

Technical Report

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Report ... CORPORATE PLANNING PRACTICES IN PRIVATE
COMPANIES IN INDIA

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How do you like to be classified? Bus. Pol.

(250 words)

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1973/2

WP2

1973
(2)



**INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD**

To

Chairman (Research)
IIMA

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Name of the Author .. C.N.S. NAMBUDIRI.....

Under which area do you like to be classified? .. Bus. Policy.....

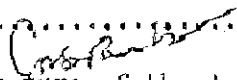
ABSTRACT (within 250 words) .

This paper summarises the results of a study of corporate planning practices in private sector companies in India. Even though long term planning is not very widely practised by companies in the private sector, those companies which are practising it have developed some degree of sophistication in this direction. Planning in these companies is characterised by explicit statement of company's objectives and roles, specific delineation of sectors for future growth, specific organisational responsibilities for scanning opportunities and detailed operational planning. While companies find many aspects of the plans and planning process as supportive to the process of corporate planning, they found that process of planning had not eliminated the uncertainties of economic policy. Firms have generally found that corporate planning within the framework of national economic planning is both feasible as well as rewarding. The long range goals of economic development presented by the plans is a sufficient justification to undertake long-term corporate planning. The study reveals both the uncertainties arising from government regulation as well as the certainties that such revelations provide to companies.

In general, the study points to the importance of government and the objectives of national economic development programmes as a significant area for attention of planners.

Please indicate restrictions if any that the author wishes to place upon this note

Date Jan. 23/1973


Signature of the Author

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PRIVATE SECTOR COMPANIES IN INDIA

by
C.N.S. Nambudiri

June 1973

INDIAN INSTITUTE OF MANAGEMENT
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CORPORATE PLANNING PRACTICES IN PRIVATE SECTOR
COMPANIES IN INDIA*

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Formulation of broad objectives, targets and tasks for industrial development by the national economic planning machinery and their achievement through firms in the public and private sectors is characteristic of India's industrial development system. In such a system, several levels of planning activity, such as aggregate, sectoral, cross sectoral, spatial and enterprise planning exist side by side. This article describes current practices in corporate planning in the larger companies in the private sector, within the system of national economic planning in the country.

Corporate planning includes both strategic as well as operational plans. Strategic planning is the process through which companies arrive at a choice among opportunities to be exploited. The net results of strategic planning generally are such decisions as expansion, diversification, penetration of new markets, etc., having in general, long term implication for the company's future. Operational planning will involve setting targets and standards of performance to be reached for the company as a whole and for each of the major functional areas. The achievement of these targets in a coordinated fashion contributes to the accomplishment of the strategic plans. National economic planning is the process which produces as its net result the five year plans, an activity which is the function of the Planning Commission.

*This article is based on a survey of Planning Practices in private sector companies.

The focus of this paper is on plans and planning activities covering periods of more than one year.

- What is the extent of planning practices in companies in India?
- What is the scope of such activities?
- What has been the experience of firms that have practised planning at the enterprise level?
- How does planning activity at the level of the firm relate to the national economic planning?

These were some of the major questions for which answers were sought through a questionnaire study of planning practices in Indian companies.

The study was conducted through a detailed questionnaire mailed to the first 300 companies in the private sector, listed by the Economic and Scientific Research Foundation in order of size.¹ A total of 35 companies (11.7 per cent) responded to the study. Out of these 35, 23 companies (7.7 per cent) fully completed the questionnaire while the remaining 12 companies wrote to say that they had either not yet introduced such practices or were in the process of making a beginning in this direction.

The 23 companies that reported their planning practices included firms from 11 industries, viz., basic metals, cement, engineering, petroleum refining & products, petro-chemicals, man-made-fibres, paper, textiles, tyres, pharmaceuticals and chemicals, and cigarettes. In terms of size, the smallest company had 400 employees and the largest around 35,000 employees. The annual sales turnover of the 23 companies ranged between Rs.6 crores and Rs.86 crores. Assets of the companies fell in the range of Rs. 3 to 109 crores.

¹ Economic and Scientific Research Foundation, Top 300 companies: 1963-64 - 1967-68, New Delhi (1970), 320 p.

The Structure of Company Plans

The plan horizon adopted by responding companies showed them falling into two groups, the first group (10 companies) having a planning horizon of five years and the second group (13 companies) having in most cases a three year plan horizon. Two companies had a two-year planning term whereas one company had a four-year planning term (see Summary Table 1). Among companies following the five-year planning horizon were those in basic metals, cement, petroleum refining and products, petrochemicals, paper, and cement. Among companies with three-year planning horizon were those producing tyres, pharmaceuticals and chemicals, and textiles. Among engineering companies including manufacturers of electrical machinery and equipment the planning horizon ranged between 2 and 5 years.

The company plans indicated the targets for achievement within the scope of the company's broad objectives and goals. Fourteen companies indicated that these broad objectives and goals that formed the basis for planning were stated in writing. Twenty companies prepared their plans as a document covering targets for the company as a whole or a combination of separate departmental and special project plans. Only three companies had their plans confined exclusively to special projects such as new project development, expansion of capacity, or diversification. The overall company plans served to indicate the broad strategic areas where attention was to be focussed. Thus, the company plans indicated (1) the extent of growth potential that existed in each of the present areas of operation (19 companies), (2) areas where the company anticipated substantial growth (18 companies), (3) fields into which the companies wanted to diversify (14 companies) and (4) areas where the companies considered the acquisition of knowhow or collaboration desirable (13 companies). (See Summary Table 2) or

The companies ranged widely in the use of parameters with which the overall targets of their plans were stated. Total sales, production in quantity, and profits were the parameters most widely used; those were followed closely by new plant expenditures, sales from new products, and market shares for existing products. The use of total assets and sales from new markets were used only by a small number of companies while specific targets for use of working capital and productivity and cost improvements were stated only by one company in each case. Nine companies used from seven to ten indicators; ten companies between four and six, and the rest used only one or two parameters to indicate targets for achievement (see Summary Table 3).

Targets for the company as a whole were broken up into detailed plans for departments and divisions in almost all companies. The responses indicated that these detailed departmental plans were most comprehensive in the greatest number of companies in covering the finance function. Working capital plans, operating cash flows, investment plans, and sources of additional capital were covered by the reporting companies with few exceptions. Only a few companies did not have forward plans for corporate taxes, whereas the vast majority of reporting companies included corporate taxes as one of the areas covered. (See Summary Table 4A)

Next in order of comprehensiveness came manufacturing plans, which indicated raw material requirements, manufacturing expenses, manpower requirements, estimates of raw material availability, and import requirements, in most cases. Additional parameters indicated by some companies included new machinery and equipment requirements (19 companies) indigenous availability of raw material (17 companies) and new manufacturing facilities (15 companies). Eighteen companies used between eight and eleven parameters in describing the targets for their manufacturing plans. Only one company limited targets to three basic parameters, viz., raw material requirements, manufacturing expenses, and manpower requirement. Raw material prices and import substitution targets were specifically targeted only in case of one and two companies, respectively (see Summary Table 4B).

All companies presented their marketing plans using total sales volume as the major parameter. Sales volume of each of the major product groups and manpower requirement were the most widely used in setting marketing targets. Exports and total marketing/distribution expenses were used by nearly two-thirds of the companies. Sales volume from new markets and sales outlets were indicated as targets only by half of the reporting companies. Fourteen companies used between seven and 11; six companies used between four and six and three companies used only two parameters (see Summary Table 4C).

Research and development plans as part of long range plans were reported by only 18 companies. Number of new product schemes expected to be worked on, total expenditure targets, manpower requirements, facilities required and estimated sales from new products were leading parameters used. Import substitution was targeted only by one company. Eleven companies used four to six and the rest used one to three parameters for indicating targets (see Summary Table 4D)

Managerial manpower plans formed a regular feature of plans of most reporting companies. Recruitment and training plans, promotion programmes and organisation and position plans were indicated in these detailed plans.

Special project plans were prepared by most companies participating in the survey. The special plans were most often developed to cover expansion projects, diversification, new product development, new investments but only in a few cases covered cost reduction, and modernisation (see Summary Table 5). The period covered by special project plans were 3 years or 5 years although one pharmaceutical and chemical company indicated a eight to ten year horizon in case of specific projects. The shortest time period for special project plans was found to be two years in the case of one company.

The companies showed considerable diversity in the profit measuring criteria used by them in setting standards of profitability from the plans. Net income before tax, net income after tax, return on net sales and return on total assets were the most widely used criteria for setting profit performance standards. In comparison to the above, criteria such as return on capital (five companies), return on fixed assets (four companies), owners' equity (two companies) or sales to total assets (one company) were used only by limited number of companies. Ten companies used between three and five criteria for measurement of plan profits, while the remaining ten companies used only one or two. One company used as many as seven criteria. Where only a single criterion was used this was net income before tax or return on capital employed (see Summary Table 6).

Process of Planning

The corporate plans described above emerged as the end result of the processes of planning in companies. These processes involved assessment of the environment, formulation of broad plans of action, and setting targets to be achieved. The companies studied in the survey made their plans on the basis of forecast of total company sales. These forecasts were broken up by major product groups (sixteen companies) and in most cases included projection of sales from new products (fourteen companies). However, only nine out of

the 17 companies answering the question practised forecasting of the general economic outlook and only eight of them made forecasts of total industry sales. The most common period of forecast was five years (eight companies) followed by three years (six companies). One gave two year forecasts and in one case a horizon of five to ten years was shown.

The forecast of general economic outlook and industry sales served to establish the magnitude of opportunities. However, in setting plans, the assessment of the nature of competition is an important function. Nine companies indicated that competitive situation in the industry was of high significance in preparing their own plans, while 12 others indicated that competitive situation was only of some significance. Where competition in industry was considered significant, companies indicated definite indicators of competition which they followed up systematically. Expansion of capacity of existing manufacturing units, licenses for expansion of capacity or new units, and entry of new manufacturers were three most commonly identified indicators of competition by the companies. Introduction of new products was seen as an indicator of likely competition by only 12 companies participating in the study. Other factors mentioned as indicators of competitive situation and used by a few companies (six) was the financial strength of the competitors.

An essential process in planning is the choice of action programmes for the long-term plans. One aspect of this process that was covered in the questionnaire related to the significance of new product development and introduction of new processes or technology. Ten companies indicated new product development to be highly significant while nine others attached only some significance to new product development in relation to their long-term plans. Introduction of new processes and technology had high significance in the case of ten companies and only some significance in the case of eight other companies. There were four companies that attached little significance to new product development and five companies that placed little significance to introduction of new technology in their long-term plans. Companies which attached high significance to new product development and new processes and technology included in their plans specific programmes of action in this area. These programmes included strengthening research and development capability, maintaining continuity of access to foreign technical knowhow, constant liaison with research organisations, continuing product development activities and technical evaluation of processes. Other companies had continuous programmes for evaluation of their product ranges and close coordination between market research and research and development.

The process of modifying plans with changes in the environment and internal factors is an essential part of the process of planning. Among the external factors that necessitated changes in company plans, changes in government policy was the factor mentioned by the largest number (15 companies). Raw material availability and changes in raw material prices came next in order of significance. Other factors cited were availability of finance, the rising costs of production, unreliable supply of public utilities, delay in finalisation of public sector projects, and economic situation. Competitive situation in industry and demand for products were cited only by three and four companies, respectively. Among internal factors responsible for modification of plans, labour problems, delays in new product development and plant operating problems were most frequently mentioned. Changes in company policy were also mentioned as an internal factor by a few companies.

The follow-up of plans is a major part of the process of planning. All companies reported regular comparison of plans and performances. A number of companies reported that these comparisons were made as and when required. Others reported monthly, quarterly or half-yearly and annual meetings to discuss results, these being supplemented in some cases with more frequent comparisons. The responsibility for initiating corrective action rested mostly with members of the top management, the Managing Director; the Executive Director, the Vice President, Chairman, General Manager or Controller in seventeen companies; with heads of divisions or units in eight companies. The responsibility was also shared by the planning division and in a few cases by the operative management, such as the Works Manager or the Sales Manager.

Organisation for Planning

As specialised activities become more and more significant to company's working, it is natural for such activities to be given formal organisational representation. In 11 out of the 23 reporting companies there were formally designated planning groups. The composition of these formal planning groups varied among the companies. In one company the planning group was formed by a committee of directors. In three companies the formal planning group consisted of a committee of executives. In the remaining seven companies the group

Consisted of a group of senior executives supported by executives specifically working on planning tasks. In the remaining 12 companies the planning responsibility was spread often over more than one department. The finance and marketing departments had by and large the widest organisational representation (ten companies each) in planning followed by manufacturing (eight companies). Other departments involved were general administration, development, procurement and control. Finance department had key responsibility for planning in five companies, while marketing had key responsibility for planning in three companies. Other departments that were assigned key responsibility for planning were manufacturing and development.

By and large, almost all companies (twentyone) involved line executives in the process of tasks and planning. In terms of numbers participation of line executives came mostly from finance, manufacturing, marketing, procurement and Research & Development, in that order.

The responsibility for initiating planning activity rested with single individuals (14 companies) and with more than one individual in the remaining (9) companies. In the first group, the executives responsible were the Chairman (1 company), the Managing Director (10 companies), the financial controller (2 companies) and the Vice President (1 company). In the companies where responsibility was shared among two or more executives, the Managing Director was almost always involved (9 companies). Sharing the responsibility with the Managing Director were chairman (2 companies), financial controller (5 companies), Director (2 companies), Sales Manager (2 companies), and General Manager (2 companies). The maximum number of people who had responsibility for initiating planning activity in any one company was four - the Managing Director, Financial Controller, one of the Directors and the Sales Manager.

Scanning the environment for new opportunities is a significant aspect of the process of planning and specific organizational responsibility for bringing possible opportunities for examination had been assigned to specific executives in all the companies participating in the study. The responsibility was assigned to single executives in 13 companies, shared by 6 executives in six companies, and three executives in three other companies. The functional managers had this responsibility in 11 companies, the Chairman, the Managing Director, Vice President, Chief Executive or General Managers in twelve companies and directors in three companies. Other

executives who shared such responsibilities included the technical advisors and executives responsible for corporate planning.

Company responses indicated that they also assigned specific organisational responsibility for initiating studies on issues of possible significance to the company. This responsibility was in most cases assigned to a member of the top management group - Managing Director, Vice President, Chairman, Director or General Manager. Functional Managers, Economic Advisors and the corporate planners also had this responsibility in a few companies.

Corporate Planning - the Environment and the Experience

The relation of enterprise planning to national economic planning is a crucial area in that it represents an interface between two subsystems of the national economic planning process. The experience of enterprise planning within a planned economy and the attitudes towards national planning - developed out of such experience or otherwise - may be significant to the total process of economic development. The companies participating in the study had a range of experience in the practice of enterprise planning extending from 2 to more than 20 years, with average planning experience being 7-8 years per company. This experience of companies in planning within the national system may have some bearing on the views expressed by them.

Sixteen out of the 20 reporting companies found the specific objectives of the Five Year Plans as supportive of their planning efforts. Fifteen companies found Five Year Plan investment figures useful in their planning process. Progress of implementation of the Five Year Plans was also viewed by a majority of the companies as supportive of their planning efforts. Half of the reporting companies also stated that the information for planning was a supportive factor in their efforts at enterprise planning. In contrast to these favourable attitudes towards national planning, almost all the respondents saw the economic policies and regulations relating to industrial licensing, foreign collaboration, import and export, capital issues and direct and indirect taxation as hindrances to their own planning efforts.

Despite these perceived obstacles, companies found several factors in the environment that favoured planned action on their part. The market potential, development in the rural areas, the rehabilitation programmes for the sick industries such as the textile industry, the general desire to increase production, the growth of national income, the protected market, and the policies supporting development in general were cited amongst such factors.

At the same time, companies experienced several factors that were not conducive to the formation of long-term plans. Among the most commonly cited factors were frequent changes in government's fiscal policy, uncertain economic outlook, price changes, erratic supply of raw material, controls on credit and operations, lack of information for assessing the future of the market and uncertainty about the role of the private sector. Companies also cited several factors which in their experience handicapped the implementation of plans of longer duration. Among the various factors cited by them were the changes in government policy, licensing policy, delays in procurement of plant and machinery, uncertain economic outlook, delays in implementation of projects in other industrial sectors, and erratic supply of raw material. Other factors included uncertain market conditions, shortcomings in transportation and communication facilities and difficulties arising from changing social attitudes and approach towards modern industrial set-up.

Despite the factors unfavourable to formulation and implementation of long term plans, the responding companies underlined major advantages gained by them through planning. Sustained growth and profitability were pointed out by ten companies as the direct result of their forward planning. For six companies optimum utilisation of resources was the major gain from the process of planning. Better checks and controls on organisation, superior assessment of performance, timely remedial action, the development of a strategy to meet the objectives, flexibility to meet unforeseen circumstances, identification of possible areas for development, identification of problems in advance and appropriate action, and improved managerial performance were among the positive gains realised by companies from the practise of long-term planning.

Major Findings and Conclusions

Formal long-term planning cannot be said to be very widely practised by the companies in the private sector today in India. The relatively small portion of the companies having such practices among the top 300 companies, the indications that many others have not yet adopted such practices or are only in the process of initiating them indicate this conclusion. This, supported by the personal knowledge of the lack of such practices in many others, confirms the above conclusion. This finding need, however, only indicate that in a relatively large number of companies longer term planning has not yet become significant enough to deserve a degree of formalisation. Studies of long range planning practices in the United States have indicated that planning is not universally practised by companies, and that in many cases such practices prevail only at an informal level.² However, in a broader way the above finding would indicate the relatively low level of impact of planning as a philosophy on the management of companies, in spite of continuing concern and discussions on planning at the national level in the country.

While the formal practice of long-term planning today seems to be confined to a relatively small proportion of companies in India, there is an indication that others have started in this direction in a limited way. These companies have confined such longer term planning, primarily to specific projects, such as diversification and new investments. The special projects represent strategic decisions on the part of companies and to that extent special project plans may be looked upon as a long term operational planning restricted to key strategic decisions.

Although formal long-term planning seems to be established only in a limited number of companies these have developed a certain degree of sophistication in this direction. The use of the following practices points to this conclusion: explicit statement of company's broad objectives and goals; the specific delineation of sectors

² Novell Jr., William T. Long Range Planning Policies and Practices, Selected Companies Operating in Texas, Bureau of Business Research, The University of Texas, Austin, 1963, p.171.

(e.g., areas for desirable diversification) for focussing planning activity, intensive operational planning of functional activities using multiple parameters; specific organisational responsibility for scanning environmental opportunities and initiating response action and well organised follow-up of plans and performance.

The specific delineation of sectors for focussing planning activity referred to above included (a) extent of growth potential in existing areas, (b) new areas where company expects substantial growth, (c) fields into which diversification is desirable, and (d) areas where acquisition of knowhow or collaboration is desirable. These represent end points of strategic planning or the assessment and choice of environmental opportunities in the light of company's own distinctive competence, skills and resources. While more detailed study would be required to assess the nature and quality of strategy planning, the very presence of a degree of strategic planning in companies is interesting. McArthur and Scott studying industrial planning in France in the mid-sixties came to the conclusion "that a significant proportion and probably well over half of the companies with sales of 500 million francs or more did relatively strategic planning. Managements of some companies, each responsible for employment of thousands of people, were unmistakably 'flying by the seat of their pants'; in other words, they were doing relatively little/try and foresee and plan for future development /to in their industry or industries."³

The sophistication of planning practices is also revealed by the comprehensive scope and intensive coverage of operational planning. The plans cover the major functional areas, such as manufacturing and marketing, which underlines the emphasis that the companies put on the exploitation of present product market opportunities and function of internal resource generation from these operations. Uniformly comprehensive plans in manufacturing reported by the companies is worthy of note and may indicate the bias towards manufacturing that characterises the economy. Well defined targets for research and development and special projects indicate the companies concern for broadening and strengthening the scope of companies operations in the future.

³ McArthur, John H., and Scott, Bruce R., Industrial Planning in France, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1969, p.179

Financial planning was found to be an area in which more companies prepared most comprehensive long range plans than in any other functional area.⁴ The well defined financial planning indicates the concern of combining resource generation, attracting resource investment and thereby achieving efficient linkage of current operations with implementation of strategic decisions in future. The use of several parameters in studying operational plans in each of these functional areas is an indication of the depth of coverage in company plans.

Long term planning is still on way to getting formal organisational representation. Even in companies where formal planning groups have been designated, the composition of the groups reveal them to be a committee of executives rather than a formal department. Few companies reported corporate planning departments in their organisations although the title of corporate planner was mentioned by one company. In other companies planning function is assigned to a key department or departments. The finance department participated in the planning function in more companies than any other, reflecting well developed financial plans developed by most companies. Participation of line executives from several departments again tend to support the present role of planning groups as a coordinating function rather than as a specialised and formally organised activity.

An interesting finding was the organisational responsibility assigned to specific executives for scanning environmental opportunities and for initiating studies on issues of possible significance to the company.

A significant finding is that a substantial number of companies have found the specific objectives of Five Year Plans, investment figures and progress of implementation and information for planning as supportive to the process of planning within their organisations. This fact supported by the number of factors pointed out by companies favouring the formulation of long term plans lend support to the conclusion that companies in the private sector understand and appreciate

⁴ Op. Cit., 2; p.109

the benefits of national economic planning for their own strategic planning. At the same time, many companies including some or most of those who saw five year plans favourably, viewed the various decisions of government's economic policy, taken within the framework of plans and planning as hindrance to their own efforts at long term planning. The most often stated factor by companies about decisions on economic policy is their uncertainty. The study of business decision making within the national economic planning in France has pointed out that a positive benefit of such planning is "the coordinating effect of the plan which refers primarily to governmental economic decisions has an important secondary effect on the business community in the sense that it increases the degree to which business executives can rely on the plan and this is another factor in reducing uncertainties over future developments."⁵ The reduction of uncertainty has not apparently been achieved to any degree through our national economic planning process since the companies pointed out uncertainties of government policies as a hindrance both in formulation of long term plans as well as their implementation.

We have thus a dysfunctional picture emerging as far as the relationships between corporate planning and national economic planning are concerned. The degree of congruence seen between corporate planning and national planning at the broad level appears to be more than offset by the non-congruence of views on economic policy decisions through which the national plan objectives are sought to be achieved. While one can hypothesize reasons for this dichotomy it is felt that this is an area which warrants further study.

Despite the problems of uncertainty and a degree of non-congruence between national economic planning and corporate planning the experience of firms that have undertaken such planning points to the conclusion that long term corporate planning within our economy is both feasible as well as rewarding. While many factors do exist that are not conducive to formulation of long term plans and implementation, these are offset by other favourable factors--most of them related to the long range goals of economic development of the country. The opportunities presented by the pursuit of the objectives of national economic development is sufficient justification to undertake long term planning.

⁵Hans Schullhammer, "National Economic Planning and Business Decision-Making: The French Experience," *California Management Review* (Published by Graduate School of Business Administration of the University of California, Berkeley, Los Angeles and Irvine), Vol. XII, No. 2, Winter 1969, p. 81.

While the above findings relate directly to the questions with which the study started the data provided by the study revealed some interesting aspects having a bearing on the nature of corporate planning in a planned economy and the possible differences in emphasis that may characterise corporate planning under such conditions. Broadly, this refers to the nature of uncertainties that face companies. Uncertainties may be of three major types, uncertainties arising from government decisions, uncertainties of market place, uncertainties from the obsolescence of equipment or more generally, technological obsolescence. Uncertainties of the first kind, are in no means limited to companies in India. "... regulatory processes that restrict pricing, expansion and growth. It is extremely difficult to anticipate markets to be served by the company or the degree of competition that can be anticipated as a result of government route awards." This is a statement of the problems of long term planning by a company in the airlines industry in the United States. Uncertainties of this nature are therefore, part of any organisation working in an area closely regulated by government. Where government controls and regulations are more comprehensive, these uncertainties are likely to be broader and more universally applicable as in our country. On the other hand, there is some indication that the same regulatory processes reduce the uncertainties of the market place and technological obsolescence to some degree. This is reflected in the lower ranking that most companies gave for introduction of new product development in assessment of competition, ranking it below expansion of capacity, licences for expansion of capacity or new units and entry of new manufacturers. It is also noteworthy, that slightly more than half the number of companies indicated only some or low significance to new product development and introduction of new technology, vis-a-vis their long term plans. Some indirect support comes from the fact that no company stated obsolescence of technology or equipment as a problem in long term planning— a factor stated by many companies as one of the problems in longer term planning in the United States. These characteristics of uncertainties perhaps leads us to the broad conclusion that the prime area of emphasis in corporate planning in a planned economy may be somewhat different than in other countries. This might well be identification of strategic opportunities that are in line with the objectives of national economic development programmes.

⁶ Op. Cit., 2 p. 169

Summary Table 1

<u>Duration of Plans</u>	<u>No. of companies</u>
2 years	2
3 years	10
4 years	1
5 years	<u>10</u>
	<u>23</u>

Summary Table 2

<u>Parameters Used</u>	<u>No. of companies using the parameter</u>	<u>No. of companies using</u>	
a) Extent of growth potential in existing areas	19	All 4 parameters	10
		3 "	5
b) Areas where company expects substantial growth	18	2 "	4
		1 "	1
c) Fields into which diversifications is desirable	14		
d) Areas where acquisition of knowhow or collaboration	13		

Summary Table 3Overall Company Targets

Parameters used	No. of companies using the parameter	No. of companies using	
a) Total sales	20	1 to 2 parameters	4
b) Production quantity	20	4 to 6 parameters	10
c) Profits	20	7 to 10 parameters	<u>9</u>
d) New Product Sales	17		23
e) New Plants	17		—
f) Market share of existing products	14		
g) Total Assets	11		
h) Sales in new markets	7		
i) Productivity/cost improvement	2		
j) Sources and application of funds	1		
k) Working capital	1		

Summary Table 4Functional Area PlansA. Finance

Parameters covered	No. of companies using the parameter	No. of companies using	
a) Working Capital Plans	23	5 parameters	17
b) Operating Cash Flows	22	4 parameters	<u>6</u>
c) Capital Investment Plans	22		<u>23</u>
d) Additional Capital Sources	22		
e) Corporate Taxes	20		

Summary Table 4 (Contd)Functional Area PlansD. Manufacturing

Parameters covered	No. of companies using the parameter	No. of companies using
a) Raw material requirements	23	
b) Manufacturing Expenses	23	
c) Manpower requirements	21	
d) Production in physical terms	20	
e) Estimate of raw material availability	20	
f) Import requirements	20	
g) New machinery & equipments	19	3 parameters 1
h) Indigenous availability of R.M.	17	5 to 7 parameters 4
i) Cost reduction plans	17	8 to 11 parameters <u>18</u>
j) New manufacturing facilities	15	<u>23</u>
k) Raw material prices	2	
l) Import substitution	1	
m) Space	1	

Summary Table 4 (Contd)Functional Area PlansC. Marketing

Parameters covered	No. of companies using the parameter	No. of companies using
a) Total Sales	23	2 to 3 parameters 3
b) Manpower requirements	20	4 to 6 parameters 6
c) Sales volume of each major product	19	7 to 11 parameters 14
d) Exports	16	23
e) Distribution Expenses	16	
f) Total Marketing Expenses	15	
g) Share of market for each major product	14	
h) Sales volume from new products	13	
i) Warehousing Expenses	12	
j) Sales outlets	11	
k) Sales volume from new markets	11	
l) Advertising	3	

Summary Table 4 (Contd.)Functional Area PlansD. Research & Development

Parameters	No. of companies using the parameter	No. of companies using
a) No. of new product schemes expected to be worked on	15	
b) Estimates of expected sales of new products	11	1 to 3 parameters 7
		4 to 6 parameters 11
c) Total expenditure target	13	
d) Facilities target	13	
e) Manpower requirements	14	
f) Sales and profit expectation	1	
g) Import substitution	1	

Summary Table 5Type of Projects for which Special Plans are developed.

Type of Projects	No. of companies developing plans for the project
a) Plant Expansion/Extension	13
b) Diversification/New Product Development	13
c) New Investment	2
d) Manufacturing and Marketing	2
e) Cost reduction	1
f) Modernisation	1

Summary Table 6Criteria used for Profits Measurement

Criteria used	No. of companies using the criteria
a) Net income before taxes	16
b) Net income after taxes	12
c) Return on net sales	12
d) Return on total assets	10
e) Return on capital employed	5
f) Return on fixed assets	4
g) Owners' equity	2
h) Sales to total assets	1

No. of companies using

1 criteria	6
2 criteria	4
3 to 5 criteria	10
7 criteria	<u>1</u>
	21
	—

7/11/53
24
2-21-53

CORPORATE PLANNING PRACTICES IN PRIVATE SECTOR
COMPANIES IN INDIA*

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Formulation of broad objectives, targets and tasks for industrial development by the national economic planning machinery and their achievement through firms in the public and private sectors is characteristic of India's industrial development system. In such a system, several levels of planning activity, such as aggregate, sectoral, cross sectoral, spatial and enterprise planning exist side by side. This article describes current practices in corporate planning in the larger companies in the private sector, within the system of national economic planning in the country.

Corporate planning includes both strategic as well as operational plans. Strategic planning is the process through which companies arrive at a choice among opportunities to be exploited. The net results of strategic planning generally are such decisions as expansion, diversification, penetration of new markets, etc., having in general, long term implication for the company's future. Operational planning will involve setting targets and standards of performance to be reached for the company as a whole and for each of the major functional areas. The achievement of these targets in a coordinated fashion contributes to the accomplishment of the strategic plans. National economic planning is the process which produces as its net result the five year plans, an activity which is the function of the Planning Commission.

* This article is based on a survey of Planning Practices in private sector companies.

The focus of this paper is on plans and planning activities covering periods of more than one year.

- What is the extent of planning practices in companies in India?
- What is the scope of such activities?
- What has been the experience of firms that have practised planning at the enterprise level?
- How does planning activity at the level of the firm relate to the national economic planning?

These were some of the major questions for which answers were sought through a questionnaire study of planning practices in Indian companies.

The study was conducted through a detailed questionnaire mailed to the first 300 companies in the private sector, listed by the Economic and Scientific Research Foundation in order of size.¹ A total of 35 companies (11.7 per cent) responded to the study. Out of these 35, 23 companies (7.7 per cent) fully completed the questionnaire while the remaining 12 companies wrote to say that they had either not yet introduced such practices or were in the process of making a beginning in this direction.

The 23 companies that reported their planning practices included firms from 11 industries, viz., basic metals, cement, engineering, petroleum refining & products, petro-chemicals, man-made-fibres, paper, textiles, tyres, pharmaceuticals and chemicals, and cigarettes. In terms of size, the smallest company had 400 employees and the largest around 35,000 employees. The annual sales turnover of the 23 companies ranged between Rs. 6 crores and Rs. 86 crores. Assets of the companies fell in the range of Rs. 3 to 109 crores.

¹ Economic and Scientific Research Foundation, Top 300 companies: 1963-64 - 1967-68, New Delhi (1970), 320 p.

The Structure of Company Plans

The plan horizon adopted by responding companies showed them falling in two groups, the first group (10 companies) having a planning horizon of five years and the second group (13 companies) having in most cases a three year plan horizon. Two companies had a two-year planning term whereas one company had a four-year planning term (see Summary Table 1). Among companies following the five-year planning horizon were those in basic metals, cement, petroleum refining and products, petrochemicals, paper, and cement. Among companies with three-year planning horizon were those producing tyres, pharmaceuticals and chemicals, and textiles. Among engineering companies including manufacturers of electrical machinery and equipment the planning horizon ranged between 2 and 5 years.

The company plans indicated the targets for achievement within the scope of the company's broad objectives and goals. Fourteen companies indicated that these broad objectives and goals that formed the basis for planning were stated in writing. Twenty companies prepared their plans as a document covering targets for the company as a whole or a combination of separate departmental and special project plans. Only three companies had their plans confined exclusively to special projects such as new project development, expansion of capacity, or diversification. The overall company plans served to indicate the broad strategic areas where attention was to be focussed. Thus, the company plans indicated (1) the extent of growth potential that existed in each of the present areas of operation (19 companies), (2) areas where the company anticipated substantial growth (13 companies), (3) fields into which the companies wanted to diversify (14 companies) and (4) areas where the companies considered the acquisition of knowhow or collaboration desirable (13 companies). (See Summary Table 2.)

The companies ranged widely in the use of parameters with which the overall targets of their plans were stated. Total sales, production in quantity, and profits were the parameters most widely used; these were followed closely by new plant expenditures, sales from new products, and market shares for existing products. The use of total assets and sales from new markets were used only by a small number of companies while specific targets for use of working capital and productivity and cost improvements were stated only by one company in each case. Nine companies used from seven to ten indicators; ten companies between four and six, and the rest used only one or two parameters to indicate targets for achievement (see Summary Table 3).

Targets for the company as a whole were broken up into detailed plans of departments and divisions in almost all companies. The responses indicated that these detailed departmental plans were most comprehensive in the greatest number of companies in covering the finance function. Working capital plans, operating cash flows, investment plans, and sources of additional capital were covered by the reporting companies with few exceptions. Only a few companies did not have forward plans for corporate taxes, whereas the vast majority of reporting companies included corporate taxes as one of the areas covered (see summary table 4A).

Next in order of comprehensiveness came manufacturing plans, which indicated raw material requirements, manufacturing expenses, manpower requirements, estimates of raw material availability, and import requirements, in most cases. Additional parameters indicated by some companies included new machinery and equipment requirements (19 companies) indigenous availability of raw material (17 companies) and new manufacturing facilities (15 companies). Eighteen companies used between eight and eleven parameters in describing the targets for their manufacturing plans. Only one company limited targets to three basic parameters, viz., raw material requirements, manufacturing expenses, and manpower requirement. Raw material prices and import substitution targets were specifically targeted only in case of one and two companies, respectively (see Summary Table 4B).

All companies presented their marketing plans using total sales volume as the major parameter. Sales volume of each of the major product groups and manpower requirement were the most widely used in setting marketing targets. Exports and total marketing/distribution expenses were used by nearly two-thirds of the companies. Sales volume from new markets and sales outlets were indicated as targets only by half of the reporting companies. Fourteen companies used between seven and 11; six companies used between four and six and three companies used only two parameters (see Summary Table 4C).

Research and development plans as part of long range plans were reported by only 18 companies. Number of new product schemes expected to be worked on, total expenditure targets, manpower requirements, facilities required and estimated sales from new products were the leading parameters used. Import substitution was targeted only by one company. Eleven companies used four to six and the rest used one to three parameters for indicating targets (see Summary Table 4D)

Managerial manpower plans formed a regular feature of plans of most reporting companies. Recruitment and training plans, promotion programmes and organisation and position plans were indicated in these detailed plans.

Special project plans were prepared by most companies participating in the survey. The special plans were most often developed to cover expansion projects, diversification, new product development, new investments but only in a few cases covered cost reduction, and modernisation (see Summary Table 5). The period covered by special project plans were 3 years or 5 years although one pharmaceutical and chemical company indicated a eight to ten year horizon in case of specific projects. The shortest time period for special project plans was found to be two years in the case of one company.

The companies showed considerable diversity in the profit measuring criteria used by them in setting standards of profitability from the plans. Net income before tax, net income after tax, return on net sales and return on total assets were the most widely used criteria for setting profit performance standards. In comparison to the above, criteria such as return on capital (five companies), return on fixed assets (four companies), owners' equity (two companies) or sales to total assets (one company) were used only by limited number of companies. Ten companies used between three and five criteria for measurement of plan profits, while the remaining ten companies used only one or two. One company used as many as seven criteria. Where only a single criterion was used this was net income before tax or return on capital employed (see Summary Table 6).

Process of Planning

The corporate plans described above emerged as the end result of the processes of planning in companies. These processes involved assessment of the environment, formulation of broad plans of action, and setting targets to be achieved. The companies studied in the survey made their plans on the basis of forecast of total company sales. These forecasts were broken up by major product groups (sixteen companies) and in most cases included projection of sales from new products (fourteen companies). However, only nine out of

the 17 companies answering the question practised forecasting of the general economic outlook and only eight of them made forecasts of total industry sales. The most common period of forecast was five years (eight companies) followed by three years (six companies). One gave two year forecasts and in one case a horizon of five to ten years was shown.

The forecast of general economic outlook and industry sales served to establish the magnitude of opportunities. However, in setting plans, the assessment of the nature of competition is an important function. Nine companies indicated that competitive situation in the industry was of high significance in preparing their own plans, while 12 others indicated that competitive situation was only of some significance. Where competition in industry was considered significant, companies indicated definite indicators of competition which they followed up systematically. Expansion of capacity of existing manufacturing units, licenses for expansion of capacity or new units, and entry of new manufacturers were three most commonly identified indicators of competition by the companies. Introduction of new products was seen as an indicator of likely competition by only 12 companies participating in the study. Other factors mentioned as indicators of competitive situation and used by a few companies (six) was the financial strength of the competitors.

An essential process in planning is the choice of action programmes for the long-term plans. One aspect of this process that was covered in the questionnaire related to the significance of new product development and introduction of new processes or technology. Ten companies indicated new product development to be highly significant while nine others attached only some significance to new product development in relation to their long-term plans. Introduction of new processes and technology had high significance in the case of ten companies and only some significance in the case of eight other companies. There were four companies that attached little significance to new product development and five companies that placed little significance to introduction of new technology in their long-term plans. Companies which attached high significance to new product development and new processes and technology included in their plans specific programmes of action in this area. These programmes included strengthening research and development capability, maintaining continuity of access to foreign technical knowhow, constant liaison with research organisations, continuing product development activities and technical evaluation of processes. Other companies had continuous programmes for evaluation of their product ranges and close coordination between market research and research and development.

The process of modifying plans with changes in the environment and internal factors is an essential part of the process of planning. Among the external factors that necessitated changes in company plans, changes in government policy was the factor mentioned by the largest number (16 companies). Raw material availability and changes in raw material prices came next in order of significance. Other factors cited were availability of finance, the rising costs of production, unreliable supply of public utilities, delay in finalisation of public sector projects, and economic situation. Competitive situation in industry and demand for products were cited only by three and four companies, respectively. Among internal factors responsible for modification of plans, labour problems, delays in new product development and plant operating problems were most frequently mentioned. Major changes in company policy were also mentioned as an internal factor by a few companies.

The follow-up of plans is a major part of the process of planning. All companies reported regular comparison of plans and performances. A number of companies reported that these comparisons were made as and when required. Others reported monthly, quarterly or half-yearly and annual meetings to discuss results, these being supplemented in some cases with more frequent comparisons. The responsibility for initiating corrective action rested mostly with members of the top management; the Managing Director, the Executive Director, the Vice President, Chairman, General Manager or Controller in seventeen companies; with heads of divisions or units in eight companies. The responsibility was also shared by the planning division and in a few cases by the operative management, such as the Works Manager or the Sales Manager.

Organisation for Planning

As specialised activities become more and more significant to company's working, it is natural for such activities to be given formal organisational representation. In 11 out of the 23 reporting companies there were formally designated planning groups. The composition of these formal planning groups varied among the companies. In one company the planning group was formed by a committee of directors. In three companies the formal planning group consisted of a committee of executives. In the remaining seven companies the group

consisted of a group of senior executives supported by executives specifically working on planning tasks. In the remaining 12 companies the planning responsibility was spread often over more than one department. The finance and marketing departments had by and large the widest organisational representation (ten companies each) in planning followed by manufacturing (eight companies). Other departments involved were general administration, development, procurement and control. Finance department had key responsibility for planning in five companies, while marketing had key responsibility for planning in three companies. Other departments that were assigned key responsibility for planning were manufacturing and development.

By and large, almost all companies (twentyone) involved line executives in the process of tasks and planning. In terms of numbers participation of line executives came mostly from finance, manufacturing, marketing, procurement and Research & Development, in that order.

The responsibility for initiating planning activity rested with single individuals (14 companies) and with more than one individual in the remaining (9) companies. In the first group, the executives responsible were the Chairman (1 company), the Managing Director (10 companies), the financial controller (2 companies) and the Vice President (1 company). In the companies where responsibility was shared among two or more executives, the Managing Director was almost always involved (9 companies). Sharing the responsibility with the Managing Director were chairman (2 companies), financial controller (5 companies), Director (2 companies), Sales Manager (2 companies), and General Manager (2 companies). The maximum number of people who had responsibility for initiating planning activity in any one company was four - the Managing Director, Financial Controller, one of the Directors and the Sales Manager.

Scanning the environment for new opportunities is a significant aspect of the process of planning and specific organisational responsibility for bringing possible opportunities for examination had been assigned to specific executives in all the companies participating in the study. The responsibility was assigned to single executives in 13 companies, shared by 6 executives in six companies, and three executives in three other companies. The functional managers had this responsibility in 11 companies, the Chairman, the Managing Director, Vice President, Chief Executive or General Managers in twelve companies and directors in three companies. Other

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executives who shared such responsibilities included the technical advisors and executives responsible for corporate planning.

Company responses indicated that they also assigned specific organisational responsibility for initiating studies on issues of possible significance to the company. This responsibility was in most cases assigned to a member of the top management group—Managing Director, Vice President, Chairman, Director or General Manager. Functional Managers, Economic Advisors and the corporate planners also had this responsibility in a few companies.

Corporate Planning— the Environment and the Experience

The relation of enterprise planning to national economic planning is a crucial area in that it represents an **interface** between two subsystems of the national economic planning process. The experience of enterprise planning within a planned economy and the attitudes towards national planning—developed out of such experience or otherwise—may be significant to the total process of economic development. The companies participating in the study had a range of experience in the practice of enterprise planning extending from 2 to more than 20 years, with average planning experience being 7.8 years per company. This experience of companies in planning within the national system may have some bearing on the views expressed by them.

Sixteen out of the 20 reporting companies found the specific objectives of the Five Year Plans as supportive of their planning efforts. Fifteen companies found Five Year Plan investment figures useful in their planning process. Progress of implementation of the Five Year Plans was also viewed by a majority of the companies as supportive of their planning efforts. Half of the reporting companies also stated that the information for planning was a supportive factor in their efforts at enterprise planning. In contrast to these favourable attitudes towards national planning, almost all the respondents saw the economic policies and regulations relating to industrial licensing, foreign collaboration, import and export, capital issues and direct and indirect taxation as hindrances to their own planning efforts.

Despite these perceived obstacles, companies found several factors in the environment that favoured planned action on their part. The market potential, development in the rural areas, the rehabilitation programmes for the sick industries such as the textile industry, the general desire to increase production, the growth of national income, the protected market, and the policies supporting development in general were cited amongst such factors.

At the same time, companies experienced several factors that were not conducive to the formulation of long-term plans. Among the most commonly cited factors were frequent changes in government's fiscal policy, uncertain economic outlook, price changes, erratic supply of raw material, controls on credit and operations, lack of information for assessing the future of the market and uncertainty about the role of the private sector. Companies also cited several factors which in their experience handicapped the implementation of plans of longer duration. Among the various factors cited by them were the changes in government policy, licensing policy, delays in procurement of plant and machinery, uncertain economic outlook, delays in implementation of projects in other industrial sectors, and erratic supply of raw material. Other factors included uncertain market conditions, shortcomings in transportation and communication facilities and difficulties arising from changing social attitudes and approach towards modern industrial set-up.

Despite the factors unfavourable to formulation and implementation of long term plans, the responding companies underlined major advantages gained by them through planning. Sustained growth and profitability were pointed out by ten companies as the direct result of their forward planning. For six companies optimum utilisation of resources was the major gain from the process of planning. Better checks and controls on organisation, superior assessment of performance, timely remedial action, the development of a strategy to meet the objectives, flexibility to meet unforeseen circumstances, identification of possible areas for development, identification of problems in advance and appropriate action, and improved managerial performance were among the positive gains realised by companies from the practise of long-term planning.

Major Findings and Conclusions

Formal long-term planning cannot be said to be very widely practised by the companies in the private sector today in India. The relatively small portion of the companies having such practices among the top 300 companies, the indications that many others have not yet adopted such practices or are only in the process of initiating them indicate this conclusion. This, supported by the personal knowledge of the lack of such practices in many others, confirms the above conclusion. This finding need, however, only indicate that in a relatively large number of companies longer term planning has not yet become significant enough to deserve a degree of formalisation. Studies of long range planning practices in the United States have indicated that planning is not universally practised by companies and that in many cases such practices prevail only at an informal level.² However, in a broader way the above finding would indicate the relatively low level of impact of planning as a philosophy on the management of companies, in spite of continuing concern and discussions on planning at the national level in the country.

While the formal practice of long-term planning today seems to be confined to a relatively small proportion of companies in India, there is an indication that others have started in this direction in a limited way. These companies have confined such longer term planning, primarily to specific projects, such as diversification and new investments. The special projects represent strategic decisions on the part of companies and to that extent special project plans may be looked upon as a long term operational planning restricted to key strategic decisions.

Although formal long-term planning seems to be established only in a limited number of companies these have developed a certain degree of sophistication in this direction. The use of the following practices points to this conclusion: explicit statement of company's broad objectives and goals; the specific delineation of sectors

² Nevell Jr., William T. Long Range Planning Policies and Practices, Selected Companies Operating in Texas, Bureau of Business Research, The University of Texas, Austin, 1963, p. 171.

(e.g., areas for desirable diversification) for focussing planning activity, intensive operational planning of functional activities using multiple parameters; specific organisational responsibility for scanning environmental opportunities and initiating response action and well organized follow-up of plans and performance.

The specific delineation of sectors for focussing planning activity referred to above included (a) extent of growth potential in existing areas, (b) new areas where company expects substantial growth, (c) fields into which diversification is desirable, and (d) areas where acquisition of knowhow or collaboration is desirable. These represent end points of strategic planning or the assessment and choice of environmental opportunities in the light of company's own distinctive competence, skills and resources. While more detailed study would be required to assess the nature and quality of strategy planning, the very presence of a degree of strategic planning in companies is interesting. McArthur and Scott studying industrial planning in France in the mid-sixties came to the conclusion "that a significant proportion and probably well over half of the companies with sales of 100 million francs or more did relatively strategic planning. Managements of some companies, each responsible for employment of thousands of people, were unmistakably 'flying by the seat of their pants'; in other words, they were doing relatively little to try and foresee and plan for future development in their industry or industries."³

The sophistication of planning practices is also revealed by the comprehensive scope and intensive coverage of operational planning. The plans cover the major functional areas, such as manufacturing and marketing, which underlines the emphasis that the companies put on the exploitation of present product market opportunities and function of internal resource generation from these operations. Uniformly comprehensive plans in manufacturing reported by the companies is worthy of note and may indicate the bias towards manufacturing that characterises the economy. Well defined targets for research and development and special projects indicate the companies concern for broadening and strengthening the scope of companies operations in the future.

³McArthur, John H., and Scott, Bruce R., Industrial Planning in France, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1969, p. 179.

Financial planning was found to be an area in which more companies prepared most comprehensive long range plans than in any other functional area. The well defined financial planning indicates the concern of combining resource generation, attracting resource investment and thereby achieving efficient linkage of current operations with implementation of strategic decisions in future. The use of several parameters in studying operational plans in each of these functional areas is an indication of the depth of coverage in company plans.

Long term planning is still on way to getting formal organisational representation. Even in companies where formal planning groups have been designated, the composition of the groups reveal them to be a committee of executives rather than a formal department. Few companies reported corporate planning departments in their organisations although the title of corporate planner was mentioned by one company. In other companies planning function is assigned to a key department or departments. The finance department participated in the planning function in more companies than any other, reflecting well developed financial plans developed by most companies. Participation of line executives from several departments again tend to support the present role of planning groups as a coordinating function rather than as a specialised and formally organised activity.

An interesting finding was the organisational responsibility assigned to specific executives for scanning environmental opportunities and for initiating studies on issues of possible significance to the company.

A significant finding is that a substantial number of companies have found the specific objectives of Five Year Plans, investment figures and progress of implementation and information for planning as supportive to the process of planning within their organisations. This fact supported by the number of factors pointed out by companies favouring the formulation of long term plans lend support to the conclusion that companies in the private sector understand and appreciate

⁴Op. Cit., 2; p. 109

the benefits of national economic planning for their own strategic planning. At the same time, many companies including some or most of those who saw five year plans favourably, viewed the various decisions of government's economic policy, taken within the framework of plans and planning as hindrance to their own efforts at long term planning. The most often stated factor by companies about decisions on economic policy is their uncertainty. The study of business decision making within the national economic planning in France has pointed out that a positive benefit of such planning is "the coordinating effect of the plan which refers primarily to governmental economic decisions has an important secondary effect on the business community in the sense that it increases the degree to which business executives can rely on the plan and this is another factor in reducing uncertainties over future developments."⁵ The reduction of uncertainty has not apparently been achieved to any degree through our national economic planning process since the companies pointed out uncertainties of government policies as a hindrance both in formulation of long term plans as well as their implementation.

We have thus a dysfunctional picture emerging as far as the relationships between corporate planning and national economic planning are concerned. The degree of congruence seen between corporate planning and national planning at the broad level appears to be more than offset by the non-congruence of views on economic policy decisions through which the national plan objectives are sought to be achieved. While one can hypothesize reasons for this dichotomy it is felt that this is an area which warrants further study.

Despite the problems of uncertainty and a degree of non-congruence between national economic planning and corporate planning the experience of firms that have undertaken such planning points to the conclusion that long term corporate planning within our economy is both feasible as well as rewarding. While many factors do exist that are not conducive to formulation of long term plans and implementation, these are offset by other favourable factors--most of the them related to the long range goals of economic development of the country. The opportunities presented by the pursuit of the objectives of national economic development is sufficient justification to undertake long term planning.

⁵Hans Schollhammer, "National Economic Planning and Business Decision-Making: The French Experience," California Management Review (Published by Graduate School of Business Administration of the University of California, Berkeley, Los Angeles and Irvine), Vol. III, No. 2, Winter 1969, p. 81.

While the above findings relate directly to the questions with which the study started the data provided by the study revealed some interesting aspects having a bearing on the nature of corporate planning in a planned economy and the possible differences in emphasis that may characterise corporate planning under such conditions. Broadly, this refers to the nature of uncertainties that face companies. Uncertainties may be of three major types, uncertainties arising from government decisions, uncertainties of market place, uncertainties from the obsolescence of equipment or more generally, technological obsolescence. Uncertainties of the first kind, are in no means limited to companies in India. "... regulatory processes that restrict pricing, expansion and growth. It is extremely difficult to anticipate markets to be served by the company or the degree of competition that can be anticipated as a result of government route awards."⁶ This is a statement of the problems of long term planning by a company in the airlines industry in the United States. Uncertainties of this nature are therefore part of any organisation working in an area closely regulated by government. Where government controls and regulations are more comprehensive, these uncertainties are likely to be broader and more universally applicable as in our country. On the other hand, there is some indication that the same regulatory processes reduce the uncertainties of the market place and technological obsolescence to some degree. This is reflected in the lower ranking that most companies gave for introduction of new product development in assessment of competition, ranking it below expansion of capacity, licences for expansion of capacity or new units and entry of new manufacturers. It is also noteworthy, that slightly more than half the number of companies indicated only some or low significance to new product development and introduction of new technology, vis-a-vis their long term plans. Some indirect support comes from the fact that no company stated obsolescence of technology or equipment as a problem in long term planning--a factor stated by many companies as one of the problems in longer term planning in the United States. These characteristics of uncertainties perhaps leads us to the broad conclusion that the prime area of emphasis in corporate planning in a planned economy may be somewhat different than in other countries. This might well be identification of strategic opportunities that are in line with the objectives of national economic development programmes.

⁶ Op. Cit., 2 p.169

Summary Table 1

<u>Duration of Plans</u>	<u>No. of companies</u>
2 years	2
3 years	10
4 years	1
5 years	<u>10</u>
	<u>23</u>

Summary Table 2

<u>Parameters used</u>	<u>No. of companies using the parameter</u>	<u>No. of companies using</u>	
a) Extent of growth potential in existing areas	19	All 4 parameters	10
		3 "	5
b) Areas where company expects substantial growth	18	2 "	4
		1 "	1
c) Fields into which diversifications is desirable	14		
d) Areas where acquisition of knowhow or collaboration	13		

Summary Table 3Overall Company Targets

Parameters used	No. of companies using the parameter	No. of companies using
a) Total sales	20	1 to 2 parameters 4
b) Production quantity	20	4 to 6 parameters 10
c) Profits	20	7 to 10 parameters 9
d) New Product Sales	17	
e) New Plants	17	
f) Market share of existing products	14	
g) Total Assets	11	
h) Sales in new markets	7	
i) Productivity/cost improvement	2	
j) Sources and application of funds	1	
k) Working Capital	1	
		<u>23</u>

Summary Table 4Functional Area PlansA: Finance

Parameters covered	No. of companies using the parameter	No. of companies using
a) Working Capital Plans	23	5 parameters 17
b) Operating Cash Flows	22	4 parameters 6
		<u>23</u>
c) Capital Investment Plans	22	
d) Additional Capital Sources	22	
e) Corporate Taxes	20	

Summary Table 4 (Contd.)Functional Area PlansB. Manufacturing

Parameters covered	No. of companies using the parameter	No. of companies using
a) Raw material requirements	23	
b) Manufacturing Expenses	23	
c) Manpower requirements	21	
d) Production in physical terms	20	
e) Estimate of Raw material availability	20	
f) Import requirements	20	
g) New machinery & equipments	19	3 parameters 1
h) Indigenous availability of R.M.	17	5 to 7 parameters 4
i) Cost reduction plans	17	8 to 11 parameters 13
j) New manufacturing facilities	15	<u>23</u>
k) Raw material prices	2	
l) Import substitution	1	
m) Space	1	

Summary Table 4 (Contd.)Functional Area PlansC. Marketing

Parameters covered	No. of companies using the parameter	No. of companies using
a) Total Sales	23	2 to 3 parameters 3
b) Manpower requirements	20	4 to 6 parameters 6
c) Sales volume of each major product	19	7 to 11 parameters 14
d) Exports	16	<u>23</u>
e) Distribution Expenses	16	
f) Total Marketing Expenses	15	
g) Share of market for each major product	14	
h) Sales volume from new products	13	
i) Warehousing Expenses	12	
j) Sales outlets	11	
k) Sales volume from new markets	11	
l) Advertising	3	

Summary Table 4 (Contd.)Functional Area PlansResearch & Development

Parameters covered	No. of companies using the parameter	No. of companies using
a) No. of new product schemes expected to be worked on	15	
b) Estimates of expected sales of new products	11	1 to 3 parameters 7
c) Total expenditure target	13	4 to 6 parameters 11
d) Facilities target	13	
e) Manpower requirements	14	
f) Sales and profit expectation	1	
g) Import substitution	1	

Summary Table 5Type of Projects for which Special Plans are developed

Type of Projects	No. of companies developing plans for the project
a) Plant Expansion/Extension	13
b) Diversification/New Product Development	13
c) New Investment	2
d) Manufacturing and Marketing	2
e) Cost reduction	1
f) Modernisation	1

Summary Table 6Criteria used for Profits Measurement

Criteria used	No. of companies using the criteria
a) Net income before taxes	16
b) Net income after taxes	12
c) Return on net sales	12
d) Return on total assets	10
e) Return on capital employed	5
f) Return on fixed assets	4
g) Owners' equity	2
h) Sales to total assets	1

No. of companies using

1 criterion	6
2 criteria	4
3 to 5 criteria	10
7 criteria	1
	<u>21</u>