

# **AN APPROACH TO CORPORATE PLANNING**

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It was an American humorist, I think, who said that you could divide the world into two types of people; those who divided the world into two kinds of people, and those who didn't!

The impulse towards dualism is certainly very strong in man. And it was not so very long ago that I would have been tempted to divide business practitioners into the planners and the non-planners.

Both sides were affected by the success or otherwise of political planning. French *planification* and the sudden burst of enthusiasm that greeted Mr. George Brown's Plan made many industrial planners confident for the wrong reasons.

Similarly, the burst balloon of the National Plan gave encouragement to those businessmen who condemned planning and all its evil works, and offered in its place the theory of what Mr. Harold Wilson has, I think, termed "flying by the seat of your pants".

As I have chosen as the title of this paper, "An Approach to Corporate Planning", you will have gathered that I am in favour of some kind of business planning. But before I go on to outline my particular approach – and it is only one of many – let me distinguish between the approaches of government to planning, and those of an individual company.

One form of government planning is concerned with anticipating change – and that is not foreign to industry. But another form – or at least the talk about it – tends to centre around what is desirable, rather than what is possible.

The National Health Scheme is one example. Here we find a real divergence between what is desirable and what is possible. It is desirable to many politicians and many electors that every citizen should have the best form of medical treatment whenever they want it and without payment of a penny. The yawning cracks in the State medical service, the mass emigration of young doctors, and the realisation of both major political Parties that there are limits to a

National Health Scheme, indicate the dawning appreciation that the desirable is not always obtainable.

This kind of planning – by hope and optimism, by identifying desirability with attainability – does creep into business, often with catastrophic results. *But true business planning is concerned with the most efficient achievement of the possible.*

Politicians also have an advantage in attempting “optimistic planning” which is denied to mere businessmen. They can change the rules in order to change the scenery, if you see what I mean. They have the weapons of taxation, bank rate, and so on, to help them.

This kind of planning – often witnessed just before an election – was invented by the Greek bandit Procrustes. He tied his victims to a bed. If they were too long for it, he hacked off their feet. If they were too short for the bed, he stretched them until they fitted it. Procrustes was an imaginative economist . . .

One final word on government planning. Businessmen cannot afford to be too smug about it. Some of the limits to which Treasury officials work are very fine compared to some examples of business planning. And I would hate to endure the searchlight of newspapers, television, radio, debates in Parliament, and a stream of books, on the kind of decisions I take in my particular company.

## **PLANNING ANTI-PLANNERS**

In business, today, one meets fewer and fewer rabid anti-planners: the kind of men who greet you with, “I haven’t got any crystal ball in *my* business. Where’s yours?”.

And even the managers who think they are non-planners, turn out in the long run to be at least short-range planners. They compile budgets; they work out capital expenditure plans; there is some kind of quantitative edifice erected in their business.

Now why do these short-term planners like to boast that they don’t plan at all? I am afraid that the sin of entrepreneurial pride comes in here! They have come to think that they are bigger and better men if they achieve their targets blindfold, rather than using the eyes that God gave them.

They prefer to blaze away in the dark rather than take aim in the light.

Another “non-planner” is the activist; he descends on the

scene and makes a few snap decisions which are supposed to solve the problem. This is what I call "instant management". In such cases planning is usually somewhere in the background relegated to a frustrated staff or bought from consultants on an *ad hoc* basis.

## **THE OBJECTIVE – AND THE THREE RESOURCES**

As I have come down hard on the side of business planning, it is only fair that I should answer immediately the fundamental question: "What is the object of the planning approach to corporate objectives?"

Now, as I said earlier, I am putting forward one particular approach. I do so on the basis of personal experience, and on the basis of being managing director of Standard Telephones and Cables, which in turn is a member of the giant International Telephone and Telegraph Corporation which has a highly individual and analytic approach to business planning.

For me the over-riding object must be the effective use of the available resources. But before planning to use those resources, we must first look at the constraints and the encouragement offered by the environment, by the outside world.

These will include such factors as the political changes likely to affect our business and those of our competitors and suppliers: economic decisions, possible changes in the bank rate and purchase tax, inflation, deflation, unemployment, strikes, changes in consumer habits, government legislation, the growth or otherwise of national productivity, decisions or otherwise to join inter-national groupings such as E.F.T.A. or the Common Market and so on. We must attempt to foresee some of the decisions of our competitors and of our customers. We must consider future reactions of the trade unions and our employees.

These assessments will in turn lead to planning decisions: that inflation and rising costs, for example, will push up your prices and perhaps lower your future profits. On the other hand, we may choose not to be rigidly determined by these environmental factors.

From the start there may be an act of will – a refusal, let us say, to accept a low rate of national growth as the target for our own company. We may believe we can do better – and plan for this.

Generally, at this stage, there will be broad decisions; the

corporation is to grow; most probably in profits; then there may be decisions to become more complex, or more simple, and streamlined.

It is the responsibility of the board of directors finally to estimate the rate of growth, the varying use of resources, and to put down the guide lines for growth which can be understood and accepted by the managers of the enterprise.

In a large international organisation, a common form of corporate planning must be used which can integrate the efforts of hundreds of thousands of people, and a large number of companies of different kinds in many countries throughout the world.

That "language"—the planning language—will entail volume, profits, turnover, people, stocks and so on. And the final plan will not be equal to the guesses or even calculated and accurate predictions of individual managers. A "smoothing out" process will be necessary. Methods will be employed to test the credibility of individual plans. Factors applying to the organisation as a whole will be applied to the plans of individual units.

The stage is then set for an examination of our resources, to see how we can use them in order to achieve our plans for expansion. Those resources are of three kinds:

*First, our internal or organic resources.*

*Second, the external resources which can be brought in to reinforce them.*

*And third, the combination or coalescence of the organic resources of another company with one's own.*

## **THE ORGANIC RESOURCES**

Let us look first at our organic resources — the company itself, the men, machinery and materials of which it is comprised.

We must bear in mind an important principle in determining the organic growth of the various units of our organisation. This will be the point in time at which they arrived in their life cycle. There is a curve which can chart the biography of the product or company. In some cases, the curve is short; there are drop-outs and failures. In others the curve may be prolonged because of the extension of the organisation's objectives; a motor car company may decide that it is really in the broad business of transport or of communications.

In these days of high taxation and inflation it is probable that

our organic resources will not be sufficient to achieve our objectives. We must, therefore, supplement these by turning to our external resources.

## EXTERNAL RESOURCES

Judgment: judgment of a very high order will have to be used when it comes to looking at the use of external resources. Taking capital into the organisation, for example, represents a great responsibility.

Then there is the competition for resources – the competition for sales, for men, for money, and – in some industries – for materials.

For these decisions you need computers, you need statistics, but you also need value judgments. Do you take on managers, pure and simple (if such creatures exist!), or do you take on risk-takers? And what proportion of each?

As far as acquiring management talent is concerned, a balance must be struck between getting enough fresh talent to pass some useful shocks through the organisation – and making sure that you provide the right conditions to grow enough of your own talent from within.

Neither of these decisions – on bringing in men and money – can be swift, intuitive ones. And although my company encourages the proposal of decisions right down to the lowest level, these decisions cannot be agreed separately, in isolation. The global picture has to emerge first. And, of course, this is a time-consuming business.

There are, nevertheless, occasions when rapid, emergency decisions have to be taken. But where you have careful advanced planning, these kind of decisions are few, and form a very small proportion of the whole.

This means that proposals have to be detailed. They must be forwarded up the line and go to form part of the corporate plan. And they must not be accepted without question. Their credibility must be tested. And the question has to be asked: what money is available for what proposals? And which will bring in the best return on capital? Even the resources of a giant organisation are not limitless. And decisions must be taken on which areas will bring the best long-term returns.

I have dealt with two fundamental parameters that go to make



up the business plan – the organisation itself, and the outside world. The question: “How and what way do we grow?” involves asking a second question: “What proportion do we draw from our own resources and what proportion from the outside world?”.

To defer too much to the resources of the organisation may hinder growth. You may also want to cut out some operations of the organisation, if they are loss makers or low profit yielders. Or you may want to keep them for a certain time to defer damage.

You will, if you are a radical planner, decide that although you don't need capital next year, you may need large quantities in some years hence. Naturally you don't want the money at unnecessarily high cost. And this means that you should try to encourage the banks also to plan ahead.

Some banks have accepted this radical idea of big corporations drawing them into their plans for their long-term credit requirements. But a number of banks have resisted it. I wish that more in Britain accepted the need for this. We might not then have so many arguments for State lending organisations such as the I.R.C. – a point made by John Davies.

But having balanced internal and external resources, you may well find yourself needing further help in order to achieve your objectives. You may then decide to adopt a policy of coalescence.

I use the word *coalescence* to indicate a real joining together between owners in order to achieve targets which could not be reached separately.

The first stage of this kind of thought is that of coalescence between similar organisations. We have seen this in Britain, for example, in the motor industry, in the electronics industry, in ship-building and in retailing.

For some businessmen, the size of an organisation with a specific function is the primary objective, with a General Motors type organisation as the ideal.

But for others, there is a further objective. These men have stopped thinking solely about what specific form of business they should be in. They are not concerned just with the product. They take over, merge, coalesce, in order to extend and develop their resources. Their forte is management, their most important resource is management, and they are at pains to expand these prime resources.

There have, of course, been some critics of the process of coalescence. One astrologically-minded chairman in the United

States commented that nowadays he was living in "The Age of Acquireius".

But the answer, surely, is that just as a large business needs more sophisticated planning techniques than a small one, so does an international organisation committed to coalescence need even more sophisticated methods than a one product giant.

Centaurus are not always popular among conventional men. But a centaur – which is a kind of conglomerate – has the brains of a man and the legs of a horse. It thinks as hard as its rivals and gallops even faster!

## **TESTING FOR CREDIBILITY**

That then is the heart of my approach to corporate planning – the use of the three kinds of resources to achieve challenging but possible objectives.

But I should say something about the importance of overall meetings designed to test the credibility of proposed decisions before a wide variety of specialists, and of thinkers in different forms of management.

If the proposed decision is not good, it is generally apparent right away to participants. Individual vested interests do not, therefore, unduly influence solutions. Discussion must be both fundamental and objective. And problems must not be hidden. This is the ITT approach.

Not many managers exposed to this type of testing would want any other form. All humbug is stripped away – glibness and padding are of no avail.

The discipline in this kind of business planning is quite demanding. It is built into the yearly cycle of the organisation.

The total plan will be a synthesis of information. Each separate plan must interlock to form a whole. Each part must validate the others.

The plan is a continuous cycle with January providing the setting of objectives. The process of smoothing out follows and should result in the final objectives in April. The main areas planned include sales, profits, stocks, fixed assets, debtors, creditors, materials and people.

The plan proceeds and by August it has become a one-thousand-page volume for the company as a whole. It describes every facet of the company for the next two years, including full details of environmental changes, and a complete assessment of organisational competence, of its strengths and weaknesses. There is also a shorter version for the remaining three years that go to make up a five-year plan.

This document is analysed by a detached and objective staff. In September, the plans are reviewed in large meetings of up to a hundred people.

Finally, from the business plan a budget should be built which is approved in December. And in January of the next year, you start all over again with the new objectives.

How realistic and how valuable to the course of business in the ensuing years is such a plan? This depends primarily upon the validity of the input data and the realism of the objectives set. It depends secondarily upon its interpretation during the planning period and the steps which are taken to monitor deviations and keep the business on the planned course. In this approach to planning the first requirement is the process of testing credibility which I have described; this must be concerned only with the achievement of the possible.

The second requirement is part of the continuous process of using the plan. Accounting periods roughly corresponding to calendar months are used and each week of the year is numbered. The year is also divided for accounting purposes by quarters and each of these periods and permutations of them are used as a reporting basis. The normal basis for comparison is the budget because the budget is a set of completely detailed financial accounts for every accounting period against which the actual results can be compared in the most minute detail. However, it is recognised that post-period comparison loses time in adjusting the course. Hence the forecasting system. For every month in advance a forecast is made by the manager of the unit concerned which follows a prescribed form and deals with all the major business and financial parameters. This forecast is compared with the budget and is compared with the prior forecast. Deviations from the budget known as variances are described in the following ways:

There is the variance of the actuals from the budget. Then there is the variance of the actuals from the forecast. To close the loop

there is the variance of the forecast from the budget, and in order to be clear whether the trends of the business are favourable or otherwise, there is the comparison of the current forecast with the prior forecast.

If, in spite of all these efforts, external circumstances or inadequate planning or a decision to take advantage of a new-found opportunity cause significant deviations from existing plans the following planning steps are taken:

Firstly, the forecast showing the different trend will be more detailed and will become the real basis for assessment of the business achievement.

If, however, the deviations are large a new plan will be made following the format of the business plan and this will be scrutinised in much the same way as the business plan itself but by intensive work over a short period.

It is the meticulous detail which makes this planning different from most others, which makes it more credible and which with determined and professionally trained management virtually ensures a performance which is both consistent and good by average business standards.

## **WHAT KIND OF MANAGER ?**

What kind of manager does this kind of corporate planning demand?

The organisation's need for types of managers will obviously vary at different times. But in this decade, do not expect outstanding brilliance in all - though some have it. The less brilliant ones will receive a tremendous support or "back-up" from the organisation.

These managers should also have a high frustration level! It can be tough going to work in an organisation which is constantly probing at management myths.

They should be tolerant of multiple channels of advice and direction.

They should be able to present a case and argue, no matter who is the interlocutor.

They need an underlying strength. They will need it if sometimes they apparently get orders from more than one boss, and experience overlapping. They should be able to deal with this without feeling it

as a weakness either in themselves or in the organisation.

Napoleonic tendencies don't survive in this kind of organisation.

They should have a breadth of intellectual faculty and a balanced outlook.

Now, what about intelligence? That is only one factor. Some will have considerable attainments, and some modest in this direction.

Finally they should be able to understand themselves. But they should not be like Lord Byron, of whom his friends commented that he understood all his faults, and totally forgave them!

## **NO LIMITS TO PROGRESS**

One advantage of this kind of great and varied organisation is that it limits no one. The kinds of businesses in which it operates provide opportunities for most kinds of people. So ambition is a good thing.

But perhaps the ultimate quality is that of planning ability. Although planning is associated with the staff function, the manager at any high level should be able to plan, and accept the fact that this is a time-consuming business.

In fact, the higher the man, the more vital his planning ability. And the more value placed upon it.

... Because planning in a great organisation is a totally dynamic process ... And each link must be fully integrated into the whole.

For a great organisation with this kind of corporate planning, the abiding rules should be a modification of the dictum of the French philosopher, Descartes:

"I plan; therefore we exist." Or, if you like, "We exist; therefore I plan ..."

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