing section.

3.2 The 'contextual' environment

This represents the various influences which effectively shape the total environment within which all firms operate. In order to explore the impact of this environment on the firm's situational setting, we need to identify the range and type of macro-environmental influences which are of 'strategic significance' to the firm and its activities. These can be categorized as:

Economic factors	-	(including inflation, interest and exchange rates)
Political factors	-	(including political ideology of the Government, political developments on an international scale)
Social factors	-	(such as change in life styles and values)
Technological factors	-	(such as impact of new technology on specific industries)
Legal and legislative factors	-	(such as impact of Government legislation concerning 'lead in petrol' on oil and car companies)

(Child 1969, Aldrich 1979).

3.3 The 'industry' environment

Every firm is in continuing interaction with its more 'immediate' environment. Challenges and opportunities generated within this environment contribute to an understanding of the firm's situational setting. This environment is in the words of Pfeffer & Salanick [1978: 63]:

> '... The set of individuals and organizations with whom the organization directly interacts. It is on this level that the organization can experience its environment'.

Every 'industry' exhibits characteristics which are unique to itself. However, in order to explain its impact on the firm's situational setting, its major components need to be specified.

Ansoff [1979b: 36] has made the following observation:

> 'An ESO [Environment-Serving Organization] is usually a member of a group of similar organizations which have the following common features. All of the members:
>
> 1] Sell similar products/services to a common pool of customers/ clients
> 2] Buy their input from a common group of suppliers
> 3] Obtain their subsidies from a common pool of donors
> 4] Share a common body of knowhow, called technology, which is essential for their commercial activity.
>
> In business, such a set of interrelated groups composed of 'ESOs', customers, suppliers and financing sources is called an 'industry' '.

A clear insight into the firm's 'industry' environment is a major prerequisite for understanding its key 'success factors'. For example, in the motor car industry a strong dealer network is a key 'success factor' since the manufacturers' sales crucially depend upon the dealers' ability to finance a wide range of model choices and offer competitive prices to the customer. In the airline industry, with its high fixed costs and relatively inflexible route allocations, a high load factor is critical to success. In the computer industry, a sales force able to diagnose customer requirements for information systems, to design a suitable system and to equip the customer to use it, is more important than the actual hardware itself. The industry 'success factors' therefore highlight the critical tasks which must be performed particularly well in order to ensure survival and profitability [Morrison and Lee 1979]. Grinyer and Spender [1979: 5] emphasize the impact of the firm's 'industry' on managerial perceptions and judgement:

> 'While individual managers certainly do have their own sources of judgement, there is an important additional source of judgement in the collective experience of their industry. Managers recognize that certain patterns of judgement and perception appear effective within their industry. Each industry has its own historically-developed set of rules of thumb and judgement, not generally transferable to other industries. Managers within a particular industry must learn these to function within that industry. Although these shared values, rules and judgements are valuable to almost every firm within that industry, they may be of little value outside it'.

The term 'industry environment' in the context of this research refers to the collection of entities with which the organization is in direct interaction in order to carry out its business. This needs to be clarified since as Spender [1980: 139,140] comments:

> 'Just as the meaning of the term 'firm' varies according to the conversational context in which it is used, so does the term 'industry' ... ultimately it derives its meaning from the user's analytic framework alone; there is no empirical correlate; the industry cannot be reified'.

The following section will specify the main components of the 'industry' environment.

3.3.1 Competition

Every industry has an underlying structure or a set of fundamental economic and technical characteristics that give rise to its competitive forces. The corporate strategist's goal is to find a position in the industry where the firm can best defend itself against the existing forces or to influence them in its favour. Knowledge of the underlying sources of competitive pressure highlight the critical strengths and weaknesses of the company, animate the position of the firm within its industry and illustrate the areas where industry trends promise to hold the greatest significance as either opportunities or threats [Porter 1979].

Different forces take on prominence in shaping competition in each industry. In the steel industry, the key forces are foreign competitors and substitute materials, while in the tanker industry, it is probably the buyers [i.e. the major oil companies]. Certain features are critical to the strength of each competitive force. These are:

threat of entry: new entrants to an industry bring new capacity, the desire to gain market share and often substantial resources. The seriousness of the threat of entry depends on the barriers present and the reaction which the entrant can expect from existing competitors. If the barriers to entry are significant and the newcomer expects sharp retaliation from the entrenched competition, he will not pose a serious threat. The major sources of barriers to entry are:

i] Economies of scale: these economies deter entry by forcing the newcomer either to enter on a large scale or to accept a cost disadvantage. Scale economies in production research, marketing and service are probably the key barriers to entry in the computer industry. Economies of scale can also act as obstacles in distribution, utilization of the sales force, financing and nearly any other part of the business.

ii] Product differentiation: brand identification creates a barrier by forcing the entrants to spend heavily in order to overcome customer loyalty. Advertising, customer service, being first in the industry and product differences, are among the factors which foster brand identification. It is perhaps the most important source of entry barriers in soft drinks, pharmaceuticals and cosmetics. Brewers couple brand identification with economies of scale in production, distribution and marketing, in order to create barriers around their businesses.

iii) Capital requirements: the need to invest considerable financial resources in order to compete creates a major barrier to entry, especially if the required capital is not recoverable, such as expenditure on advertising or research and development. Computer manufacture and mineral extraction are examples of fields where huge capital requirements limit the pool of likely entrants.

iv) Cost advantages independent of size: entrenched companies may have cost advantages not available to potential rivals, regardless of their size and attainable economies of scale. These advantages can stem from the effects of the learning curve, proprietary technology, access to the best raw material sources, assets purchased at pre-inflation prices, government subsidies or favourable locations.

v) Access to distribution channels: the more limited the wholesale or retail channels are and the more that existing competitors have these closed off, the tougher the entry into that industry will be.

Other factors such as the rate of industry growth can influence the sector's ability to absorb any new arrivals.

Competitive forces are therefore a crucial determinant of the firm's 'industry' environment. They actively influence the firm's choice of target markets, marketing intermediaries and suppliers[3].

In order to gain an insight into the firm's 'competitive environment', it is useful to understand the type and nature of competition encountered by the firm.

3.3.2 Suppliers

Suppliers are another key component of the firm's 'industry' environment. The firm is essentially a 'resource-conversion' machine, converting materials, machines, labour and funds into useful products. The degree of importance attached to the firm's suppliers varies according to the strategic significance of supplies as well as the number and sources of supplies. As Farmer comments (1973):

> '... the supply of materials is not as important to some companies, as it is to others. However, given the statistic that the average British company disposes of more than half its income on materials and supplies, the interdependence of most manufacturing units and their sources of supply is apparent. The argument here is not that materials supply has evolved to become the dominant function in manufacturing industries, but rather that it is one of the areas which can be extremely important, in terms of the achievement of corporate objectives'.

The motor car industry clearly illustrates the importance of materials and components and the security of their supply. Supply failures in such cases may have a considerably adverse impact on the achievement of corporate objectives.

Suppliers can exert bargaining power on an industry by raising prices or by reducing the quality of purchased goods and services. Powerful suppliers can therefore squeeze profitability out of an industry, unable to recover cost increases in its own prices. The power of each important supplier groups is dependent upon a number of characteristics of its market situation. A supplier group can exert a great deal of influence if:

- it is dominated by a few firms and is more concentrated than the industry it sells to;

- its product is unique or at least differentiated;

- if it has built up considerable 'switching costs'. [these are fixed costs which buyers face in changing suppliers];

- it poses a credible threat of integrating forward into the industry's business. This provides a check against the industry's ability to improve the terms on which it purchases;

- the industry is not an important customer of the supplier group. [Porter 1979, Farmer 1973].

In order to evaluate the strategic importance of the firm's main suppliers, the following factors are taken into account:

1) the strategic significance of raw materials (or other supplies)

2) the degree of supplier concentration.

3.3.3 Marketing intermediaries

These facilitate the flow of goods and services between the firm and its ultimate destination (i.e. its customers). They include wholesalers and retailers, agents and brokers, transportation companies and warehouses. These institutions come into being in order to facilitate the work of consummating exchanges. Therefore, an understanding of the channels used for these purposes and their significance to the firm will be important in determining the characteristics of its 'industry' environment. The framework will therefore seek to evaluate the relative importance of 'marketing intermediaries' for the firm's various businesses.

3.3.4 The market (i.e. main customer groups)

The firm must ultimately satisfy the needs of those who purchase its products. A customer/buyer group can exert a considerable degree of influence if:

- it is concentrated or purchases in large volumes. Large-volume buyers are potent forces if heavy fixed costs characterize the industry;

- the purchased products are standardized or undifferentiated. The customer group can therefore find alternative suppliers;

- the customers become price-sensitive, if the purchased products form a component of their own products and represent a significant fraction of its costs;

- the firm's product is unimportant to the quality of the buyers'/customers' products;

- the customers pose a credible threat of integrating backward in order to produce the firm's range of products.

If a major function of the corporate planning system is to facilitate the firm's adaptation to the opportunities and threats present in its environment, an understanding of the special characteristics of its main customer groups, the geographic diversity of its markets and their likely growth prospects is essential.

In order to gain this insight, the following issues need to be clarified:

1) relative bargaining position and special features of the firm's main customer groups

2) the geographic diversity of its existing markets and its extent of reliance on different types of markets

3) the relative maturity of its market[s] and likely growth prospects.

3.3.5 Technological influences

Every new technology may potentially spawn a major industry. Technological development may play a more decisive role in certain industry [e.g. communication, computers, chemicals], although these are nowadays considered to have an impact on most business activities. According to Davis [1971] technology is:

> 'The combination of skills, equipment and relevant technical knowledge needed to bring about desired transformations in materials, information or people'.

Denning and Lehr [1972] found that companies with formal planning systems tended to be confronted with a higher rate of technological change than other companies in their sample. Taylor and Irving [1971] concluded that one of the reasons for setting up a formalized planning system in their sample of 27 U.K. companies was 'to anticipate technological changes'. While examining the firm's 'industry' environment, we will therefore evaluate the likely impact of technological developments on its existing businesses. This can be assessed on the basis of the following criteria:

1) likely impact of technology resulting in the development of new products [e.g. pharmaceutical industry]

2) technological developments leading to new 'production processes' [e.g. the use of robots in the motor industry]

3) the impact of technology on capital investment and adopted time horizon for planning purposes.

[Denning and Lehr [1972] concluded that there was a clear tendency for technologically-dynamic companies to have a higher degree of capital intensity].

An examination of the various constituents of the companies' industry environment will help clarify those factors considered to be important for their continued success.

3.4 The 'internal' environment

This is shaped by events, structures and processes which characterize the firm's 'unique' features, namely:

- its strategic development
- organizational structure
- characteristics and composition of its senior management
- historical performance
- internal processes of co-ordination, control and resource allocation.

3.4.1 Strategic development

The key challenge facing business is to achieve a match between the firm's capabilities and the opportunities present in the market place. Within this context, the crucial factor is the 'strategy of the firm'. Since strategy deals with the configuration of relationships between the firm and the external inputs, it provides a useful understanding of how the firm has generally responded to challenges in its environment and should capture the past and present character of the firm.

Proposed definitions of strategy have three elements in common:

- they emphasize the relationship between the firm and its environment, in terms of opportunities [Ansoff 1965]
- they view strategy as the basis for allocating resources [Bower 1970]
- they consider strategy to be the unifying purpose which determines the way sub-units are managed [Chandler 1962, Channon 1973].

The strategic development of the companies included in this research will be assessed with particular reference to major diversification moves and expansion into different geographic markets. In introducing each case study, a brief account of the company's historical development is provided which includes a discussion of its strategic development.

3.4.2 Organizational structure

This term refers to the decomposition of the entire organization into sub-units and to the relatively enduring relationships among them; structure therefore includes such major organizational attributes as complexity, formalization, centralization and administrative intensity. The firm's structure exists in order to control and co-ordinate the technology and serves as a buffer between the technical core and the environment. Since the term has been defined in different ways, an attempt will be made to summarize the important definitions. According to Child [1977]:

> 'The structure of an organization is often taken to comprise all the tangible and regularly-occurring features which help to shape its members' behaviour'.

Drucker [1974] defines the term as:

> 'A means for attaining the objectives and goals of an institution'.

The function of an organizational structure is therefore to assist in the attainment of objectives. It can do this in the following manner:

1] structure contributes to the successful implementation of plans by formally allocating people and resources to the tasks which have to be performed and by providing mechanisms for their co-ordination. This is sometimes referred to as the 'basic structure'. It takes the form of job descriptions, organization charts and the constitution of boards, committees and working parties;

2] it is possible to indicate more clearly what is expected of the members of the organization by means of various structural 'operating mechanisms'. For example, devices such as standing orders or operating procedures can set out the ways in which tasks are to be performed. In addition, standards of performance can be established, incorporating criteria such as output or quality of achievement.

3) the ambit of structure encompasses provisions for assisting decision making and its associated information-processing requirements. These can be called 'decision mechanisms'. The allocation of responsibilities, the grouping of functions, decision-making, co-ordination and control are all fundamental requirements for the continued operation of an organization. The quality of an organization's structure will affect how well these requirements are met.

Within this context, the literature suggests the following as comprising the major dimensions of structure:

1) the allocation of tasks and responsibilities to individuals, including discretion over the use of resources and methods of working;

2) the designation of formal reporting relationships, determining the number of levels in hierarchies and the spans of control of managers and supervisors;

3) the grouping together of individuals in sections or departments, the grouping of departments into divisions and larger units and the overall grouping of units into the total organization;

4) the delegation of authority, together with associated procedures, whereby the use of discretion is monitored and evaluated;

5) the design of systems to ensure effective communication of information, integration of effort and participation in the decision making process;

6) the provision of systems for performance appraisal and reward which help to motivate the employees.

For the purpose of the present study, associated internal processes such as co-ordination and control will be treated separately. The characteristics of a firm's organizational structure will be determined through an examination of the following:

1) the number and size of the firm's divisions or operating units, which refers to the autonomous or semi-autonomous administrative units which can act on their own behalf in the market place;

2) the nature of the business of each operating unit or division (in terms of their product/market domains), and their relative contribution to the firm. This is important because each operating unit competes for scarce resources, but not all units are equally powerful within the political system of the firm. Operating units could have disproportionate power because they are vital links in the firm's strategy (Hickson et al 1971), because their skills or outputs are scarce (Crozier 1964) because they possess information which noone can intelligently dispute (Bower 1970)

or because their senior management has exceptional personal influence [Bower 1970];

3) the extent and type of inter-divisional transactions.

3.4.3 Composition and characteristics of senior management

Managerial values and perceptions play a decisive role in shaping the firm's strategic posture. Child [1972] has argued that these exert a strong influence on organizational responses to the environment. Vancil [1971] and Steiner [1963] have emphasized the importance of top management's support in the success of corporate planning systems. However, one can argue that senior management's role varies greatly between different firms, and that its composition and value system significantly influences its 'internal' environment. Before proceeding any further however, we need to clarify what is actually meant by the term 'senior management'. It is only then that we can examine its likely impact upon the firm and its corporate planning system.

Major strategic decisions are usually the product of the 'dominant coalition', the most influential members of the management group [Riker 1962, Cyert and March 1963, Quinn 1980]. The composition of the dominant coalition may vary over time. In his studies of the Voluntary General Hospital, Perrow [1961] found that the dominant coalition changed as the hospital's 'critical task' changed. The coalition group generally consists of those individuals

'... who collectively have sufficient control of the organizational resources to commit them in certain directions and to withold them from others' [Thompson 1967]

The decision making process is heavily conditioned by these managers' perceptions and values which in turn would have been influenced by conditions in their environments, experiences and backgrounds, past and current strategy and performance, and power and influence patterns in and around the firm[4].

However, senior management's values and perceptions are difficult to determine. Guth and Taguiri [1965] emphasize that a person's values are acquired early in life as a result of the 'interplay of what he learned from those who reared him and of his particular 'individuality' and times'. A person's basic values are a relatively stable feature of his personality, although they may change somewhat as his level of knowledge and analytical skills develop through life.

However, an understanding of these values and attitudes through systematic research poses numerous problems, since the questions would be 'politically' difficult to address. During the course of this study, an attempt will therefore be made to assess these by examining factors which are easier to ascertain; namely, the composition of the senior management, their backgrounds and level of experience within the firm.

3.4.4 Historical performance

Whatever the exact balance of its corporate objectives, a firm operating under competitive conditions has to pay high regard to its level of profits and its growth relative to that of competitors. These provide an indication of its performance and can influence the role assigned to its corporate planning system.

According to Cyert and March (1963) the initiative to change intensifies as a problem intensifies. Strategic changes are relatively common when the firm is performing unsatisfactorily since its senior management need to intensify their search for likely solutions. If a corporate planning system is set up in these conditions, its tasks might include those of identifying potential opportunities which might improve the firm's position (such as likely diversification options) or tightening the centre's control over the divisions (Heau 1976).

The criteria used to evaluate the firm's performance in this study comprise the following:

1) annual turnover of the company and the relative divisional contributions to total sales over a ten-year period; this provides an indication of the firm's growth over this period;

2) group profits (before tax) and the relative divisional contributions to total profits (before tax) over the same ten-year period;

this provides an approximate indication of the contribution of the various divisions to the overall profits;

3) the geographic distribution of turnover and profits, providing an indication of the companies' dependence on various geographic markets.

3.4.5 Co-ordination mechanisms

There are a number of specific mechanisms used to achieve inter-departmental and inter-divisional co-ordination. These include:

- direct hierarchical control
- control by paperwork systems
- co-ordination by committee
- co-ordination through a liaison officer.

The required degree of co-ordination varies depending on the firm's environmental setting, its strategic diversity and organizational structure. Lawrence and Lorsch's (1967) successful 'container firm' found 'direct contact' to be sufficient while their successful 'food processor' went as far as utilizing 'integrators' (product managers acting as liaison officers). On the basis of these findings one can conclude that firms characterized by inter-departmental and inter-divisional activity, environmental uncertainty and complexity might select more sophisticated mechanisms compared with those confronting a less uncertain and complex environment.

According to the literature, one of the tasks of a formalized corporate planning system is to facilitate the co-ordination between the firm's various divisions and/or functional activities [Warren 1966, Steiner 1969, Lawrence and Lorsch 1967, Taylor and Irving 1971]. It is therefore important to incorporate this in our analytical framework for two reasons:

- firstly, to enhance our understanding of the firm's existing co-ordination processes;
- secondly, to ascertain the extent to which these processes influence the tasks of its formalized corporate planning.

An attempt will therefore be made to clarify this by addressing the following issues:

- extent of co-ordination required between the firm's various divisions and/or functional activities;
- types of mechanisms used to achieve the required degree of co-ordination.

3.4.6 Resource allocation and control mechanisms

Every firm needs to ensure that resources are obtained and used efficiently in order to accomplish its overall objectives. Organizations undertake a variety of activities, such as annual budgeting and capital budgeting, in order to allocate their resources.

The process of 'resource allocation' has been a topic of investigation in several studies. Cyert and March [1963], for example, describe how such decisions were actually made, prompting others to view 'resource allocation' not as single choices but as organizational processes . Bower [1970] studied the resource allocation process in a large, diversified company. He distinguished three sequential steps which took place at three different levels of the firm:

- the 'definition' phase at the divisional level, where the need for investment was recognized and a proposal formulated to cater for this need;

- the proposal was given 'impetus' when the senior divisional management agreed to support it and commit themselves to it;

- the process of 'approval' by senior corporate management.

Ackerman [1970] used the Bower model to compare these processes in paper manufacturing divisions of two 'integrated' concerns and two diversified multi-divisional firms. Holding 'industry' constant, he assigned variations in the 'process' to variations in the firm's 'organizational structures'. He concluded that the 'definition' and 'impetus' stages of the resource allocation process were more centralized in the two integrated companies.

Berg [1969] embarked upon another comparative study contrasting the 'conglomerate' with the more standard 'multi-divisional' firm. His conclusions indicated that conglomerates are more likely to have a greater degree of decentralization in their resource allocation processes, compared with the more standard 'multi-divisional' firm.

An understanding of the way in which a firm allocates its resources is necessary for our purposes because:

- it enhances our understanding of the firm's 'internal environment' and existing decision processes;

- it enables us to ascertain the interrelationship between these processes and the firm's corporate planning system.

The 'analytical framework' outlined in this chapter forms the basis for examining and subsequently describing the 'situational settings' of the four firms which have been studied in some detail [BL, Fisons, Cadbury/Schweppes and L.C.P. Holdings]. However, due to time and resource constraints, the situational settings of the ten other companies will be described only briefly. During the course of interviews with the planning managers of these companies, attention was particularly focussed on obtaining information on their corporate planning systems and the way in which they had been influenced by situational factors. The following two sections will specify the 'dimensions' used to characterize these planning systems and the way in which an examination of the interrelationship between 'situational' factors and characteristics of their 'planning systems' was conducted.

3.5 Dimensions used to characterize the companies' corporate planning systems

In this section, an attempt will be made to specify the dimensions used to characterize corporate planning systems studied in our sample of companies. In addition, specific terms used for the purpose of the study will also be defined.

The term 'planning' has been used in the literature to denote different meanings:

> '... Some give the term a specific connotation, the determination of strategy; some consider it a process which extends and enlarges the annual budgeting cycle; some consider it essentially a matter of what business you are in'.
> [Denning 1971: 1]

Faced with this level of variety, a useful starting point will be to review the various definitions offered in the literature. Anderson [1975: 3] defines 'planning' as:

> 'The systematic preparation of forward-looking strategic plans, defining the objectives to be pursued in the long, medium and short term, within the framework of corporate policy, established by the Board of Directors for the business as a whole'.

According to Ackoff [1970: 2]:

> 'Planning is anticipatory decision making. It is a process of deciding what to do and how to do it before action is required.

Planning is a system of decisions ... It is a process that is directed toward producing one or more future states which are desired and which are not expected to occur unless something is done. Planning is thus concerned with avoiding indirect actions and with reducing the frequency of failure to exploit opportunities'.

Bower [1970: 37] emphasizes the relationship between planning and other organizational processes:

'... a complex process which in addition to intellectual activities of perception and analysis involves the social process of implementing formulated policies by means of organizational structure, systems of measurement and allocation, systems for reward and punishment and finally involves a dynamic process of revising policy as shifts in organizational resources and the environment, change the context of the original planning problem'.

The outcome of what Bower calls the 'planning process' is the choice of major markets and products as well as the commitment to allocate resources in order to implement planning choices.

Drucker [1959: 240] considers 'planning' to be:

'a continuous process of making entrepreneurial decisions systematically and with the best possible knowledge of their futurity; organizing systematically the effort needed to carry out these decisions; and measuring the results against expectations through organized systematic feedback'.

Moreover, various authors have specified different types of planning. Anthony [1965], for example, differentiates between 'strategic planning' [the process of deciding on the objectives of the organization, on changes in these objectives, on resources used to attain them and the policies that are to govern the allocation, use and disposition of resources]; 'management control' [the process whereby managers ensure that resources are obtained and used effectively in order to accomplish the objectives] and 'operational control' [the process of assuring that specific tasks are carried out effectively and efficiently].

Ansoff [1977: 13] defines four different types of planning:

- 'operations planning' which includes forecasting environmental conditions and future demand, establishing performance objectives and selecting preferred growth directions;

- 'strategic planning' includes the evaluation of environmental trends; determination of opportunities and threats; establishment of corporate philosophy; setting of corporate objectives; generation, evaluation and choice of strategic alternatives and the portfolio balancing of alternatives;

- 'development planning' includes the generation of new project proposals, the evaluation of the proposals against objectives and strategies and the assignment of organizational responsibilities;

- 'capability planning' includes the evaluation of present capabilities, determination of future capabilities selected by strategy and determination of ultimate pattern of capabilities along with priorities in the transition.

Ackoff [1970] differentiates between 'tactical' and 'strategic' planning, the former determines the means for the achievements of the ends [i.e. strategic planning]. Their distinguishing characteristics include:

- their respective ranges in time;
- how much of the organization is being planned for;
- extent of emphasis on the establishment of goals.

A'strategic plan' should therefore contain:

- objectives and goals
- operating policies
- resources: requirements and provisions
- organizational structure [required to carry out the planning tasks]
- controls.

Steiner's [1969] typology of planning is composed of:

- strategic planning: the process of determining the major objectives of an organization and the policies and strategies that govern the acquisition, use and disposition of resources in order to accomplish these objectives [p. 34];

- medium-range programming: the process in which detailed, co-ordinated and comprehensive plans are made for selected functions of a business to deploy resources to reach objectives by following policies and strategies laid down in the strategic plan [p. 35];
- short-term budgets and detailed functional plans.

Denning [1971] distinguishes between:

- operational planning: the forward planning of existing operations in existing markets with existing customers and facilities [p. 2];
- project planning: the generation and appraisal of, and commitments to, and the working out of the detailed execution of an action outside the scope of present operations which is capable of separate analysis and control [p. 3];
- strategic planning: the determination of the future posture of the business with special reference to its product-market posture, its profitability, its size, its rate of innovation and its relationship with its executives, its employees and certain external institutions [p. 4].

A study undertaken by Taylor and Irving [1971] in 27 major U.K. companies arrived at the conclusion that formalized and systematic corporate planning is used in order to:

- improve co-ordination between divisions
- achieve successful diversification
- ensure a rational allocation of resources
- anticipate technological changes.

These are similar to the range of functions which the literature assigns to corporate planning systems, namely:

- to assist the firm to adapt to environmental opportunities and threats, identify relevant options and provide for an effective strategic fit with the environment [Gilmore and Brandenburg 1962, Ansoff 1965, Ackoff 1970, Grinyer 1971, Malm 1975, Lorange and Vancil 1977, Lorange 1980];

- to facilitate the allocation of the firm's scarce resources including critical management talent and technological know-how [Anthony 1965, Bower 1970, Lorange 1980];

- to co-ordinate strategic activities in order to reflect the firm's own internal strengths and weaknesses so as to achieve efficient internal operations: integration [Warren 1966, Steiner 1969, Lawrence and Lorsch 1967, Athreya 1970];

- to instil an approach of systematic management development by building an organization that is learning from the outcomes of its past strategic decisions so that it can improve on its strategic direction; a strengthened sense of professionalism with respect to strategic management [Ansoff 1976, Lorange 1980].

These enhance our understanding of the potential role of corporate planning and its likely contribution to the firm. However, since our objective is to study existing corporate planning systems and to specify situational factors which have shaped their characteristics, we need to extend these definitions and explain what is meant by the term 'corporate planning system'.

Anthony [1965] defines 'formal planning systems' as:

> '... embracing the management
> control process including
> formal aspects of certain
> decisive resource allocation
> processes'.

Aguilar, Howell and Vancil [1970] consider these systems to be:

> 'an integrated set of
> procedures to guide
> and constrain the actions
> of sub-ordinates',

whereas Lorange and Vancil [1977] define a 'strategic planning system' as:

> 'A structured [that is
> designed] process that
> organizes and co-ordinates
> the activities of the
> managers who do the planning'.

According to Grinyer and Al-Bazzaz [1981: 2]:

'Formal corporate planning is characterized by a number of features. It is bureaucratic involving specifically-created procedures, use of schedules, written plans and the use of specialist staff with defined roles [Weber 1947]. However, it is distinguished from other bureaucratic processes within the business by its focus on the organizational unit as a whole; whether it be a group of companies, divisions, subsidiaries. It is also alleged to be a systematic process for making present entrepreneurial decisions in the light of anticipated conditions for guiding implementation, for monitoring and controlling performance'.

The present study utilizes various facets of definitions proposed in the literature and considers 'planning' to be: 'The formalized activity by means of which a firm attempts to match its existing capabilities to the opportunities and threats present in its environment, providing a basis for allocating resources in order to achieve specific corporate objectives'. The term 'corporate planning system' refers to: 'the totality of the planning effort from a corporate perspective, specifying procedures and the organization required for the accomplishment of specific 'planning' tasks'.

Before proceeding to propose the specific dimensions used to characterize corporate planning systems studied in this research, it is instructive to examine the dimensions which have been utilized in studies most directly related to the present one.

The 'Harvard Data Bank Project', undertaken in 1970-1971, attempted to relate situational variables to planning system characteristics which were described on the basis of:

1) planning philosophy and purpose
2) planner's role and relationships
3) planning processes
4) planning techniques and procedures.

More recently, Grinyer and Al-Bazzaz [1981] have used the information collected by means of structured interviews in 48 large, U.K. companies, to explore the interrelationship between environmental, company and planning characteristics, thereby proposing a 'tentative contingency model'. The planning variables taken account of in their study were:

1) age of the corporate planning system
2) reporting level of the most senior planner [i.e. status of planners]
3) frequency of attendance by planners at important meetings
4) number of specialist corporate planners
5) annual cost of the planning activity
6) forecasting and evaluative techniques used
7) number of areas of business for which plans existed
8) number of written documents, other than plans, relating to and defining the planning activity
9) perception on the role, contribution and difficulties of corporate planning.

(The Harvard Data Bank Project and the research undertaken by Grinyer and Al-Bazzaz were discussed in greater detail in Chapter 2).

The dimensions used for the purposes of the present study are specified in order to satisfy the following requirements:

- to enable the researcher to gain an understanding of the 'overall features' of the companies' corporate planning systems (i.e. the totality of the planning effort from a corporate perspective);
- to be appropriate for 'design' purposes;
- to be 'general' so that they would be useful for studying corporate planning systems in different types of setting.

On the basis of information provided in the existing literature and taking account of the aforementioned criteria, the following dimensions were used for characterizing corporate planning systems studied in our sample of firms:

1) the initial development of the formalized corporate planning activity:
   i) its age
   ii) the specific set of factors which provided the initial impetus for its establishment;

2) the range of functions/tasks/responsibilities assigned to the corporate planning department and its role within the firm;

3) the organization and structure of the corporate planning department:

   i) number of sub-units comprising the department and their specific responsibilities

   ii) number of staff employed in the department and its sub-units

   iii) the department's 'reporting' relationship with senior management and other H.Q. departments

   iv) the department's representation on the Main Board, major committees [e.g. policy, finance, investment] and the divisional boards

   v) extent of formalized planning at the divisions;

4) types of 'written' plans formulated and their time horizon;

5) nature of the planning process:

   i) different stages of the planning process

   ii) extent of its formalization [i.e. whether there is a formal 'planning cycle'].

These dimensions have been used during the course of this study:

- to provide a standard basis for obtaining information on the fourteen companies' corporate planning systems;

- to describe the characteristics of those systems and subsequently assess how specific situational factors had reportedly influenced their characteristics.

The next section indicates how this assessment will be attempted.

3.6 Exploring the interrelationship/association between situational factors and corporate planning systems

Once the companies' situational settings and corporate planning systems are described by means of the foregoing analytical framework [outlined in Sections 3.1 and 3.2], it is intended to explore the nature of the interrelationships/ association between situational factors and corporate planning systems on a systematic basis. The purpose of this is to gain a better understanding of those environmental and organizational factors which have determined the companies' planning needs and subsequently shaped the specific features of their corporate planning systems.

Previous studies directed toward exploring such interrelationships have used large samples of companies [90 in the Harvard Project of 1970/1 and 48 in the Grinyer & Al-Bazzaz study of 1974/5, which is reported in Grinyer & Al-Bazzaz [1980-1981]], collecting the required information by means of 'questionnaires' in the case of the former and 'structured interviews' in the latter. Their findings have been subsequently arrived at by means of a series of statistical analyses. Chapter 4 will summarize the main arguments advanced in favour of adopting a more qualitative approach toward exploring such interrelationships. Corporate planning systems are complex administrative phenomena, involving the close interrelationship of many variables, most of which are difficult to 'measure'. It is also difficult to utilize sophisticated statistical methods to analyze the interrelationship between situational factors and planning system characteristics because of the number of confounding variables involved [Lorange 1979]. For our purposes, the following sources of information are used:

1] secondary sources on the companies' situational settings and their corporate planning systems

2] unstructured and open-ended interviews at first and structured interviews at a later stage with the planning managers of the fourteen companies [see Table 4].

Ideally, the views of senior corporate and divisional managers should have also been sought and incorporated during the course of this study; this however, was only possible at L.C.P. Holdings as indicated in Table 4.

Table 1 depicts the different components of the analytical framework described in this chapter. This framework was used to develop an 'interview schedule' for the purpose of conducting the research. Choice of a suitable research method, sample size and characteristics and details of the field study will be discussed in Chapter 4.

Table 1 The analytical framework used for assessing the inter-relationship between a firm's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development																
Existing role and functions of planning																
Organization and structure of planning departments																
Types of plans																
Planning process																

Footnotes:

[1] 'Taylorism' was however, a response to changed economic conditions such as the depression of the late nineteenth century and availability of cheap and unskilled labour [see Braverman 1974 and Edwards 1979].

[2] For a criticism of the economic theory of the firm from a behavioural standpoint, one can refer to Cyert and March 1963.

[3] According to Porter [1979] while evaluating the firm's competitive environment, the following forms of competition can be distinguished:

i) generic competition: this comes from other product categories which might satisfy the same consumer needs;

ii) product-form competition: this refers to the specific versions of the product which may be competitive in respect to one another;

iii) enterprise-competition: this refers to specific firms which are producers of the same product or service.

[4] This is where dominance of a particular 'strategic culture' within the firm might make itself felt. [For example, a marketing emphasis with a preponderance of top executives having arisen via the marketing function].

Chapter 4

RESEARCH METHODOLOGY

The review of existing literature on planning system design in Chapter 2 has highlighted the need for the development of new theory which can enhance our understanding of the nature of interrelationship between situational factors and characteristics of planning systems. Chapter 3 described the 'analytical framework' which will be used in order to study the situational settings and corporate planning systems of our sample of companies, prior to examining their interrelationships. In this chapter, we will discuss the choice of a suitable method for conducting the research, the choice of a suitable sample and nature of the field study. Finally, we will elaborate on the way in which the information collected through our field study will be presented by means of a number of case studies.

New theories and concepts can be discovered by chance [serendipity], by intuitive insight or by inductive and deductive reasoning from a known set of facts. For the purpose of developing a theory, one can distinguish between two types of research:

- 'descriptive' research: describing 'what is' and developing a model of the phenomena observed or identified;
- normative research: describing what can be insofar as any given 'can be' is possible in the real world.

It was an assumption of this study that a basic requirement for the development of new theory and for setting an effective direction for future research is to gain a better understanding of characteristics of existing corporate planning systems and the settings in which they operate. This research is therefore descriptive in character, although it also enters the normative tradition since our findings are incorporated into a design framework in order to provide a basis for designing such systems.

4.1 Choice of a suitable research method

This section will briefly examine the different research approaches suggested in the literature and will proceed to provide a rationale for choosing a comparative case study approach for the purpose of conducting the study. The various research approaches suggested in the literature are:

- clinical field studies (i.e. laboratory experiments): these are unsuitable for our purposes because of the difficulty of ensuring realism in any experiment which attempts to duplicate such a complex situation. Lorange (1973) is of the opinion that with the advent of more 'realistic, fully-fledged and interactive business games' laboratory studies might become more applicable in the future;

- large sample surveys: one of the main advantages of this approach is that it allows for the collection of data from a large number of respondents, although the degree of precision and quality of responses may be poor and subject to problems of interpretation. Moreover, the potential for generating new research questions and obtaining feedback from the respondents is rather limited. Since the objective of the present study is to contribute to the development of new theory, the imposition of prior conceptualization required in order to devise a structured questionnaire survey seems inappropriate. The use of a self-administered questionnaire makes it difficult for the researcher to handle highly complex issues. In contrast, 'face-to-face' interviews provide an opportunity to clarify issues and to obtain feedback from the respondents, thereby providing the potential to develop further a number of research questions;

- comparative case studies: this approach involves a detailed investigation of the subject matter in a few selected organizations and was the method chosen for the purpose of the present study. Considerable effort is required to understand such settings which, due to the large amount of time required in each site, will be relatively few [Malm 1975]. The main advantage of this approach for this study lies in its potential for providing an understanding of the situation, which is likely to lead to a coherent specification of interrelationships between situational factors and characteristics of corporate planning systems. It facilitates a detailed analysis of settings and the collection of data on a wide range of topics. As Spender [1980: 134] comments:

> ' ... The case study ... can use historical, uncertain and un-integrated data to build up a pattern of understanding in the sympathetic reader's mind'.

The main disadvantage of this approach is related to the small number of observations which limit our ability to 'generalize' on the basis of the findings [Duncan 1979]. The causal relationships among variables may be so unique for each case that it may be unrealistic to assume that 'general relationships' will emerge which can be applicable to other types of setting. However, since comparative case studies provide the researcher with a better understanding of the investigated problem area, they appear to be more suitable for identifying key relationships and the generation of new hypotheses [Lorange 1973]. Large numbers alone do not necessarily imply less-adequate data. The problem is that such data may be of relatively little value if the basic concepts and variables on which one collects data are mis-understood or are perceived to be 'irrelevant' by the respondents. One could conduct a 'questionnaire survey' of 100 companies. It is not clear however, whether enough is understood about our subject area to enable us to pose meaningful questions. Detailed studies of a few cases are of greater value at this stage since they provide the researcher with the opportunity to pose valid questions, to modify them if necessary and to secure more worthwhile data from a larger number of cases in subsequent studies. As Eilon [1979: 91] comments:

> ' ... Those who argue that the managerial scene is too dynamic and governed by too many variables to be neatly categorized by a finite number of case-studies would readily agree that theory without experience, be it even second-hand or simulated experience, is both sterile and dangerous'.

A 'comparative case-study' approach was therefore chosen for the purpose of conducting the present study. This involved a detailed investigation of the situational setting and corporate planning systems of four large, U.K.-based companies, using the analytical framework outlined in Chapter 3. The data was collected by means of an 'interview schedule' [developed on the basis of the analytical framework] which was administered through a number of structured and unstructured interviews with senior managers in charge of their corporate planning departments. Secondary material [such as newspaper and magazine articles, company reports and internal documents] were used as a supplementary source of information.

In addition the main features of corporate planning systems used in ten other large, U.K.-based companies were also studied. This also involved interviewing senior managers in charge of their corporate planning departments, although due to the limited time and resources available, only a survey of limited extent was possible. In these cases, the interviews were mainly used to collect information on the characteristics of their corporate planning systems and to seek the interviewees' opinions concerning the likely interrelationship between situational factors and characteristics of their planning systems. It was not possible to examine the features of their situational settings to the same extent as the four main cases.

However, this 'limited survey' contributed to the study in two respects. Firstly, it provided some indication of the range and variety of corporate planning systems used in the U.K.-based companies. Secondly, it provided a broader basis for generating an understanding of the likely interrelationship between situational factors and characteristics of their corporate planning systems.

Choice of sample size and data gathering methods reflects the state of the evolution of theory on the topic in question. Schendel and Hofer (1979: 389) express the view that in exploratory research, little is known about the territory, so it is almost impossible to frame detailed questions about variables and relationships of importance prior to their identification, thus ruling out questionnaires (except of the broadest kind) and structured interviews. They suggest that in such circumstances, the researcher should use observation and unstructured interviews coupled with secondary data from documentary sources. The ensuing section will describe the characteristics of our sample of companies, criteria for their selection and nature of the field study.

4.2 Sample size and characteristics

Once the research problem had been specified, letters were sent to the corporate planning directors/managers of 45 U.K.-based companies explaining briefly the nature of the study and requesting their co-operation [see Appendix I]. Thirty-seven companies were selected from the 'Times List of Top 100 Companies' so as to represent different types of industries [such as oil, chemicals, food, tobacco, engineering, building materials, pulp and paper, brewing and glass manufacture] and thus a variety of situational settings. The other eight companies were chosen because their corporate planning managers/directors had written articles in professional journals [especially 'Long Range Planning'] and it was considered that they might be more sympathetic to academic research of this nature and therefore more willing to co-operate.

The choice of 'forty-five' [as opposed to sixty or forty] companies which were contacted initially was rather arbitrary. It had already been decided at that stage to undertake the research on a comparative case study basis. Due to time and resource constraints, it was unlikely to study more than twenty companies on this basis. It was therefore hoped that by contacting forty-five companies, the co-operation of at least ten of them could have been secured.

Of the 45 companies which were contacted [see Table 2], four did not have formalized corporate planning [or this was largely incorporated into their 'central finance' function], two declined due to organizational pressures, nineteen refused to participate and four did not respond at all. Of the sixteen positive responses, two agreed to participate in the initial 'preliminary interviews' [which aimed to clarify the research questions and test the suitability of the analytical framework for studying this particular field], ten expressed the view that they would be willing to co-operate but that the number of interviews had to be restricted to a minimum due to organizational constraints [e.g. time, pressure of work, trips overseas, etc.]. The corporate planning managers of four companies agreed to a fuller co-operation, having had an initial meeting with the researcher, discussing the study and explaining what was required of them.

All the participating companies had two features in common. Firstly, all are large, U.K.-based companies, having annual sales in excess of £100 million. It was considered that 'large' companies are more likely to have formalized corporate planning as Denning and Lehr's [1971,72] study has already indicated. Annual 'sales' was selected as the main criteria for determining the size of our sample of companies since it is easy to apply to different types of firms [diversified or vertically-integrated] active in a variety of industries [capital-intensive or labour-intensive, technologically dynamic, multinational in character, etc.]. Secondly, all the sixteen companies have had formalized corporate planning activities [and departments which co-ordinate these at group level] for a minimum of two years. It was thought that since they had been in use for a certain period of time, one could get a better idea of the ways in which 'situational factors' had influenced their characteristics.

Our sample of companies represent different types of situational setting since they are active in a variety of industries [see Table 3], ranging from oil, chemicals and pharmaceuticals [Shell, ICI, Albright and Wilson, Fisons] to food and drinks [Cadbury/Schweppes], building materials [Redland], pulp and paper [Reed International], engineering [Lucas, Dunlop, Serck], property [L.C.P. Holdings] and automotives and related products [BL, Chloride]. A number operate in a wide range of geographic markets and are multi-national in character [Shell, ICI, Fisons, Cadbury/Schweppes, Reed International, Dunlop], whereas others are dependent on the U.K. market for most of their business [L.C.P., Lex]. They are also characterized by different types of strategic postures. Using Channon's [1973] classification of British companies, a number are active in fairly homogenous business sectors [BL as a vehicle manufacturer and Chloride as a 'battery' producer belong to the 'Dominant Business' category]; some have diversified around a 'core-technology' [Fisons, Lucas, Dunlop, ICI, Albright and Wilson, and Serck], whereas others have mainly expanded their operations by acquiring companies which serve similar types of markets [Cadbury/Schweppes and Redland]; Channon's fourth category, that of the 'unrelated business firm' or 'conglomerate' is also represented in our sample [L.C.P. Holdings and Reed International].

Moreover, the four companies which have been studied in rather greater detail [BL, Fisons, Cadbury/Schweppes and L.C.P. Holdings] exhibit widely differing characteristics and operate in a variety of environmental settings. BL's environment, for example, is characterized by international competition, high degree of technological sophistication, long lead times and a high level of capital intensity. It is also dependent on the U.K. Government [i.e. its shareholder] for the provision of its funds.

Fisons with interests in fertilizers, pharmaceuticals and agrochemicals is in competition with giants such as ICI, Hoechts, Du Pont and the chemical divisions of large oil companies. In order to recoup the large amoung of capital spent on research and development, it needs to be active in various geographical markets.

Cadbury/Schweppes operates in relatively stable but mature business sectors [confectionery, soft drinks, food, health and chemical products]. It is classified by Channon [1973] as an 'acquisitive diversifier' characterized by market-related diversification: 'In most cases diversification was a protective strategy used to escape from activities exhibiting decline, low growth and increased competition' [Channon 1973: 161]. The Company is amongst the market leaders in confectionery and soft drinks in the U.K. and has recently established a foothold in America. Its industries are characterized by a 'low degree of technological input' [except in the use of 'process machinery and equipment'], price competitiveness, product differentiation and brand identity.

L.C.P. Holdings is a Midland-based conglomerate with interests ranging from property and construction to coal distribution and metal manufacture. Formed in 1960 after a merger between three local coal-distributors, it has grown steadily over the last two decades mainly through acquisition. In an attempt to reduce its dependence on a declining domestic market, it has recently embarked upon a number of acquisitions overseas. These include a French distribution chain of garden products and a stake in 'Whitlock Corporation', the U.S. motor accessories distribution company.

Our sample of companies therefore represent different types of situational settings. This should enrich the process of developing propositions which elaborate on the likely interrelationship between situational factors and characteristics of corporate planning systems and reduce the problem of 'generalizability' associated with studying a relatively small number of cases.

4.3 The field study

The 'field study' was embarked upon after the formulation of the 'analytical framework' setting out the questions to which the study was addressed. This was undertaken between January 1979 and December 1980 and involved a series of interviews with the most senior person in charge of the fourteen companies' corporate planning departments. Table 4 outlines the position of those interviewed, number and duration of interviews and the period during which these were held. Ideally, one should have incorporated the views of three managerial groups most directly concerned with the corporate planning activity:

- senior corporate management, i.e. Chairman/ Chief Executive/Managing Director
- staff planners (co-ordinating the planning activity)
- senior executives in charge of the divisions.

However, due to these executives' time constraints, such an opportunity was not afforded.

The information concerning the companies' situational settings and their corporate planning systems was collected by means of initially unstructured and subsequently structured interviews with the listed persons (see Table 4). These were an integral part of the research process. It was necessary not only to obtain more-or-less descriptive information concerning the companies' settings and their corporate planning systems, but also to grasp these managers' perceptions of the likely interrelationships between the two sets of variables. It was thought that such an insight could be best gained by means of informal, unstructured and open-ended interviews, corresponding to Bouchard's [1976] type II method of interviewing, where the questions are specified but answers are left open to the respondents. According to Bouchard, these are appropriate in situations when the researcher attempts to identify phenomena and lacks the information to specify the responses for the interviewee. This type of interviewing allowed the respondents to focus on a limited number of issues specified by the researcher [e.g. characteristics of the corporate planning system] while still leaving them sufficient freedom to develop new lines of inquiry or unanticipated responses within chosen parameters [Merton, Fiske and Kendall 1956]. During the course of these 'unstructured interviews' an attempt was made to establish rapport with the respondents, gain their trust and confidence and acquaint them with the specific research questions. According to Duncan [1979: 440] this is essential if the researcher is to obtain 'valid information'. As Spender [1980: 122] puts it succinctly:

> 'Unstructured interviewing ... is a piece of deliberate social interaction which conveys meaning verbally rather than by participating in the manager's activity ... It is an extreme type of participant-observation; for we are relying on the manager's ability to transmit his meaning verbally rather than ostensively'.

These unstructured interviews became more structured as the researcher's knowledge concerning the company and its corporate planning activity was gradually increased.

For the purpose of conducting the interviews, an interview schedule was developed on the basis of the analytical framework described in Chapter 3. This interview schedule [see Appendix 2] is in three sections; the questions included in the first part are related to the notion of 'situational setting'. These concern issues such as the strategic development of the companies [including major diversification and expansion programmes], characteristics of the industries in which they operate [on the basis of competition, suppliers, market characteristics, technology], their organizational structure [number of divisions, extent of inter-divisional transactions, range of H.Q. services], characteristics of their senior management and the features of their co-ordination and control processes. It was only possible however, to obtain this information by means of interviews in the four companies which were studied in greater detail. This was because more interviews were held with their planning managers. Brief profiles of the situational settings of the ten other companies were compiled by using secondary material such as company reports, newspaper articles and other published information.

Questions incorporated in the second part of the interview schedule are directed toward obtaining information on the characteristics of corporate planning systems used in the fourteen companies. These were also formulated on the basis of the analytical framework and are divided into five sections:

- the initial development of formal corporate planning;
- existing role of planning and specific responsibilities of the corporate planning department;
- organization and structure of the planning department, number of staff planners, reporting relationship of the planning manager/director and extent of formal planning at the divisions;
- types of written plans developed and their time horizon;
- the planning process and use of a formal cycle/ timetable for planning purposes.

These questions were asked from the planning managers/ directors of all fourteen companies in order to understand and describe the characteristics of their corporate planning systems.

Finally, the third part of the interview schedule incorporates a series of questions which attempt to elicit the respondents' 'opinions' concerning the way in which these five broad dimensions of their corporate planning systems might/might not have been influenced by specific situational factors. This was the least structured and most demanding part of the interviews since the researcher was trying to identify key relationships between situational factors and characteristics of their corporate planning systems on the basis of the respondents' expressed views and opinions. Consequently, questions comprising this part of the interview schedule are rather vague and couched in general terms such as:

> Why do you think your department is responsible for these specific tasks?

The researcher would then let them elaborate on this and would clarify it in specific terms such as:

> 'I see that one of your main responsibilities is to evaluate likely acquisition candidates in the United States. What prompted this move in the first place?'

and then await their response.

Since a tape-recorder was not used, the information conveyed during the course of these interviews was taken down in two ways; firstly, brief notes were taken during the course of the interview. Secondly, having 'jotted down' the factual information concerning the company and its planning system [such as types of plans developed, types of competition encountered, etc.] during the course of the interviews, the 'total experience' of the interview was written up immediately afterwards. This 'written version of the interviews' attempted to encapsulate all that was talked about as far as one could remember. These included topics not specifically related to the research area [such as the state of the economy, Iranian Revolution, American Presidential Elections, etc.] but which were the subject of general discussion during the first few minutes of the interviews. It was considered important to write these down as soon as the interview was over. For this reason they were often written in an adjacent park, or a nearby cafe, on the train back to Birmingham and in a few instances in the 'reception area' of the company itself.

The information collected by means of these interviews was supplemented by secondary material; this included:

- published information and public sources; annual reports, newspaper and magazine articles, company histories, government publications, such as reports by the Monopolies Commission and N.E.D.C., microfiche from 'Companies House'.

- internal company documents, such as organizational charts, planning manuals, planning timetables and job specifications for members of the corporate planning departments.

The use of interviews as a main source of information presented a number of difficulties. Firstly, it was expensive for the researcher, since it involved frequent trips between Birmingham and London. This problem was further compounded since it was extremely difficult to arrange most of the interviews within the same period of time. The executives were frequently on trips abroad, attending conferences or generally preoccupied with organizational problems and in one or two instances, interviews had to be arranged approximately three or four months prior to the scheduled date. Secondly, interruptions were frequent during the course of the interviews [urgent telephone calls, etc.] This interrupted the smooth flow of conversation and wasted valuable time. Thirdly, because of time constraints [on the part of the company executives] and resource constraints [on the part of the researcher] it was difficult to canvass the opinions of a larger number of people in the companies. Finally, there were problems associated with 'interpreting' the interviews due to the executives' varied ranges of experience within and knowledge about the company.

However, most significant contribution of these interviews was that they provided the researcher with a valuable insight into the character of the companies and their corporate planning systems. This understanding is crucial if one attempts to contribute to the development of new theory.

The information conveyed during the course of these interviews [as well as published material] will be presented as four main and ten mini case-studies in Chapters 5 to 9. The four main case-studies are presented in greater detail, particularly in relation to their situational settings.

In describing these, an attempt has been made to incorporate specific information on the various components of the analytical framework outlined in Chapter 3 [i.e. information on the 'contextual', 'industry' and 'internal' environments of the companies, depicted in Table 1]. Since the 'contextual' environment [which roughly corresponds to the 'national economy'] is broadly similar for a sample of U.K.-based companies [in that they are all affected by inflation and interest rates, wages policy, etc.], it will not be treated separately in the case studies. Some discussion of these factors is contained in each of the four main case-studies, particularly in the sections dealing with characteristics of the 'industry' environment. Each case-study will be presented in the following manner. Firstly, an account of the historical development of the company is given, highlighting major diversification moves, expansion into different geographic markets and the development of their strategic posture. This corresponds to strategic development [number 3.1 in Table 1] in the analytical framework outlined in Chapter 3. Secondly, characteristics of the companies' 'industry environment' will be described, incorporating information on competitors, suppliers, market and technology [corresponding to numbers 2.1 to 2.5 in the analytical framework set out in Table 1]. These are discussed for the companies' main business groups. An attempt has been made to incorporate as much information as possible in relation to these aspects of their environmental setting. These are in the main discussed fairly briefly since the respondents were not fully aware of the details of the divisional activities. Moreover, the diversity of their business portfolio is such that a detailed account of these factors could be obtained by interviewing divisional executives which was not possible for the purpose of the present study.

This section on characteristics of the 'industry environment' is followed by a description of their organizational structures, number of divisions, nature of their activities, extent of inter-divisional transactions and range of services provided at the H.Q. [this corresponds to number 3.2 of the analytical framework depicted in Table 1].

A brief review of characteristics of their senior management [particularly the chairman and chief executive] is subsequently provided. The composition of the main board is also described in this section [corresponding to number 3.3 in Table 1].

This is followed by a brief account of the historical performance of the company in terms of growth of turnover and profits over a ten-year period. This section also accounts for the contribution of different divisional activities and geographic regions to overall turnover and profits [this section corresponds to number 3.4 in Table 1].

The final sections on the 'situational settings' of the four main case-studies describe the broad features of the companies' co-ordination and control processes [number 3.5 in Table 1].

The situational settings of the ten mini case-studies [Chapter 9] will be described briefly. These were in the main compiled by using published information, and contain a brief account of:

- their historical development [including major strategic developments];
- their organizational structure, number of divisions and nature of their businesses;
- composition of the main board;
- contribution of various product sectors and geographic regions to overall sales and profits [before tax];
- geographic diversity of their markets.

The second section of all the case-studies [including the ten mini case-studies] describes the characteristics of their corporate planning systems on the basis of the five dimensions incorporated in the analytical framework and the interview schedule. These are:

- the initial development of formalized corporate planning;
- existing role, specific functions and responsibilities of the corporate planning departments;
- organization of the planning departments;

- types of written plans and their time-horizon;

- the planning process.

In order to describe their characteristics without undue repetition, in specific cases [such as Fisons] two dimensions of the planning system [such as 'functions of planning department and their organization' and/or 'types of plans and the planning process'] are discussed on the basis of one 'sub-heading', although both aspects are dealt with in the case.

The third section of each case study provides an account of the likely interrelationship between situational factors and characteristics of their corporate planning systems, based on the interviews which were held with the planning managers. An account of the 'salient features' of the five dimensions of their corporate planning systems [i.e. initial development, etc.] precedes an analysis of the influence of situational factors in shaping their characteristics. In order to facilitate the discussion of these interrelationships, Table 1 [incorporating the constituents of the analytical framework] is used in all fourteen cases to depict the nature of interrelationship between situational factors and characteristics of corporate planning systems.

The four main case-studies are described in Chapters 5 to 8, whereas the 'ten mini case-studies' are presented in Chapter 9.

Negative Responses		Positive Responses	
No formal corporate planning	4	Preliminary interviews	2
Organizational problems	2	'Full' co-operation	4
Outright rejection [time and other constraints]	19	Limited co-operation	10
No response	4		
Total	29	Total	16
Total number contacted	45		

Table 2

<u>Nature of responses from the companies contacted initially</u>

Table 3 Characteristics of the sample of companies

Company	Type	Nature of Business	Strategic Category	Geographic Diversity of Markets	Size [turnover] £ million 1978/9
BL	Manufacturing	Motor vehicles Commercial vehicles Buses Motor components	Dominant Business Firm	U.K. and exports to Europe, North America & other countries	3,085
Fisons	Manufacturing	Fertilizers Pharmaceuticals Agro-chemicals Horticulture Scientific equipment	Technology-Diversifier	U.K., Europe, North America, Japan, Australasia	433
Cadbury/ Schweppes	Manufacturing	Confectionery Soft drinks Tea & foods Health & chemical products	Acquisitive [Market] Diversifier	U.K., Europe, North America, Australasia, Africa	1,013
L.C.P. Holdings	Manufacturing/ Service	Property & construction Solid fuel distribution Motor vehicle distribution Metal manufacture Motor accessories distribution Garden tools distribution Builders merchants	Conglomerate [Unrelated Business Firm]	U.K., France, U.S.	139

Company	Type	Nature of Business	Strategic Category	Geographic Diversity of markets	Size (turnover)
Royal Dutch Shell	Service/ Processing/Manufacturing	Oil and natural gas Chemicals Metals Coal Nuclear energy	Dominant Business Firm	Worldwide (over 100 countries)	28,000
Reed International	Manufacturing/ Service	Pulp and paper Packaging Publishing Decorative & building products	Conglomerate	U.K., Europe, Africa, Australasia, North America	1,488
Dunlop	Manufacturing	Tyres Automotive & aviation components Sporting goods Consumer products Industrial products	Technology	U.K., Europe, North & South America, Africa, Asia, Australasia	1,569
Lucas Industries	Manufacturing	Motor components Aerospace	Technology Diversifier	U.K., Europe, North & South America, Asia, Africa	971
ICI	Manufacturing	Chemicals Pharmaceuticals Plastics Explosives Metals & engineering Paints & decorative products	Dominant Business Firm	U.K., Europe, North & South America, Australasia & The Far East, other countries	5,368

Company	Type	Nature of Business	Strategic Category	Geographic Diversity of Markets	Size (turnover)
Serck	Manufacturing	Industrial valves Heat transfer equipment Service & control equipment	Technology Diversifier	U.K., Europe, North America, Middle East, Australasia	105
Redland	Processing/ Service	Building materials (e.g. roof tiles, pipes, bricks) Waste disposal Industrial cleaning Road surfacing and masking	Market Diversifier	U.K., Europe, North America, Middle East	305
Lex Service Group	Service	Car & commercial vehicle distribution Hire and leasing transportation Hotels Auto parts distribution	Conglomerate	U.K., North America	411
Albright & Wilson	Manufacturing	Industrial chemicals Agro-chemicals Phosphates Food chemicals Compound Fragrances, cosmetics & toiletries	Technology Diversifier	U.K., Australasia, Europe, North America	385

Company	Type	Nature of Business	Strategic Category	Geographic Diversity of Markets	Size (turnover)
Chloride	Manufacturing	Batteries and other electrical systems	Dominant Business Firm	U.K., Europe, North America, Africa, Australasia	346

Table 4 <u>Position of interviewees, number and duration of interviews and period of study</u>

Name of Company	Location	Position of Interviewee(s)	No. of Int.	Duration of Inter-views	Period of Study
BL	Birm-ingham	Manager: Divisional Business Planning Department	7	1½-4hrs each	June 1979 to Nov 1980
	London	Manager: Corporate Planning Department			
Fisons	Ipswich London	Manager: Strategic Planning Department	6	2-4hrs each	April 1979 to Nov 1980
Cadbury/ Schweppes	London	Inter-national Planning Co-ordinator	5	1½-3hrs each	May 1979 to Jan 1981
L.C.P. Holdings	Birm-ingham	Group Chair-man	6	1-2½hrs each	June 1979 to Sept 1980
		Chairman & Finance Director (Steels/ Metals Division)			
Royal Dutch Shell	London	Head: Strategic Analysis Unit	2	1hr 1¾hrs	Aug 1979 Jan 1981
Reed Inter-national	London	Director: Group Planning	2	2hrs 1¼hrs	Aug 1979
Dunlop	London	Member & analyst: Corporate Planning Department	3	2-2½hrs each	Sept 1979 to Nov 1980

Name of Company	Location	Position of Interviewee(s)	No. of Int.	Duration of Interviews	Period of Study
Lucas	Birmingham	Group Strategic Planning Manager	1	2½ hrs	Sept 1979
ICI	London	Deputy Manager: Planning Department	2	3½ hrs 1¼ hrs	Sept 1979
Serck	Birmingham	Group Corporate Development Manager	4	2-3hrs each	June 1979 to Jan 1981
Redland	Reigate, Surrey	Group Treasurer and Head of Corporate Planning	3	1½-2hrs each	Sept 1979 to Dec 1980
Lex Service Group	London	Corporate Strategy Development Manager	2	1½ hrs 2¼ hrs	Sept 1979 Dec 1980
Albright & Wilson	London Birmingham	Strategic Development Manager: Divisional Planning (Phosphates)	2	1½ hrs 2 hrs	Sept 1979 Dec 1980
Chloride	London	Group Corporate Planning Manager	1	2¼ hrs	Sept 1979

Chapter 5

CASE STUDY I: BRITISH LEYLAND

BL is a vehicle manufacturer producing a wide range of cars and commercial trucks and buses. In addition, it supplies automotive, industrial and marine engines, carburettors, axles and transmission units to other manufacturers. The Group's secondary products include construction and materials handling equipment and commercial refrigeration products.

5.1 Situational setting

5.1.1 Historical development of the Company

BL in its present form is the outcome of a series of mergers, commenced during the 1950s and accelerated throughout the 1960s, between a number of smaller car and commercial vehicle manufacturers. In order to gain an insight into its historical development, it is necessary to examine the background of the two companies (British Motor Corporation (BMC) and Leyland Motor Company), which were merged in 1968 to form the British Leyland Motor Corporation. The justifications given for this merger (which was promoted by the British Government) were arguments advanced in favour of large scale organization and growth: economies of scale, improved efficiency and greater competitive power.

5.1.1.1 Development of the 'British Motor Corporation' [B.M.C.]

The history of BMC and of its constituent parts Austin and Morris was in many ways the history of the British Motor Industry. Both were launched in the years before the First World War and founded by men born in mid-Victorian times. The two companies became increasingly successful, holding 60% of the British car market by 1929. However, this level of achievement was not sustained. By the end of the 1930s, their joint share of the British car market had fallen to 50% [Turner 1973].

Lord Nuffield's [William Morris] empire was conceived as a simple assembly operation on the pattern of the cycle industry; it became steadily more complex as he bought up component suppliers as well as other assemblers who had gone bankrupt. Unfortunately, as the business grew and became too big for him to control, he still wanted to be acknowledged as its sole inspiration. In the end, he considered his managers to be either incompetent or usurpers of his own preeminence.

Austin's development was similar in the sense that its founder, Sir Herbert Austin, exerted a great deal of influence on its overall management style, especially during the 1920s and 1930s. However, there was a basic difference between the two operations. Austin had been built not as an assembly line for components manufactured elsewhere, but as an integrated plant making as many of its own parts as possible. It had its own foundry, its own body and stamping shops and its own drop-forging facilities and it made engines, axles, crankshafts, wheels, shock absorbers, windscreens and bodies.

The rivalry between the two firms and especially between their founders was intense and manifested itself frequently in the transfer of top managerial personnel from one firm to the other [Turner 1973].

The two companies were also competing in overseas markets and both had lost considerable sums in the United States in the early post-war years. Although there seemed a good deal of logic in a merger, their owners and managers had not been on speaking terms for a long time.

The merger between the two companies finally took place after Austin's death in 1952 [forming BMC: the British Motor Corporation]. It started with bitter resentment on both sides at the manner of its accomplishment. The benefits of the merger were indeed never fully realized. There was a fairly rapid rationalization of the major mechanical parts used by both sides - engines, gearboxes, etc., but in other respects unification proceeded at a leisurely pace. The scattered collection of plants was not pruned as it might have been - the existence of a sellers market and the Company's healthy profitability during the 1950s and early 1960s did nothing to stimulate reform, and their respective distribution networks remained largely separate even at the time of the merger in 1968. It seemed as if competition was encouraged between the two companies, even though their networks increasingly sold ranges of vehicles which differed in little more than the badge they bore [Turner 1973]. Similarly, the organization of the group was not streamlined; BMC remained a holding company until 1966 and the financial and accounting records of the subsidiary companies were based on the old pattern, [e.g. they had separate Boards of Directors]. Some of these weaknesses were eventually tackled in the 1960s. It became an active trading company and no less than twelve businesses which had been operating as independent units were eventually amalgamated.

The Company's inconsistencies became more paramount in 1966, when it made an offer for Jaguar, a company specializing in the manufacture of luxury vehicles. Its Chairman, Sir William Lyons, held a controlling interest in his Company's voting shares [260,000 out of 480,000] and was not unhappy at the prospect of a union which left him with clear-cut executive control. Sir William Lyons had begun his business life making sidecars for motorcycles and thereafter turned out a succession of cars which sold because of their styling, performance and relatively modest prices. His was very much a personal empire. It was his hand which guided the styling of models in an operation where the shape of the package was crucial and it was he who made all the important investment decisions.

BMC made the kind of offer that he had been waiting for; they would buy his business but he would continue to run it with the greatest possible autonomy. The deal was eventually finalized in 1966; BMC's name was then changed to 'British Motor Holdings' [BMH].

According to Turner [1973: 107]:

> 'An assessment of BMH, completed in August 1967, found little complimentary to say about the company. Its management had shown a serious lack of foresight, its Board was unimpressive, it carried an enormous staff surplus, it had not begun graduate recruitment until 1963, and the fall-out rate thereafter had been uncomfortably high; it had no less than seven model ranges, not counting sports and luxury cars [compared with four of its closest competitors], there had been no apparent attempt to concentrate the production of one model in one factory and its truck business was being seriously and successfully challenged by its rivals'.

Such was the position of BMH prior to the merger with Leyland in 1968.

5.1.1.2 Development of Leyland Limited

Leyland was set up in Lancashire in the 1890s, making steam-driven wagons and steam lawn-mowers. The firm's founders made money out of corporation dust carts, delivery vans and fire engines and successfully switched over to petrol-driven vehicles after 1904. By 1914, its sales had exceeded £500,000 and its net profits were over £100,000.

The Company did well during the War. It made armoured cars and travelling workshops. As the War ended, the directors relished the prospects of peace-time business.

During the 1920s, the Company managed to cope with a series of financial difficulties prompted by heavy capital expenditure for the production of its new vehicles. However, by 1929, it had managed to consolidate its market position. Thereafter the Company's course was one of uninterrupted prosperity. Production of trucks and buses rose steadily [the net profit in 1937 was £631,598] and when the War came it turned over to bombs, shells, tanks and tank engines. Although it made no trucks after 1941, it still retained a certain competitive edge. It refused to join rings of companies which shared out Government contracts and instead insisted on bidding for everything [Turner 1973].

A fear that the British bus market was reaching saturation point had driven the firm's management to hunt for export business before the outbreak of War and by 1939 one in five of its vehicles was being sold abroad. By the end of World War II, the Company was set on a course of expansion, especially in overseas markets. Those countries which already had manufacturing facilities were however excluded from the export drive. That ruled out most of Europe and the U.S., where intense competition was expected. The strategy reflected a continuing bias, shared by most British manufacturers, towards the markets of the Empire. This was the area where the Company had business, branches and tariff preferences and where there was no indigenous competition.

The 1950s was a good decade for the firm; it brought a steady growth in strength, ambition and self-confidence. It was, however, also a time of missed opportunity; its strength remained under-utilized. Its only acquisitions during this period consisted of two of its competitors in the commercial vehicle field and a Watford-based firm producing heavy-duty trucks, but with a turnover of only £6 million.

By the late 1950s, the Company's profits were on average £2 million a year and the post-war boom showed no sign of fading. In 1958, the Managing Director circulated his Board with notes seeking their views on a variety of subjects; should the Company provide capital for more investment overseas or should it seek to diversify at home? Among the businesses they considered entering into were the manufacturer of transmissions and final drives for shunting locomotives and oil-well engineering; however, no-one seems to have been particularly concerned about the idea of diversification in general [Hill 1965].

The firm's managerial composition provided a cause for concern, since there were no coherent provisions for eventual succession. For much of the 1950s, it had been run by an able triumvirate: the founder's grandson who had become Chairman as well as Managing Director in 1957, the Production Director, particularly able with a long duration of service in the firm and the Sales Director, Stokes, who had written the Company's export plans immediately after the War.

Although the firm had financial strength, when its top management was lost either through natural causes or dispersed to solve the problems which came with the new acquisitions, there were not adequate replacements. Its apprentice system was a good one, but it trained its young men to become engineers, not managers and in any case, their numbers did not grow with the size of its empire. Nor, as was the case in so many British companies, did the finance function ever have a high enough status in the managerial hierarchy [Turner 1973]. By 1960s, the Company was about to enter its most dramatic period of expansion. One of its major weaknesses in overseas markets was that it could not offer a range of trucks and cars, like say Mercedes, its largest European competitor. It was decided that the gap should be filled and eventually chose the troubled company 'Standard-Triumph'.

Standard-Triumph was a small car manufacturer, which mainly specialized in sports cars. Its basic problem was that it was too small to compete effectively against its larger rivals. It had to struggle to find the increasing amounts of capital needed to develop new models and having developed them, found that their sales were seldom sufficient to bring an adequate financial return. The Company had survived for so long, mainly due to the profits which it earned from tractors; when it sold its tractor plant, a merger became essential.

By 1960, the Company's cash position was deteriorating rapidly. It fell victim to bad fortune, largely brought about through a tightening of domestic credit in the budget and a world-wide general recession. It was against this background that Leyland approached the Company with a view to eventual acquisition. Having proposed a generous offer for the outright purchase of Standard-Triumph in December 1960, Leyland eventually finalized the deal in September 1961. The merger however did not prove to be a smooth one, at least as far as co-operation between the two management teams was concerned.

An increasing amount of pressure mounted during the early months of 1962. Leyland had discovered that, while it was struggling with Standard-Triumph, it stood in real danger of being out-flanked on its basic bus and truck business, since it became apparent that its main competitor ACV might be taken over by BMC [the car manufacturer].

When the proposed merger between the two firms collapsed, Leyland realized that it had to step in to secure ACV's purchase. The deal was eventually finalized by June 1962, although ACV had been specially reluctant to become part of their main competitor's extensive empire.

Had BMC taken over ACV, it might have altered the course of subsequent events considerably and would have probably made it much more difficult for Leyland to have applied such intense pressure for a merger during the negotiations of 1967-1968. BMC would have been that much larger, it would have had a stronger truck business and ACV might have made matters so uncomfortable for Leyland in overseas markets, that the latter could not have built up sufficient strength to contemplate such a powerful challenge to BMC [Turner 1973].

In 1966 Leyland's Chairman, Sir Donald Stokes, had told his Board that there was a shortage of senior men suitable for senior management positions. The corporation had grown more rapidly than its managerial capacity; one of the Chairman's major preoccupations was to ensure that the firm would continue to grow at a speed which would not leave the Company small, in relation to its competitors [Stokes 1967]. Sharper competition brought an unusual preoccupation with size; acquiring other companies or allying with them became a predominant activity. Its next acquisition target was a specialist car manufacturer [Rover] catering for the higher end of the market.

During this period [mid 1960s] the Government had expressed the hope that Leyland and BMH [BMC was renamed BMH after the acquisition of Jaguar in 1966] would seek out ways of working together. In addition, since BMH had begun to lose money, it became an immediate cause for concern, especially to an administration such as the second Wilson Government. The Government had decided to encourage the two companies to co-operate in 'third' markets, i.e. overseas countries in which neither was then involved.

However, there was now another force in the merger-making field, in the shape of the Industrial Reorganization Corporation, set up by the Government in December 1966, to speed up the restructuring of industry. IRC took a keen interest in the conditions of the motor industry, and was supported by £150 million of Government money. Its officials believed that the motor industry was too fragmented and that a Leyland-BMH merger was essential. For the moment however, progress was left to the companies themselves, especially in relation to the third markets. More progress towards a merger was, however, being made on other fronts. In the spring of 1967, both sides had been approached by the IRC with a request for detailed information about their operations. The Ministry of Technology, meanwhile, had done a survey of the world motor industry and arrived at a series of unspectacular but significant conclusions: that both BMH and Leyland were too small when ranged against the competition, that BMH had not fully rationalized its operations, and that if a merger took place, it would need to come under very firm management. However, for the moment the politicians were quite happy to leave the situation in the hands of the IRC and contented themselves with occasionally asking members of the new corporation what they were doing about the motor industry and when they were going to get 'these two' merged [Turner 1973].

Throughout the negotiations between the two companies, there was a strong feeling on the part of BMH that Leyland, with headquarters in London and a Chairman who was not only in favour with the Government, but also an adept communicator, was ideally placed to intrigue with the politicians and manipulate the mass media to his own advantage. BMH, by comparison, felt cut off from these sources of power [its headquarters were in Birmingham] and influence and little practised in their use. Although the two organizations were very complementary abroad [a number of duplicate plants could be eliminated, their engine ranges could be reduced to four and a large number of models should be dropped], they had totally different management philosophies. BMH wanted a loose confederation of companies, whereas Leyland was more in favour of an integrated firm with a number of divisional units.

The agreement which eventually concluded the merger was signed in January 1968. There were to be six Directors from each side and the Chairman was not to have a casting vote; the new company's head office was to be in London and Board meetings were to be held alternately there and at the Group's principal factories; the new Group [named British Leyland Motor Corporation - BLMC] would operate as a single integrated unit and not as a holding company with autonomous subsidiaries; these were to disappear as operating units and to be reorganized into divisions. There would be a full-time Chairman of the Board, but his duties and responsibilities were to be quite distinct from those of the Chief Executive Officer. As for products, parallel ranges of cars with different badges would not be continued. The document represented a complete victory for Leyland's favoured view.

This was later reinforced by the composition of the new Group's senior management team. Leyland's Chairman, Sir Donald Stokes, became the Chairman and Chief Executive of the new Group. The merged Company would be the second largest motor manufacturer outside the U.S., the fifth largest non-nationalized company in the U.K. It controlled 40% of domestic car sales and 35% of the truck market [Turner 1973: 135].

5.1.1.3 Development of British Leyland

After the merger, BMH's problems presented a number of serious challenges to the new management team. The car company had been losing out considerably on the vital fleet sales business and its capital investment record was considerably worse than its main competitors. Although its vast array of distributors and dealers was one of its better features, the problem was that the Company tended to concentrate on numbers rather than on size. The Group's sales network overseas was less well-co-ordinated than at home. Furthermore, since even the higher-volume marques of cars did not own their own overseas distributors, the new Group was paying its wholesalers a generous profit-margin - usually between 7% and 9% of the car's retail price in Europe. The system became not only prohibitively expensive as competition grew fiercer and profit margins lower, but also illogical for a Group, large and powerful enough to undertake its own wholesaling. The entire overseas operation was also characterized by a distinct lack of coordination and diffusion of responsibility. Its constituent companies normally shipped their products abroad independently of each other, thus inflating still further their already considerable overheads.

A similar situation was also evident in the field of management. The rapid succession of mergers had thrown together companies with quite different operational styles, without giving them enough time to evolve either 'esprit de corps' or common practices. This problem was further compounded since the experience of its managerial team was mainly limited to relatively small car companies.

The policy on 'distribution franchise' resulted in a number of disagreements amongst the Group's senior managers. One Group felt that the Company ought to have only two basic franchises in the U.K. with volume cars in one and all the specialist cars in another. Others suggested two franchises with a combination of volume and specialist cars in each. The third group, the proponents of three franchises, also insisted that specialist cars should be kept separate, but in addition that the old BMH's two distinctive volume brands [i.e. Austin and Morris] were strong enough to secure higher total sales than a combined one. The Group Chairman was strongly in favour of the last option and that settled the issue.

Strikes continued to be a persistent problem. Many of the strikes were, however, associated with a transition from piecework to flat-rate payment systems [measured day work] in the early 1970s.

The Chairman had also been frustrated in his desire to reduce the number of U.K. plants. By 1973, there were still 56. The delicate industrial relations situation, he insisted, made closure virtually impossible.

The Oil Crisis of 1973 and the ensuing recession which affected the manufacturing sector in general and the motor industry in particular, compounded the Group's many problems. Its performance declined steadily and it had to request the U.K. Government for substantial aid in 1974. The CPRS [Ryder] Report [1975] on the Company and its future eventually recommended a complete reorganization of its activities.

The Ryder Report [1975] indicated that the British car industry suffered from serious competitive weaknesses. There were too many plants and too much capacity. It proposed that the corporation should be reorganized into four main sectors:

1] cars
2] trucks and buses
3] the international marketing of all its products
4] special products.

All the car operations [comprising volume and specialist cars] were to be put together into one business group, which was divided into four functions:

i] product planning, development and engineering
ii] manufacturing
iii] sales and marketing
iv] parts and service. [CPRS Report 1975]

The new policy for cars stressed the need to rationalize and unify motor car manufacture and to adopt centralized purchasing and engineering functions. Sales and marketing was also centralized within the car group. Considerable economies of scale and co-ordination were expected from this organizational change. However, since all the production plants were not in a single cost centre [i.e. the functionally organized business group], it became very difficult to measure the profitability of the separate car companies. Nor did any manufacturing plant have its own managing director to deal with the issues on the spot.

The reorganization of the Group in the mid-1970s was largely aimed at breaking up the monolithic central control exercised by the then Chairman [Lord Stokes] and his top assistants. The Ryder Plan called for a much reduced corporate staff in London and the creation of four largely autonomous business groups as outlined in the next section. Each division had its own Managing Director and operating committees.

In theory, it was to be a big step forward in the better utilization of the management and the specialist talents, which had long stagnated in the Group's scattered plants and offices. However, the new organization placed heavy demands upon managers in the business groups. An article in The Times [17 November 1977: 21] summarized the situation cogently:

> 'Instead of the dead hand of one corporate control, the managements of the new groups found themselves answerable to three masters:
>
> 1] the Main Board under a newly-appointed Chief Executive
>
> 2] the National Enterprise Board as the controlling shareholder
>
> 3] the Department of Industry.
>
> The Managing Directors of the four divisional groupings spent so much time travelling to London, followed by wearisome hours justifying every move to three sets of officials, that they simply did not have time or energy to develop the structure of their own divisions'.

It became clear to the Government and the National Enterprise Board during 1977, that the corporation as a whole and the cars division in particular, was not achieving the improved performance which the earlier plan had envisaged [Financial Times 30 January 1978]. A new Chief Executive, Michael Edwardes, was appointed in order to tackle the organizational issue as a top priority. He exhibited his preference for a highly decentralized structure, transferring all responsibility for day-to-day decision-making from the centre to the divisions. Within the 'cars business group', manufacturing and marketing functions were decentralized down to separate volume, executive and specialist vehicles and 'parts' profits centres. The intention, according to the new Chief Executive, was 'to re-establish identity and therefore pride at the various manufacturing sites' [Financial Times 30 January 1978]. This led to the establishment of two separate car companies based on volume and specialist car production. In addition, an umbrella car division was established, responsible for co-ordinating a number of functions between the two car companies. These included high technology, engineering, research and development, as well as personnel and labour relations. In addition, three further divisional groupings were established, dealing with 'components', 'buses and truck manufacture and marketing', as well as a 'special products group' dealing with an assortment of non-automotive businesses ranging from forklift trucks to commercial refrigeration. The operating companies became limited liability companies in their own right, although their freedom to raise finance for capital investment was controlled centrally. The Central Board was constructed to operate as a holding company mainly, with only two full-time executive members; the remainder having been drawn from the top echelons of banking and industry. A number of advisory committees were established at the centre, charged with clearly-defined responsibilities such as assessing divisional capital expenditure proposals. The new managerial team settled for a decentralized structure on the basis of the following arguments:

a) smaller organizations are easier to manage because the executives can envisage more easily the objectives which they are aiming at. It was contended that the previous car division [established in the mid-1970s] never developed as a truly integrated organization and that it was better to place the emphasis on the old companies which people can relate to;

b) the company lacks managers who have the skill and the experience to manage large structures;

c) potential and existing customers can identify more readily with the original marques from which the company grew [i.e. Austin, Morris, Triumph, Rover, Jaguar];

d) smaller units make it easier to identify potential trouble spots within the company. Given that the Group is a big and semi-unified organization, it is easier to break it down and deal with the problems piece by piece;

e) integration of major components had not gone so far that production facilities could not be re-allocated quite easily to the car manufacturing divisions.

[Financial Times 30 January and 2 February 1978]

As has been mentioned, a number of services were now to be controlled from the centre; these included the wage bargaining activity, the advanced engineering facility for dealing with long-range model development as well as franchising agreements.

The history of the Company illustrates that until the late 1960s, the British-owned sector of the motor industry remained a preserve of entrepreneurs who failed to provide it with a managerial cadre, adequate for an industry which was growing very rapidly. As Turner [1973: 204] comments:

> 'The managerial history of the British motor industry has often been characterized by bitter personal rivalries, culminating in the 'elimination' of one of the contestants and by the widespread use of the practice of 'divide and rule' under which a Chairman seeks to secure his own position by playing off his subordinates against each other'.

The re-organization of BL, following the appointment of Edwardes in November 1977, reflected the rejection of the earlier industrial strategy and the abandonment of physical targets which had characterized the 'Ryder plan'. In condemnation of the earlier methods, Edwardes had made the comment that:'We have had enough of instant re-organization' [The Economist, 4 February 1978, p. 108]. Between 1978 and 1980, £850 million was to be spent on a trimmed and shortened 'Ryder plan'. Half of this money was to be provided by the Government as equity capital in order to facilitate borrowing from outside sources [Dunnett 1980].

In 1980, BL launched its new small car, the 'Mini Metro' which has been well received. A new model which has been built in co-operation with Honda is to be launched in October 1981 and the turning point is likely to come after the introduction of its new generation of medium-sized cars in early 1983. By then, the Company is likely to have a much smaller base with a streamlined workforce.

5.1.2 Characteristics of the firm's industry environment

The environment within which car manufacturers operate is characterized by a complex inter-dependent network of raw material suppliers, component manufacturers, the producers themselves and their distribution network. Factors affecting one part of this inter-linked network have repercussions in every other part. A bad distribution system will make it more difficult to sell cars, even if the manufacturer is efficient; poor performance by manufacturers soon destroys any advantages there may be from different components manufacturers.

Not only are these interdependent functions important to each other; taken as a whole, they are of 'central significance' to the British economy. It has been estimated that the 'total job significance' of motor manufacturing, selling, repair and maintenance, before applying a multiplier, is of the order of 1.3 million, about 5% of the total national work force [CPRS Report 1975: 9].

The motor industry influences and is influenced by the general direction of the domestic and international economies. All the major economic indicators, such as the level of economic growth, the rate of inflation, level of interest and exchange rates, price and availability of oil and the overall level of imported vehicles, need to be monitored on a continuous basis.

In addition, since the British Government is BL's major shareholder, its policies can affect the firm's fortunes considerably. These policies are not merely restricted to those which affect the availability of funds for the Company, but include Government's attitude towards wage negotiations and employment legislation.

Since the Oil Crisis of 1973, the industry has been increasingly concerned with the development of vehicles which require less energy and utilize it more efficiently. Major technological breakthroughs in vehicle design and production are therefore of increasing importance. These developments include:

1) search for new materials for building the body shell
2) design of new engines to save fuel
3) design of new body styles to reduce air resistance.

It is, however, in the legal and legislative field that the manufacturers feel severely constrained. The restrictions differ from country to country and have imposed severe limitations on the design and development of a 'world car' which can be marketed on an international scale. These legal constraints include:

1) fuel economy
2) exhaust emission control
3) passenger safety
4) vehicle structural integrity

5) product liability

6) noise reduction

7) material use.

The above factors play a crucial role in determining the vehicles' degree of success in particular overseas markets, notably U.S.A. and Japan.

5.1.2.1 The car industry

5.1.2.1.1 Nature of competition and competitors

Access to 'economies of scale' is a conspicuous feature of the motor industry. The recent trend toward the 'world car concept' illustrates the importance attached to the maximum utilization of scale economies in an industry where they really do matter. In theory, the company making a world car can produce a pool of strategic components from plants set up anywhere in the world, to turn out parts on the most efficient scale possible. Other components would be bought in at a very low price, because of the quantities required. The components would then be shipped to plants in the major markets to be assembled into cars which would match the local requirements [Financial Times 14 August 1979].

'Product differentiation' is a normal form of competition among manufacturers, although with the recent trend towards standardization of component parts, it is likely to become more restricted in range and scope. The industry is also a large user of capital, since its basic production processes demand the installation of technologically sophisticated machinery and equipment. With the recent trend toward the use of automation for basic and repetitive production processes, the availability of capital for investment programmes has become of paramount importance.

The British motor industry must be considered in the context of the European motor industry of which it is a part. The European industry consists of 13 firms chasing a market of some 10 million cars with a total capacity of approximately 15 million cars [Bhaskar 1979: 32]. Of the 13 firms, 8 are in the volume car market; these are:

BL [U.K. and Belgium]
GM [West Germany, Belgium and U.K.]
Renault [France]
Peugeot-Citroen-Chrysler [France, U.K. and Spain]
Ford [West Germany, U.K., Belgium and Spain]
Fiat [Italy]
SEAT [Spain]
Volkswagen [West Germany].

Eight manufacturers have historically been in the 'specialist car market'; these are:

BL [JRT]
Peugeot-Citroen
Fiat [Lancia]
Daimler-Benz
Alfra-Romeo
BMW
Volvo
Saab.

These 13 manufacturers must be contrasted with the U.S. total of four firms, satisfying a market very similar in size. Although most of these firms [with the exception of a number of smaller, specialist manufacturers] are very large in size, with a turnover in excess of £1 billion, the industry experts estimate that only companies which operate on a world scale, with an annual capacity of at least 2 million vehicles, would be major contestants in the world market battle of the 1980s. Many smaller, specialized companies are going to survive only in marginal or protected domestic markets. Few of them can afford the astronomical costs of developing new models without associating with larger companies or turning directly to governments for loans, subsidies or even partnerships. A prediction is being made by senior experts that only a handful of companies, perhaps eight at the most, would organize component manufacture and vehicle assembly on a global basis to minimize costs and maximize product quality [Donald Peterson - a senior Ford Motor executive - Financial Times 30 July 1979].

5.1.2.1.2 Suppliers profile

The significance attached to component and other raw material suppliers within the motor industry can be assessed more successfully if we describe the operations which are normally carried out within a large 'integrated' car plant. These can be divided into four areas:

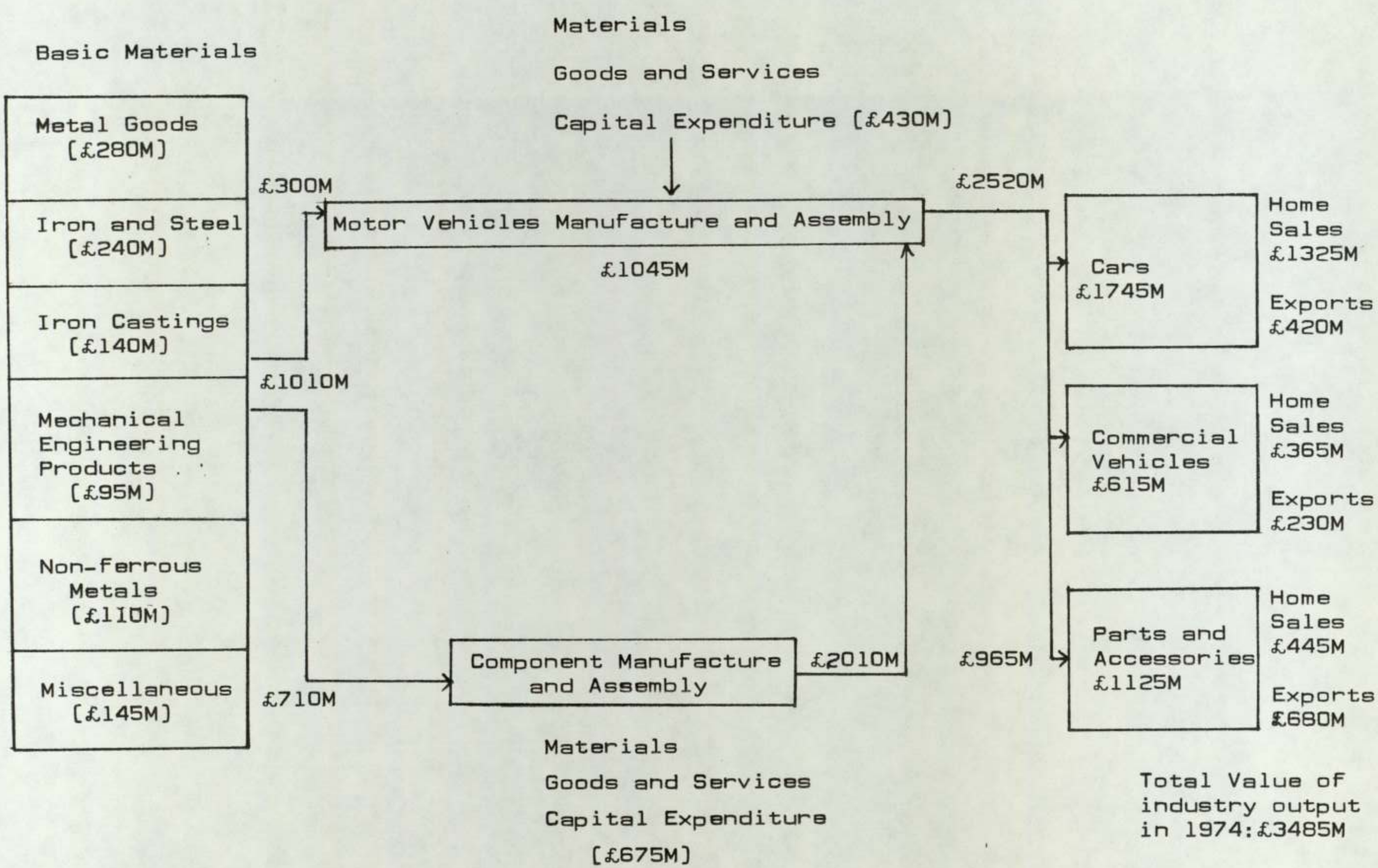
1] foundry operations, where the engine and transmission components are cast, usually in grey iron or aluminium;

2] the machining operation, during which the rough castings are machined to the tolerances required, culminating in the assembly of complete engines, gear-boxes and axles;

3] 'stamping', during which the body panels of the car are pressed or stamped from sheet steel using massive presses with the appropriate discs;

4] the assembly operations, where the pressed body panels are fitted together in jigs and welded [body assembly]; the complete body is then painted and moves on to the trim and final assembly lines, where interior and exterior fittings are added and the mechanical units [engine, gear-box, axles] are installed.

The assembly operations are probably least susceptible to significant economies of scale. The work has been labour-intensive in the past, with many workers only requiring screw drivers and spanners. The diagram overleaf provides a graphical illustration of the different inputs to the various processes of motor manufacture.


Basic Materials
Metal Goods [£280M]
Iron and Steel [£240M]
Iron Castings [£140M]
Mechanical Engineering Products [£95M]
Non-ferrous Metals [£110M]
Miscellaneous [£145M]
Materials
Goods and Services
Capital Expenditure [£430M]
£300M
£1010M
£710M
Motor Vehicles Manufacture and Assembly
£1045M
Component Manufacture and Assembly
£2010M
Materials
Goods and Services
Capital Expenditure
[£675M]
£2520M
£965M
Cars
£1745M
Home Sales £1325M
Exports £420M
Commercial Vehicles
£615M
Home Sales £365M
Exports £230M
Parts and Accessories
£1125M
Home Sales £445M
Exports £680M
Total Value of industry output in 1974: £3485M

The car industry's suppliers are basically of two types:

a) the raw material producers, e.g. steel, aluminium, paint and textiles;

b) the sub-contractors making components and accessories.

As the ex-works price of a car is largely made up of bought-out items, the efficiency of the car makers is dependent on their suppliers' efficiency, both in terms of costs and output continuity. Raw materials supply is typically concentrated in a few hands (British Steel Corporation is, for example, the major steel producer), but some 2,000 separate organizations are involved in producing often no more than a fraction of one percent of a car's ex-works cost. Approximately 50% of the bought-out content by value of U.K. cars is accounted for by ten firms which include:

Associated Engineering
Lucas
G.K.N.
Automotive Products
Birmid-Qualcast
Chloride

Pilkington-Triplex

Smiths

Dunlop-Pirelli

Goodyear

Firestone

In addition, there are a number of medium-sized firms such as:

Rubery Owen

Wilmot Breedon

Armstrong Patents

Sheepbridge Engineering

The following table illustrates the market position of the large component manufacturers:

Product	Supplier	Market share 1976 estimate
sheet steel	British Steel Corporation	75%
glass	Pilkington	75%
clutches	Automotive Products	90%
electrical equipment	Lucas	80%
door locks	Wilmot Breedon	70%
PVC etc.	ICI	70%
pistons	Associated Engineering	75%
sparking plugs	Champion	75%
transmission equipment	G.K.N.	75%
forgings	G.K.N.	55%
batteries	Chloride	45%

Product	Supplier	Market share 1976 estimate
tyres	Dunlop	30%
castings	Birmid-Qualcast	55%
brakes	Automotive Products and Lucas	50%, 45%
carburrettors	Zenith	35%
Paints	Berger, Courtaulds	n/a

Table 5
Source: K. Bhaskar 1979

The British car industry [except Ford] is almost unique in its dependence on outside suppliers for castings and forgings, which is normally regarded as an 'in-house' activity abroad.

5.1.2.1.3 Marketing Intermediaries

A competitive product range with a reputation for high quality will not improve a producer's market share if it is not backed by an effective distribution system and a strong dealer network. The importance of the distribution system to the motor manufacturers cannot therefore be underestimated.

Traditionally, the retail industry is based on the franchised garage; although the specialist retailers [selling exhausts or tyres], super- and hypermarkets have now acquired a substantial share of the retail side of the U.K. industry, the franchised garages still dominate the sector.

The retailer is expected to perform a number of diverse functions, including new vehicle sales, used vehicle sales,

sales of spare parts and accessories, vehicle maintenance, servicing, repair and forecourt services.

Generally speaking, there are two principal methods of organizing a distribution network. In the 'single-tier' system, dealers are supplied directly from the factory, whereas the 'multi-tiered' system is made up of a pool of main dealers or distributors who work through a series of smaller distributorships to supply the dealers. The distributors' function in this case is to finance and hold a stock of cars and a complementary stock of spares and parts with which to supply the dealers. The distributor could therefore expect to receive an additional discount on retail sales. On a multi-tiered system moreover, the dealer himself need not finance a stock of cars or parts, thereby acting more as an agent than a retailer. The system fails, however, if a distributor is unable to maintain adequate stocks or neglects to offer advice and guidance to the individual dealers, in which case, the dealer who has no direct access to the manufacturer is left more or less abandoned. Allowing for this weakness, the multi-tiered system does have certain advantages; left to their own devices, very few dealers would be able to maintain even minimal stocks of the necessary parts and spares.

Prior to the merger in 1968, B.L.'s distribution coverage was dangerously uneven. In some areas, the company was over-represented with too many dealers carrying only a single model range. The company's declared intention was to reduce the overlap and wastage and to compact their distribution network into a smaller number of relatively large dealerships.

Its coverage in Europe has been historically rather poor. Although its networks in Denmark, the Netherlands and Portugal are strong enough to be reasonably competitive, elsewhere distribution is both deficient in number of outlets and quality in dealerships.

In the North American market, the company has made strenuous efforts to improve its distribution networks, halving the number of outlets, while encouraging more of the remaining dealers to carry the full export range (Bhaskar 1979).

5.1.2.1.4 The Market

The car market can generally be divided into two distinctive categories:

a) the fleet customers, comprised of those organizations which purchase more than 25 cars of a particular type. Success in the fleet market is based on two key factors:

i) a large 'dealer' network, providing service facilities, ensuring that customers are within a reasonable distance;

ii) ensuring that the dealers are trained to cope with fleet business, which is entirely different from dealing with private customers.

The fleet salesman needs to be a specialist who is capable of selling in a business-industrial environment and who can talk with an understanding of his customers' business problems. This requires an investment in time and money, as well as training [Financial Times, 21 April 1980: Special Survey on Fleet Management].

Generally speaking, the motor manufacturers leave their dealers to handle the formalities of any sale, while ensuring that the right price structure and value-for-money features are provided for its range of vehicles.

An additional factor which can influence the potential choice of a fleet buyer is the 'second-hand value' of the chosen vehicles and their running and maintenance costs.

b] The private customers constitute the second category in the car market. Their choice is influenced by a number of factors including:

i] the price of the car and its relative value, compared with a competing range of cars;

ii] the cost of upkeep and maintenance;

iii] aesthetic factors such as its particular design and style;

iv] manufacturer's image.

Since B.L. is particularly dependent on the domestic market for a large portion of its total sales, its market is inevitably influenced by the domestic economy of which it is a part. It has recently launched a big campaign to push its sales in Europe and America, although it has faced considerable competition from European and American manufacturers which are more international in character and can therefore operate from stronger bases.

The market's growth prospects appear fairly limited especially in the Developed countries, partly due to the escalating cost of the upkeep of the vehicles, and although the Developing nations offer the prospects of more attractive and less saturated markets, they would ultimately want to develop their own motor industry as part of their overall industrialization programmes.

B.L. has witnessed a gradual erosion of its market share throughout the 1970s. The Company held nearly 40% of the British car market at the beginning of the decade; its share by 1979 was a mere 19%; most of it lost to European and Japanese competitors. [Source: Internal Communication Document, January 1981].

5.1.2.1.5 Critical success factors

The success of the 'volume and specialist car' manufacturer is greatly dependent on the following factors:

i] efficient distribution and retail outlets, as well as after-sales service facilities;

ii] product range, image and brand identity;

iii] design, performance and technological superiority of the vehicles;

iv] timely delivery and price competitiveness;

v] establishment of a strong foothold in different geographical markets;

vi) security of adequate financial resources for capital expenditure on plant and equipment;

vii) effective rationalization of manufacturing plants and capacities;

viii) adequate manpower resources and harmonious labour relations;

xi) adequate utilization of economies of scale;

x) efficient research and development facilities, in order to keep up with potential technological breakthroughs;

xi) rationalized modern high quality model ranges and mechanical components;

xii) high volumes for each model line;

xiii) full capacity utilization of existing and new plants;

xiv) efficient plant operating at high productivity and quality levels.

5.1 .2.2 Commercial Vehicles Industry

In the immediate post-war period, the producers of commercial vehicles were divided into two distinctive groups; mass producers and specialists. The first sector consisted of firms mass-producing fairly standardized products which in turn could be divided into three categories:

a) car derived vans

b) medium-sized vans and pick-ups

c) trucks of over one ton, and under 5 ton capacity.

The other sector was mainly composed of the specialist and heavy vehicle manufacturers.

The early 1950s witnessed the beginning of the process whereby the mass producers gradually moved up the weight scale in order to manufacture larger vehicles. Consequently, many specialists, making light and medium weight trucks, met increased pressure from the cheaper variety which was manufactured by the car firms. As the size and nature of this sub-market was conducive to larger output volumes, the specialist mass producers had no market imperfections available to protect them from more efficient concerns. Subsequently, a number of firms either left the industry completely or merged their activities with other firms.

The commercial vehicle industry has its own unique features. The industry's fortunes are directly tied to the level of activity generated in the economy and manifested by the general movement of goods between various destinations. All the general economic indicators are therefore of direct significance to the industry. Economies of scale are crucial for its price competitiveness, as indicated by the trend towards larger production units throughout the 1970s. This view is further reinforced by the experts' forecasts that by the 1990s, the industry's European leaders might be linked in a kind of federal structure. [Financial Times, 10 September 1979]. Such a group would have significant shares in most 'domestic' markets. It would also be in a position to take on the strongest Japanese and American competition in the developing countries, as well as the Middle and Far East, the 'neutral' overseas battlefields. Small manufacturers cannot afford to run at small volumes of around 2,000 units a year and recoup their development costs. This emphasis on larger plants and equipments can put a tremendous burden on the financial resources which should be available for major capital investment programmes. This need is given an additional impetus if one considers the huge research and development costs involved in order to keep up with major technological breakthroughs.

5.1.2.2.1 Competition and competitors

Competition in this sector is intense, with approximately 15 manufacturers operating in the European market. The list is headed by the West German group 'Daimler-Benz' which manufactured 123,000 units in 1979. The following list outlines the major European manufacturers and their volume of output.

Major European truck manufacturers and their output (1979)

Manufacturer	Country of ultimate ownership	Units
Daimler Benz	West Germany	123,000
Iveco (Fiat)	Italy	75,000
Ford	U.S.A.	45,000
Renault	France	35,000
Bedford (GM)	U.S.A.	30,000
Volvo	Sweden	28,000
Leyland	Britain	23,000
Saab-Scania	Sweden	22,000
MAN	West Germany	18,000
DAF	Holland	14,000
Dodge	France	13,000

Manufacturer	Country of ultimate ownership	Units
Motor Iberica/Nissan	Spain	11,000
ENASA	Spain	7,000
Seddon-Atkinson	U.S.A.	5,000
Steuy-Daimler-Puch	Austria	4,000
ERF	Britain	3,000
Fodens	Britain	2,000

Table 6 Truck manufacturers in Europe

Source: Sunday Times 20 July 1980

5.1.2.2.2 Suppliers

The commercial vehicle industry has its own particular supply network. Most of the car suppliers are used, but in addition, there are a number of separate firms and separate divisions of car components firms unique to this sector; such as engine suppliers Perkins, Gardner, Cummins, Rolls-Royce and Dorman; gearbox producers such as Turner-Dana, David Brown; transmission makers such as GKN and Rockwell; these, as well as cab, frame and body makers, all combine to provide a strong infrastructure on which both large and small bus and truck makers depend.

The car and commercial vehicle industries provide examples of vertical 'disintegration' with many parts, materials and components 'bought out'. A number of suppliers operate on an industry-wide basis, while others have to compete with the more highly integrated commercial vehicle makers. In the field of electrical equipment, tyres, wheels, front suspension assemblies, castings, brakes and forgings, the commercial vehicle sector is largely supplied by the same firms supplying items for car production, although certain differences exist [Bhaskar 1979: 291]. It is in the area of axles, transmissions, diesel engines, gearboxes, cabs and body building that a really separate supply infrastructure can be detected.

5.1.2.2.3 The market and marketing intermediaries

The size of the market for commercial vehicles is determined by the volume of traffic to be carried and the relative cost of transport by other means. Its customers frequently consist of municipalities, railways, hauliers and large contractors. Although specialist dealers act as marketing intermediaries for the commercial vehicle manufacturers, in the majority of cases, the manufacturer can sell directly to the user; this is facilitated since the unit of sale is costly and the purchaser is fully equipped with sufficient technical knowledge to undertake the transactions. Commercial vehicles are regarded as strictly functional in character and the market for them is small, compared with the car market.

Although a substantial part of BL's commercial vehicle sales are in the domestic market, its distribution network in overseas territories is generally good, with the exception of European representation which is weaker than that for other European manufacturers [Financial Times 21 April 1980].

The truck market as a whole is inherently more difficult to analyse than the car market. It is much less homogenous with the differences between a panel van and a four-axle tipper, being more pronounced than between, say, a Mini and a Rolls-Royce. For example, the heavyweight commercial vehicles have always been so relatively expensive and the cost of running and servicing them, so considerable, that financial considerations have loomed very large; but, in the light trucks and vans sector, fashion or personal preference, or outright bias, sometimes outweighed the financial aspects. With the increasing cost of maintenance and upkeep, however, the picture is changing rapidly; whereas a few years ago the financially-oriented transport manager would enquire 'how much?', today he wants a complete rundown on total running costs [Financial Times 22 July 1980]. The difficulties confronting the manufacturer are further compounded since growth in demand for road haulage services is static and may even be falling - a response to the sluggish performance of much of manufacturing industry.

This sector is highly capital-intensive, since new model introductions and re-tooling programmes require an ever-increasing amount of financial resources.

5.1.2.2.4 Critical success factors

Generally speaking, the 'success factors' of this sector can be summarized as follows:

i) efficient distribution outlets;

ii) maximum utilization of scale economies in order to recoup the financial resources which are committed to major capital expenditure programmes;

iii) participation in different geographical markets, to offset the impact of economic recession in the domestic market;

iv) product performance, price competitiveness and cost of running and maintenance should match that of the major competitors;

v) efficient provision of 'after-sales' service facilities.

5.1.3 The organizational structure

Continuing uncertainty over organizational form has been a serious weakness in BL. Several different structures have been tried and none of them have been continued for more than two or three years, with damaging consequences for morale and management performance. While it is easy for outsiders to criticize this chopping and changing, the size of the task should not be underestimated. Unlike its nearest rival, Ford, [a subsidiary of an American multinational company], BL was born out of a number of mergers, without subsequent rationalization. It has not been easy to reconcile the need for economies of scale and hence for centralization of certain functions [which was after all the main argument for the 1968 merger] with the need for operating units which are small enough to be managed effectively. The first step after the 1968 merger was to create five divisions, although for some time this structure was more apparent than real, since the old companies continued to behave like independent entities [Financial Times 30 January 1978]. The five divisions were:

1] special products: the non-automotive businesses, such as fork-lift trucks;

2] truck and bus;

3] specialist cars;

4] volume cars and manufacturing group - which besides designing, making and selling a range of volume car models, supplied bodies, engines and components to other divisions;

5) International - which in the face of strong resistance from the divisions, was to take charge of all the corporation's overseas marketing and manufacturing activities.

In 1973, this organization was modified. Two volume manufacturing divisions were split off from the volume cars and manufacturing group, one for body and assembly, the other for power train and transmissions. The idea was to put more management effort into manufacturing and let the product divisions get on with the job of designing and selling the vehicles. At the same time, the corporate staffs at the centre were enlarged (Financial Times 30 January 1978).

When the Committee of Enquiry, chaired by Lord Ryder, was set up by the Labour Government in 1974, it considered the possibility of separate profit centres for volume cars, executive cars and luxury cars, but concluded that a single integrated structure was essential. In the words of the Committee's Report (1975:134):

> '... The creation of a single integrated car business as a separate profit centre within the corporation would best serve the interests of the Company in the future. We recognized the strengths of the arguments which have preserved the separate identity of the specialist car companies since the merger - the need to preserve the distinctive product identity of the 'specialist' cars and the loyalty of employees at all levels within these divisions to the old company structures. BL cannot, however, compete successfully as a producer of cars, unless it can make the most effective use of all its design, engineering, manufacturing and marketing resources. The Company cannot afford to develop, produce and

model competing models. It must use the minimum possible number of different body shells, power and transmission units and components. Manufacturing facilities must also be deployed flexibly. We do not believe that these policies can be satisfactorily implemented with a structure under which the volume, executive and specialist car companies exist as separate entities. Under the product-based approach, the task of co-ordination between the various car operations would, as now, be a matter for the Managing Director, the corporate staffs and committees. We do not believe that this arrangement has worked satisfactorily in the past and it would be even less likely to operate satisfactorily if, as we believe is essential, the car divisions were genuine profit centres'.

In accordance with the Committee's recommendations, four profit centres were set up for the corporation as a whole:

1) cars division;

2) truck and bus division;

3) International division;

4) special products division.

Apart from the integration of the car companies (which caused several managers in the specialist car companies to leave), another controversial decision was the retention of the 'International' division as a separate profit centre and marketing organization. Some argued that since cars and truck and bus divisions were supposed to be designing and making cars and commercial vehicles for world markets, they should also be directly involved in overseas marketing.

A number of executives believed that the concept of the 'cars' division was sound, but that the implementation was too hasty, too drastic and badly planned. Several executives were promoted into jobs which were very much larger in scope and responsibility than their previous appointments and the division's performance suffered as a result. Yet, a good deal of progress toward integration was made - in product planning, in component standardization and in marketing [Financial Times 30 January 1978].

Nevertheless, it was clear to the Government and the National Enterprise Board during 1977, that the corporation as a whole and the cars division in particular, was not achieving the improved performance which the previous plan had envisaged and a new Chief Executive was appointed.

Sir Michael Edwardes, the new Chief Executive, regarded the organizational issue as a top priority and has made no secret of his preference for a highly decentralized structure, transferring all responsibility for day-to-day decision making away from the centre. This has resulted in the establishment of two separate cars companies, responsible for volume and specialist cars, a commercial vehicles division, manufacturing and marketing trucks and buses, in addition to a parts and components division which includes foundries.

A number of objections were raised against this particular type of re-organization. This was based on the belief that the motor industry lends itself to functional, centralized organization because of the scale on which it needs to operate. In most of the world's large motor companies, this is the preferred system of management. This way, the companies argue, they are able to achieve design, marketing and manufacturing economies by spreading all these costs over a wide range of products and by making their vehicles and components on a very large scale.

In effect, the functional structure leads to all the major strategic decisions, specially on products, being taken at the centre. The profit centre concept pushes many of these responsibilities back to the production units. If a chief executive is to be given profit responsibility, he has to be given many of the back-up services which make it possible for him to perform the task satisfactorily. He will want to have more control over the design of his product, more say in how it is sold, a hand in negotiations on wages and incentives and a direct influence on how investment resources are allocated within the organization.

Three central points have been made against this type of structure by its critics:

The first is that profit centre organizations inevitably cost more. Both the volume and the specialist car divisions would have their own marketing, engineering and product development departments. To some extent, they are bound to be duplicating activities which could be centralized.

The second is that in a complex industry, in which it is necessary to seek large scale economies of manufacturing for vital components, the division into a number of separate centres will complicate the business, rather than simplify it. None of the businesses can be self-sufficient; they depend on each other for manufacturing of some items. But the question of who makes what is probably easier to answer in a functional organization.

The third objection is that BL had already begun to emerge as an integrated organization. A number of major components, such as gear boxes, go into both the volume and specialist car models. Engineering has been brought together under a single department. Marketing is now managed from one centre and the franchises have been brought together.

The new management team which was appointed in 1977, appear to have rejected most of these arguments on the following grounds:

1) In their view, smaller organizations are easier to manage, because the executives can see the objectives they are aiming at more easily. They contend that the previous 'cars' division never developed as a truly integrated organization, and that it is better to place the emphasis on the old companies which people can understand more readily.

2) The company lacks managers who have the skill and experience to manage large structures.

3]   Customers can identify better with the original marques from which the company grew, rather than with the organization which emerged after the merger.

4]   Smaller units make it easier to identify the potential trouble spots within the company. Given that the company, as a big, semi-unified organization, was facing acute problems, it would be better to break it down and deal with the issues piece by piece.

5]   Integration of major components had not advanced to the extent that production facilities could not be re-allocated quite easily to the car manufacturing divisions.

6]   Marketing responsibility would also be transferred to the individual divisions, so that the salesmen are brought closer to the source of the product. This also applied to overseas sales in major markets. The volume car division would take over responsibility for European marketing, because of the preponderance of its own vehicles sold in this area, while the specialist car division would assume responsibility for North America. Each division sells the others' products if necessary and the truck and bus division has taken on its own overseas sales [Financial Times 30.1.78].

The Chairman conceded the argument for the retention of a number of central services under the Executive Vice-Chairman who holds central Board responsibility for the car activities. There is a central wage bargaining activity, as well as an advanced engineering facility for dealing with the long-range model development; franchising arrangements have also been brought under the centre's domain of responsibility.

Figure 4 outlines the overall organizational structure which followed the appointment of the new Chief Executive at the end of 1977. The decision making structure attempts to combine the two major elements in the re-organization: the greater freedom of subsidiaries to make operational judgements at the appropriate level, while retaining a strong policy making and strategic planning function at the corporate level.

The Main Board is the company's policy making forum. It is composed of four non-executive directors who have wide and extensive international business experience, as well as the Chairman and Chief Executive and the Executive Vice-Chairman. Board committees are concerned with the appointment and remuneration of directors, audit and corporate funding.

The Advisory Board is the main executive forum, which advises the chief executives on strategy and is responsible for the implementation of Main Board policy. Membership of the Advisory Board is a balance of line executives (i.e. the Managing Directors of the subsidiary companies) and staff executives (e.g. Corporate Directors).

The strategic and investment decisions are generally arrived at through a number of central committees, made up of the senior corporate and divisional management. These central committees are:

1) The Management Committee Advisory Board, which operates as a general decision making body and is composed of the Chairman, Executive Vice-Chairman, Corporate Finance Director, Corporate Director for business strategy and the Divisional Chief Executives.

2) The Investment and Management Resources Panels are chaired by the Chairman and the Executive Vice-Chairman respectively. Their functions include the assessment of alternative investment programmes proposed by the divisions and the subsequent allocation of corporate financial resources.

3) The Car Strategy Panel, chaired by the Chairman and charged with the responsibility of determining the car divisions' long-term strategic development.

4) The Commercial Vehicles Strategy Panel is chaired by the Chairman and its responsibilities include an assessment of this sector's future prospects and the likely strategic options which the group might embark upon.

In addition, as Figure 4 indicates, the Executive Vice-Chairman is responsible for:

1) central finance;

2) central business strategy function;

3) corporate services including legal services and patents, trademarks and licensing and pensions;

4) a central department in charge of research and development programmes concerned with future technological developments.

The central 'Personnel and External Affairs' function is in charge of:

1] organization and personnel planning

2] management remuneration planning

3] employee relations

4] external affairs

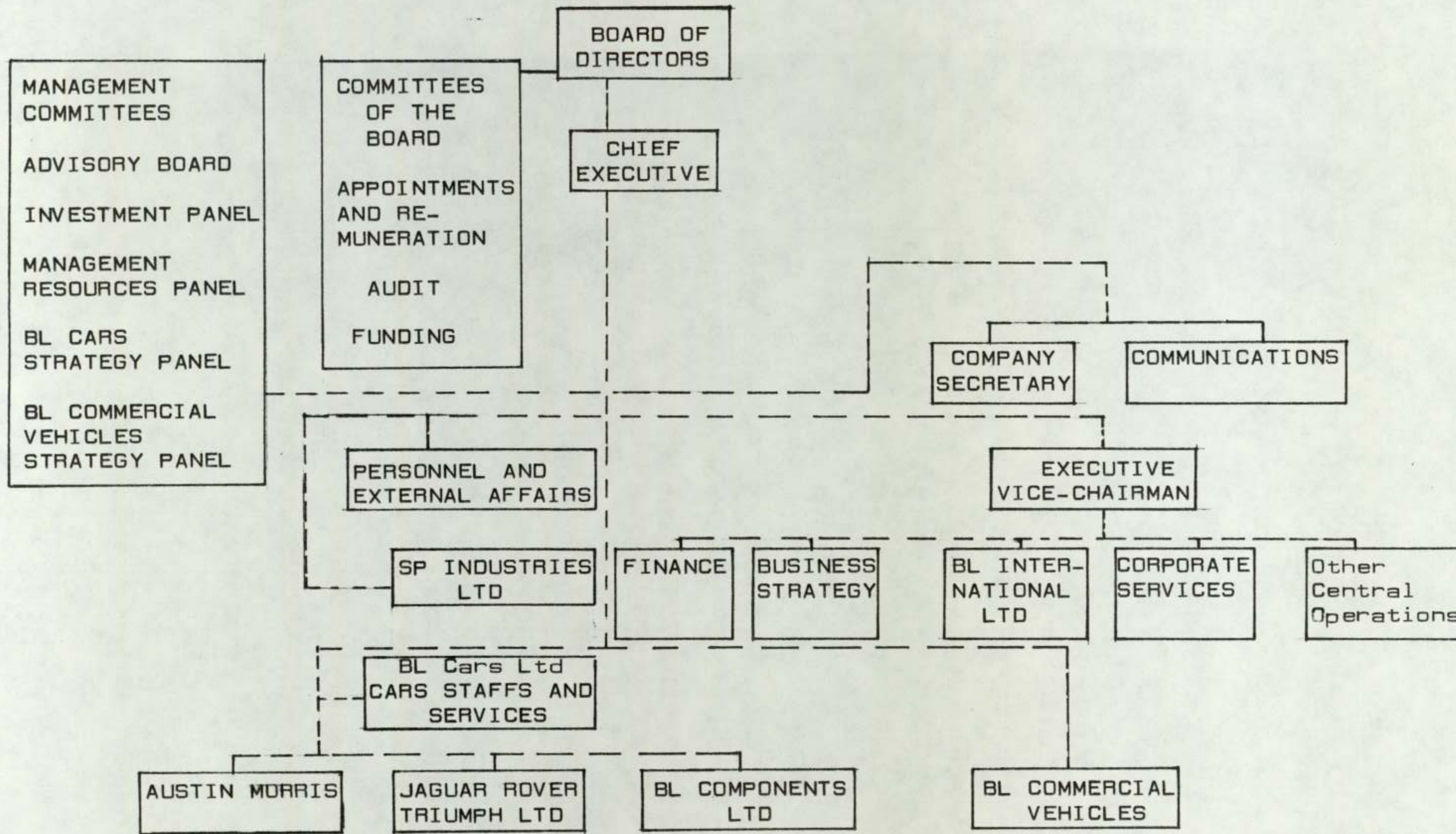
5] security and protection services.

As the preceding section indicated, the company is basically divided into four separate divisions, although the car manufacturing operations are co-ordinated through an umbrella organization which is in charge of advanced technology and employee relations and services. Its main function is to monitor those activities which are of concern to both car companies, thus acting as a co-ordinating mechanism, in charge of employee relations policy, franchising policy and product and engineering strategies. The car companies themselves are organized along functional lines and their respective Chairmen, through the membership of the Central Advisory Committee, maintain a vital link with the corporate H.Q. The commercial vehicles division is organized along product lines, which implies that there are separate operating units responsible for:

light and medium trucks and vans
heavy-weight trucks
buses.

Its managerial Board is composed of executive directors in charge of the above divisions, in addition to finance and marketing directors. The Divisional Chairman and Managing Director maintains the vital liaison with the corporate centre.

Figure 4 BL's organizational structure



5.1.4 Characteristics of senior management

A close examination of the firm's strategic development provides an indication of the importance attached to the key personalities prior to the merger in 1968; it was the senior management of the two large companies (Leyland and BMC) who dictated the pace of the firm's development.

The 'personality hallmark' was initially left by Sir Donald (later Lord) Stokes, who was a dynamic character and responsible for concluding the merger agreement in 1968. According to Salmon (1975: 60) he had always managed the Leyland company in Lancashire as an omniscient figure with control of every function. Without Stokes' personal authority, no activity could be initiated. He became the major driving force behind the newly-formed British Leyland Corporation, holding the position of Chairman as well as Chief Executive and his charisma became a main ingredient of the new firm's identity. He was first and foremost a superb salesman, who regarded 'human relationships' as an important ingredient of his task. It should be mentioned, however, that he cannot be held solely responsible for the absence of integration which was so evident after the merger. His empire was mainly composed of a number of smaller firms which had been previously managed along highly centralized lines by their 'owners'. This made the task of establishing formalized systems of co-ordination and decision making that much more difficult, because each small constituent was aiming to protect its own status and power within the newly-formed group.

In 1975, following the Ryder Report on the future of the Company, the managerial structure was transformed and Lord Stokes, the once-powerful Chairman and Chief Executive, was relegated to the ceremonial position of Life President. A number of senior executives who had initially been brought into the Company by him followed suit and left. There was a distinct lack of suitable senior personnel to fill the posts which had thus been vacated. This led to the establishment of a completely new managerial order, since the new executives were recruited from finance and other branches of industry and totally inexperienced in the motor industry [Financial Times 30 January 1978].

The financial orientation of the new Chief Executive, Alex Park, had a number of positive effects. For the first time, under the new structure, it led to the establishment of formalized procedures for co-ordination and control of the separate activities. The new organizational structure was also instrumental in integrating a number of similar activities which until this point had been managed as totally autonomous concerns with the subsequent duplication of a number of functions.

This new arrangement however, resulted in a complete alienation of the managers of the operating units, who regarded the new system as bureaucratic and contrary to the spirit which lay behind the new organization [Management Today November 1975]. It should also be mentioned that the operating-units' managers were highly production-oriented and this led to a total absence of empathy and understanding between the corporate and the operating managers. The new system had a number of other drawbacks. For example, since all the car activities had been integrated under a unified system of management, the different hierarchies' sphere of responsibility was not quite clear and this generated a feeling of apathy on the part of the lower-level managers.

By 1977, when the Company's performance had deteriorated to such an extent that it had to call on the Government for financial assistance, management's morale had suffered considerably. In November 1977 a new Chief Executive, Michael Edwardes, was appointed with a proven track record in the highly successful 'Chloride Group' managed along decentralized lines.

As before, his appointment led to the departure of high-ranking senior executives, which meant that he could recruit suitable personnel in accordance with his own managerial style. His particular preference for a decentralized organizational structure resulted in further re-organization leading to the establishment of four broad divisional groupings, each under its own Chairman and Chief Executive who maintained the link with the corporate centre. The latter was subsequently reduced in size and its role restricted to that of a 'holding company', responsible for determining the firm's long-term strategy, as well as procuring and allocating financial resources to secure its implementation.

Michael Edwardes' two most senior deputies, David Andrews and Ray Horrocks, according to Kenneth Gooding [Financial Times 7 April 1981]:

> '... could hardly be more different in character; Andrews is a quiet, rather introverted type who joined what was then British Leyland as long ago as 1969 as Financial Controller from Ford of Europe and has since headed the 'International Division' set up after the Ryder Report. He became Executive Vice-Chairman when Alex Park, who had been BL's Chief Executive until Sir Michael's arrival, decided to leave. In contrast to Andrews, Horrocks is an extrovert who joined BL two months after Sir Michael Edwardes as Deputy Managing Director of the Cars Division, having worked previously at Marks and Spencers [as a salesman], Littlewoods, Ford [marketing manager for cars and head of advanced vehicle operations] and joined Eaton Corporation's U.K. subsidiary in 1972 as General Manager, 'materials handling Europe and Middle East'.

5.1.5 The firm's performance

The record of the Company's performance throughout the 1970s has been one of steady decline. Since figures are not available for the performance of the individual divisions or operating units, it is difficult to assess their relative decline or profitability. Suffice to say that the volume car operations have been losing their domestic market share to the Japanese and other competitors to such an extent that while the Company held nearly 40% of the domestic car merket at the beginning of the decade, its share has slumped to a lowly 19% by 1979 [Bhaskar 1979]. This dramatic decline can be largely attributed to:

1) poor productivity record, resulting from labour disputes and lack of adequate investment in modern plant and machinery;

2) lack of rationalization, resulting in duplication of effort and function in a number of plants;

3) Britain's entry into the Common Market in 1973, resulting in removal of tariff barriers, which had hitherto protected the domestic car industry;

4) a poor product range, with a number of competing models.

Although the Company's turnover has increased steadily, its profit figures, as Figures 5 and 6 indicate, have deteriorated continuously since 1974; the exception being

1976, when the end of domestic recession and the low value of the pound contributed largely to increased sales and profits, especially in the overseas markets.

A large portion of the Group's turnover is generated through exports to overseas markets. In 1978, exports accounted for 10% of the volume car division's total turnover [£132 million out of £1180 million], nearly 50% of the specialist cars [£454 million out of £934 million], over 20% of the components division [£108 million out of £651 million] and 25% of the commercial vehicles' division's total turnover [£174 million out of £637 million].

It is generally concluded that the 'volume car operations' provide the major stumbling blocks to a full recovery. This has led to a massive capital investment programme, during the latter part of the 1970s, which is hoped will result in the introduction of a number of new models.

The specialist range of cars [Jaguar, Rover, Triumph, Land Rover] perform particularly well in overseas markets, especially the U.S. and it is hoped that through co-operation with a number of foreign manufacturers, they will be able to increase their market share.

Figure 5 BL's total domestic and overseas turnover 1969-1978

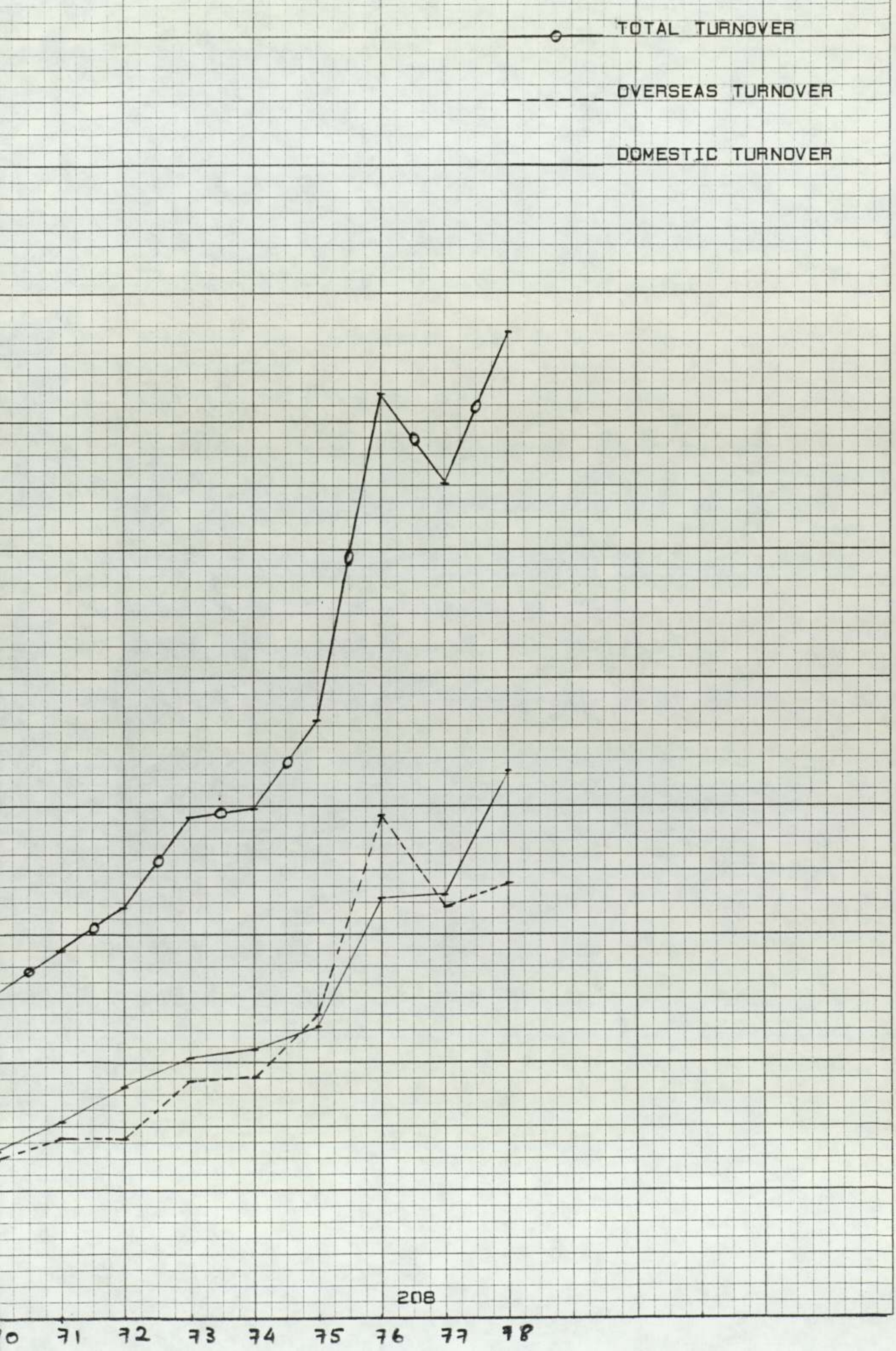
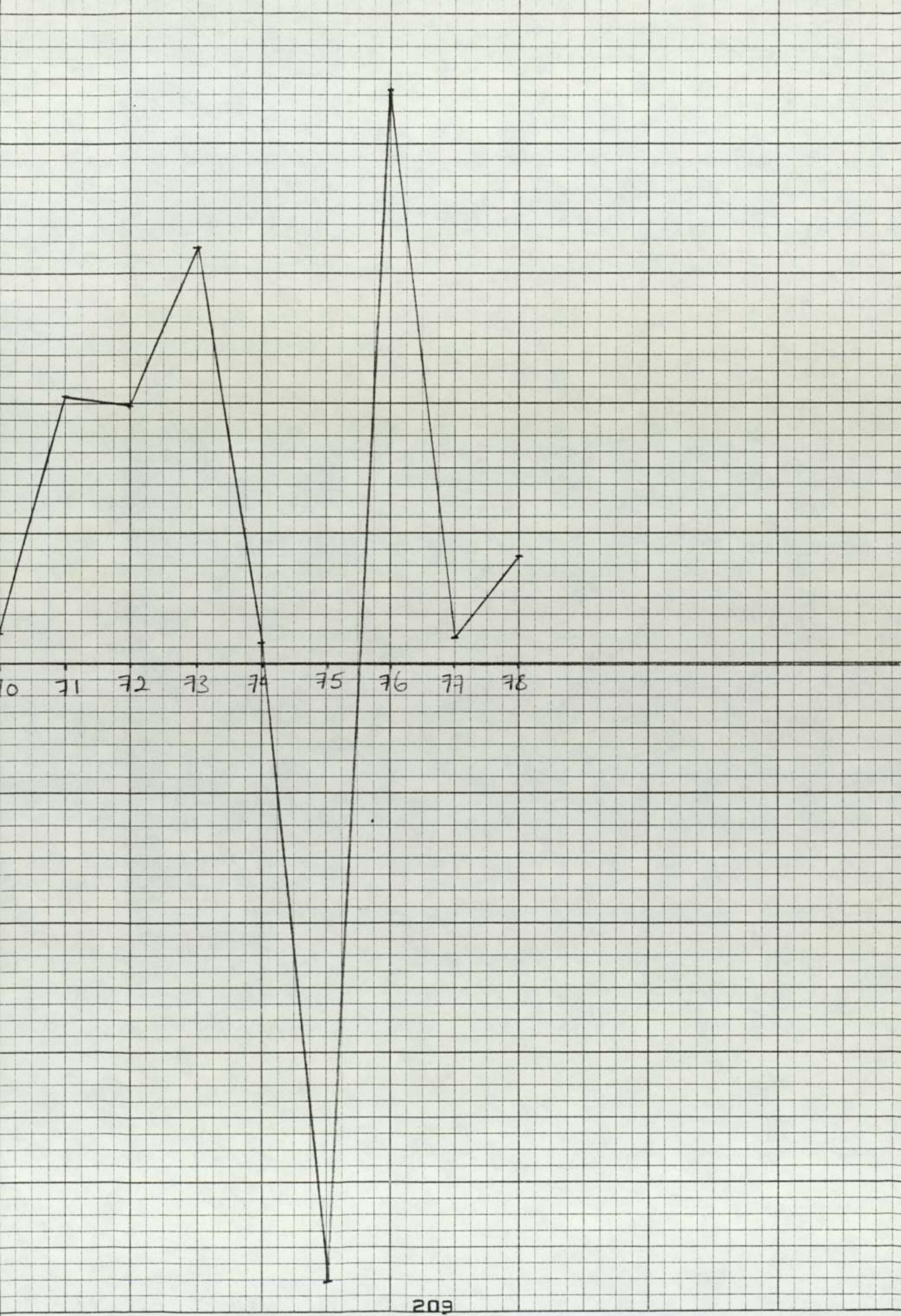


Figure 6 BL's total profits before tax 1969-1978



5.1.6 Co-ordination and control mechanisms

Co-ordination is a vital component of effective management, especially in a firm which by nature should be integrated, whereas in practice, as a consequence of its historical development, is managed through a number of autonomous profit centres.

The extent of co-ordination which is required varies enormously between divisions. For example, the two car companies, by the very nature of their operations, are likely to require a close degree of collaboration.

Since the Company's organizational structure has undergone a number of successive changes, it has become difficult to establish co-ordinating mechanisms which have been consolidated and in turn have proved their effectiveness.

As the organizational chart in Section 5.1.3 indicates, the two car companies strive to maintain a close degree of collaboration through the 'umbrella car division', which co-ordinates labour relations and personnel, as well as providing a common pool of talent and resources for engineering research and development, so vital for the future model development programmes.

At the operational level, contact is maintained between the various production units which need to collaborate on a number of projects. For example, the manufacturing plants of the two car divisions exchange a number of components for their assembly operations, which is managed through the production units most directly concerned. In addition, the two divisions' 'business and product planning' departments maintain a certain degree of informal contact in order to discuss product and future model strategies.

The 'components' division supplies components to the two car and commercial vehicle divisions. Co-ordination of this activity is provided by the manufacturing plants most immediately concerned with the issue. The components division, in fact, represents the implementation of a 'backward integration' strategy, providing a number of vital inputs to the various assembly operations.

However, the most formalized co-ordinating mechanisms are provided by the corporate centre, through the 'finance' and 'corporate strategy and planning' functions.

As indicated in Section 5.1.3, the divisional chief executives are given an opportunity to discuss their future strategies and their subsequent requirements for financial resources in the 'Investment' and 'Management Resources' Committees. Senior corporate management [i.e. the Chief Executive and the Executive Vice-Chairman] can then undertake the role of co-ordinators, steering the divisions towards the direction regarded as most desirable.

The corporate planning process, as we shall see in subsequent sections, has the added advantage of bringing together corporate and divisional managers, thereby providing a suitable forum for exchange of ideas which eventually determines the assumptions on the basis of which the divisional plans are formulated.

Since BL is in the business of manufacturing and marketing a range of cars and commercial vehicles, the control of the different divisional activities is not merely restricted to the 'allocation of financial resources between the different divisions'. The concept of control within such a Company is extended to include the 'determination of a suitable strategy for the firm as a whole'. This does not imply that the corporate management can dictate the strategic direction which the divisions are expected to follow. The process is rather more interactive, since it involves a constant dialogue between the various interested parties. In the case of BL, the range of participants is extended to include the Department of Industry and the National Enterprise Board.

The two processes of determining the firm's strategic direction and allocating financial resources to secure its implementation are inevitably intertwined. The Central Advisory Committees are generally regarded as the main forum for discussing these and related issues.

The outcome of these negotiated processes at the highest levels are then translated into targets and plans by the divisional planning units, as the next section will indicate.

5.2 Corporate planning system

5.2.1 Initial development

Ever since the formation of British Leyland in 1968, formalized product and financial planning has been in operation in one form or another, depending on the Company's frequently-changing organizational structure. The structure which evolved after 1968 was intended to impose a very detailed degree of central control over every aspect, financial and otherwise, of the far-flung empire. It was based on a 'line and staff' concept with the complication that 21 directors and managers reported to the Managing Director. Each major constituent company was organized on a similar basis with every function duplicated by a central staff department located either in London or the Midlands.

Separate manufacturing, product, financial, marketing and manpower plans proliferated within various units, although the emphasis was largely placed on product planning, manufacturing planning and financial planning for which there were separate corporate departments. The various plans were eventually submitted to the planning office [attached to the Office of Managing Director], although it is not clear to what extent they formed the basis for making decisions. This confusing state of affairs is cogently summarized by Salmon in an article in Management Today [November 1975: 60]:

> 'In the cause of rationalization, daily, weekly and monthly reports proliferated... Profit planning became of paramount importance and

> the more cynical managers mourned the days when, they said, they could concentrate on making profits instead of spending all their time planning for them. Meetings multiplied and fed upon themselves. Minutes became mandatory and informal discussions and agreements were no longer acceptable. No-one felt solely responsible for anything and consequently no-one could be held accountable for the inevitable errors'.

Following the Ryder Report (1975) the Group's structure was re-organized into four divisions and the planning system became 'financially'-oriented at the centre and 'product and manufacturing'-oriented at the divisions. In fact, every division had its own 'product planning, development and engineering' department which devised elaborate manufacturing and product plans which were eventually submitted to the Managing Director's Office through the divisional chairmen.

The Central Planning Department (finance, planning and control) was mainly responsible for evaluating the divisional financial and capital expenditure plans, formulated in order to implement the divisional product plans. In addition, separate marketing and manpower plans were also produced but it is not clear who was responsible for their formulation and subsequent evaluation and how they were utilized for making decisions. It appears that no overall attempt was made to integrate the various types of functional plans.

It became clear to the Government and the National Enterprise Board during 1977, that the Corporation as a whole and the Cars Division in particular was not achieving the improved performance which the Ryder Plan had envisaged [Financial Times 30 January 1978].

With the appointment of Michael Edwardes in 1977, the organizational structure was changed, becoming more decentralized. Two separate car companies were established for volume and specialist cars in addition to 'commercial vehicles' and 'components'. Two smaller divisions were also set up to manage the companies' 'multi-product overseas operations and investments not assigned to the U.K. companies' and 'the Group's non-automotive businesses'.

The number of departments and personnel at the corporate headquarters was substantially reduced and various staff/functional departments were transferred to the divisions.

5.2.2 Planning system's existing range of functions

It is against this background that the Company's formal planning system was set up in January 1978 in an attempt to facilitate the development of an cverall Group strategy [outlining the Company's objectives, model programmes, facilities plans, manpower requirement] and to specify the Group's total 'funds' requirement. In addition, it was to co-ordinate the various divisional strategies in the context of the Group's overall strategic objectives and to provide a basis for allocating resources amongst the divisional units.

It is not surprising that having delegated most of the operational responsibility and day-to-day decision making to the divisions, the role of the centre in the overall planning system is one of monitoring and consolidation of divisional strategies rather than the detailed formulation of the plans themselves.

The tasks of the corporate planning department [whose structure, sub-units and reporting policy will be discussed in the following section] comprise the following:

- firstly, it provides a central information service which monitors the Group's 'macro-environment'. A set of economic assumptions [covering indicators such as interest and exchange rates, inflation, unemployment, level of demand] are prepared at the outset of every planning cycle and sent to each division. These specify broad parameters on the basis of which divisions can formulate their plans.

- Secondly, it reviews and evaluates the various divisional plans which are eventually consolidated into an overall Group Corporate Plan; having been approved by the Company's Main Board this is then forwarded to the N.E.B. and the Department of Industry. It is on the basis of this 'Corporate Plan' that the Government can evaluate the Company's future strategy and approve its funding requirements.

5.2.3 Structure and organization of the planning departments

Corporate level:

As Figure 7 illustrates, the Corporate Planning Department comprises of three sub-units, one of which is in the form of a 'temporary task force' co-ordinating issues of specific strategic significance at different points in time.

1) The 'Business Planning' Department is charged with the responsibility of monitoring the Group's macro-environment. It prepares a set of basic economic assumptions at the outset of every planning cycle on the basis of which the divisions can formulate their plans. Two economists are employed in this Department.

2) By far the largest planning sub-unit of the Corporate Planning Department is responsible for reviewing and evaluating the divisional plans. These are subsequently consolidated into an overall Group Corporate Plan. Six people are employed in this Department.

3) 'Special task forces' whose composition and responsibilities vary depending on the Company's strategic priorities. Until January 1981, the task force's responsibilities were essentially related to the Group's need to rationalize its manufacturing facilities and reduce its manpower. In the pursuit

of this task, it evaluated various options available and their impact on the Group as a whole [including the delicate relationship with trade unions and Government].

The strategic issue with which the Company is particularly concerned at present is 'likely collaboration' agreements with other manufacturers. This was stated quite clearly in Sir Michael Edwardes' letter to the Secretary of State for Industry [26-1-81]:

> '... The Board sees collaboration with other manufacturers as an important part of its strategy for recovery and for reducing and eventually removing dependence on Government support. This might take the form of collaborations on components or on particular parts of the business'.

Its responsibilities include preparing a profile on likely collaborators and exploring the impact of alternative strategic options on the Group's future prospects. It therefore provides a flexible mechanism which can be drawn upon as and when required. Its members are recruited from various parts of the Company [depending on the nature of the task in hand] and their number varies between six and ten.

The Corporate Planning Department is headed by the 'Business Strategy Director' who reports to the Executive Vice-Chairman.

Divisional planning;

Due to the Company's decentralized organizational structure, plans are actually formulated at the divisional level. As Figure 7 illustrates, the divisional planning departments are divided into two sub-units:

1) 'Product Engineering' Department which is responsible for liaison with the divisional manufacturing units, with whose collaboration the product, engineering and facilities' plans are developed. It is headed by the Product Engineering Director, reporting to the Divisional Board member responsible for Business and Product Planning.

2) 'Business and Product' Planning whose responsibilities include:

i) monitoring the divisional business environment including competitors' likely actions and developments influencing the market;

ii) consolidating the divisional functional plans (finance, sales and marketing, purchasing, manpower, manufacturing, product development) into an overall plan for the division as a whole.

This unit also reports to the Divisional Board members responsible for business and product planning. The two divisional planning departments employ between 15 and 30 people in each division.

5.2.4 Types of plans, their content and time horizon

There are three types of plans, two of which are formulated at the divisional level and the third [the corporate plan] is the consolidation of the divisional plans.

1] One-year Divisional Development Plans:

These form the basis for the formulation of the Divisional five-year plans and are regarded as 'discussion documents' within the divisions. Their contents include:

i] Development Product Plan

a - current product plan

b - development product plan

c - product assumptions

d - opportunity actions

ii] Product Volumes

a - model volumes by major market

b - major mechanical analysis

c - variance between present and previous development plan

iii] The timetable for the generation of divisional five-year plan.

2] Five-year Divisional Plans:

These are based on the divisional product, manufacturing, marketing, financial, and manpower plans and provide an indication of the divisional objectives, standing of the business and various reports prepared by the functional department, namely:

- product review
- sales and marketing report
- manufacturing report (production, plant utilization, manpower requirements, productivity and quality of vehicles)
- personnel and industrial relations report
- financial report (profit performance against budget)
- the division's operating environment (oil prices, cost competitiveness, market prospects, competitors' likely actions, technological developments, position of suppliers, legislation likely to influence the divisional plans, such as vehicle taxation policy, lead in petrol).

On the basis of these reports, the divisional strategy is outlined and action plans specified in detail. This includes an assessment of the divisional capital expenditure requirements. In addition, each division's 'Finance Department' prepares an 'annual budget' which is submitted to the 'Central Finance Department'.

3) The five-year divisional plans are then reviewed by the Corporate Planning Department; these are subsequently modified and consolidated into an overall corporate plan for the Group as a whole, and is sent to the Main Board for approval and eventually submitted to the N.E.B. and the

Department of Industry. The Corporate Plan sets out the Company's long-term objectives expressed in financial terms [e.g. return on assets], likely environmental developments affecting its operating environment, profit forecast for the divisions, detailed facilities and product plans, on the basis of which capital expenditure requirements are specified, manpower requirements and research and development programmes in progress.

The document sets out the Company's future strategy and associated funds requirements on the basis of which the Government has to arrive at a decision concerning the approval [or disapproval] of funds.

Having secured the funds from the Government, the corporate and divisional plans form the basis for allocation of funds to implement specific strategic programmes [development of new products, modernization of plant and equipment, etc.]. This process is conducted through the corporate 'Investment Committee' where the senior corporate and divisional executives are represented. In addition, the divisional plans provide a mechanism on the basis of which each division's performance can be monitored.

5.2.5 Planning process

This specifies the various stages and timetable for the formulation of plans. A two-day informal meeting attended by the divisional and corporate planners is held in February. Its purpose is to review the previous year's plan and any major deviations which might have occurred. In addition, likely environmental developments which might influence the Company in the coming year are also discussed.

By early May, the divisional one-year development plans are generated and submitted to the divisional manufacturing, marketing and finance departments for further comment [this plan, as already explained, is only a divisional discussion document].

During May/June, facilities and manpower strategies are formulated on the basis of the divisional development plan. The divisional 'Product Engineering Department' provides the liaison necessary between the manufacturing department and various manufacturing units. In addition, the Divisional Marketing Department generates its own report.

On the basis of manufacturing and marketing plans, a financial assessment is provided by the divisional finance department in June. The manufacturing, marketing and financial plans are subsequently reviewed and consolidated by the divisional business planning department into the overall divisional plan. This is submitted for the Divisional Board approval in July and subsequently modified in the light of their comments. It is then passed on to the Corporate Planning Department. Between July and October, the divisional plans are reviewed and modified in the context of comments received from the Corporate Planning Department.

The various divisional plans are consolidated by the Corporate Planning Department during October/November and form the basis of the Group Corporate Plan which is submitted for Board approval in December. The five-year corporate plan provides an indication of the divisional strategies and financial resources required for their subsequent implementation.

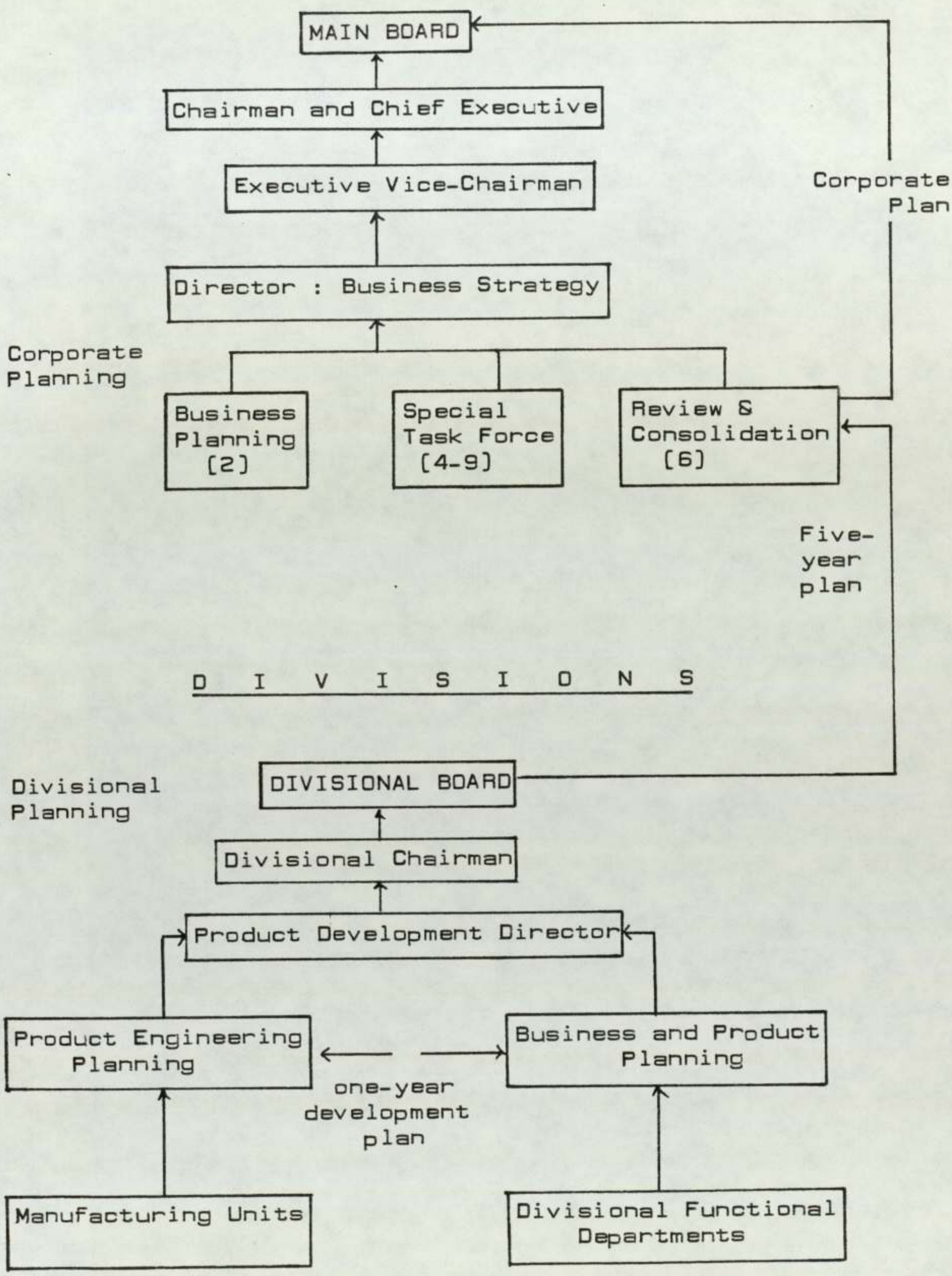


Figure 7 Overall view of BL's planning system

5.3 Nature of interrelationship/association between situational factors and the corporate planning system

Table 7 depicts the areas where situational factors appear to have shaped the characteristics and orientation of BL's corporate planning system. This information was conveyed during the course of a number of interviews with the manager of one of the corporate planning units [responsible for the evaluation and consolidation of the divisional plans] and the Manager in charge of the Business Planning Department of 'Austin Morris', BL's car manufacturing division. Since they had worked in the Company for a relatively short period of time [since 1976 and 1974 respectively] their knowledge concerning the early development of the planning system was rather limited. Section 5.3.1 which explores the interrelationship between situational factors and initial development of corporate planning relates to the period 1975-1978 [i.e. the Group's re-organization following the Ryder Report until the appointment of Michael Edwardes in November 1977].

5.3.1 Situational factors associated with the initial development of corporate planning following the Ryder Report

5.3.1.1 Salient features

- Product, engineering, facilities, marketing and financial plans were developed by the various functional departments. These were subsequently put together by the office of the Chairman and

Chief Executive and reviewed in a number of corporate committees. There was no corporate planning department in order to co-ordinate and integrate the various plans.

5.3.1.2 <u>Influence of situational factors</u>

- Following the recommendations of the Committee chaired by Lord Ryder, British Leyland's structure was re-organized on the basis of four divisions (cars, bus and truck, special products, International). The centre was to be kept small and Alex Park, its new Chairman and Chief Executive, had a small number of supporting staff who evaluated and put together the various plans which were put forward from the divisions (number 3.2 on the table).

The various functional departments of each division (such as manufacturing, marketing, engineering, product development) would formulate a set of elaborate plans which were independently submitted to the office of the 'divisional chief executives' where they would be evaluated and consolidated. These consolidated plans, mainly outlining the financial implications of various product/market strategies would then be submitted to the centre, where they would be discussed in various committees and were used to evaluate the divisional capital expenditure proposals and funds requirements.

- These plans were necessary because of the technological complexity, capital intensity and long lead times associated with the motor industry [number 2.5 on the table]. It takes approximately seven years or more to develop a new model and bring it on to the market. Product/market and financial planning was and still is an integral part of managing a car manufacturing concern [interview with Business Planning Manager: Austin Morris June 1979].

5.3.2 Situational factors associated with the role of planning and existing responsibilities of the Corporate Planning Department

5.3.2.1 Salient features

- The Corporate Planning Department comprises three units, each responsible for the following:
  i) to monitor macro-economic and political developments

  ii) to co-ordinate the divisional planning effort and to review and consolidate the divisional plans

  iii) to assist senior corporate management in their search for and evaluation of possible 'collaboration' ventures with other manufacturers.

- Detailed product/market/financial planning is co-ordinated by the divisional planning staff.

5.3.2.2 Influence of situational factors

- Since the appointment of Michael Edwardes in November 1977, the Company's organizational structure and planning system have been transformed. The organizational structure has become decentralized and each division is now responsible for developing its own plans. The role of the corporate planning staff is to assist the Chairman and other senior executives evaluate the various divisional plans, assess their funds requirement and consolidate these into a Group 'corporate plan' which is submitted to the Government in order to secure funds. The initiative of the Chairman [number 3.3 on the table] and the decentralized organizational structure [number 3.2 on the table] have therefore been crucial factors in determining the existing responsibilities of the Corporate Planning Department.

- The motor industry is undergoing a period of major transition. As the move toward the use of standard components and the development of the 'world car' concept gathers momentum, there is a need for BL to develop a strategy based on collaboration with other manufacturers [number 3.1 on the table]. This is necessary if the Company is to survive in the competitive environment of the 1980s. The 'task force' which is at present part of the 'Corporate Planning Department' assists the Chairman and other senior executives in their evaluation of a number of possible collaboration agreements with Japanese and European manufacturers.

- There is a need to monitor macro-economic and political developments of strategic significance such as Government policy, exchange rates and oil prices [numbers 1.1 and 1.2 on the table]. Although the divisional planning departments also monitor external developments which are subsequently incorporated into their plans, the centre undertakes this role in order to provide an information service for the use of senior corporate executives.

- The Corporate Planning Department performs a 'co-ordinating' task which is necessary in a car manufacturing company, managed on the basis of decentralized and autonomous divisions [number 3.5 on the table]. The corporate planning staff co-ordinate the planning activities of the divisions and monitor their progress toward the accomplishment of objectives specified in their plans.

5.3.3 Situational factors associated with the structure and organization of the Corporate Planning Department

5.3.3.1 Salient features

- The Corporate Planning Department comprises three units:

  i) an information department staffed by two economists

  ii) a special 'task force' working on collaboration options. Members of this task force range between four to nine

  iii) a unit responsible for evaluation and consolidation of the divisional plans. This unit has a staff of six.

- The Corporate Planning Department is headed by the 'Business Strategy Director' who reports to the Group Vice-Chairman.

- Every division also has its own planning department [Engineering, Product and Business Planning] employing between sixteen and thirty people. The divisional planning staff co-ordinate the information provided by the various functional departments [such as manufacturing, purchasing, marketing, finance, engineering] and develop the divisional plans on the basis of this information.

5.3.3.2 Influence of situational factors

- Each sub-unit of the Corporate Planning Department is responsible for a specific planning task such as monitoring external developments, evaluating the divisional plans and working on collaboration agreements. The organization of the Department is therefore associated with the role of planning and responsibilities of the Planning Department.

- The Group's decentralized organizational structure [number 3.2 on the table] and nature of the divisional businesses [i.e. need to develop product/market/manufacturing/financial plans and consolidate these into an overall divisional plan] is such that there is a need for separate planning departments at the divisions. The need for co-ordinating the information provided by the various functional departments implies that there are a large number of planning staff at the divisions, although their number is gradually being reduced.

5.3.4 Situational factors associated with the types of plans developed and their time-horizon

5.3.4.1 Salient features

Every division produces two types of plans:

- one-year Development Plan which is used as an internal discussion document

- five-year Divisional Plan which is based on product, manufacturing, marketing, financial and manpower plans, incorporating an assessment of the division's operating environment such as oil prices, market prospects, competitors' likely actions, technological developments, position of suppliers, legislative influences, political factors, inflation, exchange rates, etc.

- 'Group corporate plan' which extends over five years and is the consolidation of all the divisional plans. This document sets out the firm's future strategy and funds requirements.

5.3.4.2 Influence of situational factors

- The nature of the motor industry is such that in order to specify the divisions' future strategies and action programmes, there is a need to evaluate a whole range of factors such as competitors' actions, legislative influences, position of the dealer network, position of suppliers [numbers 1.1 to 1.5 and 2.1 to 2.5 on the table]. The divisional plans incorporate these influences in their assessment of their adopted strategies and action programmes.

- Although five years might not seem a long enough period to plan for a motor manufacturer, BL's precarious financial position and its dependence on the Government is such that five years is considered to be long enough for evaluating and specifying action plans already in the pipeline. The corporate plan however, incorporates a statement on the Group's strategic intentions over a ten-year period, although these are discussed in qualitative terms compared with the five-year plans which are expressed in terms of volume numbers, financial requirements, etc. Major capital expenditure programmes have to be planned at least five years in advance due to the technological dynamism of the industry, its capital intensity and long lead times (number 2.5 on the table).

5.3.5 Situational factors associated with the planning process

5.3.5.1 Salient features

- Meeting of divisional and corporate planning staff at the outset of the annual planning cycle in February.
- Formulation of the divisional plans: March-July.
- Dialogue between corporate and divisional planning departments, leading to the modification of the divisional plans: July-October.
- Consolidation of the divisional plans and development of the corporate plan: October/November.
- Submission of the corporate plan to the Main Board: December.

- Submission of the corporate plan to the Government [Department of Industry]: January.

5.3.5.2 <u>Influence of situational factors</u>

- Due to the Group's decentralized organizational structure [number 3.2 on the table] the divisional planning departments are responsible for the formulation of the divisional plans. However, the planning process serves a co-ordinating role by bringing together all the planning staff at the outset and indeed during the formal planning cycle [number 3.5 on the table]. This is to ensure that informal and formal contact is maintained between the centre and the divisions and between the divisions themselves. The integrated nature of the car industry is such that the car division for example, needs to be informed about the plans of the components divisions. The planning process enables the planning staff to enhance the flow of strategically significant information between the centre and the divisions and between the divisions themselves.

Table 7 Nature of interrelationship between BL's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development										✓		✓				
Existing role and functions of planning	✓	✓									✓	✓	✓		✓	Need to develop the 'corporate plan' for submission to the Government
Organization and structure of planning departments												✓				role of planning
Types of plans	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓						need to submit corporate plan to Gov't
Planning process												✓			✓	in order to secure funds

Chapter 6

CASE STUDY II: FISONS

Fisons is a manufacturer and supplier of agrochemicals, agricultural fertilizers, horticulture products, ethical and proprietary medicines, veterinary products, scientific apparatus, educational and laboratory equipment and supplies. The Company's products are marketed in almost every country in the world through five principal U.K.-based divisions and a composite network of overseas subsidiaries and associate companies.

6.1 Situational setting

6.1.1 Historical development of the Company

Fisons was originally founded as a 'flour miller' in Suffolk in 1843. Its business presumably prospered because soon afterwards, it diversified into malting and in 1850, having seen the attractions of the new artificial fertilizer industry, was among the first to contest the original patent of Sir John Bennett-Lawes for the dissolving of phosphatic cuprolites and bones with sulphuric acid for the production of a readily-available source of plant nutrients.

By 1914, the Company was manufacturing sulphuric acid, phosphoric acid, single and double super phosphate (as it was then called) and di-calcium phosphate for feedstuff purposes. However, this was done on a small scale and distribution was confined to East Anglia.

In 1924, Fisons disposed of its malting and flour milling interests and decided to concentrate on fertilizers. This was given an impetus by a merger in 1929 between three of the principal fertilizer companies in East Anglia. However, this occurred against the background of a depressed state in the fertilizer industry [Fison April 1957].

Having built a large, modern fertilizer factory on deep water at Ipswich [to which ships carrying 10,000 tons of raw materials could be brought] Fisons sought to obtain a quotation for its shares on the 'Stock Exchange' in 1933. This marked the beginning of a new public company.

It was during this period that the firm became aware of its total dependence on fertilizers and recognized the need to diversify into other activities [Burton 1974]. The pharmaceutical sector was considered to be a suitable area for diversification, since its potential for growth was considerable. This thinking led to the acquisition of 'Genatosan Limited', a company involved in the manufacture of proprietary medicines including the product called Sanatogen. Another company, Bengers, was acquired in 1947; this company was active in the ethical pharmaceutical field and was famous for its predigested medical food called 'Bengers Food'. Genatosan and Bengers were merged in 1964 to form 'Fisons Pharmaceuticals' the basis of the Company's pharmaceutical business today.

By 1944, Fisons was established on a nationwide basis. There were 29 fertilizer factories in the U.K., although many were quite small [70 small companies had been acquired between the two World Wars]. The issued share capital which stood at £1,750,000 in 1939 had risen to £3,500,000 by 1947.

After the Second World War, the Company's senior management continued their efforts to diversify the Group's business portfolio. Fisons entered the 'agrochemical' sector, then a comparatively new industry, through its acquisition of 'Pest Control' in 1954.

In further attempts to reduce its dependence on the traditional fertilizer industry, Fisons entered the 'convenience food' industry; having failed in its bid for 'Crosse and Blackwell' in 1959, they acquired 'Pickerings', a food canning company in 1960. The Company developed its milk-processing business in Northern Ireland and even acquired a frozen dog-food business in Somerset - all of which were eventually sold [Burton 1974].

All these acquisitions had been embarked upon without any thought-out strategy, although there was a general recognition that heavy dependence on U.K. agriculture might result in undesirable consequences. This feeling was further reinforced after an investigation by the Monopolies Commission in 1959. As Lord Netherthorpe [1968/9] explained during a seminar given at London School of Economics:

> 'This event reinforced our conviction that to ensure dynamic future growth of the Group, we needed to diversify away from agricultural fertilizers and heavy chemicals. There was of course no intention to run down our agricultural activities; but it was seen to be necessary to develop still further the non-fertilizer areas of the business as a matter of urgency'. [p. 2]

Moreover, the occurrence of an important event in the mid-1960s prompted Fisons' senior management to 'consciously plan' a different Group profile. The profitability of fertilizer production in Europe and the U.S. declined sharply mainly as a result of the entry of a number of international companies into the fertilizer field. This led to gross over-production, emphasizing the need to concentrate on other activities:

> '... We perceived that we could only achieve our basic corporate objective [to achieve continuous growth in earnings per share] by change in the mix of our activities, by increasingly investing in activities that were not capital-intensive or capital-hungry, but those that were research-intensive. This would give us the opportunity of inventing and developing new products and processes that could be patented on an international basis and thus capable of international exploitation. We concluded, through the medium of a number of industry studies, that both the agrochemical and the ethical pharmaceutical industries met our criteria ... Our plan involved the initiation of what, to us, was a major research effort in ethical pharmaceuticals and a substantial intensification of R & D in both agrochemicals and fertilizers'. [Burton 1974: 2].

In addition, it was decided to dispose of all those activities which did not fit the Company's 'chosen activity profile', both in the U.K. and overseas. The biggest disposals included the food activities [which were sold off to Heinz] the South African fertilizer interests [sold off to Federate Kunsmis Beperk] and the Company's half-share in Murgatroyd's Salt and Chemical Company to BP.

The pharmaceutical division's intensive research activity led to the discovery of 'Intal' an anti-asthma drug which established Fisons as a serious contender in the pharmaceutical field. In order to market Intal on an international basis, Fisons restrained the investment programme in its fertilizer business and concentrated its resources on the research-intensive businesses of pharmaceuticals and agrochemicals.

During the late 1960s, the Group headquarters were transferred from Suffolk to London, emphasizing Fisons' progress from a Company wholly dependent on agricultural fertilizers to an organization marketing a wide range of products on an international basis. A corporate planning department was set up in 1967, so that corporate objectives and strategies could be formulated on a more rational basis.

During the 1970s, Fisons expanded its 'geographic' domain by acquiring a number of distribution and manufacturing facilities mainly in Europe, U.S.A., Japan and Australia. The Company diversified into the 'scientific equipment' business in 1972, having acquired MSE, a company specializing in the 'centrifuge' business. This segment of Fisons portfolio has been expanded during the 1970s through a number of acquisitions [i.e. Gallen Kamp in 1977].

By 1977, Fisons horticultural interests [an offshoot of its fertilizer and agrochemical businesses] had developed to such an extent that a separate division was set up in order to concentrate on this growing sector.

A 50% participation with 'Western Peat Corporation', the leading peat producer and marketer in North America, was initiated in 1980. It is hoped that this will provide Fisons with an excellent opportunity for entry into the large North American horticulture market [Financial Times 23 September 1980].

In July 1980, Fisons and Boots announced their plans to merge their agrochemical businesses into a joint-venture company [Financial Times 17 July 1980]. The new company is expected to have annual sales of at least £125 million which would make it the dominant U.K. producer of herbicides and pesticides. The main objective of the joint-venture agreement is to provide a sounder financial base to support the large research expenditure needed for success in the market. The new company would be the world's 15th largest producer of herbicides and pesticides. Another reason for the joint-venture is the complementary nature of their current agrochemical product ranges. Fisons is strong in herbicides although it is also developing some insecticides. Boots is already well-established in insecticides but weaker in herbicides.

Fisons suffered a bitter blow in January 1981. The Company's pharmaceutical division had invested £12 million and six years' research into a new anti-allergy drug brand named 'Proxicromil'. The launch was planned for the latter half of 1981 and industry experts predicted that Proxicromil could be supplying around 50% of the Group's total profits by the late 1980s [Financial Times 3 February 1981]. In January 1981 however, the new drug had to be totally abandoned when final tests showed it to be unsafe. In 1979, pharmaceuticals accounted for more than half the Group's profits but patents on its asthma drug, Intal, will run out at the beginning of 1982. The abandonment of Proxicromil [which was to have replaced Intal] is therefore a bitter blow for the Group.

A number of industry analysts [Cameron, Financial Times 3 February 1981] argue that Fisons has been pursuing a high-risk strategy over the last fifteen years. The cash which was generated after the disposal of the Company's peripheral businesses [Pickerings food, Murgatroyd Salt] was used to build up the Group's pharmaceutical business and later to increase its research effort in agrochemicals. The aim was to be big; sometimes the Group opted to be big in a fairly small pond but always the objective was and still is to be first or second in a particular market [Cameron, Financial Times 3 February 1981]. It is thought to be first - worldwide - in the narrow field of drugs for the treatment of asthma and it ranks second in the U.K. fertilizer market [after ICI].

Despite its leading position in these markets, the fortunes of a number of its major businesses [notably fertilizers] is flagging. The argument advanced [Financial Times 4 March 1980] is that Fisons' resources have been too thinly stretched for its particular type of businesses. 'Fertilizers' is a bulk business where 'scale' and 'price' are vital success factors, yet Fisons has invested little in this sector over the past fifteen years because it has been concentrating on its other operations notably pharmaceuticals.

The collapse of 'Proxicromil' project has clearly left Fisons in a weakened position and there has been speculation [Financial Times 3 February 1981] that one of the major German-based chemical companies could make a bid for Fisons. However, there are a number of drawbacks to taking over a Group such as Fisons [for example, the maturity of the fertilizer business and its recent joint-venture with Boots on agrochemicals].

The chances are that Fisons will have to shrink somewhat in order to capitalize on its main strengths. In recent months, it has announced its plans for a 'fundamental restructuring' of its fertilizer division, as well as major changes in the composition of its senior management.

6.1.2 Characteristics of the firm's 'industry' environment

6.1.2.1 The fertilizer operations

Fisons fertilizer division produces a wide range of compound and nitrogen fertilizers and basic slag. In addition, it markets its process technology and plant design on a worldwide basis. Its other products include 'fertilizer intermediates' such as phosphoric acid, sulphuric acid and ammonia-based chemicals such as nitric acid and ammonium nitrate.

Fisons fertilizer operations rank second (after ICI) in the U.K. fertilizer market. Basic raw materials such as ammonia, phosphate rock and potassium chloride are strategically significant and their price and availability need to be monitored on a continuous basis. The fortunate 'raw material position' of ICI, Fisons' main competitor in the fertilizer field, has compounded the division's problems. Straight nitrogeneous fertilizer is made from ammonia, which is in turn made from methane gas and ICI has a cheap, long-term gas contract with the British Gas Corporation.

Another factor which influences the division's production efficiency and cost structure is the efficiency of the 'conversion process'. The installation of technologically-sophisticated plant and equipment requires large amounts of capital, although this is not a 'research-intensive' industry.

Fisons' fertilizer division has been mainly active in the U.K. market where its products are sold to farmers and agricultural merchants. Since 1972 however, it has increased its volume of exports to the countries of the 'Third World'. Moreover, through its licencing and consultancy service, it has supplied the technology for fertilizer plants in more than 30 countries. This division operates in a mature sector offering limited growth prospects.

The critical 'success factors' of the fertilizer industry can be summarized as follows:

- optimal purchase of basic raw materials
- maximum utilization of large-scale manufacturing capacity
- capital investment in process technology
- provision of a comprehensive technical advisory service to support the sales force
- competitive pricing policy.

6.1.2.2 <u>The pharmaceutical sector</u>

The products of Fisons' pharmaceuticals division range from 'ethical drugs and over-the-counter medicines' to veterinary preparations. Its expertise however, lies in the field of respiratory diseases, immunology and haemetics.

The pharmaceuticals industry, with estimated sales world-wide of $65 billion or £30.2 billion in 1979, appears to be entering a new and more difficult phase of development. It is having to face a dramatic growth in Government regulations on research, development and marketing of its products. The start of an economic recession in the West is leading to cuts in public spending on health care, restrictions on pharmaceutical price rises in many countries and the increased use of generic drugs at the expense of the branded medicines that are the life-blood of the research-based companies [Financial Times Special Survey 16 April 1980].

Prospects for the industry as it becomes more mature are however far from being totally bleak. New approaches to research are opening up the possibility of more fundamental and far-reaching discoveries and new markets are also opening up, especially in the countries of the Third World. Today, the biggest problem facing the pharmaceutical industry is the increase in national regulations on drugs. It is estimated that the time required to test a new drug and obtain a marketing authorization for it has doubled over the last ten years, largely because of the extra regulations that now have to be satisfied.

This industry is characterized by 'long lead times' and high levels of expenditure on research and development projects.

It is estimated [Financial Times 16 April 1980] that the big pharmaceutical companies spend on average £25 million on a major product from the moment it is patented to the day it first goes on sale. The time needed to put it through various tests for toxicity and efficacy, through clinical trials and other regulatory procedures varies from ten to fifteen years. This long period of research and development reduces the 'effective patent life' of a product. Drug patents in the U.K. and most other European countries now run for approximately 20 years. However, the need to take out a patent on a new drug at an early stage in its development means that medicines are generally protected for an average of eight years after they first go on the market.

Although the industry is dominated by large multi-national companies [ICI, Bayer, Hoechst, 'Ciba-Geigy', Glaxo, Beecham, 'Hoffman-La Roche', Merck, Eli-Lilly] the need for research and development makes it possible for smaller companies such as Fisons to exploit specialized sectors of the market. The high level of 'R & D' expenditure requires worldwide marketing of products so that costs can be recouped more easily. Fisons, for example, markets its products in Europe, North America, Australia and Japan and has recently made an effort to expand into less developed countries such as India. Its largest single customer in the U.K. is the 'National Health Service' which accounts for 35% of the industry's total output mainly through the dispensing of prescriptions in chemists.

In contrast to the fertilizer industry, the price and supply of basic raw materials is of secondary importance in this sector. Marketing expenditure is considered to be more significant although the cost of research and development programmes accounts for a high portion of the industry's total costs.

Its 'critical success factors' can be summarized as follows:

- innovation in research leading to the discovery of new products
- successful development of the products, passing the required safety tests and other regulatory standards
- high level of 'R & D' expenditure
- expansion into different geographical markets to recover the initial expenditure on 'R & D'.

6.1 .2.3 Agrochemicals

Agrochemicals is one of Fisons' older businesses. The Group used to have Commonwealth sales franchises on a number of Swiss-based Geigy's Pesticides, but it lost these when Geigy merged with Ciba in 1970.

The division manufactures and markets compounds to control weed, insects, pests and fungi, for use on crops in agriculture and in public health situations [in stores, industrial buildings, railways, ships, planes, hospitals, hotels, restaurants, food manufacturing and processing establishments]. In addition, it also manufactures and markets industrial chemicals used as intermediates for a variety of purposes, such as organic compounds used for processing plastics and rubber to ensure the rigidity needed in injection mouldings, chemicals used in household scourers, dishwashing liquids, industrial bleaches, etc.

This industry is also 'research-intensive', requiring a substantial injection of funds. In fact, the high cost of the agrochemical division's research efforts resulted in a joint agrochemicals venture with Boots, which was launched in January 1981. Whereas ten years ago, it cost around £6 million for a company to research, develop and bring a new pesticide to the market place, today it costs nearer £15 million. The main reason is considered to be mounting regulations on toxicological and other safety tests, initially triggered off by the U.S. Environmental Protection Agency [Financial Times Special Survey on Agriculture 1 December 1980].

The relative maturity of the market for agrochemical products in the industrialized world has led the producers to examine their markets on a worldwide basis. In order to obtain satisfactory returns on their research investment, it is necessary for these products to be marketed on a large scale.

In common with other chemical producers, the agrochemical industry has had to face up to the impact of higher crude and oil product prices. Agrochemicals form part of the specialized, high added value sector of the chemical industry. Increases in the price of oil and oil-based materials such as naphtha have hit petrochemical companies much harder than say pesticides producers. However, the agrochemical industry has not been insulated from the impact of increased oil prices; ultimately, its raw materials are oil-based.

Competition in this sector is intense and all the large chemical companies are active participants. One result of the rise in oil prices has been that some of the larger chemical companies are concentrating much more on specialized products such as agrochemicals and less on bulk petrochemicals where the impact of increased crude costs is felt most of all [Financial Times Special Survey on Agriculture 1 December 1980]. They have the necessary funds to invest in agrochemical research and the speciality agrochemical field offers them the chance to find an unassailable niche in the market place.

The agrochemical industry's critical success factors can be summarized as follows:

- innovation in research in order to improve existing products and discover new ones
- investment in technologically-sophisticated process equipment and machinery to maximize production efficiency
- favourable raw material prices [mainly oil-based]
- effective distribution outlets.

6.1.2.4 Horticulture

Fisons' horticulture division is actively engaged in the production and marketing of a variety of garden products including fertilizers, herbicides, insecticides, peats, composts, growing bags and equipment for lawns and gardens. Its products cater for the needs of two groups of customers:

- the amateur gardener, supplied through a multitude of retail outlets
- professional horticulture groups comprised of the 'glasshouse sector' [including nurserymen and raisers of nursery stock] and the 'recreational sector' [customers include the local authorities responsible for parks, sports arenas and garden areas.

Fisons' horticulture division is mainly active in the U.K., although it has recently expanded its operations in Europe. The initial level of capital expenditure is relatively modest; peat is an important raw material and brand name and image are considered to be critical success factors. The level of demand for horticultural products is subject to seasonal fluctuations.

6.1.2.5 Scientific equipment

This division manufactures and markets a wide range of laboratory equipment and scientific instruments including centrifuges, viscometry and precise temperature control. It has been built up mainly through acquisition of MSE in 1972 and Gallenkamp in 1977.

Fisons' scientific equipment division is comprised of three product/market sectors:

- the 'laboratory supply group', catering for higher education and research institutions
- the 'basic education group', catering for primary and secondary educational establishments

- the 'scientific instruments group', providing centrifuges and other sophisticated applied engineering products.

This is a highly competitive sector where reliable distribution outlets and manufacturers' image are considered to be critical success factors. Most of the division's products are sold overseas, but the level of exports is being adversely affected by the strong pound and American competition. Meanwhile, domestic sales have been depressed by cuts in Government spending, particularly in the higher education field.

Provision of an efficient service, prompt delivery, sound reputation and competitive prices play a crucial role in securing reliable distribution outlets.

After examining Fisons' main businesses, the Group can be characterized on the following basis:

- it is a research-based Company with high levels of expenditure on research and development programmes;
- it is active in different geographic markets, especially in the Industrialized countries;
- the Group is in competition with large multinational companies (such as ICI, Hoechst);
- its main businesses offer 'mixed' prospects for growth (e.g. fertilizer is a relatively mature business, whereas agrochemicals and pharmaceuticals offer good growth prospects);
- certain raw materials are critical for its main businesses (phosphates for fertilizers, peat for horticulture, oil-based compounds for agrochemicals).

6.1.3 The organizational structure

During the 1950s, Fisons was mainly engaged in the 'fertilizer' business although it had partially diversified into pharmaceuticals and agricultural chemicals through a series of acquisitions. For operational purposes, the Group was divided into five divisions:

- fertilizers and heavy chemicals
- agricultural chemicals
- industrial and pharmaceutical chemicals
- ethical pharmaceuticals
- proprietaries.

With the exception of the fertilizer division, which was run by the 'parent' firm, the remainder were organized as separate companies, each with its own Board of Management, whose members were appointed by the Parent Board. The chairman of each division was represented on the Company's Main Board, whose members were comprised of:

- Chairman
- Deputy Chairman (non-executive)
- two Vice-Chairmen
- three Functional Directors: Commercial
Finance
Research
- five Executive Directors : four responsible for the Fertilizer Division
one responsible for the remainder.

The Company's organizational structure and composition of its Main Board provide an indication of the importance of the fertilizer operations. This is illustrated in Figure 8.

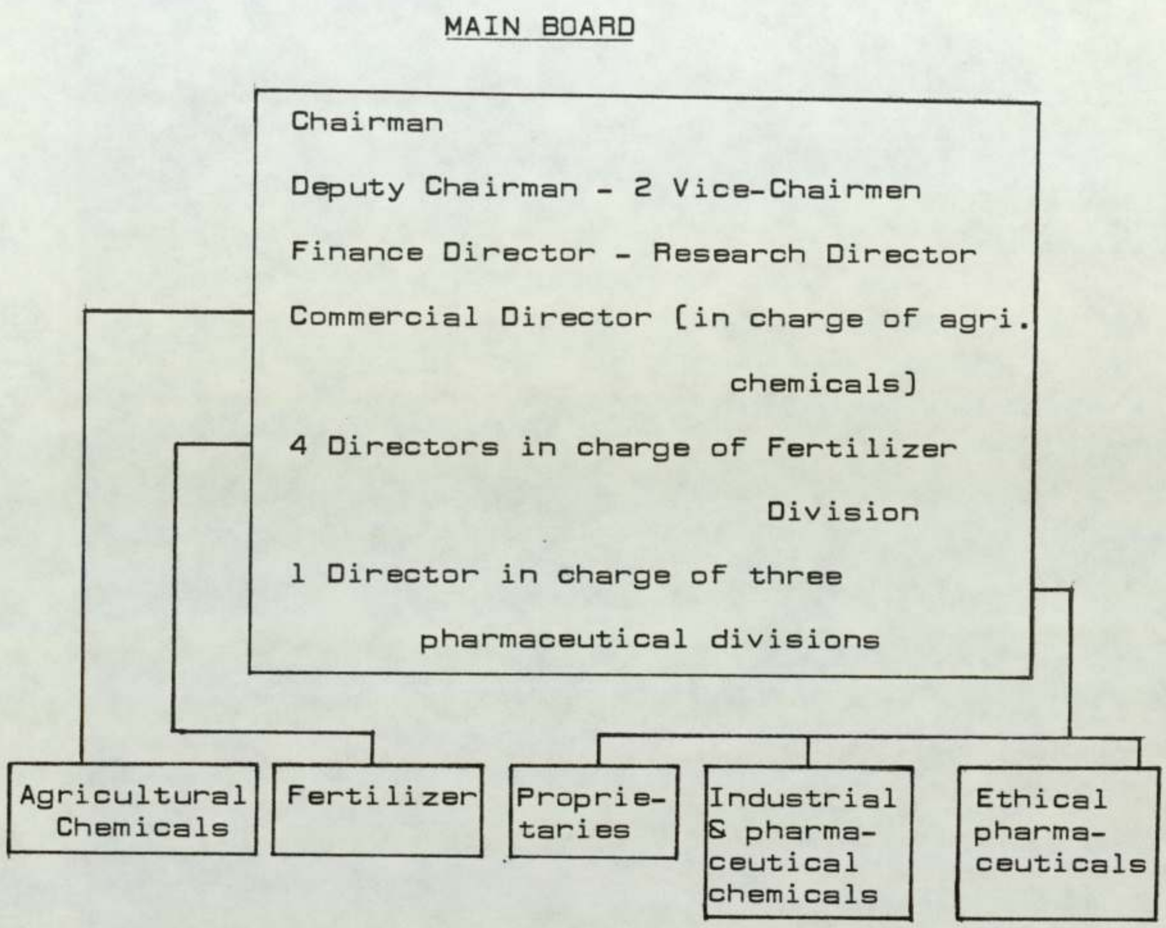


Figure 8 Fisons' organizational structure: 1957

During the early 1960s, Fisons' products were being exported to a wider range of international markets. A separate division was set up in 1964 to deal with all the exports and other international activities. Furthermore, due to the consolidation of the agrochemical and pharmaceutical operations, the Group's structure was re-organized on the following basis:

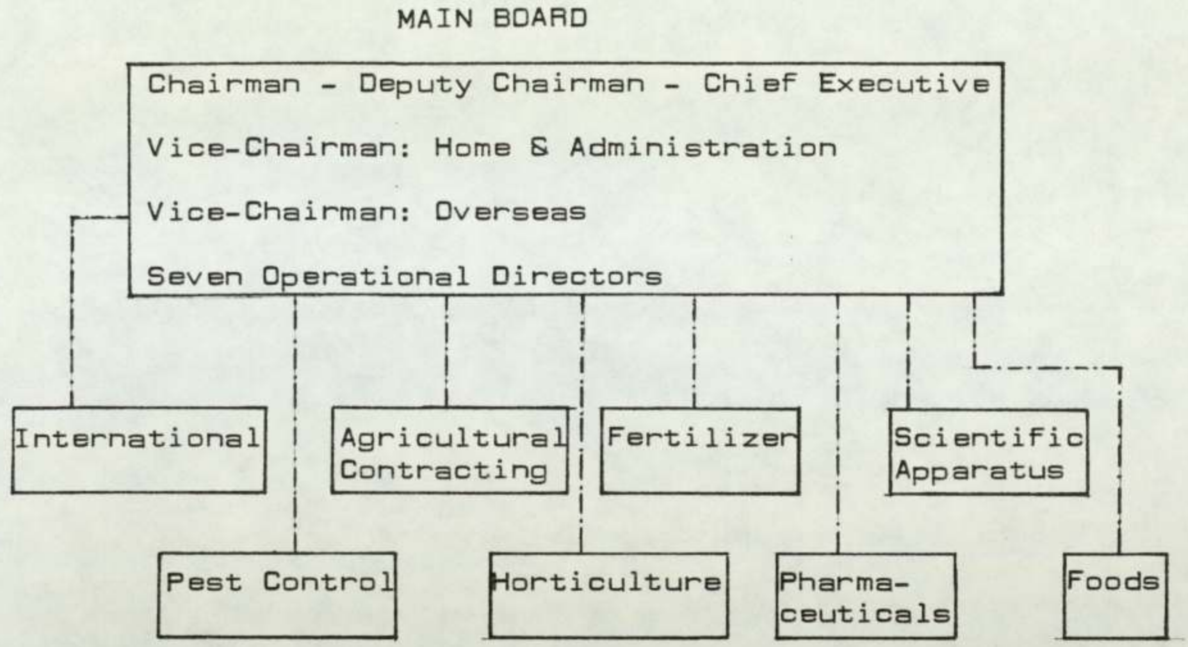


Figure 9 Fisons' organizational structure: early 1960s

By the mid-1960s however, the organizational structure was once again in need of modification; the Company was being strategically transformed from a predominantly U.K. production-oriented firm with the bulk of its business in fertilizers, to that of an international marketing-oriented company with pharmaceuticals and agricultural chemicals producing an increasing share of its sales and profits. Recognizing that the Group was dependent on research and development for the steady production of new products and processes in all its activities, the corporate structure was designed to maximize worldwide commercial exploitation of the discovered products, particularly Intal. With the assistance of a team of consultants, it opted for a product-divisional structure in 1967, based on its three principal activities:

- agrochemicals
- fertilizers
- pharmaceuticals.

Each division was responsible for the management of its own operations and the divisional chairmen were represented on the Main Board. In addition, the 'International Division' was responsible for the Group's overseas investment and marketing operations. Figure 10 illustrates this structure:

MAIN BOARD

Chairman - Deputy Chairman - Chief Executive
Vice-Chairman: Finance
Personnel Director
Chairman: Fertilizer - Loughborough -
Cambridge - International
Group Administration Director

Fertilizer Division	Cambridge Division	Loughborough Division	International Division
Agricultural fertilizers	Agricultural chemicals Horticultural products	Pharmaceuticals Ethical products Toiletries Industrial chemicals Scientific apparatus	Exports Management of overseas investment

Figure 10 Fisons' organizational structure following re-organization in 1967

By 1969, Fisons' international activities had expanded considerably; the divisions were therefore made responsible for the export of their own products; the international division was replaced by an 'Overseas Committee', responsible for the development of a worldwide Group strategy.

By 1970 therefore, there were three autonomous divisions:

- fertilizers
- agrochemicals
- pharmaceuticals.

During the 1970s, Fisons expanded its European operations and diversified into the 'scientific equipment' and 'horticulture' sectors. The Company's existing structure is therefore organized on the basis of five divisions:

- agrochemicals
- fertilizers
- pharmaceuticals
- horticulture
- scientific equipment.

Each division is managed by its own Board headed by the divisional chairman, who is present on the Main Board of the parent Company. The Group's existing organizational structure is illustrated in Figure 11.

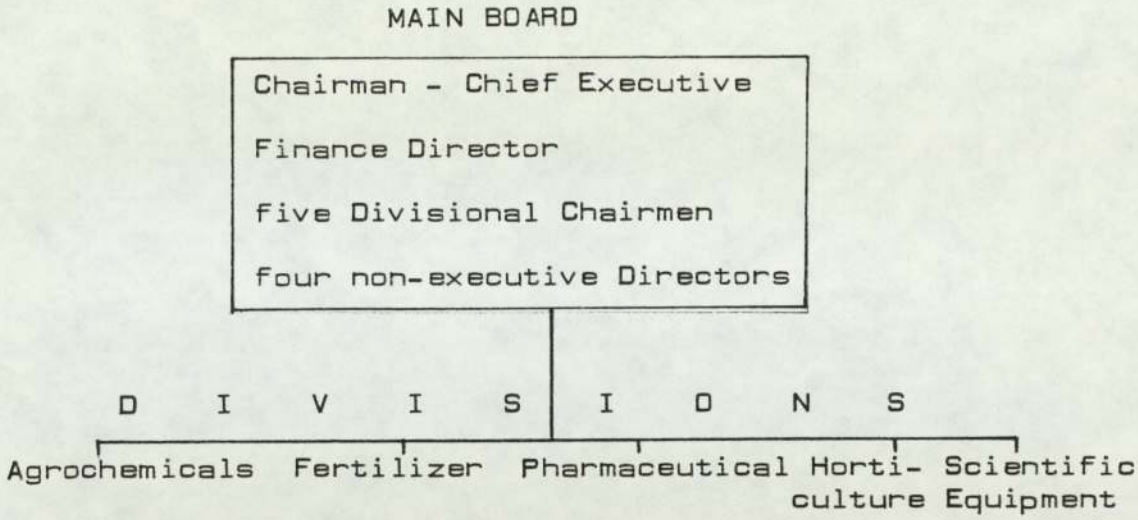


Figure 11 Fisons' existing organizational structure

A number of functions are provided at the corporate level which facilitate co-ordination between the centre and the divisions. These are:

- finance
- accounting
- internal audit
- corporate planning
- personnel department
- legal department
- managerial services.

A Main Board member is responsible for Group Administration Services, providing liaison between the centre and the divisions.

The extent of inter-divisional transactions varies considerably. For example, the 'agrochemical' and 'pharmaceutical' divisions co-operate on a number of research and development programmes; the 'fertilizer' and 'horticulture' divisions share common distribution outlets; the 'pharmaceutical' and 'scientific equipment' divisions maintain close contact in relation to the use of equipment and other research facilities.

6.1.4 Characteristics of senior management

Fisons was founded by Joseph Fison in East Anglia in 1843. His grandson, Clavering [later Sir Clavering] Fison became the Company Chairman in 1918 and although Fisons became a public company in 1933, he managed it with a 'strong, personal and dictatorial hand' [MacKay 1979: 87]. His long period of office which lasted until 1962 was characterized by strong leadership and the consolidation of the Company's fertilizer business although attempts had been made to diversify into other sectors such as pharmaceuticals and agrochemicals.

After Sir Clavering's retirement in 1962, Lord Netherthorpe was appointed Chairman in a non-executive capacity. His period of office was characterized by a completely different style of management. Lord Netherthorpe was a farmer and thus knew the world of agriculture. In complete contrast to Sir Clavering however, he took a completely detached view of the Company and managed it on an arm's length basis [MacKay 1979]. During his Chairmanship of the Company which lasted until 1970, Fisons was being transformed from a U.K., production-oriented fertilizer Company to an international, multi-business Group.

In 1966, Mr George [later Sir George] Burton was appointed as the Company's Chief Executive. He had held a variety of positions at Fisons since the late 1930s and had been a member of its Board since 1953. His style of management was characterized by a strong central direction and a firm commitment to consolidating the Company's 'non-fertilizer' businesses. He systematized the decision making processes, set up formalized planning and with the assistance of other senior executives, formulated a set of specific corporate objectives for the Group as a whole. The importance attached to the specification of corporate objectives is illustrated in an internal publication [Burton 1971: 5]:

> 'Policy decisions will flow much more easily if judged against the permanent criteria of the Company's basic objectives. In practice, the most effective way of ensuring that policy decisions are in line with the basic objectives of the Group is to illustrate by means of targets the minimum standard of performance for satisfactory progress toward our objectives and then make quantitative plans to show how the achievement of such targets is to be brought about'.

Sir George Burton became 'Chairman and Chief Executive' of the Company in 1970; a position which he held until 1977. During this period, the Company diversified into the 'scientific equipment' sector, established its European, North American and Japanese markets and expanded its horticultural interests.

He became the Company Chairman in 1977, having relinquished the position of Chief Executive. Ron Bounds, the Group Finance Director, was appointed 'Chief Executive'. His period of office however, coincided with Fisons' declining fortunes; the Company was adversely affected by cuts in Government expenditure [reducing the scientific equipment division's volume of business in the U.K.], recession in the U.K. and other parts of the industrialized world [comprising the Group's major markets], high cost of borrowing and a high rate of exchange for the pound. He was replaced by the Chairman of the fertilizer division in December 1980, a month before Fisons announced the discontinuation of its Proxicromil project, the drug which was to have replaced Intal.

It should be mentioned that although the centre provides a strong sense of central direction, the divisions are given complete autonomy to manage their operations. This is emphasized in MacKay's [1979: 88] interview with Sir George Burton:

> '... On an operational basis, there must be total delegation of authority ... so long as the division operates within their agreed budget on capital expenditure, cash flow and profits, then it is completely left to them. The centre is concerned with the development of the business, acquisitions and new investment'.

6.1.5 The Company's performance

The volume of Fisons' turnover has increased steadily throughout the 1970s, as Figure 12 illustrates. This was no doubt boosted by the acquisition of MSE and Gallenkamp (scientific equipment business) and a number of overseas subsidiaries. Although the 'Fertilizer Division' is by far the largest contributor to Group sales (providing almost 50% of total sales in 1978) the 'Pharmaceutical Division' is the Group's profit generator, providing 50% of total profits (before tax) in 1978 (see Figure 13).

The contribution of the 'scientific equipment' business has increased considerably since 1973 (from £1.6 million in 1971 to over £45 million in 1978). This sector is considered to have considerable potential for growth, especially in overseas markets.

Apart from the U.K., the Group is active in four other geographic regions: Europe, Asia and Australasia, North and South America and Africa. Although over 50% of total Group sales were generated in the U.K. in 1978 (see Figure 14) this is largely due to the contribution of the fertilizer division which is mainly based in the U.K. Nearly 70% of the Company's total profits was generated overseas, with Europe being by far the largest market, followed by Australasia, Africa and the Americas (see Figure 15).

With the establishment of a joint-venture company between Fisons and the Funisawa pharmaceutical company in 1980, it is hoped that Japan will become an important market for the Company's products in the future.

Figure 12 Total turnover of the Group and the divisions 1969-1978

Figure 13 Total Group profits (before tax) and contribution of the divisions: 1969-1978

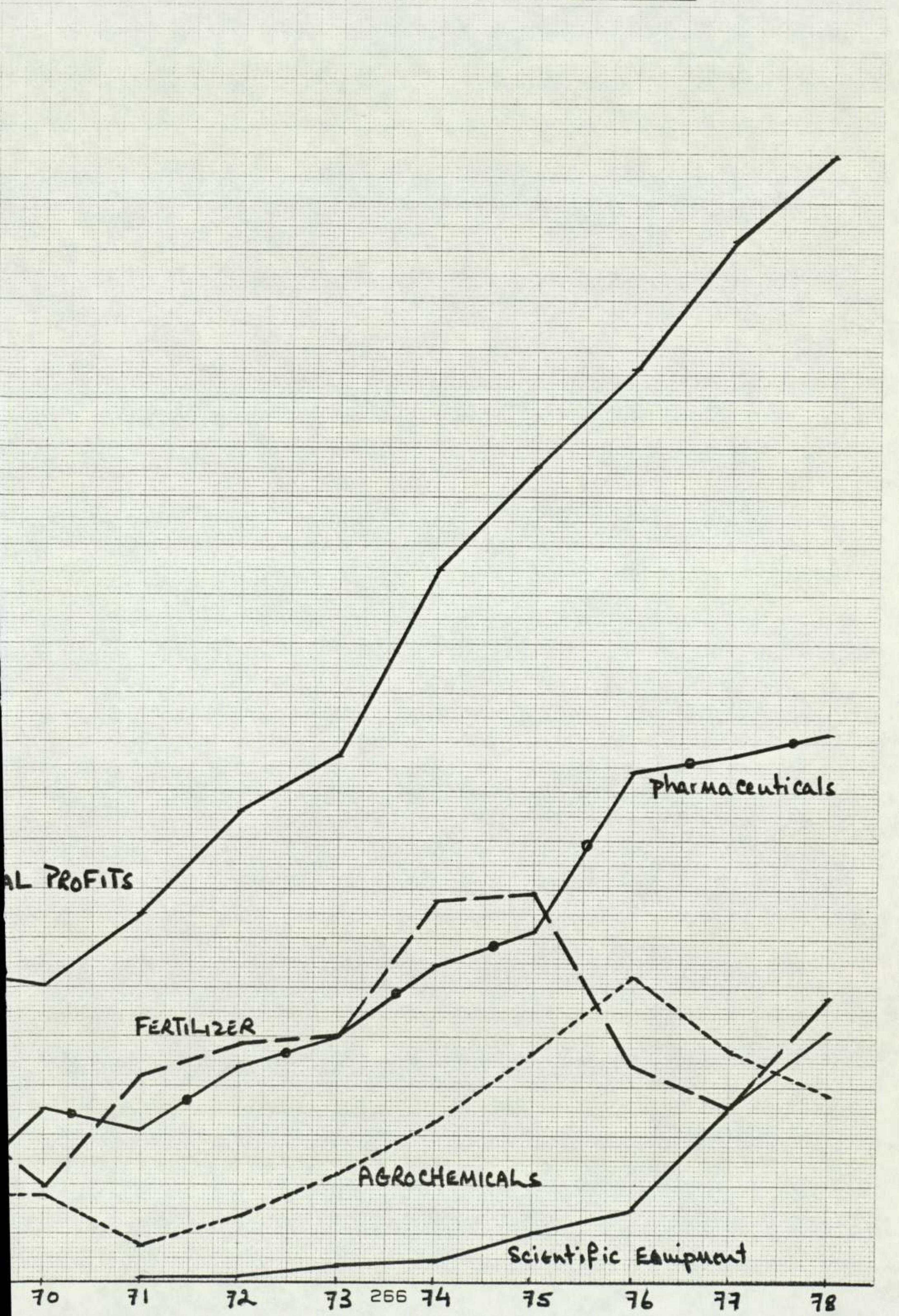


Figure 14 Geographic distribution of turnover 1969-1978

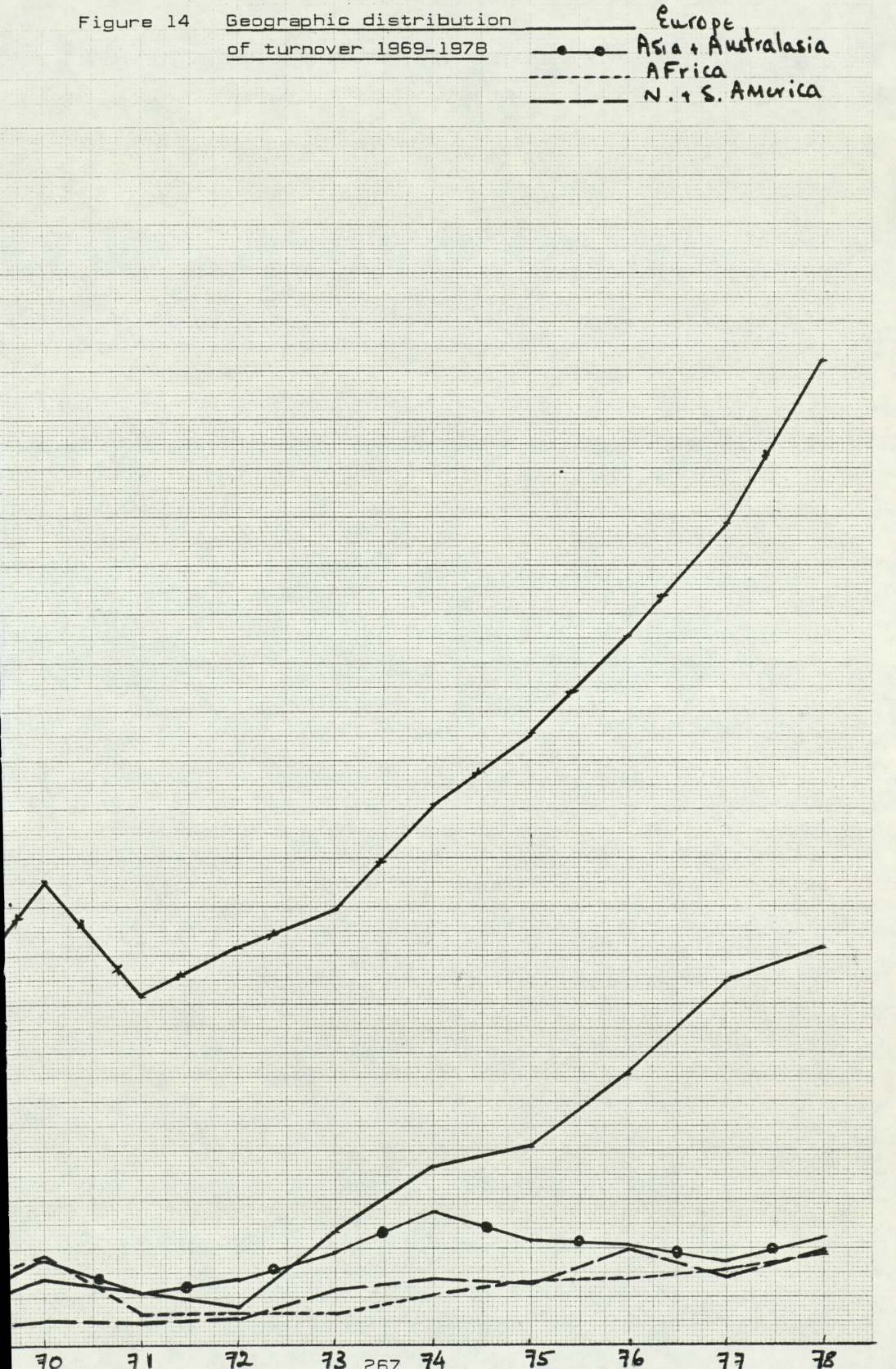
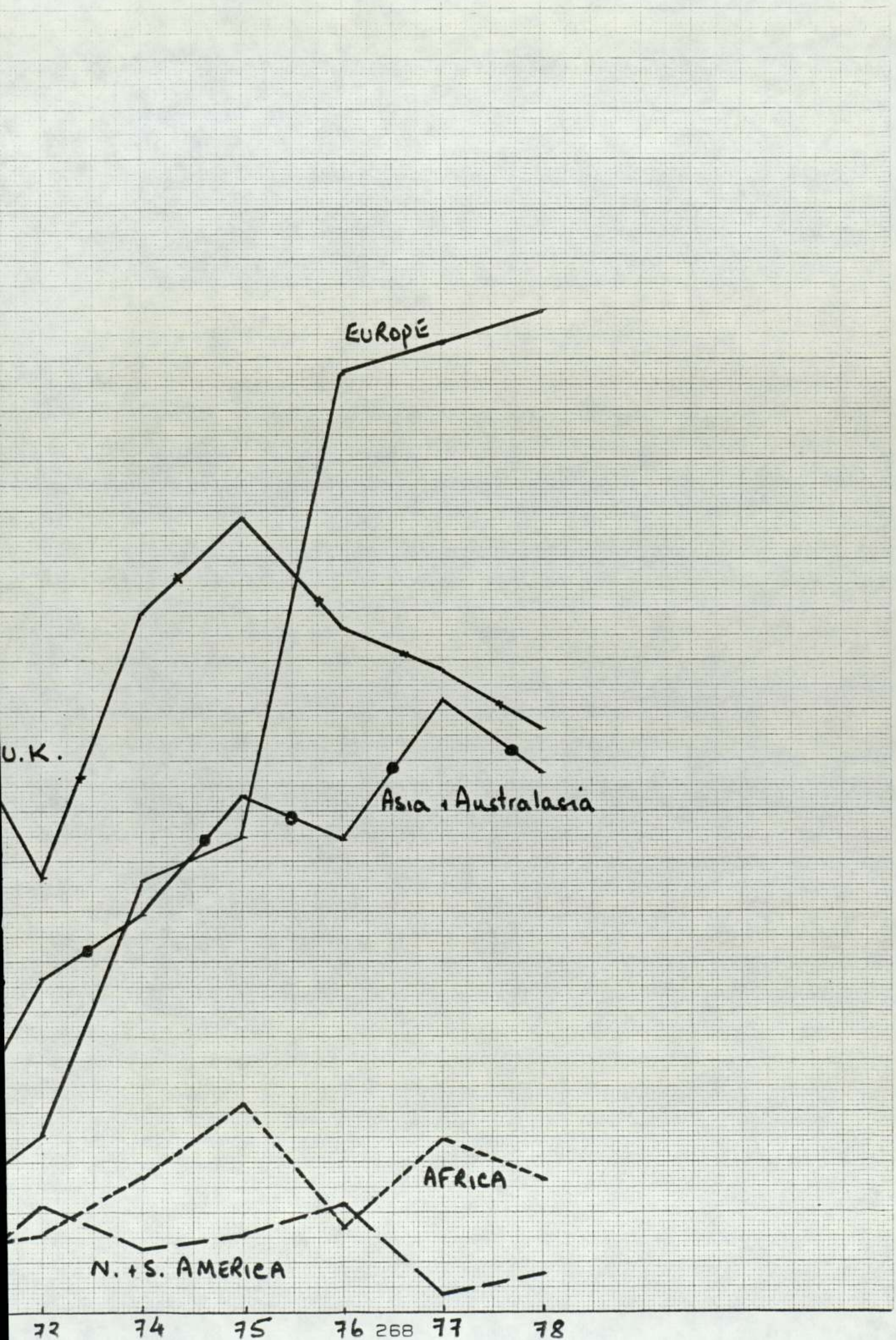


Figure 15 Geographic distribution of profits [before tax] 1972-1978



6.1.6 Co-ordination and control mechanisms

A number of mechanisms are used to achieve co-ordination between the centre and the divisions. These include a system of central committees and corporate planning and central finance departments.

The central committees of 'strategy', 'finance', 'capital expenditure' and 'operations' provide a forum for the discussion of strategic, financial and operational issues. All the divisional chairmen are present on these committees and are therefore in a position to present their views from a divisional perspective.

The corporate planning and central finance departments maintain contact with the divisions, undertaking special studies on their behalf and keeping the Chief Executive informed about the direction of divisional strategies.

The mechanisms through which the centre exercises a certain degree of control over the divisions are 'strategic' and 'financial' in nature. These are comprised of:

- 'target-setting': this process prescribes the strategic and financial parameters within which the divisions are expected to operate. It involves joint consultation between the divisions and 'Central Finance' and 'Corporate Planning' Departments. During the course of these discussions, financial constraints likely to influence the development of the Group's various businesses are specified;

- evaluation and approval of the divisional capital expenditure programmes: once the divisions' investment plans and funds requirements are specified in the '3 year financial plans', they are evaluated by the Central Finance and Corporate Planning Departments. These are subsequently discussed at the Group 'Finance' and 'Capital Expenditure' committees, where they are finally approved or rejected;

- the formulation of 'strategy documents' by the divisions and their subsequent evaluation by the Corporate Planning Department. The senior corporate executives are therefore in a position to influence the strategic direction of the divisions and ascertain their congruence with the overall corporate objectives.

6.2 Corporate planning system

6.2.1 Initial development

Formalized corporate planning at Fisons started in 1967 when a Corporate Planning Department was set up to manage and administer the planning activity. A number of factors provided the impetus for the development of a formalized planning system. The most significant however, in the opinion of the Company's Strategic Planning Manager [interview: April 1979], was the appointment of Mr [later Sir] George Burton as the Group Chief Executive in 1966.

Sir Clavering Fison, the founder's grandson, had been the Company Chairman for 44 years [1918-1962] regarding Fisons as a family business and running it with a strong, personal and dictatorial hand [MacKay 1979]. During Sir Clavering's period of office, Fisons was essentially a U.K.-based, production-oriented fertilizer company, although it had made a conscious attempt to diversify into agrochemicals, pharmaceuticals and foods.

Burton considered his first priority to be the expansion of the Group's pharmaceuticals and agrochemical businesses which would reduce the Company's dependence on its traditional fertilizer operations. The discovery of 'Intal' [a drug used for the treatment of asthma] provided the Company with the opportunity to expand into different markets and thus become more international. Following recommendations of a team of management consultants, the Company's structure was re-organized on the basis of three product divisions [fertilizers, agrochemical and pharmaceuticals] recognizing the changing nature of the Company's strategic priorities.

Burton favoured a formalized planning system which would facilitate the systematic formulation of a long-term Group strategy [getting away from the ad-hoc style of development which characterized the Company's acquisition programmes during the late 1950s and early 1960s]. Moreover, it would provide a set of policy guidelines on the basis of which the divisional directors could manage and run their businesses:

> 'Line decisions can be taken by line management more confidently, against the background of an agreed plan, which is itself constructed to achieve the basic objectives of the organization'.
>
> [G.V.K. Burton, Internal Document, November 1971: 5]

A formal planning system would not only help the Group plan the development of its business in a systematic and consistent manner, but would also encourage systematic thinking at the divisional level and provide a basis for monitoring the progress of individual product divisions. The commitment of the Chief Executive to formalized planning is evident in a speech delivered in November 1971:

> '... The Chief Executive should be concerned with the development of a planning process within the organization and the creation of a climate that will encourage this process to flourish constructively and imaginatively. His main job is to plan for the future and so organize things, that he has time to think'.
>
> [G.V.K. Burton 1971: 6]

The 'Central Planning Department' which was set up in 1967 to administer and organize the planning activity consisted of two units:

- the 'Development Planning Unit' responsible for the 'creative and development' aspects of corporate planning; working on behalf of the Group Chief Executive, the unit was responsible for the appraisal of worldwide opportunities for Fisons' future development;

- the 'Business Forecasting Unit' was responsible for reviewing and forecasting Group prospects worldwide throughout the years and evaluating their impact on Fisons' businesses. It provided a 'comprehensive range of forecasting services' to the Chief Executive and the Finance Director, in addition to the 'monitoring service' used to evaluate the progress of the divisions. Monthly charts illustrating profits, cash flow, capital expenditure, etc. were prepared for each activity and were subsequently compared against the budget.

By 1973, the Group's businesses were consoliated on an international basis, marketing their products in Europe, North America, Australia and Japan. Moreover, the Company had diversified into the scientific equipment business and was in the process of consolidating its European base, especially in view of Britain's entry into the E.E.C. in 1972/3. The three major divisions (fertilizers, agrochemicals and pharmaceuticals) were in the process of setting up their own planning departments. The role of the Corporate Planning Department was therefore re-defined and its structure was subsequently modified to take account of the Company's changing needs.

6.2.2 Functions of the planning departments and structure of the planning activity

The Corporate Planning Department was re-structured so as to comprise three units and is still prevalent today:

1. The 'Strategic Planning Unit' charged with the responsibility of:

- periodic revision and review of corporate objectives, monitoring the progress toward its achievement and conducting relevant research studies on objectives, policies and constraints;

- 'target-setting' for the purpose of the annual budgeting; this is conducted in conjunction with the 'Group Finance Department';

- annual assessment and evaluation of corporate capital, R & D and manpower plans;

- undertaking studies of strategic significance to the Group, especially in relation to acquisitions, disposals, joint ventures, diversification options and new ventures.

  In addition, the unit prepares special 'Business Reports' of special significance to the divisions.

2. The 'International Development Unit' whose responsibilities include:

- the provision of planning and development services to the overseas companies;

- evaluation of strategically significant capital projects, specifically in relation to overseas subsidiaries' plans; this is conducted in conjunction with the 'Group Finance Department';

- evaluation of other development projects on issues such as share exchange and development agreements;

- monitoring the progress of overseas companies.

3. The 'Economic Research Unit' whose responsibilities include:

- preparation of special reports on economic, social, political and financial issues of special significance to the Company;

- evaluation of economic trends in countries of special importance to Fisons and its subsidiaries;

- organization of panels, attitude or opinion surveys and commercial/market research as and when required by the divisions and/or other corporate planning units.

Although the 'Strategic Planning' and 'International Developments' Units monitor the progress of the divisions and provide a major input to the 'resource allocation' process, the tasks outlined above emphasize the significance of the Corporate Planning Department's role as an 'information centre', providing a service to senior corporate executives in the formulation of an overall Group strategy.

Figure 16 illustrates the structure of the Corporate Planning Department and its constituent units. There are nine people employed in the Department headed by a 'General Manager' who reports directly to the Group Chief Executive.

In addition, every division has its own planning department, although the size and responsibilities of each divisional planning department varies depending on the size of the division and complexity of their task.

The planning department of the fertilizer division has six full-time staff, whose General Manager is directly responsible to the divisional chairman. One of the main tasks of this department is to monitor movements of basic raw materials such as phosphate. In addition, the department co-ordinates and integrates the input from the functional departments which is consolidated into a divisional strategy document and then submitted to the centre.

The pharmaceutical division employs nine full-time planning staff; monitoring competitors' product/market strategies and keeping an up-to-date profile of Government regulations are amongst their responsibilities.

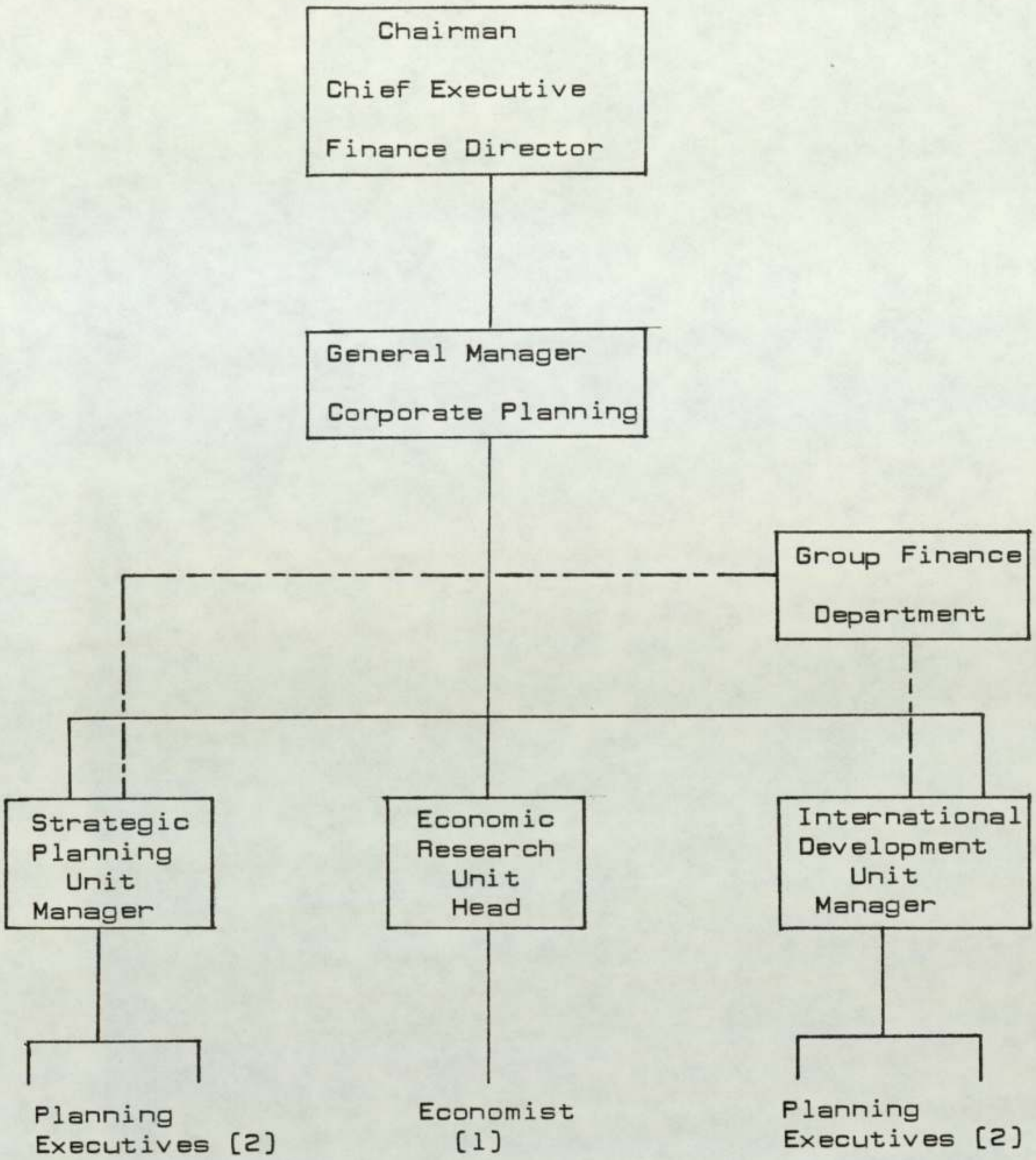


Figure 16 Structure of the Corporate Planning Department

The agrochemical division employ three full-time planning staff, who are mainly responsible for the evaluation and consolidation of the division's market strategy and product development programmes.

The two smaller divisions of 'scientific equipment' and 'horticulture' each have one full-time planning executive. They are assisted by the Corporate Planning Department which undertakes special studies on their behalf and plays an active role in the formulation of the divisions' strategies.

The General Manager in charge of the Corporate Planning Department is a member of all the divisional boards and provides a useful link between the centre and the divisions. He is held in high regard by the senior corporate and divisional executives, has held a variety of positions at Fisons since 1952 and has enhanced the status of planning within the firm [interview with Strategic Planning Manager: February 1980].

6.2.3 Types of plans generated and the planning process

Every year a 'strategy document' is formulated at the divisional level. These provide an indication of the 'strategic trends' likely to shape the future direction in which their industry is likely to proceed. According to the 'Group Strategic Planning Manager' [interview September 1979] this is essential for a common understanding within the Company of factors influencing current and future trends.

Each division then outlines its strengths and weaknesses and provides an indication of its range of strategic options and preferred [or chosen] plan of action. This 'strategy document' is highly qualitative in nature and forms the basis for discussion at the Group 'Strategy' Committee.

These documents do not have a fixed time horizon which is adhered to by all the divisions. Each division selects a time horizon which it considers to be most appropriate for its particular industry. Generally speaking, the documents cover a five to seven year time horizon.

Having been formulated and approved at the divisional level, they are then passed on to the 'Strategic Planning Unit' of the Corporate Planning Department whose members evaluate the commercial and strategic implications of the divisional strategies in the context of the Group's overall objectives, elements of risks involved and their impact on the Company's future growth prospects.

The 'strategy documents' are subsequently discussed at the 'Group Strategy Committee' whose members comprise:

- the Chairman
- Chief Executive
- Chairmen of the divisions
- representatives from the 'Group Finance Department'
- representatives from the Corporate Planning Department [the General Manager and/or the Strategic Planning Manager].

During the course of these discussions, strategic guidelines are formulated which outline the Company's intended future strategies. Divisional strategies and action plans are subsequently modified and finally approved.

In addition to the 'strategy document' which is highly qualitative, every division prepares a 'three-year financial plan' and an 'annual budget'. The financial plan provides an indication of each division's capital expenditure plans and associated funds requirements. These are evaluated by the 'Central Finance Department'. They are subsequently discussed at the Group 'Finance' and 'Capital Expenditure' Committees for final approval.

The impression gained during the course of interviews held with the 'Strategic Planning Manager' was that members of the Corporate Planning Department work in close liaison with the 'Central Finance Department and that they consider their tasks to be complementary.

The overall features of Fisons' planning system are illustrated in Figure 17.

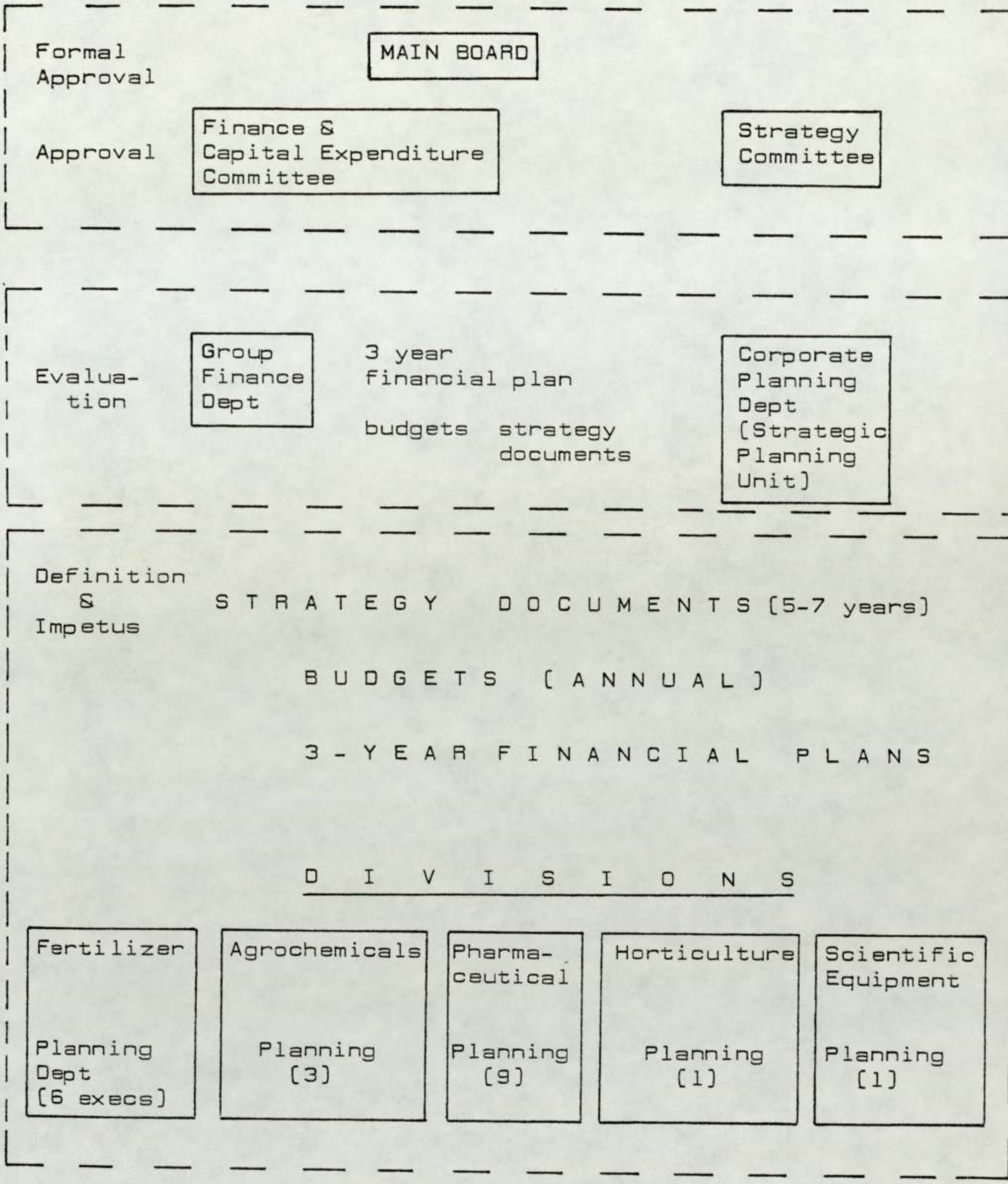


Figure 17 Overall Features of Fisons' planning system

6.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 8 depicts various situational factors which according to the 'Strategic Planning Manager' are likely to have influenced the development of the firm's corporate planning system [interviews with Group Strategic Planning Manager September 1979, April 1980].

6.3.1 Situational factors which led to the 'initial development' of a formal corporate planning system

6.3.1.1 Salient features

- A corporate planning system was set up in 1967 on the initiative of Mr George [later Sir George] Burton, the newly-appointed Group Chairman and Chief Executive. Its main purpose was to help the Group plan the development of its business in a systematic and consistent manner, encourage 'strategic thinking' at the divisions and provide a basis for monitoring their performance and progress.

- The 'Central Planning Department' which was to co-ordinate the planning activity comprised two units:

i] the 'Development Planning Unit' responsible for the appraisal of worldwide opportunities in order to provide a basis for future development of the Group and its constituent businesses;

ii) the 'Business Forecasting Unit' responsible for reviewing and forecasting overall prospects and evaluating their impact on Fisons' businesses. It provided a 'forecasting and monitoring service' used to evaluate the progress of the divisions.

6.3.1.2 Influence of situational factors

- The discovery of Intal in 1965/6 [the drug used for treatment of asthma sufferers] emphasized the need to search for alternative markets in order to recoup the incurred cost of the 'research and development' programmes; this would provide Fisons with an ideal opportunity to transform its existing strategic posture and reduce its dependence on its traditional fertilizer business [number 3.1 on the table], which itself was being confronted with intensive competitive pressure [number 2.1 on the table] due to the entry of large oil and chemical companies into the 'fertilizer' sector. The 'Central Planning Department' would assist the Chief Executive and senior directors by providing an information service, developing the planning capability of the divisions and assisting the formulation of a coherent Group strategy.

- The increasing volume of regulations [number 1.5 on the table] with which the pharmaceutical industry had to cope during the 1960s highlighted the need for a central unit which would monitor such developments and evaluate their implications for the 'pharmaceutical' and 'agrochemical' divisions (whose businesses they were likely to influence). During the late 1960s, these divisions had not developed an in-built capability to undertake the task themselves.

- In 1967, following the advice of a team of consultants, a decentralized organizational structure was set up on the basis of 'autonomous' product divisions (number 3.2 on the table). The 'Central Planning Department' was to maintain a vital link between the centre and the divisions on issues of strategic importance, monitoring their performance and co-ordinating their action programmes.

- According to the 'Group Strategic Planning Manager' (interview September 1979) the most significant factor which resulted in the establishment of a formal corporate planning department was the total commitment of the 'Chairman and Chief Executive' George Burton, who provided the necessary degree of impetus (number 3.3 on the table). Although all the other factors mentioned already highlighted the need for such a mechanism, it was through Burton's initiative that this need was recognized and a planning system set up in order to cater for it.

6.3.2 Situational factors associated with the existing role of planning and responsibilities of the Corporate Planning Department

6.3.2.1 Salient features

- To provide a central information service monitoring environmental developments of strategic significance [including actions of major competitors].

- To evaluate long-term strategies of the divisions in the context of corporate objectives and assess the implications of their capital expenditure proposals.

- To monitor the strategic development and performance of the Group's overseas subsidiaries and evaluate their strategic and capital plans.

- To conduct special studies on behalf of senior corporate executives and the divisions, thereby providing the services of an internal consultancy.

- To co-ordinate the planning activities of the divisions and develop capabilities for the newer and smaller divisions such as 'horticulture' and 'scientific equipment'.

6.3.2.2 <u>Influence of situational factors</u>

- The complex range of macro-environmental and industry-specific factors [including likely strategies of major competitors] which have an impact on the Group's long-term strategy and short-term prospects emphasize the need for a central information service which can monitor developments of specific importance to the Group and provide a supporting service for senior corporate executives in the formulation of a long-term strategy [numbers 1.1, 1.2, 1.3, 1.4, 1.5, 2.1 and 3.3 on the table].

- Fisons is active in a variety of different geographic markets ranging from Japan and Australasia to Europe and North America [number 2.4 on the table]. There is therefore a need to monitor the progress of these subsidiary companies and evaluate their strategic and capital expenditure plans. These can subsequently be used as an input for the formulation of an overall Group strategy.

- There are five product divisions in the U.K. which are largely autonomous and managed by their own boards of management [number 3.2 on the table]. The centre exercises its control over the strategic direction of the divisions by evaluating the divisional strategies, thereby providing a basis for the allocation of resources. The 'integrative' dimension of the Corporate Planning Department's responsibilities is considered to be of importance for a large, diversified and decentralized organization which operates in different markets.

- Fisons' five divisions are not in the same cycle of strategic development [number 3.1 on the table]. For example, the 'Scientific Equipment' and 'Horticulture' Divisions are fairly recent additions to its business portfolio and have not consolidated their market position and in-house planning capabilities to the same extent as the 'Fertilizer', 'Pharmaceutical' and 'Agrochemical' Divisions. Consequently, the 'Strategic Planning Unit' assists the smaller divisions formulate their strategies and evaluate the potential attractiveness of a number of geographic markets.

6.3.3 Situational factors associated with the structure and organization of the Corporate Planning Department

6.3.3.1 Salient features

- The Corporate Planning Department comprises three units:

i) the 'Strategic Planning Unit' with a staff of three
ii) the 'Economic Research Unit' with a staff of two
iii) the 'International Development unit' with a staff of three.

The Department is headed by a 'General Manager' reporting to the Group 'Chairman' and 'Chief Executive'.

- In addition, every division also has its own planning department whose size and scope of responsibilities differ.

6.3.3.2 Influence of situational factors

- Fisons is active in a variety of geographic markets through a network of subsidiary and associate companies [number 2.4 on the table]. A Unit of the Corporate Planning Department [the 'International Development Unit'] maintains liaison between the centre and these companies, evaluates their capital investment plans and provides an advisory service to senior corporate and divisional directors on issues of strategic significance, such as political and economic developments and likely acquisition opportunities.

- The Group's decentralized organizational structure and autonomous product divisions [number 3.2 on the table] have highlighted the need for separate divisional planning departments whose size and scope of responsibilities vary depending on the complexity and needs of the divisions. The 'Pharmaceutical' and 'Fertilizer' Divisions for example, have large planning departments which provide a number of advisory services to the divisional boards, whereas the 'Scientific Equipment' Division has only one full-time Planning Manager.

In order to ensure that the corporate planning staff are aware of the divisional needs, the 'General Manager' in charge of the Corporate Planning Department is a member of all the divisional boards and reports directly to the Group 'Chairman' and 'Chief Executive'.

- The three units of the Corporate Planning Department are responsible for specific tasks. In the opinion of the 'Strategic Planning Manager' [interview April 1980], the adopted structure of the Corporate Planning Department clarifies specific responsibilities of the planning staff so that the 'Economic Research Unit' for example, is responsible for providing an information and consultancy service. The 'International Development Unit' deals with the overseas subsidiary companies and the 'Strategic Planning Unit' evaluates the divisional strategy documents and capital expenditure proposals.

6.3.4 Situational factors associated with the 'types of plans and their time horizon'

6.3.4.1 Salient features

- Every division prepares three types of planning documents:

i) 'strategy document' which is qualitative and discusses the divisional strategies and prospects over a five to seven-year period

ii) 'three-year capital expenditure plans'

iii) annual budgets specifying the divisions' working capital requirements.

6.3.4.2 Influence of situational factors

- Pharmaceutical and agrochemical industries are research-intensive and it takes a long period of time to develop a product and bring it to the market [number 2.5 on the table]. The divisional 'strategy documents' which extend over a five to seven-year period provide a basis for discussion between the centre and the divisions, evaluating the likely impact of new developments on their future strategies.

- The 'three-year' capital budgets are used to control and evaluate the implementation of divisional strategies and provide a basis for monitoring their performance [number 3.5 on the table]. These incorporate mainly financial information and are reviewed on a joint basis by the 'Central Finance Department' and the 'Strategic Planning Unit'.

6.3.5 Situational factors associated with the planning process

6.3.5.1 Salient features

- Formulation and development of the 'strategy documents' and capital expenditure proposals by the divisions.

- Review and evaluation of the 'strategy documents' by the 'Strategic Planning Unit' and the 'capital expenditure proposals' by this Unit in conjunction with the 'Group Finance Department'.

- Discussion of the strategy documents and capital expenditure proposals in meetings of Group 'Strategy' and 'Finance' committees.

6.3.5.2 Influence of situational factors

- The Group's decentralized organizational structure and its autonomous product divisions [number 3.2 on the table] necessitate the use of a formal timetable and planning process which specifies the different stages of the planning activity and incorporates meetings between senior corporate and divisional executives. This enhances communication and discussion of strategic issues between the centre and the divisions.

Table 8 Nature of interrelationship between Fisons' situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development					✓	✓					✓	✓	✓			Discovery of Intal
Existing role and functions of planning	✓	✓	✓	✓	✓	✓			✓		✓	✓	✓			
Organization and structure of planning departments									✓			✓				Assigned role and responsibilities of the corporate planning department
Types of plans										✓					✓	
Planning process												✓				

Chapter 7

CASE STUDY III : CADBURY/SCHWEPPES

Cadbury/Schweppes is a diversified multinational company with annual sales in excess of £1 billion. The Company in its present form is the outcome of a merger in 1969 between Cadbury Brothers and Schweppes, a soft-drinks producer. The two companies' food activities, which had been systematically acquired during the late 1950s and early 1960s, were combined to form the basis of its food operations. Today the Company is active in the following sectors:

- confectionery
- soft drinks
- food
- wines and spirits
- health and chemical products.

The Group operates in a variety of geographical markets ranging from the Commonwealth countries to Europe and North America.

The strategic development of Cadbury/Schweppes will be considered in the context of the two firms which merged to form the basis of the existing entity.

7.1 Situational setting

7.1.1 Historical development of the company

7.1.1.1 Historical development of Cadbury Brothers

Cadbury Brothers was originally set up in 1831 by the Cadbury family in Birmingham. Its main objective extended beyond that of merely producing confectionery, to embrace the fulfillment of larger societal obligations. It remained a private company until 1961, largely managed by members of the Cadbury family. The Company operated under restricted conditions imposed by rationing during the War and institutionalized its management structure during the same period. The 1950s marked the beginning of a 'growth' period in the firm's development; growth and expansion were given an added boost by the end of rationing in 1953.

Until 1960, its range of products mainly consisted of chocolate confectionery and chocolate drinks and although it was active in a number of different geographical territories, these were in the main comprised of the countries of the old Empire.

The 1960s can be characterized as a period of 'acquisitive expansion' for the Company. In order to strengthen its European outlets, it acquired a German chocolate firm in 1960, and due to the limited growth prospects of the 'confectionery' market in general, it embarked upon a diversification programme encompassing a number of related sectors, such as cakes (1962), milk powder (1964) and 'sugar' confectionery (1964). These acquisitions however, did not represent a major strategic diversification programme; rather they were small additions to its existing portfolio. With the acquisition of a 'meat processing' company in 1966 however, the Company entered the general 'foods' business, which was expanded further by the introduction of 'Smash' instant potato powder in 1968. An additional acquisition during the same period was that of 'McCalls', the wholesale sweets and tobacco chain of shops. This represented a small step toward 'forward integration' into its distributive outlets.

It can therefore be concluded that prior to the merger in 1969, 'Cadbury Brothers' remained essentially a family-run confectionery company, whose major geographical markets were comprised of Britain and the Commonwealth countries. It embarked upon a 'food diversification' programme [mainly by acquisition] during the 1960s. This was in response to low growth, increased competition in the confectionery market and vulnerability to commodity price fluctuations [Management Today July 1968: 83]. A change in the generation of family leadership in 1966 brought a structural re-organization from a 'functional holding company' form to the 'multi-divisional' structure, accomplished with the help of McKinsey and Company [Channon 1973: 170].

7.1.1.2 Historical development of Schweppes

Schweppes was registered in 1897 as a 'manufacturer of table waters' and continued its uninterrupted development until the outbreak of World War II.

The 'soft drinks' industry was concentrated and rationalized during the War. All the 'soft drinks products' were standardized under the same label. However, after the War, Schweppes was in a position to establish a national brand identity largely because of its large size [it was the largest soft drinks company in the U.K.]. This early lead in the U.K. market boosted its expansion abroad, especially in Europe and North America.

Schweppes was also a 'family company' until 1950. After the War however, it had started to recruit professional managers, culminating in the appointment of Sir Frederic Hooper as the Managing Director in 1948. He expanded the Company's 'mixer drink' business both in the U.K. and overseas where franchise operations were extensively developed. The management system was decentralized into geographic areas where branch managers were placed in charge of sales and production. They reported directly to Hooper and were paid commensurate to their output [Hooper 1952]. The central office was divorced from line control and divided into four functional departments: production, sales, accounting and personnel. The centre's role was the development of an overall strategy which resulted in the acquisition of other 'soft drinks' companies in the 1950s.

Its first major acquisition during this period was 'Rose's Lime Juice Company' in 1957. Schweppes had already consolidated its position in the 'squash' sector. Since lime juice was in short supply and subject to rationing during this period, Rose's acquisition was a highly significant strategic move. Moreover, it brought a sizeable addition to Schweppes' management strength and expanded its range of distribution outlets.

In 1959, the Company embarked upon a major diversification programme into food products such as jellies, marmalades, jams and canned foods. Although a number of its newly-acquired companies operated in similar product sectors [Chivers and Hartleys] Schweppes was interested in establishing its food operations on a national basis. Chivers was strong in the South East and Scotland, whereas Hartleys operations were concentrated in the North West and the Midlands. These acquisitions however, resulted in an inevitable degree of duplication which necessitated a major rationalization programme. Hooper died in 1963 and was replaced by Lord Watkinson. Management consultants were brought in to consolidate the Company's organizational structure into three market-oriented divisions [Channon 1973: 171]. Further substantial acquisitions followed including 'Typhoo Tea' and 'Kenco Coffee' in 1968.

Although diversification into the 'food' sector had provided the basis for growth, the 'drinks' activities remained by far the most profitable.

Both firms [Cadbury and Schweppes] had recognized their dependence on a major product, whose post-war growth had begun to falter. Both had attempted to diversify into the 'general convenience' food market but had encountered a number of similar problems. Cadbury's 'organic diversification' was costly and slow to produce growth. Schweppes' 'acquisitive diversification' had led to a much faster rate or growth, although it had faced difficulties in integrating the acquired concerns. Moreover, both firms were competing against multinational companies with larger operations and the added benefits of spreading innovation costs across their worldwide activities. It was felt that the integration of the two firms' food operations, combined with the use of largely 'complementary' overseas units, would result in a stronger competitive position.

In addition, during the 'takeover frenzy' of the late 1960s, both companies were vulnerable to acquisition by larger firms. Cadbury's felt particularly threatened by the U.S. multinationals and Schweppes by the big brewers. By becoming a much larger concern through a merger, the prospects of such unwelcome takeovers would become less likely [Nyman 1977].

Moreover the merger, apart from expanding both firms' portfolio of operations, would give them access to complementary geographical markets [Schweppes was mainly active in Europe and North America, whereas Cadbury's was strong in the Commonwealth countries], as well as more readily available financial resources.

7.1.1.3 Cadbury/Schweppes' strategic development since the merger

After the merger in 1969, a multi-divisional organization was set up with separate divisions for confectionery, drinks, food, tea and coffee. The period since the merger can be categorized into three distinctive phases, each with its own special features:

1969-1972: the period immediately following the merger was one of review and consolidation of the merged activities. Managerial attention was thus focussed on internal re-organization.

In 1971, the Group's 'cake' interests were merged with those of United Biscuits and sold completely in 1974. A number of peripheral interests such as the tongue canning business and McCalls chain of retail outlets were also sold during this period. The only major acquisition during this period was Kardomah's 'tea and coffee business' from 'Trust House Forte' in 1971. During this period a heavy emphasis was placed on improving the Group's operational profitability which resulted in the closure of a number of factories.

1972-1976: the 'expansionist' period of the early 1970s was aimed at growth in Europe. The entry of Britain into the European Economic Community in 1972-3 provided a major impetus. Growth and expansion in Europe however, was to be mainly achieved through acquisition, although no clear-cut strategy had been developed to provide an overall sense of direction. Soft drinks companies were acquired in Italy

[1971], Australia [1972], Belgium [1973], South Africa [1974]. In confectionery, new factories were opened in the U.S. and Canada [1974] and a small company was acquired in Spain [1973]. The Group also diversified into 'wines and spirits' by acquiring a 'wine retailer' in 1973 and a 50% interest in a large Spanish brewer. This absence of strategic guidance proved costly to the Company in the long run, since the firms which were acquired during this rather hectic period were eventually sold off.

While the Company was expanding in Europe, it embarked upon a programme of divesting its peripheral food interests in its domestic market. It disposed of its 'cakes', 'tongue-canning' and fruit farms businesses in 1974 and 1973 respectively. In addition, one of its large jam factories was closed in 1972.

However, the most significant strategic development of this period was the acquisition of 'Jeyes', the health and chemical products group in 1972. This acquisition, although problematic in retrospect, was an important element of the Group's 'market-related' diversification strategy, since its products were mainly sold through the 'supermarket' outlets. Its acquisition compounded the Group's structural and rationalization problems and partially diverted resources away from the traditional 'core' businesses.

During this period the Group's performance deteriorated considerably and the economic recession of 1975-1976, which had an adverse impact on the level of consumer expenditure and hence the firm's profitability, prompted its senior management to take a fresh look at the Group's future direction.

1976 onwards: the third phase can be characterized as one of 'concentration' on the traditional 'core' businesses of confectionery and drinks, which attempts to capitalize on the Group's existing strengths. The new thinking started to show through in the Chairman's statement in the Company's Annual Report in 1976:

> 'The policy is one of concentrating on our core businesses at home and abroad, and taking action to turn round any operating activities which are not making a proper contribution to the growth of the Company'.

Consultants were called in to produce an assessment of where the Group stood in its different markets. This assessment was supposed to enable the management to decide on future strategies and objectives. The outcome was a new emphasis on developing the major brands on an 'international' rather than a 'regional' basis. The Group used to be divided into 'product divisions' in the U.K. and into geographic regions elsewhere in the world. At present, the drinks and confectionery businesses are viewed on a worldwide basis as consolidated organizations, but the confectionery side had a strategic problem. Historically, it had followed the British flag around the world with the result that it had very large shares of some small markets like New Zealand and only a very modest presence in a number of major areas, notably the

United States. In 1978, through an acquisition of a large U.S. confectionery firm, it gained access to 10% of the world's largest confectionery market, including the distribution facilities which the Group requires in order to increase its brand share.

The U.S. market presented a different challenge to the 'drinks' business. Schweppes' name was extraordinarily well-known in the U.S., but the brand had less than one percent of the U.S. soft drinks market. So in the recent past, the Group has materially increased its investment in marketing and bottling franchises and sales volume in the U.S. rose by 13% in 1978 alone.

So far, the Group has succeeded in checking and partially reversing the decline in its major brands, both in the U.K. and overseas. It has gone some way toward improving its production efficiency in the U.K. and it has achieved a major shift in the geographic balance of its operations with North America getting close to Australia as the Group's major overseas profit centre in 1979.

The Company's stated objective is a return of 25% on operating assets at the end of the five-year period [1984]. Such a return seems a very ambitious target for a Group which is involved in a number of rather mature businesses, many of which also have to trade current profitability off against the cost of future brand development [Financial Times

7.1 .2 Characteristics of the firm's 'industry' environment

7.1 .2.1 The 'confectionery' industry

The confectionery industry is intensely competitive where a few large firms [Nestles, Mars, Cadbury/Schweppes and Rowntree-Mackintosh] exercise a considerable degree of control. 'Brand image and identity' is crucial for the successful marketing of products and the industry uses promotional aids such as advertising in order to enhance the manufacturers' particular image.

This industry operates on a very large scale;pricing policies, maximum utilization of production capacity and the cost of raw materials [such as cocoa and sugar] exert a crucial impact on the level of profitability. This is a seasonal industry where the level of sales is considerably higher during the Christmas period and the winter months.

The sector's marketing outlets range from large supermarket chains [such as Sainsburys, Tesco, Asda and Fine Fare comprising 30% of the market] to catering establishments and traditional small specialist shops selling tobacco and confectionery products in the main. In the opinion of the Company's 'International Planning Co-Ordinator' [interview September 1979] although the confectionery market is considered to be relatively stable, it does not offer the prospects of 'organic' growth opportunities; however, growth opportunities are expected to be generated through expansion in different geographic regions; the acquisition of U.S.-based confectionery group 'Peter Paul Inc.' in 1977 provided Cadbury/Schweppes with a 10% share of the world's largest confectionery market.

The confectionery sector is considered to belong to the 'low-technology' group of industries [Channon 1973], although capital investment is periodically required for the installation of process machinery and equipment.

The industry's critical success factors are considered to be:

- successful image and brand identity
- efficient utilization of large-scale manufacturing capacities
- optimal purchase of the required raw materials such as cocoa and sugar
- effective pricing policies.

7.1.2.2 The 'soft drinks' industry

The 'soft drinks' industry has a number of features in common with the confectionery sector. For example, the importance of brand image and identity and the nature of competition where large multinational companies such as Pepsi-Cola and Coca-Cola are active in most of the major markets. In recent years, the large brewers have also expanded their 'soft drinks' business as part of their diversification programmes. The added attraction for the brewers has been their control of one large section of the domestic distribution outlets, namely the 'public house'.

In contrast to the confectionery division which has embarked upon a number of acquisitions in order to expand the geographic sphere of its operations, the soft drinks business can expand on the basis of licencing and franchising agreements, generating income without the additional expense on plant and equipment. Its domestic distribution outlets are mainly comprised of the 'public houses', supermarkets and catering establishments and the 'off-licence' trade.

As part of its expansion programme, Cadbury/Schweppes' soft drinks business has embarked upon a programme of granting franchises in the Third World. The sector's success factors include:

- brand name and image
- establishment of franchise operations and licencing agreements in different geographic markets.

7.1.2.3 <u>The 'food' sector</u>

Cadbury/Schweppes' 'food' products include jams, jellies, marmalade, milk powder, tea, chocolate drinks and powdered potato. Brand identity and optimal pricing policies are considered to be significant 'success factors' in this business where competition is intense and utilization of large-scale manufacturing facilities are of considerable advantage.

All the main businesses in which Cadbury/Schweppes is actively engaged share a number of common characteristics:

- established brand names are considered to be a major asset; advertising is used to enhance the manufacturers' particular image;

- its two main businesses [confectionery and soft drinks] are seasonal in nature and subject to short-term influences [such as the weather];

- its businesses belong to the 'low-technology' group of industries;

- all its products are marketed through similar types of distribution outlets [supermarkets, catering establishments];

- its business portfolio is considered to be stable but relatively mature. Growth is likely to be generated through geographic expansion of its markets;

- certain raw materials [such as 'cocoa and sugar' for the confectionery business and 'tea' for the food division] are important sources of supply;

- the Group is in competition with large multinational companies such as Coca-Cola and Pepsi-Cola [in soft drinks], Mars and Rowntree Mackintosh [confectionery], Brookbond and Reckitt and Coleman [specific food products];

- the Group operates on an international basis and is active in many different regions of the world ranging from Europe and North America to Australasia and Africa.

7.1.3 Organizational structure

There are four distinctive phases characterizing the development of the Company's organizational structure:

i) The period prior to 1969: both companies were organized along functional lines, although Schweppes' food activities constituted a separate segment to that of the drinks business. The organization was structured on the basis of three separate divisions after Schweppes' acquisition of food companies in the late 1950s and early 1960s:

a) The Drinks Division (this Division incorporated Rose's Lime Juice - Rose's sales force became the nucleus of the grocery trade and the old Schweppes sales force dealt with the licence trade);

b) The Foods Division;

c) The Overseas Division, dealing with all the Company's products in overseas markets.

Each division was run by its own Board of Management, headed by a chief executive.

The Cadbury Group, due to its more limited diversity, was organized on a functional basis with 'confectionery' constituting its main activity. As the acquisition of foods companies gathered pace throughout the 1960s, this segment of the business was organized into a separate division and was managed by its own management team.

ii) The period 1969-1972: the period immediately following the merger is considered to be one of 'consolidation' of the merged companies. The food operations of both companies were merged to form one 'Food Division', with 'confectionery' and 'drinks' managed as separate divisions. There was also an overseas division dealing with exports and overseas operations, although the Group's main overseas subsidiaries, such as Australia, were run by their own Boards of Management in the countries concerned.

The following diagram represents the structure of the Company during that period.

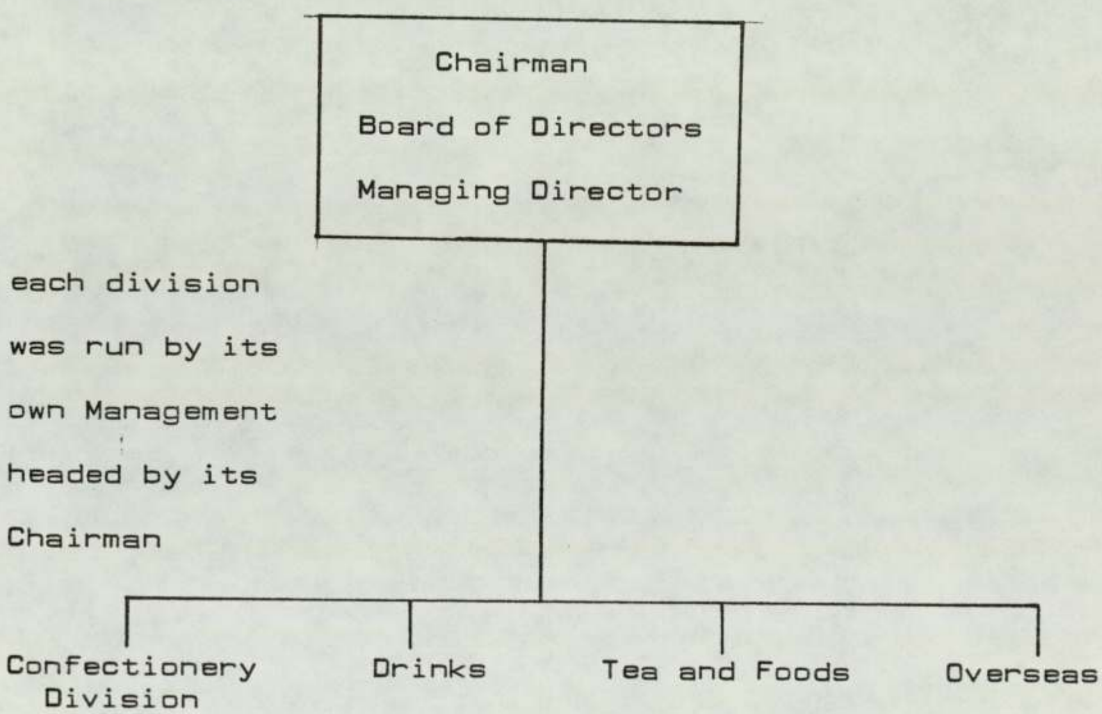


Figure 18 <u>Organizational structure of Cadbury/Schweppes 1969-73</u>

iii) The period 1973-1977: the structural changes which occurred during this period were due to a number of developments which altered the Company's strategic posture. These were as follows:

a) rapid expansion of its European operations following Britain's entry into the Common Market in 1972. This was achieved by means of major acquisitions in selected European countries;

b) diversification into health and chemical products sector through the acquisition of Jeyes Group in 1972;

c) diversification into the 'wines and spirits' sector through the acquisition of 'Courtney Wines'.

These strategic developments changed the Company's organizational structure as illustrated in Figure 19.

Members of the Main Board were composed of the following:

1. Chairman
2. Deputy Chairman
3. Managing Director
4. Finance Director
5. Personnel Director
6. Purchasing Director
7. Development Director and non-executive directors
8. Chairman of the Confectionery Group
9. Chairman of the Drinks Group

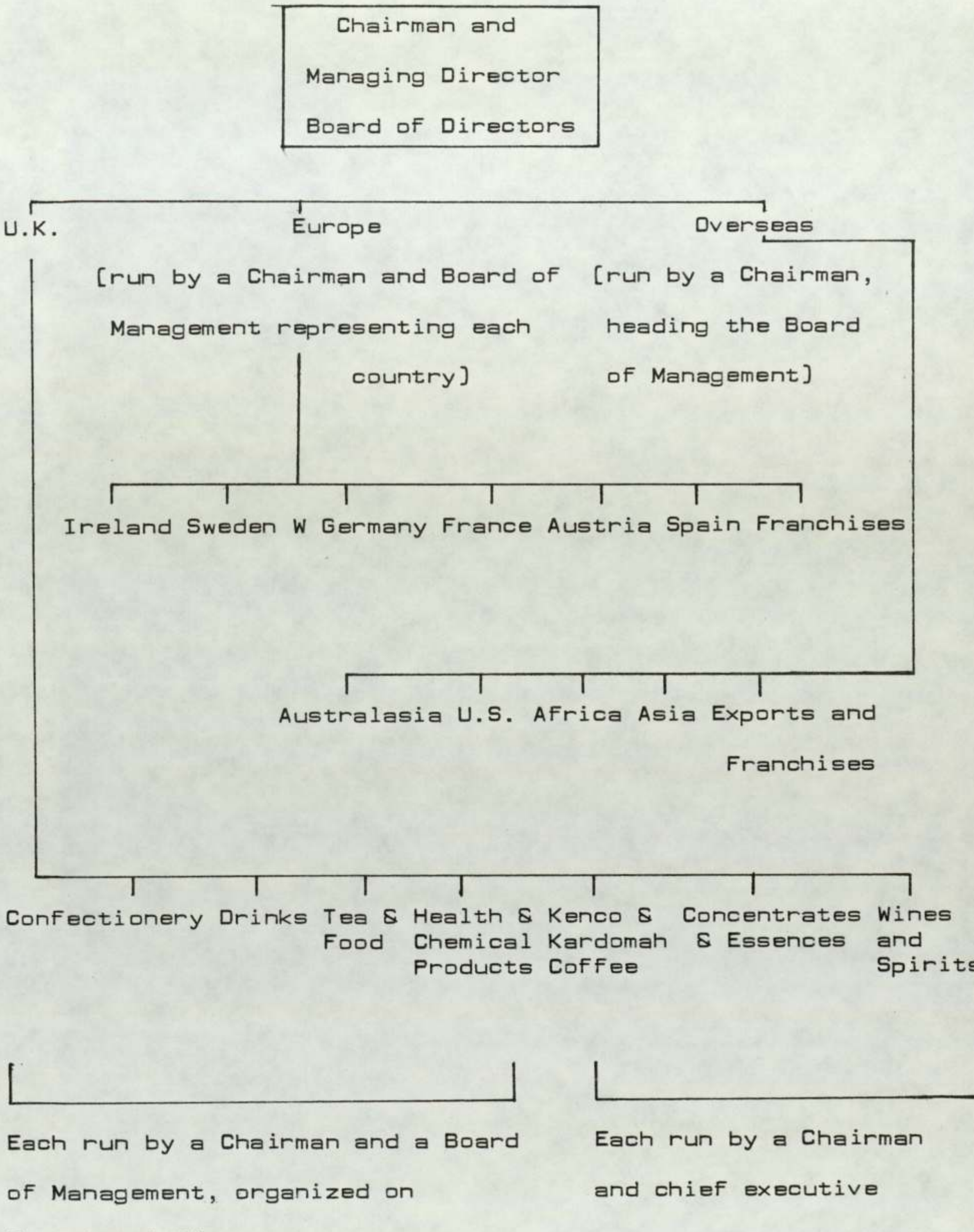


Figure 19 Organizational structure of Cadbury/Schweppes 1973-1977

iv] 1977 to present date: having embarked upon a strategy of geographical expansion, culminating in the acquisition of 'Peter Paul Inc.' in America, the Company's structure was organized on a matrix basis, incorporating the Group's major overseas subsidiaries and product lines. This structure is illustrated in Figure 20.

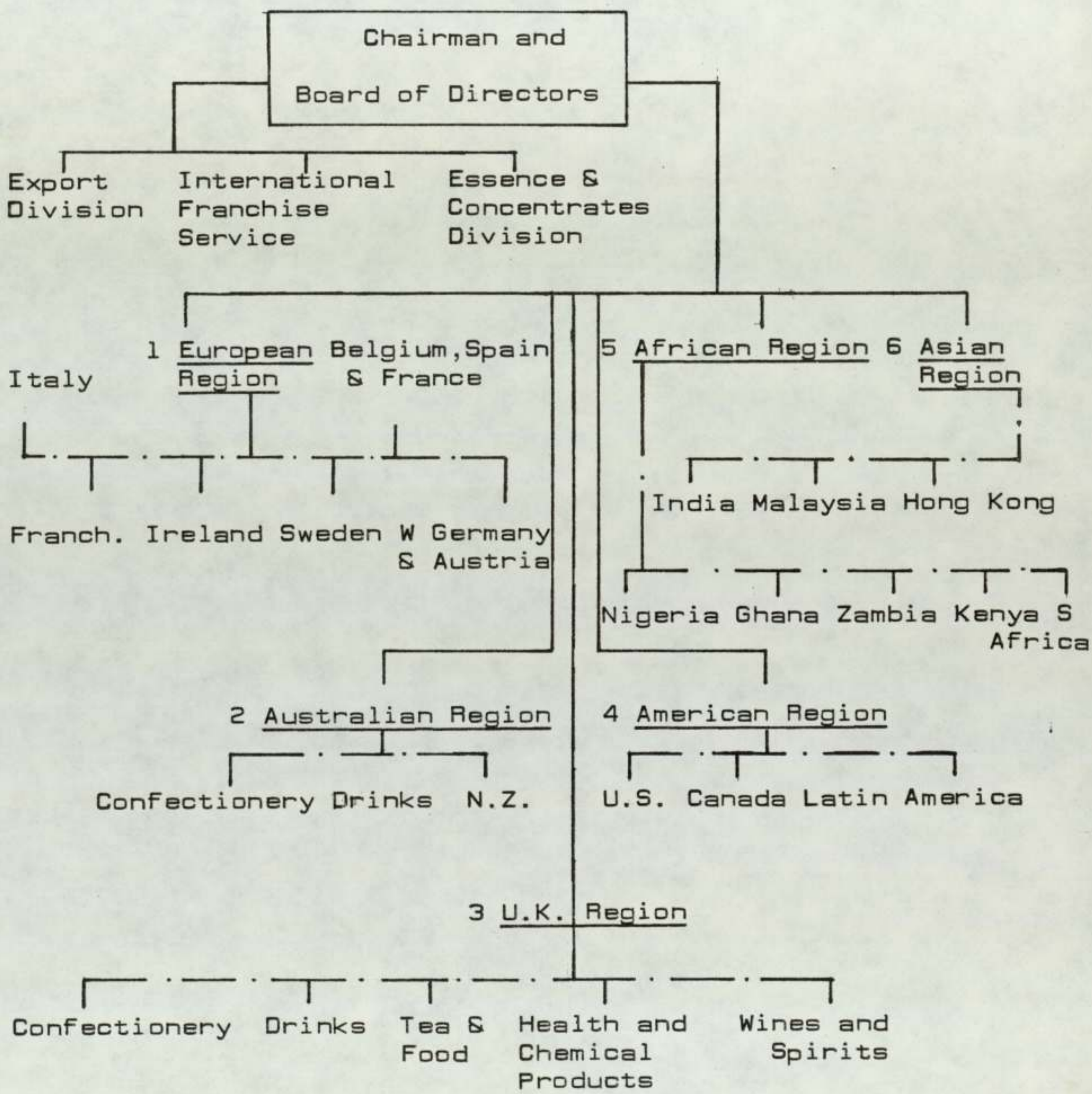


Figure 20 <u>Organizational structure of Cadbury/Schweppes 1977 to present date</u>

Each region is managed by its own Chairman and Board of Directors. The product divisions are organized along functional lines. The Main Board consists of the following:

1. Chairman
2. Deputy Chairman
3. Managing Director
4. International Marketing Director
5. International Finance Director
6. International Technical Director
7. International Personnel Director
8. American Operating Region Chairman
9. U.K. Operating Region Chairman
10. Australian Operating Region and non-executive Directors.

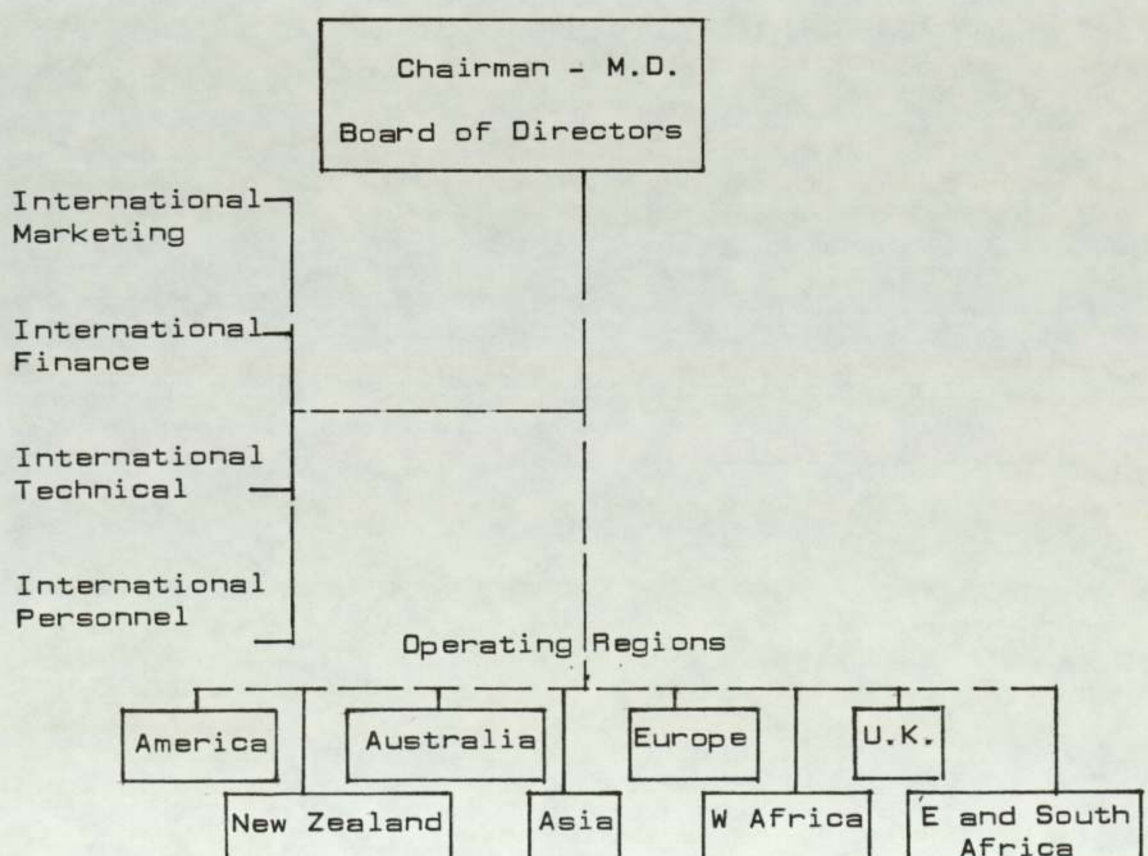


Figure 21 Overall view of Cadbury/Schweppes' organizational structure

There are five product divisions in the U.K. These are:

a) Confectionery Division, specializing in sugar and chocolate confectionery. In 1978, it contributed 45% of total turnover and 50% of the profits;

b) Drinks Division: this division specializes in the production and marketing of fruit juices and carbonated drinks. It contributed 27% of total turnover and 24% of profits;

c) Tea and Food Division: this division specializes in the production and marketing of 'convenience and other food products'. It contributed 23% of total turnover and 24% of the profits;

d) Health and Chemical Product Division: this division specializes in the production and marketing of chemical products sold through grocery outlets. It contributed 5% of total turnover and 3% of profits;

e) Wines and Spirits Division: no separate figures are available for this division, although its contribution to total Group turnover and profits is relatively small.

Although the various divisional products are sold through common market outlets, there is not any significant degree of inter-divisional transaction. Each division is granted a large measure of autonomy and operates on a separate basis.

7.1.4 Characteristics of senior management

Cadbury Brothers and Schweppes, although exhibiting different styles of management prior to the merger, shared a number of important characteristics. Cadburys, a long-established family Company, was managed by various members of the Cadbury family whose management style, especially during the early period, is characterized as being highly paternalistic where loyalty to the firm and a sense of responsibility were virtues held in high regard. A number of functions such as marketing and finance became institutionalized during the 1940s and the Company started to recruit graduates in the late 1930s.

Sir Adrian Cadbury, the present Chairman of Cadbury/Schweppes, became the Chairman of Cadbury Brothers in 1965. During the period 1965-1969, a number of attempts were made to diversify into related sectors such as 'food', although at the time of the merger in 1969, the Company was regarded as a family-run confectionery group with a strong foothold in a number of Commonwealth countries.

Schweppes was also a family Company until 1950, although it had started to recruit professional managers after the War, culminating in the appointment of Sir Frederic Hooper as the Managing Director in 1948. Hooper soon established his own highly personalized style of management, expanding the Company's 'mixer drink' business and re-organizing the Company's organizational structure, delegating a considerable degree of responsibility to the 'branch managers'. Hooper died in 1963 and was replaced by Lord Watkinson who negotiated the agreement leading to the merger with Sir Adrian Cadbury in 1969 and became Chairman of the newly-formed Cadbury/Schweppes in 1969. His period of office during the early 1970s was characterized by a series of acquisitions aimed at expanding the Group's European base.

Sir Adrian Cadbury became the Group Chairman in December 1974 and Basil Collins, Schweppes' previous Sales and Overseas Director was appointed as Chief Executive. The present chairmen of the divisions and other senior executives have served a long period of apprenticeship in the Company, which in some instances goes back to the late 1930s and 1940s. A study undertaken by a team of researchers during the mid-1970s arrived at the conclusion that the Company attaches more importance to management development than was the case in other large companies taking part in the survey [Child 1977]. Although the senior executives who were interviewed believed that the Company's record in attracting managerial talent has been good over the last few years, the lack of managerial resources was singled out as a constraint on the Company's past growth.

7.1.5 The firm's performance

The performance of 'Cadbury Brothers' prior to the merger in 1969 is characterized by steady growth in turnover and fluctuating profits, as indicated in Figures 22 and 23. Moreover, the Company's overseas production increased throughout the 1960s mainly as a consequence of a number of acquisitions [see Figure 24].

Schweppes' profits were increased steadily throughout the late 1950s and 1960s, thanks to its acquisition of food companies and licencing agreements overseas [see Figure 25].

Since the merger, the volume of sales has continued to increase, especially after the acquisition of the Jeyes Group and a number of European outlets. The contribution of the Company's overseas subsidiaries [see Figure 26] is roughly similar to that generated in the U.K.

The Confectionery Division is the largest contributor to the Group's overall sales, although its profits have fluctuated on a periodic basis [see Figures 28 and 29].

Australasia is by far the largest overseas operation, although the Group's European operations exhibit the highest rate of growth during the same period. The American operations are likely to expand considerably during the 1980s, becoming a significant profit earner for the Company [see Figures 30 and 31].

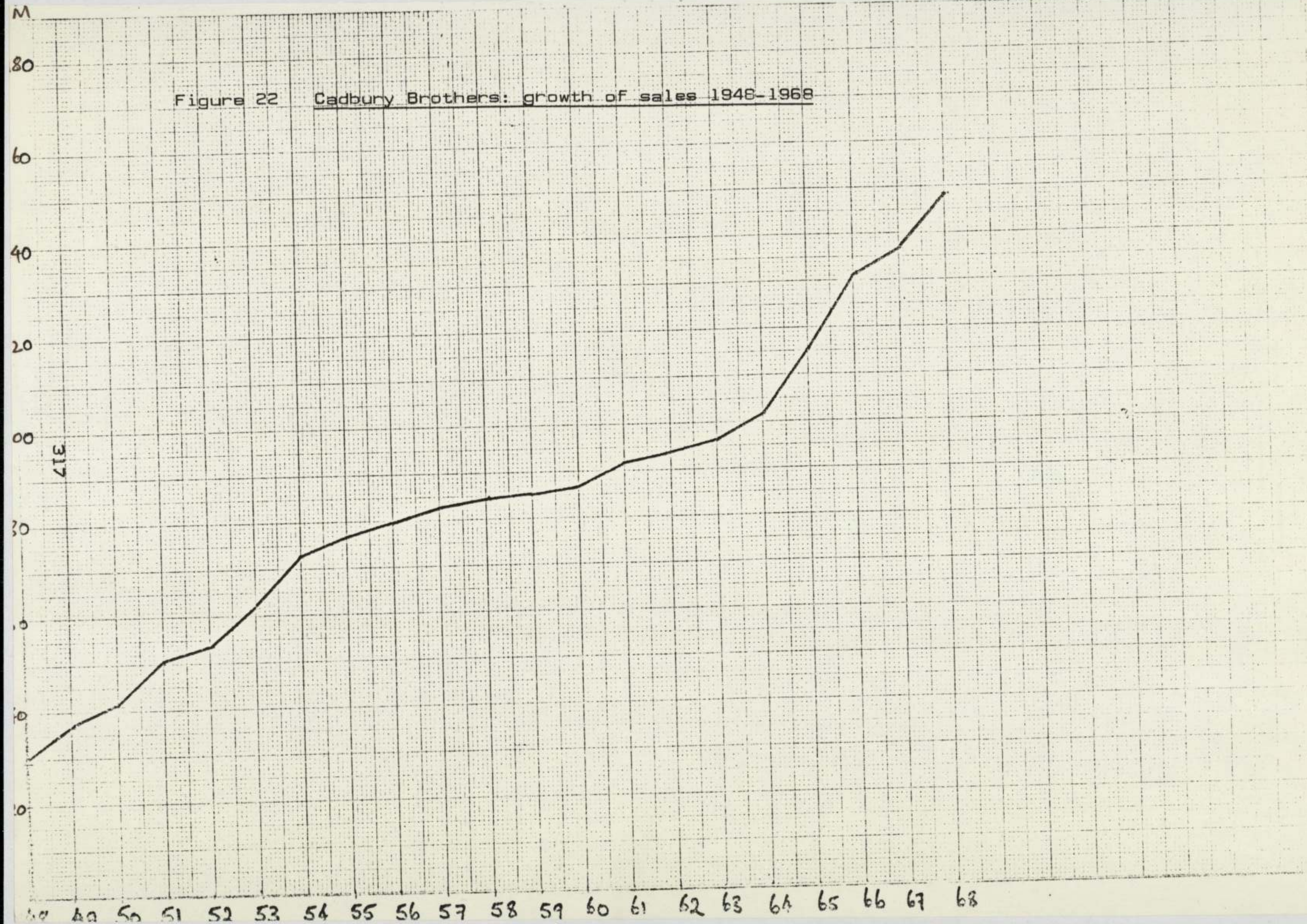


Figure 22 Cadbury Brothers: growth of sales 1948-1968

Figure 23   Cadbury Brothers: profits (before tax) 1949–1968

Figure 24 Cadbury Brothers: volume of U.K. and overseas sales 1957-1968

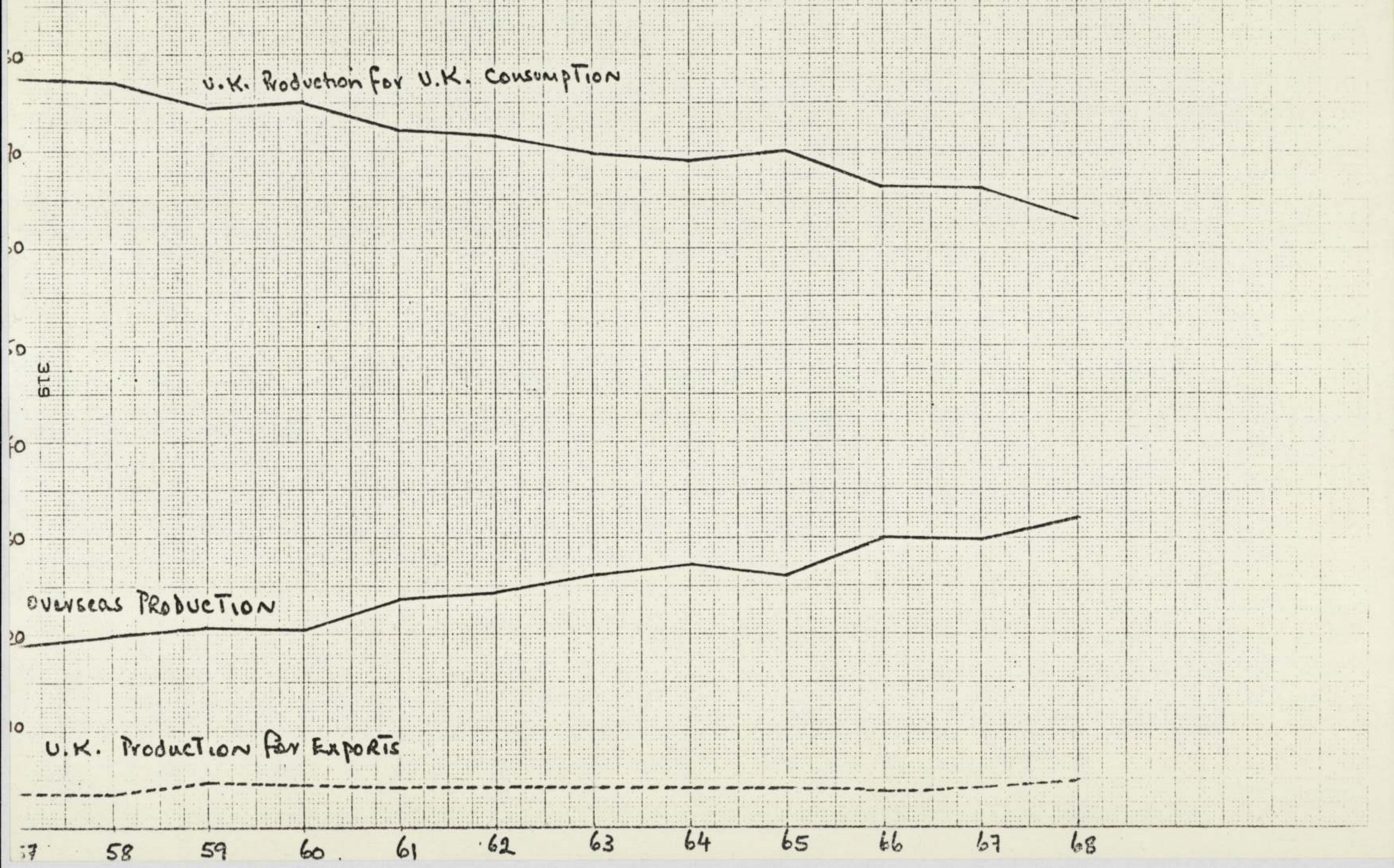


Figure 25 Schweppes Limited: profits [before tax] 1949-1968

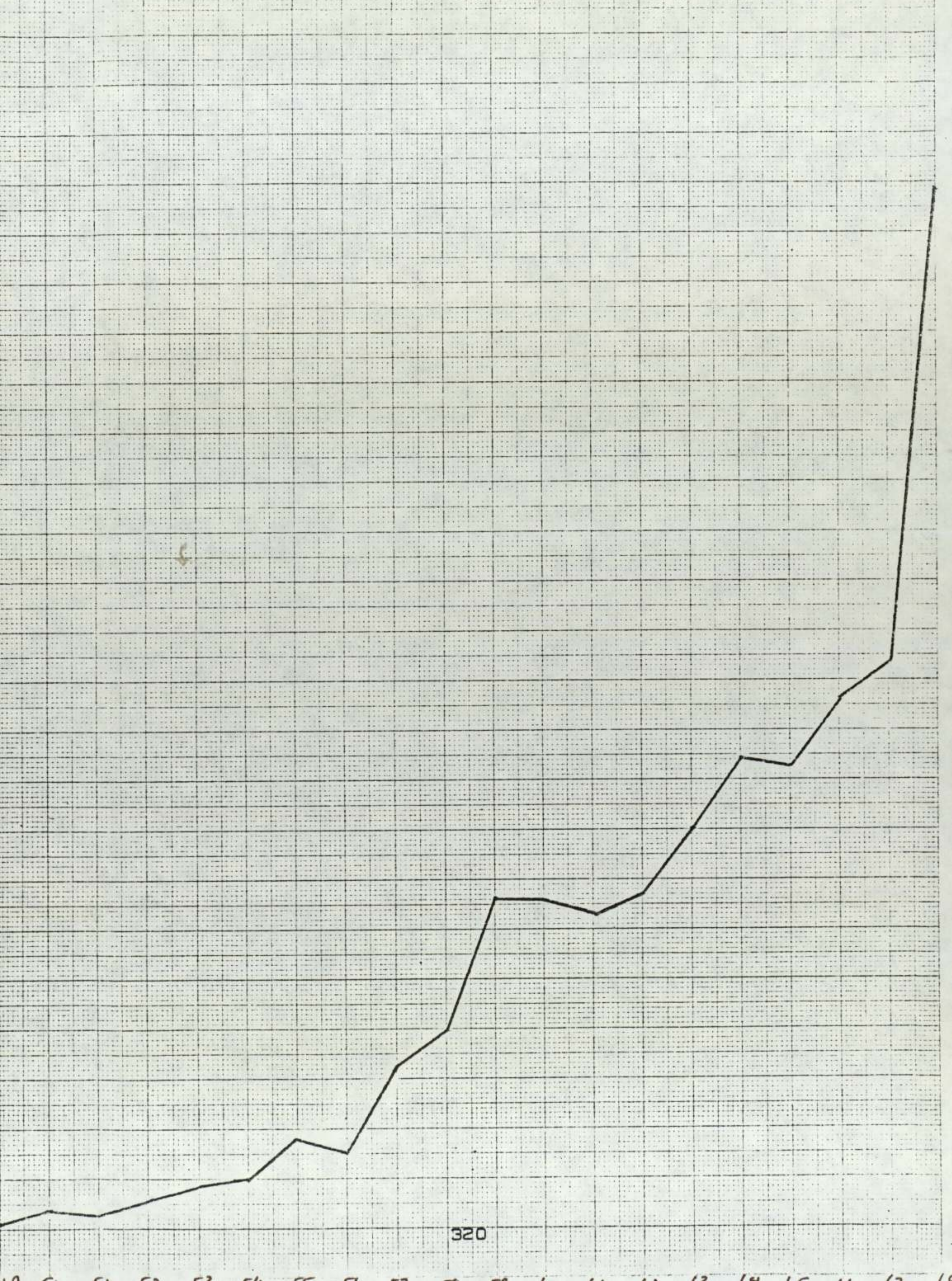


Figure 26 Cadbury/Schweppes Limited: volume of U.K. and overseas sales 1969-1978

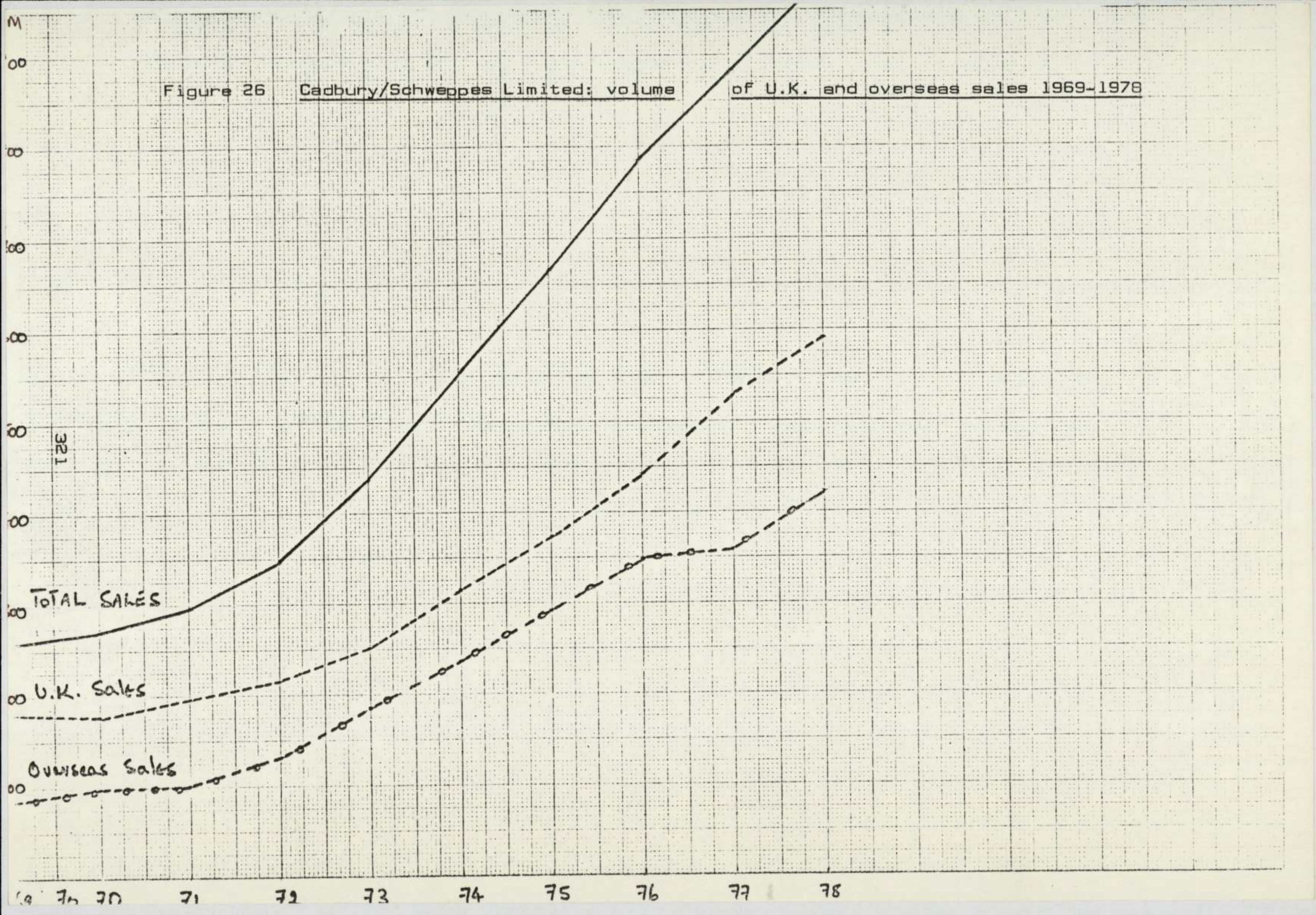


Figure 27 Cadbury/Schweppes: profits [before tax] 1969-1978

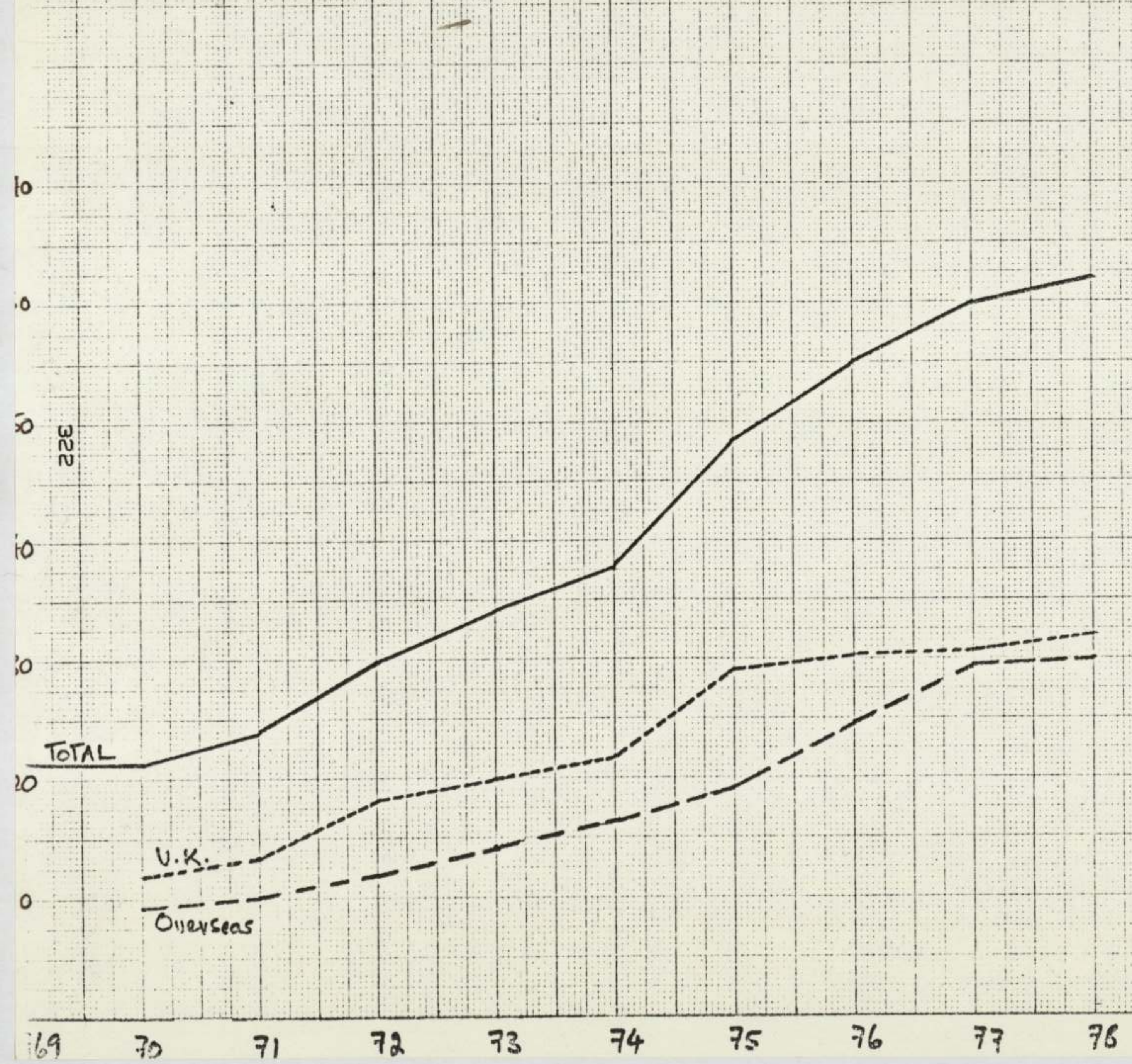


Figure 28 Cadbury/Schweppes: volume of sales of different product groups 1969-1978

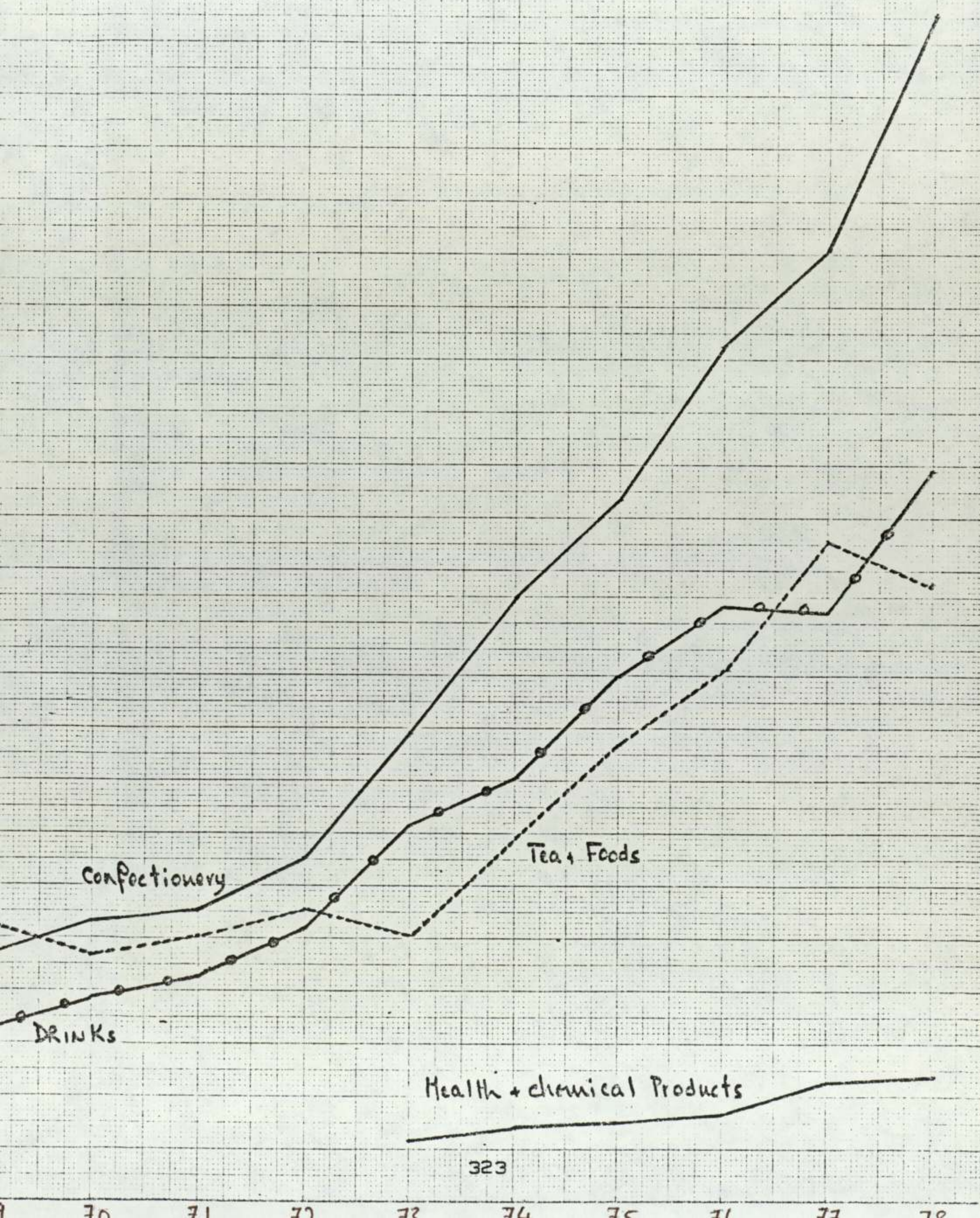


Figure 29 Cadbury/Schweppes: profits [before tax] of different product groups 1974-1978

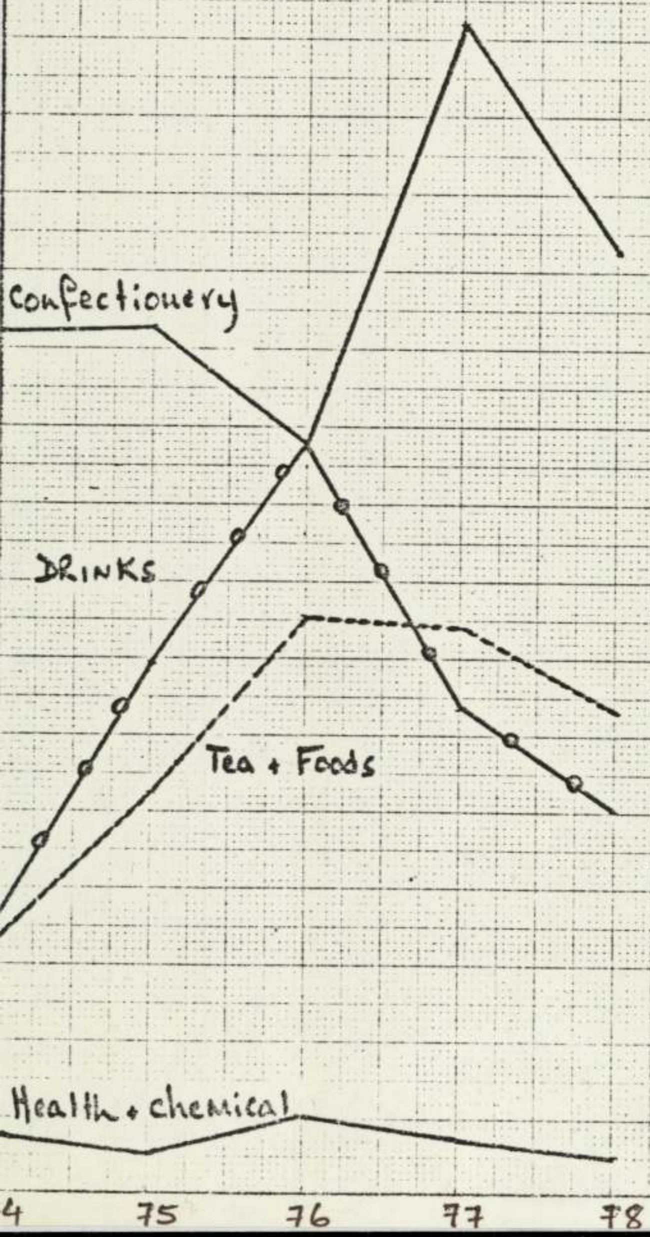


Figure 30 Contribution of different regions to overseas sales: 1973-1978

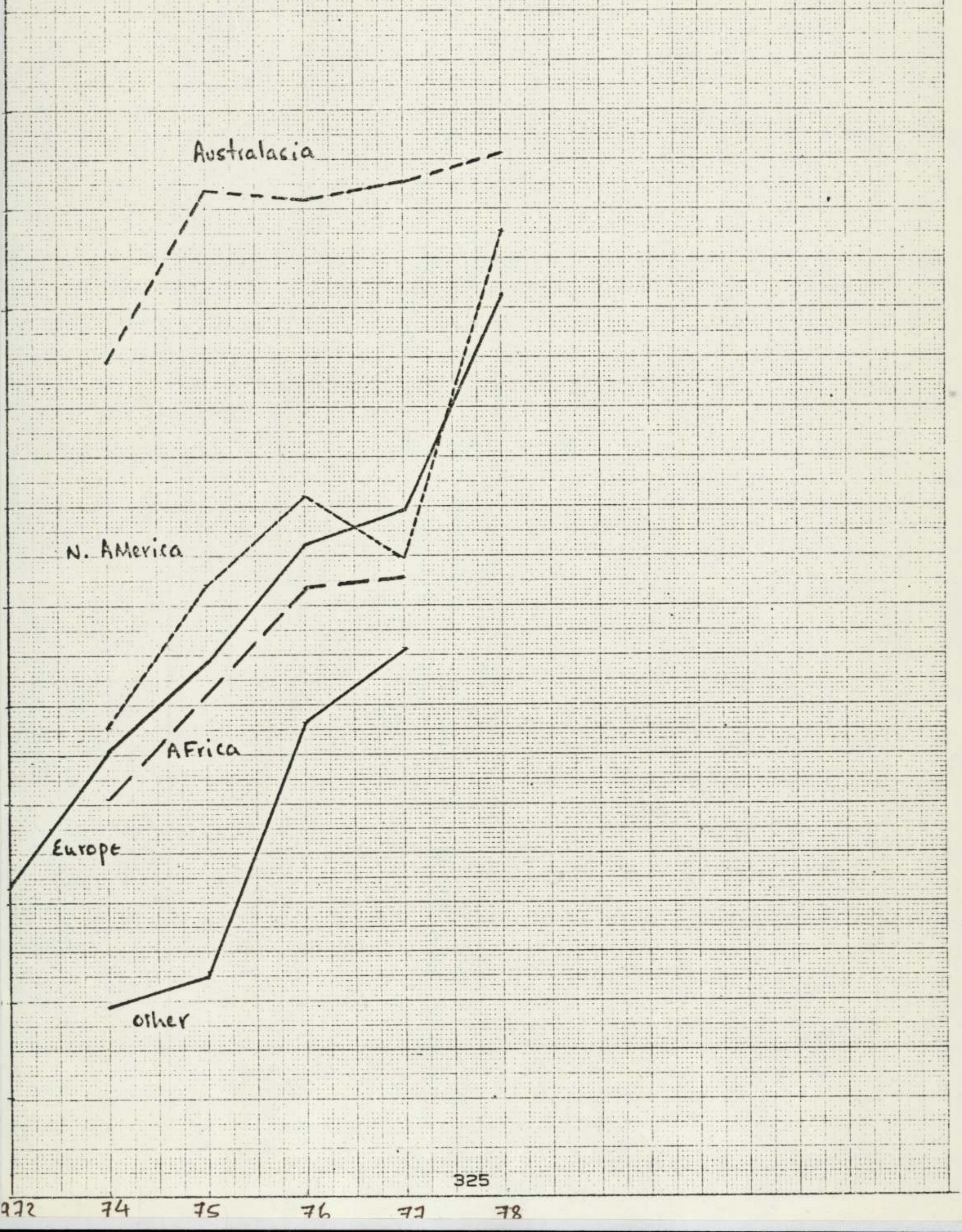
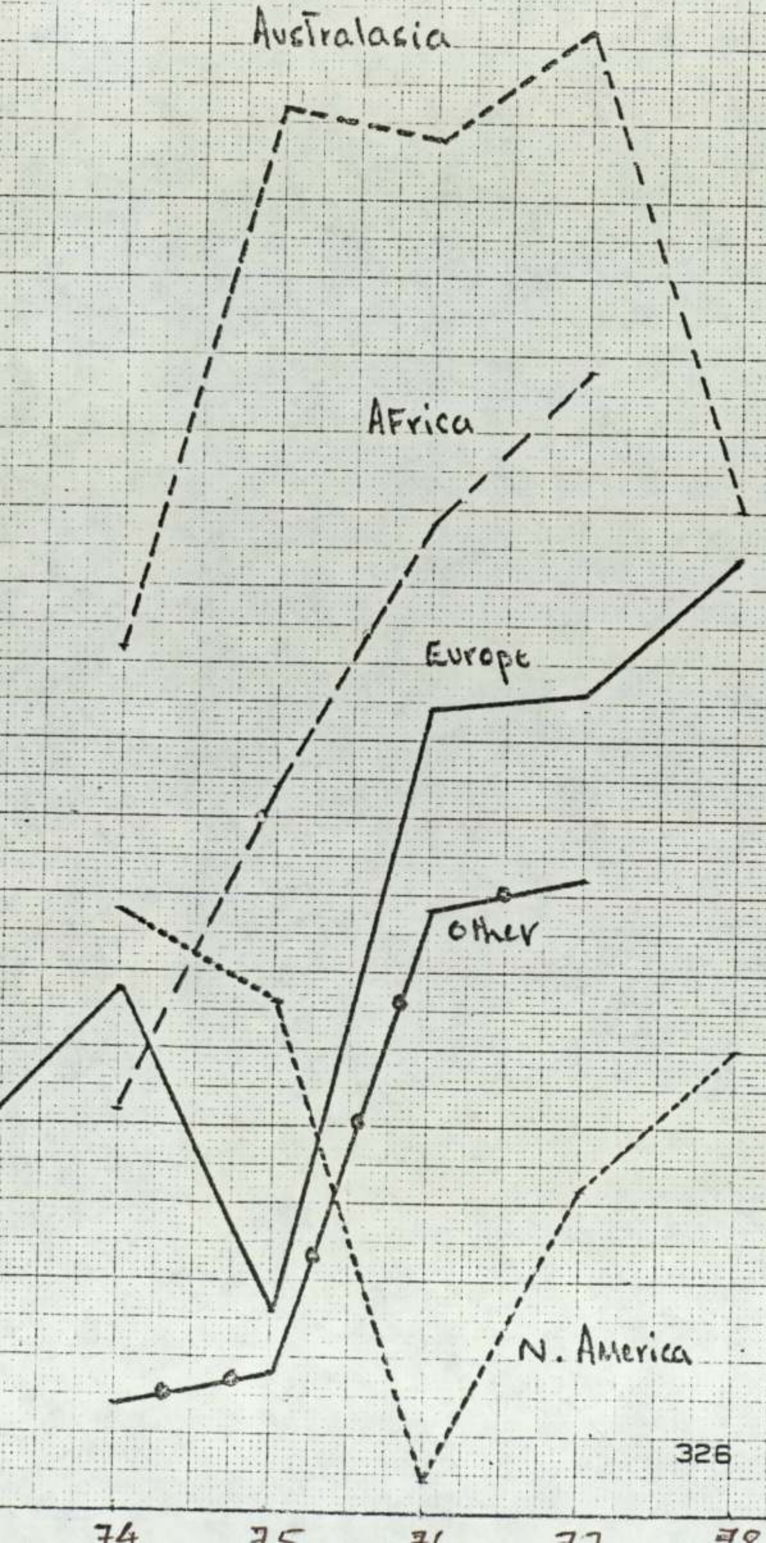


Figure 31 Contribution of different regions to profits [before tax] 1973-1978



7.1.6 Co-ordination and control of the divisions

The Company's 'matrix' organizational structure was devised in 1977 in order to facilitate co-ordination of the Group's diversified product and geographic portfolio. Central co-ordination is accomplished through 'corporate departments' [finance, technical, marketing, planning and personnel]; senior directors in charge of these departments are all represented on the Main Board [with the exception of the Planning Director] and major policy-making committees at the centre. The 'Managing Directors Committee' [chaired by the Group Chief Executive] meets on a fortnightly basis in order to review the progress of each division and discuss latest developments. It therefore provides a forum for the exchange of views between the divisional managing directors and senior corporate executives.

The centre exerts its influence over the strategic direction of the divisions through the 'resource allocation' process. Specific investments proposals are generated at the divisional levels where initial feasibility studies are undertaken in the context of specific corporate guidelines. Having been approved by the divisional boards, they are then passed on to the centre where they are evaluated by the 'Central Finance Department' and the 'Capital Controller's Office'. Standard criteria used for evaluation purposes include the 'payback period' and 'discounted cash flow'. These proposals are subsequently discussed at the corporate 'Finance Committee' whose members are composed of:

- the Chairman
- Group Chief Executive
- the Finance Director
- the Capital Controller
- the Divisional Chairman whose proposal is being discussed.

Since January 1981, the corporate influence over the divisional strategic direction has been enhanced through the 'Central Planning Department'. Divisional chief executives are asked to submit plans in order to outline key strategic issues confronting their businesses, alternative strategic options likely to be pursued and the divisional choice of a specific option. This 'strategic review' process enhances the working dialogue between the centre and the divisions and will be discussed more fully in Section 7.2.

7.2 Corporate planning system

7.2.1 Initial development

A Corporate Planning Department was set up in 1975 after the change in the composition of the Company's senior management [Sir Adrian Cadbury was appointed the Group Chairman succeeding Lord Watkinson]. This period also witnessed a marked deterioration in the Group's overall performance and an urgent need for the rationalization of its business portfolio, much of which had been acquired during the early 1970s.

The Planning Department which was closely linked with the 'Central Finance Department' was charged with the responsibility of:

- monitoring environmental developments of strategic significance to the firm;

- evaluating the strategic implications of the divisional capital expenditure proposals.

The size of the Department was to be kept small with two full-time members, one of whom was to be the Planning Director, although he was not represented on the Main Board and major policy-making committees. The Planning Director was to work in close collaboration with the 'Finance Director' and the 'Capital Controller' so that divisional investment plans could be evaluated in the context of the Group's overall strategic priorities. In addition, the

Department was responsible for devising a standard information system which could enhance communication between the centre and the divisions as well as co-ordination of the various divisional activities.

According to the Planning Director at that time, the Company's senior management did not favour the establishment of a 'strong and independent Planning Department' which was likely to have caused resentment amongst the divisional chief executives [interview with Planning Director, April 1976, Growth of Firm s Project]. Moreover, the 'Corporate Development Director' [who was a Main Board member and had served in Cadbury's for a considerable period of time] was responsible for the development of the Group's longer-term strategies, especially in the area of overseas expansion. This might have restricted the role of the Planning Department and resulted in the adoption of an 'ad-hoc' approach to the formulation of a coherent Group strategy.

The Company's projected expansion in the United States prompted the re-structuring of its organizational structure during the early half of 1977 [it was organized on a regional basis as indicated in Section 7.1.3]. Under the direction of an external consultant, a team of 'assessors' whose members were recruited from various parts of the Company was set up and charged with the responsibility of evaluating the soundness of the Group's management systems and providing a number of suggestions for their improvement. This investigation which lasted for eighteen months was concluded with a number of recommendations including the establishment of a more 'effective' Corporate Planning Department [the 'International Planning Co-ordinator' who was our main contact at Cadbury/ Schweppes was a member of this team, having previously held the position of 'Marketing Manager' in the Confectionery Division]. The perceived need for a more 'effective' Corporate Planning Department was due to a variety of factors. Members of the team considered that since the Company was active in a number of stable but relatively mature businesses, there was an urgent need for a formal review and evaluation of its longer-term strategy on a worldwide basis. The Central Planning Unit which was set up in the mid-1970s was too small and relatively restricted in its scope of responsibilities, i.e. evaluating the strategic implications of the divisional capital investment proposals. Moreover, it was considered to be a sub-unit of the Central Finance Department and therefore not in a position to emphasize the qualitative importance of long-term 'strategic thinking'. [Interview with 'International Planning Co-ordinator', September 1979].

The internal team of assessors had hoped that the new and enlarged Planning Department would evaluate and integrate the strategic options available to the Geographic and Product Divisions and thereby systematize the strategic direction of the Company's worldwide businesses. The need for such a central mechanism was highlighted after the adoption of a matrix type of organizational structure. The Corporate Planning Department could therefore provide information on the Group's worldwide businesses for the benefit of the Company's senior management.

7.2.2 Existing range of functions

The Corporate Planning Department was set up in September 1978 under the guidance of a Planning Director, reporting directly to the Group Chief Executive. However, he was not a Main Board member and not present on major policy committees. The Planning Department was managed by the 'International Planning Co-ordinator' with five staff members recruited from various parts of the Company.

During the early stages, the Department was mainly responsible for providing an 'internal information and consultancy service' for the benefit of senior corporate executives. The Department set out to accomplish its tasks by monitoring the Group's environment, picking up signals/ trends which might have been of strategic significance to the Company and the divisions. Moreover, it attempted to systematize the process of collecting information from the divisions by devising a set of forms and documents which would enable the divisions to specify their longer-term strategic and business objectives in a qualitative manner. These were the prelude to the five-year divisional 'rolling' plans which form the backbone of the formal planning system and will be discussed later in the section.

According to the 'International Planning Co-ordinator' [interview May 1979] the role of formalized planning was rather circumscribed by a number of factors; firstly, formalized planning did not have the wholehearted support of senior corporate executives, although they had in principle agreed with the establishment of the Corporate Planning Department on the recommendation of the internal team of assessors. They believed that the divisions ought to be in a position to determine their longer-term strategies [without undue interference from the centre] as long as this was done within the context of broad financial guidelines specified by the centre. They envisaged the role of the Planning Department to be the provision of an internal consultancy and information service which could be used as and when required.

The planning process is also indicative of the Corporate Planning Department's position as an 'internal consultancy service'. The Department issued a standard form at the outset of the planning cycle to the divisions through their regional boards which had been set up under the new matrix structure. A set of planning assumptions concerning likely environmental developments were outlined on the basis of which the divisions could provide an assessment of their operating environment, key strategic issues and alternative strategies culminating in the five-year divisional plans. These plans which are prepared by each division provide an indication of 'what each division intends to do by when, the resources required and what, if everything goes according to plan, will be the financial outcome'. The generation of the 'five-year plan' involves six stages [this format is also adhered to at present]:

Firstly, each division needs to ensure that all those who need to participate in putting the plan together understand the divisional strategy. Each functional department should therefore provide its own input and outline the implications of the agreed strategy for its department. The planning process at this stage is co-ordinated through the divisional planning departments whose size and scope of responsibilities vary depending on the size and nature of the divisional business.

The second stage involves the generation of an 'action programme' [i.e. what the division is going to do when]. This includes an evaluation of:

1] marketing plans:

- changes to product range, rationalization and new products

- changes in advertising positioning and levels of expenditure

- price positioning versus competition

- changes in selling and distribution methods to adapt to changes in patterns of distributive trade

2] production plans:

- changes to production facilities
- changes in work structure

- capital investment
- productivity changes

3) personnel plans:

- manpower planning
- employee relations
- negotiating new agreements

4) public affairs:

- relations with Government and pressure groups
- community relations
- corporate public relations

5) administration:

- organizational changes
- management information systems
- staffing levels.

The third stage involves the evaluation of action plans indicating resource requirements, financial consequences of the plans, balance sheets and cash flow statements and their impact on the market in terms of competitive share. The sensitivity of the plan to risk is also estimated during this stage.

The fourth stage is the 'feedback' process concerning issues which have become critical during the evaluation stage. This is considered to be a crucial stage for the divisional staff planners.

The fifth stage involves the final documentation of the plan. This plan provides a basis for monitoring the progress of the divisions in implementing the plan, enabling the centre to understand the details of divisional strategies. The document sets out a statement of assumptions, action programmes, evaluation of resource requirements and market and financial consequences.

Having been approved by the divisional boards, these are subsequently submitted to the Corporate Planning Department for review and consolidation. While the divisions used to take approximately three months to compile and develop their plans, the Corporate Planning Department had to review these within two to three weeks before they were submitted to the 'Central Planning Committee' for further discussion. This arrangement did not provide sufficient time for a critical appraisal of the divisional plans, although important aspects of the plans were discussed in the 'Central Planning Committee' whose members comprised the Group Chief Executive, Finance and Planning Directors and the Divisional Chief Executive whose plan was the subject of discussion.

Although these committee meetings provided a useful forum for the discussion of divisional strategies, their impact on the Group's finances and their implications in terms of the Company's longer-term strategic direction, they were ad-hoc in nature and had not resulted in the institutionalization of a systematic process for the formulation of Group strategy. The decisions which were taken at 'Finance' and 'Managing Directors' Committees were considered to have a greater impact on the direction of the Company [interview with 'International Planning Co-ordinator', August 1979].

By mid-1980, the Company's planning process was considered [by senior corporate and divisional executives as well as staff planners] to be less than satisfactory and became the subject of close scrutiny.

Firstly, senior divisional executives considered the whole process of generating and developing the plans to have been cast in the mould of a form-filling exercise which took a considerable amount of time. Moreover, there were no formal discussions between the centre and the divisions throughout the period during which the plans were being developed. Other meetings on financial and operational issues were scheduled but during the course of these, longer-term strategic issues were not discussed.

Secondly, the staff planners had felt that formulation of the 'five-year plans' which was done in accordance with a specific format was not conducive to the discussion of less quantifiable strategic issues based on 'gut feeling' and 'intuition'. The incorporation of additional meetings during the course of which these issues could be discussed was therefore considered as a possible option.

Thirdly, although the senior corporate management had initially been 'lukewarm' toward the establishment of a planning system which might have restricted the autonomy of the divisions, they became increasingly convinced that in a large, decentralized and international company such as Cadbury/Schweppes, the centre had to be aware of the divisional intensions so that it could formulate the Group's longer-term strategy in a coherent and systematic manner. The consolidation of its American operations had increased the complexity of the Group and convinced its senior executives of the need for a more systematic approach to strategic decision making. The scheduled retirement of the Planning Director at the end of 1980 provided an ideal opportunity to inject new rigour into the planning activity and change its image and status within the Group.

Due to the pragmatic outlook of the Company's senior management it was decided to appoint someone who was familiar with its operations as well as having a proven track record 'out there in the field'. The Chief Executive of the Group's South African subsidiary was appointed, having previously held other positions within the Company.

Following his appointment, the planning system was to become more directly associated with the decision making processes. Firstly, greater emphasis is to be placed on evaluating and discussing issues of strategic importance, instead of restricting the planning activity to the development, evaluation and discussion of the 'five-year divisional plans'. Since January 1981, the formalized planning process is to include the identification of key strategic issues and the development of 'alternative strategies', prior to the generation of the division plans. This would enable the divisions to generate sound and workable action plans [interview with 'International Planning Co-ordinator', January 1981].

One of the shortcomings of the planning process in previous years had been lack of discussion between the centre and the operating units during the development of plans. Fundamental issues of strategic importance would only become apparent once the detailed plans were submitted for evaluation. The revised planning process will therefore incorporate more formal discussions after every planning stage.

Finally, the tacit support of the Group Chief Executive for planning was conveyed to the divisions by means of internal memoranda which informed them of the impending changes. The Company's new Planning Director highlights the significance of this in the new planning manual:

> ' ... The total commitment of the Chief Executive to planning is necessary. This commitment is reflected in the allocation of his own time, the priorities he sets for his colleagues and the degree of delegation of day-to-day matters'.

Moreover, it is likely that the status of planning will be further enhanced by the appointment of the Planning Director to the Main Board.

7.2.3 Types of plans and the planning process

In order to operationalize the revised planning system, a number of divisions were selected for detailed strategic review at the end of 1980. These are either confronted with volatile and rapidly-changing environments or are experiencing difficulties which require major strategic adjustments. The revised planning process which is to become operationalized during 1981 is composed of three stages:

The first stage involves the identification of detailed strategic issues which comprises the following:

- definition of markets/businesses in which the division operates
- identification of trends in each business area
- analysis of competition
- forecast of likely future developments
- identification of key factors for success
- analysis of the division's strengths and weaknesses
- definition of key strategic issues.

Stage one of the planning process is to be completed by the end of February, giving the divisions two months for the preparation of its report. After a brief review by the central planning staff, the issues which arise in the context of these reports are discussed during the course of a number of meetings between the Group Chief Executive, the Regional Chief Executive, the Divisional Managing Director and a small number of their key advisers.

The second stage of the planning process involves the generation of alternative ranges of strategies which in the words of the Company's planning manual:

> ' ... is to generate as many ideas as possible for strategies that will achieve divisional aims'.

The manual outlines a number of suggestions which might be useful for this purpose:

> ' ... select a small team, no more than six, charged with the task of generating ideas. The team should include the Managing Director but not necessarily in the role of a team leader. The team should be chosen for the creative and conceptual talents of its members rather than on purely hierarchical or functional grounds'.

At the end of this stage a review meeting is arranged between the Group Chief Executive, the Divisional Managing Director and a number of their supporting staff. As an input to this meeting, the divisions are asked to provide a 'review document' covering the following topics:

- description of alternative strategies considered
- evaluation of each strategy
- the divisions' preferred strategy.

The purpose of this meeting is to reach agreement on a preferred strategy on the basis of which the divisional five-years plans are formulated. The 'review documents' are submitted to the Corporate Planning Department by early May and review meetings are held during the month of May.

Stage three of the planning process involves the generation of the divisional long-range plans covering a five-year period; topics covered in the plans have already been outlined. These are submitted to the Corporate Planning Department by mid-July, reviewed by staff planners and subsequently discussed in a number of meetings between senior corporate and divisional executives. Apart from providing a detailed account of the divisional 'action plans', these are also used for the purpose of evaluating the divisional capital expenditure proposals by the Central Finance Department. It is hoped that the Central Finance and Planning Departments will collaborate closely in the future, although as equal partners, altering the position which prevailed during the mid-1970s.

It is hoped that the 'revised planning system' will provide a basis for the systematic generation and evaluation of the divisional strategies in the context of which the Company's longer-term future can be planned. It is a 'bottom-up' process, leaving the divisions free to formulate their own strategies in the context of corporate objectives and priorities. The Corporate Planning Department provides specific planning guidelines for the divisions, evaluates the divisional plans and provides a central information and consultancy service for senior corporate executives.

7.3 Nature of interrelationship/association between situational factors and the corporate planning system

Table 9 depicts the range of situational factors which in the opinion of the Group 'International Planning Co-ordinator' are likely to have determined the firm's planning needs and subsequently characterized its corporate planning system [interview May 1979, August 1980, January 1981]. Since the 'Planning Co-ordinator' was not in the Corporate Planning Department during the period 1975-77 [the initial period of establishment of a small Corporate Planning Department] he was not fully aware of the circumstances which influenced the formation of the Planning Department during this period. A number of recorded interviews which were held with the then 'Planning Director' in 1975/6 as part of the 'Growth of the Firms Project' in Aston University have therefore been used to supplement information on the corporate planning activity during this early period.

7.3.1 Situational factors associated with the initial development of the Corporate Planning Department

7.3.1.1 Salient features

- A small Corporate Planning Department was set up in 1975 in order to monitor external developments and to assist the central finance staff evaluate the divisional capital expenditure proposals.

- In 1977, a team of 'internal assessors' conducted an appraisal of the Group's internal services. They recommended the establishment of an enlarged Corporate Planning Department which was set up in September 1978. Its main tasks were initially composed of the provision of a 'central information service', 'co-ordinating the planning efforts of the regional and product divisions' and 'evaluating the five-year divisional rolling plans' for eventual submission to the senior corporate directors.

7.3.1.2 Influence of situational factors

- The 'first Corporate Planning' Department of 1975 was set up after the appointment of Sir Adrian Cadbury as the Group Chairman [number 3.3 on the table]. It is not clear whether this change in the composition of senior management was the main factor which led to its establishment or whether deterioration in the Group's overall profitability [number 3.4 on the table] had emphasized the need for a systematic approach toward the rationalization of its business portfolio.

- The need for the 'enlarged Planning Department', which was set up in September 1978 [following the recommendations of the team of 'internal assessors'], had apparently been highlighted after the acquisition of the U.S.-based company 'Peter Paul Inc.' in 1977. This significant event in the Group's strategic development [number 3.1 on the table] had resulted in a modified organizational structure based on 'regional groups', each with its own product divisions [number 3.2 on the table]. The 'team of assessors' had pointed out that there was a need for a central department which would co-ordinate the planning efforts of the regional groups and would facilitate the flow of strategically-significant information between the centre and the operating units. This information could be used by the Chairman, Managing Director and other senior executives in their evaluation of divisional strategies.

7.3.2 Situational factors associated with the existing role of planning and responsibilities of the Corporate Planning Department

7.3.2.1 Salient features

The 'International Planning Department' provides:

- a central information service, monitoring external developments of strategic significance. This information is subsequently passed on to the regional/divisional planning departments in order to provide a common set of assumptions for the development of their plans. It is also used by senior corporate directors in their evaluation of divisional strategies and development of new strategic options;

- the central planning staff co-ordinate the planning activities of the divisions, devise the planning forms which are compiled by the divisions, evaluate and consolidate these for subsequent presentation to senior management. They therefore perform an 'integrating' task by systematizing the flow of information between the centre and the operating companies;

- since the appointment of a new 'Planning Director' in December 1980, an attempt has been made by the new Planning Director to use the planning process for the 'actual' formulation and evaluation of Group and divisional strategies instead of the sole 'provision of an information centre'. More frequent meetings have now been incorporated into the planning process (between senior corporate and divisional executives) in order to discuss the viability of various 'strategic options' prior to the formulation of the 'five-year rolling plans'.

7.3.2.2 Influence of situational factors

- According to the International Planning Co-ordinator (interview August 1980) there is a need for a 'central information department' due to the Company's involvement in different product sectors (confectionery, soft drinks, tea and foods, health and chemical products, wines and spirits) and its active participation in various geographic regions.

This diverse product/market portfolio, as portrayed by the Group's strategic development [number 3.1 on the table] implies that senior corporate management need to be provided with strategically-relevant information on the activities of the product divisions and regional groups [number 3.3 on the table]. This information is provided through the five-year rolling plans and more recently through the strategy discussion documents which are prepared by the divisions and evaluated by the central planning staff.

- Moreover, the Group is organized on decentralized lines and each division/regional group is managed on an autonomous basis [number 3.2 on the table]. This also emphasizes the need for discussion of strategic issues between the centre and the divisions.

- According to the 'International Planning Co-ordinator' [interview August 1980] one of the reasons which prompted the Group Managing Director to take a more active part in the formal planning activity was the recognition that its businesses are active in stable but mature product/market sectors [number 2.4 on the table]. There is therefore a critical need to review the future prospects of each business, discuss the strategic intentions of the divisions and define a strategic posture likely to enhance its future growth potential.

7.3.3 Situational factors associated with the structure and organization of the Planning Department

7.3.3.1 Salient features

- The 'International Planning Department' is responsible for managing and co-ordinating the formal planning activity. It is located at the Group Headquarters, has six full-time staff, headed by the 'International Planning Co-ordinator' who reports to the 'Planning Director'.

- The 'Planning Director' reports to the Group Managing Director, although he is not a member of the 'Main Board'.

- Each division also has its own planning department mainly responsible for market research and market planning, in addition to co-ordinating the divisional planning effort.

7.3.3.2 Influence of situational factors

- Although the 'Planning Director' reports to the 'Group Managing Director', he is not a member of the Main Board and major corporate committees. This is mainly because of the attitude of senior directors, particularly the Managing Director who in the first instance was not favourably disposed toward formal planning (number 3.3 on the table). After the appointment of a new 'Planning Director', he has displayed a greater degree of commitment toward the adoption of a systematic approach for formulating and evaluating Group and divisional strategies. Because of the changing status of formal planning, the 'Planning Director' is likely to be appointed to the Main Board in the near future.

- Due to the Group's decentralized organizational structure, the large size and autonomous nature of its divisions [number 3.2 on the table], each division has a separate planning department. The divisional planning staff undertake a variety of tasks ranging from market research to co-ordinating the formulation of the five-year rolling plans.

7.3.4 <u>Situational factors associated with the 'types of written plans' and their time-horizon</u>

7.3.4.1 <u>Salient features</u>

- A set of macro-environmental assumptions are sent out to the divisional planning departments before the preparation of their five-year plans. These provide an indication of likely future developments over a five-year period.

- In addition to the annual budgets, each division also prepares a 'five-year rolling plan' incorporating their future prospects, strategic intentions and specific action plans.

7.3.4.2 Influence of situational factors

- One of the main tasks associated with the formal planning activity is the provision of strategically-significant information on the business environment and activities of the divisions/regional groups. This information is generated systematically through the divisional five-year plans. These are subsequently used by senior corporate executives in order to evaluate the divisional strategies and to provide a basis for discussing strategic issues.

7.3.5 Situational factors associated with the 'planning process'

7.3.5.1 Salient features

- The 'revised planning process' which became operationalized in January 1981 incorporates a a larger number of meetings between senior corporate and divisional executives and their planning staff. It comprises the following stages:

  i) identification of detailed strategic issues by the senior management of the divisions [January-February] followed by meetings with the Group Managing Director and senior planning staff;

  ii) alternative ranges of strategies are subsequently developed by the senior management of the divisions. These are discussed in a number of meetings with the Group Managing Director in May in order to reach agreement on a preferred strategy;

iii) five-year plans are developed by the divisions and submitted to the 'International Planning Department' by mid-July;

iv) these are evaluated by the central planning staff and subsequently discussed in corporate committees between senior corporate and divisional executives. These provide a basis for the development and appraisal of Group and divisional strategies in the context of which resource requirements can be evaluated.

7.3.5.2 Influence of situational factors

- The 'planning process' was revised after the appointment of the new Planning Director, because the previous process did not involve frequent discussion of strategic issues by the senior corporate and divisional staff. The new Planning Director considered this to be a major benefit of a formal planning process, especially in a Group as large as Cadbury/Schweppes, with a decentralized organizational structure and autonomous divisions [number 3.2 on the table]. The revised planning process was therefore directed toward enhancing communication and discussion of strategic issues between the centre and the divisions.

Table 9 Nature of interrelationship between Cadbury/Schweppes' situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic Factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development											✓	✓	✓	✓		
Existing role and functions of planning									✓		✓	✓	✓			
Organization and structure of planning departments												✓	✓			
Types of plans																role of planning. senior management's need for info.
Planning process												✓				enhance communication & discussion between corp. &

Chapter 8

CASE STUDY IV : L.C.P. HOLDINGS

L.C.P. Holdings is an industrial holding company with an annual turnover in excess of £150 million. The Group is active in a variety of business sectors ranging from construction and management of industrial trading estates to motor vehicle distribution, engineering and metals manufacture.

Formed in 1960 after the merger of three solid fuel distributors, the Group has expanded its portfolio in the West Midlands region through a number of acquisitions. During the last three years, it has embarked upon a programme of geographic diversification in France and the United States.

8.1 Situational setting

8.1.1 Historical development of the Company

L.C.P. Holdings was formed as a private company in 1960 through a merger between three 'solid fuel distributors' in the West Midlands region [Lunt Bros. Ltd, Alexander Comley Ltd and Pitt Ltd]. Although all three companies were principally involved in solid fuel distribution, each had smaller interests in other fields. It was as a result of expansion of these interests that the Group diversified into engineering, construction and development [Boden 1977].

During the 1960s and 1970s, it embarked upon a series of acquisitions which transformed it from a small distributor of solid fuel in the West Midlands, to an industrial holding company whose business portfolio includes such diverse activities as construction and property management, engineering and vehicle distribution. Whereas in 1966, the total assets of the Group were worth £3 million, this had increased to £10 million by 1971 and to £25 million by 1976. By 1978, it had grown to such an extent that its turnover exceeded £140 million.

During the early 1960s, the senior management of the Group had reckoned that with the reduced significance of coal as a major fuel and the increasing use which was being made of oil and electricity, the market for solid fuel was likely to contract sharply. This assessment had therefore prompted a close examination of suitable diversification ventures which could reduce its dependence on a mature sector and generate further growth opportunities [interview with the Group Chairman, Mr D Rhead June 1979].

L.C.P. Holdings owned extensive industrial land in the heart of the West Midlands which was used as storage depots for its solid fuel business. Expansion of their property interests appeared to be a logical extension of their rather limited range of activities. They therefore acquired extensive land and property interests in 1963, which was consolidated further with the addition of a local group of construction companies in 1964. This partnership [between its 'construction' and 'trading estate' businesses] was to prove increasingly effective in the development of its Midland-based 'industrial' trading estates, especially during the 1960s when the region with its road and rail links became the heartland of the manufacturing sector. In fact even today, the Company's industrial trading estates are regarded as one of its most consistent profit-makers and a sound investment during inflationary periods [interview with the Group Chairman, March 1980].

The next phase of its diversification strategy was embarked upon in 1969, when L.C.P. Holdings acquired a 'motor components manufacturer'. This was considered a wise move, since the Midlands was highly dependent on the motor industry. It is estimated that about one in seven of all jobs in the region was in the car assembly and component supply sectors [Boden 1977: 46], although this portion is being substantially reduced due to the contraction of the car industry during the latter part of the 1970s and early 1980s.

During the late 1960s however, the motor industry was going through an expansionary phase and diversification into this sector was considered to be an opportunistic response [interview with Group Chairman, June 1979]. L.C.P. became a 'public' company in 1969 and the additional funds which were generated were used during the acquisition spree of the 1970s.

In accordance with its intended strategy of expansion into activities which were directly linked to the industrial base of the Midlands, L.C.P. acquired a large 'motor distributor' [P.J. Evans] in 1971 whose various outlets covered the entire region. This acquisition increased the Company's overall turnover considerably [from £37 million in 1970 to £49 million in 1972], although during the latter half of the decade, the wisdom of this move was somewhat questioned, as the U.K. motor industry contracted sharply and the recessions of the mid-1970s and early 1980s, through their impact on the consumers' purchasing power, reduced the motor distributors' profit margins considerably.

The Company's links with the motor industry were strengthened further in 1972 when it embarked upon a series of acquisitions, including a producer of steel tubes and bars [Longmore Bros.] and a 'components' manufacturer, specializing in seat trim and high-frequency welding for the motor industry [Auto Assemblies Ltd].

The 1973 boom in property prices resulted in the extension of the Group's property and construction interests. Subsequently it acquired a chain of 'architectural hardware' outlets which complemented its 'construction' portfolio through forward integration into distribution. Its 'motor distribution' and 'construction' activities were further consolidated by a number of small additions during the 1974-1976 period.

The major strategic landmark of the mid-1970s however, was the acquisition of a chain of Midland-based 'DIY' centres in response to the increasing trend toward home improvement. This proved to be a huge success while it lasted but the increasing participation of large supermarket chains in this business resulted in a re-appraisal of its future potential. The 'DIY' centres were finally disposed of in 1977 and the Group concentrated instead on 'overseas expansion'. This was considered essential due to the relative contraction of industrial activity in the West Midlands, sharp decline in motor industry's profitability and subsequent production levels and gloomy prospects for the U.K. economy as a whole. Since L.C.P.'s businesses were mainly in the Midlands region, overseas expansion was considered to be a vital strategic move [interview with the Group Chairman, June 1979].

Its first overseas venture involved the acquisition of a 'garden tools distribution outlet' in France. This was not however, the consequence of a systematic search process. The French owner of this company was acquainted with L.C.P.'s Chairman and provided the main impetus for the conclusion of the agreement.

During the 1978-1979 period, L.C.P. consciously pursued its strategy of 'overseas expansion' having embarked upon two major acquisitions which included:

- 70% of the equity of a French manufacturer and distributor of drills and fasteners and related products for the professional and DIY trades;

- 12.9% of the equity of a retail automotive chain in the U.S. [Whitlock Corporation] which markets replacement parts and accessories for DIY customers through 50 large superstore outlets.

These acquisitions have provided the Company with major footholds in Europe and North America in addition to offering considerable growth opportunities. They have also signalled the beginning of a strategic move away from the troublesome 'manufacturing' sector, which has resulted in the disposal of a number of the Group's engineering subsidiaries which supplied the motor industry.

During the past year, its resources have been directed toward those of its businesses considered most likely to generate further growth, namely its 'overseas' and 'property' portfolio. In addition, it has invested heavily in its coal-distribution facilities, which have become strategically significant due to energy shortages and search for alternative fuel supplies.

Its mainstream operations can therefore be categorized into three sectors:

1) property: the development, construction and management of industrial trading estates and commercial property;

2) manufacturing:
   i) the production of steel bars and tubes
   ii) the manufacture of building bricks

3) distribution:
   i) vehicle distribution, hire and leasing

ii) the distribution of home improvement, gardening and DIY products [mainly in France]

iii) the distribution of automotive components and replacement parts [mainly in the U.S.]

iv) the distribution of solid fuel and metallurgical coke.

8.1.2 Characteristics of the firm's 'industry' environment

One of L.C.P.'s distinguishing features is that its operations are strongly based in the West Midlands region. The adoption of a conscious strategy of geographic concentration was originally intended to maximize the Group's evident strengths which included its close relationship with the local industry and industrialists [interview with the Group Chairman, June 1979].

As indicated in Section 8.1.1, L.C.P. expanded its activities and established a diversified business portfolio through a number of acquisitions in the 1960s and 1970s. Key personalities, occupying prominent managerial positions within the Company have been able to play a decisive role in determining its overall strategic posture.

L.C.P.'s activities can be categorized into three distinctive sectors:

8.1.2.1 Property and construction

These are closely related to one another, the former consists of trading estate proprietors and industrial and commercial property developers, whereas the latter businesses comprise building and civil engineering contractors. Due to their concentration in the West Midlands region, Government policies influencing local industry and demand for industrial and commercial buildings are closely monitored. For example, the National Exhibition Centre generated new demand for office and hotel facilities in the region and this boosted the Group's scope of operations. It represented a significant step in the direction of encouraging the growth of service industries in the West Midlands [Boden 1977].

The contraction in the motor industry however, has resulted in the decline of the components manufacturing sector which has traditionally been associated with the region; consequently the level of demand for factory and plant space in this sector of the business has deteriorated considerably.

The operating environment of this sector is influenced by the following factors:

- level of industrial activity and its subsequent impact on the demand for commercial and industrial property;
- level of local government expenditure on major building projects including council houses, recreation centres, schools, etc.;
- macro-economic indicators such as the level of interest rates, inflation rate, etc.

The property and construction sector is subject to intense competition, although the Group's trading estate operations have been consolidated and enjoy the benefits associated with a sound reputation. This is of crucial importance in an industry where the nature and type of 'customer contact' plays a significant part in determining the level of business activity.

The market for trading estates is stable and offers the potential for considerable growth. Its customers range from small businesses to large concerns, eager to establish manufacturing or distribution bases in the region.

8.1.2.2 The manufacturing operations

These comprise: the manufacture and distribution of steel and steel bars, building bricks and fire bricks. Due to the general decline of the motor industry, the Group has recently divested of its automotive components operations and intends to restrict its manufacturing activity to the production of steel bars and building bricks. Consequently the general level of demand for metal products and the level of construction activity influence the performance of its manufacturing units and the level of demand for their products.

This sector is subject to an intense level of competition and success is closely associated with price competitiveness as well as specializing in a narrow range of products. Capital investment is required on a periodic basis mainly for the installation of new machinery and expansion of plant facilities. Availability of steel is crucial for the continued operation of the metal manufacturing units, which was adversely affected by the 'steel strike' of 1980. This sector is not earmarked for future expansion since its potential for growth is fairly limited.

8.1.2.3 <u>The distribution operations</u>

These comprise:

- vehicle distribution and hire
- distribution of home improvement, gardening and DIY products in France
- distribution of solid fuel and metallurgical coke
- distribution of vehicle components and spare parts mainly in the United States.

These businesses operate in distincly different operating environments, especially due to their participation in different geographical markets.

The motor distribution sector is influenced by the cost and availability of finance affecting the customers' purchasing power. In addition, the range of models offered by the manufacturer and their timely delivery are also regarded as important considerations.

L.C.P. originally diversified its business portfolio due to the decline in the use of coal as a major source of energy and its substitution by oil and gas in the 1960s. Recently however, due to the escalating cost and relative scarcity of oil, the Group is expanding its coal distribution depots and considers this to be a major growth area for the future. Its products are sold to large industrial users; consequently the level of industrial activity, cost and availability of alternative energy sources and the position of the U.K. coal industry are regarded as important considerations.

The French and American operations have been recent additions to the Group's portfolio and are expected to provide significant growth potential in the future. Their acquisition represents the Group's conscious strategy of geographic diversification, considered essential due to the deteriorating position of the U.K. economy in general and the manufacturing sector in particular.

L.C.P.'s business portfolio comprises activities which are closely linked to the Midlands industry and offer varying growth prospects. Recently the Group has embarked upon a conscious strategy of expanding its more profitable U.K. operations, such as trading estates and property and extending its overseas businesses in order to secure a higher level of return on its invested capital.

8.1.3 <u>Organizational structure</u>

L.C.P. expanded its portfolio by acquiring small, owner-managed companies and often integrating them into the overall management structure. The operating companies have been granted a great deal of autonomy and have complete control in the management of their businesses. At present the Group is organized on the basis of seven divisions which represent its different streams of activity. Each division is composed of a number of subsidiary companies which are managed by their own management boards, headed by a chairman, who is the divisional representative on the Main Board and major policy committees at the Group level.

These divisions are:

1) The Construction Division which comprises five subsidiary companies:

- building and civil engineering contractors [3]
- plant hire specialists [1]
- building and fire brick manufacturers [1]

2) The Distribution Division which has eight subsidiary companies:

- solid fuel distributors [3]
- builders' merchants [2]
- architectural hardware distributors [1]
- manufacturers of industrial gloves and distributors of protective clothing [1]

- distributors of building insulation materials [1]

3) The Engineering Division comprises five companies:

- metal pressings and fabrications [1]
- specialized small wheel, trolley and [1]
  auto accessory manufacturer [to be sold during 1981] [1]
- manufacturer of trimmed and diathermic welded products [1]
- metal finishings [1]

4) The Metals Division comprising four subsidiaries:

- manufacturers of steel tubes and bright drawn bars [1]
- stainless steel stockholders, metal merchants and foundry coke distributors [1]
- manufacturers of stainless steel flanges and fittings [1]
- steel processors and distributors [1]

5) The Property Division comprises three companies operating as trading estate proprietors and industrial and commercial property developers

6) The Vehicle Distribution Division comprising fifteen subsidiaries engaged in the distribution and sale of cars and trucks, car repairs, vehicle leasing and contract hire

7) The Overseas Division comprising three subsidiary companies operating in France, Belgium and the U.S.:

- Belgian-based distributors of garden equipment and hand tools

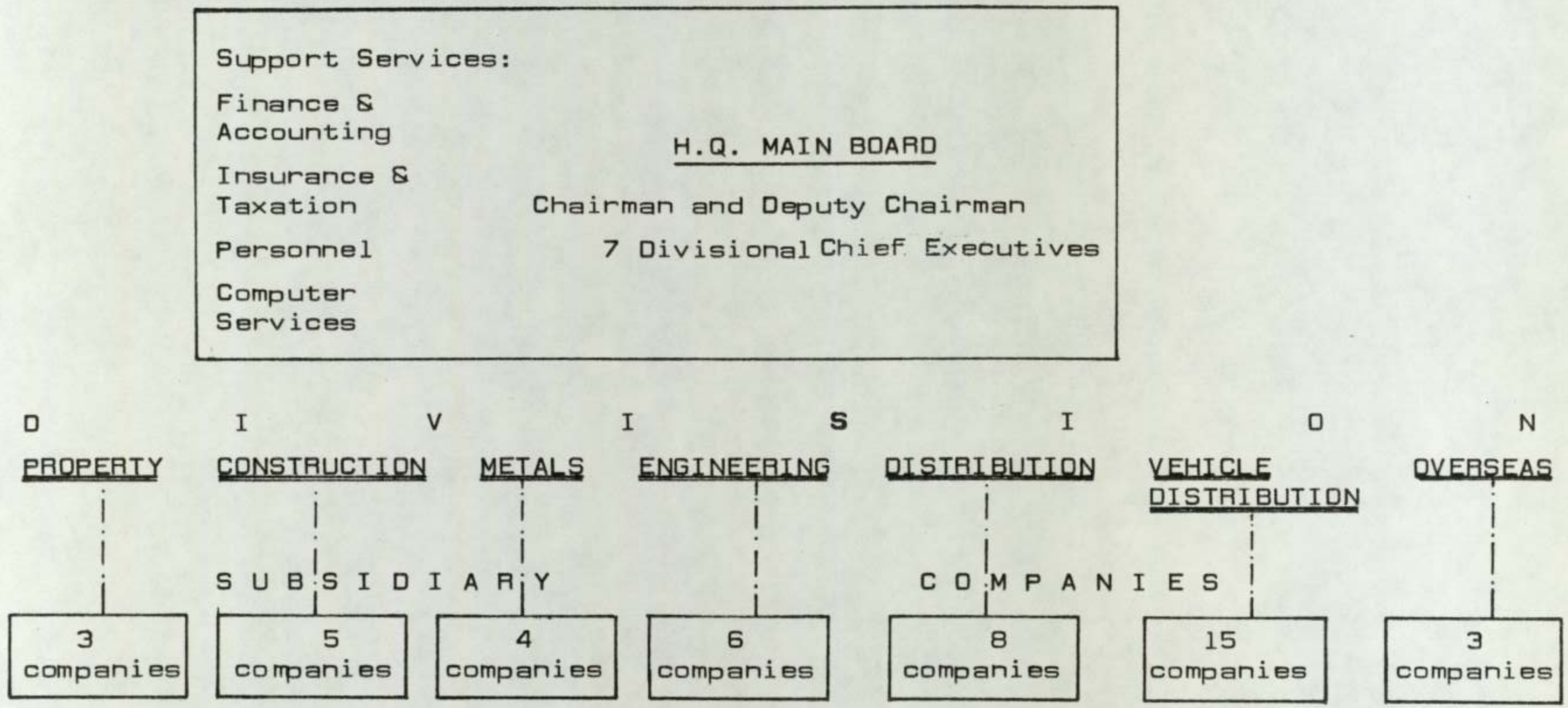
- U.S.-based distributors of automotive replacement parts.

Figure 32 illustrates the Company's organizational structure and the reporting relationship between various hierarchical levels.

Since each Company is managed on an independent and autonomous basis by its own functionally-organized management board, the range of services provided by the Central Headquarters is kept to a minimum. These include:

- Group Finance and Accounting Department
- Group Secretary
- Group Insurance Services
- Secretarial services such as pensions
- Group computer services
- Group Personnel Department
- Market Research and Corporate Planning Department.

According to the Group Chairman (interview, March 1980) lines of communication between the Group H.Q. and the subsidiary companies are short, open and free of bureaucratic procedures. This ensures that decisions are taken promptly without unnecessary delay,reducing the need for an extensive range of services at the Group level.



Each company is managed by its own Board of Directors, headed by a Chief Executive

Figure 32 <u>L.C.P.'s organizational structure</u>

8.1.4 Characteristics of senior management

L.C.P. expanded its business during the 1960s and 1970s by acquiring small, owner-managed, Midland-based businesses. These owners retained a large share-holding in the Company and often became one of its senior executives, heading the division into which their businesses were being integrated.

Senior executives of the Company are all members of the Main Board and corporate committees. These comprise the Group Chairman and the chairmen of the six divisions.

David Rhead, the Group Chairman, joined L.C.P. in 1964 after the acquisition of J. Hickman & Sons, the construction company of which he was the Chief Accountant and Financial Director. He became the Financial Director of L.C.P. Holdings and its Chairman in 1969.

The divisional chairmen joined the company after their businesses were acquired by L.C.P. Table 10 provides an indication of their financial stake in the Company at 31 March 1978:

Table 10 The financial stake of senior directors	Ordinary shares
D M Rhead (Group Chairman & Chairman of Overseas Division)	17,850
L A Maybury (Chairman: Distribution)	100,320
M H Craddock (Engineering Division)	18,010
P F Green (Car Distribution)	15,000
S J L Mann (Metals Division)	13,400
G J T Richards (Construction & Property)	4,846

Source: Annual Report 1978: 7

The Group Chairman has the overall responsibility for the development of the Company's longer-term strategy and is the Chairman of the newly-formed 'Overseas Division' which is earmarked for future expansion.

The chairmen of the divisions retain overall responsibility for the management of the subsidiary companies which comprise their divisions. Their membership of the Main Board and policy making committees facilitates communication between the centre and the divisions and provides a forum for the discussion of issues of strategic importance.

8.1.5 The firm's performance

The volume of L.C.P.'s business has increased considerably over the last ten years; its total sales has reached £140 million by 1978 [from just under £39 million in 1968], whereas its total profits had increased from £750,000 in 1968 to £6 million in 1978 [see Figures 33 and 34]. This increase can largely be attributed to its programme of 'acquisitive expansion' over this period as indicated in Section 8.1.

The 'Property Division' is the largest single contributor to Group profits [see Figure 36]. This, combined with its attractive potential for growth has ensured its future expansion. The 'Engineering Division' by contrast has been a volatile performer and has suffered from the decline of the Midland-based motor industry during the latter half of the 1970s. This has led to a gradual divestment of L.C.P.'s engineering business, which according to the Group Chairman [interview March 1980] is its most vulnerable business.

The 'Vehicle Distribution Division' is the second largest profit generator for the Group, ranking second [after the Distribution Division] with regard to its volume of sales.

According to the Chairman [interview March 1980] three of L.C.P.'s mainstream businesses are earmarked for further expansion:

- property and trading estate development
- overseas portfolio

- coal distribution.

It is generally recognized that the vehicle distribution business in the U.K. is likely to remain stagnant for a foreseeable future and that the Metals Division ought to specialize in a specific range of products if it is to remain competitive.

Figure 33 Growth of total sales: L.C.P. Holdings 1968-1978

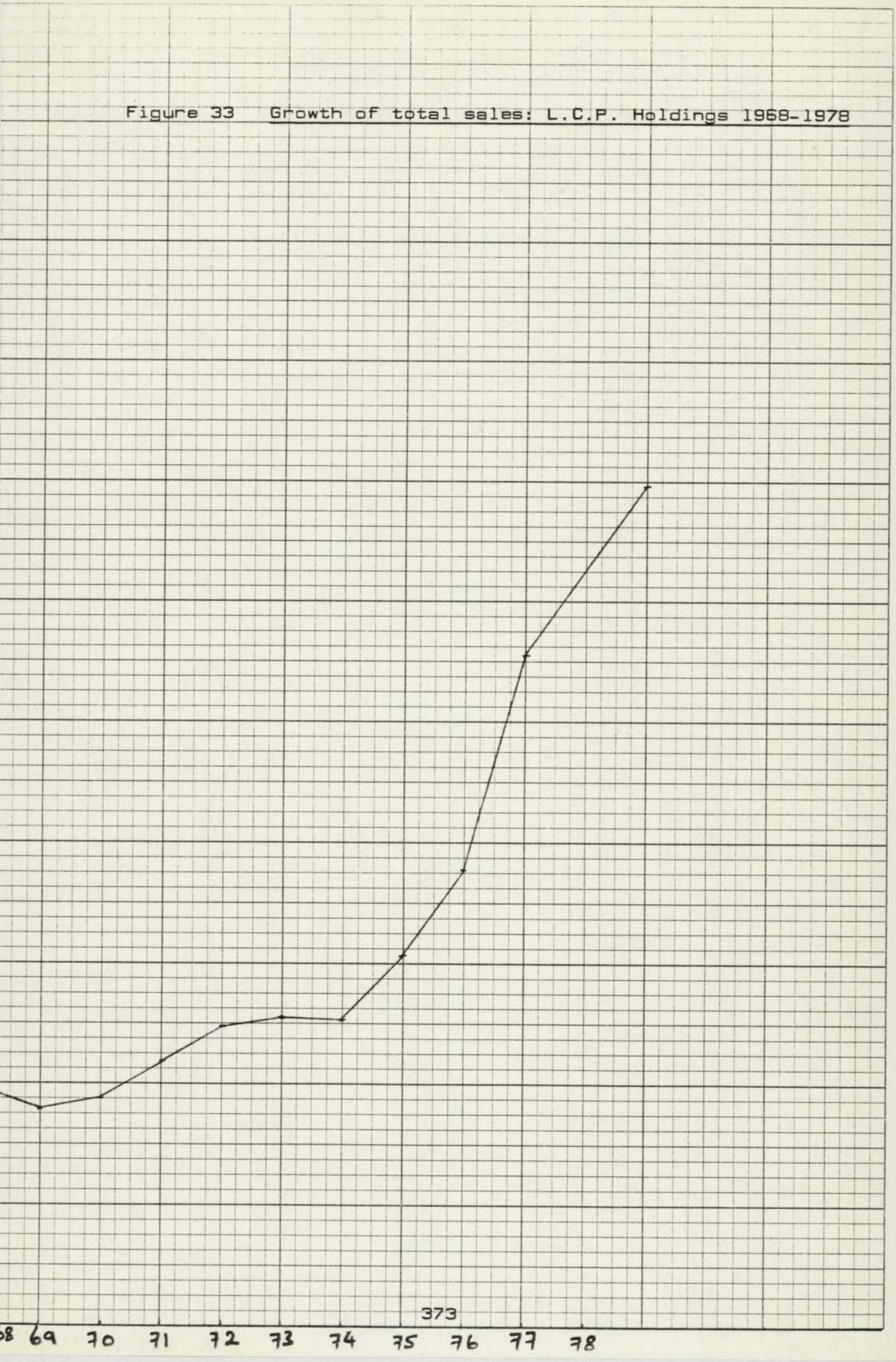


Figure 34 Total Group profits [before tax]: L.C.P. Holdings 1968-1978

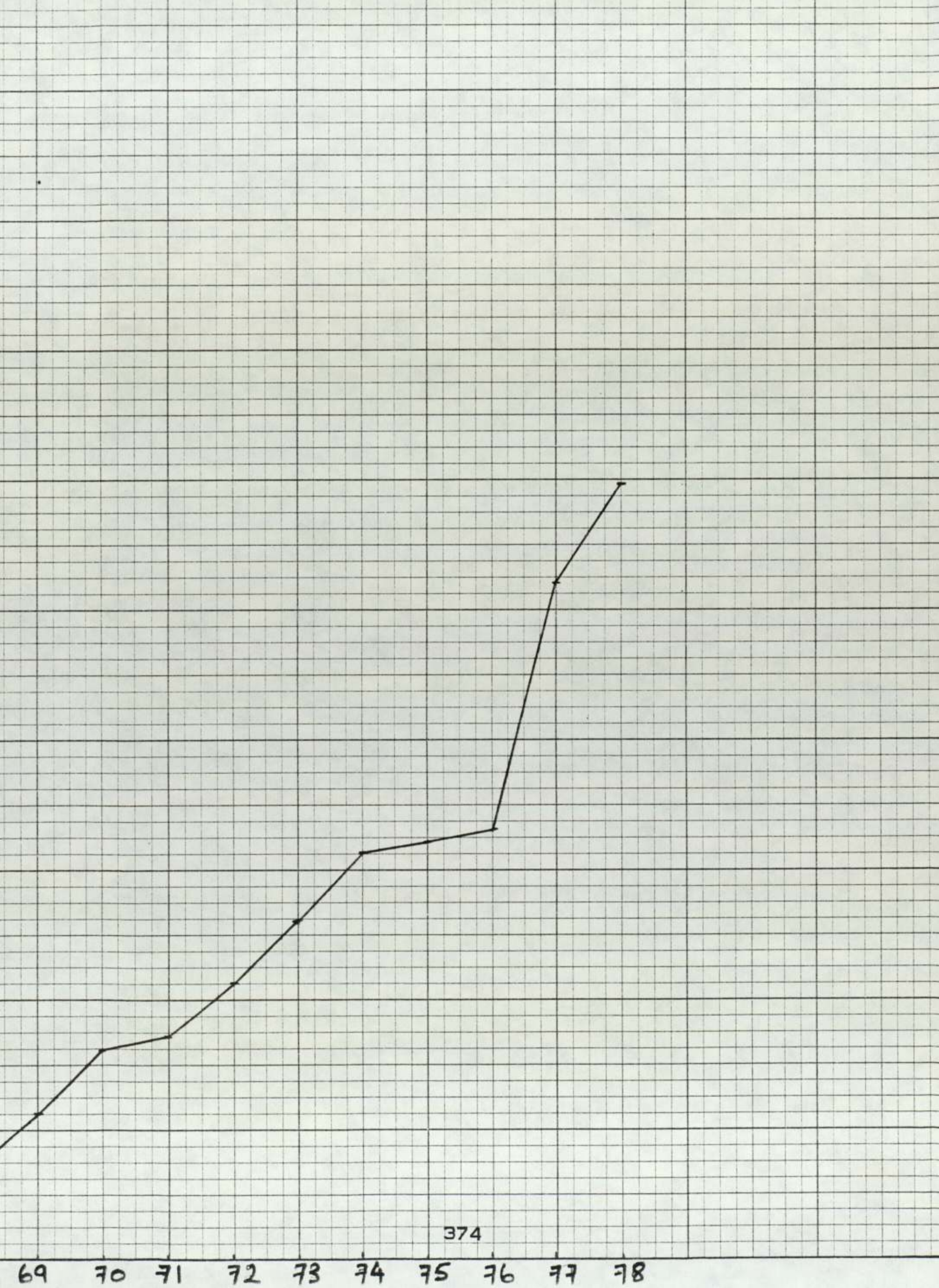
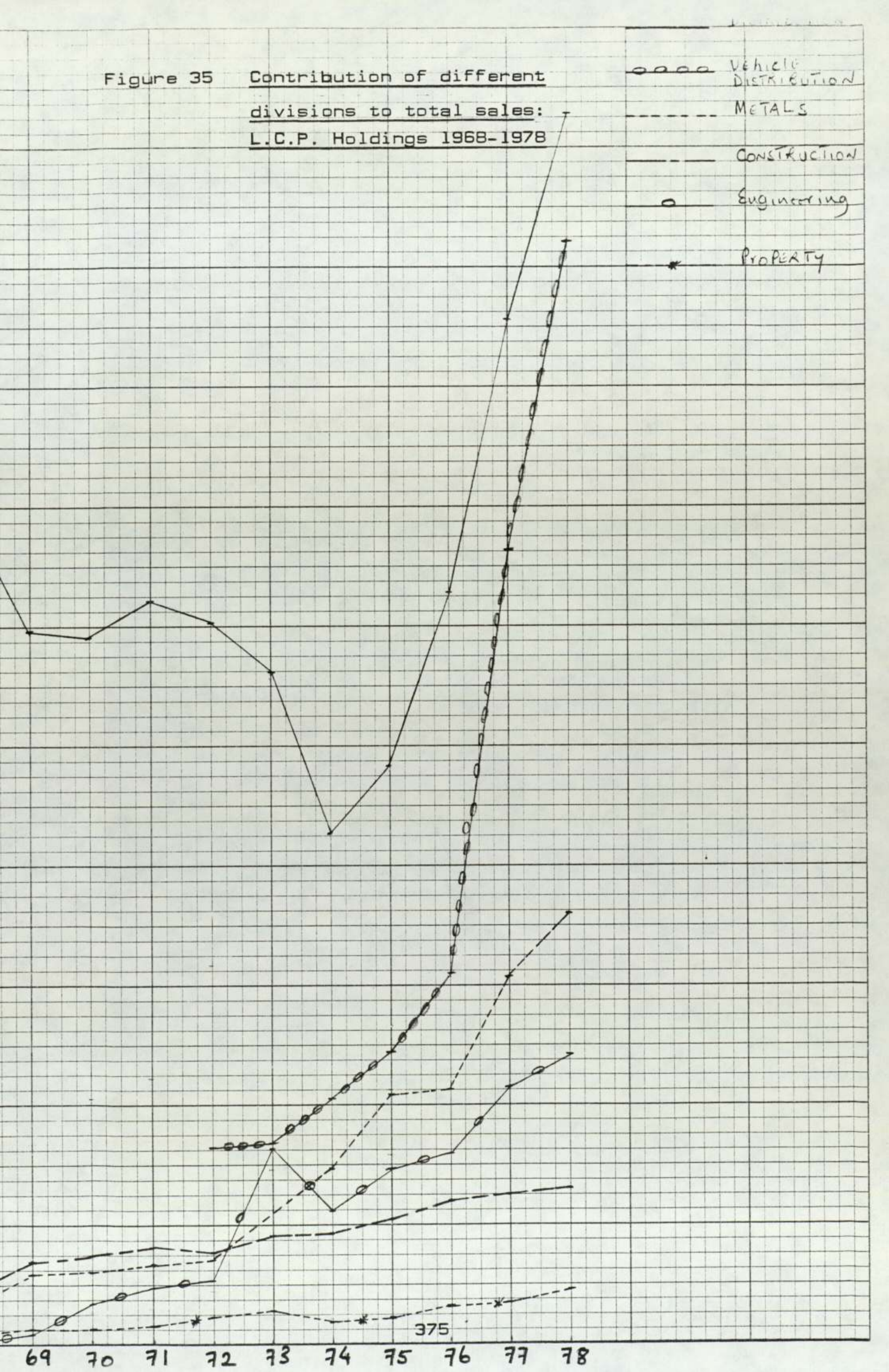


Figure 35 Contribution of different divisions to total sales: L.C.P. Holdings 1968-1978



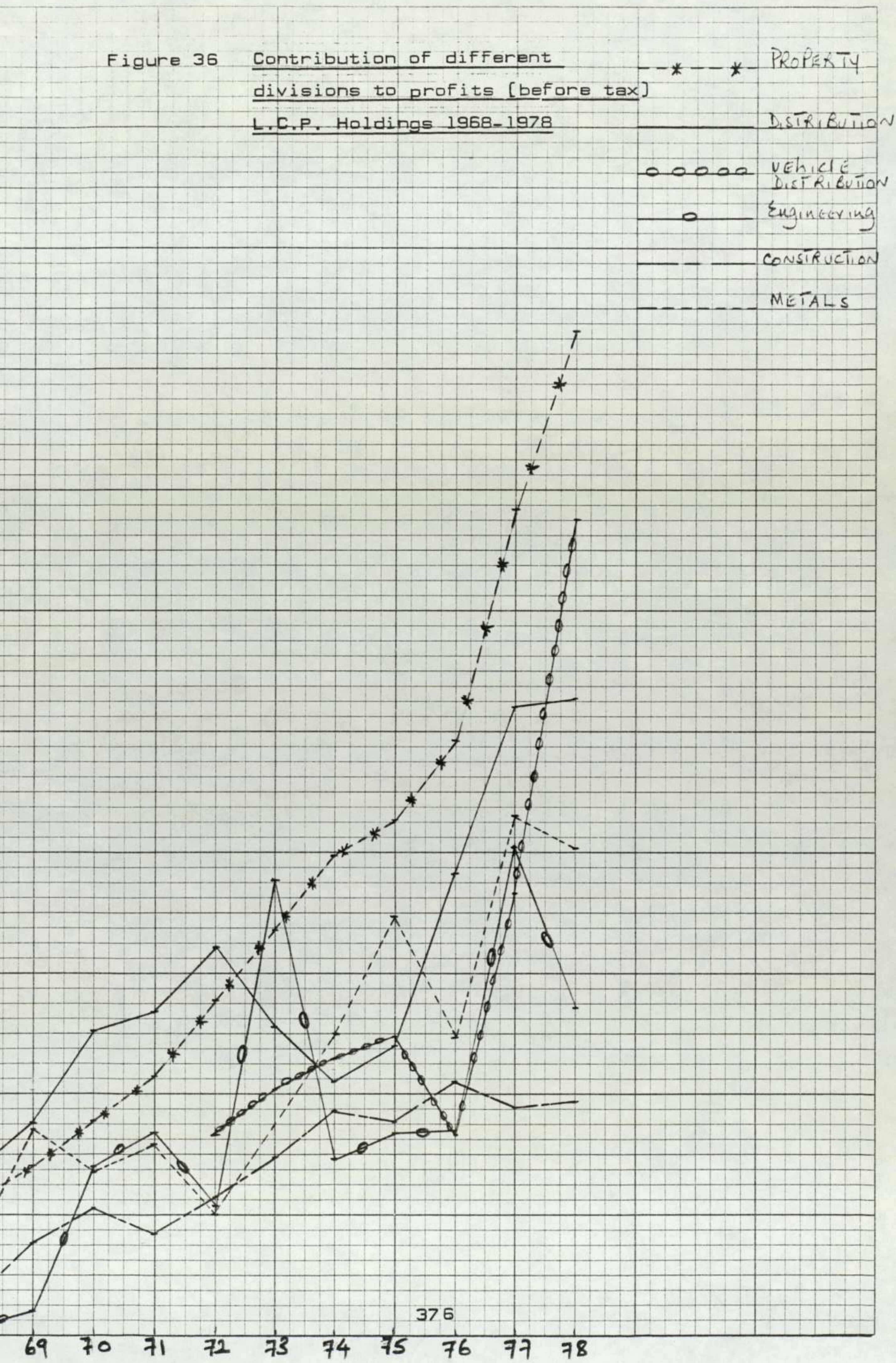


Figure 36 Contribution of different divisions to profits [before tax] L.C.P. Holdings 1968-1978
PROPERTY
DISTRIBUTION
VEHICLE DISTRIBUTION
Engineering
CONSTRUCTION
METALS
69
70
71
72
73
74
75
76
77
78

8.1.6 Co-ordination and control mechanisms

L.C.P. is managed as an industrial holding company. The centre is in charge of developing the Group's overall strategy and ensuring its implementation through the allocation of resources; the subsidiary companies are given complete autonomy for the management of their operations.

Inter-divisional business transactions are co-ordinated by the managers of the operating units. However, since all the divisional chief executives are members of the Main Board and major policy committees, they have the opportunity to discuss issues of mutual concern during the course of these meetings.

Central control over the strategic direction of the divisions is exercised through the 'resource allocation' process and by monitoring their financial performance. Apart from annual budgets which specify their working capital requirements, every division prepares a 'three-year capital budget' outlining its major capital expenditure programmes and projected financial performance. These are reviewed by the 'Central Finance Department' and subsequently discussed by all the senior directors in the meetings of the 'Finance Committee'. During the course of these discussions, the proposals are appraised in the context of the Group's strategic priorities and are eventually approved/rejected. Financial planning and the formulation of capital budgets constitute an integral part of the Group's forward planning system, as indicated in the ensuing section.

8.2 Corporate planning system

8.2.1 Initial development

L.C.P. Holdings has had a formal system of financial planning since the early 1970s when the acquisition of a number of companies, particularly the motor distribution company P.J. Evans and the steel-making operations of 'Longmore Bros.' had enlarged its scope of activities, necessitating the presentation of three-year capital budgets (up-dated on an annual basis) by its operating companies. This system is still in use today and constitutes the core of its formal planning system.

In 1978, the Chairman and other senior directors (i.e. chief executives of the business groups) recognized the need for developing a coherent strategy which would reduce the Group's sole dependence on its traditional U.K.-based businesses. The Group subsequently embarked upon a programme of overseas expansion mainly by way of acquisition, although personal contact between the Chairman and owners of the acquired businesses (such as the French garden tools distribution chain) proved to be crucial during the negotiations (interview with Group Chairman June 1979). During this period a 'Planning Manager' was appointed in order to assist the Chairman in his search for overseas acquisition opportunities, monitoring strategically-significant developments and evaluating alternative strategic options. However, he fulfils the role of an 'assistant to the Chairman' rather than a Planning Manager appointed to co-ordinate the planning effort and devise a formal planning system which would take account of strategic considerations.

8.2.2 Role of planning

The financial planning system is used to control the strategic direction of the operating companies through the resource allocation process, providing the centre with the means to monitor their performance. When the Chairman was asked whether a more formal evaluation of strategic considerations would be advisable, he expressed the opinion that the Group did not need a formal 'strategic planning system', at least not for the time being [interview with Group Chairman June 1979]. This assessment was based on the following arguments:

- the Group is relatively small compared with companies such as Dunlop, Lucas and BL;

- its operating companies are mainly active in the West Midlands region of the U.K.;

- lines of communication between the centre and the operating companies are short with a minimum of paperwork [the Group Head Office is located in the Pensnett Trading Estate, the site of its coal distribution and property companies and within close geographic proximity of its other businesses]. The Chairman was at pains to emphasize his dislike of bureaucracy and unnecessary paperwork which would make it more difficult to make decisions quickly in response to unanticipated events [interview with Group Chairman June 1979];

- the Company has 'entrepreneurial' managers; the chief executives of all the main business groups joined L.C.P. after the acquisition of their companies by the Group [interview with Group Chairman March 1980, interview with Chief Executive of the Steels Company November 1979].

The appointment of a 'Planning Manager' did not therefore signal the beginning of a formal approach to strategy development, although the Chairman readily admitted that if the Group's overseas acquisition programme were to result in a considerable enlargement of its geographic and business portfolio, an ad-hoc and personalized style of strategic management would not be sufficient. In such circumstances, the establishment of a formal strategic planning system would become a strong possibility [interview with Group Chairman March 1980]. At present, the Chairman is in charge of co-ordinating the Group's strategic programmes, although he uses the supporting services of the Planning Manager.

L.C.P.'s entrepreneurial style of management, its limited geographic diversity, autonomous operating companies and open lines of communication have influenced the adoption of a financial planning system which is used to monitor the performance of its operating companies and evaluate their capital expenditure proposals.

8.2.3 Structure and organization of the Planning Department

The 'Planning Manager' assists the Chairman in his search for suitable diversification/expansion opportunities. He reports to the Chairman and works in close liaison with members of the 'Central Finance Department' who are responsible for evaluating the divisional capital expenditure proposals and monitoring their performance.

There are no planning departments at the divisions; members of the divisional 'finance departments' are responsible for co-ordinating the formulation of their capital budgets for subsequent submission to the centre.

8.2.4 Types of plans and the planning process

Every operating company is responsible for initiating its own strategic proposals which are discussed in the Main Board and corporate committees. The formal planning activity involves preparation of three-year 'capital budgets' [in addition to the annual budgets which specify the companies' working capital requirements] which provide an assessment of their 'projected' financial performance [sales, profits, cash flow] and their capital expenditure proposals. These are prepared by the 'finance directors' of all the operating companies, reviewed by their respective boards and finally approved by the Chief Executive in charge of the main business group [i.e. Construction, Property, Metals] before being formally passed on to the 'Group Finance Department', where they are reviewed and evaluated. The 'Planning Manager' also participates in this activity by assisting members of the

'Group Finance Department' evaluate the strategic implications of major capital expenditure proposals. These plans are generally sent back to the operating companies for further modification before the revised plans are discussed in a number of committee meetings presided over by the Chairman and comprising all the chief executives of the business groups. These capital budgets are subsequently used for the purpose of resource allocation.

8.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 11 depicts various situational factors which, according to the Group Chairman and Chairman and Finance Director of the 'Steel/Metals' Division, are likely to have influenced the development of the Company's corporate planning system [interviews June 1979, November 1979, March 1980].

8.3.1 Situational factors associated with the 'initial development' of a formal planning system

8.3.1.1 Salient features

- A formal system of financial planning and capital budgeting which is still in use today, was set up in 1971/2.

- This involves the preparation of three-year capital budgets by the divisions, outlining their capital expenditure proposals and projected financial performance.

8.3.1.2 Influence of situational factors

During the early 1970s, the pace of acquisition and expansion programmes which were embarked upon during the 1960s, gathered momentum. The Group diversified into 'motor distribution' and 'steel/metals' businesses by acquiring 'P.J. Evans' and 'Longmore Brothers' [number 3.1 on Table 11]. This enlarged and diversified business portfolio subsequently led to the adoption of a decentralized organizational structure with autonomous operating units [number 3.2 on the table]. The centre could therefore exercise its control over the divisions through the resource allocation process and monitor their performance by evaluating their financial plans [number 3.5 on the table]. The formal planning system was and still is considered to be a control mechanism [interview with the Group Chairman June 1979].

8.3.2 Situational factors associated with the 'existing role of planning' and 'specific responsibilities of the corporate planning department

8.3.2.1 Salient features

- The system of financial planning which was set up during the early 1970s, is still in use today. This involves the preparation of capital budgets by the divisions, providing the centre with the means to monitor their performance and to exercise a certain degree of control over their strategic direction through the resource allocation process.

- In 1978, a 'Planning Manager' was appointed in order to assist the Group Chairman search for suitable diversification/expansion opportunities, to monitor external developments of strategic significance, and to evaluate the potential impact of alternative options on the Group's future strategic direction.

8.3.2.2 Influence of situational factors

- The Group's existing operations are based in the Midlands region of the U.K.. The anticipated decline of the West Midlands as a major industrial region [number 2.4 on the table] has led the Group's senior directors and the Chairman in particular, to embark upon an overseas expansion strategy in order to reduce its dependence on a relatively mature geographic market and to enhance the Group's long-term growth opportunities. During the last two years, the Group has diversified its geographic sphere of activities by acquiring companies in France and the United States [number 3.1 on the table]. In addition, it has divested its engineering businesses which supplied the motor industry.

- The 'Planning Manager' was therefore appointed in order to assist the Chairman in his search for diversification/expansion opportunities. His appointment however, did not signal the adoption of a formal approach toward the development of a Group strategy. This is conducted in an ad-hoc and personalized manner by the Chairman and other senior directors, whose style of management can be characterized as 'entrepreneurial' [number 3.3 on the table]. Frequent meetings between the Chairman and chief executives of the divisions in addition to short lines of communication between the Group H.Q. and the divisions, ensures that strategic decisions can be taken quickly in response to specific developments. The Group Chairman was willing to admit however, that if the overseas expansion strategy were to enlarge the Group's geographic and business portfolio, there would be a need for the establishment of a formalized approach toward the formulation of a coherent Group strategy.

- The formal financial planning system is used to monitor the performance of the divisions and to control their strategic direction through the resource allocation process. The use of financial planning for control purposes is necessary because of the Group's decentralized and 'holding company' organizational structure and the degree of autonomy granted to the divisions [number 3.2 on the table]. The formal planning system is therefore an integral aspect of the Group's internal 'control mechanism' [number 3.5 on the table].

8.3.3 Situational factors associated with the structure and organization of the Planning Department

8.3.3.1 Salient features

- The 'Planning Manager' is an assistant to the Group Chairman, reporting directly to him.

- Members of the 'Central Finance Department' review the divisional capital budgets, reporting to the Group Finance Director and the Chairman.

- There are no separate planning departments at the divisions; divisional capital budgets are prepared by their 'finance departments' in close consultation with their chief executives and other senior directors.

8.3.3.2 Influence of situational factors

- The 'Planning Manager' assists the Chairman in his search for suitable strategic options. This however, has not resulted in the adoption of a formal approach for formulating the Group strategy. The entrepreneurial management style of the Group's senior directors [number 3.3 on the table] and short lines of communication between the centre and the divisions imply that this task can be undertaken in an informal manner by the Chairman and senior directors who meet frequently.

- Formal planning [i.e. capital budgeting] is used to monitor the performance of the divisions and to control their strategic direction through the resource allocation process. Since these budgets incorporate financial information, members of the 'Central Finance Department' are responsible for reviewing them.

- The relatively small size and restricted geographic scope of the operating units implies that no separate planning departments are required at the divisions. The capital budgets are prepared by the divisional finance departments.

8.3.4 Situational factors associated with the 'types of plans' and their time-horizon

8.3.4.1 Salient features

- Every division prepares an annual budget (outlining its working capital requirements and cash flow projections) and a three-year capital budget, which provides an indication of its capital expenditure plans and projected financial position during the period covered by the plan.

8.3.4.2 Influence of situational factors

- The written plans incorporate quantitative and financial information since they are used for monitoring the performance of the divisions and for resource allocation purposes.

- These plans are required for control purposes since the Group has a decentralized organizational structure and autonomous operating units [number 3.2 on the table]; senior directors [number 3.3 on the table] require the information incorporated in the plans in order to evaluate the divisional plans in the context of the Group's overall strategic priorities.

8.3.5 Situational factors associated with the 'planning process'

8.3.5.1 Salient features

- The divisional 'finance departments' prepare the capital budgets in conjunction with other departments such as sales and purchasing.

- These are subsequently discussed by members of the divisional boards and having been approved, are passed on to the 'Central Finance Department'.

- These are reviewed by members of the Central Finance Department and are sent back to the divisions for further modification [if necessary] before submission to the 'Central Finance Committee', whose members comprise the Chairman, the Finance Director and all the divisional chief executives.

- The divisional capital budgets are evaluated in the context of the Group's overall strategic priorities before approval/rejection by members of this committee.

8.3.5.2 Influence of situational factors

- A formal process for the development, evaluation and approval of the divisional plans is necessary in a Group with a decentralized organizational structure and autonomous operating units [number 3.2 on the table]. It provides the centre and senior directors with the opportunity to evaluate the merits of alternative proposals in a systematic manner.

Table 11 Nature of interrelationship between L.C.P.'s situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development											✓	✓			✓	
Existing role and functions of planning									✓		✓	✓	✓		✓	
Organization and structure of planning departments													✓			-role of planning -nature of the business of operating units -short lines of communication
Types of plans												✓	✓			
Planning process												✓				

Chapter 9

MINI CASE-STUDIES

This chapter describes the situational settings and corporate planning systems of ten companies. These are:

- Royal Dutch Shell
- Reed International
- Dunlop Holdings
- Lucas Industries
- Imperial Chemical Industries (ICI)
- Serck
- Redland
- Lex Service Group
- Albright & Wilson
- Chloride

Due to the limited number of interviews held with the planning managers of these companies (see Table 4), attention has been primarily focussed on their corporate planning systems and specific situational factors likely to have influenced their development.

Each mini case-study is in three sections. The first section provides a brief description of their situational settings; secondly their corporate planning systems are described on the basis of five dimensions (initial development, existing role of planning and specific responsibilities of their corporate planning departments, the organization and structure of their planning departments, types of plans formulated and the planning process); finally the nature of inter-relationships/association between situational factors and corporate planning systems is analysed.

9.1 Mini case-study I : The Royal Dutch Shell Group

9.1.1 Situational setting

The Royal Dutch Shell Group of companies are engaged in the various branches of oil and gas industry, chemicals, metals, coal and to a more limited extent, in nuclear energy. They handle 8% of the world's total oil and natural gas, are active in more than 100 countries and employ 160,000 people.

The Royal Dutch Shell Group was one of the earliest oil companies. It was formed by the amalgamation of two parent holding companies, one Dutch, the 'Royal Dutch Petroleum', the other British, 'Shell Transport and Trading Company'. The new company was formed in 1907 under the leadership of Henri Deterding. The Dutch were the senior partners in the new enterprise, due in large measure to the initiative of Deterding who dominated the Company until shortly before his death in 1939 [Channon 1973].

Until 1959, the Group was managed through two main operating companies, centred in London and The Hague, which held the shares in a number of subsidiaries operating throughout the world. The two central offices performed a co-ordinating role, provided policy recommendations and monitored the activities of the subsidiaries. Each had their own geographic spheres of interest and specialist functional responsibilities, although there was some duplication. According to Channon's account [1973: 115]:

> 'The growing complexities of rapid post-War expansion and the subsequent organizational confusion initially remained hidden by a complacency born of a sellers' market where mere possession of oil almost ensured profits'.

McKinsey & Company were brought in to re-organize the Group's European activities, particularly its central offices. Four new 'central service' companies were created out of the original two holding companies. Geographic regions were to operate autonomously within broad lines of central policy and liaison was to be maintained by newly-appointed regional co-ordinators. A separate 'Chemical' Division was set up with its own central service functions. There were seven managing directors, each responsible for a particular region and a function area; this was to ensure that each geographic region received the attention of a managing director who also had a global view of the operation through the supervision of a functional area [Channon 1973].

Until the latter half of the 1960s, the oil industry was still dominated by a few, large integrated concerns, when an increasing number of smaller and non-integrated companies entered the industry. Shell, which had been one of the earliest oil companies to invest in 'petrochemicals' after World War II, was one of the first to diversify away from oil, when it acquired a large Dutch metal and mining company in 1970. A 'New Ventures' Department was also set up highlighting the Group's efforts to search for new diversification opportunities.

The Oil Crisis of 1973 and the ensuing political and economic discontinuities emphasized the need for massive investment for the development of new oil and gas fields, such as the North Sea and Gulf of Mexico and provided additional impetus for the Group to embark upon diversification strategies which would reduce the Company's near total dependence on its traditional oil business. In pursuit of this strategy the Group has diversified into the 'coal sector' in Australia, consolidated its metals business (expanding in South America, Australia, Africa and the United States) and has become engaged in the field of nuclear energy. However, by 1979, out of a total revenue of £28 billion, only 4% was accounted for by the Group's non-oil and chemical activities; 85% was generated by its oil business and 11% by its chemical operations.

Shell has a complex organizational structure. The parent companies (the 'Shell Transport and Trading Company' and 'Royal Dutch Petroleum' Company) own the shares in the two Group holding companies (Shell Petroleum N.V. and The Shell Petroleum Company Ltd) as illustrated in Figure 37 . These two holding companies own all the shares in the service companies and the operating companies. The main business of the service companies is to provide advice and services to other operating and associate companies; five of the service companies are located in the Netherlands and six in the U.K. These co-ordinate the activities of different product groups on a worldwide basis (i.e. Oil, Chemicals, Metals, Nuclear, Coal, Gas). The 'Group Planning

Department' is one of the services provided by 'Shell International Petroleum Company Ltd' which is the main service company in the U.K. The activities of the various operating companies, which are organized on a regional basis, are co-ordinated through the service companies with a number of senior 'co-ordinators' responsible for specific regions/ product groups and functions (e.g. Regional Co-ordinator: Middle East, Group Personnel Co-ordinator, Chemical Co-ordinator).

The operating companies (some of which are associate companies in which Shell has a minority shareholding) are organized on the basis of eight regions, with a 'Regional Co-ordinator' maintaining the liaison with the service companies. These comprise:

1) Europe (Austria, Belgium, Denmark, Finland, France, Gibraltar, Greece, the Irish Republic, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the U.K., West Germany)

2) Africa (North Africa, West and Equatorial Africa, East Africa, Central and Southern Africa)

3) Middle East (Abu Dhabi, Arabian Peninsula, Egypt, Oman, Qatar, Syria, Turkey)

4) Far East (Brunei, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, Pakistan, Phillipines, Singapore, South Korea, Sri Lanka, Thailand)

5) Australasia (Australia, New Zeland, Pacific Island)

6) U.S.A.

7) Canada

8) Rest of Western Hemisphere (Caribbean, Central America, South America).

The five members of the Board of Management of Royal Dutch and the three managing directors of Shell Transport are also members of the 'Presidium of the Board of Directors' of the two Group holding companies. They are also members of a 'Committee of Managing Directors' of service companies (known as the 'Committee of Managing Directors') which considers, develops and decides upon overall objectives and long-term plans which are subsequently discussed with the operating companies.

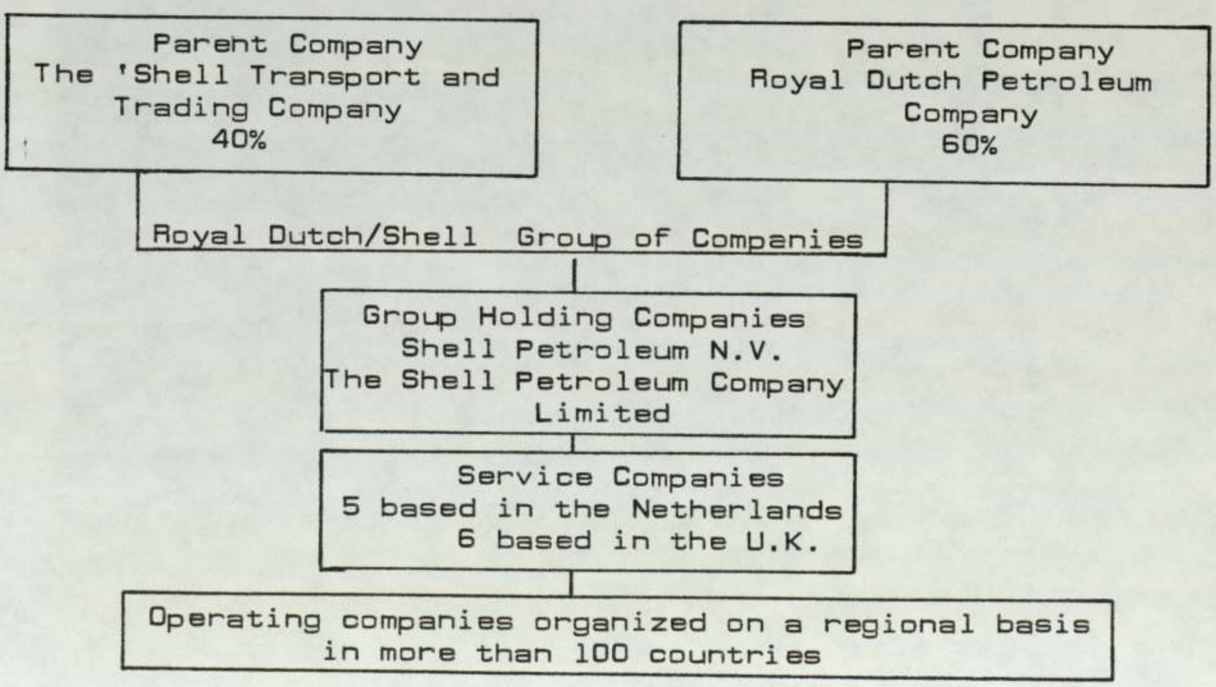


Figure 37 Overall features of Shell Group's organizational structure

9.1.2 Corporate planning system

9.1.2.1 Initial development

Shell began formalized planning during the period following World War II. This was 'physical' planning in the main which concentrated on the construction and bringing-on-stream of individual oil installations with relatively little consideration of their financial implications for the Company. The period 1955-1965 witnessed 'project planning' which was an extension of 'physical' planning with finance playing an increasingly important role but with the plans still following one another in an unrelated fashion. Some assessment of the relative value of different product/market segments was also undertaken.

The 'unified planning machinery', developed in the mid-1960s, was an elaborate procedure which brought the operating companies together in a co-ordinated process for the first time. In 1967, the 'Group Planning Department' undertook a lengthy study of the future up to the 'year 2000'. This presented a disturbing picture of world developments throughout the rest of the century; it suggested that Shell's world was about to enter a period of turbulence and that the Group would have to learn to cope with a great deal of uncertainty over oil supplies, prices and related issues. It convinced most of its managing directors that a new approach to assessing the future was required [Financial Times, 7 November 1979].

The 'unified planning machinery' had succeeded in improving communication and flow of information between the centre and operating companies. Most of planning however, was based on single forecasts. In order to take account of environmental uncertainties in a structured and coherent manner, the Group embarked upon experimental use of 'multiple future scenarios' in 1971; it was hoped that their use would enhance the effectiveness of its various plans. By 1972-1973, multiple scenarios had become the cornerstone of Shell's planning system. Its approach to planning has swung increasingly away from a mechanistic methodology and centrally-set forecasts towards a more conceptual analysis of the forces and pressures which impinge on the industry as a whole and on particular areas of decision-making within specific business sectors [Beck 1980: 12]. The Company's basic approach to planning has been summed up by one of its senior managing directors [Financial Times, 5 March 1980]:

> ' ... We believe in planning,
> not in numerical forecasts but
> in hard 'thought' which aims to
> identify a consistent pattern
> of economic and social development'.

9.1.2.2 Role of planning

In a large, multinational, diversified and decentralized organization such as Shell, there is a need for a planning system which can provide a comprehensive framework of information and knowledge concerning likely environmental developments and the activities of its operating companies [interview with the Head of Strategic Analysis Unit, Group

Planning, August 1979]. This information is generated through the Company's existing planning process and is used by its senior executives in the formulation of an overall strategy.

The planning system enhances communication between the centre and the divisions. The Group Planning Department is envisaged as an 'input-output information centre' [interview with the Head of Strategic Analysis Unit, January 1981]. The planning 'input' to the operating units is in the form of a standard set of assumptions [scenarios] which encompass quantifiable technical and economic factors as well as the unquantifiable social and political developments. These scenarios establish a coherent framework of potential developments against which a manager can check his own perceptions and concepts; they identify potential opportunities and threats and establish bench marks for testing alternative strategies. Every operating company can then formulate its plan in the context of these scenarios. These are subsequently reviewed and consolidated by 'Group Planning'. The 'output' of the planning system is the summary of these plans, providing the Company's senior executives [i.e. members of the Managing Directors' Committee] with the best available information in order to make optimal decisions [interview with the Head of Strategic Analysis Unit, January 1981]. The planning system provides a comprehensive framework which can help management appraise the Group's business portfolio and allocate resources in the context of its strategic priorities. The 'Group and Divisional Planning

Departments' monitor emerging social, economic and technological developments that could be vital for the eventual success or failure of its businesses. The Planning Departments are also used for staff training purposes providing a 'helicopter view' of the Company and its environment.

9.1.2.3 <u>Organization and structure of planning departments</u>

The 'Group Planning Department' comprises two units:

- the 'Business Environment Unit' which has 35 staff members monitors the environment and generates a number of contrasting scenarios which will be discussed in Section 9.1.2.4. It focusses on the Company's external environment and it adopts a longer-term global outlook;

- the 'Strategic Analysis Unit' has seven staff members who monitor internal developments and deal with the operating companies. Members of the Unit evaluate the divisional plans and consolidate them for subsequent presentation to the Company's senior executives.

Heads of the two units report to the 'Group Planning Co-ordinator' who acts as an adviser to the 'Managing Directors' Committee'. Each operating company also has its own planning department, whose size and scope of responsibilities depend on the size and complexity of its business.

Shell [U.K.] Limited for example [one of Shell's regional companies, covering all of its operations in the U.K.] has three operating divisions:

- Shell U.K. Exploration and Production [EXPRO] runs all the North Sea operations;

- Shell Chemicals U.K. is the chemical manufacturing and marketing division;

- Shell U.K. Oil [SUKO] is concerned with refining crude oil and distributing and selling oil products to customers mainly in the U.K.

Shell [U.K.] Limited has four corporate functions:

- finance
- personnel
- public affairs
- planning.

The key task of these departments is to co-ordinate the activities of the three divisions. Each of the three operating divisions also has its own Finance, Personnel and Planning Departments. The 'Planning Director' of Shell [U.K.] heads the planning units of all three divisions, ensuring co-ordination between them. The Planning Department of Shell [U.K.] has seven full-time staff, whereas the 'planning co-ordination units' of the three divisions each have a full-time staff of three who provide a number of support services to the operating divisions [Smith 1980: 22].

At Shell U.K. Oil [SUKO] for example, which is organized and managed operationally on a functional basis, two inter-functional teams have been set up in order to manage its planning and control system:

- the 'Long Term Business Team' [LTBT] is responsible for managing the long-term planning process. It devises 'SUKO-specific scenarios' and when the implications of these have been analysed and detailed functional and business segment planning accomplished, members of the team [comprising senior functional managers, operating on a part-time basis] formulate an integrated set of functional and business segment objectives and strategies supporting the overall SUKO plan;

- the 'Short Term Business Team' [STBT] is also composed of senior functional managers and the team operates on a part-time basis. It is responsible for co-ordinating the implementation of the current plan to achieve the planned performance of the Company.

Both teams are supported by the SUKO planning unit and other functional departments.

9.1.2.4 Different types of plans and scenarios

Shell uses different types of 'scenarios' for planning purposes. The more generalized ones contain descriptions of possible world developments in a variety of inter-related spheres: economic, political, social and technological. Where possible, they are quantified in terms of 'Gross National Product', inflation, oil prices, etc. Almost invariably, at least two very different scenarios are provided so that the planner and manager is presented with a wide range of probability. The idea is that neither scenario will be right, but if one is prepared for both one will be ready to cope with the real world [Financial Times, 7 November 1979].

'Group planning' has reduced the number of 'global scenarios' to two archetypes; this was partly for reasons of presentation. Given three scenarios, planners and managers tended to adopt the middle one when using the scenarios for the development of their strategies. Given six, they would indulge in massive number-crunching.

A number of the messages conveyed by these 'global scenarios' were that:

- oil companies were likely to lose their mining rights in almost every oil-producing territory, where most of their profits had traditionally been generated; for the first time in its history, the oil industry was likely to become a relatively 'low-growth' sector;

- severe economic recessions were just around the corner;
- the increasingly fragmented nature of world development must be matched by a greater degree of decentralization in Shell's own structure.

[Source: Financial Times, 7 November 1979].

Originally, these 'global scenarios' were disseminated to the planning departments of most operating companies such as SUKO, which were encouraged to use them for planning detailed projects of all types. However, they were far too global and general for such a specific use. For example, they were of little use in testing a plan for the extension of a network of service stations in a particular country. As Peter Beck, Planning Director of Shell U.K. [1980: 11] comments:

> 'In a multinational organization, the Group Chief Executive is likely to make most use of global scenarios while the focus becomes narrower as one proceeds into the more specialized functions, divisions and business sectors of individual companies'.

Consequently, these 'global scenarios' are disseminated far more selectively and the operating companies such as SUKO are encouraged to develop their own scenarios for specific purposes.

The second level of Shell's scenario planning is concerned with 'short-term global scenarios' covering a five-year period and up-dated or changed on an annual basis. These were initially introduced by Group Planning in 1975 to take account of a range of possible developments which might be of little consequence on a ten to fifteen year time scale, but would be of considerable benefit for shorter-term planning and decision making purposes. Their content differs from the 'long-term global scenarios' in several respects, such as their concentration on the shape of likely business cycles and a small degree of emphasis on changes in the social climate. These scenarios are initially formulated by the 'Business Environment Unit' of Group Planning and passed on to the planning departments of Shell's regional groups, such as Shell (U.K.) Limited, where they are revised in the context of the Company's specific requirements.

For example, four major categories of factors impinge on the activities of Shell (U.K.) and are likely to influence the performance and direction of the Company:

- one is concerned with political developments, government strategy, manifestation of extremism, etc.;
- the second is concerned with developments that are more directly related to the Company such as energy demand, technological developments in the pipeline, the flexibility of demand/supply infrastructure, etc.;

- the third set of factors is related to the international socio-economic scene relating to 'energy' such as the world energy scene, changing supply conditions and prices;

- finally, the domestic economic situation (unemployment, inflation rate, balance of payments, exchange rates) needs to be closely monitored. (Beck 1980: 12)

Shell's long-term 'global scenarios' might not pay close attention to these factors; 'currency fluctuations for example, might be of little relevance to a Group with Shell's product mix and worldwide operations; however, they are of crucial significance to Shell (U.K.).

Scenarios developed by Shell (U.K.) are then passed on to each of its three operating divisions where 'local' scenarios (i.e. the third tier of scenario planning) are developed by the business sectors and planning teams, as is the case at SUKO. The information in a scenario has to be relevant for the plans and decisions of the operating companies and the 'local scenarios' are of crucial importance if the 'scenario way of thinking' is to have much effect outside the Group headquarters (Financial Times, 5 March 1980).

A danger in a Group as far-flung, decentralized and relatively independent as Shell is the likely development of conflicting scenarios and plans by two of its subsidiaries which are related in a certain manner, trading or otherwise (e.g. refining and chemicals). Potential clashes of this type are ironed out via Shell's matrix management structure and the planning departments of the regional companies such as Shell (U.K.) Limited. If need be, they can be referred back to Group Planning for firm guidance.

Just as three types of scenarios are developed to provide a conceptual framework for planning purposes, three types of plans are generated in order to provide a sufficient basis for evaluating the divisional strategies and monitoring their performance:

- the 'operating plans' are in the main financial in nature covering a two-year period; they are developed by every operating company (such as SUKO) and having been consolidated by the regional group (such as Shell U.K.) are then passed on to Group Planning and Finance Departments;
- the 'medium-term five-year plans' are also generated by every operating company and reviewed by the 'Strategic Analysis Unit' of Group Planning. These are up-dated annually and provide an indication of the divisional strategies and capital expenditure plans. 'Medium-term scenarios' are used for the development of these plans;

- the 'long-term strategic plans' are more qualitative than the medium-term plans. They provide an indication of the divisional future environment and its strategic options. These are generated by the regional companies (such as Shell U.K.) and then passed on to the 'Strategic Analysis Unit' of Group Planning for further review and consolidation.

During 1980-1981, the planning system was being subjected to a major review and according to the Head of Strategic Analysis Unit (Group Planning: interview January 1981) it is likely that the number of plans produced by the divisions will be reduced to the 'short-term operational plan' and the 'long-term strategic plan'. This is due to the changing nature of the oil industry and the increasing significance of long lead times (20 to 30 years) for exploration and bringing on-stream of new oil fields.

Shell's scenario approach to planning recognizes the fact that it is impossible to forecast the future. Instead it accepts that there is an enormous range of possible developments and attempts to 'capture' a number of possible futures in the context of which its operating companies can formulate their plans. As one of Shell's senior planning executives (Financial Times, 5 March 1980) comments:

> 'The main achievement of scenario planning has been to raise the intellectual level of debate at Shell. That is what planning is all about'.

9.1.2.5 The planning process

At the outset of the planning cycle, in the spring of each year, the planning units of all operating companies receive a set of scenarios from their regional group. The planning process at Shell will be illustrated by referring to Shell U.K. [regional group] and Shell U.K. Oil [one of its three operating divisions]. Scenarios which are received from the regional group [e.g. Shell U.K.] are couched in broad terms and are related to the 'Shell Group World' scenarios, prepared by the 'Business Environment Unit' of the Group Planning Department.

These scenarios are reviewed jointly by the Planning Unit, the LTBT and senior management of the operating division [in this case SUKO] where further inputs and modifications are made before the specific divisional scenarios are agreed by all those concerned. For example, Shell U.K. might be interested in total energy demand and total oil demand in the different scenarios. SUKO however, needs to develop individual product demands for each scenario and in many cases the geographic distribution of demand [Smith 1980: 26].

Once the 'SUKO-specific' scenarios are developed, the business team reviews the Company's current objectives and strategies with the functional departments; specific proposals are subsequently made to the senior management and the up-dated five-year plan is finally put together.

This takes three to four months and towards the end of the summer, the LTBT, working in close liaison with the planning unit, reviews the functional and business segment objectives which are considered to be still applicable or proposals for new ones are required. SUKO's planning unit puts all these proposals together [i.e. what the results will be if the recommended objectives and strategies are achieved in the context of each scenario]. The 'profit and loss' and 'cash flow' are subsequently calculated for every year covered by the 'five-year' plan.

Once SUKO's five-year plan is approved by its senior management, it is passed on to the Planning Department of Shell [U.K.] where the plans of the three operating companies [SUKO. EXPRO, Chemicals] are reviewed and integrated, forming the basis for Shell U.K.'s five-year plan. This is then sent to the 'Strategic Analysis Unit' of Group Planning for further review and consolidation before all the regional companies' five-year plans are presented to the 'Managing Directors' Committee' for eventual approval. Apart from outlining the divisional strategies over a five-year period, these plans provide an indication of their capital investment proposals which are reviewed separately by the 'Group Finance Department'.

Once the divisional 'five-year plan' is approved, SUKO's 'Short Term Business Team' monitors the implementation of the programme for year one and co-ordinates the various functional inputs while the 'Long Term Business Team' continues its 'strategy development' work.

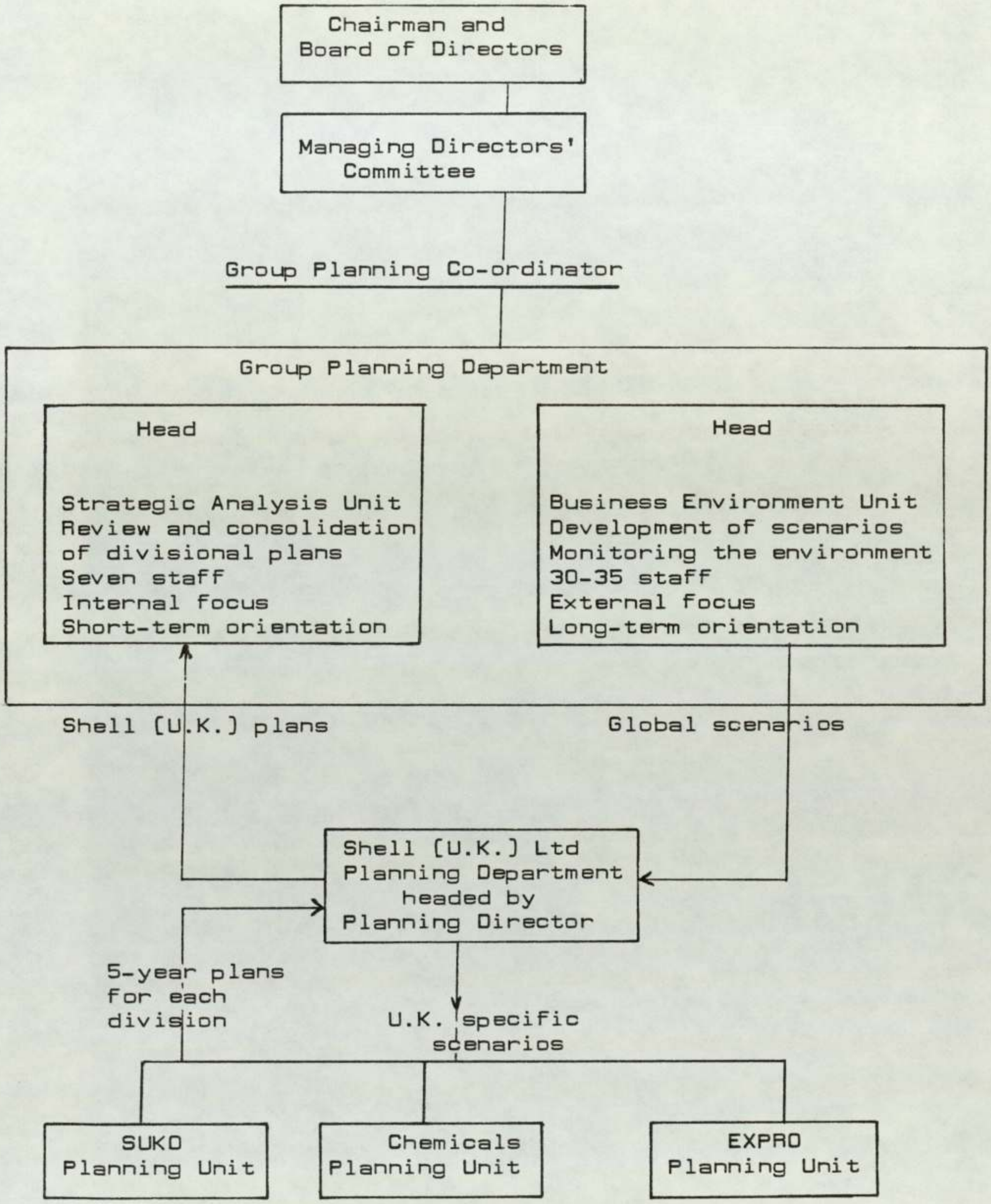


Figure 38 An overview of Shell's planning system (with specific reference to Shell (U.K.) Ltd)

9.1.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 12 depicts various situational factors which are likely to have influenced the development of Shell's corporate planning system. This information was conveyed by the Head of Group Planning Department's 'Strategic Analysis Unit' during the course of two interviews which were held in August 1979 and January 1981.

9.1.3.1 Situational factors associated with the 'initial development' of the corporate planning system

9.1.3.1.1 Salient features

- The origin of Shell's existing planning system goes back to 1965, although 'physical' and 'project' planning had been in use since the end of World War II. Its main purpose was to improve communication and flow of information between the centre and the operating companies.

- The Group Planning Department undertook 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' which were initiated during the early 1970s and has since become the cornerstone of Shell's planning system.

9.1.3.1.2 Influence of situational factors

- The Group's large size, decentralized organizational structure [number 3.2 on Table 12] and active participation in different geographic markets [number 2.4 on the table] highlighted the need for a unified planning machinery which would monitor significant developments on an international basis and facilitate communication and flow of information between the centre and the operating companies.

- The increasing complexity and uncertainty of the Group's operating environment [e.g. growing importance of O.P.E.C., Arab-Israel War of 1967, emergence of independent nations in the Third World, growing importance of consumer pressure movements - numbers 1.1, 1.2 and 1.3 on the table], led the Group Planning Department to undertake a lengthy study of the future in 1967. This study emphasized the growing turbulence and uncertainty which was likely to characterize the Company's environment in the foreseeable future and led to the use and development of multiple scenarios.

9.1.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Group Planning Department

9.1.3.2.1 Salient features

- To provide a 'Central Information Unit', monitoring external developments of strategic significance on the basis of which contrasting sets of strategic scenarios can be developed.

- To enhance communication and flow of information between the centre and the operating companies.

- To review and consolidate the plans developed by the operating companies for subsequent presentation to senior management.

- To provide a basis for the development of an overall Group strategy on the basis of which resources can be allocated.

9.1.3.2.2 Influence of situational factors

- The Group operates in a complex and volatile environment; it is active in over 100 countries in different parts of the world [number 2.4 on the table]; it is critically dependent on supplies of crude oil, from politically-sensitive regions [number 2.2 on the table] and is active in technologically-dynamic industries, characterized by long lead times and a high degree of capital intensity [number 2.5 on the table]. There is a wide range of macro-economic, political, social, technological and legal factors [numbers 1.1 to 1.5 on the table] which need to be monitored on a continuous basis. These include level of economic activity, production level of members of O.P.E.C., price and availability of oil, relationship between the Developed and Developing countries, major technological breakthroughs and a whole host of societal and consumer pressures.

- The Group has a decentralized organizational structure with 270 operating companies which are active in over 100 countries on a worldwide basis [number 3.2 on the table]. There is therefore a need for the systematic generation and flow of information between the centre and the operating companies. This would provide the centre and the Company's senior management [number 3.3 on the table] with sufficient information on the basis of which a coherent strategy can be formulated and resources allocated in order to achieve the Group's strategic priorities.

- The Group needs to diversify into other business sectors in order to reduce its traditional dependence on oil. This emphasizes the importance of synthesizing a wide range of information on internal and external developments.

9.1.3.3 Situational factors associated with the structure and organization of the planning departments

9.1.3.3.1 Salient features

- There are two units comprising the 'Group Planning Department':

i) the 'Business Environment Unit' has a staff of 35 who are responsible for monitoring external developments, providing an information service and generating a contrasting range of strategic scenarios;

ii] the 'Strategic Analysis Unit' has a staff of seven, who co-ordinate the planning activities of the operating companies and review and consolidate their plans for subsequent presentation to the 'Managing Directors' Committee'.

- Heads of these two units report to the 'Group Planning Co-ordinator' who is an adviser to the 'Managing Directors' Committee' and reports to the 'Group Chairman'.

- Each operating company also has its own planning department, whose size and scope of responsibilities depend on the size and complexity of its business.

9.1.3.3.2 Influence of situational factors

- The 'Group Planning Department' is divided into two units, each responsible for a specific aspect of the planning task. The 'Business Environment Unit' monitors external developments and provides the 'input' to the planning process in the form of scenarios. The 'Strategic Analysis Unit' is concerned with the 'output' of the planning process and reviews and consolidates the plans developed by the operating companies.

- Members of the 'Group Planning Department' have a close working relationship with senior management; they provide special reports on the activities of the Group and significant international developments for the 'Managing Directors' Committee' and the 'Group Planning Co-ordinator' reports to the Group Chairman. This close working relationship highlights the commitment of senior executives to planning [number 3.3 on the table], and their need for up-to-date information on the basis of which decisions can be made. This is particularly important for a Group which operates in many parts of the world [often in politically-sensitive areas] and has a large number of operating companies.

- The Group's decentralized organizational structure [number 3.2 on the table], the complex and technological sophistication of its businesses [number 2.5 on the table] such as oil exploration and chemicals, emphasizes the need for separate planning departments at the operating companies. Their members develop specific scenarios in the context of which the companies can formulate their long-term plans and co-ordinate the implementation of the 'current plan' to achieve the planned performance of the Company.

9.1.3.4 Situational factors associated with the types of plans and their time-horizon

9.1.3.4.1 Salient features

- There are three types of scenarios which are used for planning purposes:

  i) global scenarios encapsulating possible world developments over a five to ten-year period

  ii) short-term global scenarios, taking account of macro-economic factors and likely business cycles; these extend over a five-year period

  iii) local scenarios developed by individual business sectors and planning teams of the operating companies.

- In the context of these scenarios, three types of plans are developed by the operating companies:

  - two-year 'operating plans' [i.e. extended budgets]

  - 'medium-term five-year plans' [providing an indication of divisional strategies and capital expenditure plans

  - 'long-term strategic plans' extending over a five to ten-year period. These provide an indication of the future environment of the business and strategic options of various regional/product groups.

9.1.3.4.2 Influence of situational factors

- The various scenarios which are developed by members of the Group Planning Department and planning teams of the operating companies encapsulate a variety of information on economic, political, social, technological and legal developments of particular concern to the Group. The degree of detail incorporated in these scenarios varies considerably, depending on the particular requirements of the operating company. Shell U.K. for example, might be interested in total energy demand and total level of demand for oil. Shell U.K. [Oil] however, might need to take account of demand for specific products and its geographic distribution.

- The use of scenarios and the development of plans highlight the need for information on different operations of a Group as large and decentralized as Shell which operates on a worldwide basis. Senior management [number 3.3 on the table] can use this information to assess the future direction of different product and regional groups and develop a coherent strategy for the Group as a whole. These plans also provide a basis for the allocation of resources and they represent the output of the planning process.

- The long-term strategic plans cover a five to ten-year period and it is likely that their adopted time-horizon will be extended because of the long lead times, technological dynamism and degree of capital intensity [number 2.5 on the table] associated with the oil industry and exploration programmes in particular. Major projects need to be planned and resources committed many years in advance. Written plans provide an indication of the likely future environment, specific objectives of the operating companies, their chosen strategic options and their resource requirements.

9.1.3.5 Situational factors associated with the 'planning process'

9.1.3.5.1 Salient features

- At the outset of the planning cycle, operating companies receive a set of scenarios from their regional groups and the 'Business Environment Unit' of Group Planning.

- Local scenarios are developed by the operating companies.

- Up-dated five-year plans are developed by the operating companies and passed on to their regional group.

- The Planning Department of the regional group consolidates the plans of the operating companies prior to submission to the 'Strategic Analysis Unit' of Group Planning where these are reviewed.

- The plans are subsequently submitted to senior corporate management for further discussion and approval.

9.1.3.5.2 Influence of situational factors

- There is a need for a formal planning process in a Group comprised of 270 operating companies, operating in over 100 countries on a worldwide basis (number 2.4 on the table) and a decentralized organizational structure (number 3.2 on the table). The formal planning process provides a systematic basis for generating information incorporated in the plans and for the establishment of a formal dialogue between the centre and the operating companies.

Table 12 Nature of interrelationship between Shell's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development	✓	✓	✓						✓			✓				
Existing role and functions of planning	✓	✓	✓	✓	✓		✓		✓	✓		✓	✓			
Organization and structure of planning departments										✓		✓	✓			- planning tasks - complex nature of business
Types of plans										✓			✓			- need for information
Planning process									✓			✓				

9.2 Mini case-study II : Reed International

9.2.1 Situational setting

Reed International is a holding company with interests mainly in the U.K., North America and the Continent of Europe. Principal activities of its subsidiaries are:

- manufacture of paper and board from pulp and waste paper
- manufacture and marketing of a wide range of paper-based packaging and stationery products
- publishing and printing of newspapers, consumer and business magazines, books and business directories
- organization of consumer and trade exhibitions
- production and marketing of wall-coverings, paint, furnishing fabrics and DIY home improvement products
- manufacturing and marketing of ceramic sanitary ware and tiles, baths, shower equipment and plastic pipes and fittings.

Reed Paper was heavily engaged in newsprint production in its early years at the turn of the century [the Company was registered in 1903]. It did not expand overseas until after World War II but diversified within the U.K. into packaging products.

The Company was run by Sir Ralph Reed, the son of its founder who until his retirement in 1954 had been Chairman for 34 years. In 1954-55, Reed diversified into the manufacture of tissues in conjunction with 'Kimberley Clark' and 'International Cellulose Products Company', both U.S. concerns. Other diversification ventures in the 1950s included 'plastics', 'packaging' and 'pitchfibre pipes'.

The first overseas investment was made in 1958 in the 'Tasman Pulp and Paper Company' in New Zealand, a company formed to exploit local timber for newsprint production [Channon 1973].

The formation of the 'European Free Trade Association' opened the way to intense competition from low-cost Scandinavian-produced newsprint and bulk paper grades. This had a serious impact on Reed. In an attempt to obtain low-cost production, it acquired the 'Anglo-Canadian Pulp and Paper' mill in 1961 from 'Daily Mirror Newspapers'.

'Daily Mirror' and its associate 'Sunday Pictorial' newspapers owned the majority of stock in Reed from the early 1950s but it did not take an active part in the Company's management until the early 1960s. Faced with the serious threat to Reed's long-term viability, Cecil King of the Daily Mirror took over its management in 1963 appointing S. P. Ryder [later Sir Don Ryder] as its Chief Executive.

Ryder sought to save Reed from overseas competition mainly through diversification and overseas expansion [Channon 1973]. The Group's packaging business was built up by acquisition and major expansions were made in Canada, Australia, New Zeland and South Africa. Separate companies were formed to direct the affairs of the individual product groups, each responsible for its own profitability. Two major acquisitions were made in 1965; 'Wall Paper Manufacturers' a combine controlling 80% of the British wall covering market and 'Polycell Holdings' producing specialized building products. By 1969, building products represented 35% of the Group's total sales [Foster & Bull 1970].

The 'International Publishing Corporation' [formed out of 'Daily Mirror' and 'Sunday Pictorial' newspapers] was acquired by Reed in 1970, although 'IPC' still held 27% of Reed shares [Channon 1973]. By 1970, as a result of its rapid acquisition programme, Reed appeared to be moving into the 'unrelated diversified category' although the tenuous link of paper usage still ran through the Group [Channon 1973]. Despite the rapid growth of sales and assets however, profits in terms of 'earnings per share' showed little sign of growth.

The Group adopted a form of 'multi-divisional organizational structure' by the late 1960s; according to Channon [1973] however, this structure still retained elements of a 'holding company' structure. The 'central office' remained very small with seven senior executives providing specialist services such as finance, technical, legal and planning functions. There were four divisions: Reed Group, International Publishing, Wall Paper Manufacturers and Reed Overseas. These in turn comprised a number of subsidiary companies and the rationalization of the acquired concerns had taken a long time to implement. The Group was highly dependent on the personality of Sir Don Ryder who apart from his corporate responsibilities was heavily engaged in operational decisions, often at the level of detail of the smallest sub-unit [Channon 1973].

Sir Don [later Lord] Ryder was replaced by Sir Alex Jarrett as the Group 'Chairman and Chief Executive' in 1975, at a particularly critical time. The Group's acquisitive expansion programme of the 1960s and early 1970s had increased its debt/equity ratio to almost 210% and there was an urgent need for the rationalization of its operations.

Since Sir Alex Jarrett's appointment, the Reed empire has been transformed from a motley collection of businesses into a financially-sound business. Its debt/equity ratio has been cut to just over 34%, mainly as a result of a divestment programme which has reduced the Group's net assets by almost one-third. A number of its paper mills in Canada, South Africa and Australia have been sold off and nearly one-third of its total newsprint capacity in the U.K. has been shut down. This strategy has been in accordance with the changing nature of the European paper industry over the last decade which is reaching a mature stage of development. Some 500 mills and over 1500 machines have been closed with the reduction of more than one-fifth of U.K.'s paper and board-making capacity [Financial Times, 26 May 1981].

In contrast to Lord Ryder's highly personalized style of management, Sir Alex Jarrett is reputed for his 'de-centralized organizational style' although the corporate planning system which was set up on his initiative, has actually shifted considerable management control to the centre and systematized the process of strategic decision-making [Financial Times, 21 July 1980].

After Sir Alex's appointment, Reed's was organized on the basis of geographic groups, each comprising a number of product divisions and subsidiary companies. Its European Group [including its operations in the U.K.] comprises five product divisions which accounted for 84% of the Company's total sales and 74% of its profits in 1980. These product divisions are:

- Paper and Paper Products manufacturing paper and board, packaging, office supplies and waste paper accounting for 35% of total Group sales and 39% of total profits [before tax] in 1980;

- Publishing and Printing [International Publishing Corporation] with interests ranging from popular magazines such as 'Woman's Own' and 'Women's Journal' to the more specialized journals such as the 'New Scientist'. It also has two book publishing companies 'Hamlyn' and 'Butterworth'.

This division accounted for 19% of total sales and 22% of total profits in 1980;

- Newspapers [Mirror Group Newspapers] publishers of 'Daily' and 'Sunday Mirror','Sunday People', the 'Sporting Life' and 'Daily Record' and 'Sunday Mail' in Scotland. Reed's 'Newspaper' Division accounted for 11% of total sales and 6% of total profits in 1980;

- Decorative Products manufacturing and marketing wall coverings, paint, furnishing fabrics, decorating sundries and carpets. This Division made a loss of £2 million in 1980, although it contributed 13% to the Group's total sales;

- Building products whose products include baths, ceramic tiles and sanitary ware, shower equipment, and plumbing and drainage products. This Division accounted for 7% of total sales and 9% of total profits in 1980.

Reed's North America interests are composed of paper and paper products, decorative products and publishing and printing, accounting for 15% of total sales and 28% of total profits. In addition, Reed also has paper mills in Africa, although these account for only 1% of total sales, especially after the sale of its South African interests. Over the last two years, Reed has also divested its Australian interests which accounted for 6% of total sales in 1979.

9.2.2 Corporate planning system

9.2.2.1 Initial development

> 'Planning is not something detached from reality that the long-haired boys do. It is a tool which forces you to think more systematically about the nature of the company you're managing. I don't know how you can run a business without trying to do it within certain sets of objectives and ways of achieving them'.

[Sir Alex Jarrett, Reed's Chairman, Financial Times 21 July 1980]

Sir Alex's enthusiasm for planning is evident in the priority he has given to planning since he took over at Reed in 1975. Although formalized 'financial planning' for capital allocation purposes had been undertaken since the late 1960s, it was after Sir Alex's appointment as the Group's 'Chairman and Chief Executive' that Reed established a formal corporate planning system. As John Chandler, Reed's Planning Director, comments:

> '1975 was not really a very good time to arrive anywhere fresh and starry-eyed. The problems of the most vicious post-war recession required the full-time attention of the embattled operators, who were naturally reluctant to devote time to long-range thinking; Reed was particularly embattled. It had pursued a policy of expansion, in common with many other large corporations and it had pursued this policy with vigour'.
> [Chandler June 1979: 1].

The Group's total turnover had increased nearly ten-fold from £150 million in 1965 to nearly £1 billion by 1975.

There were large increases, particularly in 1966 and 1971, as major acquisitions were brought in. By 1975, the Group comprised of the following major activities structured geographically:

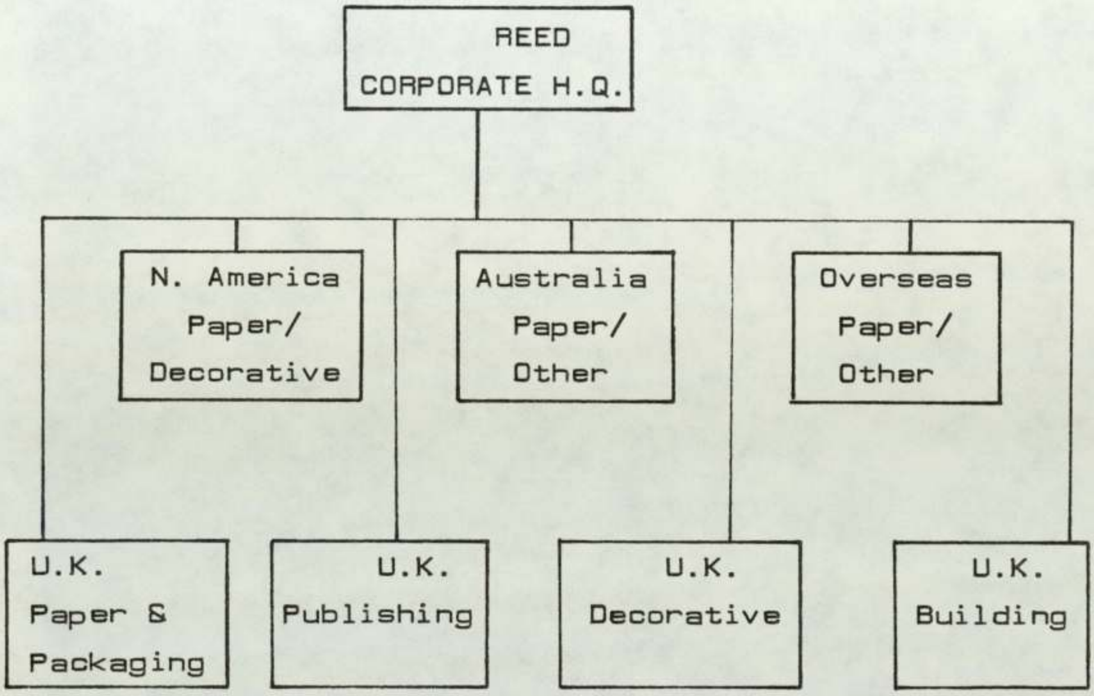


Figure 39 <u>Organizational structure of Reed International: 1975</u>

This expansion programme had been largely financed by debt. The continuing well-being of the Group therefore, depended largely upon the acquisitions more than meeting their financing costs in cash terms and when the recession came allied to vigorous swings in exchange rates, a difficult balancing act became virtually impossible. By the end of 1977, the Group's total debts had increased considerably [its debt/equity ratio had increased from 50 in 1965 to 210 in 1977] [Chandler 1979: 4].

It was in the context of such marked deterioration in the Group's financial performance that Chandler and his Deputy [newly-arrived from the IPC Publishing Group] embarked upon the development of the Company's corporate planning system. Their first task was to examine the variety of business activities which constituted the Group's portfolio. Under Sir Don Ryder, the previous Chairman, much had been said about industrial logic and vertical integration; the theme was 'paper', whether in its raw forest state as paper proper, made into containers or used as substrates for publishing or wall-covering [source: Financial Times 21 July 1980]. When Chandler and his Deputy examined the Group's businesses more closely, they arrived at the conclusion that there was very little inter-supply amongst their wholly-owned subsidiaries; that the Group comprised 60 different substantial businesses, serving identifiably separate market sectors. In other words, the Group was clearly a conglomerate [interview with W J Chandler, August 1979].

Having examined the Group's many businesses, they turned their attention to all those factors [internal and external to the Company] which influenced the profitability and direction of their many activities. On the internal side, there were factors within the Company's sphere of influence such as:

i) financial policy [i.e. debt/equity ratio, dividends, rights issue, etc.];

ii) operational policy (prices and cost structure, margins, levels of capital employed, depreciation, prices for acquisitions and disposals).

External influences included factors such as interest and exchange rates, inflation and product demand. Another key initial step was the adoption of a realistic corporate objective, not in Chandler's words 'a generalized high-flown ideal' but something quite specific to which both management attention and the plans themselves can be geared. Reed's objective was to be 'the maximization of the value of its corporate portfolio by the end of 10 years' (Chandler 1979).

Construction of the planning system itself was then begun. The overall approach was

> 'to take the information provided by the subsidiary companies in their annual and long-range plans, assemble and consolidate these into a 'database' and then remanipulate it into a second 'database' given different assumptions about internal policies or environmental changes'.

(source: Sunbeams out of Cucumbers, W J Chandler, June 1979).

Because of the complexity of Reed's empire, it was impossible to use any profitability measures as a consistent criterion of comparison between businesses, so 'cash flow' was chosen as a primary measure.

9.2.2.2 Existing range of functions and organization of the planning department

At present, the Corporate Planning Department is charged with the following responsibilities:

1] to analyse the effect of external factors on the existing businesses and the relative international standing of these businesses;

2] to consider alternative strategies for each of Reed's businesses and to assess the potential interactive effect of changes on other businesses and on the Group as a whole. In addition, the likely implications of such changes for resource allocation purposes are also considered.

The Corporate Planning Department has five staff members, headed by a Planning Director [Chandler, a Main Board member] who reports directly to the Group Chairman and Chief Executive. The five staff members include:

1] a mathematician, responsible for developing the Group's computerized planning models;

2] an economist, responsible for developing macro-economic scenarios, in addition to evaluating the impact of major economic developments on the Group's business portfolio;

3) an accountant, responsible for examining the financial consequences of alternative strategic options, as well as advising on the 'financial input' to be incorporated in the planning models;

4) an administrator, maintaining liaison with other corporate departments and the divisions. In addition, he supervises the dissemination of various planning schedules to the appropriate divisional units;

5) a psychologist, responsible for examining the structure of different types of 'planning information and schedules' and recommending the most appropriate way in which they should be presented to the divisional managers.

All the main divisions also have their own planning departments, whose size varies depending on the divisional size and scope of operations.

9.2.2.3 Types of plans and the planning process

Reed's planning system moves forward in two phases on an annual basis:

1) the annual business plans (budget) require the completion of a series of schedules by the divisions, incorporating mainly financial information. These are evaluated by the 'Central Finance Department' whose members decide on the eventual allocation of 'working capital';

2) the three-year long-range plans outlining the longer-term prospects for the individual businesses. The schedules needed for the development of these plans are concerned most exclusively with non-financial data. These are reviewed and evaluated by the 'Corporate Planning Department' and incorporated into the model for the development of the Group's overall strategy.

The schedules required for planning purposes incorporate the following information:

i) supplementary financial data [including sales and projected sales];

ii) market data and competitive position:

a) share of served markets [%]
b) relative market share [i.e. market share as % of the share of the three major competitors]
c) names of three major competitors
d) index of underlying market growth
e) typical amount bought by an immediate customer in a single order
f) proportion of immediate customers that account for 50% of sales

iii) market stance data:

a) marketing expenditure

b) % of end users by sales volume, who consider the products: superior, inferior, equivalent

c) selling price index relative to leading competitor

d) % of sales accounted for by new products introduced in three preceding years for Reed's business as well as that of leading competitors

iv) relative production and cost advantages:

a) index of direct costs per unit relative to leading competitors

b) index of wage and salary levels relative to leading competitors

c) extent of backward/forward vertical integration relative to leading competitors

v) manpower and costs:

a) equivalent number of full-time employees

b) total wages and salaries

vi) performance:

a) profit/sales [%]

b) return on trading capital [%]

c) index of total sales prices [volume]

d) index of underlying market growth

e) index of market breadth

f) market share

g) index of growth in market penetration by acquisition

h) index of value added for employee at constant prices

i) value added/£ of wages and salaries

j) backward vertical integration (%).

In addition, data is input centrally for each business which describes approximately:

1) the distribution of production by territory

2) the distribution of sales by territory.

(source: Internal Manual)

This information is necessary for assessing the impact of different economic scenarios.

It should be mentioned however, that the businesses submit 'single' long-range plans. While in the words of the Planning Director:

> 'It would be highly desirable for them to submit a set of alternative plans, practical considerations prohibit this. Not only would it be unlikely that the businesses would comply effectively, but should they do so, the resulting deluge of data descending on the Planning Department would be virtually unmanageable'.

(Interview with John Chandler, the Planning Director, August 1979)

Having incorporated the information provided by the business and long-range plans into the central planning model, a set of alternative strategies for the individual businesses is subsequently generated.

The central planning system comprises of a series of computer models. These facilitate the evaluation of information and generate a number of alternative strategic options for the Group's various businesses.[Figure 40 provides an illustration of the relationship between various parts of the planning system].

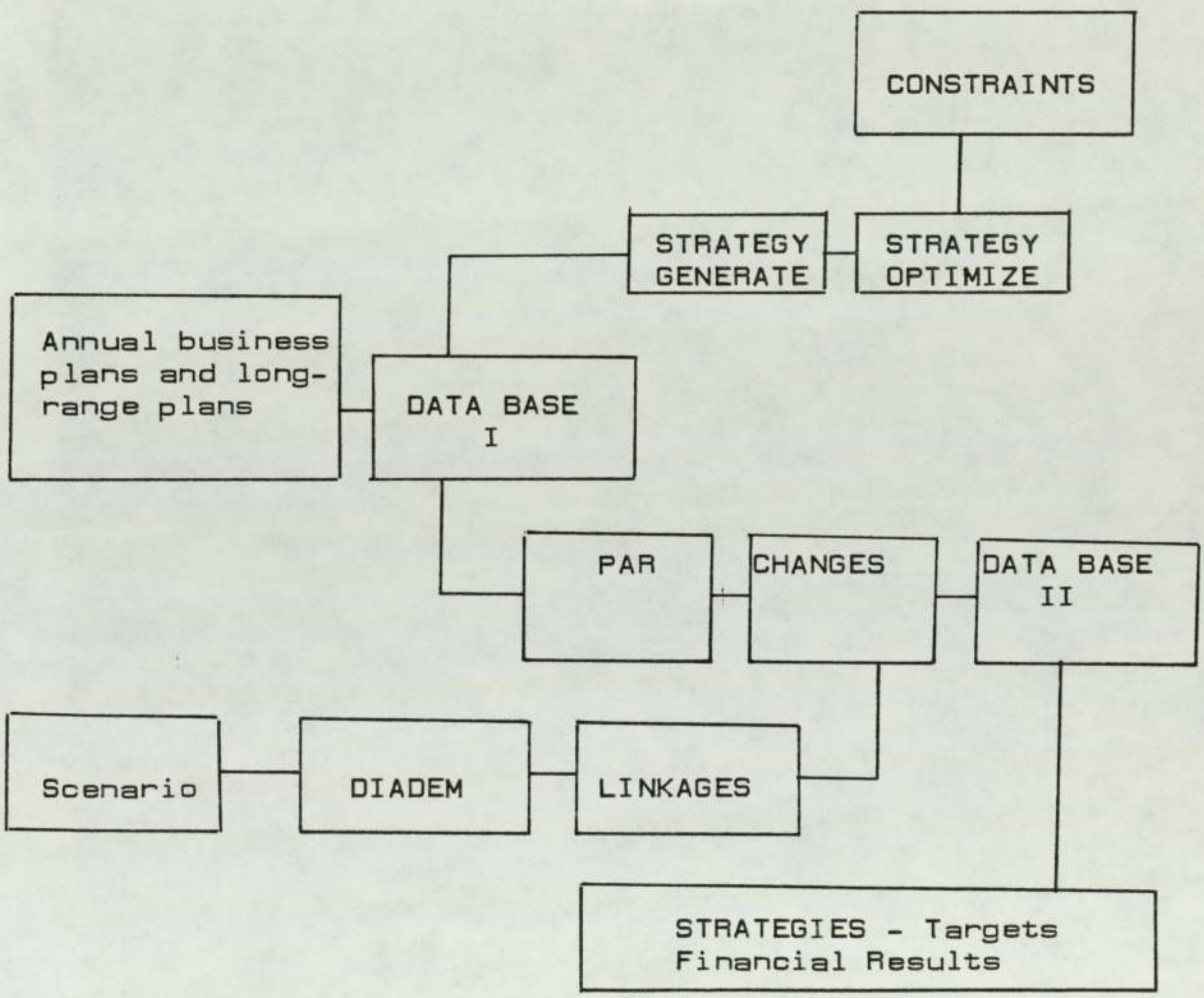


Figure 40 Reed's computerized planning system

Source Chandler 1979: Sunbeams out of Cucumbers, p. 9

This figure illustrates the linkage between the various computer models. The central one, indicated in the diagram by the name 'changes' computes the impact of external and internal influences on the businesses' draft plans. Three sets of input are fed into the 'changes' model:

1) external data and analysis
2) a comparison of Reed's performance with that of its major competitors (PAR)
3) alternative strategies for individual businesses prepared by the H.Q. planning team.

The 'changes' model then produces a data base (Data Base II) of revised results based on environmental changes and alternative strategies. The development of 'Data Base II' consists of three basic stages:

1) an investigation by the Corporate Planning Department of the degree of uncertainty implicit in the businesses' various plans;

2) this is followed by a review of ways in which plans could be altered, including where applicable, a complete restructuring of the businesses concerned;

3) finally, a trade-off is reached between the medium-term security of a business and its long-term development.

In building up the mechanism for assessing internal strategy, the Corporate Planning Department uses a collection of data on multinational business performance. This is the 'PIMS' data base programme, originated by the U.S. 'General Electric Company' and transformed into an independent service offered by the Boston-based 'Strategic Planning Institute' [this is discussed in Chapter 2]. 'PIMS' provided the capability to plot the past and expected performance of Reed's 60 businesses against the 'PAR' [average] record of nearly 2000 business units, including a number of its competitors in Europe and North America.

The section of the planning system, dealing with the changes in the Group's external environment, brings together several sources of information:

1] the 'Diadem' international economic forecasting model, provided by the 'Economic Models' consultancy;

2] Reed's own macro-political and economic 'scenarios' offering a wide range of possible assumptions;

3] Reed's own product demand 'linkage' equation indicating how far demand for the Group's main products responds to economic changes.

The 48 strategies generated by the five-man corporate planning team [top line of the diagram] for each of the 60 businesses, represents combinations of the following basic strategies:

i] maintain market share

ii] shrivel slowly/fast

iii] grow slow/fast organically

iv) dispose

v) grow by acquisition in existing markets

vi) grow by acquisition in new but similar markets.

(Financial Times 21 July 1980)

After the strategies have been generated, a series of constraints are imposed in order to produce optimum strategies. These take account of a wide range of considerations ranging from monopoly or political risks to sheer distaste (such as publication of pornographic material). Some of the constraints are corporate-wide, such as cash flow and borrowing limits; others are applied to particular sets of businesses (such as no more money invested in a particular territory), while others refer to individual businesses.

Reed's planning system seems to have encouraged the Company's managers to think in a more disciplined way, not only at the centre, but increasingly at the divisions (Financial Times 22 July 1980). At present, the Corporate Planning Department is mainly concerned with reducing the risks of diversification. It is also taking a close look at existing businesses, many of them already in a mature stage of development, in an attempt to assess their longer-term viability.

According to Malcolm Glenn, Chief Executive of Reed's 'Decorative Products' Division, the establishment of a formalized planning system has helped the divisions in the following manner:

- the Group has become a lot clearer about the performance it expects from the divisions;
- the system 'makes you think 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'.

[source: Financial Times 21 July 1980]

Furthermore, an annual planning conference is held every autumn, providing a forum for corporate and divisional executives to review the progress of the individual businesses and discuss the future of those sectors whose performance indicates that substantial strategic changes may be justified.

9.2.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 13 depicts the range of situational factors likely to have influenced the development of Reed's corporate planning system. This information was conveyed during the course of interviews with the Company's 'Planning Director' in August 1979 as well as published material which was referred to in Section 9.2.2.

9.2.3.1 Situational factors associated with the 'initial development' of the corporate planning system

9.2.3.1.1 Salient features

- The origin of Reed's existing planning system goes back to 1975. This was developed by the present

Planning Director and his deputy who were brought in by the new Chief Executive from Reed's publishing company 'IPC'.

- Before setting up the planning system, they examined the Group's many businesses, identified factors likely to influence the profitability and direction of their activities and defined a realistic corporate objective.

9.2.3.1.2 Influence of situational factors

Two factors were crucial for the development of Reed's planning system in 1975:

- Sir Alex Jarrett was appointed the Chief Executive, succeeding Sir Don Ryder. He is acknowledged as an enthusiastic supporter of planning and has a 'decentralized organizational style' in sharp contrast to the highly personalized style of his predecessor. His commitment and enthusiasm for the planning system provided the initial impetus for its establishment [number 3.3 on Table 13].

- There was an urgent need for the rationalization of Reed's businesses in 1975. The rapid acquisition and expansion programmes, embarked upon in the 1960s and 1970s, had increased the Group's total debts, so that its debt/equity ratio stood at 210 by 1977. This marked deterioration in the Group's financial position [number 3.4 on the table] highlighted the need for rationalization and the development of a coherent strategy which was likely to ensure its future growth and profitability. The planning system was to be used as a vehicle which would facilitate the accomplishment of such an objective.

9.2.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department

9.2.3.2.1 Salient features

- The planning system is used to develop a coherent strategy for the Group and its many businesses, on the basis of which resources can be allocated.

- Members of the Corporate Planning Department analyse the effect of external factors on the existing businesses and evaluate the number of alternative strategies for each of them.

- They provide a central information service, monitoring external developments of strategic significance and generating alternative ranges of scenarios in order to provide a benchmark for the development of strategies.

- They also co-ordinate the planning activity and review the divisional plans.

9.2.3.2.2 Influence of situational factors

- There is a need to monitor external developments and assess their impact on the Group's future prospects, particularly because of the complexity and volatility of its environment. Reed has a complex environment because of its diverse business portfolio and active participation in different geographic markets. As indicated in Section 9.2.1, its businesses include the manufacture of pulp and paper, packaging and stationery products, decorative and building products, and publishing and printing. It has 60 identifiably separate businesses [number 3.1 on the table]. Moreover, it operates in different regions ranging from Australia and Africa to Europe and North America [number 2.4 on the table]. There is clearly a need for the systematic assessment of external developments likely to affect its major businesses and markets.

  The 'paper' industry is undergoing a period of structural transition due to the impact of the new information technology [number 2.5 on the table]. The relative maturity of this business, coupled with intensive competitive pressures, has resulted in a major rationalization of Reed's paper operations and its newsprint capacity has been reduced considerably over the last two years.

This volatile environment highlights the need for a systematic approach toward developing a strategy which would result in the divestment of the unprofitable and mature businesses and expansion of those operations which offer good potential for growth.

- Reed has a decentralized organizational structure and autonomous operating companies [number 3.2 on the table]. Its senior management need to have detailed information on the activities of the different business groups in order to evaluate the soundness of alternative strategic options [number 3.3 on the table]. The planning system is used as a vehicle for the compilation of such an information base, in order to facilitate the development of strategies and allocation of resources. It thereby enhances communication of information between the centre and the operating companies in a systematic and consistent manner as well as improving the quality and level of strategic thinking at the divisions.

9.2.3.3 Situational factors associated with the organization and structure of the Planning Department

9.2.3.3.1 Salient features

- The Corporate Planning Department has five staff [mathematician, economist, accountant, psychologist and administrator] and is headed by the 'Planning

Director' who is a member of the Main Board, reporting to the Group Chairman and Chief Executive.

- There are separate planning departments at the main business groups.

9.2.3.3.2 Influence of situational factors

- The Planning Director works closely with the Group Chief Executive and is a member of the Main Board and major policy committees. The commitment and support of the Group Chief Executive for planning [number 3.3 on the table] has no doubt been crucial for the importance of planning for strategy-making and resource allocation purposes and high status of the Planning Director.

- Separate planning departments are required to co-ordinate the activities of its large business groups due to Reed's decentralized organizational structure [number 3.2 on the table].

9.2.3.4 Situational factors associated with the types of plans and their time-horizon

9.2.3.4.1 Salient features

- Apart from the annual budget, every division prepares a three-year long range plan, up-dated on an annual basis. These documents incorporate information on the financial and competitive position of the operating companies, likely developments affecting their markets, performance, and production and manpower reports.

- This information is used in order to assess the impact of different scenarios for the development of future strategies.

9.2.3.4.2 Influence of situational factors

- The three-year plans incorporate a considerable amount of information on the position of the operating companies and their business environment. This enables the Planning Department to work out a range of strategic options for the individual businesses, to provide a basis for monitoring their progress toward the accomplishment of specific objectives and to facilitate the systematic allocation of resources.

9.2.3.5 Situational factors associated with the 'planning process'

9.2.3.5.1 Salient features

- Apart from preparing the three-year long-range plans which are reviewed by the Planning Department, senior executives of the business groups are able to discuss significant strategic developments with the Group Chief Executive, other senior directors and the planning staff in the 'annual planning conference' which is held every autumn.

9.2.3.5.2 Influence of situational factors

- The Group's decentralized organizational structure and multiplicity of its operating companies [number 3.2 on the table] emphasizes the need for effective communication between senior corporate and divisional executives. The annual planning conference is regarded as a mechanism for bringing together the Group's senior executives, thereby providing a forum for the discussion of strategic issues.

Table 13 Nature of interrelationship between Reed International's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development													✓	✓		
Existing role and functions of planning	✓	✓	✓	✓					✓	✓	✓	✓	✓			
Organization and structure of planning departments												✓	✓			
Types of plans																-need for info. to develop strategy -role of planning
Planning process												✓				

9.3 Mini-case study III .. .: Dunlop Holdings

9.3.1 Situational setting

Dunlop is a diversified engineering company with interests in different regions of the world. Through its multitude of operating companies, the Group manufactures and markets tyres and a wide range of industrial, engineering, sports and consumer products. In addition, it has rubber plantations in South East Asia. In 1980, total Group sales amounted to £1386 million and the Company suffered a loss of £14 million which was mainly incurred by its 'tyres business'.

Dunlop began as a specialist in tyres at the end of the nineteenth century but its production repertoire was gradually extended vertically with the purchase of rubber plantations, cotton factories and wheel companies [Hannah 1976]. After financial collapse in the early 1920s, the Company was re-organized by Sir Eric Geddes and expansion continued with the growth of the market for car tyres and the acquisition of the diversified rubber interests of the 'Charles MacKintosh Group' [Jennings 1961].

By the early 1930s, the Company had developed a de-centralized form of organizational structure although 'Fort Dunlop' [the main centre of tyre manufacturing in the Midlands] was run directly by the parent company. Other U.K. operations were organized into four divisions:

- general rubber goods
- footwear
- garments
- sports.

The divisions controlled their own sales and were responsible to a 'General Manager of subsidiary companies' at Head Office [Hannah 1976]. Senior corporate directors held 'functional' responsibilities controlling the Group's 'commercial' policy, 'finance and budgeting' and 'manufacturing'. The Group's foreign subsidiaries in France, Germany, U.S. and Japan were organized as separate units and managed by nationals of those countries.

Despite its geographic and product diversity, Dunlop did not develop a fully-articulated multi-divisional structure and by the 1950s was becoming increasingly centralized [Channon 1973, Hannah 1976]. This situation is summed up by Sir Reay Geddes [July 1965: 31] in 'The Manager':

> ' ... Until the late 1950s, the day-to-day control of the Dunlop Group was exercised by full-time directors who had functional responsibilities for specific aspects of the Company's business. These directors were supported at the divisional level by managers who held responsibilities for the same functions and who formed an 'operating committee of equals' at the division. In short, the Group was therefore highly centralized'.

In the early 1960s, Dunlop sought the aid of McKinsey & Company in order to introduce a decentralized system of product divisions. The Company retained its large central office and by 1970 the centre consisted of functional departments for co-ordinating and devising policy objectives to guide the activities of the divisions [Channon 1973].

In 1969, the Company announced its intention to merge with 'Pirelli Spa', the leading Italian tyre and rubber goods producer which was still managed by the Pirelli family. In 1970, the two companies embarked upon formal restructuring of administrative procedures in order to manage the new enterprise. This consisted of a series of senior committees charged with co-ordinating the new 'Dunlop-Pirelli' group activities [Thomas, November 1971].

By the end of 1970 however, little real integration had occurred. It seemed likely that the merger might fail or that one of the two partners would emerge as dominant, to force through the strategic and structural integration [Channon 1973].

The 'Dunlop-Pirelli' union was to last for eleven years. In April 1981, in the wake of the 'ravages suffered by the European tyre industry during the 1970s', Dunlop and Pirelli announced the end of their partnership:

> 'It is a matter of genuine regret to both parties that this bold and imaginative venture which started with high hopes in 1971 has not worked out ... At a time when larger units are the fashion, we

may appear to be reversing a desirable trend ... Dunlop and Pirelli however, remain very substantial businesses in their own right ... the break has positive advantages for the Company. The return of our overseas share interests will more than outweigh in profit terms the loss of our shares in Pirelli's overseas activities ... We shall regain our freedom of independent action and shall be able to pursue our own strategy more single-mindedly; senior executives will be able to concentrate exclusively on the immediate interests of Dunlop'.

[Sir Campbell Frazer, Group Chairman: Annual Report 1980, p.3].

According to industry observers, Dunlop joined Pirelli at the worst possible time [Observer, 26 April 1981]. The Italian economic miracle had burnt itself out, releasing a violent storm of industrial unrest, coupled in the tyre market with the 1973 'Oil Crisis' and the move toward longer-lasting radial tyres which reduced the level of demand.

By 1973, Dunlop had written off its initial investment, withholding any further funds until Pirelli went back into profits. By the time Pirelli had begun to recover in 1980, Dunlop itself was suffering losses of £22 million [Financial Times, 24 April 1981].

Sir Campbell Frazer, the Group's present Chairman, who was in charge of acquisitions and partnership negotiations at the time of the union, maintains that the union was valid, pointing out that Dunlop offered superior materials-handling know-how in exchange for Pirelli's superior tyre-production techniques and that the two companies' international operations complemented one another [Observer, 26 April 1981].

Frazer concludes that the fault of the union was that 'it was not ambitious enough' because it did not fully bind the two companies. With the benefit of hindsight however, it may have been too big a challenge to expect two large and well-established companies to be able to create an integrated business [Observer, 26 April 1981].

It seems likely that a bid will be made for Dunlop from Malaysia, a country undergoing an economic boom where Dunlop dominates the local market and shows a profile of considerable strength [Financial Times, 24 April 1981].

At present, Dunlop is organized on the basis of eight product and two geographic groups. These are:

- tyres
- engineering products
- industrial products
- consumer products
- sports products
- fire and irrigation products
- overseas group
- U.S. group.

Each of these groups comprises more than fifty operating companies and divisions, varying in size from those with a turnover of £200 million [tyres] to £1 million per year. Each division is managed by its own Board headed by a Managing

Director. Each of the main groups is represented on the Company's Main Board by an executive director. The Main Board comprises:

- Chairman
- Managing Director
- Executive Director in charge of Middle East and Japan
- Executive Director in charge of Diversified Products (non-tyre operations) worldwide
- Finance Director
- Diversified Products (U.K.)
- Overseas Operations
- Tyres Worldwide
- Corporate Affairs.

In addition, there are five non-executive directors. A system of interlocking corporate committees co-ordinate the activities of the divisions, specify policy guidelines and monitor the performance of the operating companies.

In addition, the centre provides an extensive range of services such as 'finance and accounting', 'taxation', 'legal','commercial', 'technical' and 'overseas' advisory services. There is a Main Board member responsible for corporate affairs.

Tables 14 and 15 illustrate the percentage contribution of different product groups to overall sales and profits as well as their geographic breakdown. The 'tyres' group is by far the largest contributor to Group sales, although its losses amounted to £25 million in 1980 on a current cost basis. The Group's 'plantations' and 'industrial products' group were the profit-makers with a contribution of £5 million and £8 million respectively.

Although the U.K. accounted for 40% of the Group's total sales in 1980, Asian, Australasian and African operations generated most of the Company's profits [£18 million and £15 million respectively].

Product Group	% contribution to Group sales	Operating profits [current cost] £M
Tyres	54	[25]
Industrial	18	5
Consumer	12	1
Sports	7	[2]
Engineering	5	[1]
Plantations	4	8

Table 14 Contribution of different product groups to Group sales and operating profits 1980: Dunlop

Region	% contribution to total sales	Operating profits [current cost] £M
United Kingdom	40	[43]
Rest of E.E.C.	18	-
Rest of Europe	1	-
Asia and Australasia	17	18
Africa	12	15
North America	11	[4]
Central & South America	1	-
		[14]

Table 15 Geographic breakdown of sales and operating profits 1980: Dunlop

9.3.2 Corporate planning system

9.3.2.1 Initial development

Planning was first introduced in Dunlop during the 1930s with a simple budgeting system. This was:

> 'a comprehensive system of internal audit, control and forecasting, defining the lines of authority and responsibility'. [Hannah 1974: 259]

A more advanced form of 'extended budgeting' embracing 'three-year divisional management plans' was introduced in 1963, following the McKinsey-inspired decentralization of the Group's organizational structure. These plans were in the main financial documents and somewhat deficient in 'strategic thinking' [Rossiter 1979: 19].

In 1968, a Corporate Planning Department was set up to co-ordinate the planning activity throughout the Company. In addition to the 'three-year management plans' and 'one-year operating plans' [i.e. budgets], the Department recommended the adoption of 'five-year strategic plans' in 1976 which would enhance consideration of strategic issues at the divisions. These three plans form the nucleus of Dunlop's present planning system.

The planning system is part of the Group's 'central control mechanism'; detailed planning is undertaken by the divisions with guidance provided by their own 'trading group'. The centre is mainly concerned with 'broad directional policy and funding'. According to Rossiter, General Manager in charge of the Corporate Planning Department [1979: 19]:

> 'The concept of central planning within Dunlop means treating the totally separate divisions as part of one entity, allowing full account to be taken of not just the division's own environment but also the environment for the whole Group'.

Moreover, the planning system attempts to enhance the level of strategic thinking at the divisions instead of concentrating on the immediate operating issues. Senior corporate management can exercise their influence over the strategic direction of the Company through the resource allocation process which is an integral part of the planning activity. The use of the 'resource allocation process' implies that the centre can constrain or contract in real terms the 'low-growth and less profitable divisions' while expanding the more profitable units with better potential for future expansion.

9.3.2.2 Role of planning

The essence of corporate planning at Dunlop is summed up by its General Manager:

> ' ... that special brand of planning of resources, direction, pace and product-mix which 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'. [Rossiter 1979: 18]

The Corporate Planning Department at Dunlop is responsible for co-ordinating the Group planning effort. Its members assist senior corporate executives in the development and implementation of the 'corporate plan', rational distribution of funds between its various businesses, provision of a central information service, monitoring broad developments of specific significance to the Group, monitoring the progress of the divisions and reviewing and consolidating the divisional plans. It also conducts special studies on behalf of senior corporate executives.

The 'funds allocation' process is central to Dunlop's planning system and will therefore be reviewed in greater detail. Every year, the Planning Department goes through a comprehensive routine of analysis and dialogue with the divisions. The 'strategic' and 'management plans' [which will be examined later] are used for evaluating the divisional requests for funds. Specific sets of factors are examined in order to evaluate the divisional plans and their funds requirements. These are:

1] market/industry criteria:

- market growth
- industry profitability
- capacity versus demand
- opportunity for specialization
- complexity of products/services

2) divisional competitive criteria:

- profitability
- market share
- product quality and performance
- innovative ability and resources
- marketing strengths.

In addition, the Corporate Planning Department also assesses the current and expected earnings potential of the business concerned and place it in a specific investment category (i.e. cash generator, high profit growth business, close or divest, performance improvement or divest).

The 'Central Finance Department' calculates the Group's borrowing requirements using the financial forecasts of the 'management plan' as a guideline. An advisory figure for the available funds covering years two and three of the 'management plan' is then provided by the Department while a mandatory figure is given for the 'plan year'. These figures are then passed on to the Corporate Planning Department. Having evaluated the divisional 'strategic' and 'management' plans, the Planning Department makes a series of recommendations to the Group Managing Director and senior corporate executives who are ultimately responsible for the allocation of capital. These 'allocations' are subsequently forwarded to the 'trading groups' with a specific set of profit objectives, forming the basis of the following year's 'management plan'. Although the Corporate Planning Department categorizes the 'allocation' for each division, only 'trading group' breakdown is mandatory. Every trading group is therefore responsible for allocating the funds amongst its constituent divisions.

The allocations made to the U.K. divisions cover the 'fixed and working capital requirements' of the businesses for a period of three years. New ventures, acquisitions and major diversification programmes are outside the normal allocation and a sum is set aside to cover unanticipated requirements during this period.

The incorporation of a 'control element' is considered to be of significant importance for the success of Dunlop's existing planning system [interview with member of Corporate Planning Department, February 1980]. In order to monitor the divisional progress against their plans, every division produces its 'monthly operating statement' which compares its actual performance in selected key indicators against the 'management plan'. These form the basis of discussion at monthly Board meetings of each trading group and are subsequently sent on to the 'Finance Department' for further review. The ultimate control document is the 'management plan' which is used by the Central Finance and Corporate Planning Departments to monitor the progress of every division in the context of the strategy which is specified in the 'strategic plan'.

Dunlop's corporate planning system co-ordinates the long-term strategic direction of the divisions through the resource allocation process. This is considered to be necessary in a large and decentralized organization in order to enable the 'centre' to grant a considerable degree of operational autonomy to the divisions [interview with member of the Corporate Planning Department, September 1979].

9.3.2.3 Organization of the Planning Department

The Corporate Planning Department has a staff of twelve whose responsibilities include the following:

- economic research - market research	] providing macro-economic assumptions and monitoring the environment
- business planning - information office	] reviewing the divisional plans and monitoring their implementation

The Department is headed by a General Manager who reports to the Group Managing Director. In addition, the Department is also used as a training ground for line and staff managers; this is expressed rather cogently by Rossiter [1979: 18]:

> 'Corporate planning in my view should be regarded as neither a profession, nor a career in its own right; rather, it should be an invaluable stage in the career development of promising men and women who already have some relevant experience in line or staff roles inside or outside the Company, and for whom a two to five year stint at the centre will be of help in fitting them out for their next responsible appointment. It is often an excellent medium for introducing bright people into the Company'.

Each division also has its own planning manager who co-ordinates the divisional planning effort and the preparation of plans in close conjunction with the divisional finance department.

9.3.2.4 Different types of plans

Dunlop uses four different plans, three of which are devised by the divisions and the fourth [the corporate plan] incorporates the Group objectives in addition to the divisional strategies.

The 'corporate plan' is developed by the Corporate Planning Department and specifies quantified, timed objectives for the Group over a five-year period. These are in the main financial objectives, such as profit quantum, dividend policy, earnings per share, gearing and 'funds mix' by product and territory. The plan identifies the gap between these objectives and the totality of the organic growth intentions of the divisions as indicated in their 'strategic plans'. It also sets out the way in which this gap is to be bridged. For example, by accelerated organic growth, diversification, acquisition, divestment, etc. [Rossiter 1979: 19].

The 'divisional strategic plans' are devised by the divisions although a certain degree of assistance in the form of 'assumptions' and 'specific guidelines' is given by the Corporate Planning Department. These plans provide a detailed strategic analysis of the business over a five-year period and specify the divisions' chosen/preferred strategy for the achievement of its objectives. These tend to be expressed in qualitative terms, although in order to facilitate the subsequent allocation of resources, key financial variables are quantified. Since the beginning of 1980, the Corporate Planning Department issues specific profit objectives which the divisions are required to take account of in the formulation of their plans. A set of basic economic assumptions covering areas such as international trade, Government influences, industrial markets, technology, etc. are also provided.

Having been developed by the divisions, these plans are submitted to the Corporate Planning Department for further review and consolidation. This assessment is undertaken in order to ensure consistency with the corporate plan and corporate guidelines. The Department also evaluates the 'realism' of the plan and makes its recommendations concerning the 'investment category' of the specific division (for example, the viability of the level of funds growth in relation to earnings projection and gearing constraints is assessed).

The Department's consolidated comments are then conveyed to the Main Board and used in their evaluation and subsequent approval/rejection of the plans. These plans are up-dated on an annual basis.

The 'management plans' represent 'the budget explosion of year one of the strategic plan, incorporating the latest funds allocation' (Rossiter 1979: 19). They set out the divisional action programmes, devised in order to implement the agreed strategy specified in the strategic plan. The management plan is basically a planning and control document for every division. It is used by the Corporate Planning Department to monitor the utilization of funds already allocated and the progress of the division in implementing its agreed strategy.

These plans contain a series of narrative and financial schedules. The former describe the internal and external environment of the division, outlining its objectives for the year and how these will be achieved; the latter provide detailed financial accounting data on the impact of the plans. These are reviewed by the 'trading group directors' before being passed on to the Corporate Planning Department, where they are evaluated for 'strategic consistency' prior to approval by the Group Managing Director.

This plan is considered to be an integral part of the implementation of the 'strategic plan' and is used as a device for monitoring the divisional performance. Monthly operating statements are used for this purpose in addition to bi-annual reviews in March and September.

The 'operations plans' are concerned with the day-to-day management of the business and closely related to the 'management plan'. They cover areas such as:

- production planning and control
- production costing systems

- marketing models

and are used as part of the division's own 'information system'.

9.3.2.5 The planning process

At the outset of the planning cycle in January of each year, a set of financial and macro-economic assumptions are issued by the Corporate Planning Department and used as guidelines by the divisions in the formulation of their 'strategic plans'. These are developed by March, reviewed by the 'trading groups' and subsequently passed on to the Corporate Planning Department by mid-April. Having been evaluated by the Corporate Planning Department, they are presented to the 'Group Managing Director' and senior corporate management for approval by the beginning of May.

By mid-May, the 'Central Finance Department' provides a set of financial assumptions which are subsequently used by the 'Corporate Planning Department' for the purpose of 'funds allocation'. Based on the divisional 'strategic plans', every division is categorized on the basis of a standard set of factors outlined in Section 9.3.2.2. The 'Group Corporate Plan' is also reviewed and up-dated during this period.

By mid-July, the basis for funds allocation and the profit objectives for the following year are agreed by the Group Managing Director and senior management. During July and August 'management plans' are developed by the divisions, while a review of the 'current management plans' is undertaken during September. These are examined by the 'trading groups' and submitted to the Corporate Planning Department at the end of October. These are subsequently evaluated and consolidated ready for submission to the Group Managing Director and senior executives at the beginning of December.

Evaluation of the divisional 'management plans' is undertaken in conjunction with the 'Central Finance Department'. The 'Corporate Planning' and 'Finance' Departments also monitor the progress of the divisions towards the implementation of their plans throughout the ensuing planning cycle.

9.3.3 The nature of interrelationship/association between situational factors and the corporate planning system

Table 16 depicts the various situational factors likely to have influenced the development of Dunlop's corporate planning system. This information was conveyed during the course of three interviews with a member of the Company's Corporate Planning Department as well as published information referred to in Section 9.3.2 [interviews September 1979, February 1980, November 1980].

9.3.3.1 Situational factors associated with the 'initial development' of corporate planning

9.3.3.1.1 Salient features

- A system of 'extended budgeting' incorporating 'three-year divisional plans' was introduced in

1963 following the establishment of a decentralized organizational structure.

- A Corporate Planning Department was set up in 1968 in order to co-ordinate the planning activity and to enhance the flow of strategic information between the centre and the business groups.

- 'Five-year strategic plans' were introduced in 1976 in order to enhance consideration of more qualitative, strategic issues.

9.3.3.1.2 Influence of situational factors

- Although Dunlop had a system of 'extended budgeting' since 1963, this was largely co-ordinated by its 'Central Finance Department'. The Company's structure was further re-organized in 1967/8 [number 3.2 on Table 16] resulting in a greater degree of decentralization and the establishment of autonomous 'business groups'.

- The newly-established Corporate Planning Department was to assist its senior directors [number 3.3 on the table] evaluate the strategic direction of the divisions, to facilitate the systematic allocation of resources and to conduct special studies on issues of strategic significance [such as the merger agreement with Pirelli in 1970].

9.3.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department

9.3.3.2.1 Salient features

- Dunlop's corporate planning system is used as a 'central control mechanism' concerned with 'broad directional policy and funding'.

- Members of the Corporate Planning Department provide a central information service, monitor the performance of the divisions and review and consolidate their plans. These are subsequently used as the basis for the development of a 'Group corporate plan' which is compiled by the corporate planning staff and up-dated annually. These plans are subsequently used for resource allocation and evaluation of divisional strategies.

- The Corporate Planning Department is also used for the purpose of management development and as a training ground for line and staff managers.

9.3.3.2.2 Influence of situational factors

- Dunlop has a diversified business portfolio comprising tyres, engineering and industrial products, consumer and sports goods and fire and irrigation products [number 3.1 on the table]. A standard procedure is therefore required in order to evaluate the performance of its business groups, assess the merits of their preferred strategies and to allocate resources accordingly. This is of particular significance in a Group with relatively mature businesses [such as tyres]. Resources need to be allocated on an optimal basis in order to ensure the eventual contraction of mature sectors and the expansion of growth-oriented businesses.

- Dunlop is large [Group sales amounted to £1386 million in 1980] and operates in different parts of the world, ranging from Europe and the Americas to Asia, Australasia and Africa [number 2.4 on the table]. It has a decentralized organizational structure with autonomous business groups [number 3.2 on the table], and is described by its 'General Manager' in charge of corporate planning as: '... an international, multi-product, multi-market, decentralized association of semi-autonomous businesses' [Rossiter 1979: 18]. The centre exerts its control over the strategic direction of the divisions through the resource allocation process. The corporate planning system is therefore an integral part of the Group's central control mechanism [number 3.5 on the table].

- The Corporate Planning Department also provides an 'information service' on the activities of the business groups as well as external developments, particularly macro-economic factors [number 1.1 on the table]. It therefore provides a supporting service for its senior directors [number 3.3 on the table].

9.3.3.3 Situational factors associated with the organization and structure of the Planning Department

9.3.3.3.1 Salient features

- The Corporate Planning Department has a staff of twelve, responsible for economic and market research, business planning and provision of an information office.

- The Group is headed by a General Manager reporting to a Main Board member and the 'Group Managing Director'.

- Every division has a planning manager who co-ordinates the process of developing their plans in conjunction with the divisional finance departments.

9.3.3.3.2 Influence of situational factors

- Since the main role of the corporate planning system is to monitor the performance of the divisions and to provide a basis for evaluation of divisional strategies and allocation of resources, members of the Corporate Planning

Department work in close collaboration with the Group Finance Department.

- The Group's decentralized organizational structure and large size of its constituent businesses [number 3.2 on the table] emphasizes the need for full-time planning managers at the divisional level.

9.3.3.4 Situational factors associated with the 'types of plans' and their time-horizon

9.3.3.4.1 Salient features

- Every division prepares three types of plans:

  i) the 'five-year strategic plan'

  ii) the 'three-year management plan', which is the 'budget explosion for the strategic plan, incorporating the latest funds allocation

  iii) the 'operations plan' closely related to the management plan, incorporating issues related to the day-to-day running of the business.

- The divisional strategic and management plans are used as a basis for the development of the 'five-year corporate plan' by members of the Corporate Planning Department.

9.3.3.4.2 Influence of situational factors

- Apart from the 'strategic plan' which incorporates longer-term qualitative issues, the plans developed by Dunlop's divisions are financial documents, particularly the 'three-year management plan'. This is due to the use of planning as a central control mechanism [number 3.5 on the table]. Over the last two years, every division is also required to submit a 'monthly operating statement' which provides a basis for assessing their actual performance against the target specified in their management plans.

9.3.3.5 Situational factors associated with the 'planning process'

9.3.3.5.1 Salient features

- Macro-economic and financial assumptions are issued by the Corporate Planning Department in January.

- Using these assumptions as guidelines, the divisional 'strategic plans' are developed by March, reviewed by their business groups and the Corporate Planning Department, before submission to senior directors for approval in May.

- Management plans are developed and submitted to the Corporate Planning Department by October; these are reviewed by the Planning and Finance

Departments before submission to senior directors in December.

9.3.3.5.2 Influence of situational factors

- The planning process specifies a timetable and various stages of the planning activity, providing a standard basis for the participation of different business groups and geographic regions. This is necessary in a large, decentralized, diversified and international Company (number 3.2 on the table) and provides a systematic basis for communication between the centre and the divisions.

Table 16 Nature of interrelationship between Dunlop's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development												✓	✓			
Existing role and functions of planning	✓								✓		✓	✓	✓		✓	
Organization and structure of planning departments												✓				- role of planning
Types of plans															✓	
Planning process												✓				

9.4 Mini case-study IV: Lucas Industries

9.4.1 Situational setting

Lucas Industries is a leading world manufacturer of electrical, electronic, hydraulic and mechanical equipment used by internal combustion, diesel and gas turbine engines, road and rail vehicles, ships and aircraft. It also manufacturers a wide range of industrial products.

Joseph Lucas [as the Group was known until 1951] was founded in the late nineteenth century [registered in 1897] for the manufacture of pressed metal goods including coach lamps. With the coming of the automobile, it moved into the field of electrical components manufacture. It acquired a large number of smaller companies during the inter-war period and assumed a dominant position in view of being protected by a series of restrictive agreements with other manufacturers [Channon 1973].

After World War II, Lucas' position was further consolidated through more acquisitions, although the expansion of General Motors and Ford component subsidiaries resulted in intense competition. The Company embarked on a diversification programme during the 1950s [e.g. instruments, electronic components, hydraulics] but still remained mainly active in the manufacture of automobile and to a lesser extent aircraft components. Competition was substantially increased after the adoption of a 'multi-sourcing' policy by motor manufacturers, especially after a series of strikes competition from European components' manufacturers such as Bosch. In order to reduce the adverse impact of this competitive threat, the Company has expanded its European operations in France, Germany, Belgium and Italy. In 1979, European and E.E.C. sales accounted for 25% of its total sales.

Although attempts have been made to reduce the Group's dependence on its traditional 'vehicle equipment' business through the expansion of its 'aircraft equipment' and 'industrial products' divisions, the former (i.e. vehicle equipment) still accounts for 80% of total Group sales and 90% of the profits (Annual Report 1980). However, the contribution of its overseas companies has increased substantially, accounting for 30% of total sales and 38% of profits in 1980 (the corresponding proportion in 1970 was 17% and 31%). Table 17 provides an indication of the geographic distribution of the Company's sales in 1980.

Geographic region	% of total sales
U.K.	57
E.E.C.	18
Rest of Europe	7
North America	4
Central & South America	4
Australasia	4
Asia	5
Africa	2

Table 17 Geographic distribution of sales - Lucas industries

Lucas is organized on the basis of eight divisions in the U.K. under the umbrella of three main product groups:

1. Vehicle Equipment Group which has six divisions:

   - Lucas Electrical
   - Lucas CAV
   - Lucas Girling
   - Lucas World Service
   - Lucas Batteries
   - RISTS

2. The 'Aerospace Equipment' Group has only one division (Lucas Aerospace) which is considered to offer considerable potential for growth. In 1980, this division accounted for 11% of total sales and 2% of the profits.

3. The 'Industrial Equipment' Group which also has one U.K. division (SMEC). In 1980, it contributed 9% of total sales and 1% of Group profits.

Every division comprises a number of subsidiary companies, each managed by a 'General Manager'. The divisions are in turn managed by eight 'Managing Directors' and their own Boards which maintain liaison with the centre.

Lucas has approximately 60,000 employees on a worldwide basis, of which 500 are employed in the central management companies (headquarters) providing a number of 'support services' such as finance and accounting, taxation, legal services, corporate planning, technical and commercial services for senior corporate management.

Executive Directors of the Main Board represent different functions such as finance, marketing, manufacturing, planning, commercial and technical. Central functional departments co-ordinate the divisional activities, whereas inter-divisional transactions are dealt with by the divisions themselves. There are four central committees:

- the 'Finance and Audit' Committee dealing with overall finances and capital investment proposals;

- the 'Appointments and Salaries' Committee, which makes recommendations on senior appointments;

- the 'Operations' Committee providing the link between the centre and the divisions. Its members include the eight divisional Managing Directors and the executive Corporate Directors, headed by the Chairman and the Chief Executive. This Committee co-ordinates the day-to-day operational issues;

- the 'Policy' Committee [known as the 'Policy Executive'] comprising corporate functional Directors and the Group Chairman and Chief Executive. This is the forum where long-term strategic issues are discussed and Group policy decided on.

The centre exercises its control over the divisions through the 'resource allocation' process. Every division however needs to finance its own expansion programmes and there is no central pooling of resources. This might partially account for the continued predominance of the 'vehicle equipment' division after successive diversification endeavours.

9.4.2 Corporate planning system

9.4.2.1 Initial development

A formalized system of 'corporate planning' considering strategic issues was started at Lucas in 1971, although prior to that, each division had undertaken its own project, financial and market planning. The role of the centre was essentially restricted to specifying the Group's broad policy and monitoring the performance of the divisions by means of financial control and evaluation of the divisional capital expenditure proposals [interview with Group Strategic Planning Manager, September 1979].

The year 1971 signalled the beginning of the decline of the U.K. automotive industry on which Lucas was dependent to a considerable extent [in 1971, 78% of the Company's total sales and 93% of its profits was generated by the vehicle equipment division. Moreover, U.K. sales accounted for 83% of its total volume of turnover and 70% of total profits]. Britain's imminent entry into the E.E.C. in 1972/3 was likely to open the way to intense competition from European companies.

Moreover, a series of strikes among component manufacturers during the late 1960s had led to the adoption of a policy of 'multi-sourcing' by motor manufacturers [Channon 1973] reducing Lucas' competitive advantage in the U.K. market.

It was against this background that the Group's senior executives envisaged the need for the development of a coherent strategy which would reduce the Company's dependence on the declining U.K. automotive sector. One of the 'non-executive' members of the Board was appointed as 'Executive Director for Corporate Strategy', forming the nucleus of its formalized planning system at the corporate level.

During the early 1970s, the 'Director for Corporate Strategy' [who incidentally still holds his position] worked in a rather informal manner with senior corporate and divisional executives on the Group's overseas expansion programme which resulted in a number of acquisitions. In 1976, a 'Group Strategic Planning Manager' was appointed in order to co-ordinate the divisional planning efforts and enhance the process of strategic planning at the Group level. By 1978/9, the formalized planning efforts had resulted in the formulation of the 'Group Strategy Statement' in an effort to specify the Company's strategic priorities in a structured and systematic manner. This statement which has now become the cornerstone of Group planning, spells out the expected role of each operating company in relation to the Group's overall business portfolio.

In addition, each division is expected to develop its own 'strategic plan' covering a five-year period. These fulfil two roles:

- firstly, they assist the operating companies in the development, quantification and subsequent control of their strategy;

- secondly, they highlight for the benefit of the 'Central Policy Executive' areas of divergence between strategies, opportunities and threats as perceived by the Group and the situation and appropriate strategies as perceived by the operating companies.

[Source: internal memo to General Managers of the operating companies August 1979].

9.4.2.2 Role of planning

According to the Company's 'Strategic Planning Manager' [interview September 1979], the formalized planning system at Lucas is used to:

- generate information concerning the business environment of the operating companies, their adopted strategies and action programmes;

- provide a network of information/assumptions on the basis of which the 'Group Policy Executive' [policy-making forum] can develop a long-term strategy, especially in relation to the Group's overseas expansion and diversification programmes;

- enhance the level of strategic thinking at the divisions and improve communication of issues of strategic significance between the centre and the divisions. As part of the annual planning process, meetings are held between the Group 'Policy Executive', the divisional Managing Directors and General Managers of the operating companies.

The Corporate Planning Department co-ordinates the overall planning effort, reviews and consolidates the divisional strategic plans and provides the services of an 'internal consultancy' conducting studies of strategic significance at the request of senior corporate and divisional executives. Projects which have been recently completed include:

1) evaluation of product/market strategies:

- SMEC's [Industrial Product Division] growth strategy
- electric vehicle strategy
- Group U.S. strategy
- Group Latin American strategy

2) general strategies:

- organizational structure project proposal

- manpower planning
- approach to 'industrial relations' strategy
- revision of figures in Group financial model forecasts
- new territorial rating system
- business environment scenario.

[Source: internal document 1979].

The Planning Department initiates these projects and draws on the expertise of other H.Q. departments as and when required.

9.4.2.3 Organization of the Planning Department

The 'Corporate Planning Department' has four full-time staff headed by the 'Group Strategic Planning Manager' who reports to the Main Board Director responsible for corporate strategy.

Every division also has a planning manager who works in conjunction with the divisional 'Management Services' Department and co-ordinates the development of the strategic plans before they are passed on to the centre for further review and consolidation.

9.4.2.4 Types of plans

Every division develops two sets of plans:

1] 'operational plans' which are in the form of extended budgets and cover areas such as financial requirements, planned production, marketing and manpower plans over a one-year period. These are reviewd by the 'Group Finance Department' and passed on to other H.Q. functions such as 'Personnel', 'Commercial' and 'Technical' Departments for further comments. They are discussed in the 'Operations Committee' whose members are composed of the eight divisional Managing Directors and senior corporate directors including the Chairman and the Chief Executive;

2] 'strategic plans' are prepared by the operating companies, consolidated by the divisional planning managers and subsequently passed on to the 'Corporate Planning Department'. These cover a three to five-year period and contain seven classes of information.

Firstly, significant strategic issues which are to be discussed at the meetings of the 'Group Policy Executive' are summarized.

Secondly, each division outlines a statement of its intended strategy, describing the 'actual strategy' proposed by the division and how this is likely to fit in with its business environment; the statement however, does not elaborate on the rationale for choosing a particular strategy. An assessment of the strengths and weaknesses of the business and opportunities and threats present in the environment is also provided.

Thirdly, these plans provide a description of the profile of the divisional business, including an assessment of the division's financial position [i.e. sales-margins, cash generated and used), a geographic breakdown of divisional sales, employees and profits and its competitive position in terms of 'market share'.

Fourthly, the plan outline 'strategic milestones' of special importance to the divisions and the possible date of their attainment. These 'strategic milestones' are expected to have the following general characteristics:

- they should be of significance to the whole business;

- they should include events critical to the success of the stated strategy with which they are associated;

- they should be quantified so that projected 'gaps' can be measured;

- they extend over several years and have a long-term time horizon.

[Source: internal memo 1979]

Fifthly, the plans incorporate a financial review of the business and its 'funding plan' which comprises of:

- rate of 'return on capital employed';

- planned levels of investment and capital expenditure;

- the divisions' plans to fund the cash needs of the business;

- payroll productivity.

In contrast to the 'strategic evaluation' which extends over a five-year period, the divisional 'financial statement' covers a three-year period.

'Manpower statistics' comprise the sixth category of information incorporated in the 'strategic plans', providing information on the divisions' U.K. employees, volume of production, direct hours, total payroll, index of direct labour and payroll productivity.

Finally, the plans incorporate an additional set of financial statistics included in the 'operational plans'. These provide an indication of:

- projected sales and profit figures covering a three-year period for the division's U.K. and overseas business, return on capital employed, cash generated, capital expenditure and capital employed.

This is supplemented by a statement of 'working capital' requirements for all the constituent businesses of a division.

The divisional 'strategic plans' provide the senior corporate directors with sufficient information concerning the divisions' intended strategies, action plans and financial requirements. These are subsequently used to develop a strategy for the Group as a whole, as the ensuing section on the 'planning process' illustrates.

9.4.2.5 The planning process

At the outset of the planning cycle in February of each year, the 'Corporate Planning Department' issues a set of five-year 'economic guidelines' highlighting areas where significant changes are likely to occur. These are passed on to the planning managers at the divisions and provide a set of assumptions for the formulation of the 'strategic plans'. The 'Group Strategy Statement' is issued by the 'Policy Executive' [i.e. senior corporate directors] in March. This provides General Managers of the operating companies with an explicit statement of 'group strategies', as an initial input to their own 'strategic thinking' [interview with 'Group Strategic Planning Manager, September 1979]. A number of meetings are held at the end of March between the 'Policy Executive', General Managers of the operating companies and the divisional Managing Directors. During the course of these meetings, the intended strategies of the operating companies are discussed in context of the 'Group Strategy Statement'. These result in the 'up-dating of Group strategy' and the modification of the 'preferred divisional strategies' before they are incorporated in the 'strategic plans'. Topics for discussion include:

- sales prospects on a worldwide basis, covering likely growth of markets and the operating companies' share of those markets;

- identification of territories preferred for future investment;

- likely cash generation/usage pattern of the operating companies, in broad terms;
- likely 'strategies' in those business areas which have no prospect of meeting Group financial criteria in the foreseeable future.

After the conclusion of these discussions, the General Managers of the operating companies prepare their strategic plans using the format outlined in Section 9.4.2.4. The plans of the operating companies are subsequently reviewed and consolidated by the divisional planning managers and approved by their Managing Directors before being passed on to the centre during late autumn. These are reviewed by the 'strategic planning and review team' [members of the Corporate Planning Department] who highlight issues for discussion by the 'Policy Executive'. The draft 'discussion paper' is reviewed with every divisional General Manager prior to its issue. These are subsequently circulated amongst members of the 'Policy Executive' toward the end of the year. A final review of 'Group strategy' [using the divisional strategic plans as a point of departure] is made by the 'Policy Executive' and an up-dated 'Group Strategy Statement' issued, forming the basis for discussion at the meetings of the 'Finance Committee' whose main objective is to decide on the allocation of resources amongst the Group's constituent businesses.

The Company's planning system is continuously being modified in order to take account of the Company's needs and views of the operating companies and divisions. It has increased and systematized communication between the 'centre' and the 'divisions', generated information concerning the activities and intended strategies of the latter and enhanced the quality of strategic thinking at the divisions, whose General Managers are in the main concerned about the day-to-day management of the business in adverse competitive conditions [interview with 'Group Strategic Planning Manager' September 1979].

9.4.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 18 depicts specific situational factors likely to have influenced the development of Lucas' corporate planning system. This information was conveyed during the course of an interview with the 'Group Strategic Planning Manager' in September 1979.

9.4.3.1 Situational factors associated with the initial development of the corporate planning system

- A formal system of corporate planning considering strategic issues was started in 1971.
- A non-executive member of the Board was appointed as 'Director of Corporate Strategy' working in an informal manner with senior corporate and divisional executives on the development of an overseas expansion strategy.

- A 'Group Strategic Planning Manager' was appointed in 1976 in order to co-ordinate the formal planning activity.

9.4.3.1.2 Influence of situational factors

- Lucas has traditionally been dependent on the U.K. automotive industry accounting for 78% of its total sales and 93% of its profits in 1971. This year also signalled the beginning of the decline of the U.K. automotive industry, which comprised Lucas' major market [number 2.4 on Table 18]. Britain's impending entry into the E.E.C. was likely to confront Lucas with intensive competition [number 2.1 on the table] from other European components manufacturers. Moreover, the adoption of a policy of 'multi-sourcing' by motor manufacturers had reduced Lucas' competitive advantage in the U.K. market. There was therefore an urgent need for the development of a strategy which was likely to extend the Group's geographic sphere of activity and build up its non-automotive businesses.

9.4.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department

9.4.3.2.1 Salient features

- The planning system is used to generate information on the business environment of the divisions, their strategies and action programmes. This is used by its senior management to evaluate alternative ranges of strategies on the basis of which resources can be allocated.

- Participation in the planning process enhances communication and discussion of strategic issues between the centre and the divisions.

- Members of the Corporate Planning Department co-ordinate the planning activity, review and consolidate the divisional plans and provide an information centre and services of an 'internal consultancy'.

9.4.3.2.2 Influence of situational factors

- Lucas has a decentralized organizational structure, based on autonomous divisions [number 3.2 on the table]. The maturity of the U.K. automotive sector and the changing nature of the automotive components industry [number 2.4, i.e. the emergence of a 'world car' concept and the use of standard components by manufacturers] has led the Group's senior management to consider diversification/expansion options which would ensure its profitability in the competitive environment of the 1980s. The planning system is a mechanism used to improve communication and discussion of strategic issues between the centre and the divisions. The Group's senior management [number 3.3 on the table] can use the information generated through the planning system and the services of the Corporate Planning Department to evaluate various strategic options on the basis of which resources can be allocated.

9.4.3.3 Situational factors associated with the structure and organization of the Planning Department

9.4.3.3.1 Salient features

- The Corporate Planning Department has a staff of four, headed by the 'Group Strategic Planning Manager' reporting to the Main Board Director responsible for 'Corporate Strategy'.

- Every division has a planning manager working in close collaboration with the 'Management Services' Department.

9.4.3.3.2 Influence of situational factors

- There is a close working relationship between the corporate planning staff and the Group's senior management because of the importance of developing a coherent strategy which would reduce the Group's dependence on its traditional U.K. automotive components business. The Main Board member responsible for corporate strategy heads the Planning Department and co-ordinates the development of strategic options with other senior directors.

- There is a need for 'planning managers' at the divisional level due to Lucas' decentralized organizational structure, large size and autonomy granted to the divisions [number 3.2 on the table].

9.4.3.4 Situational factors associated with the 'types of plans'

9.4.3.4.1 Salient features

Every division prepares two sets of plans:

- annual 'operational plans' which are extended budgets

- five-year 'strategic plans' incorporating an assessment of long-term prospects for the industry, position of the divisions, strategic milestones and financial requirements.

9.4.3.4.2 Influence of situational factors

- Since the main role of planning at Lucas is to develop a coherent strategy and to provide a basis for discussion of strategic issues between the centre and the divisions, the information incorporated in the 'strategic plans' is used to evaluate the divisional strategies, to improve the quality of strategic thinking at the divisions and to provide a 'yardstick' in the context of which strategic affairs can be considered.

9.4.3.5 Situational factors associated with the planning process

9.4.3.5.1 Salient features

- A set of 'economic guidelines' are issued by the Corporate Planning Department at the beginning of the planning cycle in February.

- The 'Group strategy statement' is issued by the 'Policy Executive' [senior corporate management] as an input to the divisional strategy thinking.

- Meetings are held between senior divisional management and the 'Policy Executive' in order to clarify outstanding issues.

- The divisional strategic plans are developed and submitted to the Corporate Planning Department for review and consolidation.

- These form the basis for the development of Group strategy and the allocation of funds and are discussed in the meetings of Group 'Policy' and 'Finance' Committees.

9.4.3.5.2 Influence of situational factors

- Due to Lucas' decentralized organizational structure [number 3.2 on the table], there is a need to bring together divisional and corporate management for the purpose of discussing strategic issues. In devising the planning process, an attempt has been made to incorporate frequent meetings between these two levels of management.

Table 18 Nature of interrelationship between Lucas' situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development						✓			✓							Britain's impending entry into the E.E.C.
Existing role and functions of planning									✓			✓	✓			
Organization and structure of planning departments												✓				role of planning (need to develop a coherent strategy)
Types of plans																role of planning
Planning process												✓				

9.5 Mini case-study V: Imperial Chemical Industries

9.5.1 Situational setting

ICI is one of Britain's largest industrial organizations (ranked number three in the 1979 Times list of top 100 companies) with a turnover of £5,715 million in 1980. The Group manufactures and markets agricultural products, fibres, general chemicals, explosives, metals and engineering products, organic chemicals, dyes and paints, petrochemicals, pharmaceuticals and plastics.

The Company was formed in 1926 as a result of the merger of four leading British chemical companies, Nobel Industries, Brunner Mond, British Dyestuffs and United Alkali. The new chemical grouping was highly diversified within the chemical industry, both in heavy chemicals and in the developing fine chemicals side (Hannah 1976).

ICI was managed in a highly autocratic fashion, first by Alfred Mond (first Baron Melchett of Landford) and after his death in 1930 by Harry McGowan (first Baron McGowan of Ardeer) until he retired as Chairman in 1950 at the age of 76.

The original emphasis of the Company was on heavy inorganic chemicals based on alkali, explosives and dystuffs. It entered the 'fibre' industry during the Second World War and developed its overseas interests under a cartel-like arrangement with the 'Du Pont' company of America, sharing patents and agreeing on the division of the world market between themselves and the German chemical company I G Farben [Hannah 1976]. This arrangement gave ICI access to Du Pont's 'nylon technology' and by 1950, the Company had diversified into heavy organics, paints and pharmaceutical activities, representing 20% of the Group's total sales [Channon 1973].

The arrangement with 'Du Pont' and 'Farben' implied that ICI remained mainly active in the 'White Commonwealth' areas, restricting its investment programmes in the United States and Western Europe. Antitrust action against Du Pont resulted in the termination of the agreement. ICI however, retained its presence in the British colonial territories and Du Pont remained active in South America.

During the 1950s, the Company was managed by scientists with a considerable degree of emphasis placed on production and research. Investments were increased in fibres, organic chemicals and plastics and with the change in the Group's 'product mix', ICI was brought into increasing competition with the oil companies, pursuing their own diversification strategy into petrochemicals [Channon 1973].

In 1960, Fleck [the Group Chairman] was replaced by Paul Chambers, an ex-Civil Servant who provided the break from the production and scientific emphasis of the past. During this period, ICI was still largely a British operation with a few bases overseas and its products were largely concentrated in its traditional 'inorganics' sector with limited potential for growth [The Times, 30 May 1961].

On the advice of McKinsey & Company, ICI's structure was re-organized in 1962, resulting in a greater degree of delegation of authority. The Chairman of each division [and not the collective Board of the division as previously had been the case] was made responsible for co-ordinating the activities of the divisions and monitoring their performance. A system of 'overseas policy groups' developed as the Company expanded its overseas operations. There was a large central headquarters with central functional departments, each headed by a functional Director. An inter-locking committee system was used to co-ordinate the product flows between the divisions [Channon 1973].

During the late 1960s and early 1970s, ICI developed its pharmaceutical, wallpaper and horticulture interests; further investments were made in fibres, organic chemicals, plastics and fertilizers, changing the Group's 'product-mix'. It acquired two leading textile companies 'Viyella' and 'Carringtour Dewhurst' in 1970, having previously failed in its bid for 'Courtaulds' in 1961.

During the 1970s, the Group expanded its overseas operations particularly in Western Europe and North America, where it had been relatively under-represented. It has also benefitted from its 19.2% stake in the North Sea 'Ninian Oilfield', which accounted for 21% of the Group's total profits in 1979/80 [Annual Report 1980]. By 1980, ICI's portfolio of businesses embraced the following:

- agriculture [including fertilizers, herbicides, insecticides] accounting for 16% of total sales and 32% of profits;

- fibres [supplying the textile industry] accounting for 6% of Group sales, having made a loss of £86 million;

- general chemicals [including alkalis, chlorine, acids, methacrylates, limestone and lime] accounting for 17% of sales and 21% of profits;

- industrial explosives [3% of sales and 4% of profits];

- oil [the Company's stake in the Ninian Oilfield] accounting for 11% of total turnover and 21% of profits;

- organic chemicals which made a loss of £35 million accounting for 7% of sales;

- paint and decorative products accounting for 7% of sales and 6% of profits;

- petrochemicals which made a loss of £44 million, although accounting for 14% of total sales;

- pharmaceuticals, accounting for 5% of sales and 14% of profits;

- plastics with a loss of £35 million, generating 11% of Group sales.

Table 19 provides an indication of the geographic distribution of Group sales.

Region	% of total sales
U.K.	37
Exports from U.K.	21
Western Europe	14
The Americas	13
Australasia & Far East	12
Indian Sub-Continent	1

Table 19 Geographic distribution of sales: ICI
(Source: Annual Report 1980)

The recession of 1980/81 has resulted in considerable lossess for the Group's 'bulk-chemical' operations such as fibres, petrochemicals and plastics. It reported its first-ever loss of £10 million in the third quarter of 1980 which has since resulted in plant closures and rationalization of its 'low-growth' businesses, particularly in commodity chemicals, plastics and fibres. It is likely that the Group will increase its investment in pharmaceuticals, agricultural products and paint operations which are likely to offer better growth prospects in the future (Financial Times, 27 February 1981).

The Group is organized on the basis of ten 'product divisions' in the U.K. and overseas subsidiary companies.

Each division has its own Chairman and Board of Directors who are represented on the Group's central policy-making committees. The Main Board is organized on a matrix basis and each of the eight executive Directors is responsible for a geographic region/product division and a functional area, thereby co-ordinating the Group's various businesses.

The overall Group strategy is decided on through the mechanism of 'central committees' such as 'Planning', 'Policy' and 'Finance and Capital Expenditure' Committees, which in addition monitor the performance of the divisions and co-ordinate their activities; non-Board members also serve on these committees as and when required. A number of 'General Managers' co-ordinate the activities of central departments such as commercial, investment, personnel, planning and research and technology.

The divisions are granted complete autonomy in the management of their operations. The centre specifies the strategic direction of the Group through a number of mechanisms:

- allocation of capital: there is a ceiling of £1 million for expenditure on plant and equipment. All the expenditure programmes which exceed this limit are evaluated by the 'Group Finance Department' and subsequently approved by the 'Finance Committee';

- appointment of personnel: the centre can influence the direction of the divisions through the 'strategic placement' of senior staff. All the senior appointments have to be approved by the Main Board;

- specifying the Group's corporate objectives and strategic priorities through the corporate planning system [this will be examined in the ensuing section] [interview with senior member of Planning Department, September 1979].

Most of ICI's senior executives have had wide and varied experience of the Group's many businesses. For example, the present Chairman, Sir Maurice Hodgson, has been in the Company for over 30 years; his progression to Chairman has taken him through two U.K. divisions to ICI New York and then to the Head Office where he took up the newly-created post of 'General Manager' in charge of planning in the mid-1960s. On his appointment to the Board in 1970, he became 'Commercial Director' and 'Planning Director' becoming a 'Deputy Chairman' in 1972. He succeeded Sir Roland Wright as the 'Group Chairman' in 1978.

9.5.2 Corporate planning system

9.5.2.1 Initial development

ICI's corporate planning system was set up by Maurice Hodgson [later Sir Maurice Hodgson, the Group's present Chairman] in 1967, who was appointed as the Company's 'General Manager in charge of Planning'. The original system is still in use today, although the scope of planning at the divisions has been greatly extended. A number of factors are considered to have highlighted the need for formalized planning at the corporate level:

- firstly, the Group had embarked on a major diversification programme during the 1960s, entering the fields of 'agricultural products', 'fibres' and 'paints and decorative' products. In addition, it was also expanding its geographic sphere of activities through the expansion of a number of manufacturing bases in Europe and North America. It had also increased its volume of exports after the devaluation of the Pound in 1967. These developments highlighted the need for a central information department which would monitor environmental developments of strategic significance to the Company;

- secondly, it had suffered a decline in its profits during the mid-1960s, emphasizing the need for a systematic evaluation of its business portfolio, identifying those business areas which offered the potential for further growth;

- thirdly, the establishment of a decentralized organizational structure based on product divisions had transferred operational responsibilities to the divisions; this necessitated the use of an 'integrative mechanism' which would co-ordinate and evaluate the divisional strategies and result in a more rational process for allocating funds amongst the constituent businesses.

[Interview with member of the Planning Department, September 1979].

The planning system became operational through three units of the Corporate Planning Department which are still used today. These units are specifically responsible for organizing and co-ordinating the planning activity.

9.5.2.2 Organization of the Corporate Planning Department

- The 'Data Centre' monitors the external environment including strategies of the Group's major competitors. It has a full-time staff of twelve [mainly economists] who prepare special reports on macro-economic, political and technological developments on a world-wide basis.

- The 'Planning Department' has six staff members recruited from various parts of the Company [at the time of the interview, which was held with a member of this

Department, one had a marketing background in the Group's Paints Division, two had joined from the Group 'Finance Department' and three had previous experience as 'works managers' in different divisions). This Department collects the information prepared by the 'Data Centre' and formulates a number of scenarios which are subsequently presented to senior corporate committees. In addition, it also conducts special studies of strategic significance at the request of senior corporate executive and divisional planning departments. At the time of the interview (September 1979) members of this Department were in the process of preparing a special report on the 'world energy prospects up to the year 2000'.

- The 'Policy' Department, comprising the third constituent of the Corporate Planning Department, is considered to be the 'most prestigious' of the three, due to its direct participation in the strategy formulation process. It is in direct contact with the divisions, evaluates their five-year strategic plans and specifies a number of strategy alternatives which are subsequently presented to the Group's senior executives for further consideration. This Department has a staff of twelve. The managers in charge of the three departments report to the 'General Manager in charge of Planning' and through him to a Main Board Director.

Figure 41 further clarifies the organization of the three Corporate Planning Departments.

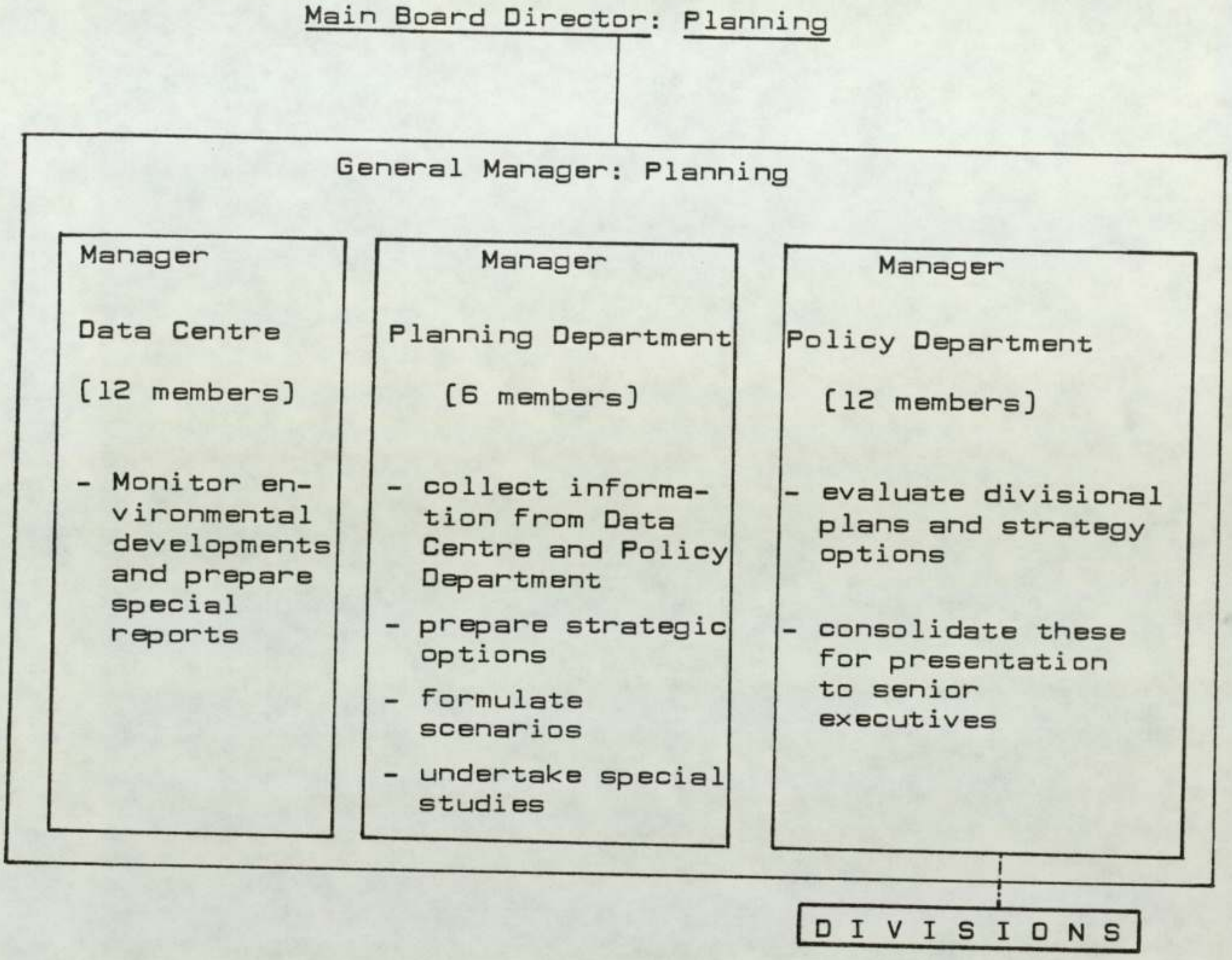


Figure 41 Organization of Corporate Planning Department: ICI

Every division also has its own Planning Department which co-ordinates the planning activities of its business units. Due to the large size and complexity of the divisional operations, there are various levels of planning at each division, as illustrated in Table 20.

The planning manager in charge of divisional planning reports to the divisional Chairman and co-ordinates the formulation of the five-year strategic plans before these are submitted to the Group 'Policy Department'.

	Level	Example
1.	Group	As above
2.	Unit/Division	Paints Division
3.	Business Group	Wallcoverings Group
4.	Business Group function	Wallcoverings U.K. sales
5.	Business sub-function	Wallcoverings Midland sales
6.	Business sub-sub-function	Wallcoverings Coventry sales

Table 20 Different levels of planning: ICI

9.5.2.3 Role of planning

From a corporate perspective, planning fulfils a number of roles:

- it provides a central information centre, monitoring the Group's external environment on the basis of which a range of strategic scenarios can be formulated;

- the Planning Department provides the services of an internal consultancy, undertaking special projects of strategic significance to the Company;

- the 'Policy Department' facilitates the flow of information between the centre and the divisions; it reviews and evaluates the divisional plans and consolidates these for subsequent presentation to senior policy-makers. These are then used for resource allocation purposes;

- the Corporate Planning Department is also used for management development purposes, providing an ideal training ground for divisional management.

After a two to three year spell in the Department, the executives can be sent back to the divisions with an enhanced understanding of a large and complex organization such as ICI.

Ultimately, formalized Group planning facilitates the formulation of a long-term strategy for the Company and its many businesses by providing a 'support service' for senior corporate policy-makers. The many sources of information used for this purpose and the contribution of the Corporate Planning Department are illustrated in Figure 42.

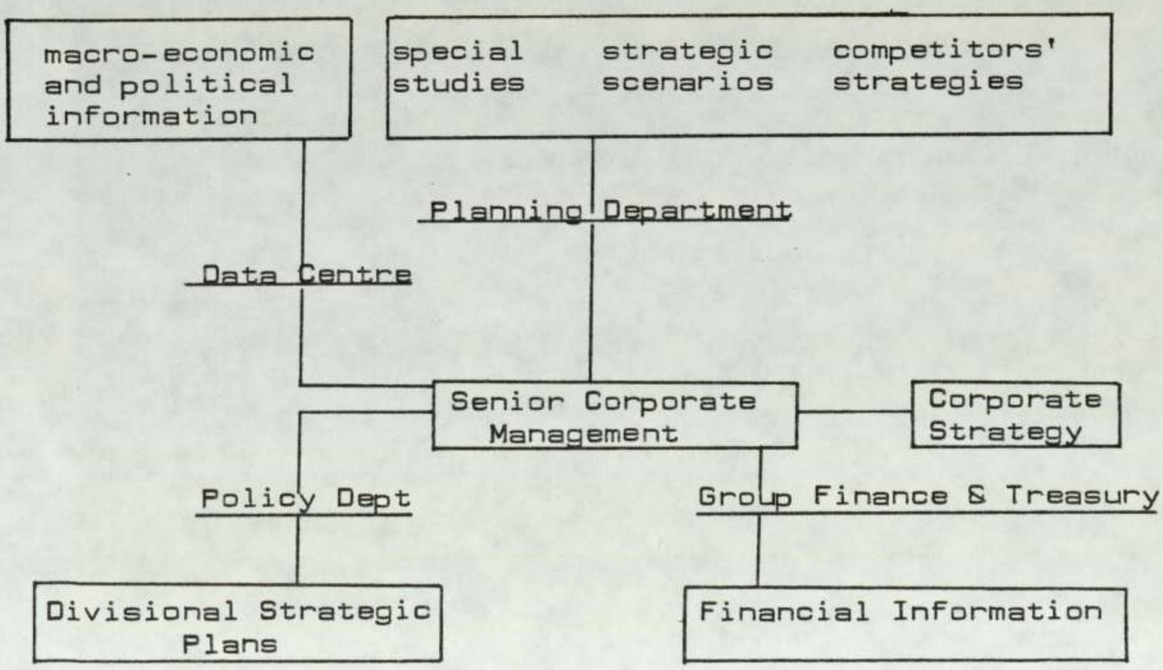


Figure 42 Different sources of information used to develop the corporate strategy: ICI

9.5.2.4 <u>Types of plans and the planning process</u>

There are 3 types of plans which are of particular relevance at Group level:

- the operating plans are formulated by the divisions and extend over a one to two-year period. These include financial forecasts of the divisions' performance in the context of which their working capital requirements are specified. These are evaluated by the 'Group Finance Department';

- the 'strategic plans' cover a five-year time horizon and set out the divisions' intended/ preferred strategies, their capital investment programmes and specific action plans. These are submitted to the 'Group Policy Department' where they are reviewed and, if necessary, sent back to the divisions for further modification. These are subsequently discussed in the 'Group Planning Committee' [comprising senior corporate and divisional directors] and, having been approved, form the basis of the Company's long-term strategy;

- these 'strategic plans' are consolidated by members of the Policy Department into a 'Group corporate plan', setting out the future environment of the various business groups and their strategic options over a ten-year period. These are used as 'discussion documents' by senior management for the purpose of formulating an overall strategy.

9.5.3 The nature of interrelationship/association between situational factors and the corporate planning system

Table 21 depicts specific situational factors likely to have influenced the development of ICI's corporate planning system. This information was conveyed during the course of two interviews with a member of ICI's 'Planning Department' in September 1979.

9.5.3.1 Situational factors associated with the initial development of the corporate planning system

9.5.3.1.1 Salient features

- ICI's existing corporate planning system was set up in 1967 by the present Chairman (who was the 'Planning Manager' at the time), Sir Maurice Hodgson.

- It was to provide a central information service and to improve communication and discussion of strategic issues between the centre and the divisions.

9.5.3.1.2 Influence of situational factors

- ICI had embarked upon a programme of geographic expansion and strategic diversification during the 1960s (number 3.1 on Table 21). This, coupled with the increasing competitive threat from oil companies which had diversified into chemicals (number 2.1 on the table) presented a complex operating environment, highlighting the need for a central department which would monitor significant external developments on a systematic basis and evaluate their impact on the Group's many businesses.

- During the 1960s, ICI adopted a decentralized organizational structure based on autonomous 'product divisions' [number 3.2 on the table], emphasizing the need for improved communication and transfer of strategic information between the centre and the divisions.

- Moreover, there was a need for the systematic evaluation of its business portfolio due to a marked deterioration in the Group's profitability [number 3.4 on the table].

9.5.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department

9.5.3.2.1 Salient features

- The 'Data Centre' and 'Planning Department' of Group planning provide a central information service, monitor external developments, generate a contrasting range of scenarios and prepare special reports on issues of strategic significance at the request of senior management.

- Members of the 'Policy Department' review and consolidate the divisional strategic plans, an input for the development of a Group strategy, thereby providing a basis for the subsequent allocation of resources.

- The three departments comprising 'Group Planning' are used for management development purposes.

9.5.3.2.2 Influence of situational factors

- Because of ICI's diversified business portfolio (number 3.1 on the table) and participation in different geographic markets on an international scale (number 2.4 on the table), there is a wide range of external factors (numbers 1.1 to 1.5 on the table) which need to be taken into account for the purpose of formulating a long-term strategy.

- The Group is also active in technologically-dynamic business sectors (number 2.5 on the table), some of which are undergoing a period of structural transition due to the impact of new technology (such as 'bio-technology'). These features highlight the need for a central information service, used by its senior management team (number 3.3 on the table) in the formulation and evaluation of the Group's long-term strategy.

- Because of the Group's decentralized organizational structure and the large size of its divisions (number 3.2 on the table), there is a need for a systematic dialogue and discussion of strategic issues between the centre and the divisions.

9.5.3.3 Situational factors associated with the structure and organization of the Planning Department

9.5.3.3.1 Salient features

- 'Group Planning' comprises three departments:

  i) The 'Data Centre' with a staff of twelve.

  ii) The 'Planning Department' with six members.

  iii) The Policy Department' with twelve staff.

- Heads of the three departments report to the 'General Manager in charge of Planning' who is responsible to the 'Planning Director' [a Main Board member].

- There are separate planning departments at the divisions.

9.5.3.3.2 Influence of situational factors

- 'Group Planning' is structured so that its three departments are responsible for specific planning tasks. For example, due to the sheer volume of information which needs to be processed, members of the 'Data Centre' are solely responsible for monitoring external developments whereas the 'Policy Department' evaluates the divisional plans.

- Due to ICI's large size and diverse nature of its businesses, the Group's senior management need a wide range of information in order to assess the divisional strategies and allocate resources accordingly [number 3.3 on the table]. The Main Board member who is responsible for Group Planning works closely with other senior directors.

- The large size and complex nature of the divisional business [number 3.2 on the table] is such that there is a need for separate planning departments at the divisions.

9.5.3.4 <u>Situational factors associated with the 'types of plans'</u>

9.5.3.4.1 <u>Salient features</u>

- Every division prepares two types of plans:

  i) 'operating plans' which extend over a one to two-year period and are 'extended budgets';

  ii) 'strategic plans' which extend over five years and specify their chosen strategies, action plans and capital expenditure programmes.

- These are consolidated by the 'Policy Department' into a 'Group corporate plan', setting out the likely environment of the businesses and their strategic options over a ten-year period. These are used as 'discussion documents' by senior management.

9.5.3.4.2 Influence of situational factors

- The information contained in the 'strategic plans' is used as a basis for the development of an overall Group strategy and allocation of resources.

- The 'Group corporate plan' extends over a ten-year period due to the technological dynamism of ICI's business groups, long lead times required for planning major operations and the need to commit resources for the accomplishment of specific strategic objectives years in advance.

9.5.3.5 Situational factors associated with the planning process

9.5.3.5.1 Salient features

- The formal planning process involves the preparation of 'strategic plans' by the divisions, their evaluation and consolidation by members of the Policy Department and their subsequent discussion in a number of corporate committees, comprised of senior directors.

9.5.3.5.2 Influences of situational factors

- The Group's large size and decentralized organizational structure [number 3.2 on the table] imply that there is a need for a standard procedure in the context of which divisions can develop their plans for eventual submission to the centre.

Table 21 <u>Nature of interrelationship between ICI's situational setting and its corporate planning system</u>

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development						✓					✓	✓		✓		
Existing role and functions of planning	✓	✓	✓	✓	✓				✓	✓	✓	✓	✓			
Organization and structure of planning departments												✓	✓			-role of planning (different departments are responsible for specific planning tasks
Types of plans										✓						-role of planning (need for info. to develop &eval. strategies
Planning process												✓				

9.6 Mini case-study VI : Serck Limited

9.6.1 Situational setting

Serck is a Group of engineering companies serving many different industries. The Company, which had a turnover of £106 million in 1979, operates internationally across a broad geographic front. Its products are manufactured in eight countries and it has distribution facilities in many more.

Serck started business in 1907 as one of the original manufacturers of car radiators and became a public company in 1919. It has since expanded steadily by means of organic growth and through acquisitions.

At the beginning of 1980, the U.S.-based 'Rockwell International Holdings Ltd' acquired 29.7% of the Group's ordinary shares and subsequently made a bid for the remainder. Due to the intervention of the 'United States Department of Justice' the bid was withdrawn and an agreement was reached to the effect that within four years, Rockwell would divest itself of its share capital in Serck.

Serck's business comprises the following principal activities:

- industrial valves and actuators [Serck Audco Valves International] with manufacturing facilities in the U.K., Germany, France, Belgium, Australia, South Africa, United States and India. In 1980, this business accounted for nearly 50% of Serck's total volume of sales. This division's products are designed to control the flow of liquids and gases and are mainly used in gas production and distribution [including off-shore installations], oil production and refining, chemical and petro-chemical processing, steel-making, power-generation, heating and ventilating, power supply and ship-building. Overseas sales are co-ordinated through the division itself, supported by local agents where appropriate. This division exports 48% of its total production [Annual Report 1980];

- heat transfer equipment [Serck Heat Transfer] used for the purpose of transferring heat from one medium to another. Its principal applications are in:

  - marine and naval industries
  - locomotives
  - aircraft power plants
  - heavy vehicles
  - power generation
  - process plant
  - general engineering.

  In addition, 'cooling systems' are supplied to the large diesel and industrial gas turbine markets.

  This division has manufacturing facilities in the U.K. and Germany and its sales account for 27% of the Group's total turnover;

- exchange parts for motor vehicles are supplied through 'Serck Services'. This division provides a 'remanufacture and replacement service' to the motor trade. Its product range includes radiators, bumper bars and number plates. The 'commercial vehicle and industrial plant' section produces waterpumps, turbocharger, clutches and fuel tanks. This division is mainly active in the U.K., although in recent years it has expanded its overseas operations, especially in the Middle East, with eight sales outlets which have been opened over the last two years. This division accounts for 27% of total Group turnover;

- supervisory control systems are provided through 'Serck Control' which supplies the oil, gas, water, sewage, petrochemical and electricity industries. In recent years it has expanded its activities in order to supply equipment to the computer and telecommunication industries. This division represents a small portion of Serck's business, although it has been earmarked for further expansion. In 1979, this division accounted for 2% of the Group's total turnover;

- 'Serck Visco' is a supplier of 'environmental control equipment and systems' which deal with problems associated with water conservation, air pollution and noise suppression. Its services are principally used in process plants, steel and ceramic industries and manufacturing plants in general. In the 'dust-collecting' field for example, the division specializes in custom-built equipment for the collection and suppression of toxic dusts, particularly in the metal-refining industry. This company is mainly active in the U.K. accounting for 2% of the Group's total turnover;

- 'Serck Baker' the last company comprising the Group's business portfolio supplies water and waste water treatment systems to the oil and mining industries and municipal water authorities.

  This 'California-based' company was acquired in 1980 as part of the Group's 'geographic diversification' programme. This sector has considerable growth potential since its products are used by the oil industry in order to increase the world's recoverable oil reserves by water injection. In 1980 'Serck Baker' accounted for 1.5% of the Group's total turnover, although its contribution is likely to increase considerably over the next few years.

Serck is organized on the basis of a 'holding company' with its six mainstream businesses structured as 'limited liability companies'. Each operating company has its own functionally-organized Board of Directors headed by a Managing Director. They are granted a considerable degree of autonomy in the management of their businesses, with the centre exercising its control through the formal strategy formulation [reviewed in Section 9.6.2] and resource allocation processes. The Main Board is composed of three executive [Managing Director, Finance Director, Technical Director] and four non-executive directors including the Chairman.

A limited range of supporting services are provided by the 'Group Head Office' including 'finance and accounting', 'taxation', 'legal services', 'computer services' and 'planning'.

The divisional activities are co-ordinated through the mechanism of three corporate committees:

- the 'Executive Committee' comprising three corporate directors and Managing Directors of the subsidiary companies, dealing with the day-to-day operational issues;

- the 'Strategy Committe' comprising three senior corporate directors, Group Management Development Manager and Managing Directors of the subsidiary companies, whose main purpose is to review the divisional strategies and arrive at a coherent strategy for the Group as a whole;

- the 'Finance and Audit Committee' comprising senior corporate directors, Group Capital Controller and Managing Directors of the subsidiary companies. Its main purpose is to monitor the performance of the subsidiaries and allocate capital resources.

9.6.2 Corporate planning system

9.6.2.1 Initial development

On the initiative of the Group Managing Director a manager was appointed in 1978, charged with the specific responsibility of devising a formal planning system which would enhance the level of strategic thinking at the operating companies and systematize the Group's efforts towards the development of a coherent strategy. Prior to this, the operating companies submitted their plans and capital expenditure programmes [expressed in financial terms] and the 'centre' exercised its control through the 'resource allocation process' and personal and informal contact between the Group Managing Director and the divisions. Group strategy was often devised in an ad-hoc manner with no systematic evaluation of alternative strategic options.

A number of factors prompted the Group Managing Director to formalize the Company's planning efforts. Firstly, the Group has become increasingly diversified through a number of acquisitions in the 1970s. By 1978, its business portfolio comprised three companies [Industrial Valves, Heat Transfer Equipment and Exchange Parts for Motor Vehicles] contributing over 98% of total turnover and two much smaller companies [Supervisory and Environmental Control Systems] which offered considerable potential for future growth. The 'balance of power' amongst the divisional Managing Directors was such that the older and more-established divisions were more likely to gain the upper hand during negotiations with the

'Head Office'. A formal planning process which would result in the systematic evaluation of the operating companies' strategies was therefore likely to equilibriate the balance of power which had hitherto prevailed in favour of the larger and more-established divisions.

Secondly, due to the declining position of the U.K. economy, the Group wanted to expand its overseas operations. The planning process would systematize the search for emerging opportunities.

Moreover, the Group felt vulnerable to potential 'takeover' threats, especially from large U.S. concerns. Although the offer made by the U.S.-based Rockwell International Holdings in February 1980 was blocked by the U.S. Justice Department, other takeover bids could not be ruled out entirely. A Central Planning Department would provide a valuable supporting service for the Managing Director since it would scan the Group's external environment and by picking up weak signals would forewarn of dangers looming on the horizon [interview with Group Corporate Development Manager, June 1979].

It took the Planning Manager approximately eighteen months to design and operationalize the planning system. During the course of this period he canvassed the views of senior management of the operating companies to 'get a feel for the companies', the prevalent culture and their requirements. This insight was likely to iron out potential clashes between the Head Office and the operating companies over the role of the devised planning system.

9.6.2.2 Role of planning

From a corporate perspective, the formal planning system fulfils a number of roles:

- it provides a network of information on the operating companies, their environment, their competitive position and preferred strategies;

- on the basis of this information, the divisional strategies can be examined and inconsistencies highlighted. The planning process enables senior corporate management to evaluate the soundness of these strategies and provides an opportunity for the Managing Directors of the operating companies to defend their intended courses of action;

- resources can then be allocated on a more rational basis, taking account of the companies' future growth potential and environmental settings as well as purely financial criteria such as rate of return, cash flow patterns, payback period;

- the Planning Manager provides the services of an internal consultancy, monitoring environmental developments of strategic significance to the firm, assessing likely acquisition targets and diversification ventures.

Moreover, the formalized planning process is likely to enhance the level of 'strategic thinking' in the operating companies. The 'Group Managing Director' considers this to be one of the major contributions of formalized planning, especially during its initial stages of development [interview with Group Management Development Manager, February 1980]. The need for a qualitative assessment of the companies' long-term strategies is all the more significant due to the predominance of engineers amongs the ranks of its senior management [i.e. internal focus: concern with production-efficiency instead of considering longer-term strategic issues].

Through a number of talks and informal seminars [prior to the consolidation of the planning system] the Group Corporate Development Manager set out to inform the divisional executives on the potential benefits likely to result from a formal planning system in order to dispel the widely-held belief that its main purpose was to strengthen the centre's control over the strategic direction of the divisions, thereby restricting their autonomy.

9.6.2.3 Organization of the Planning Department

Serck's formal planning system is still at an early stage of development. There is one full-time manager at the Head Office [Group Corporate Development Manager] whose main responsibility is to manage and co-ordinate the planning activity, devise the 'Strategic Documents' which are compiled by the operating companies, review and consolidate these for further discussion in the 'Group Strategy Committee' meetings. In addition he acts as an 'internal consultant' preparing special reports on issues of strategic significance to the Company. He reports to the 'Group Managing Director' and has his full support in carrying out his stated responsibilities.

None of the Group's operating companies have any full-time staff responsible for planning. Their 'Managing Directors' are responsible for compiling the 'Strategy Documents' and co-ordinating the input of their own functional departments.

9.6.2.4 Types of plans

The cornerstone of the Group's existing planning process is the completion of the 'Strategy Packs' [devised by the Group Corporate Development Manager] by every operating company on an annual basis. These provide an indication of the operating companies' existing position and chosen strategies and are up-dated on an annual basis. The 'Strategy Packs' are addressed to four main issues:

- is the strategy formulated by the operating companies in the previous year still valid? If not, why not and what needs to be changed? This prompts the operating companies to consider recent developments in their operating environments such as competitors' actions and impact of new technology;

- initial plans which were formulated at an outline stage in the previous year can be put together in greater detail;

- action plans and financial implications of these strategies can be evaluated;

- policies and plans that will guide the operating companies in the future can be explicitly specified.

[Source: Internal Document circulated to the operating companies, January 1981].

The 'Strategy Packs' which are sent to the Managing Directors of the operating companies at the outset of the annual planning cycle in February represent the collation of 'base data' concerning their activities and provide a springboard for evaluating their future strategic direction.

The Strategy Document which covers a three-year period is based on the following format:

1] review of previous year's strategy: this enables the managing directors to comment on the relevance of previous year's strategy and to provide an indication of any progress which has been made, particularly in relation to specific action plans. External and/or internal developments likely to influence the companies' strategies are also outlined;

2] summary of the companies' strategies in the coming year including specific key elements such as:

   - key objectives [expressed in market

and financial terms)

- action plans
- financial performance
- key assumptions built into the strategy (i.e. political, economic and technical developments);

3) market report and position of competitors comprising the following information:

- historical and projected size of the served markets divided into geographic sectors
- past and planned market share
- information on competitors
- assessment of product quality (this is of particular significance to Serck companies since according to the 'PIMS Programme' to which the Group subscribes, 'product quality is one of the strongest determinants of profitability in those business sectors in which the companies are actively engaged'. Quality is defined widely to incorporate delivery, pre-sales advice, warranties, after-sales service as well as the normal engineering product quality)
- statement of market strategy for every 'Strategic Business Unit' (i.e. to increase, hold or harvest market share or withdraw completely from specific markets);

4) manufacturing and facilities report, providing an account of:

- existing plant and equipment
- capacity utilization for each 'Strategic Business Unit'
- manufacturing policy
- additional capacity required to meet the targets set out in the strategic plan, its cost and timing
- unit costs incurred compared with those in industry;

5) an analysis of the companies' strengths and weaknesses as well as potential opportunities and threats;

6) development programmes such as:

- new designs/products in the pipeline
- how they match market requirements
- competitors' planned products and design improvements;

7) technological changes:

- changes taking place in those sectors in which the companies operate and their likely impact
- competitors' reaction to these changes;

8) organization and personnel report:

- existing organizational structure and planned changes
- management development programmes which are being implemented
- training programmes
- existing manpower plans;

9) financial summary:

- actual and planned profit and loss figures
- capital employed
- cash flow position
- summary of capital expenditure programmes.

The information outlined in the three-year 'Strategy Packs' enable the Head Office to assess the direction and soundness of the companies' strategies and facilitates an evaluation of their capital requirements. It also provides the Group Managing and Finance Directors with sufficient information to monitor the progress of the companies.

9.6.2.5 The planning process

At the outset of the annual planning cycle in February, the 'Corporate Development Manager' circulates the 'Strategy Packs' amongst the Managing Directors of the operating companies. Under the supervision of the six Managing Directors, the 'Strategy Packs' are completed by early May when they are submitted to the 'Corporate Development Manager'. These are subsequently reviewed and consolidated and form the basis of discussion in a series of meetings of the 'Strategy Committee', whose members are:

- The Group Managing Director
- The Group Financial Director
- The Group Corporate Development Manager and the Managing Director of the operating company whose 'Strategic Pack' is being discussed.

An up-dated version of the 'Group Strategy Statement' (i.e. the consolidation of operating companies' Strategy Packs] is prepared by the 'Corporate Development Manager' incorporating feedback from the 'Group Strategy Committee' meetings. The 'Strategy Statement' is formally reviewed by the Main Board toward the end of June and having been approved is adopted as the Group's official strategy and subsequently implemented.

The budgetary cycle starts at the beginning of June, when 'Budget Packs' are circulated amongst the operating companies by the 'Capital Controller's Office'. Upon completion, they are submitted to the Head Office by the beginning of August when they are formally reviewed by the 'Group Finance and Capital Controller's Office'. The formal presentation of budgets takes place during September. After a series of discussions in the 'Group Finance Committee', the budgets are formally approved.

The 'Group Corporate Development Manager' has attempted to establish a close working relationship with the Capital Controller's Office. In his opinion, this is of crucial significance if the 'strategy formulation' and 'resource allocation' processes are to be regarded as complementary [interview with Corporate Development Manager, October 1980].

9.6.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 22 depicts specific situational factors likely to have influenced the development of Serck's corporate planning system. This information was conveyed during the course of four interviews with the Company's 'Corporate Development Manager' [interviews June 1979, February and October 1980, January 1981].

9.6.3.1 Situational factors associated with the initial development of the corporate planning system

9.6.3.1.1 Salient features

- A manager was appointed in 1978 in order to devise a formal planning system.

- This was to enhance the level of strategic thinking at the divisions, improve communication and discussion of strategic issues between senior corporate and divisional management and systematize the Group's efforts toward the development of a coherent strategy.

9.6.3.1.2 Influence of situational factors

- Serck has become increasingly diversified through a number of major acquisitions in the 1970s [number 3.1 on Table 22]. The Group's enlarged and diversified business portfolio and its decentralized organizational structure [number 3.2 on the table] had highlighted the need for improved communication and discussion of strategic issues between the centre and the operating companies.

- The Group Managing Director [number 3.3 on the table] was in favour of installing a formal planning process which would systematize the development of a Group strategy based on an evaluation of merits of alternative courses of action. This was also likely to allow the senior management of Serck's smaller but growth-oriented operating companies to put forward their proposals for expansion and equilibriate the balance of power which had hitherto favoured the larger and more established businesses within the Group.

- The declining position of the U.K. market [number 2.4 on the table] had emphasized the urgency of developing an 'overseas expansion' strategy. The establishment of a formal planning system would systematize the search for these opportunities.

- Its senior management had recognized the Group's vulnerability to potential takeover bids, especially from large U.S. companies, eager to establish a European base for their operations. This had become a strong possibility during 1978/1979 when the U.S.-based Rockwell Group had made a bid for Serck but had failed due to the intervention of the U.S. 'Department of Justice'. The Planning Manager would provide a supporting service for the 'Group Managing Director' by scanning the external environment, forewarning of possible developments likely to affect the Group and its businesses.

9.6.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department

9.6.3.2.1 Salient features

- To generate information on the activities of the operating companies, their existing position, intended strategies and action programmes and their financial implication.

- To enable senior corporate management to evaluate these strategies, thereby providing a basis for discussion of significant developments and the systematic allocation of resources.

- To provide an information centre and an internal consultancy.

- To improve the quality of 'strategic thinking' at the operating companies.

9.6.3.2.2 Influence of situational factors

- Due to the recent development of a formal planning system, factors influencing its existing role are closely related to those associated with its initial development [Section 9.6.3.1]. These include the Group Managing Director's desire for the adoption of a systematic approach toward the development of a coherent strategy [number 3.3 on the table]; its enlarged and diversified business portfolio [number 3.1 on the table] and decentralized organizational structure [number 3.2 on the table], emphasizing the need for improved communication and discussion of strategic issues between the centre and the operating companies.

- There is a need for improving the quality of 'strategic thinking' at the operating companies due to the 'production orientation' of their management and their preoccupation with the day-to-day operational problems. By participating in the formal planning process and compiling their strategic plans, they are encouraged to adopt a longer-term outlook toward their businesses.

9.6.3.3 Situational factors associated with the structure and organization of the Planning Department

9.6.3.3.1 Salient features

- One full-time Manager (Group Corporate Development Manager) is responsible for co-ordinating the formal planning activity from the Head Office; he reports to the 'Group Managing Director'.

- There are no full-time planning staff at the divisions. Their 'managing directors' prepare the strategy documents and co-ordinate the input of various functional departments.

9.6.3.3.2 Influence of situational factors

- The planning system is still going through its initial stages of development. The Group Corporate Development Manager is in a position to maintain informal and personal contact with senior managers of the operating companies and work closely with the Group Managing Director who has shown his support and commitment for the planning system (number 3.3 on the table).

- Due to the recent development of a formal planning system, the relatively small size of the operating companies, the production orientation of their managing directors and their initial distrust of a formal planning system, there is no need for full-time planning staff at the operating companies, at least for the time being.

9.6.3.4 Situational factors associated with the 'types of plans'

9.6.3.4.1 Salient features

- Apart from annual budgets, the managing directors of the operating companies compile a 'strategy document' incorporating specific information on their existing position, strategic options, action programmes and financial requirements. These extend over a three-year period.

9.6.3.4.2 Influence of situational factors

- The information incorporated in these three-year strategic plans enables the senior corporate management to evaluate the strategic direction of the operating companies, enhances communication and discussion between the centre and the operating companies and provides a basis for the systematic generation of strategic information.

9.6.3.5 Situational factors associated with the planning process

9.6.3.5.1 Salient features

- There is a formal planning cycle from February to June involving the following stages:

i) completion of 'strategy packs/documents' by the managing directors of the operating companies;

ii) review and evaluation of these documents by the 'Group Corporate Development Manager';

iii) discussion of issues incorporated in the 'strategy documents' by members of the 'Strategy Committee';

iv) preparation of a revised 'strategy statement' based on the discussions of members of the 'Strategy Committee';

v) formal discussion and approval of the 'strategy statement' by the Main Board.

9.6.3.5.2 Influence of situational factors

- Serck's decentralized organizational structure and the degree of autonomy granted to the operating companies (number 3.2 on the table) highlights the need for a systematic planning process which specifies different stages of the activity and incorporates frequent meetings between senior corporate and divisional management for the purpose of discussing strategic issues.

Table 22 Nature of interrelationship between Serck's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development									✓		✓	✓	✓			-threat of takeover
Existing role and functions of planning											✓	✓	✓			
Organization and structure of planning departments													✓			-recent development of formal planning -nature of the divisional businesses & prod. orientation of management
Types of plans																-need for info. to develop strategy
Planning process												✓				

9.7 Mini case-study VII: Redland

9.7.1 Situational setting

Redland provides materials and services to the construction industry in many countries of the world. The product making the largest contribution to profits and on which the majority of overseas operations are based is the 'concrete roof tile'. The Company's other products include concrete pipes, ready-mix concrete, dry and coated roadstone, metal connector plates for engineered timber structures, plastic and metal building products, aluminium replacement windows and applied electronics and instrumentation. Redland is also engaged in waste disposal, industrial cleaning, road surfacing and road marking. Through a network of subsidiary and associate companies, the Group is active in continental Europe [where 42% of total sales and 57% of profits before tax were generated in 1979/1980], North America, Australasia and the Far East, South Africa and the Middle East.

The Company was initially set up in Reigate [Surrey] after World War I through a merger between a few local firms engaged in the provision of 'construction materials'. It expanded its operations through a number of acquisitions in the 1950s and did not become a public company until 1958 when it acquired the 'Sussex Brick Company' representing a sizeable addition to its business portfolio. The pace of U.K. acquisitions quickened during the 1960s with the addition of a large number of relatively small companies.

During this period, Redland was managed by members of the three founding families and did not have any senior professional managers until the appointment of Lord Beeching [Deputy Chairman of ICI] as the 'Group Chairman and Chief Executive' in 1970. During the early 1970s, the management orientation of the Company was transformed with the recruitment of young and professional managers.

After the unsuccessful takeover bid of 'Ready Mixed Concrete Ltd' in 1971, the Group embarked on a programme of overseas expansion in addition to diversifying its U.K. business. It entered the field of 'waste transport and disposal' through the acquisition of 'Purle Bros.' in 1971 and embarked upon a programme of acquisitive expansion in Europe, particularly following Britain's entry into the E.E.C. in 1972/3.

Its European acquisitions have led to the consolidation of its operations in Germany, France, Belgium, Denmark, Austria, Netherlands, Spain, Sweden and Norway. Its largest European base is in West Germany where 34% of total Group profits [before tax] were generated in 1979/80.

During 1978/9, Redland expanded its North American operations through the acquisition of four U.S. companies:

- Automated Building Components Inc. [based in Florida, supplier of metal connector plates];
- PRISMO Universal Corporation [materials and equipment for highway marking, based in New Jersey];

- Redland Automation Inc. [traffic flow control devices and flow and measurement instrumentation, based in Texas and Florida];

- Season-All Industries Inc. [aluminium insulated replacement windows, storm windows and doors, based in Indiana].

In addition, the Company has shareholdings in a number of associate companies in the Middle East, Australia, Hong Kong and South Africa.

Redland has a 'holding company' structure embracing a network of subsidiary operating companies in the U.K., U.S.A. and Europe and associate companies in other countries of the world. Its U.K. subsidiary companies are organized on the basis of specific products/services and comprise:

- Redland Aggregates Ltd [sand and gravel pits, stone quarrying, road surfacing and concrete products]

- Redland Ready Mix Ltd [ready-mixed concrete]

- Redland Automation Ltd [applied electronics and instrumentation]

- Redland Bricks Ltd [clay bricks]

- Redland Pipes Ltd [concrete pipes and glass-reinforced plastic pipes]

- Redland Roof Tiles Ltd [concrete roof tiles]

- Redland Purle Ltd [waste transport and disposal]

- Industrial Services Ltd [air conveying, high pressure water jetting and drilling, chemical cleaning processes]

- PRISMO Universal Ltd [road-marking and contract surfacing]

- Redland Technology Ltd [research and development work for subsidiary and associate companies]

- Redland Northern Ireland Ltd [concrete roof tiles and pipes].

Each of these wholly-owned subsidiary companies is headed by a Chief Executive, who [in the case of the larger companies] is represented on the Group 'Management Committee'. The Group's overseas operations are also managed through a network of subsidiary and associate companies where the company has a majority or minority shareholding. These are managed through a number of wholly-owned U.K.-based holding companies which are in the main structured on a product-basis [e.g. construction materials, contract services, new products, financial services].

Almost two-thirds of total Group sales and three quarters of profits are generated through the Company's subsidiary and associate companies overseas. As Table 23 illustrates continental Europe and West Germany in particular comprise its largest markets accounting for 42% of sales and 57% of profits in 1979/80.

	% sales	% profits (before tax)
U.K.	32	26
North America	14	6
Continental Europe	42 (West Germany 34%)	57
Australasia & Far East	10	9
Other (Middle East and South Africa)	2	2

Table 23 Geographic analysis of sales and profits 1979/80: Redland

The 'Management Board' is the executive decision-making forum which meets on a fortnightly basis. Its members are:

- The Group Chairman and Chief Executive - Deputy Chief Executive and Finance Director - Deputy Chief Executive and Technical Director - Chief Executive of Redland Aggregates - Chief Executive of Redland Purle	Main Board Members

- Group Personnel Co-ordinator

A limited range of services are provided at the Head Office. These are in the main used to co-ordinate the divisional activities and monitor their performance:

- Business Development
- Finance and Accounting
- Legal Services
- Land Development
- Management Services
- Personnel and Training
- Tax Services
- Group Treasury and Corporate Planning.

Central control over the activities of the subsidiary companies is exercised through the financial control and resource allocation system. This constitutes an integral aspect of the corporate planning activity as indicated in the ensuing section.

9.7.2 Corporate planning system

9.7.2.1 Initial development

The nucleus of Redland's existing planning system goes back to the 1960s when the Company's enlargement through a number of acquisitions necessitated the establishment of a formal budgeting and financial control mechanism at the centre. This enabled the head office to monitor the performance of its autonomous subsidiary companies and influence their strategies through the allocation of capital resources.

As the pace of the Group's overseas expansion programme quickened during the early 1970s, a 'Business Development Manager' was appointed in order to evaluate and search for potential acquisition candidates and provide a 'central strategy support service'. He worked in close liaison with the Group Chairman to whom he reported directly.

As the Group became larger and more international in character, the financial planning and control system [under the direction of Group Treasurer] was enlarged and was increasingly being used as a vehicle for evaluating the strategies of the subsidiary companies. A 'Project Appraisal Manager' was appointed in order to evaluate the strategic impact of the divisional capital expenditure proposals and the potential impact of new acquisitions on the Group's overall finances and management structure.

By the late 1970s, the Corporate Planning and Group Treasurer's Department had been enlarged to provide a central information service, monitoring the Group's operating environment and undertaking special projects of strategic significance to the Company. The focus of the Department's responsibilities is increasingly being shifted away from the provision of a financial control mechanism to embrace more strategic considerations.

9.7.2.2 Organization and responsibilities of the Corporate Planning Departments

At present, there are two corporate departments which are concerned with different aspects of the planning activity:

- the 'Business Development Department', which has a full-time staff of three, is closely linked to the office of the 'Chairman and Chief Executive'. It is mainly charged with the responsibility of searching for and evaluating potential candidates for acquisition, especially in those overseas regions which have been selected in order to extend Redland's geographic sphere of activities. Acquisitive growth has characterized the Group's strategic development and due to the nature of the construction materials industry [i.e. the need to establish contact with local builders and to have special knowledge of the area] further acquisitions and shareholdings in associate companies are likely to constitute an important plank of the Group's overseas expansion strategy. The 'Business Development Manager' who is in charge of this Department reports directly to the Group Chairman and Chief Executive;

- the 'Corporate Planning Manager and Group Treasurer' heads the Planning Department which has a full-time staff of four. He considers the role of his Department to be composed of three complementary functions:

i) financing: determining the most appropriate sources which are to be used for funding the Group's investment programmes

ii) investment: evaluating the capital expenditure programmes of the subsidiary companies and assessing the impact of new acquisitions on the Group's finances

iii) provision of a central information service: monitoring the Group's operating environment in the U.K. and other countries of strategic significance to the Company; preparing reports on issues of importance at the request of senior corporate management as well as managing directors of the subsidiary companies, thereby providing the services of an 'internal consultancy'.

[Interview with Corporate Planning Manager and Group Treasurer, September 1979].

By far the most significant task of this Department however, is to monitor the performance of the subsidiary companies and evaluate their investment proposals. The 'Corporate Planning Manager and Group Treasurer' reports to the 'Group Finance Director and Deputy Managing Director' emphasizing the financial and control-orientation of the Department's responsibilities.

None of the Group's subsidiary companies however, have a formal planning department or planning manager. Their 'finance departments' are responsible for compiling their strategic plans although their chief executives co-ordinate the input provided from other functional departments and review the plans before submission to the head office.

As Figure 43 indicates, the 'Corporate Planning' and 'Business Development' Departments work in close collaboration with one another; the former has an internal focus and monitor the performance of the subsidiaries whereas the latter adopts an external focus and is mainly concerned with the Group's future strategic development.

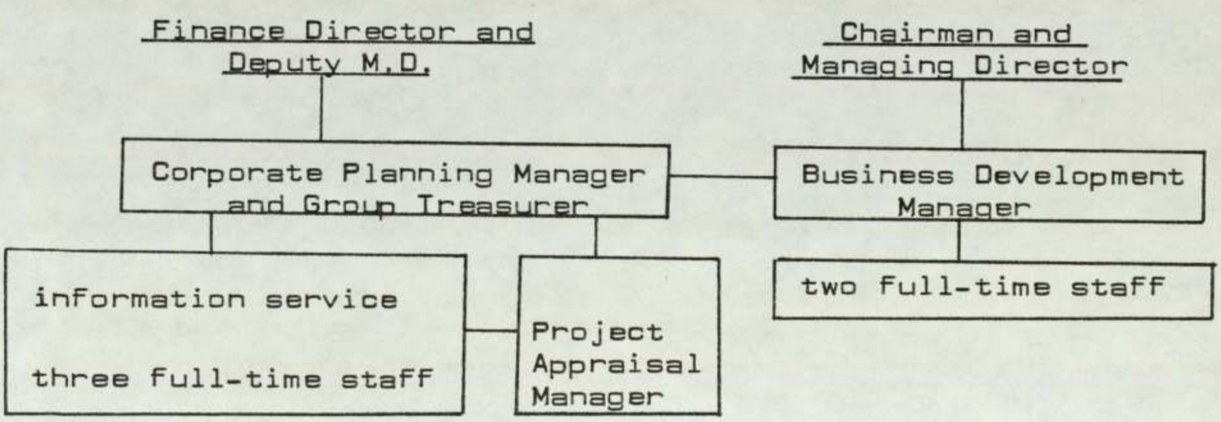


Figure 43 The organization of Corporate Departments concerned with planning: Redland

9.7.2.3 Types of plans and the planning process

All the Group's U.K. subsidiary companies develop two types of plans, both of which are financial in nature. In addition to the 'annual budget' which specifies their working capital requirements, every company submits a three-year strategic plan which is updated on an annual basis. These incorporate a forecast of the companies' financial position over the 'three-year' period covered by the plans, a brief statement of their strategic intentions and an extensive account of their proposed capital expenditure programmes. Having been formulated and approved by the companies' chief executives, these are subsequently passed on to the Corporate Planning Department by October when they are reviewed and evaluated by the 'Corporate Planning' and 'Project Appraisal' Managers. These plans are subsequently discussed in a series of meetings between the 'Group Treasurer', the 'Finance Director' and the chief executives of the subsidiary companies throughout November, during the course of which optimistic forecasts are 'toned down' and realistic financial targets and estimates are arrived at [interview with Corporate Planning Manager, September 1979].

The revised plans which include the companies requests for funds are then presented to the 'Group Management Committee' at the beginning of December. Having been approved, these plans are formally reviewed by the Main Board. The plans represent the total business effort of the subsidiaries including pricing and marketing considerations.

Moreover, in order to monitor the performance of the subsidiaries on a systematic basis, there is a regular monthly review of the accounts of the companies by the 'Finance Director', the 'Chief Accountant' and the 'Corporate Planning Manager'.

It is anticipated that the Group's existing planning system will become more strategically-oriented in the near future, in order to take account of the subsidiaries' increasingly complex and uncertain operating environment. One of the problems associated with the existing system is the dual responsibilities of the Corporate Planning Manager who is also the Group Treasurer. The structure of the Corporate Planning Department is therefore likely to be changed in order to reduce the burden of his existing responsibilities. The 'Corporate Planning Manager and Group Treasurer' would head an enlarged department which would comprise two units:

- the Corporate Planning Unit with four full-time members under the direction of a Corporate Planning Manager; this unit would become responsible for monitoring the environment, providing a central information service and assisting the divisions in their strategic planning efforts;

- the Treasury Department which would assume the role of a financial control department, evaluating the subsidiaries' capital expenditure programmes and monitoring their performance.

Under this proposed structure, the Corporate Planning Department would become more concerned with longer-term strategic issues and would be able to assist the subsidiaries in the formulation and evaluation of their strategies. It is hoped that this would enhance the level of strategic thinking at the subsidiaries whose management on the whole have a short-term production orientation [interview with Corporate Planning Manager and Group Treasurer, December 1980].

9.7.3 <u>The nature of association/interrelationship between situational factors and the corporate planning system</u>

Table 24 depicts specific situational factors likely to have influenced the development of Redland's corporate planning systen. This information was conveyed during the course of three interviews with the Company's 'Corporate Planning Manager and Group Treasurer' in September 1979 and March and December 1980.

9.7.3.1 <u>Situational factors associated with the initial development of the corporate planning system</u>

9.7.3.3.1 <u>Salient features</u>

- A system of financial planning and control was set up in the early 1960s.

- A 'Business Development Manager' was appointed in the early 1970s in order to provide a 'central strategy support service'.

- The financial planning and control system [under the direction of 'Group Treasurer'] was extended in order to evaluate the strategic direction of the divisions, facilitate the systematic allocation of resources and provide a central information service.

9.7.3.1.2 Influence of situational factors

- Redland had embarked upon a programme of 'acquisitive expansion' in the U.K. during the 1960s. This enlargement and the adoption of a decentralized, 'holding company' organizational structure [number 3.2 on the table] had highlighted the need for a central control mechanism [number 3.5 on the table] which would provide a basis for the systematic evaluation of the strategic direction and performance of its subsidiary companies. The financial planning system was being used for such a purpose.

- The pursuit of an'overseas expansion' strategy during the early 1970s [number 3.1 on the table] and the appointment of senior 'professional' managers [number 3.3 on the table] led to the appointment of a 'Business Development Manager' in order to assist the Chairman search for and evaluate potential acquisition candidates particularly in Europe, in the wake of Britain's impending entry into the E.E.C. in 1972/3.

9.7.3.2 <u>Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department</u>

9.7.3.2.1 <u>Salient features</u>

- The corporate planning system is used in order to control and evaluate the strategic direction of the divisions through the 'resource allocation' process.

- Members of the 'Corporate Planning Department' co-ordinate the divisional planning effort, monitor their performance, evaluate specific projects and capital expenditure proposals and provide a central information service.

- Members of the 'Business Development Department' assist the Chairman and Chief Executive in the development of a Group strategy and evaluate diversification/expansion opportunities and potential acquisition targets.

9.7.3.2.2 <u>Influence of situational factors</u>

- The corporate planning system is used to control and evaluate the strategic direction of the operating companies due to the Group's decentralized, 'holding company' organizational structure [number 3.2 on the table] and the wide range of geographic markets in which the Company is actively engaged [number 2.4 on the table].

- The nature of the 'building materials industry' is such that there is a need to generate growth through the pursuit of a 'geographic expansion' strategy, mainly by way of acquisitions [number 3.1 on the table]. In pursuit of this strategy, Redland has recently embarked upon three major acquisitions in the United States. There is a need for a supporting service which can assist the Group Chairman and Chief Executive [number 3.3 on the table] evaluate alternative strategic options and potential acquisition candidates.

9.7.3.3 <u>Situational factors associated with the 'structure and organization' of the Corporate Planning Department</u>

9.7.3.3.1 <u>Salient features</u>

- Two departments are in charge of different aspects of the planning activity at Group level:

  i) the Business Development Department with three full-time staff, attached to the office of the 'Chairman and Chief Executive';

  ii) the Corporate Planning Department headed by the 'Corporate Planning Manager and Group Treasurer', reporting to the 'Deputy Chairman and Finance Director'. This Department has a staff of four, including a 'Project Appraisal Manager'.

- There are no planning staff at the divisions; the formulation of the divisional plans is co-ordinated by their 'finance departments'.

9.7.3.3.2 Influence of situational factors

- Since the Corporate Planning Department is responsible for monitoring the performance of the divisions and evaluating their capital expenditure proposals, they have a close working relationship with the 'Finance Director' and the 'Chief Accountant'. Due to the 'strategic' orientation of the 'Business Development Department's' responsibilities, members of this Department work closely with the 'Group Chairman and Chief Executive'.

- The nature of the Group's businesses is such that there is no need for separate planning departments at the operating companies. Since their 'three-year plans' largely incorporate financial information, this task is co-ordinated by their finance departments.

9.7.3.4 Situational factors associated with the 'types of plans'

9.7.3.4.1 Salient features

- Apart from 'annual budgets' every operating company develops a 'three-year' strategic plan which incorporates a forecast of its future financial position, strategic intentions and capital expenditure programmes.

9.7.3.4.2 Influence of situational factors

- Since the formal planning system is a mechanism used by the centre in order to control the strategic direction of the divisions through the resource allocation process and to monitor their performance, the divisional plans incorporate 'financial information', enabling members of the Corporate Planning Department to undertake this task.

9.7.3.5 Situational factors associated with the planning process

9.7.3.5.1 Salient features

- The strategic plans of the operating companies are evaluated by members of the Corporate Planning Department and subsequently discussed in a number of meetings between the 'Group Treasurer and Corporate Planning Manager' and 'Finance Director' and chief executives of the operating companies. The revised plans are discussed and approved [or rejected] in meetings of the 'Group Management Committee'.

Table 24 Nature of interrelationship between Redland's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development											✓	✓	✓		✓	
Existing role and functions of planning									✓		✓	✓	✓			
Organization and structure of planning departments																-separation of 'control' and 'adaptation' role of planning -nature of business of the operating companies
Types of plans																-role of planning (emphasis on control)
Planning process												✓				

9.8 Mini case-study VII : Lex Service Group

9.8.1 Situational setting

Lex Service Group is a U.K.-based Company engaged in motor car and commercial vehicle distribution and servicing. Its other activities include forklift trucks and crane hire, hotels and travel, transportation, freight handling and vehicle leasing. In 1980, total Group sales amounted to £503.6 million, 85% of which was accounted for by the Group's U.K. business. Motor vehicle distribution and hire is by far the Company's largest business sector contributing 73% of overall sales and 80% of total profits.

The Company was founded in the late 1920s [registered 1928] by the 'Chinn' Brothers who were still managing the Company by the late 1960s. Its original business comprised a number of petrol stations and garages; by the late 1950s and early 1960s however, the Company entered the 'motor distribution' business, establishing franchises for Volvo, Chrysler and the British Leyland range of motor vehicles.

A number of car distribution companies were acquired during the 1960s; the Group's turnover increased from £20 million in 1963 to £33 million in 1968. Its early acquisitions included 'London Trading Estates' in 1960, 'Joseph Cockshoot & Co', 'Albany Travel Services', 'Weybridge Automobiles' and 'Reading Automobiles' in 1968/69, which extended the Company's distribution outlets in the U.K.

Following the appointment of Trevor Chinn [son of one of the original founders] as the Company's Managing Director in 1969/70, Lex embarked on a 'transport-related diversification' strategy in an attempt to reduce its dependence on the car distribution and petrol garage business, which accounted for over 95% of the Company's total sales.

During 1970-73, it acquired a number of transportation companies [including Wilkinson Transport in 1972, Harvey's Forklift Truck Hire business in 1973] and in an ill-advised move, the Carlton Tower Hotel in 1971. The Company faced a major crisis after the 1973 Oil Crisis which resulted in the rationalization of a number of its businesses, especially in the motor distribution sector.

A number of international hotels such as London's 'Heathrow Hotel' and 'The Whitehall' in Houston were acquired during the mid-1970s, although in recent years the Company has attempted to divest this sector of its business portfolio [Financial Times, 1 August 1980].

Since 1976, the Company has strived to develop a coherent strategy which would reduce its dependence on the U.K. automotive sector. This is evident in the Chairman's statement in the 1979 Annual Report:

> ' ... During the past three years, we have placed major emphasis on the development of a strategy for the Company and for our various businesses. We have sought to identify those businesses in which we could generate soundly-based growth for the future; we have

planned to match cash-generating
with cash-using businesses and we
have had to acknowledge that some
of our activities could not grow
because of market or economic
conditions'. [page 7]

As part of its geographic diversification strategy, Lex made two acquisitions in the United States during 1979:

- Chanslor and Lyon Inc., engaged in warehouse distribution of passenger car parts in California;

- Motor Rim and Wheel Service Inc., specialists in the distribution of wheels, brake components, axles and related under-chassis parts for commercial vehicles, operating from nine locations in California and one in Arizona.

Prompted by pessimism about the prospects for the U.K. economy, Lex is looking to the U.S. as its principal area of expansion. In May 1981, it acquired 'Schweber Electronics Corporation' a Long Island-based electronic components distribution concern. Schweber, which was founded in 1952, is considered to be the largest privately-owned electronic component distributors in the United States. It operates from 23 locations and has a range of franchises covering semi-conductors, microprocessors and computer peripherals. It should offer considerable growth potential since the U.S. electronic component distribution business has grown by an average of 17% per year [Financial Times, 21 May 1981].

The venture into the electronics business is regarded as a new avenue for growth, but one appropriate to the Group's existing business skills. Schweber is involved only in the distribution not the manufacture of components. In order to fund its U.S. expansion programme, the Group disposed of its interest in United Carriers, the Whitehall Hotel and Harvey Plant Crane Fleet during 1980. It also intends to sell its hotels in New Orleans and Baltimore and a conditional agreement has been signed for 'Volvo North America' to acquire a 50% interest in one of Lex's parts distribution companies [Financial Times, 21 May 1981].

Lex is structured on the basis of seven business groups, comprising a number of operating companies. These are:

1) Volvo Concessionnaires: sole importers of Volvo cars and parts in the U.K.

2) Retail Passenger Car Distribution Group comprising three operating companies:

- Lex Motor Company - Lex Mead	operating four distributorships and retail dealerships for Rolls Royce and nineteen dealerships for Leyland Cars

- Lex Brooklands: operates ten regional retail dealerships for Volvo and one branch handling exports

3) Commercial Vehicle Distribution Group is composed of four companies:

- Lex Tillotson: twelve distributorships for Leyland trucks and one service dealership

- Sellers and Batty: two distributorships for ERF vehicles

- S.A. Commercial: three distributorships for Seddon Atkinson

- Lex Vehicle Engineering: design and construction of specialist body work

4) Hire and Leasing Group comprising three companies:

- Harvey Fork Truck Hire: 30 depots operating contract hire and short-term rental of fork trucks

- Lex Vehicle Leasing: contract hire for passenger cars and light vans

- Transfleet Services: contract hire and rental of commercial vehicles and trailers in twelve locations

5) Transportation Group comprising five companies:

- Wilkinson Transport: express parcels and small freight carriers operating a national network through sixteen depots

- Carpet Express: specialized carpet and floor covering carriers operating nationally through six depots

- Bees Transport: high security directional carrier services based at Hinckley, Glasgow and Leeds

- Albany Freight: freight forwarding services in the U.K. and Israel

- Albany Travel: holiday and business travel services in the U.K. and Israel

6) Lex Hotels Group comprising five hotels:

- The Carlton Tower Hotel, London
- London: Heathrow Airport, The Heathrow Hotel
- London: Gatwick Airport, Gatwick Park Hotel
- New Orleans: The Royal Orleans
- Baltimore/Washington: International Hotels

[The Group intends to divest its hotel interests in the near future].

7) U.S. Automobile and Truck Parts Distribution Group comprising two companies:

- Chanslor and Lyon: operating seven warehouses in California, distributing passenger car parts

- Motor Rim & Wheel Service: operating nine warehouses in California and one in Arizona, distributing passenger car and truck parts

[The Long Island-based Schweber company will also become part of this business group].

Each of the operating companies is managed by a General Manager reporting to the two 'Chief Operating Officers', one based in the Group's London Head Office, responsible for all U.K. businesses, the other based in California, managing the Group's American operations.

The Main Board is composed of five executive and two non-executive directors. The former consist of:

- Chairman and Managing Director
- Deputy Chairman
- Director: Corporate Strategy
- Finance Director
- Chief Operating Officer: U.K. Operations.

A limited range of central services [e.g. finance and accounting, taxation, computer services, legal services, planning, personnel] are provided in the Group's small Head Office. The performance of the operating companies is monitored through a system of central committees, representing general managers of the operating companies and senior corporate directors.

Although the Company has striven to reduce its dependence on its U.K. businesses, these accounted for 84% of total Group sales and 89% of profits in 1980. Table 25 illustrates the contribution of the Company's business groups to overall sales and profits.

Business Groups	% contribution to Group sales	% contribution to profits [before tax]
Motor Vehicle Distribution, servicing and hire	73	71
Transportation	6	8
Forklift Truck Hire	3	7
Other U.K. businesses [properties, insurance, hotels]	2	3
Total U.K. business	84	89
Discontinued activities	6	5
U.S. Hotels	2	3
U.S. Vehicle Parts Distribution	7	3
Total U.S. business	9	6

Table 25 Contribution of different business groups to overall sales and profits 1980: Lex Service Group

9.8.2 Corporate planning system

9.8.2.1 Initial development

The initial impetus for the adoption of a formalized approach to planning at Lex became evident at the beginning of the 1970s, when Trevor Chinn [son of one of the two Chinn Brothers who founded Lex during the 1920s] became the Company's Managing Director. Lex's business portfolio at that time was entirely dependent on the U.K. automotive sector. It comprised three car distribution divisions [British Leyland, Volvo and Rolls Royce], a small freight and travel business [Albany Freight and Travel Division] and a number of petrol stations and garages organized on the basis of 'Petrol, Parking and Accessories Division'. Out of a total Group turnover of £32.5 million in 1969, £30 million was contributed by its U.K.-based motor business.

Having spent a sabbatical year studying at Harvard, Chinn returned full of enthusiasm for the American approach to management, especially in the field of planning and strategy formulation. Moreover, the anticipated decline of the British motor industry, especially its long-standing labour problems and prospects of intense competition from European manufacturers, prompted Trevor Chinn to embark on a 'transport-related diversification strategy'. It was hoped that the adoption of this strategy would reduce the Company's complete dependence on the U.K. car distribution and garage business and at the same time utilize its 'core strengths' [which was its reputation and experience in the motor trade]. [Source: interview with Corporate Strategy Manager, September 1979].

With this objective in mind, Chinn set up a small 'Corporate Planning Department' during 1971/2 which was to provide a 'supporting service' for the Managing Director by evaluating likely acquisition candidates and assessing their impact on the Group's existing portfolio. There was no formal planning conducted at the divisions; they could pursue their own strategies in the context of corporate objectives and financial targets and parameters specified by the centre.

With the unexpected arrival of the 1973 'Oil Crisis', the Company came close to complete collapse. Its more-or-less total reliance on the U.K. automotive distribution business meant that the development of a long-term strategy had to be postponed and the Planning Department became primarily concerned with the question of survival and rationalization of Lex's existing businesses.

Once the Company had recovered from the initial shock of the 'Oil Crisis' and the recession which affected the U.K. industry in 1975/6, it began to consider the long-term prospects of its business portfolio and consider a number of diversification strategies.

The 'Corporate Strategy' Department was enlarged and charged with the responsibility of conducting a strategic audit of the Group's existing businesses, identifying companies which could be used to generate cash and those in which further investments were warrented.due to their considerable potential for growth. In pursuit of its diversification strategy, Lex acquired a number of international hotels in London and the

United States, although the logic of this move was questioned by the Chairman in the 1979 Annual Report:

> ' ... We have decided not to expand further in the hotel business; our late entry into this industry meant that we would be unable to achieve adequate scale at acceptable returns in the foreseeable future in that segment of the international hotel market in which we operate'. [p. 9]

The Corporate Strategy Department was also involved in evaluating the Company's U.S. strategy during the period 1977-1979, when the deteriorating position of the U.K. automotive industry and the U.K. economy in general prompted the Chairman and senior directors to embark on a 'programme of geographic diversification'. This resulted in the acquisition of two California-based motor accessories' distribution companies in 1979 and a Long Island electronic distribution concern in 1981.

9.8.2.2 Role of planning and organization of the Planning Departments

Ever since its establishment during the early 1970s, the Corporate Planning [later Corporate Strategy] Department has provided a supporting service for the Company's senior executives in the development of a coherent group strategy. It was initially set up by the Company's entrepreneurial Managing Director, Trevor Chinn, and has been able to play an important role due to his support and initiative. In more recent years, it has attempted to enhance stratetic thinking in the operating companies through co-ordinating and directing the divisional planning effort.

The Department fulfils a number of tasks:

- it monitors 'macro-economic' developments of specific importance to the Company and prepares special reports for the use of senior corporate executives;

- it evaluates the feasibility of alternative diversification/acquisition options at the request of the Chairman and Managing Director [who is in charge of co-ordinating the development of Group strategy];

- it conducts an annual 'strategic audit' of the Company's existing businesses, by reviewing the divisional strategic plans and monitoring their progress;

- it co-ordinates the planning effort of the operating companies/business groups;

- it provides the services of an internal consultancy, undertaking special studies on behalf of senior corporate directors as well as the business groups.

In addition to the 'Corporate Strategy Department', which has a full-time staff of four, there is a smaller department of 'Operations Development' which conducts special projects, often of a technical nature, mainly on behalf of the business groups. The two members of this Department have a management science/operational research background and come under the jurisdiction of the 'Corporate Strategy Manager' (who is also in charge of the 'Corporate Strategy Department'), reporting directly to the Main Board Director in charge of 'Corporate Strategy'.

None of the business groups have a separate planning department. Instead there are seven 'Strategy Managers', one for each business group, who co-ordinate the information inputs required for the formulation of the strategic plans. The 'Strategy Managers' undertake their planning responsibilities on a part-time basis, often holding other positions within the business groups (such as marketing, operations, finance, etc.) Figure 44 illustrates the organization and reporting relationship of the Planning Department.

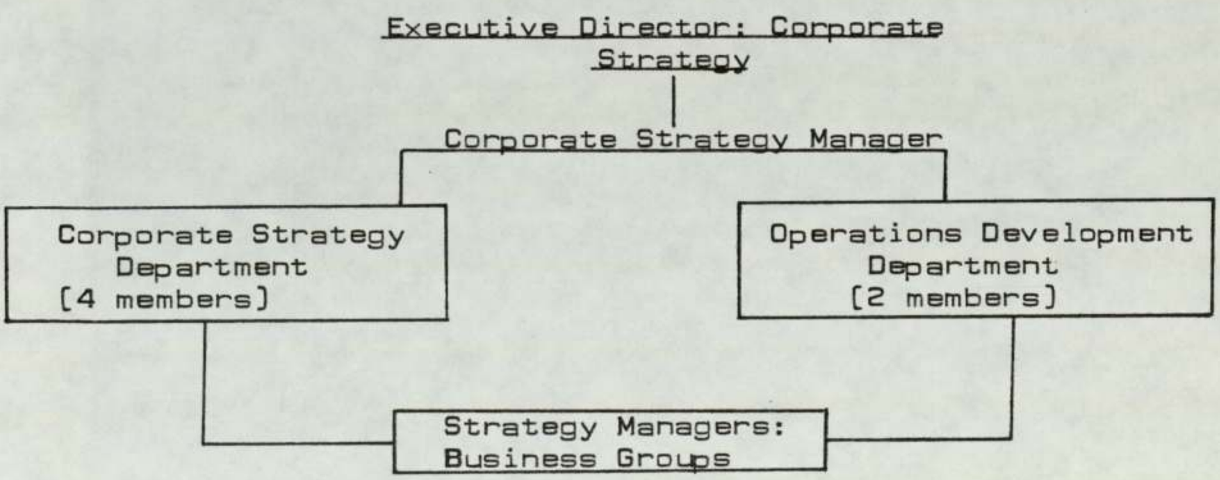


Figure 44 Organization of Group planning: Lex Service Group

9.8.2.3 Types of plans and the planning process

At the outset of the planning cycle which is normally at the beginning of every year, a set of macro-economic and strategic assumptions are sent to the seven business units. These are prepared by the Corporate Strategy Department in consultation with senior corporate directors.

Every business group prepares its 'strategy document' outlining its future prospects, intended strategy, projected financial performance and capital expenditure requirements. These are prepared under the supervision of the 'Strategy Managers' who co-ordinate the input of their constituent operating companies.

These plans which extend over a three-year period, are submitted to the 'Corporate Strategy Department' for evaluation purposes and are generally sent back to the business groups for further modification.

The revised 'strategic plans' are subsequently discussed in a number of review meetings (held on a quarterly or half-yearly basis, depending on the strategic priorities of particular business groups) in which senior corporate directors (including the Chairman) and the General Managers of the subsidiary companies are present. During the course of these meetings, the General Managers are asked to defend their chosen strategies and capital requirements. Following the approval/rejection of the plans, the strategies are implemented through the resource allocation process.

There is also a brief statement of 'Group strategy' which outlines the Company's strategic intentions [including planned diversification and expansion moves] over a five-year period. This forms the basis of discussion in the meetings of the 'Group Strategy Committee' in which senior corporate directors are represented.

According to the 'Corporate Strategy Manager' [interview December 1980] two factors are crucial for the adoption of a 'strategic outlook' by the operating divisions. One is the 'complete support' and 'total commitment' of the Group Chairman and Managing Director to the formal planning effort, in the context of which future strategic options can be systematically evaluated and subsequently implemented. The second factor is the use of 'resource allocation' for implementing the chosen strategy. Otherwise, the management of the operating companies in a decentralized organization such as Lex might consider the formal planning process to be a 'paper-filling exercise' designed to increase central control. [Interview with Corporate Strategy Manager, December 1980].

9.8.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 26 depicts specific situational factors likely to have influenced the development of Lex Service Group's corporate planning system. This information was conveyed during the course of two interviews with the Group's 'Corporate Strategy Manager' in September 1979 and December 1980.

9.8.3.1 Situational factors associated with the initial development of the corporate planning system

9.8.3.1.1 Salient features

- A Corporate Planning Department was set up in 1971/2 on the initiative of the Group 'Managing Director'. It was to assist the Group Managing Director and other senior directors in the development and implementation of a coherent Group strategy.

- After the adverse repercussions of the 'Oil Crisis', the Department became primarily concerned with the rationalization of Lex's business portfolio.

9.8.3.1.2 Influence of situational factors

- The impetus for the establishment of a Corporate Planning Department came from the Group's entrepreneurial Managing Director after completion of a course at Harvard [number 3.3 on Table 26].

- The need for the systematic development of a Group strategy was highlighted due to the relative decline of the U.K. automotive market during the early 1970s [number 2.4 on the table] and the Group's complete reliance on this sector, as exemplified by its strategic development [number 3.1 on the table]. In pursuit of this objective, Lex embarked on a 'transport-related diversification strategy' during the early 1970s and members of the Corporate Planning Department were to provide a 'supporting service' for its senior directors.

9.8.3.2 <u>Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department</u>

9.8.3.2.1 <u>Salient features</u>

- The 'Corporate Strategy Department' provides a supporting service for the senior executives in the development, evaluation and subsequent implementation of a Group strategy.

- It provides a 'central information' and 'internal consultancy' service, conducts an annual 'strategic audit' of Lex's businesses and co-ordinates the planning efforts of the business groups in conjunction with the 'part-time strategy managers'.

- The 'Operations Development Department' (which is attached to the 'Corporate Strategy Department') conducts special projects, mainly for the business groups.

9.8.3.2.2 Influence of situational factors

- Lex's heavy dependence on a relatively mature U.K. market [number 2.4 on the table] has emphasized the need for strategic options likely to expand its geographic sphere of activity. Members of the Corporate Strategy Department assist the Group Chairman and other senior directors [number 3.3 on the table] evaluate alternative ranges of strategies likely to result in a business portfolio with more enhanced growth opportunities.

- Due to the decentralized and 'holding company' organizational structure of the Group [number 3.2 on the table] there is a need for the systematic generation and evaluation of information on the activities and strategies of the operating companies. This is accomplished through the 'annual strategic audit' which provides an opportunity for senior corporate and divisional management to discuss issues of strategic concern and evaluate their financial implications.

9.8.3.3 Situational factors associated with the structure and organization of the Planning Department

9.8.3.3.1 Salient features

- The 'Corporate Strategy' and 'Operations Development' Departments are headed by the 'Corporate Strategy

Manager' reporting to the 'Main Board Executive Director' responsible for corporate strategy.

- 'Part-time strategy managers' co-ordinate the planning activity in the business groups.

9.8.3.3.2 Influence of situational factors

- The support and commitment of the Group's entrepreneurial Chairman [number 3.3 on the table] has been crucial for the importance of formalized planning and the hierarchical status of the planning staff. This is demonstrated by the assignment of specific responsibilities for corporate strategy to a Main Board Executive Director.

- Due to the Group's decentralized organizational structure and the autonomy granted to the business groups [number 3.2 on the table], there is a need for the systematic co-ordination of the planning activity and the development of the strategy document at the business groups. The part-time 'strategy managers' are responsible for this task, although they undertake other responsibilities. According to the Corporate Strategy Manager [interview December 1980] there is no need for separate planning departments at each of the business groups due to the nature of their activities and the supporting services provided by the 'Operations Development' Department.

9.8.3.4 Situational factors associated with the 'types of plans'

9.8.3.4.1 Salient features

- Apart from annual budgets, every business group prepares a 'strategy document' extending over a three-year period incorporating information on its future prospects, strategic intentions, projected financial performance and capital expenditure requirements.

9.8.3.4.2 Influence of situational factors

- The 'strategy documents' provide a basis for the systematic generation of information on the activities of the business groups. These enable senior corporate management to evaluate their strategic intentions and decide upon the allocation of resources in a systematic manner. These documents also provide a basis for the discussion of strategic issues between the centre and the business groups.

9.8.3.5 Situational factors associated with the planning process

9.8.3.5.1 Salient features

- Macro-economic assumptions are sent to the business groups at the outset of the planning cycle. Having developed their 'strategy documents' which are subsequently reviewed by members of the 'Corporate Strategy Department', senior executives of the business groups have the opportunity to defend their strategies and financial requirements in a number of 'review meetings' with senior corporate executives and the planning staff.

9.8.3.5.2 Influence of situational factors

- Due to the Company's decentralized and 'holding company' organizational structure (number 3.2 on the table) there is a need for the systematic communication and discussion of strategic issues. The 'review meetings', which are held on a quarterly or half-yearly basis, provide such an opportunity.

Table 26 Nature of interrelationship between Lex Service Group's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development									✓		✓		✓			
Existing role and functions of planning									✓			✓	✓			
Organization and structure of planning departments												✓	✓			
Types of plans																need for systematic generation of information
Planning process												✓				role of planning

9.9 Mini case-study IX : Albright & Wilson

9.9.1 Situational setting

Albright & Wilson is a U.K.-based chemical company with manufacturing facilities in Europe, North America, Canada, Australia, New Zealand, South East Asia, South Africa, India and Nigeria. Its products include phosphorus, phosphoric acid and phosphates, detergent raw materials, oil additives, plastics' chemicals, perfumery and cosmetic chemicals, flavour and essences, pharmaceutical chemicals, silicones, chemicals for textiles and metal-finishing processes, agricultural chemicals and sulphuric acid. The Group has manufacturing facilities in eight countries, having its largest interests in Britain, Canada and Australia.

In September 1978, the U.S.-based Tenneco International Inc., having held 49.8% of the Company's ordinary shares since December 1974, acquired the remainder, with the result that Albright & Wilson became a wholly-owned subsidiary of Tenneco International Inc., itself a subsidiary of Tenneco Inc. [U.S.A.].

Albright & Wilson was founded in 1844 with a narrow product-range specializing in phosphorus and phosphorus compounds. It became a 'public company' in 1948 and subsequently embarked on a programme of expansion, diversifying into fine chemicals, flavours, essences, silicones and detergent intermediates, mainly through acquisition of other companies [A. Boake, Roberts & Co. in 1960, W.J. Bush & Co.

in 1961, Associated Chemical Companies in 1963 and Stafford Allen & Sons in 1964]. It adopted a 'holding company' structure until 1967, when on the advice of McKinsey & Company, it was organized on the basis of product and geographic divisions. The multiplicity of chemistry-related product markets permitted the development of relatively small chemical companies such as Albright & Wilson [compared with industry giants such as ICI], which specialized in particular market segments [Channon 1973].

Although the Group had been organized on the basis of geographic and product divisions since 1967, it still retained many features of a 'holding company' structure. It had a relatively small Head Office providing a limited range of services for senior corporate directors who were responsible for specific functions, such as finance and administration, commercial affairs, personnel and corporate development. Each division had its own functionally-organized Board of Directors, headed by a Chairman and Chief Executive. A number of central committees co-ordinated the activities of the divisions and developed the Group's longer-term strategy. Financial plans were used to monitor the performance of the divisions and through the allocation of capital resources, the 'centre' exercised considerable control over their strategic direction [interview with Strategic Development Manager, September 1979].

After the 'Tenneco' takeover, central functions were streamlined and a number of services were transferred to the divisions which were organized on the basis of four U.K. and two overseas divisions as follows:

- Phosphates Division producing phosphoric acids, food and industrial phosphates, sulphuric acid, fine chemicals, detergent phosphates, proprietary products, processes and services for metal finishing, industrial water treatment and textile flame-retardancy;

- Detergents Division producing raw materials, intermediates and finished products for liquid detergents, toiletries and shampoos and surfactants for industrial applications;

- Fragrances and Flavours Division producing flavours and essences, spice products, fruit juices and concentrates, colours and natural extracts for food and beverage industries, natural drug extracts for the pharmaceutical industry, compound fragrances, cosmetic preparations and toiletries and other organic intermediate chemicals;

- Agriculture Division producing a variety of compound fertilizers and fertilizer raw materials, agricultural and horticultural pesticides and contract services;

- ERCO Industries (Canada) Ltd. producing a wide range of phosphates in addition to pulp and paper chemicals, bleaching processes and engineering services;

- Albright & Wilson (Australia) Ltd. producing food and industrial phosphates, detergent, shampoo and toiletry intermediates and acrylic resins.

In addition to these six divisions, the Company has a number of subsidiary and associate companies in different parts of the world. Tables 27 and 28 provide an analysis of the Group's performance on the basis of 'products' and 'geographic regions'.

Product sector	% contribution to total sales	% contribution to total profits (before tax)
General and fine chemicals	22	15
Detergent raw materials	31	26
Flavours and fragrances	14	18
Agricultural products	8	6
Other phosphorus derivatives	20	21
Pulp and paper chemicals	5	14

Table 27 <u>% contribution of different product groups total turnover and profits 1978</u>

<u>Albright & Wilson</u>

'Detergent raw materials' constitute the Group's largest product sector in terms of its contribution to total turnover and profits. Although the Group's U.K. companies accounted for 66% of total sales and 62% of profits, more than half the total volume of their production was destined for overseas markets.

Geographic region	% contribution to total sales	% contribution to total profits [before tax]
U.K. [including 37% for export	66	62
North America	11	20
Australasia	7	8
Europe	15	8
Rest of the World	1	2

Table 28 <u>% contribution of different geographic regions to Group turnover and profits 1978: Albright & Wilson</u>

Divisional activities are co-ordinated through a number of central committees:

- Operations Committee is responsible for co-ordinating operational issues of more immediate concern to the divisions. It comprises the divisional chief executives and is chaired by the Deputy Managing Director: Operations;
- The Managing Directors' Committee considers issues of longer-term strategic importance and decides on the allocation of capital resources amongst the divisions. The Committee which is chaired by the 'Group Managing Director' comprises

senior corporate directors and meets on a fortnightly basis. Members of this Committee are ultimately accountable to the Board of 'Tenneco International Inc.' for all the Group's activities including its overseas operations.

9.9.2 Corporate planning system

9.9.2.1 Initial development

A system of long-range financial planning has been in use at Albright & Wilson since the beginning of the 1960s, when the addition of a number of companies (through acquisition) and the 'holding company' organizational structure highlighted the need for a central system in the context of which the performance of its subsidiaries could be monitored. Longer-term strategic considerations would be arrived at through the 'Managing Directors' Committee' comprising senior corporate directors who held functional responsibilities.

In 1976, having suffered a decline in profits due to the aftermath of the 'Oil Crisis' and the ensuing worldwide recession, an executive director was appointed in order to co-ordinate the Group's 'corporate development' programmes. In addition, his Department provided the services of a 'Central Information Department' monitoring significant environmental developments and co-ordinating the information input of the many divisions.

During this period, the Company also felt vulnerable to a potential threat of takeover. Since December 1974, the U.S.-based Tenneco Inc. had increased its shareholding in the Company substantially, converting a loan of £16.9 million into 52 million ordinary shares. Tenneco was therefore holding 49.8% of issued ordinary shares. On the basis of an interview conducted with the 'Strategic Development Manager' in September 1979, it was not clear whether the Company's senior directors were dismayed by this prospect or whether they were actually in favour of it. During the period 1976-1978 however, an attempt was made to monitor environmental developments and obtain a formal input from the divisions concerning their long-term prospects and intended strategies.

Two types of plans were formulated by the divisions:

- 'one-year operational plans', which were financial documents, providing an indication of the divisions' working capital requirements, profit and loss/cash flow projections and action plans which were being pursued during the 'planning period'. These were evaluated by 'Group Finance' and subsequently discussed in the 'Operations' and 'Managing Directors'' Committees;

- 'three-year strategic plans' were more qualitative in nature, although they incorporated the divisions' capital expenditure programmes. In addition, they outlined their future business environment and intended strategies. The 'Strategic Development Manager' was responsible for evaluating these plans in conjunction with Group Finance and the 'Operations Manager'.

The Company's planning effort was co-ordinated by a full-time staff of three:

- the 'Corporate Development Director' who as a Main Board member, provided the liaison between the centre and the divisions on issues of strategic concern;
- the 'Strategic Development Manager' reporting to the 'Corporate Development Director' charged with the responsibility of monitoring macro-environmental developments of specific concern to the Company, preparing special reports at the request of corporate directors and consolidating the 'three-year strategic plans' prepared by the divisions;
- the 'Operations Manager' reporting to 'Deputy Managing Director: in charge of Operations' whose main task was to monitor short-term internal developments and consolidate the 'one-year' operating plans in conjunction with 'Group Finance'. He worked in close liaison with the 'Strategic Development Manager', although since they reported to different executive directors, conflict of interests was not ruled out entirely.

[Interview with Strategic Development Manager, September 1979].

9.9.2.2 Existing planning system (functions, organization, types of plans and process)

After the Tenneco takeover in September 1978, the Group was re-structured with a reduced central staff, a large number of whom were transferred to the divisions. These were organized on the basis of four U.K. and two overseas divisions which are:

- Phosphates Division
- Fragrances and Flavours Division
- Detergents Division
- Agriculture Division
- ERCO Industries (Canada)
- Albright & Wilson (Australia)

Each division is headed by a Chief Executive and functionally-organized Board of Directors. The Group 'Deputy Managing Director: Operations' is responsible for all U.K. activities and his position and authority has been greatly strengthened since the takeover. The office of the 'Corporate Development Director' has been abolished; instead the 'Deputy Managing Director: Operations' has a staff of three who co-ordinate the divisional planning effort and review and consolidate the divisional plans in conjunction with 'Group Finance'. In addition to the 'one-year operating plans' (i.e. extended budgets), each division prepares a 'five-year strategic document' which is updated on an annual basis. These are financial plans which provide an indication of the divisional capital expenditure requirements.

Every division has a 'Planning Manager' who co-ordinates the input from the functional units and liaises with the planning staff attached to the office of 'Deputy M.D.: Operations' at the centre. The divisional plans are reviewed by the office of 'Deputy M.D.: Operations' and are frequently sent back to the divisions for further modification before being presented to the 'Managing Directors' Committee' for final approval.

These plans are used for the purpose of 'resource allocation' and provide the centre with the means to monitor the progress of the divisions. The divisions can take the initiative to generate strategic proposals, but these are generally discussed by the 'Divisional Chief Executive' and 'Deputy Managing Director: Operations' before being presented as formal proposals to the 'Managing Directors' Committee' whose members comprise senior corporate directors. Major strategic proposals are passed on to 'Tenneco Inc.' headquarters for final approval [interview with Planning Manager, Phosphates Division, December 1980].

Day-to-day operational issues are co-ordinated through the mechanism of the 'Group Operations Committee', headed by 'Deputy Managing Director: Operations' and comprises the chief executives of all the U.K. divisions.

From a corporate perspective, Albright & Wilson's planning system is used to monitor the performance of the divisions and to control their strategic direction through the resource allocation process. Although in the opinion of the Company's 'Strategic Development Manager' [interview, September 1979], planning has always been used for this purpose due to the 'holding company' orientation of its structure and preferences of its senior management; an attempt was made during the mid-1970s to incorporate a strategic element in the divisional plans and to provide a central information service. It was hoped that the appointment of an executive director, responsible for 'corporate development' would provide a major impetus for the adoption of a strategically-oriented planning system at Group level [interview with Strategic Development Manager, September 1979].

After the Tenneco takeover however, formal planning has become more control-oriented and divisional plans are considered to be financial documents. Two central committees [Operations and Managing Directors' Committees] co-ordinate the divisional activities, discuss issues of strategic significance and liaise with Tenneco's Head Office in Houston, where major strategic proposals are forwarded for final approval.

9.9.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 29 depicts specific situational factors likely to have influenced the development of Albright & Wilson's corporate planning system. This information was conveyed during the course of two interviews with the 'Strategic Development Manager' [September 1979] who has since been appointed as the Planning Manager of the 'Phosphates Division' [interview December 1980].

9.9.3.1 Situational factors associated with the initial development of the corporate planning system

9.9.3.1.1 Salient features

- The origin of the Group's financial planning and control system goes back to the early 1960s.
- The planning system became more 'strategically-oriented' with the appointment of a Main Board Executive Director responsible for the Group's 'corporate development' programmes.
- A small department was set up under his direction at the 'Head Office' in order to provide a central information service and to review and consolidate the divisional strategic plans.

9.9.3.1.2 Influence of situational factors

- Three factors are likely to have prompted the appointment of the 'Corporate Development Director' and the formal evaluation of strategic considerations during the mid-1970s; the Group had witnessed a deterioration in its performance [number 3.4 on Table 29] due to the adverse consequences of the 'Oil Crisis'; the ensuing uncertainty had highlighted the need for the systematic monitoring and evaluation of macro-economic and political factors [numbers 1.1 and 1.2 on the table] of strategic significance to the Company. Moreover, the office of the 'Corporate Development Director' could monitor significant developments likely to lead to a potential 'takeover bid' by the U.S.-based 'Tenneco Inc.' which had increased its shareholding in Albright & Wilson to 49.8% in December 1974.

9.9.3.2 Situational factors associated with the existing role of planning and specific responsibilities of the Corporate Planning Department

9.9.3.2.1 Salient features

- Since the 'Tenneco' takeover in September 1978, the planning system has become an integral part of the Group's 'central control mechanism' used to monitor the performance of the divisions and to provide a basis for the allocation of resources.

9.9.3.2.2 Influence of situational factors

- Since the takeover, a number of services which had been provided in the central headquarters were transferred to the divisions and the Group was re-structured on the basis of autonomous divisions [number 3.2 on the table]; senior management of the divisions are now responsible for initiating major strategic proposals affecting their businesses through the five-year plans.

- The planning system is used as a central control mechanism [number 3.5 on the table] enabling the

Group's parent company 'Tenneco Inc.' to influence the strategic direction of the divisions through the resource allocation process. This is accomplished through the mechanism of the divisional strategic plans which incorporate quantitative information on their present and future financial position and funds requirements.

9.9.3.3 Situational factors associated with the organization and structure of the Planning Department

9.9.3.3.1 Salient features

- Three staff attached to the office of 'Deputy M.D.: Operations evaluate the divisional five-year plans and consolidate these for subsequent discussion in corporate committees.

- The divisional planning effort is co-ordinated by full-time 'planning managers' reporting to the divisional chief executives.

9.9.3.3.2 Influence of situational factors

- Since the Tenneco takeover and the change in organizational structure which followed [number 3.2 on the table], the divisions have been made responsible for initiating major strategic proposals. The divisional planning managers co-ordinate the input of various functional departments for the purpose of developing the five-year divisional plans.

- The 'Group Deputy M.D.: Operations' is responsible for all U.K. operations and his position has been greatly enhanced since the takeover [number 3.3 on the table]. The office of the Corporate Development Director has been abolished and the co-ordination of planning activity [i.e. liaison with the divisional planning managers, review and evaluation of the divisional plans] is undertaken by three full-time staff who are attached to the office of 'Deputy M.D.: Operations', reporting directly to him.

9.9.3.4 Situational factors associated with the types of plans

9.9.3.4.1 Salient features

- Apart from operating plans [i.e. annual budgets] every division prepares a strategic document which extends over a five-year period. This in the main incorporates financial information concerning their existing position, likely future performance and capital expenditure programmes.

9.9.3.4.2 Influence of situational factors

- Since formal planning is used for control purposes, the divisional plans incorporate quantitative and financial information in order to enable senior corporate management to assess the strategic direction of the divisions and to provide a basis for the allocation of resources.

9.9.3.5 Situational factors associated with the planning process

9.9.3.5.1 Salient features

- Having been prepared by the divisions, the five-year plans are approved by the divisional boards and passed on to the office of 'Deputy M.D.: Operations' for review and evaluation purposes. Having been modified and consolidated, these plans form the basis for discussion in the 'Managing Directors' Committee' comprising senior corporate directors. Major strategic proposals are referred to the headquarters of the parent company 'Tenneco Inc.' for final approval.

9.9.3.5.2 Influence of situational factors

- The planning process provides a standard basis for the generation and evaluation of information on the activities of the divisions in a large, decentralized organization with large and autonomous divisions, operating in different parts of the world [number 3.2 on the table].

Table 29 Nature of interrelationship between Albright & Wilson's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development	✓	✓												✓		-build up of shares by Tenneco
Existing role and functions of planning											✓	✓			✓	
Organization and structure of planning departments											✓	✓	✓			
Types of plans																-emphasis on role of planning for control purposes
Planning process												✓				

9.10 Mini case-study X : Chloride Group

9.10.1 Situational setting

Chloride Group is a leading producer of rechargeable batteries with operations in 35 countries. Its batteries are used in a wide range of applications from automobiles and forklift trucks to emergency lighting and oil rigs. Recently the Group has played a major role in the launch of battery-powered urban delivery vehicles and has extended its activities into other electrical systems such as fire alarms, smoke detectors and the emergency lighting field.

Due to its extensive interests in different countries, the Group is organized on the basis of three geographic regions, each headed by a Main Board director. These are:

1) Chloride Europe [including U.K. operations] which is divided into two main product divisions

   i] Industrial Division in charge of the Group's non-automotive businesses such as industrial batteries, standby power and lighting systems, fire alarms, smoke detectors and bathroom suites

   ii] Automotive Division which produces lead acid batteries, lead recovery, battery containers and auto-electrical products

2) Chloride America [covering Canada and North American operations]. Its products comprise lead acid automotive and motive power batteries,

alkaline and lead acid standby power systems, motive power battery chargers and smoke detectors

3) Chloride Overseas which covers the Group's subsidiaries in Africa, Asia and Australia.

In addition, there is a 'Technical Division' which is responsible for the Group's 'research and development' programmes. 'Lead' is an important raw material for the manufacturing operations and an H.Q. department monitors fluctuations in its price and availability.

The battery industry is going through a period of technical change. The recent controversy concerning the problems associated with the use of lead and its adverse impact upon human health has led to a major re-appraisal of the Group's existing operations. Research has been intensified into the possible use of sodium sulphur batteries and due to the changing nature of the car industry, efforts are being made to build up the Group's non-automotive related businesses such as other electrical systems [interview with 'Group Corporate Planning Manager', September 1979].

Recently, the Group has become involved in the development of batteries which can be used for electric delivery and transportation vehicles. This has been given an additional impetus due to the increasing uncertainty about oil supplies and the recognition that electricity can be made from other sources such as coal and nuclear energy.

The Main Board comprises seven executive and six non-executive directors. The former are:

- Group Chief Executive
- Executive Vice-Chairman responsible for finance and central resources
- Managing Director: Chloride Europe
- Managing Director: Chloride America
- Managing Director: Chloride Overseas
- Managing Director: Chloride International (who deals with overseas acquisitions and monitors the progress of associate companies which are not covered by the three main geographic regions)
- Director: Business Strategy.

Table 30 outlines the contribution of various product groups and geographic regions to overall sales and profits in 1980. Automotive products (mainly batteries) still account for most of the Group's total sales, since this is the main business of its non-European operations. In 1980, 55% of sales and 53% of profits were generated by the Group's non-U.K. operations.

	Europe (including the U.K.)		North America	Australasia
	Auto-motive Products	Indus-trial Products		
% sales	33%	31%	16%	6%
% pro-fits	19%	31%	11%	7%

	Asia	Africa
% sales	7%	7%
% pro-fits	16%	16%

Table 30 Percentage contribution of different regional groups to overall sales and profits [before tax]: 1980 - Chloride Group

9.10.2 Corporate planning system

9.10.2.1 Initial development

A conventional planning system was set up in 1974/5, in the wake of the Oil Crisis and the Group's expansion in the United States. These highlighted the need for a systematic approach toward the development of the Group's long-term strategy. The uncertainty generated by the Oil Crisis was likely to result in a major restructuring of the automotive manufacturing sector on which Chloride was highly dependent at the time. There was therefore an urgent need to expand the Group's non-automotive business [interview with Group Corporate Planning Manager, September 1979].

The planning system involved the preparation of 'five-year rolling plans' by every Chloride company. These were prepared by the divisional finance departments and contained a forecast of their future financial performance and major capital expenditure plans. Although the initial intention on the part of the senior management had been to enhance the development of a coherent strategy, the planning system was increasingly being used to control the strategic direction of the divisions through the evaluation of their capital budgets and for monitoring their financial performance [interview with Group Corporate Manager, September 1979].

These plans were subsequently evaluated by members of the 'Group Finance Department' and by two 'staff planners' who worked for the Group Chief Executive. After evaluation and further modification, the plans were 'put together' and submitted to senior directors for approval. The two staff planners were also responsible for monitoring external developments and conducted special projects at the request of senior management.

By 1978, it had become apparent to the Chief Executive and senior directors that the conventional planning system had outgrown its usefulness and was in need of change. According to the Corporate Planning Manager [interview September 1979], this 'need for change' was perceived due to a number of factors:

- the changing nature of the battery technology, the controversy surrounding the use of lead and the development of prototype electric vehicles had highlighted the need for the enlargement of the 'technological forecasting' service at Group level. There was a need to monitor significant technological developments, not only at the Technical Division, but also at the centre and assess their implications for the Group's future strategic development;

- the relative maturity of the automotive industry on which the Group was still dependent for over 60% of its sales highlighted the need for a systematic expansion of its non-automotive business. Although this strategy was being pursued toward the latter half of the 1970s, the senior directors had felt that there was a need to 'step-up' the diversification ventures into other electrical systems which had already been expanded to a considerable extent;

- the conventional planning system had become so routinized that no major strategic moves were initiated during the formal planning cycle. It was being used as a 'control mechanism' in order to evaluate the divisional capital budgets and to monitor their performance;

- senior management of the Group and the Chief Executive in particular had expressed their preference for a planning system which had a 'strategic' orientation [as opposed to 'control']. They required strategic information concerning the divisions' business environment, developments likely to affect their future and their strategic intentions. This information could be used to develop a coherent strategy for the Group and to provide a benchmark for evaluating the future prospects of various regions.

The Corporate Planning Manager [who was one of the central planning staff at the time] was made responsible for evaluating the Group's needs and devising a planning system which would cater for these requirements. This 'appraisal and evaluation' process took approximately six months to complete. During this period, the opinions of senior corporate and divisional directors were canvassed concerning the conventional planning system's major shortcomings.

The new planning system was fully operational by January 1979. An attempt had been made to separate the development of financial plans for control purposes and the discussion of longer-term strategic issues which would result in the systematic development of a coherent strategy. The Corporate Planning Department was to be enlarged and to provide a more extensive information service monitoring external developments, particularly those related to 'technology'. A Main Board director was to be solely responsible for 'business strategy', thus emphasizing the importance attached to the development of a long-term strategy.

9.10.2.2 Organization and specific responsibilities of the Corporate Planning Department

The Group Planning Department is composed of two departments:

- Strategic Planning Department which is staffed by six 'economists' and 'technological forecasters'. Its staff provide a central information service, monitor technological and other external developments, identify and study those strategic issues which arise from changes in the markets, product technology and manufacturing processes and assess their implications for the Group's businesses on a worldwide basis. In addition, members of this Department also co-ordinate the planning efforts of the regional groups, evaluate their strategic plans and consolidate these for the use of the Chief Executive and other corporate directors. The 'Group Corporate Planning Manager' who was interviewed during the course of this study is in charge of this Department, reporting to the Main Board director responsible for 'business strategy';

- the 'projects appraisal' team is a flexible task force, responsible for working on specific projects of strategic significance. Executives with different expertise are drafted in from various parts of the Company to work on these projects and there are no permanent team members. One of the on-going projects on which the 'projects appraisal team' was working during the time of the interview in September 1979 concerned the development of 'electric vehicles' and its implications for the battery industry. The 'Business Strategy' Director is also responsible for the task force and reports on their progress to the Group Chief Executive.

9.10.2.3 Types of plans and the planning process

At the outset of the planning cycle in January of every year, the Corporate Planning Manager sends out a 'strategic planning' document and a set of macro-environmental assumptions to the managing directors of the regional companies. The planning document specifies the type of information which the plans should contain and the 'assumptions' provide an indication of macro-economic and technological developments and their implications for the Group.

Since the new planning system became fully operational in January 1979, the regional companies are required to prepare two types of plans:

- a two-year budget and financial forecast which also outlines their capital expenditure programmes. This is prepared by the finance departments of the regional companies and is submitted to the Group Finance Department. It is considered to be the 'control' document used to monitor the performance of the companies and evaluate their funds requirements;

- a five-year strategic plan which is prepared by the managing directors of the regional companies and contains mainly qualitative information on their product/market strategies, external developments of significance and impact of new technologies. These plans provide information on the future of the operating companies and enable senior corporate management to evaluate available strategic options. Having been developed, these are passed on to the Group Strategic Planning Department, where they are evaluated and sent back to the regional companies for further modification before submission to the Chief Executive and other senior directors. These form the basis of discussion in a number of committee meetings during July before the commencement of the budgetary cycle.

One of the main objectives of the new planning system is to enhance the systematic development of a Group strategy and the discussion of strategic issues between the centre and regional companies. The main responsibility of the 'Strategic Planning Department' is to assist the Chief Executive in his evaluation of alternative strategic options and to provide a pool of information concerning external and internal developments, on the basis of which strategic choices can be made.

A number of seminars and conferences are also held throughout the year in order to 'inform' the divisional management about formal planning and the benefits of adopting a systematic approach toward the development of a long-term strategy. The Corporate Planning Manager was at pains to emphasize that one of the main responsibilities of the corporate planning staff is to convince the divisional management that strategic planning is directed toward producing profits in the future instead of merely strengthening the control of the centre over their strategic direction [interview with Corporate Planning Manager, September 1979].

9.10.3 The nature of association/interrelationship between situational factors and the corporate planning system

Table 31 depicts specific situational factors likely to have influenced the development of Chloride's corporate planning system. This information was conveyed during the course of an interview with the 'Group Corporate Strategy Manager' in September 1979.

9.10.3.1 Situational factors associated with the 'initial development of corporate planning

9.10.3.1.1 Salient features

- A Corporate Planning Department was set up in 1974/5 in order to monitor external developments of strategic significance, to co-ordinate the Group planning effort and to evaluate the divisional plans.

9.10.3.1.2 Influence of situational factors

- The uncertainty generated by the Oil Crisis and its adverse impact on the automotive industry which constituted Chloride's main market at the time [number 2.4 on Table 31] highlighted the need for a central information department whose members could monitor macro-economic, political and technological developments [numbers 1.1, 1.2 and ?.5 on the table] and evaluate their likely impact on the Group's businesses. The planning staff were to assist the chief executive in conducting a systematic appraisal of the Group's businesses and developing a strategy which would reduce its high level of dependence on the automotive industry.

9.10.3.2 Situational factors associated with the role of planning and specific responsibilities of the Corporate Planning Department

9.10.3.2.1 Salient features

- Since January 1979, the formal planning system has been primarily directed toward the development of a Group strategy. The Strategic Planning Department provides a central information service, monitoring external developments and conducting an appraisal of the Group's activities by evaluating their strategic intentions. The 'project appraisal team' which is a flexible task force, works on specific projects at the request of senior corporate management and regional business groups.

9.10.3.2.2 Influence of situational factors

- The changing nature of the battery technology [number 2.5 on the table] and the development of prototype electric vehicles had highlighted the need for the enlargement of the 'technological forecasting' activity and provision of a comprehensive information service at Group level.

- The relative maturity and changing nature of the automotive industry which has constituted Chloride's main market [number 2.4 on the table] had emphasized the need for the systematic expansion of its non-automotive business. Senior management of the Group [number 3.3 on the table] had expressed their preference for a planning system with a 'strategic orientation', which could be directed toward generating information on the divisions' business environment and their strategic intentions. The systematic generation, evaluation and discussion of strategically-significant information could enhance the development of a coherent strategy for the Group and provide a benchmark for evaluating the future prospects of various geographic regions in a Company with a decentralized organizational structure and autonomous regional groups [number 3.2 on the table].

9.10.3.3 Situational factors associated with the organization and structure of the Planning Department

9.10.3.3.1 Salient features

- At Group level, two units are specifically concerned with the formal planning activity:

i] the 'Strategic Planning Department' has six full-time staff;

ii] the 'Project Appraisal Team' is a flexible task force working on specific projects of strategic significance.

The 'Group Corporate Planning Manager' reports to the Main Board Executive Director responsible for 'Business Strategy'.

- In addition, there are full-time planning staff at each of the regional business groups.

9.10.3.3.2 Influence of situational factors

- Due to the changing emphasis of the formal planning activity and the importance of developing a Group strategy which would take account of technological developments [number 2.5 on the table] and the changing position of the automotive industry, there is a need for a central information and technological forecasting service which could evaluate the implications of emerging developments for the Group's future strategic direction. At Group level, the planning departments are structured so that a great degree of emphasis is placed on monitoring such developments and assessing their implications through the 'Strategic Planning Department' and the 'Project Appraisal Team'.

The Group's decentralized organizational structure, active participation in different geographic regions and complexity of the divisional tasks [number 3.2 on the table] is such that there is a need for separate planning staff at the regional groups.

9.10.3.4 Situational factors associated with the 'types of plans'

9.10.3.4.1 Salient features

- Every division prepares two sets of plans:

  i] a two-year budget and financial forecast incorporating information on proposed capital expenditure programmes

  ii] a five-year strategic plan containing mainly qualitative information on the divisional strategies, external developments of significance and impact of emerging technologies. These are consolidated into a 'Group strategic plan'.

9.10.3.4.2 Influence of situational factors

- On the basis of information incorporated in the five-year strategic plans, senior corporate management can evaluate the likely future environment, divisional strategic priorities and action programmes. One of the shortcomings of the previous planning system was that the written plans incorporated mainly financial information and were used to monitor the performance of the divisions and consider their resource requirements. In the revised planning system, an attempt has been made to separate the financial plans which are used for the purpose of central control [i.e. two-year budget and financial forecast] from an assessment of more strategic and longer-term considerations.

9.10.3.5 Situational factors associated with the 'planning process'

9.10.3.5.1 Salient features

- The five-year strategic plans are prepared by the regional groups and subsequently passed on to the Strategic Planning Department where they are evaluated and consolidated into the 'Group strategic plan'. These are subsequently discussed in a number of committee meetings by senior corporate and divisional management. The planning process is aimed at enhancing the discussion of strategic issues between the centre and the divisions. In addition, a number of seminars are held throughout the year in order to inform the divisional management about the benefits associated with adopting a systematic approach toward the development of a long-term strategy.

9.10.3.5.2 Influence of situational factors

- Chloride's decentralized organizational structure and active participation in different regions [number 3.2 on the table] emphasizes the need for discussion of strategic issues between senior corporate and divisional management. The planning process is directed toward bringing together the two levels of senior executives for the purpose of discussing such issues and deciding on a long-term strategy in a systematic manner.

Table 31 Nature of interrelationship between Chloride Group's situational setting and its corporate planning system

Situational Setting / Corporate planning system	Contextual Environment					Industry Environment					Internal Environment					Other Influences
	Economic Factors 1.1	Political 1.2	Social 1.3	Technological 1.4	Legal and legislative 1.5	Competition 2.1	Suppliers 2.2	Marketing intermediaries 2.3	Market 2.4	Technology 2.5	Strategy 3.1	Structure 3.2	Senior management 3.3	Performance 3.4	Co-ordination and control mechanisms 3.5	
Initial Development	✓	✓		✓					✓	✓						
Existing role and functions of planning									✓	✓		✓	✓			
Organization and structure of planning departments										✓		✓				- role of planning
Types of plans																- importance of developing a Group strategy
Planning process																