Corporate Planning in the Context of National Planning

C. Rangarajan

Identifying the opportunities and constraints in the environment is considered as the essential first step in formulating a corporate plan. To what extent is this task rendered easy when a national plan exists for a country? What are the additional factors that are brought into play in such a situation? The nature and content of planning vary from country to country. At one extreme there are countries like the Soviet Union and China where nearly all the sectors of the economy are brought under the direct purview of the planning authorities. In contrast with this are countries like France which have attempted only to indicate the desired lines of development in relation to various sectors. Even in a seemingly unplanned economy like the United States, the government takes appropriate steps to formulate integrated schemes whenever the nation is faced with certain severe shortages or difficulties. In this paper, we shall focus attention on the implications of national plans for corporate planning in a mixed economy like ours, where both the private sector and the public sector have a role to play, but with the latter playing an increasingly important role.

In charting the future course of action, an enterprise scans the environment for suitable opportunities. The external information that an enterprise needs to collect for this purpose can be enormous. Thus, scannining by an enterprise ranges from what is described as 'undirected viewing' to 'formal search'. The national plan indicates the broad lines of development a country is expected to follow, and as such contains valuable information for a corporate planner. But, to interpret a plan meaningfully, it is necessary to have a clear understanding of the process by which the plan objectives and much more so, the targets for individual sectors have been arrived at. We, therefore, present first a brief review of the technique of planning adapted in India followed by an analysis of those aspects of the national plan which have a bearing on corporate planning.

Concept of Plan Formulation

Planning as a means of accelerating economic development, particularly in developing economies, has been advocated on two grounds. First, because of the sharp inequality in income found in these countries, the market signals may not be good indicators of what the country needs to produce. This is apart from the fact that the markets themselves may be imperfect. What should be produced in the economy should, therefore, be governed by socially determined priorities which can be done only by a central planning authority. Second, planning by promoting a balanced growth of development could result in the avoidance of wastage of resources. The different sectors of the economy will develop in a balanced framework so that over-expansion in certain sectors which may occur under a decentralized decision-making system can be avoided. For these reasons, while adopting the mixed economic system, it was also decided that our country should follow a planned course of development.

In formulating a national plan, like in all other endeavours, the first task is to set the long run and short run objectives. In most of our plans, ensuring a particular rate of growth has been the dominant objective, even though other considerations such as reducing inequalities in income or securing a certain minimum level of employment opportunities have also been stressed. A second decision to be taken by the planning authority is on the strategy to be followed for achieving this rate of growth. At the time of the formulation of the Second Five-Year Plan, an issue that was widely debated in our country was on the strategy to be followed in our plans. It was stressed at that time that an emphasis on the development of basic and heavy industries was the best way to accelerate the long run growth of the country. There is no one standard route to be followed for achieving economic growth. Economic history reveals that there are many roads to economic progress. The planners have, however, to make a decision as to what they consider to be the best strategy to be adopted for the country. The third step involved in the formulation of a plan is to fix the magnitude of investment to be made during a plan period and the pattern of priorities to be followed in allocating this investment. To a very large extent, these would be determined by the objectives and strategy. And finally, the planners will have to decide on the proportion of the total investment that must be made by the government sector and by the private sector. All these four decisions are, to some extent, inter-dependent and cannot, therefore, be viewed in isolation. However, these constitute the major basic considerations that must be resolved by the planners before embarking on a detailed sector-wise allocation of investment and output.

The Indian plans have very often been described as falling under the category of 'consistency' models. This is so because the endeavour has always been to construct a plan that is mutually consistent. This consistency demands that the different sectors of the economy grow in a given ratio. The input-output table, incorporating the flow of goods from one sector to another determines what the output of the different sectors should be, given the final demand for consumption and investment. The plan also attempts to strike a balance between the total investment required for achieving a given rate of growth in income and the domestic savings that can be generated and the external aid. The total savings that are to be generated within the economy are themselves contingent upon the realization of the physical targets. Thus a plan emerges which matches a mutually consistent set of physical targets with a scheme of mobilization of financial resources based on the fulfilments of the physical targets. It is this consistency which is at the same time the strength and weakness of a plan. If all the targets are fulfilled this leads to the most efficient use of the resources. But if targets are not achieved, the entire balance is upset and can result in a considerable waste of resources.

The Indian plans in striking a balance between savings and investment or between the rates of growth of different sectors of the economy view the nation as a total entity, though the plans make a distinction between investment in the public sector and that in private sector. While the plan is spelt out in detail as far as the public sector investment is concerned, the investment to be made by the private sector and the production targets to be achieved by it are only 'indicated'. The desired amount and type of investment to be made by the private sector are sought to be achieved through the various policy instruments available to the government. These tools vary from direct controls such as licencing to the traditional instruments of monetary and fiscal policies.

Implications for Corporate Planning

The significance of the national plans for corporate planning is not the same for the enterprises in the public sector and those in the private sector. In the case of public sector enterprises, the national plan incorporates the major expansions contemplated. The work of the corporate planner in these enterprises begins even as the national plan is being formulated. Their expansion plans have to be approved in the first stage by the ministry to which they are attached and later by the Planning Commission. In the case of new enterprises, the ministries and the Planning Commission become the 'promoters'. Therefore, in the discussions that follow, the primary focus will be on the implications of the national plan for the enterprises in the private sector, even though some of the issues raised are also relevant for the corporate planner in the public sector.

Informational Content of a Plan : In examining the environment, every firm is looking for opportunities in fields in which it has a distinctive competence. This exploration involves identifying the emerging new demands, assessing the technological developments that are likely to occur and estimating the possible actions by its competitors. The firm must also apprise the plans of other complementary enterprises such as those which supply inputs to it or absorb its output. In a decentralized decision-making system all this information can be gathered only imperfectly. It is from this point of view that the existence of national plan is of a great advantage. The purpose of drawing up plan is to indicate in very clear terms the directions in which the country must grow. The plan specifies the investment to be made in the various sectors. One may disagree with the strategy adopted by the Planning Commission, but once the plan is approved by the Government and the Parliament, it is a commitment as far as the government is concerned. It is a blue print for action. As mentioned earlier with respect to investment in the public sector, the plan provides not only the magnitude of total investment to be made in each sector but also the details of the specific projects to be undertaken in each sector. The plans of the government in various fields, so to say, become an open book and this is of considerable importance with the emergence of the government as the dominant investor. Thus, through the plan document, a firm obtains an idea of where the investment is considered to be desirable. In addition, it also knows where there is already a commitment in terms of investment on the part of the government. These two together must constitute a valuable set of information for any corporate planner. Obviously, the scope of activities of a firm in the private sector is limited when compared to the scope available in a purely capitalist system.

In so far as the state preempts part of the resources available and also specifies the areas in which it alone can enter, the scope for the private sector becomes limited. In fact, it is the Industrial Policy Resolution of the government which has attempted to delineate the areas in which each of these sectors is to operate. Each Five-Year Plan based on this, indicates broadly the industries in which the private sector can enter. The issue that is very often raised is not so much whether a firm in private sector can enter a particular field or not, but that whether some segment of the private sector such as the big industrial houses can enter it. It must be admitted that government's policy on this has not been steady. It has fluctuated between a 'severe' and a 'liberal' attitude. However, the plan as a whole tells what can be done and what cannot be done by the private sector. To the extent the investment in private sector is dovetailed to the investment in the public sector, the latter is readily available to it. In Table 1, an attempt is made to classify industries according to expected growth rates specified in the draft Fifth Plan document. It can be seen that while some industries are expected to grow only at about 4 percent per annum there are industries like fertilizers which are expected to grow at 28 percent per annum.

It is, however, worthwhile to note that the physical targets for output indicated in the plan for the various sectors and within the industrial sector for the various industries are largely aggregative in character. Targets set for, say, electric transformers need to be further broken up into transformers of different sizes. The Planning Commission, while arriving at these targets, has the help of study groups in which industry representatives are involved. The need to estimate the product mix within each broad category is a task that must be done by the individual firms. More recently the Ministry of Industrial Development has been publishing a document entitled 'Guidelines for Industries' which indicates the product-wise demand as well as the existing capacity and the current status of licences applied for addition to capacities. This is useful information. Nevertheless, the need for doing a more intensive analysis of the targets relative to individual products cannot be escaped. The broad aggregates given in the plan provide the necessary starting point.

Nature of the Targets : With respect to the targets indicated in the plan, there are two aspects which need careful examination. The targets set for each industry grouping, for example, in the plan are in physical terms arrived at in order to establish a balance between inputs and outputs. Thus this balance results in a congruence between physical outputs and inputs. The targets set in the plan are, therefore, more like requirements than demand in the economic sense of the term. There is no attempt made on the part of the planners to indicate whether entering into a particular field would give the necessary return on investment. More recently, with respect to projects in the public sector, detailed analysis of cash flows is being done before they are incorporated in the plan. Obviously, the analysis is not confined to a private cost-benefit basis. The planner is much more interested in a social cost-benefit analysis. Private costs and benefits are suitably modified to take into account the opportunity costs to the society. Whether or not the targets fixed for the various industries would be fulfilled depends upon whether the firms in the private sector that enter the field would find it profitable. This is an aspect of the problem which the planners themselves would need to look into. It is pointless to fix targets for various industries if the fulfillment of such targets does not generate the required level of profitability.

While it may be fair for the planners to decide on what the appropriate level of profitability should be, enough attention should be paid to see whether pricing and other policies pursued would ensure this fair rate of returns. However, as of now the physical targets laid down in the plan must be treated by the firms in the private enterprise as output levels necessary, if all the sectors are to grow according to the plan.

We have emphasised repeatedly that an essential characteristic of our plans is their consistency. Output of one industry becomes the input of another industry, unless it is directly consumed. Thus, from the point of view of the economy as a whole, there should be a balance between the rates of growth of the various sectors if waste is to be avoided. Consistency in this sense is like the music produced by an orchestra where every instrument is to be so controlled that the total action results in harmony. As mentioned earlier, if all the targets are not simultaneously fulfilled, it will result not only in waste of resources but also put individual firms in considerable difficulty. The study groups appointed by the Planning Commission for various industries arrived at the total estimate of demand based on the assumption that the growth rates fixed for all the sectors of the economy would be achieved. For example, the demand for tyres is based upon the estimate of originating traffic which again depends on the increase in agricultural and industrial output. A substantial fall in agricultural or industrial output can, therefore, have a very serious impact on the demand for tyres. Instances of serious shortfalls in the various sectors are not uncommon in our planning experience. In order to emphasize the gravity of the situation, we have provided in Table 2 the difference between targetted growth rates and the actual growth rates for a variety of industries during the Fourth Plan period. It shows that there are only four industries whose actual growth rates were equal to or better than the targetted growth rates. We have given in Table 3 the details of shortfalls in the fulfilment of capacity creation during the Fourth Plan period for approximately 24 industries. We have summarized the shortfalls in terms of certain categories of industries in Table 4. Output shortfalls can occur in any particular year due to a variety of factors, some of which can be purely temporary. A severe drought can result in a crippling power shortage which may have an effect on output. But persistent large shortfalls in output as compared to the targets must alert a corporate planner. It would be idle to pretend that the plan as enunciated would be maintained. It is unfortunate that the Planning Commission itself does not bring out at the time of mid-term appraisal revised sets of targets. Very often the mid-term appraisal is an exhortation to fulfil the targets than a serious effort to alter the targets themselves in the light of the experience in the first few years of a plan. It is, therefore, necessary for the individual firms to understand clearly the process by which targets have been arrived at and to make necessary alterations in their own calculations if some of the basic assumptions go wrong. This is a matter of importance not only to the firms in the private sector but also to those in the public sector.

Totality of a Plan

We have emphasized in the previous section on the nature of the interdependence among the targets set for the various industries and the need for understanding the consequence that results when the required balance is not maintained. This argument holds good with respect to the totality of the plan also. Income growth is linked to the level of required investment which, in turn, must be balanced with domestic savings and external assistance. Thus the fulfilment of a plan as a whole depends on the fulfillment of a number of basic assumptions. At the time when the draft Fifth Plan came out, very serious doubts were expressed on various aspects of the plan. Those who thought that the plan was unrealistic raised the point that the physical targets laid down in the plan could not be fulfilled with the mobilization of resources contemplated. Some regarded that the targets with respect to savings were set too high and that they were not supported by past experience. Questions were also raised at that time on the calculations that had been made with respect to import requirements, doubting thereby the possibility of being able to reach the target of net zero aid at the end of the Fifth Plan. It is not our intention here to examine the various questions that had been raised. But, it is necessary for any corporate planner to examine these issues and form his own judgement regarding the feasibility of any given plan. Inability to implement the plan as originally contemplated would call for revisions which may have serious implications for the expansion plans of individual firms.

Conclusion

The concept of a mixed economy, as practised in India, by its very definition limits the area of operations of the private sector. But the national plan, viewing the economy as a whole both in terms of short run and the long run indicates the appropriate fields of development for the firms in the private sector as well. Depending on the vigour with which the policy instruments are used, these indications can become much more than mere expectations. However, the targets set in any plan for the various industries and sectors must be treated with some circumspection. This caution applies as much to industries in the public sector as they are to those in private sector. First of all, the targets set for various industry groupings are highly aggregative and therefore must be broken into productwise demand. Second, the implications of the physical targets laid down in the plan need to be translated into economic and financial terms to determine the profitability or otherwise of entering a particular field. Finally, the targets set for the various industries are highly interdependent and shortfalls in the output of some of the crucial sectors can completely upset the targets set for most of the industries. Our past plan experience quite clearly warns us to be on the guard on this score.

It is only legitimate that a corporate planner should treat the national plan as given and make his own schemes of expansion in that context. But at the same time, it is important for him to understand the strategy and assumptions underlying the national plan because that will enable him to quickly reassess the segment of the plan he is interested in, if some of the underlying assumptions go wrong. In this he might be even a few steps ahead of the national planners, if he is perceptive enough. Without doubt, the plan provides the broad framework within which the corporate planner can draw his own plans. But, in so doing, he cannot escape from making his own judgement on the key assumptions of the plan.

Table 1 : Classification of Sectors and Sub-sectors by Range of Rates of Growth of Gross Value Added (r) Over the Fifth Plan Period

Sl. No.	*Sectors/Sub-sectors*	*r*
	2—5%	
1	Food Products (Total)	4.78
2	Vegetable Oils	4.80
3	Tea and Coffee	3.47
4	Other Food Products	4.59
5	Textiles (Total)	4.10
6	Cotton Textiles	4.27
7	Jute Textiles	3.77
8	Other Textiles	4.79
9	Miscellaneous Textiles Products	3.76
10	Wood and Paper Products (Total)	4.93
11	Wood Products	4.58
12	Cosmetics and Drugs	4.64
13	Radios	2.03
	5—10%	
14	Petroleum Product	9.79
15	Mining and Manufacturing (Total)	8.11

Sl. No	Sectors/Sub-sectors	r
16	Mining (Total)	9.86
17	Iron Ore	8.87
18	Crude Petroleum	8.78
19	Other Minerals	8.79
20	Manufacturing (Total)	7.98
21	Sugar and Gur	5.70
22	Paper and Paper Products	7·70
23	Leather and Rubber Products (Total)	7.32
24	Leather Products	5.73
25	Rubber Products	8.41
26	Man-made fibres	5.61
27	Other Chemicals	8.71
28	Coal and Petroleum Products	6.87
29	Non-metallic Mineral Products (Total)	8.20
30	Cement	8.89
31	Other non-metalic Mineral Products (Total)	7.96
32	Metal Products (Total)	8.64
33	Bolts and Nuts	9.89
34	Metal Containers	6.58
35	Other Metallic Products	8.67
36	Agricultural Implements	8.03
37	Electrical Engineering Products (Total)	8.91
38	Electrical Motors	9.83
39	Electrical Wires	8.90
40	Batteries	7.74
41	Electrical Household Goods	6.73
42	Transport equipment	7.24
43	Motor Cycles	6.90
44	Motor Vehicles	5.97
45	Ships and Boats	9.65
46	Railway Equipment	7.47
47	Other Transport Equipment	6.63
48	Instruments (Total)	8.20
49	Watches and Clocks	7.84
50	Miscellaneous Scientific Instruments	8.37
51	Miscellaneous Industries	8.41
52	Printing	5.20
53	Electricity	9.87

Sl. No.	Sectors/Sub-sectors	r
54	Construction	8.70
55	Transport (Total)	8.70
56	Transport Railways	5.73
57	Other Transport	5.55
58	Services	5.65
	10—15%	
59	Coal	10.63
60	Chemical Products (Total)	12.35
61	Inorganic Heavy Chemicals	13.54
62	Organic Heavy Chemicals	10.65
63	Plastice and Paints	10.19
64	Miscellaneous Coal Products	12.14
65	Refractories	10.44
66	Basic Metals (Total)	11.76
67	Iron and Steel	10.78
68	Non-ferrous Metals	14.90
69	Non-electrical Engineering Products (Total)	13.56
70	Ball Bearings	14.53
71	Office and Domestic Equipment	10.86
72	Other Machinery	14.59
73	Electronics	11.60
74	Telephone and Telegraphic Equipments	10.02
75	Other Electricals	12.08
76	Aircraft	11.06
	More than 15%	
77	Fertilizers	27.69
78	Machine Tools	15.91
	All Sectors	5.50

Source :— Draft Fifth Five-Year Plan 1974-1979; Vol. 1; pp 34-35.

Sl. No.	Industry	W_i	r	r'	D $(r'-r)$	D as % of r
20—40% underfulfilment						
46	Motorcycles, Scooters Mopeds	0.8200	19.66	14.86	—4 80	—24.4
47	Crude Petroleum	0.3910	7.00	5.12	—1.88	—26.8
48	Cement	1.1700	8.09	6.00	—2.09	—25.8
49	Aluminium	0.5700	11.91	8.80	—3.11	—26.1
50	Automobile tyres	1.1880	9.86	7.19	—2.67	—27.1
51	Caustic Soda	0.1699	10.46	7.50	—2.96	—28.2
52	Soda Ash	0.1324	6.31	4.93	—1.38	—21.8
53	Nylon Filament and Staple	0.0009	34.86	21.57	—13.29	—38.1
54	Wireless and Microwave Equipment	0.0002	20.84	12.74	- 8.10	—38.1
55	Paper and Pulp Machinery	0.0009	37.97	23.00	—14.97	—39.4
56	Diesel Locomotives	0.8340	17.52	12.83	—4.69	—26.7
	Total Index	5.0773	11.854	8.757	—3.097	—26.173
0—20% underfulfilment						
57	Vanaspathi	1.0900	6.05	5.67	—0.38	—6.3
58	Paper and Paper Board	1.6100	5.62	5.56	—0.06	—1.1
59	Electric Fans	0.4110	15.16	13.67	—1.49	—9.8
	Total Index	3.1110	7.031	6.669	—0.361	—4.071
% overfulfilment						
60	Oxygen Gas	0.1140	7.77	14.97	+7.20	+93.5
61	Tool, Alloy and Special Steel	10.1170	32.61	74.64	+36.03	+93.3
62	Dry Batteries	0.1870	6.57	9.69	+3.12	+47.4
63	Sugar Mill Machinery	0.1440	13.44	+14.3	+0.59	+4.4
	Total Index	0.5620	15.244	25.395	+10.151	+55.29

Note : W_i = Value added proportions as used in the official series of Index of Industrial Production.

r = Planned growth rate during fourth plan period (1969-70 to 1972-73).

r' = Achieved growth rate during fourth plan period (1969-70 to 1972-73).

Source : Draft Fifth Five-Year Plan 1974-1979, Vol. 1; pp 38—40 and Vol. II pp. 156—159

Table 3: Extent of Fulfilment of Capacity Targets During Fourth Five-Year Plan Period

Sl. No.	Industry	W_i	r	r'	D $(r'-r)$	D as % of r
More than 100 % underfulfilment						
1	B. H. C.	0.0388	11.17	—2.12	—13.29	—118.9
2	Zinc	0.0054	14.86	0	—14.86	—100.0
	Total Index	0.0442	11.62	—1.86	—13.48	—116.6
70—100% underfulfilment						
3	Phosphatic Fertilizers	0.1200	23.30	5.87	—17.43	—74.8
4	Pig Iron For Sale	0.1300	28.47	6.58	—21.89	—76.8
5	Sulphuric Acid	0.0098	16.05	3.21	—12.84	—80.0
6	Metallurgical and other Equipment	0.0410	6.23	1.15	—5.08	—81.5
	Total Index	0.3008	22.97	5.45	—17.52	—76.4
40—70% underfulfilment						
7	Newsprint	0.0800	40.63	20.11	—20.52	—50.5
8	Mild Steel (Finished Steel)	3.8000	5.46	3.26	—2.20	—40.2
9	Steel Ingots	0.100	5.92	3.33	—2.59	—43.7
10	D. D. T.	0.1116	23.36	8.45	—14.91	—63.8
	Total Index	4.0016	6.66	3 74	—2.92	—41.07
20—40% underfulfilment						
11	Petroleum Products (and Lubricants)	1.3400	9.85	6.52	—3.33	—33.8
12	Nitrogenous Fertilizers	0.3360	23.98	17.40	—6.58	—27.4
13	Aluminium	0.5700	14.47	10.76	—3.71	—25.6
14	Agricultural Tractors	0.0050	27.73	18.64	—9.09	—32.7
15	Caustic Soda	0.1699	6.96	5.31	—1.65	—23.7
16	Thermal Turbines	0.0500	22.46	15.74	—6.72	—29.9
17	Coal and Other Mining Machinery	0.0130	9.85	7.71	—2.14	—21.7
	Total Index	2.4839	12.91	9.10	—3.81	—30.2

Sl. No.	Industry	W_i	r	r'	D (r'−r)	D as % of r
Less than 20% underfulfilment						
18	Paper and Pulp Machinery	0.0009	19.91	16.53	—3.38	—16.9
19	Soda Ash	0.1324	8.61	7.52	—1.09	—12.6
20	Hydro Turbines	0.0500	27.73	22.87	—4.86	—17.5
	Total Index	0.1833	13.88	11.75	—2.13	—13.9
% underfulfilment						
21	Tool Alloy and Special Steel	0.1170	37.97	55.18	+17.21	+45.3
22	Copper	0.0800	37.68	42.80	+5.12	+13.6
23	Power Tillers	0.0025	87.76	88.82	+1.06	+1.2
24	Machine Tools	0.3865	8.73	13.70	+4.97	+56.9
	Total Index	0.5860	18.86	26.27	+7.42	+48.4

Table 4 : Capacity Fulfilment According to Types of Industry

Sl. No.	Industry		W_i	r	r'	D (r'—r)	D as % of r
1	Capital Goods	8	0.5489 (7.2)	12.10	14.03	+1.93	+28.8
2	Basic Industries	5	4.5854 (60.3)	7.81	4.97	—2.83	—38.5
3	Intermediate Goods	5	2.4655 (32.4)	15.14	10.62	—4.52	—32.8
	All Industries	24	7.5998 (100.0)	10.50	7.46	—3.03	—31.8

Notes : W_i = Value added proportions as used in the official series of index of industrial production.

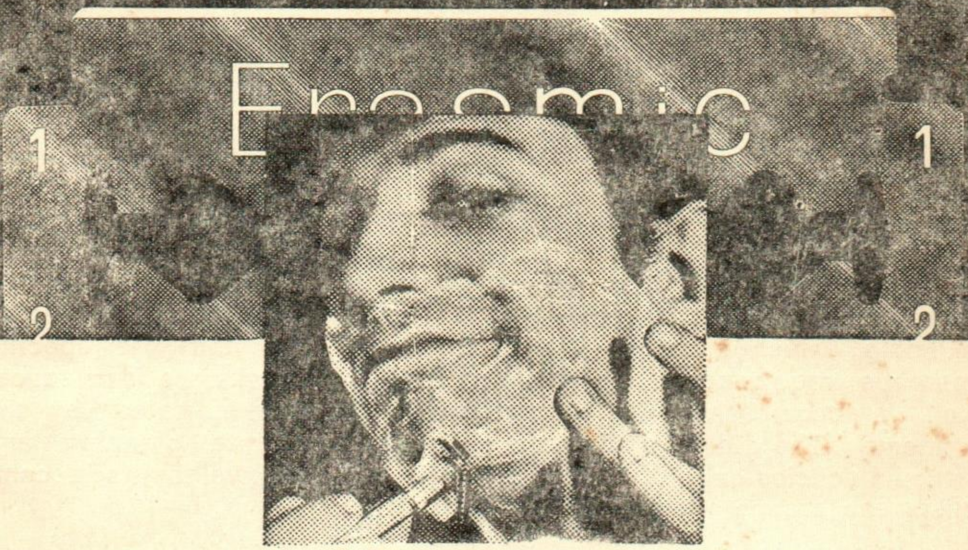
r = Planned growth rate of capacity during fourth plan period (1969-70 to 1972-73)

r' = achieved growth rate of capacity during fourth plan period (1969-70 to 1972-73).

Source : Same as in Table 2

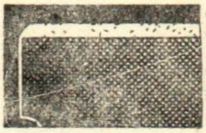
Erasmic
the Silk-Edge Blade

Tender on skins...

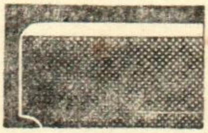


ruthless on beards

Erasmic, the Silk-Edge Blade, shaves really close yet feels like silk on your skin. Made from Swedish steel, quality-controlled and tested at every stage, each blade is ground to extra-sharpness. Then a special French coating gives it the exclusive Silk-Edge. Yes, Erasmic shaves beautifully smooth, really close. Ask Erasmic men.



(Magnified view)
Ordinary blades have a raw, naked edge. They cut your skin along with your beard.



(Magnified view)
ERASMIC's Silk-Edge—smoother-shaving, longer-lasting.

Erasmic
You can't tell Erasmic from imported

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Corporate Planning and National Policies

C. N. S. Nambudiri

The focus of this paper is on the inter-relationship between corporate planning at the level of the industrial organizations, and national policies that are of direct relevance to that task. Corporate planning is often distinguished separately into corporate strategic planning and operational planning. Corporate strategic planning leads to the formulation of the strategy of a corporation or the matching of an opportunity in the environment, with the specific profile of resources, skills and competence of the firm, in consonance with the values of those who direct the enterprise. Strategy provides a long-term direction for the pattern of deployment of resources. It is achieved through operational planning, which identifies the tasks to be done and the specific resource requirements for them. When these tasks are carried out well, it accomplishes the organizational purpose indicated by the strategy. The inter-relationship between corporate planning and national policies extends to both strategic choice as well as its accomplishment through operational planning.

National policies form an element of the environment in which both strategic choice as well as operational planning are carried out. The policies, as an element of the environment, also affect performance of these tasks. National policies may be defined as guidelines for administrators in government, for taking operational decisions. Policies, whether in corporations or the government, are laid down to ensure that the wide range of decisions that have to be made in order to achieve corporate or national objectives are, in fact, made and are in line with such objectives. Their use permit degrees of discretion in taking into account the situational factors immediately concerning individual circumstances requiring decision. Policies, therefore, do not have a standing by themselves, but are useful only in conjunction with the objectives and the overall direction in which the company or the country is moving. Policies, along with plans, objectives and an overall concept of national interest, constitute a national strategy. An illustrative presentation of the concept of national strategy is given here. The implication is that national policies have to be understood in the overall context in which they have been formulated. This article will, therefore, treat policies in the perspective of the national strategy that gives rise to them.

The Concept of National Strategy

(A) Concept of national interest : The concept of national interest "is a conception of the nation and its future" that is explicitly stated or implicit in its actions, planning processes, and plans or policies adopted.

The concept may best be illustrated with the following examples drawn from the plan documents of several countries.

(a) "French planning is the search for a middle way, reconciling one's attachment to liberty and individual initiative with the common orientation of development."[1]

(b) "All long-term decisions rest on conception of the future. But it is clear that the market does not provide this conception." French national planning is said to have been designed to supplement the market mechanism, not to replace it."[2]

(c) "Development along socialist lines to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of value and attitudes of a free and equal society."[3]

(d) "The basic objective of planning in Nigeria is not merely to accelerate the rate of economic growth and the rate at which the level of living of the population can be raised; it is also to give her an increasing measure of control over her own destiny."[4]

(B) Objectives : Objectives set out not only the broad economic and social development priorities, but also the standards of performance sought to be achieved, overall and in the different sectors of development through the utilization of the national resources. These standards of performance may be described using several parameters, such as the growth rate of gross domestic product, per capital income,

gross domestic capital formation, etc.

(a) "The highest possible priority was accorded this endeavour in order to establish the competitive capacity of French industry in the world. To this end, elements of an explicit industrial developmental strategy were elaborated in the Fifth Plan."[5]

The Fifth Plan also brought out for the first time, a package of options. These targets for the plan were as follows : Gross National Product 5 percent, Personal Consumption 4.5 percent, Productive investments 5·8 percent and Public investments 8.2 percent.[6]

(b) "An outstanding feature of the Fourth Plan is that it places a very conspicuous and oft-repeated emphasis on the common man, the weaker sections and the less privileged. It is laid down by the Commission, "that planning should result in greater equality in income and wealth and that benefits of development should accrue more and more to the relatively less privileged classes of society."[7]

This was clearly an expression of a social objective and its priority in no uncertain terms.

(c) The Fourth Five-Year Plan also laid down clear performance standards in some key sectors : growth rate in agricultural output at the rate of 5 percent per year, growth of exports at 7 percent per year, and a reduction of net aids to 50 percent of their existing levels by 1974.[8]

(d) The National Development Plan (1962-68), in Nigeria, gave the highest priority to agriculture, industry, social development and the development of infrastructure facilities. It is also stated that the development of a broadbased and progressive private sector as part of a mixed economy was one of the major objectives. The plan laid down a growth rate of the economy of 4 percent per annum, to keep the increase in the average rate of private consumption at 3 percent per year, and to provide 15 percent of the Gross Domestic Product for investments to achieve the deserved growth rate.[9]

(*C*) *The Plans :* Plans are the end result of the national economic planning process. In its final form it spells out action programmes, tasks and targets to be achieved, through the allocation of resources. The national plans are almost invariably described in terms of public and private investment programmes in the different sectors. It also includes the available sources and the means by which they are collected. Plans represent a translation of the objectives, into a concrete deployment of financial and other resources into action programmes.

(D) Policies : Policies are guidelines for action, useful and necessary in achieving the plan objectives, in particular, and in reaching concepts of national interest underlying them.

Many examples of policy components of national strategy are identifiable in the plan documents. Thus in the Fifth Plan (France) there was a clearly enumerated energy policy.[10]

A clear policy guideline has existed in the successive five-year plans (in India) for public agencies in organizing the passing on of the results of research in agriculture to the farmers.[11] The National Development Plan 1962-68 (Nigeria), had a policy guideline for the preparation for project proposals. The policy required the proposals to be checked for feasibility and internal consistency with the development of a private sector.[12]

(E) Implementing decisions: All plans are implemented through decisions. Although many thousands of decisions are taken, some of these have certainly more far-reaching consequences than others. These are 'strategic' in as far as they affect the working of a whole sector or sectors of the economy and the corporations operating within them. The analysis of the environment of a corporation will not be complete without adequate recognition of the significance of decisions taken in the past or currently.

Interdependance of Corporate Plans and National Plans

The interrelationship between corporate planning and national policies are of the utmost significance in planned, mixed economies. This significance arises from the fact that many of the objective and plans of the national strategy is sought to be implemented through the performance of the corporate sector. Naturally, in such economies, corporate plans of industrial organizations are very much dependent on the national plans. Corporations, and, in particular, industrial corporations, whether in the private or the public sector, are organizations where specialised and often unique combinations of resources—technological and organizational have been developed. They have, by this unique combination developed, the ability to contribute to the tasks of economic development. This unique capability to contribute not just to the pockets of the owners of the business or the state treasury—but to the ends of national economic development is what makes the governments of developing countries eager to direct and influence them. Corporations in a sense have become key toois of economic development. National policies are means by which these corporations are guided in contributing to the overall tasks of national development. Therefore, their availability wherever necessary, their consistency to the overall objectives of the national strategy, the internal consistency among the various policies and the way in which they are used can have significant impact on the work of the corporations.

The state influences the corporations through its policies for an industry. Each major industry is influenced by a set of sectoral policies. These have their impact on all the corporations in that industry. The corporation is also influenced more directly, for example, by the licensing policies where the size and position of the company in the industry and other factors are also taken into account. Several institutions, established by the State extend the influence on corporations, through their own policies. Examples are provided by the nationalised banks and other institutions established to support and develop industrial corporations. The sectoral policies and the institutional policies and their influence is certainly, in addition to the fiscal and monetary policies that are applied to the entire economy. The policy framework emerging out of all these form the politico-economic environment within which the corporate planner formulates strategic choices as well as corporate plans. Therefore, a clear perception of the policy framework and its implications for the firm in terms of the choice of alternatives for the future is an essential starting point for the corporate planning process. It is here that an explicit statement, and a systematic analysis of the overall concept of national interest, the objectives, plans, policies and implementing decisions, as it affects the sector in which the corporation operates is likely to be most useful for the corporate planner. The concept of national strategy, illustrated earlier, is an attempt to provide a systematic frame for the corporate planner to islolate the policy framework in its total perspective, and realise the implications for this task.

Evolving a Corporate Plan on the Basis of National Priorities

It has heen fairly well accepted by corporations in many countries, that corporate planning is helped substantially by the national plans developed by national economic planning.[13] One of the ways in which corporate planning is helped is the way national plans spell out national priorities in the fields of economic and social deveiopment. These priorities reduce the task of scanning the environment in the corporate planning processes, by mapping out a time horizon spectrum of a matrix of opportunities likely to be available to the enterprsie.

Strategic choices and operational planning in corporations are based on several basic assumptions about the likely state of the environment. If these judgemental assumptions do not come true in the course of the time horizon, many of the expected results of the operational plans, and therefore, the benefits of strategic choices are unlikely to materialise. The weight of the State's massive allocation of resources in the national plans and its projects, provides substantial certainty to the assumptions on which the corporations can make their own plans. The magnitude of the State's role in the plans for economic development in developing countries tends to add further to the certainty underlying the assumptions. National plans thus aid not only in the identification of opportunities likely to be availabla, but also provide a degree of certainty for making assumptions about what is likely to happen.

The commitment of the state's resources in many of the plan projects further serve to indicate clearly the nature and magnitude of opportunities. Thus where the state is committed to put up a major power generation project, the nature of opportunities available to transformer, cable and other manufacturers is clearly indicated. Where national policies have created public sector industries in key and strategic areas, the corporate plans of such organisations form part of the national plans. The plans of many other corporations become linked or dependent on the plans of these corporations. The plans of the larger corporations in turn become the basic assumptions underlying the plans of smaller organizations In this way national plans produce chains of linkages amongst the industrial organizations in the country. The basic assumptions underlying these linked plans are no doubt supported by other and more general assumptions about the environment and its future in each company's corporate plans. In our economy it is easy to recognize many of these linked systems, each traceable to a single major national objective set out in the national plan. The plan to build a single major power source can be easily visualised as a system of linkages amongst cable, transformer and motor manufacturing units. Each such linked system is a string of corporate strategic and operational choices of many firms, differing in size, and in the degree of importance to the firms concerned.

Impact of National Policies on Strategic Choices and Operational Tasks of Corporations

While the national plans thus aid in strategic choice, the national policies determine, to a considerable extent, the nature of the environment in which the strategic choices are accomplished through operational tasks of corporations. National policies have to provide the stability, that can make the assumptions underlying the corporate plans hold true. While the power to provide that stability may not always be within the complete control of those formulating national policies, it should be and is their endeavour to provide such stability as is within their control. Too frequent and drastic changes in policies can change many of the basic assumption underlying corporate plans and therefore affect their achievement. When the corporate plan of a large number of corporations are affected, it might seriously affect the achievement of not only corporate objectives, but also the targets of the national plan itself due to the nature of interlinks that exist in a mixed economy between national plans and corporate plans. Thus, one of the over-riding roles of national policies in relation to corporate planning is to provide the stability of the environment, that will hold the basic assumptions on which corporate plans are built, true as far as humanly possible. Providing stable conditions in itself, therefore, becomes a major national policy in economic development. Almost every other policy developed by the country, needs to be consistent as far as possible with this keynote policy.

While stability of policies is extremely desirable, it must be realised, that there are factors that bring about the need to reformulate policies, Some of these factors lie outside the national system, and, in turn, indicates the highly interdependent nature of the world economy today. Situations within the country can also make policy review essential. It must be remembered that in the national objectives of a country, there are both economic as well as social priorities. Shifts in relative importance amongst these priorities are often triggered off by events within and outside the country. These shifts would have an effect on some of the policies. Therefore, contingency planning would have to be deveioped to cope with such shifts in national policies.

Need for Stability and Consistency of Policies

The need for stability of policies as well as the need for speedy revision of policies is nowhere more clearly observable than in the area of corporate plans for exports. The need and desirability of increasing exports in our national situations needs little elaboration here. The exports of a corporation to several countries in the world are subject to the diverse economic policies and conditions prevailing in those countries, which tend to change. Therefore, a corporation's plans for export are subject to potential changes. In operating these plans, a certain stability in national policies supportive of exporrs is, therefore, all the more necessary, over a fairly long period of time. At the same time, sudden major changes in large markets in the world, will require major revisions in policies governing exports to such markets. Delay in revamping policies in this area would significantly affect the performance of plans of corporations. Consistency amongst policies formulated was pointed out as a desirable characteristic. Since a large number of agencies of the government are involved in formulating policies, affecting their areas of operation, there is a conscious need for ensuring consistency amongst policies so created. Inconsistency amongst policies also arise as policies are made to achieve economic as well as social ends. Such inconsistencies in key areas have to be resolved by appropriate changes in the poilcies concerned or in the way in which such policies are interpreted and used as guidelines. Resolution of such conflicts can olny be done with reference to the spirit of the objectives or even the concept of national interest. An example might serve to illustrate this point. National policies encourage corporations to go into permitted areas of economic activity. Policies also direct the penalisation of those guilty of economic crimes. A corporation, alleged to be guilty of an economic crime removed, unless the need for doing so is brought out, strongly and clearly.

The foregoing discussion of national policies from the point of view of corporate planning brings up several areas for study and action on the part of organisations, institutions, and individuals involved. The importance of participation of officials, entrepreneurs and other groups has been repeatedly emphasised by the experience of implementations of plans.[16] It would seem reasonable to suggest that participation of such people would be more fruitful at the policy making level, since appropriate policies can cover a large number of decisions. The complexity of the policy framework that is needed to govern the industrial organisations today in developing countries, also makes it necessary that different points of view are brought together in the policy making process. The complexity arises from the number and variety of industries, their differing requirements of success, the priorities of economic and social development objectives that have to be met and the social situation within which the policies have to be interpreted and implemented.

Therefore, there seems to be a need to bring related knowledge and experience from three distinct points of view, viz., those of the economic and social objectives to be achieved, those of the organizations likely to be affected by the policy, and finally, that of the interpreter and implementor of policy. The experience of planning in many countries shows that this pooling together of knowledge and experience in formulating policy is seldom achieved. A United Nations study on Planning and Implementation' observes that : "the policy makers quite often do not participate sufficiently in the planning process, prefering to leave this to planning experts. The experts then perform the functions that should be performed by policy makers. As a result, the plan may become a document representing expert opinions rather than policy choices. Consequently, policy tends to develop along its own lines without availing itself of the advantages presented by planning."[17] The knowledge of the possible impact of policies on corporations is very often absent do to the inadequate participation of the leaders of industry and their failure to distinguish between the roles of influencing desirable policy choices and presenting immediate industry problems. The above study has also pointed out the need for the policy interpreter and administrator to have a clear understanding of the overall strategy and its implications, in facilitating his task. The task of implementing overall national plans is further hampered by the conditions under which they have generally to be implemented—"the main administrative problem of plan implementation was the fact that the basic legislation in force in many countries had been drafted before the idea of economic planning had come to force.[19]

It will be realised, therefore, that the skills of influencing corporations, through appropriate and well-formulated policies, to contribute to national goals is perhaps just as essential as the skills of successful direction of enterprises, to make the relationship between national policies and corporate planning a positive and functional one. The successful direction of an enterprise in its environment has been attributed, to a large extent, to its ability to influence the environmet. It would seem appropriate that corporations adopt a wider definition of the environment to include the framework of policies within which they operate. The chief executives of corporations and the corporate planners who work with them have, therefore, to play a wider role. The chief executive, knowledgeable about his industry, can best provide a scenario of the possible impact of policies on corporations. The corporate planner would not only have to understand and act within the policy framework already existing, but also see how and in what way policies could be more desirable and how the formulation of such policies could be influenced.

The skills of influencing corporations and influencing policy formulation are complex skills, and as such their development should not be left to mere chance, but should be undertaken systematically. The acquisition as well as the effective exercise of these skills is possible only in an atmosphere of mutual trust and co-operation. Trust and co-operation can develop only through a commonness of purpose and a common dialogue. In a programme for a group of senior civil servants primarily concerned with formulation and interpretatation of policy on industrial corporations, one of the participants brought in his experience of participating as a cost accountant in an exercise that led to the introduction of price control on the product of a company. It was the only manufacturer of that product in the country. The company's annual production as well as installed capacity were more than adequate to meet the country's needs, at that time. With a protective tariff and or a ban on imports, the company had a monopoly situation in the national market. An analysis of the history of the project which led to the establishment of the company and its financial performance since then, showed that the company had not been able to provide, even a reasonable return on investment for the shareholders. *Prima facie*, it appeared that price control, at a level lower than what was prevailing, was likely to put the corporation on the sure road to more losses and ultimately liquidation. Such a course. it was agreed, would lead to the wastage of considerable and valued organization and technological skills and resources that had been built up in the corporation. This is typical of a situation where the policy makers and interpreters of policy work in the absence of adequate knowledge of the impact of policy on a corporation, and its consequences in general. What policymakers, interpreters of policy and managers of enterprise have to realise is their common interest in preserving, developing and fostering the organizational and technological expertise that had been developed within these corporate organisations. Working together in these areas of common intrest, with understanding and co-operation needs a common dialogue between policy makers and the leaders of enterprises. It is this dialogue that can make national policies and corporate planning mutually supporting.

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Measuring the Need for Corporate Planning : An Operational Framework

S. K. Chakraborty

Those managers who often argue that in 'rapidly' changing Indian conditions it is nearly impossible to plan, may also agree with the point that nearly stable and unchanging conditions do not need systematic planning either. If one turns to the history of the erst-while managing agency houses, which had nearly a century of fairly placid atmosphere around themselves, one is unlikely to find any comprehensive, integrated corporate planning approach. The general pattern of growth in such houses was by grabbing whatever business came their way. Each venture was usually assessed independently of the rest, based on its own payback and return prospects. Thus, the 'ability' to plan, and the 'need' to plan should be viewed separately. It is our belief that if the true nature and significance of the underlying needs for formalised planning are appreciated, much of the force in the 'inability' or 'impossibility' argument will dissipate. It may then appear that it is precisely the changing conditions that call for organised planning (both short and long range). This paper provides a preliminary framework for assessing the degree of corporate planning need within an enterprise. It will be based on informed, data-based analysis of certain objective factors.

Factors Governing Corporate Planning Need

The following list of factors is suggested for consideration :

I. Degree of 'Derived' Demand for the Firm's Product or Service : The demand for car paints or car batteries is derived from the demand for cars. The demand for sheet metal for car bodies is also a derivative of car sales. The demand for machine tools is dependent upon the demand for goods produced by engineering firms using such tools. Firms selling goods directly to the general population, e.g., tea, bread, refrigerators, fans etc., on the other hand, have a relatively small degree of derived demand (in the sense that the householder's spending budget is directly there behind such demand). Greater the extent of derived demand, greater is the likelihood of fluctuating earnings. Thus, more conscious planning will be needed to maintain earnings stability. An operational measure of the extent of derived demand for existing firms could be :

(a) $$\frac{\text{(Highest Sales—Lowest Sales) during, say, last 5 years}}{\text{Average Sales over, say, past 5 years}} \times 100$$

Or, (b) (Highest Capital Turnover Ratio—Lowest Capital Turnover Ratio) ÷ Average Capital Turnover Ratio, during say last 5 years, assuming gross block to remain by and large stable.

Greater the percentage in (a), or larger the ratio in (b), higher should be the need for deliberate planning. It should be emphasised, however, that derived demand is a special and important case in the general phenomenon of relatively highly fluctuating demand. Either of the two indices may be used to assess variable demand. However, more sophisticated methods like standard deviation or coefficient of variation of earnings may also be used.

Both the indicators (a) and (b) are converted into a five point scale for measurement. As for (a), barring exceptional cases, the ratio should normally be less than 1. Accordingly the scale could be :

0.0 to 0.2	0·21 to 0·40	0·41 to 0·60	0.61 to 0·80	0.81 and above

In the case of (b) too, the value of the ratio should usually be less than 1. Hence, a scale similar to that for (a) should be adequate.

II. Degree of 'Depth of Processing' Engaged in by a Firm : With more processing stages is associated the fact of greater value added to the original input. Greater the margin of sophistication between the initial input and the final output that is sold, more is likely to be the need for integrated and wide-spanned planning covering the whole sequence. In many situations, e.g. in steel companies, this depth of processing may also imply the extent of vertical integration.

If the industry concerned is identified by the final product sold (no matter from which stage of conversion individual firms within it begin), then the following operational measures for measuring depth of process-

porate planning is 'impersonal' and market-determined. For those which are in the duopoly/oligopoly group, (e.g., automobile batteries) and not concerned with the basic or infrastructural items for industrial development, the urge for corporate planning is likely to arise from the need for inter-firm understanding for common weal. In firms which are concerned with basic inputs for the country's economic development, e.g., steel, power-generating equipment, etc., the emphasis on corporate planning tends to derive from national priorities and plans. There is no external market pressure as such, or a question of mutual survival either, which could be the primary cause for corporate planning as, say, in cosmetics.

For the purpose of the present study, only those firms for whom the pressure of impersonal market forces, emerging through competition, is the *causa-proxima* for corporate planning are considered. Accordingly, a competition-based scale of corporate planning need, in the context of this article, would attach a low-level need for duopoly/oligopoly/basic industry firms. No doubt the latter could have high corporate planning needs from their respective special standpoints as mentioned in the previous paragraph. As to the scale for measurement, we may begin with six firms at least (upto five being considered as oligopoly) as indicating the start of a competitive situation. Hence the following scale :

6 to 10 firms	11 to 15	16 to 20	21 to 25	25 and above.

This factor of competition could be applied to service industries like management consultancy firms, computer ware organisations, audit and taxation firms, and the like.

ing may be suggested :

(a) $\frac{\text{Value added}}{\text{Sales}} \times 100$, (where Value Added is Sales—Cost of Materials consumed in Sales) ;

or (b) Simply by expressing the number of processing stages actually gone through by a firm as a percentage of the total number of processes that could be gone through with the given production technology for a given end-product.

It will be noted that the second index mentioned above applies only to organisations producing and selling goods, and not to service organisations. This is largely true also of the derived demand factor stated earlier. Unless stated otherwise, the subsequent parameters will apply to both goods producing and service selling firms.

To convert indicator (a) to a five-point scale we should note that this index will not exceed 1. So the scale should look as follows :

0 to 20%	21 to 40%	41 to 60%	61 to 80%	81 and more

For (b), too, a similar scale could be framed.

III. Degree of 'Competition' Faced by a Firm : One common and readily understood means for judging the extent of competition (in the product market) is to take a census of the number of units functioning in the concerned industry. In India, for example, the bread-making industry is highly competitive, while the automobile industry has very little competition. In fact, the car, bus and truck manufacturing industries face an oligopoly situation. Besides, the country being large in size, one finds that the three car manufacturers ...

finance. The choice sectors of investment has to be carefully made. For, here too the government has defined the areas or sectors into which a foreign firm may enter, e.g., the core sector, or foreign exchange earning sector, or backward and priority sectors. These defined possibilities have to be matched against the firm's present competencies, and its feasible potential strengths. Then again, the question of constituting the new business as a division of the existing company, or as a new company has to be faced and answered through comprehensive analysis. The example of I.T.C. Ltd. diversifying into hotel and deep-sea fishing business indicates the kind of corporate planning which is based on analysis of strengths and weaknesses as existing in the cigarettes business *vis-a-vis* those that would be relevant to the new lines of activity that might have been undertaken. Brooke Bond India Ltd., is similarly, diversifying into corned beef manufacture and exports.

The government's present thinking is to bring all foreign equity shareholdings to 40 per cent of total equity over a reasonable period. A suggested scale for quantifying the need for corporate planning may, therefore, be as follows :

41%—50%	51%—60%	61%—70%	71%—80%	80% and above.

Greater the percentage of foreign holding from above 40%, greater should be the need for deliberate planning.

V. Dependence on Institutional Finance : With increasing inflow of finance from financial institutions like the IDBI, IFCI, ICICI, LIC and UTI, fundamental changes in management methods are likely to come about. These institutions seem to have been given a tacit responsibility for ...ing about healthy and effective management practices in the aid-
... the convertibility (into equity) clause being

planning within the enterprise. (In passing, the request by several public sector enterprises to reduce their existing debt/equity ratios may seem to be one way of trying to escape the rigour of financial planning by taking shelter under the non-mandatory return-bearing equity capital—both dividend and principal sum-wise). In effect, we may say that in India the extent of dependence on financial institutions would be reflected through the debt/equity ratio (where debt includes long-term debt only) itself, because almost the whole of term-loans is today obtained from financial institutions or nationalised banks. The suggested scale for operationally measuring the dependence on financial institutions is, therefore, as follows (in terms of debt/equity ratio) :

upto 0 25 : 1 — 0.26 : to 0.5 : 1 — 0.51 : 1 — 1 : 1 — 2 : 1 and more

We have started with only 0.25 : 1 since the Reserve Bank of India studies on the finances of medium and large scale public limited private sector companies (paid up capital of Rs. 5 lacs and above) have recently shown the debt/equity ratio to be less than 0·40 : 1.

VI. The Degree of Capital Intensity in the Enterprise : The more capital intensive a firm's product lines are, the higher are likely to be the compulsions of technological planning in various dimensions. For example, maintenance of plant and machinery, ensuring the supply of power to keep equipment running, availability of balancing equipment, provision of adequate skilled workers and supervisory staff for getting the best out of capital, production scheduling and planning after taking care of bottleneck points and so on, are a function of greater capital intensity. In a relatively labour intensive firm too, the planning need may exist. But then this will have a different focus altogether. In the latter situation planning effort should be concentrated more in ensuring the supply of required tools and materials in right time to a relatively large work force, and on monitoring their work. There will be a comparatively strong need in labour intensive firms to maintain a continuing atmosphere of strong motivation in the human resource. Although in a very broad sense efforts in this direction may also come under corporate planning, we shall, for the purposes of this article, consider the more formalised and structured aspects of corporate planning coming into play in more capital intensive firms only. Higher the capital intensity, greater is the likelihood of such planning tools/techniques being needed. As an operational indicator of the degree of capital intensity, the ratio of 'gross block employed to total number of employees may be used. Although this is the most direct measure of capital intensity, the difficulty of easy access to this statistics on an across-the-industry basis is likely to hamper its use.* As a substitute one may use the 'capital/output' ratio, where capital could again be defined as gross block, and output as the gross sales value (at current prices) of output at *full* capacity utilisation of the plant. Or, better still, the output may be computed as a 'value added' figure by deducting from the sale value obtained above the raw materials and other outside items bought for producing the quantity sold at full capacity. The reason for using full capacity output is to obviate distortions in the capital-output ratio due to various degrees of underutilised capacity in different firms and industries. The scale to be used for the 'capital-output' ratio indicator of capital intensity is then as follows :

0.0 to 1.0 | 1.1 to 2.0 | 2·1 to 3.0 | 3.1 to 5 | 5.1 and above

It should be mentioned that although 'gross block' is a better figure than 'net block', yet the former is unable to fully answer the question of inflation affecting the value of gross block depending on when the firm was established. (e.g., TISCO or IISCO vs. HSL). Some further adjustments may be useful in such cases.

VII. Link with the Ultimate Customer : One firm may reach out to the customer directly through its sales force or retail sales outlets (e.g. electronic calculators and Bata shoes). Another firm may only be content with producing the goods and leaving it on its premises to be lifted and ultimately made available to the customer through a chain of independent wholesalers, dealers, retailers and so on. In the second case, if the distribution channel has guaranteed a certain volume of off-take over a period, then the firm is only to plan its internal production system to mesh with the off-take volume. The ups and downs in interim demand are absorbed in the distribution channel. For the first kind of firm, however, the waves of demand shifts by customers impinge directly on the firm. The task of anticipating these waves, and gearing its

*Annual Survey of Industries data may be used to compute this ratio, although these data are always rather out of date.

internal operations to meet them half-way at least, can no longer be left to the various stages of an external distribution system. The responsibility for planning to combat demand changes lies within the firm where marketing is done directly by itself. A picture of this comparison may be obtained by looking at those firms which sell tea solely through the auction and those which sell in packets to consumers in urban as well as remote rural areas. In the former situation there is no marketing planning at all. In the latter, a lot of effort goes into selling. The second situation in tea is again different from that in shoe selling by Bata. While Brooke Bond does not have its own retail selling outlets, Bata has. For Bata, the knowledge of shifts in demand is directly available, while for Brooke Bond, it is indirectly transmitted through various layers in the distribution system. Thus, planning for coping with demand changes should be more complex for firms which approach customers in the manner of Brooke Bond, rather than in the style of Bata. For the firm selling tea in the auction, the problem of managing changes in demand by ultimate customers does not arise. We thus have three situations : (a) no link whatever with the ultimate customer ; (b) direct link with the ultimate customer ; (c) indirect link with the ultimate customer through a distribution chain. In this chain there could be three links i.e., (i) wholesaler, (ii) dealer, and (iii) retailer.

Thus, we would have altogether five types of association with the ultimate customer. A firm having no link with the customer should have the least need for planning from the demand management viewpoint; a firm having direct link will have more need for planning than the first; and firms which use one, two or three links in the distribution chain should have progressively more and more need for planning. The suggested operational scale is therefore, as follows :

No link	Direct Link	Indirect Link through Retailer	Indirect Link through Dealer and Retailer	Indirect Link through Wholesaler; Dealer and Retailer.

VIII. Extent of Diversity : For our purposes here, only three chief parameters of diversity will be considered : (a) number of distinct products; (b) number of distinct markets; and (c) number of separate plant locations. A few examples will clarify the meaning of these parameters.

Thus, a paints manufacturing firm has : (a) two distinct products, namely, anti-corrosion paints, and decorative paints; (b) three distinct markets, namely, industries, householders, and exports ; and (c) two geographically separate plant locations.

Again, a tea company has : (a) two distinct products, namely, 'Dooars' and 'Darjeeling' tea; (b) two distinct markets namely, 'Calcutta auction' and 'London auction' ; and (c) twenty distinct tea plantations and manufacturing plants.

Lastly, a battery manufacturing firm has : (a) two distinct products, namely, 'automotive' and 'industrial' batteries ; (b) two distinct markets namely, 'original equipment' and 'replacement'; and (c) two geographically separate plants.

We would suggest that the degree of diversity is a joint function of the three aforementioned variables. If the numerical values of all the variables are multiplied we would get a composite figure reflecting roughly the magnitude of diversity. Thus, the degrees of diversity of the three companies above are 12 (2x3x2), 80 (2x2x20), and 8 (2x2x2) respectively. Based on this logic the following scale is suggested :

Points 1 to 9 | 10 to 20 | 21 to 40 | 41 to 60 | 61 and above

Higher the total points score, greater the diversity, and hence, stronger the need for corporate planning.

IX. Size of Business : One could here think about either the size of existing business, or the contemplated size of business in the years to come. In either case, larger the existing size or bigger the planned size, greater is the need for formal corporate planning. But the basic operative question is : which size measure is appropriate? Several alternatives are available, e.g., (a) Paid-up share capital (used by the Reserve Bank of India); (b) Sales value (used by the Economic and Scientific Research Foundation, Delhi) ; (c) Total Assets (used by the *Economic Times*).

Each parameter has its own problems. Depending on the debt/equity ratio adopted by a firm, using the paid-up share capital amount alone could indicate either a bigger or a smaller size, which may not at all reflect the actual scale of operations. Total assets suffer from the flaw that in cases of high underutilisation of capacity, the true magnitude of operations may not be revealed. Besides, there is the problem of widely disparate dates of establishment of the enterprise, causing the comparative money value of fixed assets to be distorted (e.g. HSL vs. IISCO or TISCO). Yet, from the viewpoint of underutilisation of capacity with large total assets the need for rigorous corporate planning may be all the more emphatic. Coming to sales value, although it is at current prices and is free from variations due to differing debt/equity ratios amongst firms, yet it is linked up with the degree of assets utilisation. If high levels of total assets are well managed, sales should also be higher. With poor management of total assets, sales are likely to be lower.

Thus, the relative intensity of corporate planning need should be greater for a firm with a lower ratio of sales to total assets, than for a firm with a higher ratio. The point is : high or low sales value figures on their own may not fully reflect the need for corporate planning. Nor might gross total assets alone do this. But, while the use of sales to gross total assets ratio or its reciprocal is being suggested, this leads us to the problem of widely differing dates of acquisition of fixed assets. The sales figure in the numerator (or denominator) will be at current prices for all firms. But not so for fixed assets. Technically, each firm may like to consider converting its fixed assets to current price level by the general price level index. There will be problems which may affect the value of the sales figure too, either on its own or in the context of the above ratio, e.g., regulated, subsidised or pegged prices for various public sector units, or for units in particular private sector industries. Despite all these problems, however, inter-firm and inter-industry studies are done with such parameters of size in all parts of the world.

So far as planned growth in size, and the need for corporate planning, therefore, is concerned, the issue of sales versus assets reappears again in the form of trying to reach an estimated level, instead of consolidating and managing a level already reached. Thus, one firm in a consumer goods industry began with an estimated profit before tax of Rs. 2.58 crores (implying a certain sales value) on a total capital employed net) fixed assets + working capital) of Rs. 6.75 crores in 1975, and chalked up a projection of total PBT of Rs. 154 crores by 2000 A.D. What semed not to be clearly appreciated, among other things, at that stage

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management by 'what' and 'how' it does, rather than by what academic or professional labels are attached to various job-holders. One meaningful way of looking at the 'how' of the overall management process in a firm is to examine its organisation structure in terms of the concept of 'differentiation'[2]. Given the same size (by sales) for several firms, greater the differentiation, greater the prima-facie reason for considering it to be more professionalised. Thus, we have found in one organisation that there is an 'Overheads Accountant', amongst others. In another there were management accountants specifically differentiated by 'marketing' and 'Production' labels for one product division. In the production function in one organisation there was a separate 'Raw Materials Recycling Manager'. On the other hand, in one firm we have seen corporate planning, taxation, management training—all devolving on the Finance Manager. There does not exist even an Industrial Relations

1. Chakraborty, S. K. 'MBO and Professional Management', *Management Annual, 1973. Various aspects of professional management have been dealt with in depth in this article.*

of forecasting was the asset or capital employed backing necessary to support a PBT of Rs. 154 crores. The data of past 10 years for similar consumer goods industries showed that to earn Re. 1.00 of PBIT, average total assets needed ranged from Rs. 5.5 to Rs. 8.5. This meant that, roughly speaking, total assets of a magnitude between Rs. 885 crores to Rs. 1,306 crores might be necessary to attain PBT of Rs. 154 crores (loan capital was almost nil in the projections of sources of finance so that PBT and PBIT would be equal. Obviously, such a scale of growth plan does emphatically point to the need for comprehensive corporate planning.

Manager in this firm which is highly labour intensive and has nearly twenty different operating units. We would suggest that the last kind of firm is relatively less professionalised than the first three. For, differentiation indicates the degree of refinement in recognising which activities need concentrated and specialised attention. This method of assessment is more operational, less subjective, and free from need to define who is a professional and who is not, and who is an employee and who is an owner. The only major weakness this method may suffer from is that smaller firms, with less ability and need for such differentiation, may be adjudged as less professionalised. However, comparisons within similar size groups (say by sales) should be meaningful. Thus, within each size group, the total count of such differentiated managerial role titles in all functional areas together should indicate the relative degree of professionalisation. And, greater is such professionalisation, the more is the need for formal corporate planning to bring about necessary integration throughout the organisation. The suggested scale is accordingly :

Upto 20	21 to 30	31 to 40	41 to 50	51 and more

Mapping the Corporate Planning Need

Having suggested an inventory of structural-environmental factors which could, in various combinations, prompt comprehensive and formalised corporate planning, we may now see how a single firm might use that framework to assess the degree of planning need for itself. Each factor has been expressed in terms of a five-point scale, ranging from 1 to 5. And since objective measures have been suggested for each factor-scale, the firm in question could easily find the relevant value between 1 and 5 for each factor as obtaining at a point in time within itself. The following chart shows a hypothetical corporate planning need score for a given firm.

2. Chakraborty, S. K. & De, S. L. — Differentiation and Integration in the Accounts and Finance Function in Indian Firms – forthcoming in *Indian Management*. *The salient features of differentiation have been explored in this paper.*

Corporate Planning Need Chart

Factors	*Scale*					*Score*
	1	2	3	4	5	
1. Derived Demand	*					2
2. Depth of Processing			*			3
3. Competition		*				2
4. Foreign Ownership	*					1
5. Institutional Finance				*		4
6. Capital Intensity	*					1
7. Link with Customer				*		4
8. Diversity					*	5
9. Size			*			3
10. Professional Management		*				2
TOTAL						27

Thus, in a 10-factor, 5-point scale matrix, the maximum score is 50. Against this, our hypothetical firm has scored 27. The significant point is that this score of 27 is based on objective, data-based assessments of the state of each factor considered in the above map. The next question that arises is : what is the utility of deriving this score ? A general answer to this can be : if firms in the same industry adopt such a common matrix (or any other matrix with different factors-scale mix), then higher the score obtained by a firm, greater should be its need to engage in corporate planning. We do not, of course, imply that a firm with the smallest score in the group should not go in for corporate planning. Much would also ultimately depend on managerial attitude. The urge for planning as a way of life might transcend the apparently low score on objective factors. However, it is likely that in such cases it is just one or two persons in the whole organisation who would strive to keep the momentum alive. The absence of pressures from objective factors may lead to a lack of more universal compulsion throughout the organisation to provide adequate support to the torchbearers.

Another aspect of importance may also be noted. In the above example the score of 27 represents the total assessment as of *now*. It should, therefore, provide a useful starting point for a firm to look ahead for the next 5 or 10 years in terms of likely changes in various factors and their probable impact on it. For instance, referring back to the above map, let us suppose the firm is contemplating in the next 5 years to replace its old equipment with high-priced, and more capital intensive machinery for which substantial additional institutional financing is likely to be necessary. With more capital intensity, planning need for labour on the one hand, and for capacity utilisation on the other should increase. Greater dependence on financial institutions will exert additional pressure for better planning than before. As a result, the score for capital intensity might go up to 3 (from 1), and for institutional dependence to 5 (from 4). Thus, the total need score would be 30. In addition, if it is anticipated that the government may encourage more competition in this product line during the next 5 years, then the score against this item could increase to, say, 3. Total score would now be 32. In other words, a firm is helped by this matrix to reassess and revise the degree of its corporate planning need, and the consequent stress on its satisfaction, on a continuous basis.

It should be added that the process of identifying a list of factors as suggested above, and the effort in finding the value for each factor on the 5-point scale, is in itself a systematic method of self-introspection. Many hidden faces of the enterprise, or their dimly perceived outlines, might now stand on the stage for distinct observation. Moreover, these would now appear together, all at a time, for an appraisal of the cast in totality.

Conclusion

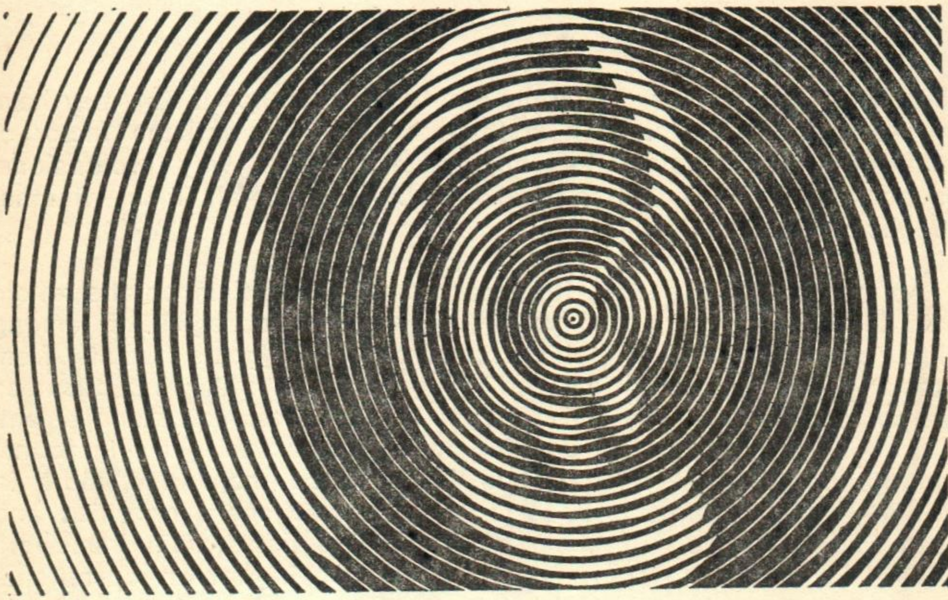
(1) It is not claimed that the ten factors discussed above constitute a full inventory. The scale-measures suggested may also be short of perfection. Yet, they are probably a very near representative of the forces impinging on Indian business today. The list could be suitably adapted to accommodate other industry-specific factors, e.g., raw material supplies, source of labour, foreign collaboration, etc.

(2) The framework discussed above should be equally applicable to

public sector enterprises. Only the institutional finance factor may have somewhat less relevance than in the private sector, and the factor of foreign-ownership would be non-existent. The way professional management has been defined here, it would apply to all firms—whether in public or in private sector.

(3) As for the private sector, it appears that the problem on the whole would tend to be more and more one of conflict-resolution among multiple corporate goals. Multiplicity of corporate goals results from increasing concern of society and its government with what business does and should be doing. The thrust for professional management, in the sense of incorporating broader social values and goals in formal corporate management, should thus be reflected more and more in corporate planning efforts. In so far as these new social priorities and values find expression in some of the factors listed, this framework should help a firm to see some light while groping for an operational answer to the question of linking corporate management to society's needs.

(4) Lastly, it may be useful for various industries, through their respective associations, to engage in an exercise to determine the industry-specific values corresponding to each segment of the 5-point scale for each factor. In the same way as in inter-firm comparisons, the results of this exercise should enable firms belonging to each industry to measure their respective corporate planning need in relation to the overall industry pattern. Without uniformity in the boundary values of each segment in the 5-point scale, each firm may derive a wholly incomparable score in relation to those of others in the same industry.



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Corporate Planning Process : A New Approach

Rakesh Kumar*

'Corporate Planning is done at corporate level for corporations only', is one of the most common myths about corporate planning. Many organisations in India, therefore, do not find it necessary to carry out any systematic planning at the company level in the strictest sense of the term. While misconceptions have been responsible, to certain extent, for the slow rate of diffusion of corporate planning in industry, there are other reasons too. According to Russel L. Ackoff, 'the need for corporate 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 it less than well is. [1]

Therefore, another significant point to the disadvantage of corporate planning has been 'not done well'. The objective of this paper is to present a method of preparing corporate plan and doing it well.

Corporate Planning

'Corporate Planning' has been defined in a number of ways. Some of them are mentioned below :

'Corporate planning is the provision and allocation of resources according to long-term objective. This involves total planning (the word 'corporate' meaning 'total' in this sense), but may not be very long term. [2]

'Corporate, long range planning is not a technique. It is a complete way of running a business. Here, the future implications of every

*The author wishes to acknowledge Mr. Olaf Kleine, RKW Expert, Federal Republic of Germany, under whose guidance, the various concepts discussed in the paper were developed.

decision are evaluated in advance of implementation. Standards of performance are set up beyond the time horizon of the annual budget. [3] The word 'corporate' planning is often used to signify the planning of the 'total' business in the long term'. [4]

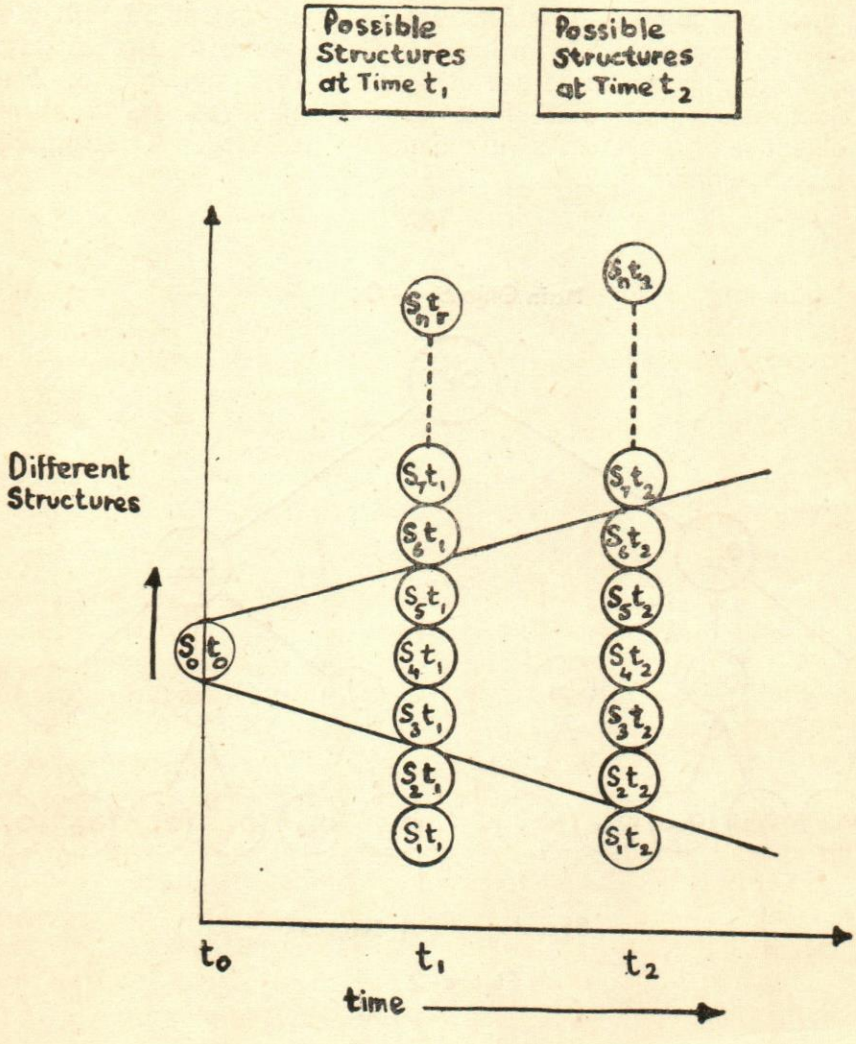
All these definitions mention one or the other facet of corporate planning, but none of them explain corporate planning in its totality. An attempt is made here to bridge the gap between the above-mentioned definitions of corporate planning and what it actually is.

Corporate planning is a *heuristic* procedure of : *Searching, Finding, Defining, and Writing down Structured sub-targets,* their *alternative actions* and their *relevant resources*—in order to achieve the main *Objective* of a system. For better comprehension of the above process some of the terms used in the definition need further clarification.

Objectives

Objective(s) is a wanted and described structure of a system at a defined time range in future. This can be better understood with the help of an illustration (Fig. 1), where system x represents s business, company, industry or any organisation where corporate planning is to be introduced. At time t_0 the structure of the system is represented by st_0 Depending upon our capacity to foresee future, we can estimate the structures, the system x can possibly have in the short term, say t_1 and in the long term say t_2. From the figures it is clear that at time t_1 and time t_2, there are a number of possible structures of the system x, and of all the possible structures only some are desirable and others are not. The desirable structures are shown in the beam and others are outside the beam. Objective is a description of the parameters of one of the desirable structures to be achieved at any time in future. The three main characteristics of an objective are : (i) as abstract as possible; (ii) quantifiable; and (iii) attainable. The main objectives are invariably so abstract that it is not possible to relate them to various actions required to achieve them. Therefore, the endeavour is to find out those sub-objectives which are action relevant.

This is possible only if the main objective is broken down to result in a target structure.



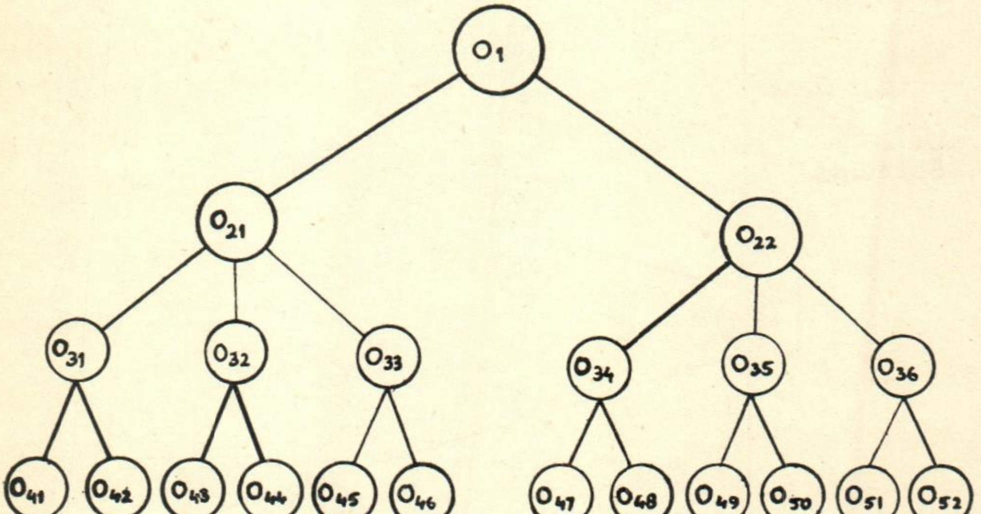
Different Structures of System-X in time range

Figure-1

Structured Sub-Targets

In order to evolve a target structure, the main objective of a system is classified into sub-objectives which are further classified till it is not possible to continue this process. This results in a pyramid of objectives, in other words, a target structure. This pyramid of Inter-elated objectives is such that if these sub-objectives are achieved the main objective of a system is automatically achieved. A structured sub-target is shown in Fig. 2.

Main Objective - O1



Structured Sub-targets

Figure-2

O_1 is the main objective of the system. It is achieved if sub-objectives O_{21} and O_{22} are attained. Similarly O_{21} is further dependent on O_{31} and O_{32} and O_{31} is further dependat on O_{41} and O_{42}. In order to complete the target structure this process of classifying into sub-objectives is continued till action relevant sub-objectives are reached, i e., the ones for whom the actions to be performed to achieve them can be spelled out. More abstract an objective is, more difficult it is to relate it to the action required to achieve it. Therefore, it becomes necessary to break down the objective till we get action relevant objectives. While preparing structured sub-targets the arithmetical relationships between sub-objectives should also be put down. Evolving a structured sub-target is a creative job and needs to be undertaken by a group of creative managers. Once the structure is ready, it should be filled with data. Arriving at acceptable and practical data is a laborious heuristic procedure.

Heuristic Procedure

It is a procedure of trial and error. One can start filling the structure from top (planning downwards) or otherwise (planning upwards). But

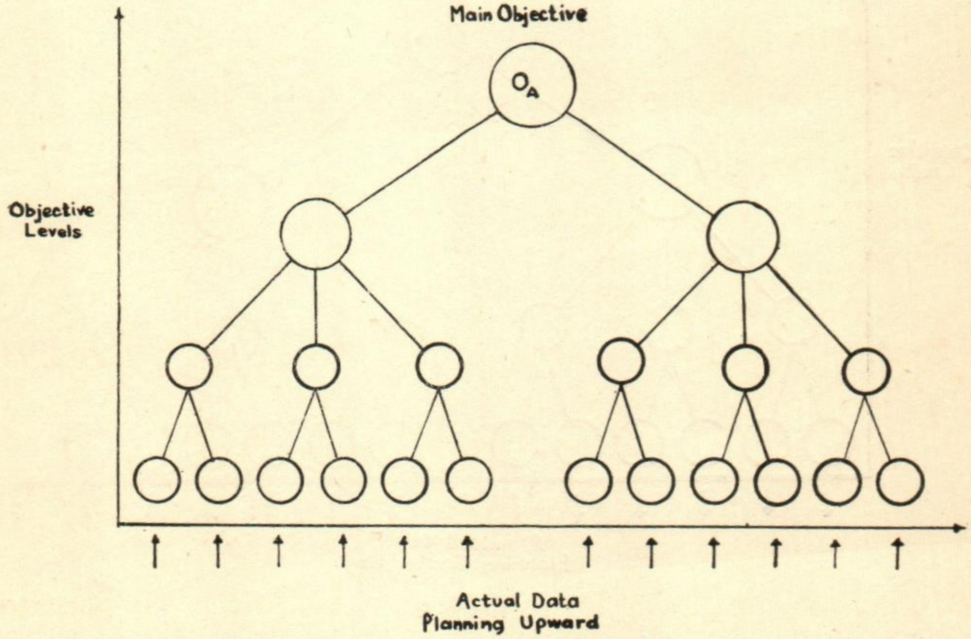


Figure- 3

both these have to be carried out a number of times till acceptable and practical data for the structure is achieved.

Planning Upwards : If we substitute in the target structure actual data at the bottom we can compute O_A, the main objective (attainable). This is shown in Fig. 3. If O_A is not same as O_s the desired main objective (standard), substitute O_s in the structure and plan downwards.

Planning Downwards : With the value of O_s, the standard objective to be achieved at the top and going down the structure we get the values for action relevant sub-objectives. This becomes standard data as shown in Fig. 4. If these standard values cannot be achieved due to lack of resources or other reasons, we plan upwards with new values to find out the value of O_s that can be achieved. This process is repeated till we have a structure filled with acceptable and practical data.

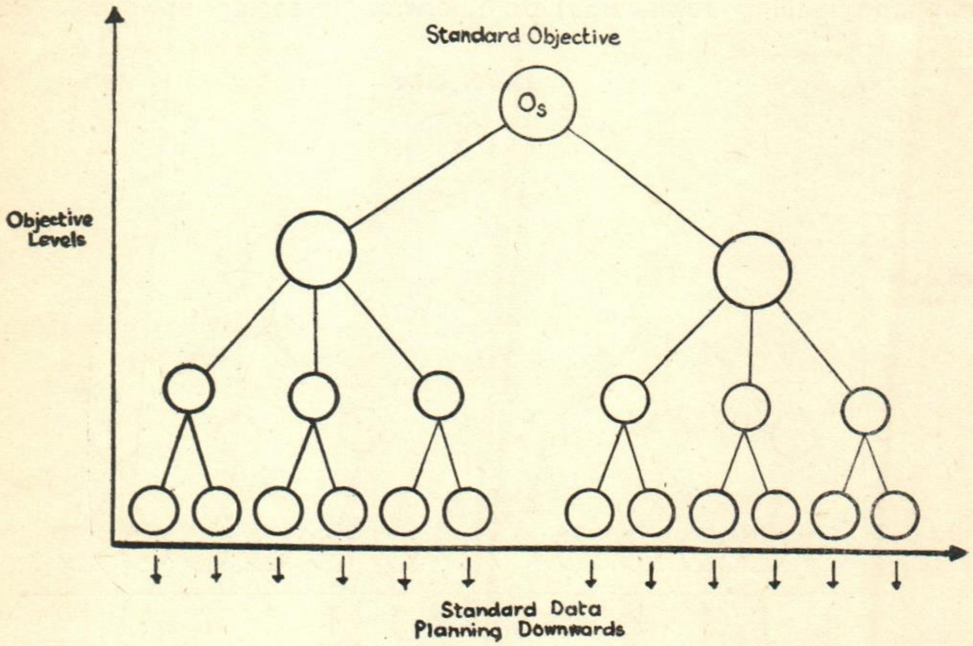
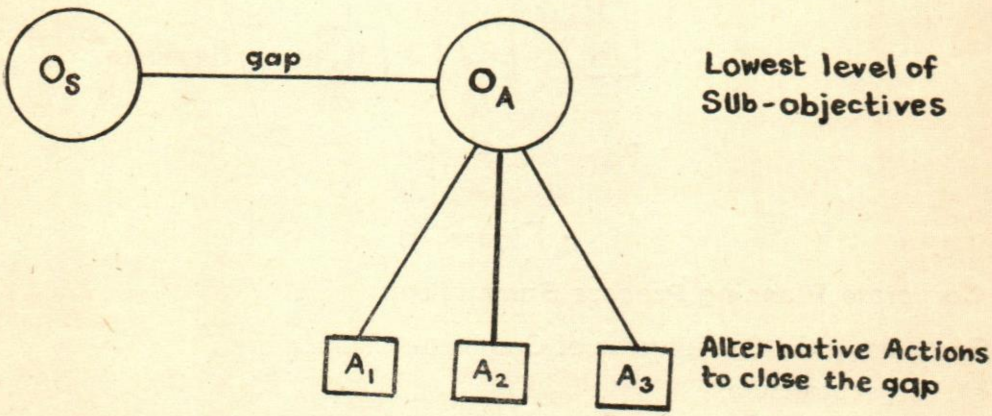


Figure - 4

Alternative Actions

When we substitute the accepted and desired standard value of the main objective in the target structure and go down to the lowest level of sub-objectives, we get standard values for action relevant sub-objectives. These standard values, may be different from actual ones. In other works, gap exists between the actuals and standards. In order to bridge the gap a number of alternative actions can be laid down for each of the values. Out of these alternative actions, the management has to select one for implementation. This can be done with the help of various quantitative techniques available for evaluating alternatives. This is shown in Fig. 5.



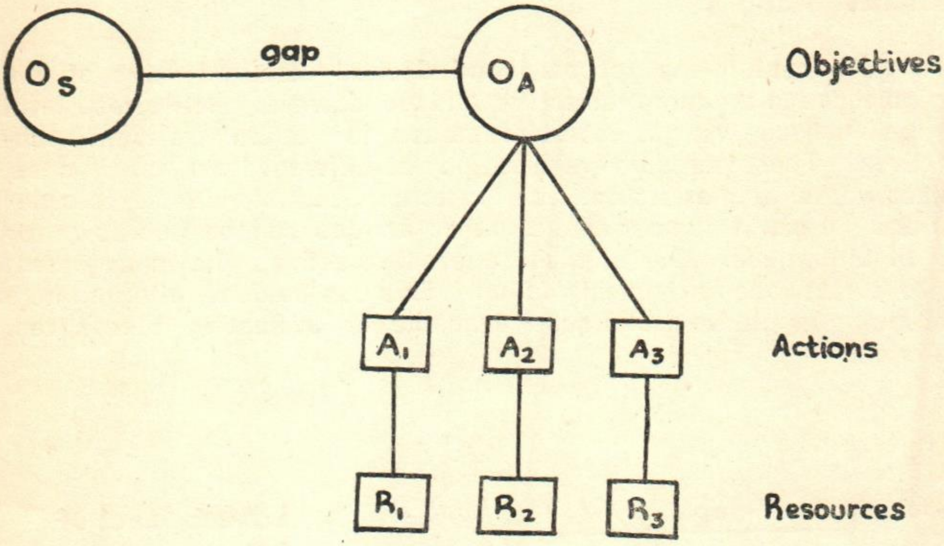
Alternative Actions

Figure - 5

Relevant Resources

To make a choice between the various alternative actions, one criterion can be the action needing the least of resource. For this, relevant resources should be spelled out and evaluated against each other.

Secondly, for implementing various actions, the resources have to be planned. This is shown in Fig. 6.



Relevant Resources

Figure - 6

Corporate Planning Process Summarised

Three essential Constituents of Corporate Planning are :

a) Target structure;

b) Action plans; and

c) Resource plans.

The step-wise approach for evolving the above-mentioned constituents is summarised below :

Step 1 : Classify the main objective into sub-objectives till action-relevant sub-objectives have been evolved.

Step 2 : Arrange the sub-objectives in the form of target structure, giving all the inter-relations between the sub-objectives

Step 3 : Substitute the desired value of the main objective, i.e., standard value in the structure and plan downwards.

Step 4 : Formulate the actions and the resource requirements.

Step 5 : In case of gap between desired and available resources, substitute the resources available and plan upwards to find out the value of main objective.

Step 6 : Repeat this process till acceptable and practical values for objectives and resources are achieved.

Step 7 : Implement the plan to achieve the main objective.

Step 8 : Follow the progress and accordingly, update the plan.

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Corporate Planning in a Multi-Product Organisation

P. C. Basu

The subject of corporate planning has come into lime light only during the last few years. It is often described as an important tool of management. In fact, it is not merely a tool but forms the very core of management function.

A distinction can be made between two main aspects of management; one is the managerial aspect which is concerned with day-to-day running of the business and the other is the entrepreneurial aspect which is concerned with questions such as what should be the nature of business, what should be the size of the business, what should be its rate of growth, what should be its profitability and so on, in say, five to ten years from now. This entrepreneurial aspect of management is of vital importance for the long-term interest of the company and should receive the maximum attention.

Evolution of Long Range Planning

The need for planning and control of the operational aspects of a business was recognised and a suitable management technique for this purpose was evolved some time ago. Twenty-five years ago, progressive companies gradually started introducing systems of budgetary control in their organisations. Later, various refinements have been introduced to make the system more effective. Recognition of the need for planning and control of the entrepreneurial aspects of a business, however, came much later and it is only during the last eight to ten years that it has started to attract corporate attention and that too in a few progressive organisations. The techniques are still being evolved through a process of trial and error, and it will perhaps take some time before a set of well-tried-out techniques are established in this field.

Although long range planning as a technique has been developed late, it is expected to gather momentum in future, mainly on account of three reasons. In the first place, corporate organisations operating at a fraction of their true potential could, in the past, carry on in that state indefinitely without any serious threat to their independent existence. The large number of 'take-over' bids in the western countries since early sixties, however, gave a rude shock to the top management of many a large organisation and have made them feel that unless the potentiality of the business was fully utilized, the threat of 'take-over' would hang over them. Long range planning was considered by many of them as the only means of achieving fuller utilisation of potentiality, so necessary for evading likely 'take-over'. The second reason is the rapidity with which changes are taking place in recent years in the environment in which companies operate. Long range planning, it is felt, puts the companies in a better position to take advantage of opportunities or face up to the threats posed by such rapid changes. The third reason is the tendency of large organisations to diversify their activities. In a multi-product organisation, a whole set of new problems come up at the entrepreneurial level which are not encountered in a single-product organisation and these problems can be satisfactorily dealt with only through Long Range Planning.

Concept

Corporate Planning has been defined as a systematic attempt to influence the medium and long-term future of an enterprise by defining company objectives by appraising those factors within the company and in the environment which affect the achievement of these objectives; and by establishing comprehensive but flexible plans which help ensure that the objectives are in fact achieved. Corporate Planning, as defined here, involves the following :

(a) A clear definition of the company objectives both quantitative and qualitative to be attained during the plan period. The objectives should be challenging and yet realistic enough to be capable of achievement.

(b) A careful searching study of the environment, present and prospective, so as to identify the potential threats to the business on the one hand and potential opportunities on the other.

(c) An appraisal of the strengths and weaknesses within the company so as to be able to arrive at a balanced view of the company's ability to take advantage of the potential opportunities or withstand the potential threats. The objectives originally proposed should (at this stage) be reviewed in the light of the study of the environment and corporate strengths and weaknesses, and if necessary, modified.

(d) Development of suitable strategy or course of action for reaching the objectives. Quite often, there will be more than one possible strategy for achieving given end-results. At this stage of planning process, alternative strategies should be evolved and compared in terms of their financial and other implications and careful consideration given to the level of risk associated with alternative courses of action.

(e) Finally, once an appropriate strategy has been selected, this must be translated into specific short-term goals or targets for the company as a whole and for divisions or sub-units.

Techniques of Corporate Planning in a Multi-Product Organisation

In a multi-product organisation, long range planning is carried out at two levels; corporate level and the individual business level. The process of defining objectives and developing strategies in such organisations follows the course of 'top-downwards' and not 'bottom-upwards'. The quantified objectives of the entire organisation are not arrived at by cosolidating the quantified objectives of the various individual businesses, but it is the other way. Quantified objectives are first set for the company as a whole and thereafter objectives or roles are assigned to individual businesses in a manner suiting the corporate interest.

Strategy Planning for Individual Business

The steps involved in the formulation of strategy for individual businesses can be summarised as :

(i) Segmentation of the total business of the company into separate business areas for formulation of strategy. Normally, a segment would embrace a product or product group which requires separate market or investment strategy.

(ii) Analysis of the basic characteristics of the business in terms of its market and cost structure.

(iii) Analysis of company's strengths and weaknesses in relation to the particular business.

(iv) The key requirements for success as identified through the foregoing analysis.

(v) Analysis of the past and current situation in terms of sales, gross margin, profit before tax and interest, operating cash flow, capital employed and return on capital employed.

(vi) Analysis of the competitive situation with full particulars of the main competitors' turnover, capacity utilisation, market share, profit and profitability.

(vii) Statement of the quantitative and qualitative objectives for the individual business. For this purpose, consideration should first be given to the role which the particular business has to play in the overall corporate plan.

(viii) Consideration of the various options available to the company for achieving the objectives.

(ix) Selection of the preferred strategy.

The preferred strategy is then reduced to a financial statement showing sales, growth percentage in sales, profit percentage, return on capital and cash flow. A few other important financial ratios are also worked out. Action programmes are then prepared to ensure that necessary efforts would be made to achieve the objectives for the business during the plan period.

Planning at Corporate Level

In a multi-product company, the nature of planning at corporate level depends largely on whether the company is organised on functional basis or on product division basis. Where the company is organised on a functional basis, the scope for planning at two levels, product and corporate, are limited and perhaps this itself represents a weakness of this form of organisation. However, in case of a company organised on product division basis, the planning at corporate level takes on very much the character of purely financial planning because the other functions namely marketing, production, procurement, plant capacity, manpower, etc, will have been taken into account at individual business level.

The planning process starts with a definition of the company objectives for the plan period in quantitative terms, e.g., growth in turnover, profit, return on capital and, what is perhaps most important, earnings per share. The objectives should be challenging and at the same time realistic, taking into account past performance and future opportunities and threats. It may be mentioned and although these objectives are interlinked, to a certain extent, it is desirable to set separate objectives for them because separate strategies might be necessary for each objective. Thus, return on capital depends not only on profit but also on utilisation of fixed and current assets; again, earning per share would depend not only on return on capital but also on financing policies such as level of capital gearing etc. As already explained, the various quantified objectives at corporate level, would in turn, have to be reflected in corresponding objectives of the various product groups.

Developing Strategies at Corporate level

Strategy at corporate level has to take care of three aspects: (i) soundness of the investments; (ii) soundness of the financing policy; and (iii) adequacy of cash flow.

Investments : In a multi-product organisation, the basic problem of corporate planning centres round questions such as, how much should be invested, in which business, at what point of time and on what basis. The corporate objectives in the matter of allocation of its resources would be to aim at building up a balanced business portfolio on a long-term basis. The advantages of a balanced business portfolio are first, to strike a correct balance between profit performance and risk bearing; secondly, to safeguard as far as possible against cyclical fluctuations in business and, finally, to ensure adequate cash flow to match the requirements of planned corporate growth. For the purpose of developing a balanced business portfolio, use can be made of a new technique of financial business analysis which is explained below.

The various businesses of a multi-product organisation can be grouped under four distinctive categories in relation to the growth potential of their total market and their share of the total market vis-a-vis the other competitors :

A High Share—Low Growth

B High Share—High Growth

C Low Share—High Growth

D Low Share—Low Growth

The theory behind this categorisation can be summarised as follows :

(a) Businesses with a dominant position in slow growing markets tend to generate surplus cash because a position of dominance should enable them to earn good profits, whereas such businesses will not be required to plough back too much of their profits in expanding plant capacity and increasing working capital because they would be growing at the same slow rate as the total market and yet holding their share.

(b) There would be other businesses which would tend to absorb cash. Businesses in fast growing markets need high investment levels to expand capacity and increase their share of the market. The cash needs of such growth business will be even greater if another company is dominant, and therefore, forcing down the profitability of the smaller company through price cutting or costly promotions.

A business in a market where the growth potentials are low and the present market share of the organisation is also low, is not likely to be viable even in the long run and, therefore, the strategy should be to try to spin off on as advantageous terms as possible. Apart from ensuring a balanced investment portfolio, a company has also to ensure that the overall profitability of the company is maintained at a satisfactory level. For this purpose, it is necessary to ensure that all capital investment proposals are subjected to critical financial evaluation before acceptance by management. Now-a-days, this is usually done through Discounted Cash Flow (DCF) technique. The evaluation under this system becomes more comprehensive as compared to the other techniques, e.g., return on capital or pay back method as it takes into account (a) the full life span of the project, (b) the present value of future earnings and (c) the income tax relief aspect.

(ii) Financing Policy : For an organisation, establishment of a sound capital structure is as important as the development of the balanced business portfolio. Careful consideration is required to be given to the extent to which financing should be done through internally generated funds, or through issue of fresh equity, or through loan or overdraft. The optimal mix will depend on the nature of the business, the risk element, the proportion of investment in fixed assets and working capital as well as the company's policy with regard to capital gearing. The technique of using high gearing for increasing the earning per share out of the same profit is fairly common. Care should, however, be taken to ensure that it does not exceed the safety limits. The practices in this regard vary from country to country. Under Indian conditions the Reserve Bank restrictions serve as the primary limiting factors.

(iii) Cash Flow : A careful assessment of the future cash flow is an important aspect of corporate planning and adequacy of cash flow may be regarded as a major objective of strategy planning. As already indicated, this consideration is of great significance in the selection of investment portfolio.

The effect of inflation on cash flow should receive special consideration at a time of rapid increase in price level. In such a situation, massive additional investments are required, even for maintaining production at the same level, because fixed assets are required to be replaced at substantially enhanced costs and working capital also may tie up larger funds. If a company embarks on expansion programme without taking into account this aspect, its resources may get stretched beyond safety limits, causing serious financial crisis or it may have to abandon midway the expansion programme at a substantial loss.

Inflation

One of the major problems encountered in long range planning is the difficulty of making suitable provision for inflation. Any major change in the rate of inflation compared to the basis on which plans have been made completely upset the picture. The only course open to management in this regard is to prepare contingency plans taking into account varying degrees of inflation. Periodical review of the position would, of course, be necessary.

Management by Objectives

Narendra K. Sethi

Management literature abounds in glittering tributes and scholarly approval of the 'Management by Objectives' doctrine. Textbooks, articles, and profound corporate manuals—authorized by practising managers and academicians—continue the tradition of accepting and propagating this administrative philosophy. The practice is by no means limited to the American scene. Literature produced in other countries also supports this theory. In a nutshell, this doctrine refers to the process of establishing certain 'objectives' or corporate goals towards which everyone labours actively both within and outside the corporate environment.

The organizational climate around the world has changed so rapidly and so drastically that this doctrine can no longer serve any meaningful purpose. It is doubtful whether this doctrine had served any purpose in the past other than presenting to the coroprate executives and workers, a pretext of unqualified co-ordination and integration. This doctrine was used, tossed, and kicked around *ad infinitum* without any realization of how it worked, what it did, or what it stood for. It is high time to present a total and complete expose of this doctrine with a view to understanding its obvious fallacies, and half-truths—thereby preventing any wasted effort on the part of modern executives in unnecessarily trying to foster it in their organizations.

Assumptions

The key assumptions made in this doctrine are :

(a) Organizations need objectives;

(b) Objectives should be dynamic;

(c) Every member of the organization should work towards these predetermined objectives;

(d) Survival and growth are essential objectives;

(e) Objectives should be in a written form and should be communicated to everyone;

(f) Departmental sub-objectives should be sacrificed for the *broader* objectives of the organization;

(g) Top management should devote a major portion of their time towards these objectives.

In the light of modern organizational behaviour, empirical research data, and overall effective administration, these assumptions appear to be superficial and on an action-level, quite detrimental. The subsequent paragraphs present an analysis of these assumptions.

Do Organizations Need Objectives?

The question which arises is—whose objectives? Are objectives the predetermined legacy of 'top' management, 'middle' management, workers, public or a combination thereof? The modern organization is no longer an entity which can be solely governed from within; that is, by the administrators in a vacuum of external considerations and forces. Furthermore, the corporate executives of today cannot arbitrarily select a slate of unique objectives for their own organization. The classical list of objectives reads like a page from an 'etiquette book'—all sweetened with high-sounding, but ineffective cliches, virtues, and overt acts of highly fashionable morality. As a matter of fact, a close study of available corporate objectives would indicate a very significant degree of uniformity and commonness which cannot be brushed off as being only incidental. If every large, medium, or small-sized corporation subscribes to the same-sounding and same-meaning corporate objectives, there is indeed no reason to have objectives at all.

Objectives in most organizations are visionary and futuristic—stressing research, dedication, service and doctrines of social responsibility. Once determined, they are kept on file to appease dissident workers or to woo desirable managers. It is extremely doubtful that organizations survive due to objectives. However, it seems more plausible that objectives are in fashion because of organizations.

Are Dynamic Objectives Required ?

If one were to accept the doctrine of 'Management by Objectives', the predetermined requirement of those objectives being *dynamic* is open to doubt. One would question this built-in preference for dynamism—whatever connotations and shades of meaning one chooses to give to this word. The fact is that corporations thrive on proven products, solid customer mix, traditional communications and an equally traditional horde of corporate executives, even in terms of their race, religion, education background, upbringing, address, and personal characteristics. Behind the facade of neo-modernism, a successful corporate organization continuously but passively, deliberately but indirectly tries very hard to sustain, cherish, and develop proven characteristics and features of success. The profile of a highly successful and effective business executive in general, stresses traditional values and de-emphasizes modernistic and drastically new ideas.

In this corporate environment, the need for dynamism is often a pretext rather than a prelude to action. It is more a conscious urge to hide rather than a desire to strive. In this way, the so-called 'dynamism' of corporate objectives only results in charging the business goals with a fervour and zeal which are truly impossible to obtain—let alone sustain for any length of time. Both the executive and the non-executive sectors of the organization in general, desire an environment which they know, which they can perceive, which they can touch, and in the final analysis one which does not shatter their frustrations and hang-ups. A dynamic objective—in as much as it establishes (or at least tries to) a totally unrealistic and idealized ambition—can only succeed in breaking the traditional calm and integration of the firm, thereby bringing greater chaos and anarchy than even before.

Should Every Employee Work Towards the Same Objective?

The followers of 'Management by Objectives' doctrine subscribe to a mistaken notion that for organizational health and growth, it is essential that every member of the organization—at whatever level that member may be—must share common goals. Nothing could be more disastrous or unrealistic. There are obvious differences in expectations, aspirations, achievement levels, and motivational patterns at different vertical organizational levels. Differences in salary, title, and job are by themselves enough to initiate a desire for differentiation and, at times, for different objectives in the executives. Secondly, members of different departments may not always share everything common on objective scales. Production department executives may differ substantially from marketing department members in their respective interpretation of corporate goals. Departmental hostility and conflict is the rule rather than the exception in modern organizational behaviour. Thirdly, employees of a non-executive nature may never be fully aware of what the top objectives of the firm are, and if they are partially informed on these objectives, they may choose to ignore or reject them altogether in favour of their own personal objectives, goals and needs.

At a pragmatic level, it is wrong to expect that every employee of the organization would subscribe to the same corporate objectives. This is neither desirable for corporate effectiveness nor essential for employee motivation.

Are Survival and Growth Universally Required Objectives ?

The proponents of 'Management by Objectives' like to touch a sensitive corporate chord by suggesting that all corporate objectives must stress the creed of 'survival and growth'. They indicate these preferred objectives, perhaps, with a view to lure organizational leaders into conforming with the tenets of their doctrine.

The question is why there should be a direct and active pursuit of survival in the first place ? It appears to be a defensive and defeatist attitude which in the long run makes executives defenders of their rights and apologists for their existence. Like all established institutions, the survival of corporate entities cannot be in the hands of the pious wishes of the executives themselves. The old and classical areas of competition and balance are fast changing in the world of trade. Instead, governmental, public, and social pressures are fast emerging. In such a situation, the outright cry and pursuit of mere survival is a sheer anachronism.

With reference to the creed of growth, one can argue that merely by placing it on the list of objectives, a company cannot manage to grow.

Furthermore, its non-inclusion on the list of objectives is also not *a priori* denial of the company's desire for growth. In the changing socio-economic milieu, the persistent clamour for growth may very well be construed as a desire to become big—a word which is presently synonymous with monopoly. One can also point out that growth in itself is not a highly desirable attribute of a corporate entity. It could lead to malignant growth—mere accumulation of destructive mass—which might beconfused by higher management as being an indication of genuine growth. In more strict business terms, it could mean increased personnel, increased costs, increased outlays in advertising, increased office space and organizational structures without any discernible compensating increase in either net sales or in increased revenue. In all these overt symptoms of obvious growth there lies a built-in device for gradual, but certain erosion of the business firm.

Should Objectives be in a Communicable Form ?

'Management by Objectives' doctrine seems to support the Parkinson's law. By insisting that the corporate objectives be in a written form and by emphasizing that the list of objectives be communicated to every corporate employee, the supporters of the doctrine are preparing a fundamental groundwork for the solution of the problem of executive underemployment. This communication-phobia would cost the corporation a great amount of money. Whether the list of objectives would be read at all by the people to whom it is sent is doubtful. The average employee is a disinterested (and passive) spectator of the bitter corporate game. He has other personal obligations which would take precedence over the list of coporate objectives. Should he find time to read these objectives, he would remain quite insensitive to their words because they are futuristic, visionary, and unconvincing. They also do not touch any sphere of *his* operations. It will be quite hard to involve him, once he is convinced that the corporate objectives are designed with the sole motive of keeping them beyond his reach, his scene of action, and beyond his dreams of personal ambition. In such a setting, the cost incurred in the process of communicating these corporate objectives to the organizational employees would be a net loss for the company.

Should Departmental Objectives be Sacrificed ?

The 'Management by Objectives' doctrine makes a big issue for broad, total, and top objectives for the entire corporation. In doing this, the doctrine states that the departments either sacrifice their departmental objectives or (if they cannot succeed in accomplishing this), that departmental objectives be considered as secondary in importance.

Empirical research indicates that this should not be the case. Departmental objectives are always close to the employees. They can identify these objectives in their schedules, production, output and supervision. The employees interact with one another mainly on a departmental level. It is the identity of the department which the workers cherish most. On the other hand, the totality of the company is an alien concept for the employees. They find it hard to identify themselves with a modern large sized firm.

In such a situation, a disregard for the departmental objectives, which are closely identifiable with the workers, and a curious pursuit of extra-departmental or overall organizational goals for which the workers are both untuned and desensitized, could only be regarded as a calculated effort to break down organizational structure and create dissatisfaction and conflict.

Should Top Management be Engrossed in Objectives ?

Generally, top management is entrusted with the task of preparing, formulating, activating and updating organizational objectives. The term 'top' management is supposed to refer to the board of directors, president and senior vice-presidents including appropriate staff assistants depending upon the size, nature, and overall function of the company. It is expected by the supporters of the 'Management by Objectives' doctrine that 'top' management committees will be devoting a major portion of their administrative time to this multi-dimensional activity of dealing with the corporate objectives.

We have noted the falsity of assumption underlying this doctrine and have focussed on the managerial insolvency of this viewpoint earlier. By making 'top' management actively responsible for this viewpoint and by forcing upon them a condition by which they are expected to apply a major part of their time (the most precious asset owned by the corporation) in determining appropriate objectives for the firm and updating them at periodic intervals, the organizational processes of the firm will be subjected to severe tension, wasted effort, and loss of productivity. Why should the top executives be expected to wither away their time in formulating high-sounding but hollow corporate objectives ? Why shouldn't they be utilizing their time instead, in things more important, more direct, more sensitive, and more close to them and to the company ? Why shouldn't they use their energies to resolve difficult situations and create a better organizational atmosphere for both the executives and non-executives alike ?

A Substitute Perspective

Instead of supporting the doctrine of 'Management by Objectives' in which assumptions of a highly dubious and suspicious nature are the rule rather than the exception, in which a deliberate effort to substitute idealism for realistic performance is made by all concerned parties, and in which there appears to be a game of wits played between the executives and non-executives, assuring the latter of defeat and annihilation; it might be more effective to develop an alternative approach—an approach which would tend to offset most of this doctrinaire philosophy by initiating meaningful and effective behaviour at all levels. This approach is termed, for want of a better phrase, 'Management by Action'. As conceived in this context, this theory of 'Management by Action' opposes all assumptions of the 'Management by Objectives' school and stresses a realistic, work-centered, and contemporary administrative philosophy. Some of its key considerations can be listed as follows :

(a) Organizational employees must have an action-oriented point of view.

(b) Action must focus on current situations.

(c) Each member of the organization has a different role or action to perform.

(d) Each department must establish whatever action criteria and work attitudes it considers necessary.

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to enable him to take decisions ... actual operation, working capital requirements, sales, finance, manpower, production and new investments. All these decisions in long range planning must be based on concrete facts.

The planning process imposes a discipline on the company executive to continually consider as he goes along to measure his performance against pre-determined targets of performance so that he knows how he can take advantage of a favourable situation or how to avoid an unfavourable one by timely remedial action. The normal approach, 'we will cross the bridge when we come to it' is thus an anathema to any concept of planning. The economic scheme is constantly changing and this process of change is likely to accelerate in the future, in view of the social, economic and technological context of our times. In this changing panorama, if a company does not plan for its future and cannot answer a simple question as to where the company would be in the next five years, its survival is likely to be threatened. It is regretting that there is hardly any long-term planning in small and medium size companies which is, perhaps, primarily due to the fact that the executives of such companies are so overloaded with the burden of daily routine that they hardly have any time to plan the company's future. This situation, if it is allowed to continue, will only lead to mismanagemet of valuable resources which, in turn, will lead not only to disastrous nonsequences for the company, but will also undermine, by its accumulative effort, the nation's economy.

And yet, the planning process can be organised on a simple but systematic basis for any company, by drawing up plans for each of the constituent areas of the company's operation, viz., for marketing, production, finance, organisation, manpower, product development or for diversification. Though planning at all the above mentioned ...

Some Aspects of Company Planning

Ashoke Banerjee

The word *Planning* basically means taking decisions about things desired in the future—near and not so near—so as to avoid the happening of things which are merely the result of an accumulation of disjointed efforts. Planning is, thus, a form of anticipatory decision-making. However, planning is not the making of grand schemes for the future, without having regard to the resources that are needed to support such schemes.

Planning calls for a detailed and careful consideration of all the company resources, its strength and weaknesses, with a view to formulate explicit objectives and to decide the lines according to which the company should be guided. The company will have to break down this objective into its constituent elements by examining and testing the precise means by which the company will reach the desired goals from its present position. If, in the process, it turns out that some of the steps that are required to be taken are beyond the company's resources, then the plan has to be suitably modified.

The implementation of the plans are then monitored within the company

more emphasis should be placed on the marketing and the financial plans. Starting with marketing, the company must assess the likely demand for its product (s) and explore the possibilities of new markets for the purposes of diversification. The task of the financial plan is to translate a marketing plan into financial terms by projecting all the costs of resources required; money, material, men and machines to yield an adequate return on investment and to attain the marketing plan by ensuring that the company has the means to incur the costs on a continuing basis out of future income, while yielding a satisfactory level of profit. Therefore, the market is the basis of all plans which have to be matched by the financial plan which will show (a) that the resources required to attain the marketing plan will be available; and (b) it will yield more profits. Thus, when production plan is being formulated, it should be done in coordination with marketing and financial plans at the company level.

The next question that arises, is the time span of the plan. One thought is that the company should plan for the life of the investment. However, a period of more than five years is likely to be unrealistic for the simple reason that it is not possible to anticipate the likely changes beyond this period in the present-day dynamic conditions and it is nearly impossible in any case, to compile manufacturing data which could be used to develop the company in relation to market conditions. Basically, all small and medium size companies should make a short term and a long term plan—the short term plan being for one year and the long term plan for, say five years.

The most important is the annual plan which can be regarded as an action plan and must be worked out with a great degree of care. The whole plan must be compiled on the basis of cost and profit centres by involving the heads of these centres in the actual drawing up of the plan and then served by a Management Information System which will be presented continuously, say, week by week, to the responsible head of each cost centre, so that he can use this as a 'tool' for control purposes. The Management Information will show the variance between the achieved results from the plan which, then becomes the basis for prompt remedial action.

The planning process, to be of any value, must be a continuous process ... within which the company works is continually changing, the plan itself has to be updated at regular intervals. The logical steps involved in a company's planning are :

(a) analysing the existing situation;

(b) setting clear objectives;

(c) selecting the most favourable strategy out of a number of alternatives;

(d) drawing up individual plans for sales, finance, production, project development, manpower, organisation;

(e) checking the individual plans against the financial plans resulting in the desired levels of profit and the need for additional finance;

(f) integrating the various plans into a master plan;

(g) working out detailed action plans, cost centre-wise;

(h) budgeting and comparing actual performance against budgets at the end of each month or preferably, each week;

(i) modifying or taking remedial action in the light of information revealed by item h above;

(j) setting new individual plans.

The company's appraisal will have to be sub-divided into (i) the current situation and (ii) the future situation. The appraisal of the present situation will be in respect of the market, the company and the competitors.

Market Plan

A clear understanding of the market in which the company's products are sold must be acquired—its size, its segments and the factors that influence the customer's demand for the company's products. As the company's share of the present market must be carefully considered, the company must know what is the customers' appraisal of the company's products and how good is the company's performance and what it would be in future. The company must know its own strength and weaknesses in respect of manpower, finance, products, product development, technology and sales. The company must also be aware of its competitors and about their share of the market and about their strength and weaknesses in the areas of finance products, etc. As regards future development, the company must ascertain how the market of the future will be influenced by changes in customer habits and their requirements and how the demand would grow. The company must try to project the future prices, costs and margins and the likelihood of new suppliers.

The company planner should carry out a study into the future opportunities of the company's share in the market on the basis of its present operations under varying conditions, such as modernisation of products, as a consequence of technological change of extension of the product range, as a consequence of intensification of sales effort. The planner should also consider what changes in sales strategy would increase sales—either by opening up new sales channels or intensifying sales efforts in certain segments or by improved direction of sales force. In these situations, consideration has to be given to additional resources that will be required in terms of additional finances, better production facilities, manpower planning, etc.

The most important task in planning for the future is to establish clearly objectives, which are by and large, concerned with increase in profitability by way of increasing turnover. Here, the company is involved in decisions connected with a fast growth rate which has certain advantages and also dangers. The advantages of growth through turnover are reduction in costs of production which enables the company to withstand competition. Growth also enables the company to have easier access to capital and finance or more favourable terms. The dangers are that the whole organisation may go out of gear, leading to cash crisis, particularly, if the company is suddenly faced with recessionary conditions with reduction in demand. Therefore, growth objectives should be defined on realistic basis of achievable facts, such as a growth rate in turnover of 5 percent per year. The firm may also set other objectives, namely—bettering the return on turnover or capital.

It is important in any formulation of objectives that they are set down clearly and explicitly so that it not only creates the right psychological impact, but they are understood and accepted by the large number of managers who will be actively participating in the fulfilment of these objectives. It may take the shape of a concrete formula for increasing turnover by 7 percent per year, or doubling profit in five years; or it may take the shape of attaining a leading position in industry in five years. The planning objectives could then be easily qualified in relation to turnover, returns, finance, production, stock control, manpower, advertising, sales and so on. One of the most important areas of planning should be concerned with the concept of rationalisation. One must look at one's current activities to see as to what extent rationalisation could reduce costs and increase turnover. The sales effort, for instance, could be classified by the ABC analysis of various products whereby every effort is put in pushing the sales where margins of profit are higher and withdrawing from sales those products which are either earning marginal profits or no profits at all.

Likewise, cost reductions can be achieved by improved flow of materials through work study and organisational methods study. Also, an important means of cost reduction can be achieved through value analysis. The cost savings achieved by value analysis could then be used to increase turnover by reducing prices or improved profits through improved margins. Substantial savings in fixed costs and in manpower costs could be achieved by taking a hard look at the areas of administration costs.

An important aspect of marketing strategy is the decision on whether a company should diversify its activities. Diversification means introduction of new products which will be sold to a new market or supplying the existing customers, products with new applications. A company embarks on diversification with certain objectives : (a) reducing the company's dependence on a limited number of products, markets, thereby improving the return on capital; (b) to cater to the needs of new markets where demand for its existing products are becoming stagnant; (c) to take advantage of its existing facilities, such as, a large sales force which is difficult to be sustained by its present scale of operations or to take advantage of its existing facility, or, where the product or its existing operations are dwindling because of excessive competition and it becomes a matter of survival for the company, to switch over to new activities.

In any diversification project, obtaining finance becomes a matter of crucial importance and as the early stages of diversification are time consuming the costs incurred on such projects have to be initially met its return on capital. The company's return on capital should be established on the company's preparatory capital—i.e., equity and reserves. If the company is not currently earning an adequate return on capital, then it becomes the central and focal point of planning to consider means of improving it.

Cash flow planning is essential to the success if not the survival of the business. It must be continuously seen how the retained profits and depreciation are being used. The company must continuously watch and see that it has money to meet its commitments.

Liquidity planning is a part of cash flow planning to ensure that during the short term planning of one year there are no shortages of cash or where such shortages of cash are likely to arise, steps are taken in time to overcome them. The most effective way of ensuring liquidity is to introduce an effective cash management system. This is done by ensuring that the sales invoicing is done according to a laid down system whereby money is received by the company as promptly as possible by strictest adherence to credit term, making use of a discounting system which gives distinct economic gains to the company. The bank accounts should be strictly supervised according to a time table. So important is the need for cash management, that in many companies, it may be worthwhile to appoint a man wholly engaged in supervising all aspects of cash, which is managed according to clearly laid down procedures. There are various means of improving the liquidity position : (a) deciding on hiring rather than buying; (b) foregoing support services in the company such as owning cars, data processing by hiring such services; (c) deferring capital expenditure; and (d) rigid control of stock and inventories. All these are important measures and should be a part of any company plans.

It is also necessary to plan the measures needed to meet the company's future capital requirements. The assessment of capital needed and the time when it is needed should be established well in advance. Various factors must be considered in planning for capital, viz., (a) inflow of funds from trading profits and depreciation; (b) dividend policy ; (c) capital expenditure for present activities; (d) capital expenditure on an expansion programme; (e) capital from existing resources; and (f) resources to meet the shortfall of capital.

As far as existing operations are concerned, additional capital is required primarily to obtain increase in production facility to meet increasing demand or to provide facilities which will improve the efficiency of existing operations. Here, consideration has to be given for meeting working capital requirements. Additional capital may also be needed for rationalisation of the company's existing operations.

The capital requirements for new products (diversification) must be examined with the greatest degree of skill and care, because these requirements call for large substantial outlays of capital in creating new production facility. Likewise, adequate provision must be made to raise the working capital needs for raw materials, stocks and debtors and the running in costs, until the breakeven point is reached.

Capital investment decisions, at the very outset must be based on sound business judgement. Various alternatives must be evaluated and the best alternative selected, which would yield the highest return on investment on a long-term basis.

Manpower Planning

A company should also carry out proper manpower planning to ensure that suitable and adequate personnel are available to meet the company's requirement of the future. The company should also provide management development plans, which will develop employees with management potential for bigger jobs in the future. Manpower managing plays a key role in company's planning and the most important aspect of manpower planning are :

(a) to establish the manpower required in terms of number, qualification, age ; (b) to appraise staff in the middle and senior level. (c) to forecast the future requirement of manpower by number, qualification and age; and (d) to have a proper recruitment and training and dismissal policy.

Organisation of Company Planning

A company with a substantial turnover (say, over Rs. 10 crores) should have a separate planning section that will be responsible for assembling data, co-ordinating individual plans and doing various preparatory work, in respect of decisions that have to be taken. The planning section, may constitute of one person who will be called the company's planner, and is answerable to the Managing Director. His responsibilities would be :

(a) assembling and evaluating data about the market and the company.

(b) information management about (a) above;

(c) submitting concrete proposals as company's objectives;

(d) testing proposals for extension of the product range for diversification;

(e) checking proposals submitted by other departments;

(f) integrating various company plans into one master plan;

(g) preparing an annual action plan on the basis of various budgets;

(h) advising on the variances shown by a comparison of the achieved results with the plan;

(i) subsequent modification of the plan as a consequence of (h) above.

A company plan takes time to produce results. The tasks involved in planning process are numerous which have to be executed with great deal of skill and care. To begin with, planning should preferably commence with areas such as marketing and finance. Later, as the planner gains more confidence as a result of success, he may enter into areas of production and manpower planning and then, into the total planning process.

To conclude, though planning is a long-drawn exercise, starting with each department and then planning for the company as a whole, it is indeed important for the survival of the company, and if planning faulters at any stage, there is every possibility that the company is out of the race.

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Role of Research and Development in Business Growth

T. K. Mukherjee

Among all the business resources, knowledge is the most important. Physical resources without management are sterile and management without knowledge is ineffective. It is knowledge that distinguishes the successful company from the less successful one. Knowledge has become the central expenditure and investment of a modern economy. Capital flows in response to greater opportunities created by the greater productivity of new knowledge or innovation.

One of the fundamental characteristics of current life is that the whole pattern of ideas, concepts and attitudes, and the products, services etc., which stem from them are continually changing. Innovation plays a very major part in sustaining this continuing change, It is, therefore, one of the vital forces of this dynamic situation being responsible for the growth of the business, i.e., new products and services. No industry can assume that it will be immune from changes; and thus, to ensure survival and prosperity, all industries must, to some extent, be involved in innovating activities even if this is only to provide a counter-balance for those parts of their activities which are on decline.

The word 'Research and Development' is commonly understood in the context of technology, but it has a much wider connotation New technology is only a potential. It is marketing and, especially, innovative marketing that converts the potential into actuality. The areas for research and development are not restricted, but encompass the entire 'business activity': ideas, knowledge and need recognition occur in all branches of business, and thus, innovation can be developed from any point. Innovations may occur in the product, material manufacturing methods, distribution methods, storage methods, purchasing methods, sales methods, advertising methods, payment methods, etc. Innovations are, in fact, frequently sparked by the interactions of disciplines of activities. The purpose of this article is to examine the role of innovation in business growth in India.

Inter-Relationship of Economic Growth, Innovation and Human Resources

Agriculture, steel, automobiles, petrochemicals and electronics together have powered the tremendous growth of the western countries and Japan in the last twenty years. Agriculture played the most significant role in this growth. Agriculture has become the most productive, the most capital-intensive, the most highly mechanised of all industry. The 'input' of scientific knowledge has increased significantly. Agriculture has now become the most progressive sector from the most traditional sector.

A rapidly modernising agriculture not only produces the food without which an economy cannot possibly grow, it also creates demand for a great many new industries—from fertiliser to farm equipment, from equipment repair shop to farm credit, from transportation and roads to food processing—which, in turn, give high and well-paid employment. Likewise, the automotive industry creates a large number of jobs compared to those created in the manufacturing plants themselves—in road building and road maintenance; in petrol stations, repair stations and dealership, and so on. Thus, these industries create high immediate impact with great multiplier effect, thereby accelerating growth.

Furthermore, in the past twenty years, no single source had proved so rewarding and dynamic as a factor of economic growth as rising exports. Countries with the highest rates of growth of national income tend also to have the highest rates of growth of real export earnings. The capacity of an economy to grow was dependent on its capacity to export enough to pay for required imports and simultaneously export growth stimulates production for the home market. Increased export can only be sustained through increased output or productivity. The development and application of 'new knowledge' or innovation has created greater output or productivity in the modern industries

But this progress would not have been achieved, but for a massive build-up of human skills and talents followed by a growth strategy which made intensive use of these talents as industrialisation acceleated. This strategy of economic growth consistent with the human development goal has resulted in accelerated growth with improvements in the share of income to the poor. With this background in mind, we can now turn to the Indian scene.

Indian Scene

Indian economy has long been characterised by a large traditional sector and a small modern sector. In India, most people live, however, indirectly, through agriculture. Good crops, which create purchasing power in the hands of teeming millions, is the only assured route to high total demand. During the last two and half decades, agriculture has remained largely traditional. However, during the last few years there has been greater stress in increasing the 'input' of scientific knowledge to agriculture. But the adoption of improved techniques and the spread of new seeds and fertilizers cannot by themselves bring about self-sustaining growth in the farm sector. The human resource development should be stressed so that the benefit of technology is not confined to elite farmers but spreads deep into the entire segment of rural population. Thus there should be greater stress on rural human resources development rather than technological innovation alone.

Coming to the industrial arena, one finds that there has been significant increase in capacity and widening of industrial base. There has been increased indigenous supply not only of manufactured goods but also of raw materials and equipments. The growth of industries has so far been based on import substitution, i.e., stressing replacements of imports with domestically manufactured goods. Import substitution policy encouraged protective domestic market and worked as disincentive to explore competitive export market. Exports, which stimulated the economic growth in the developed countries, was reluctantly accepted by industries, due to government compulsion : In a shortage situation, products sell by themselves but in a competitive situation one has to create demand or practice 'innovative marketing'. With the sudden change to surplus situation, industries are finding it difficult to sell goods even in domestic markets. This change was hardly visualised, which indicates the lack of business vision. The reason for the illness of many industries is not due to lack of finance, obsolete equipments or products, but due to lack of ideas or knowledge of what is happening and what is going to happen. This is the fundamental constraint on growth.

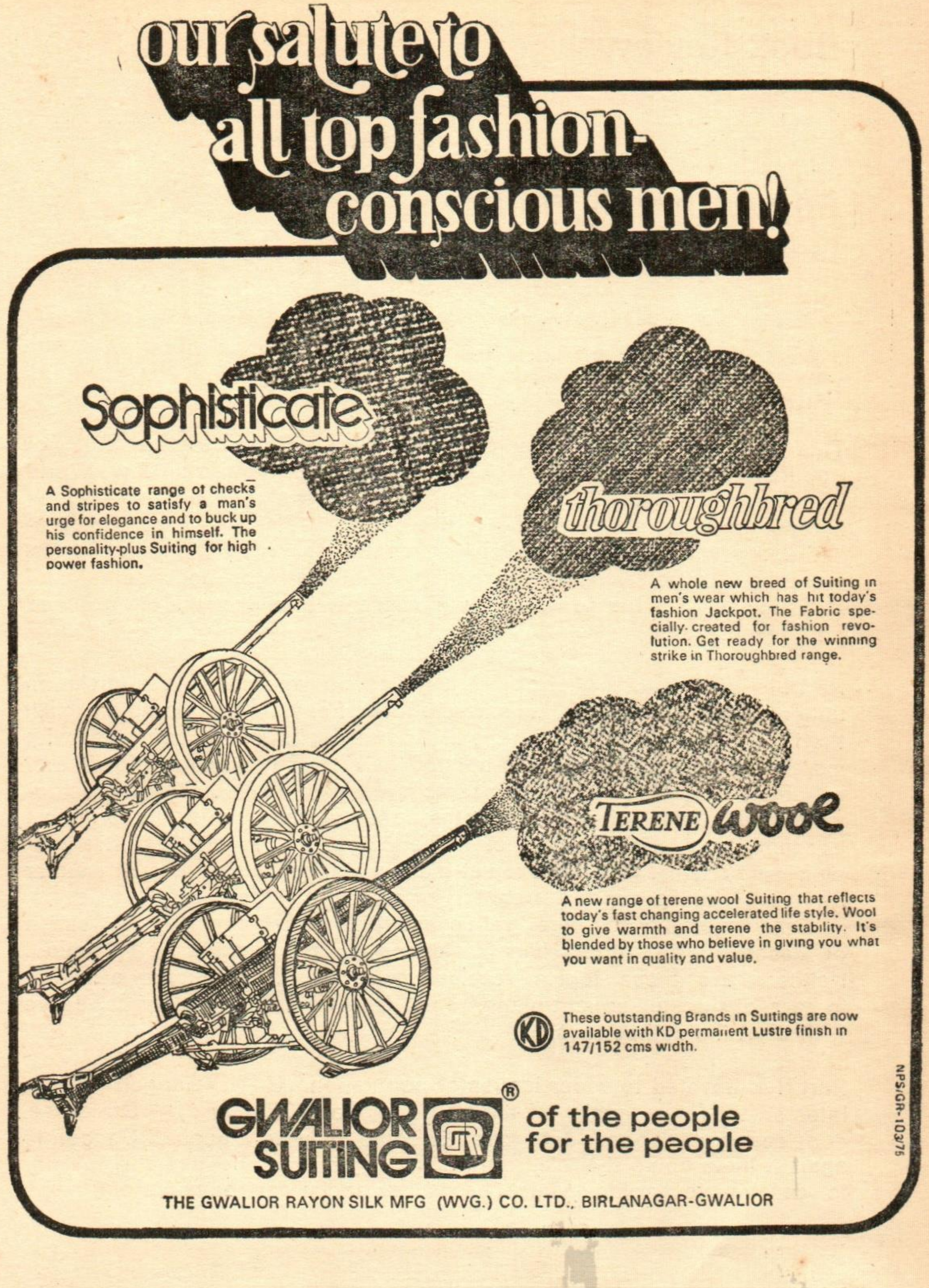
Furthermore, the policy of industrialisation was not combined with human resource development to absorb the benefit of technology and also to create employment opportunities. Import of technology or development of indigenous technology will accrue benefit to none, unless it is simultaneously combined with major investment in development of human resources with subsequent creation of productive employment opportunities. It is just not enough to create R & D centres to develop technological skills, neglecting development of total human resources. It is the aspiration and ideas of people which is the greatest stimulant to growth. Furthermore, the technological innovation is inert by itself, unless, it is combined with innovation in other areas of business. Hence, growth cannot be sustained through technological innovation alone.

Management of Talents

For business growth, one needs to make productive the fundamental resources, i.e., human resources. We have to attract the human energies of a society into growth opportunities. One needs to multiply talent.

Leaders or owners of industries will have to learn to build and manage a human growth which is capable of anticipating needs, capable of converting vision into techonolgy, products and processes and willing and able to accept new ideas. They will have to learn to manage in innovative organisation.

The innovative organisation needs a new aptitude on the part of the people at the top. In a typical organisation, the top people sit in judgement. In an innovative organisation it is their job to encourage ideas and to try to convert the largest possible number of ideas into products, services or purposeful work. To accelerate growth, we must multiply talents and capital and this must be built into the country's economic strategy.



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Book Reviews

Population in India's Development 1947–2000

(Edited by) Ashish Bose, Ashok Mitra, P. B. Desai and J. N. Sharma,

Vikas Publishing House, Delhi, 1974, xix+474, Rs. 60.00

Reviewed by V. S. Mahajan*

This book is sponsored by the Indian Association for the Study of Population (IASP) and is India's contribution towards the World Population Year (1974). It contains about thirty-six papers contributed by specialists from different fields like census administrators, demographers, economists, engineers, environmentalists, family planning experts, mass media experts, medical doctors, social workers, sociologists and statisticians. For the convenience of readers, these papers are grouped into seven parts.

Part I is introductory. Ashok Mitra writes on approach to population under different Plans. He laments the lack of any systematic policy. "All the five-year plans, right from the first onwards, have been contented with merely setting the desirable targets of the rate of population growth and refrained from discussing the possible ways of manipulating the demographic variables of births, deaths, and migration and the principal economic and social means of influencing them. In the first five-year plan... no attempt was made to set the targets for limiting mortality either by age or sex group like prenatal, infant and childhood mortality levels, maternal mortality by age parity and differential mortality by cause of death or by rural-urban residence or by geograhpical region. Neither have these topics received more than a perfunctory attention in each of the subsequent plans." (p.9) One would, by and large, agree with what the author says.

Part II is devoted to wider issues of population. B. N. Ganguli speculates on the future quality of India's population (Chapter 2)— Of course, considering the poor data base it could only be a guess. Ganguli is against India aping the Western technology and would like the country to develop technology which befits her social environments and helps

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to enrich the quality of life of her people. Pranab Bardhan contributes an interesting paper on inequality of income (Chapter 5). Like Ganguli, Bardhan is also of the opinion that extensive use of borrowed technology would generate social tension, increase unemployment and widen income inequality. However, at the end of his paper he strikes a hopeful note of new technology, "Most of the purely economic projections into the near future are not very hopeful in terms of mitigation of unemployment, poverty, and inequality. These projections are usually based on the assumption of a given social and political framework. But, it would be wrong to underestimate the countervailing power of changes in attitudes and aspirations of the poor and their politicization and communications .. The process is painfully slow, but the most promsing change that is already taking place is that the rituals and institutions which for centuries essentially legitimized inequalities are losing their social and political sanction." (p. 73) One, however, wonders how far the new social framework is emerging because modernisation is an improvement over the one being discarded.

C. Gopalan tells us, in his paper on nutrition (Chapter 8), that by 1984-85 India would be having an excess of cereals to the tune of 50 million tonnes and of sugar 14 million tonnes (over national consumption), but it would be deficit in vegetables (by 58 million tonnes), in milk (by 21 million tonnes), in fats and meat (by 15 million tonnes). However, looking at the current demand pattern, it looks doubtful whether the country would be able to create surplus of cereals and sugar to the extent predicted by Gopalan. Shanti Ghosh and Tara Ali Baig (Chapters 9 and 10 respectively) complain that child care in this country has been a neglected subject. It is true that while the country is saddled with the world's largest population (among democratic countries), the planners have throughout neglected the problem, nor child care finds an honourable place in the medical education.

Part III is devoted to resources. While Hari Narain, T. K. Roy and T. L. Sankar deal with natural resources (Chapters 11, 12 and 13 respectively) minerals and energy respectively, V. S. Vyas presents a thoughtful paper on land use (Chapter 14). There is no gainsaying the fact that the country has failed to tap its resources for maximising production and this, in turn, would have helped in reducing poverty. While the government should intensify search for new resources, it should also see that the known resources are effectively tapped for increasing production. Even in land resources, as Vyas points out, there is ample scope for multiple cropping, as hitherto only 17 per cent of the land has been sown more than once. But multiple cropping requires a package of inputs where India continues to be quite deficient. Part IV is devoted to the role of population in economic growth. It deals with topics like population under planning, population projections, employment and labour force; and includes contribution from J. N. Sinha, A. Ghosh, among others. Part V is devoted to migration and urbanisation. Mortality, fertility and family planning are dealt in Part VI. Part VII is exclusively devoted to population statistics and projections.

The book on the whole is well-edited, documented, supported by facts and figures and makes a thoroughly refreshing study. The ISPA has indeed done a good job in bringing out this timely publication which should be read with interest by demographers, researchers and policy makers in particular, as well as by the general readers. We are told that the ISPA intends to bring out an abbreviated edition of the book in other Indian languages. This is a welcome future.

Money, Banking, Trade and Finance

K. P. M. Sundharam
Sultan Chand & Sons, Delhi, 1974, Price Rs. 17.00
Reviewed by N. Varadan*

The author must be congratulated on bringing out diverse areas of specialisation in one book. The treatment gives a comprehensive coverage under each branch of Economics/Banking.

Part I deals with Monetary Economics; Part II speaks about the theory of Income and Employment; Part III addresses itself to Banking and Financial Institutions; Part IV covers International Trade and Foreign

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Thakur, Vaidyanath Aiyar & Co., New Delhi

Exchange; Part V throws light on Indian Currency and Banking and Part VI highlights Public Finance.

It is clear from the above that a link is sought to be forged between Commerce and Economics and at least the author has paved the way for the same. The only Chapter which does not fit in well with the scheme seems to be the one on Indian Currency and Banking. If this chapter had been omitted, space would have been available to incorporate the latest and advanced material under each heading so as to be useful for the post-graduate students and which could be put under 'Appendix'. For example, much water has flowed under the bridge with regard to the consumer behaviour, quantity theory of money, International trade, world monetary crisis and federal finance. In fact, the concept of international liquidity undergoes a sea-change now and then, that by the time any text goes in print, it becomes obsolete. Milton Friedman, has recently embellished the quantity theory of money and Jagdish Bhagwati seems to be revolutionizing the theory of international trade.

With regard to the above, the author has not given the treatment it deserves. Perhaps, this is meant to be a textbook for the undergraduate students.

The following matters require a more elaborate treatment : Inflation; Keynesian Theory and Under-developed Economies; Modern Theory of International Trade; The International Monetary Fund and International Liquidity; Public Expenditure; Federal Finance; Fiscal Policy, etc.

The material on the above seems to be very scanty. Bearing in mind, these are the 'marks-yielding' topics, the author will do well to concentrate on these areas instead of treading the beaten track of the history of Indian Currency and Banking. We prefer currency to history. Let by-gones be by-gones. What is happening today matters most.

Problems of Development of Smaller Countries

Dr. Y. P. Pant

Published by Oxford & IBH Publishing Co., 66-Janpath, New Delhi-1. 1974
Pages 222. Price Rs. 35.

Reviewed by N. C. Joshi*

Starting off with a description of the structural characteristics relating to the smaller countries of Asia, Africa and Latin America—all put together, the author proceeds on to examine some micro aspects like transport, financial resources, marketing issues, industrial development, external aid and regional trade pacts. Besides, a separate Chapter is devoted to evaluating the common peculiarities of about twenty five land-locked countries of the world.

The major stance adopted by the author is that the inflow of foreign assistance to smaller countries needs to be channeled through the U.N. and other multilateral agencies. It is suggested that "less emphasis be placed on bilateral aid, so that external aid can be made to suit the aid-receiving country's needs and the long-term development goals." Smaller countries being also the least-developed countries, a plea is made for concessional and increased financial assistance along with more flexible criteria for project evaluation.

The author points out that there is no internationally organised system for determining need priorities among developing countries. As such, aid from individual countries get neither coordinated nor marshalled for its optimal utilisation. Tariff barriers and quantitative restrictions imposed by advanced countries have created a lower capability for smaller countries in improving their export trade. Their import needs being inelastic, the foreign exchange earnings are always under a threat of quick depletion. It was perhaps in appreciation of the weak situation in which small countries are placed that the U. N. approved in 1971 a list of 25 'hard core' least developed nations the majority of whom are

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also smaller countries. The UNCTAD is working out a detailed action-oriented programme for their economic emancipation.

Dr. Pant further asserts, and rightly so, that the absorptive capacity of these countries is the basic constraint for utilising foreign assistance optimally. He believes that if technical assistance is integrated with financial assistance, it would help in consolidating the absorptive capacity to some extent. It is, however, necessary that research studies be made to delineate areas and methodology for impregnating the so-called limited capacity of smaller countries in the matter of development.

In the process of focussing on the major issues of development, the author also suggests a kind of regional integration on the part of developed countries in giving aid so that competition amongst small countries is avoided and uneconomic plant installations are not created in individual countries. 'Within regional groupings, the relatively less developed countries can be provided with technical assistance by the more advanced member countries in implementing feasibility studies, planning and programming of industrial projects, and the training of skilled personnel including the establishment of institutions of economic planning for these countries." It is true that most of the smaller countries are too small and too little developed to be able to achieve signficant results when they act independently.

While asking the smaller countries to go ahead with full determination the author ends up with an optimistic note when he says that the prospects for economic and social development of these countries could be promising when they endeavour on a more sustained basis. The book does a neat job of bringing to light the complexities and dimensions of the problems of development that smaller countries of the world face today. It also usefully covers the ground in pinpointing the crucial instruments and realignments that are needed for their development.

Agricultural Prices in a Backward Economy

R. P. Gupta

National Publishing House, Delhi, 1973, p. 238, Price Rs. 40.

Reviewed by S. M. Pandey*

This book is based on a study on the behaviour of the agricultural prices. Although it covers a period which is several years old, it might be helpful in providing an understanding of the behaviour of agricultural price system in an agriculturally backward state of India, viz., Madhya Pradesh.

The study consists of eight chapters. First two chapters deal with the general economic background of agriculture and marketing environments for agricultural products in Madhya Pradesh. Chapter III analyses the problem of supply response to price in agriculture in the underdeveloped countries. Chapter IV focuses on the supply response to prices in agriculture in Madhya Pradesh. Chapter V deals with the seasonal variations in the agricultural prices. Chapter VI examines the pricing efficiency of the marketing system in Madhya Pradesh. The problem of marketable surplus and the linings of market arrivals have been studied in the chapter VII. The concluding chapter assesses the findings of this study and policy implications of it.

The study shows that the price is not a major factor in determining the acreage allocation amongst various crops in Madhya Pradesh. The rate of increase in area under crop was more in respect of those crops which have less variability in prices over time. The farmers seem to give importance to those crops which have greater potential for increasing productivity. The above conclusions need further probing through carefully planned studies in different settings. In particular, much is left unexplained as to why "the models of farm supply which have been found to work in other parts of the country breakdown" when applied to data for Madhya Pradesh. Likewise, there is a need to analyse and quantify the relative significance of inputs such as credit, irrigation,

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fertilisers and high-yielding seeds etc,, in influencing the acreage allocation under various crops as well as their productivity.

This reviewer feels that though the study has thrown up some interesting findings, at times one comes across some shortcomings of methodology. A more thought-out and clearly specified relationships and functions would have enriched the study considerably. The author finds that there is no positive relationship between the production and its market arrival. On the contrary, the market arrivals are reported to have declined when the production has increased. There might be many important factors responsible for this phenomenon, and one cannot undermine the inaccurate reporting of the data on market arrivals.

On the whole, the study should be useful to those interested in understanding the mechanics of agricultural prices in a backward agricultural economy. The findings of the study might serve the purpose of working hypotheses for further studies on the subject.

Agricultural Extension : A Field Study

Arun Mukhopadhyay

Minerva Associates, Calcutta, 1974., pp. 236, Rs. 40.00

Reviewed by P. L. Mehta*

The auther starts by explaining the concept of extension as "a kind of educational process particularly designed to suit the socio-economic condition of rural communities". He goes on to say that "...the pattern of services is ultimately determined by the prevailing forces in rural areas of a particular country". It is exactly in the exposition of this aspect that Mukhopadhyay does not seem to fathom the depth required by his statement. Except at a few places, his analysis does not link the rate of extension services and their impact on the socio-economic structure. His treatment of the socio-economic aspects in the present context seem to me to be shallow.

*Department of Economics, University of Waterloo, Waterloo, Ontario, Canada

The book relates to Jhargram block in Midnapore district of West Bengal. Leaving out the introductory remarks, the book can be divided into two portions, one dealing with input pattern and the other analysing output pattern. The former includes socio-economic factors (like population, occupational patterns, land-man ratio etc.) and the techno-economic variants (like land, capital, irrigation, technology etc.). The output-pattern tries to correlate the farm size, and tenurial groups and traditional as well as non-traditional inputs with the average yield.

He portrays the Jhargram block as essentially an underdeveloped agrarian economy with a large majority of population near the subsistence level. Its traditional agriculture is combined with the lack of capital. The family size is seen as rising overtime. Majority of the people are illiterate. The lowest 38.5 per cent households have only 13 per cent of the land. The village economy in the region is virtually self-sufficient and a large portion of it is non-monetised. Irrigation is quite inadequate. Seed management is unsystematic and chemical fertilisers are not very popular because of the inadequate purchasing power and risk of income response. And, the more interesting in the present case, the majority of farmers are indifferent to Block recommended farm practices—a normal phenomenon of slow speed of innovation in underdeveloped societies.

Mukhopadhyay rightly brings out the phenomenon that "small farmers whose non-agricultural family income is of significant amount are more inclined to invest it (the surplus) on purchase of land than on employment of stock of both durable and non-durable capital assets for intensive cultivation"..... and that medium farmers having some surplus potential (which is rhythmic with seasonal pattern seem to be affected by the Dusserbery type consumption behaviour", while the rest of the population is too poor to afford the new technology. Further, 70 per cent of the rural credit comes from non-institutional sources, with all its drawbacks. He successfully projects the divergence between the interests of rural credit cooperatives and non-official credit coopetratives. This divergence reflects the conflict of interest between the two in the sense that the latter wish to monopolise the credit institutions and perpetuate the prevailing credit conditions in the region. If one looks at other regions in the country, one finds the failure of their official credit cooperatives is largely as a result of the pressure of the official credit cooperators. The author has tried to bring out the role of big farmers towards the cooperatives development, both within and outside these cooperatives.

According to the author, the share cropper's land has the highest average rate of yield; while in terms of quality of land "the landless farmers have received worse type of land of their own". Rate of yield moves with the amount of availability of rain water.

Mukhopadhyay kicks up a much-debated issue, when he says that agricultural activities are insensitive to market prices which are distinct from inter-village domestic prices. He seems to be right here, as what he is studying is a traditional, subsistence level, self-sufficient agricultural economy, where majority of the people have negligible marketable surplus as they have adequate produce for their own subsistence only, and their sales, if any, are distress sales, which do not link them to market forces either.

On the whole, the book is a good attempt on analysing agricultural extension services in the region. To a large extent the analysis is applicable to most of the parts of India, in one form or another. The language is lucid. This being a field study, it is likely to be quite interesting, authentic and revealing.

New Books : Annotated List*

An Introduction to Managerial Finance

Bierman Jr., H. & Hass, J. E.

London, Pitman, 1975, 294 pp, £ 3.75.

This book is an attempt to teach introductory business finance using basic mathematical models. Some of the models will help the overall understanding and some will lead directly to improved decision-making by supplying optimizing techniques that may be applied to problems. The book is divided into five parts that parallel the contents of many managerial finance texts: 1. The fundamentals of financial management, 2. Current asset management, 3. Financing strategies and the costs of raising capital, 4. Investment decision-making under uncertainty, and 5. Special topics. In each of these areas, the book extends the material presented by introductory texts, deriving mathematical results that are generally consistent with the verbal discussion found in them.

Econometric Methods

Dutta, M.

Cincinnati, South-Western Publishers, 1975, 382pp, $ 10.75.

This book is written to aid would-be econometricians in preparing themselves for further advanced studies. First, the book emphasizes the role of econometrics, focusing its attention on how to measure the unknown parameters of models that may be constructed to specify an economic system or a sub-system, as inter-dependence of economic activities has been underscored right from the beginning. Secondly, the book makes an effort to explain successive steps relative to the discussion of each subject. Thirty, problems related to econometric studies, such as heteroscedasticity, serial correlation, multicollinearity, lag structure, instrumental variables, and consistent estimators for an interdependent system, have been discussed at length.

*Prepared by Mr. S. N. Vig. Documentation and Information Officer, National Productivity Council, New Delhi.

Effective Marketing Logistics

Buxton, G.

London, Macmillan, 1975, 244pp., £ 10.

The basic ideas inherent in the marketing logistics concepts, and to show how these ideas can be put into practice within a framework of planning, implementation and control is the basis of this book. The emphasis is on the application of concepts and techniques within a managerial context. Part I introduces the reader to the meaning and significance of marketing logistics and lays the foundation for a more detailed analysis of the component elements of logistics strategy. Part II examines specific aspects of marketing logistics strategy, and contains four chapters devoted to retail and depot location; inventory management of warehousing; materials handling and transportation activities. Part III combines the above two to develop a managerial framework for the implementation and control of marketing logistics strategy. Behavioural issues are considered as attention is directed towards the problems of communication and organisation at both a functional and corporate level. The final part devotes to case studies designed to illustrate the major ideas presented in the book.

Human Relations in Business (2nd ed.)

Carvell, F. J.

New York, Macmillan, 1975, 408 pp, £ 7.15.

This book is about the way people interact with the social, organizational, and human elements they encounter in the work environment, directed toward upper-level and top positions in an industry. The second edition contains several new topics and revised versions of many topics covered in the previous edition. A great deal of attention has been paid to the intri nsic nature of work and its contribution to job satisfaction. The impact of management philosophy on organizational climate has been explored and a new section has been added on the use of participation as a strategy for change. More material has been included on group processes and the topic of communication has been expanded to include more information about nonverbal and symbolic communications as they affect the interaction of workers and their supervisors. As in the first edition, much of the content of this book is a capsulization of existing theories and concepts of human relations. There is no concerted attempt to expound new or unique concepts of management.

International Dictionary of Management

Johannsen, H. & Page, G. T.

London, Kogan Page, 1975, 416pp, £ 10

This dictionary is a practical guide and reference work to the language of management. The 5,000 entries cover not only the terms and jargon of business and management, both in theory and practice, but also deal with the broad environment in which the manager operates. The dictionary thus not only defines the specialized terms covered by such areas as business and commerce, investment, finance, production and works management, personnel and training, employee relations and industrial relations, marketing, management accounting, office administration, data proceesing, research and development, purchasing and distribution, but also includes many terms in related subjects such as economics, law, sociology and statistics which impinge on the manager's work.

Investing in Value

Warburton-Brown, D.

Tokyo, Asian Productivity Organisation, 1975, 164pp.

The benefits which can be realised from the use of Value Analysis/Value Engineering technique are very great. Many examples based on recent experiences in Asia, Europe and the United States are dealt with in this book which clearly indicate that these techniques can be applied with success in widely differing types of industry. Emphasis is also placed on the importance of discipline, hard work and, equally important the need to cultivate an attitude of mind which, through questioning, and challenging, is able to grasp the fundamental issues involved in any situation quickly. In an atmosphere of rapidily rising costs of both materials and labour, profit margins are diminishing and no commercial undertaking can afford not to ensure that maximum value is realized for each monetary unit expanded. This book shows not only what can be achieved but also the way to ensure maximum benefits.

Management of Small Business

Grieco, V. A.

Columbus, Merrill, 1975, 360pp., $ 11.95

Some businesses are successful, while others fail. The number of failures show that the knowledge of approaching businesss is of utmost importance. Questions appearing after each chapter in Part I are of two types: those which can be answered from the text material, and others which require research are intended for project-oriented instructors who can direct students to some interesting experiences. The incidents contained in Part II of the book are designed for specific discussions of management practices. Part III of the book contains case materials. All are based on true cases made possible through the co-operation of business firms. They are illustrations of both effective handling of varied management situations by small businessmen and women.

Organizational Behaviour Modification

Luthans, F. & Kreitner, R.

Glenview, Scott, Foresman & Comp. 1975, 214 pp., £ 2.60

The focus of this book is on observable organizational behaviour and the external environment rather than on the individual's internal motivational state. Organizational behaviour is a function of its contingent consequences. The authors do not believe that the study of motivation will lead directly to prediction and control, but they do believe that these are desirable goals for human resource management. Therefore, they have turned to operant learning theory and the principles of behaviour modification as a means of achieving better understanding, prediction, and control of organizational behaviour. The result of this integration is what they call organizational behaviour modification or, simply, O.B. Mod. The book consists of ten chapters. Chapter 4 presents examples of the five-step problem-solving model of behavioural contingency management (BCM). This five-step model (identify, measure, analyze, intervene, and evaluate) represents a specific application of O.B. Mod. for more effective human resource management.

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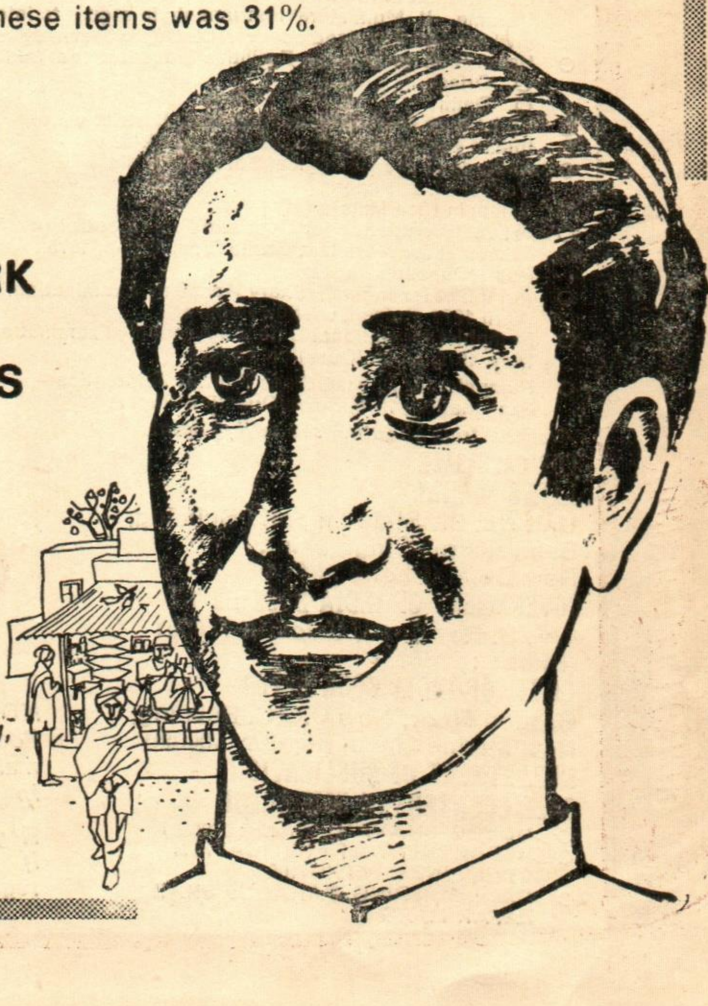

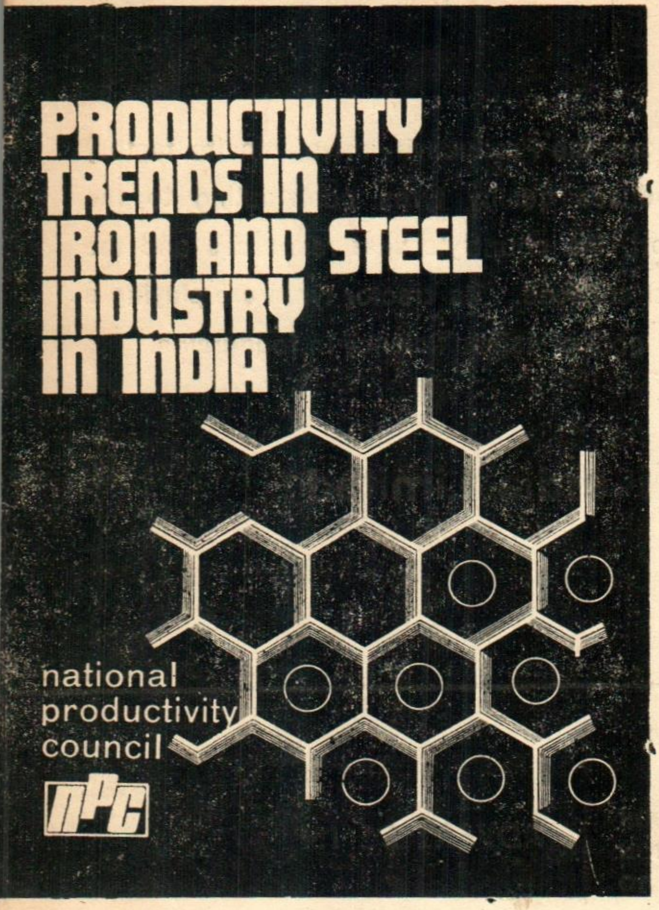

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