

# CORPORATE PLANNING IN PUBLIC ENTERPRISES

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## I

### Introduction

The function of planning has always been central to the success of organizational activity. In the present century, however, the emphasis has shifted towards an integrated and overall view of planning. Consequently, we hear today not only about long or short range but also corporate and strategic planning. The concept of corporate planning originated in the 1950s in the United States and it was simultaneously adopted by transnational corporations in India. The practice of corporate planning in the public sector in India is, however, of a more recent origin.

Corporate planning includes both strategic and operational plans, the former involving strategic decisions such as expansion and the latter concerning the targets to be achieved and the methods thereof. Peter Drucker's definition of this concept brings out clearly both the strategy and "process aspects" of corporate planning. In his words it (corporate planning) is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through an organized, systematic feedback service.<sup>1</sup>

Corporate planning is comprehensive as it encompasses all levels and functions in an organization. It is a formal and systematic way of running the total business, and it seeks to ensure its survival and growth over the long run. Corporate planning is not just a technique; it is a "complete way" of running a business. Here, future implications of every decision are evaluated prior to its implementation. Standards of performance are set up beyond the time horizon of the annual budget.<sup>2</sup> As a style of management, corporate planning helps to meet the threats and exploit the opportunities arising out of changes in business environment. As a process of introspection and analysis, it involves interaction among human beings and may, therefore, be described as a behavioural process.

A corporate plan has two major constituents—a strategic and an operational plan. A strategic plan or corporate strategy, as it is popularly known, provides long-term direction for the deployment of a firm's resources such as skills for effective accomplishment of a company's mission or a set of objectives. The essence of strategic planning is marshalling of an organization's resources, so that its strength is emphasized and that of the competitors minimized.<sup>3</sup> Corporate strategy is implemented through operational plans—the policies and standards for the company and for its various constituents.

## II

### The Rationale and Empirical Analysis

Corporate planning is a valuable aid by which management can evaluate a company's future and shape it successfully in the face of a turbulent

environment. It endows it with sensitivity well in time to look at problem areas and gives it a sense of direction in addition to a self-corrective mechanism. By identifying opportunities and threats, it enables management to take calculated risks through critical appraisal of the decisions affecting a company's survival and growth. It helps to improve coordination, facilitate change and permit rational allocation of scarce resources. Corporate planning is also a valuable learning experience so that the executive team can systematically improve its strategic decision-making capabilities over a period of time. Formulation of an implicit strategy and action programmes enable a company to devise yardsticks for monitoring of progress. The learning and self-improvement aspects of planning underscore the importance of management motivation and performance appraisal.

One of the major weaknesses of public enterprises in India is low capacity utilisation which indicates the need for better project planning. At a recent conference of chief executives of public sector enterprises, the Prime Minister urged "planned working" by these enterprises. Corporate planning helps to avoid *ad hoc* management by chalking out a disciplined path for running the business. A set of means is identified under which management can anticipate change and make things happen, rather than simply be forced to react to pressures. Management by crisis can be replaced with "management by competence". In the quest of profitability and growth, corporate planning is of special significance to our public enterprises in view of their giant size, sophisticated technology, high degree of diversification, and multiple objectives. It has a wide application, for example, in financial, manpower production, project and market planning and in other areas.

However, corporate planning is no panacea for the ills of the public sector. Very often the best of plans fail because they are adopted as a ritual. Success in corporate planning requires an incisive judgement of the environment, a "forward looking" attitude, a sense of commitment, willingness to change, a process of systematic and critical review and, above all, operational autonomy for management. The need for planning is so obvious that it is hard for anyone to be against it. But it is even harder to make any planning useful. Planning is one of the most complex and difficult intellectual activities in which man can engage. Not to do well is not a sin but to settle for doing less than well is.<sup>4</sup>

A study was made of corporate planning practices in a select group of 50 public sector undertakings of the Government of India. For this purpose, a detailed questionnaire was mailed to selected enterprises. Initially, only seven companies responded. Through repeated follow-up action, replies were obtained in all from 18 companies. These companies varied considerably in terms of size, location, nature of industry, technology employed and degree of product market diversification. The following aspects of corporate planning were covered in the study :

- Time horizon of planning,
- Patterns of planning,
- Nature of overall company targets,
- Composition of functional plans,
- Criteria used for profit measurement,
- Organizational structure for planning,
- Environmental interface of corporate plans, and
- Experience with planning.

## III

## Time Horizon and Pattern of Planning

There are no definite rules, for instance, on the length of time over which planning should be carried out. However, the planning cycle should be long enough to permit seasoned consideration of major technological and cyclical changes and for creation of large capital project. Special time horizons may be necessary to deal with projects of exceptional length such as shipping fleets; oil-field exploration, etc. Corporate planning needs to be a continuous process. This means that while three, five or seven years may be selected as the time period over which planning takes place, forward planning for this period should be carried out every year through a "rolling plan."

Our survey revealed that most of the respondent companies used five years as their planning period (table 1). However, some enterprises in electronics, chemicals and services used a time horizon of two to five years probably on account of their comparatively more dynamic environment. Enterprises in basic metals, petrochemicals and heavy engineering planned for periods exceeding five years.

Table 1

## Time Horizon of Planning

Duration of plan	Number of companies
2 years	2
3 years	1
4 years	1
5 years	11
More than 5 years	3
Total	18

Thus, five years is by and large the standard planning horizon in the public sector owing perhaps to the fact that national plans with which public sector projects are dovetailed have a five-year term.

Ackoff<sup>5</sup> has identified three distinct patterns which may be used in corporate planning. These are :

- (i) *Satisficing* : Under this pattern feasible and desirable goals are set which can be achieved without any significant change in current policies and practices and with little need for additional resources. Such planning seldom produces a significant break with the past.
- (ii) *Optimization* : This implies "do as best as possible." It calls for development of mathematical models that can be analysed or simulated to determine the effect of different policies and resource allocations on organizational performance. However, this pattern does not give due attention to the uncertainties that cannot be identified beforehand.
- (iii) *Adaptivizing* : This approach attempts to correct the deficiency of optimization by providing for changes in organizational operations so that they remain appropriate to the changing environment and fluctuating demands on them.

In the public sector, "satisficing" appears to be the common planning pattern; very few of the respondents sought optimum performance though a few aimed at adaptation to their operating environment (table 2). Some of the enterprises planned for desirable performance through organizational changes caused by environmental disturbances.

Table 2

## Planning Patterns in Public Sector

Pattern	Number of companies
Satisficing	11
Optimization	2
Adaptavizing	5
Total	18

## IV

## Targets and Functional Plans

A wide variation was observed in the parameters used by the respondents in formulation of their corporate plans. All set targets within the ambit of broad corporate objectives were stated in writing. The objectives identified strategic areas such as (a) growth potential in existing products and markets; (b) possible lines for diversification; (c) areas wherein maximum growth is possible; (d) desirability of acquiring new technology, etc.

Table 3

## Time Horizon of Planning

Parameter used	Number of companies	Number of companies
Total sales	16	1 to 2 parameters 6
Volume of production/capacity utilisation	19	4 to 6 parameters 11
Amount of profits	4	7 to 10 parameters 1
Market share	5	
Product development	10	Total 18
Productivity/cost reduction	3	
Additional capacity	6	

The companies stated their overall targets in varying terms. However, sales turnover and capacity utilisation were the most commonly used parameters. On the contrary, very few companies (table 3) adopted productivity and cost reduction as their basic targets. All the enterprises used more than one parameter.

The companies divided their overall targets into departmental or divisional plans. These plans were comparatively more specific and detailed. Plans for manufacturing divisions indicated requirements for raw materials,

mampower, machinery, equipment, space, etc. In addition to estimates of manufacturing cost, volume of production, capacity utilisation, etc. Financial plans covered estimates of working capital, cash flows, capital investment decisions, etc. Only one company prepared a forward plan for corporate taxes. Marketing plans included sales volume, market share, new product development, advertising budget and distribution costs. Some manufacturing companies prepared R & D plans covering import substitution, product development, expenditure targets, etc.

Table 4

## Projects for Special Plans

Type of project	No. of companies developing special plans for the project
Expansion and diversification	17
Modernisation	5
Cost reduction	2
New investment	5
Market development	4

Some of the respondents formulated special project plans for expansion, cost reduction, development of new marketing outlets, etc., for a period of 2 to 5 years (table 4). Several enterprises had plans for the recruitment and development of managerial manpower.

## V

## Profit Measurement and Planning Process

In the fixation of profitability standards, companies used multiple criteria, for example, net profits before and after tax, return on total assets, return on capital employed, etc. Pretax profits or return on capital employed was the most common criteria used for profit measurement (table 5).

A corporate plan is the end result of a series of steps which constitute the process of planning. *Environmental scanning* is the first step in this process. Such scanning covers industry trends, market profile, governmental policies and the state of the economy. In our survey, most of the companies prepared their plans on their own sales forecasts and very few attempted to forecast the industry sales or assessment of overall competition, which could lead to a better identification of threats and opportunities.

After scanning the environment, it is necessary to analyse the firm's own strength and weakness in terms of its financial standing, pricing policy, manufacturing capacity, sales capabilities, etc. *Self-assessment* should be precise and specific if it is to give an idea of how far the company would be able to face environmental threats or exploit opportunities.

Table 5

## Criteria Used for Profit Measurement

Type of project*	No. of companies
Net profits before tax	19
Net profits after tax	16
Return on Capital employed	18
Return on total assets	13
Return on equity funds	3
Sales to total assets	1

*Goal setting* is the third stage in corporate planning. With an analysis of environment and self-assessment, management can set the direction for the firm. The objectives set should be challenging yet realistic enough to be capable of being achieved. A clear definition of goals in both quantitative and qualitative terms is desirable.

Table 6

## Number of Companies Using

1. Criteria	3
2. Criteria	9
3. to 5 criteria	5
More than 5 criteria	1
Total	18

*Strategy formulation* follows goal setting. Quite often there is more than one possible strategy for achieving a given objective. Therefore, alternative strategies need to be identified and evaluated before the most appropriate one may be chosen. Strategy formulation requires imagination and foresight. Once the strategy is formulated *action programming* becomes necessary with a view to selecting the most efficient method of implementing the strategy. Action plans specify the sequence and schedule of activities, budgets and task allocation, etc. In our survey, many companies reported development of action plans, particularly in research and development, export promotion, product development, etc.

Action plans have often to be modified due to internal and environmental changes; for example, labour problems, project overruns, changes in government policies, power shortage, recessionary trends, etc. *Periodic review* of project implementation efforts is an essential step. All the enterprises reported follow-up action though the form of such action varied. The follow-up action could take three forms :

(a) *Steering Control Approach* : It involves taking corrective action in time to ameliorate a problem while the implementation of a strategy is still taking place; (b) *Anticipate Go-no-go Control* : Monitoring a particular position before committing significant resources to initiate a specific, significant move; (c) *Learning Control Approach* : In this, there is little scope for modification; a valuable benefit is the learning that takes place in analysing what went wrong.

## VI

**Planning Organization and Experience**

Development of successful corporate plan requires an appropriate organizational design. In three out of the 18 companies corporate planning was given formal representation in the form of planning groups of committees. In these groups and committees, marketing, finance and manufacturing divisions played a key role. While the initiative lay with top management, environmental scanning was the responsibility of departmental heads and staff specialists.

A corporate planning manager was found in one company. Organizational structuring is a critical factor in the success of planning. Unfortunately, the need for an efficient organizational structure and the right conceptual framework are not widely recognised in the public sector. Public enterprises in general do not pay much attention to organisational planning. Delegation at various levels is generally introduced through a trial-and-error method or is decided by pressure or demand, rather than based on a conscious policy decision.<sup>6</sup>

In India the planning process is initiated by the government through five-year plans. The broad goals and targets for the economy as a whole and for its various segments are set on the basis of overall plan objectives. The five-year plan, government policies and regulations constitute the framework for corporate planning. The national plan serves the same purpose to a corporate planner as a pole star is to a mariner. In addition to the general links to environment, corporate plans of public enterprises have specific links with the budget and socio-economic policies of the government and specific directions issued to the public sector. A large majority of the companies reported national planning as supportive to their planning efforts. The national priorities spelled out by five-year plans indicate a spectrum of opportunities for the individual enterprise and reduce the task of environment scanning. The definition of the state's role and allocation of resources among the sector imparts substantial certainty to the assumptions on which corporate planners make their own plans.

Unpredictable government policy, dearth of timely and reliable data, incessant criticism and bureaucratic wranglings were cited as major hindrances to corporate planning.<sup>7</sup> Uncertain economic outlook, inflation, delays and shortages also impede the process of planning.

Despite several hurdles in the formulation and implementation of corporate plans, the companies reported several benefits, for instance, sustained growth, profitability and higher productivity from the planning efforts. Identification of problems and opportunities in advance provides flexibility for meeting events in addition to timely action and managerial effectiveness.

## VII

**Recapitulation**

Formal strategic planning is not very widely practised in public enterprises and the degree of sophistication in this respect is limited, despite three decades of experience with national planning. However, the use of modern planning practices is increasing. Though the corporate planning exercise is confined to a few strategic areas, some of the public enterprises have explicit statements of corporate objectives, development of comprehensive

operational plans using multiple parameters, adequate organizational design and regular follow-up action: In terms of the degree of sophistication, manufacturing plans rank first and personnel plans last. Corporate planning has been given formal organizational recognition in three companies.

A significant finding of our study is that while national planning is supportive to corporate planning in the public sector, governmental policies hinder the planning process. Experience of companies with planning, though limited, reveals that corporate planning in the public sector is not only feasible but rewarding. A comparison of our findings with those of Nambudiri<sup>8</sup> shows that the corporate planning practices in the public sector are somewhat different from those in the private sector. This may be the result of differences in their operational environment. In environmental scanning, public enterprises gave higher importance to new technology and capacity utilisation than the private sector companies where the emphasis was on expansion and diversification.

There is need for a reasonable degree of stability and consistency in national plans, though a certain amount of change is inevitable. Companies may develop contingency plans for such a change. One lacuna in public sector planning is lack of specific objectives and performance criteria. The state of corporate planning in the public sector is comparatively primitive and needs improvement. Often lack of strategic plans is justified on the ground that the factors affecting public sector performance are not predictable enough to evolve operationally relevant plans. Uncertainty and need for optimising resources are precisely the reasons that necessitate corporate planning. The Bureau of Public Enterprises in India may evolve appropriate guidelines for formulation of corporate plans for individual enterprises and for monitoring of compliance with them. However, a great measure of flexibility would be necessary to take care of differences between enterprises.

Corporate planning is necessary in the public sector not merely for survival but for growth and productivity. Effective tools of planning and control should be used at the corporate level to ensure that the "controller of commanding heights", instead of becoming a perpetual burden on the nation's economy, contributes significantly to the realisation of the twin objectives of growth and social justice.

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