

# **BUSINESS ECONOMIC PLANNING**

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*Theory, Practice  
and Comparison*

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**Gunnar Eliasson**

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**THEORY, PRACTICE AND COMPARISON**

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## FOREWORD

Business firms rely more and more on formal planning procedures and for large firms efficient methods to manage a geographically and technologically diversified organization from a distance have become necessary tools. At the same time Governments, research institutions and other organizations collect an increasing volume of numerical information from companies to understand and to govern the increasingly complex system that makes up a national economy. Our knowledge of the mechanics of the information flows and the decision systems of large business firms is very scant and our ability to assess the character and quality of the information we collect is quite hazardous. Dr. Gunnar Eliasson began this research project already before he took up his present position as the Chief Economist of the Federation of Swedish Industries and his project has been very useful for the research and forecasting activities of the economic analytic department of the Federation that he is heading. This study on remote guidance and control system in more than 60 U.S. and European firms is quite unique and we are very pleased to endorse its publication.

Stockholm in February 1976.

Axel Iveroth  
Director General  
Federation of Swedish Industries



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## PREFACE

Planning is a systematized way of thinking ahead of time. In this general sense planning has always been there-with individuals as well as in organizations, large and small ones.

In most business firms planning is predominantly informal and communication largely oral and dependent on memory rather than on numbers and memoranda. However, the formal or bureaucratic element in planning has grown with the size of the organization. This is something that has been observed. More formal communication is also a rather obvious requisite since mental faculties of humans are limited; in particular when memory is involved.

Informal planning represents a process of thinking leading ultimately to an irrevocable decision. As such planning and decision-making is a mixed process. No doubt the formalized plan in some way or another reflects the ways business men think when facing the future. In a large organization there is more information to handle than in a small organization and there are more humans involved. Consequently, the process of arriving at a decision and implementing it is more complex and has to be standardized and coordinated to be manageable. This is the basic reason why the use of formal planning methods has become more frequent. This is also the *first* reason why the *formal planning system* of business firms has been singled out as an object of investigation in this study. In one way or another it mirrors the intricate decision machinery of a business organization. It gives at least an idea of the minimum of information that has to be processed mentally at the very top of the corporate hierarchy. And its presence can be observed and measured.

Prime emphasis has been placed on the logical structure and integration of formal planning routines. The bulk of the text is devoted to an analysis of various aspects of the formal planning systems in use among a sample of U.S. and European corporations.

This does not mean that the informal element in planning — always present even in very large business organizations — has been neglected. Although hard to observe systematically, attempts have been made to recognize the ways management discretion is imposed upon the formal planning routines and to assess the importance of informal planning in final decision-making.

Still, it is imperative to keep the concepts of *planning*, *decision-making* and *behaviour* apart. The explanation of behaviour should always be

the prime concern of research in social sciences, and formal planning as a logical construct could only be considered of interest if a potential impact on behaviour is at least to be expected.

The *second* purpose was in fact the original one, namely to examine the relevance of some basic assumptions as to firm behaviour postulated on rather loose grounds in two previous studies of mine.<sup>1)</sup> Furthermore, I felt a need for more relevant starting points for a meaningful growth theory of a business organization than those provided by current "a priorising" in economic theory. As a result, this monograph in fact winds up with a set of suggestions for the formulation of a growth theory of a business organization.

*Third*, requests on firms to supply all kinds of data on their plans for the future have taken on such proportions over the last 10 to 15 years that one is at times inclined to talk about a fashion among the bureaucracy, the data gathering institutions and the professional economists. Such data are now put to extensive use for prediction purposes, economic research and as a basis for macro-economic policy making. For this reason alone there should be some demand for information as to the character of such data and the purpose they are supposed to serve within the firm itself. On this point, I can promise to present results since the problem refers directly to the matter that takes up the bulk of the text; namely how numerical data on the future related to aggregate firm operations originate in and are processed within the firm.

In any inquiry it is always highly rewarding to keep asking questions like: What is this supposed to be good for? As this study has progressed emphasis has gradually shifted from the mechanical design of the planning system towards problems related to how to use them. One observes with some surprise the large number of elaborate management routines instituted that can be described in great detail but that one finds great difficulties in associating with any obviously beneficial purpose of the firm. Interpretation, hence, is a selection process that is both precarious and fascinating.

The reader of this book must be aware of one thing. A study of this extent cannot be kept going for a 5 year period without a gradual change in emphasis taking place and without a few insights being gained. Originally, the study focussed on the mechanics of the number-system called planning. This side of the report, weighs in heavily in part II (Chapters V through VII and the supplements). When something is not well understood the explanation is usually everdone with superfluous details and circumstantial evidence and this is, unfortunately, quite typical of Part II. A growing awareness of the use to which planning is put, however, gained momentum during the course of repeated interviewing and callbacks in 1973 and 1974. The realization that numbers largely were assembled as a result of

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<sup>1)</sup> *Kreditmarknaden och industrins investeringar*, Uppsala 1967 and *The Credit Market, Investment Planning and Monetary Policy* an econometric study of manufacturing industries, Uppsala 1969.

bargaining between conflicting parties in the organizational hierarchy, rather than through "objective" research, involved a series of somewhat puzzling sensations for the author in the capacity of being a prejudiced economist. These sensations took some time to sort out. The ultimate purpose of planning is to identify and pin-point responsibilities in precise terms and to exercise remote control and impose pressure without unduly inhibiting initiative and reducing flexibility. Hence, planning very much is a vehicle for delegating routine management out of Corporate Headquarters. This is not the idea of planning that the majority of researchers in the area entertains. It is not even something that is clearly manifested in but a small number of U.S. firms and maybe a few European firms. However, a gradual development in this direction seems to be taking place. In fact, and in retrospect, it is very difficult to see what the number game called planning is really supposed to be good for without this idea in the background. In fact, again, many planners and executives when asked had very vague ideas of what exact purpose their system had been installed to serve.

This is (1) the reason why *control* has come to be a key word in this study. The argument is repeated frequently, that to study planning and control separately is like reading a language you don't understand. Secondly (2) this also warrants that we keep the rather tedious report on numerical practices, that makes up part II, as it was originally conceived predominantly in 1969 and 1970. To modify these chapters in the direction I now consider more relevant would be to manufacture evidence for conclusions that I don't really have. These conclusions (3) can be summed up as suggestions, that can be indicated here, but that will not appear until the final chapters.

The enormous progress made during the post-war period at the shopfloor level in mechanizing the production process probably has got an analogue in recent years in the detection and correction apparatus that makes up a sophisticated planning system, as a means of automating routine management of a large, complex and geographically scattered production, distribution and financing system. This system — if elaborated to the extent exhibited in some cases — is extremely "pluralistic" in the sense that it identifies the location of information and the competence to make use of this information with the power to make restricted decisions and ties down all such decision units with precisely defined responsibilities; allowing all the time for a gradual change. The instable nature of the "systems" was also obvious from those firms that were visited twice or three times. This also means that a study on planning practices will have to take organizational structure into account and recognize that a change in planning methods as a rule also means a simultaneous change in this structure.

Such systems, however, are more or less useless for handling large, unstructured innovative decisions. This is also well realized in corporate life.

The research project now to be reported on sounds rather pretentious on the surface of it and the modest results arrived at will not compare well with this introduction. I also have to add, that writing this report

has been a rather frustrating experience intellectually. Not only has defining my problems and concepts been like fitting an elastic painting into a rubber frame. The only method of measurement at hand (interviewing) has meant applying a rubber ruler the elasticity of which is impossible to assess properly. I have, however, at times experienced the comforting feeling of being an explorer in virgin lands trying to systematize and describe what I observe as well as I can.

Thus, the results to be presented in the chapters to come pretend to be no more than a description of the methods by which large firms arrange their formal planning routines, an analysis of what purposes they are supposed to serve, and suggestions towards a theory of firm behaviour based on sporadic evidence from a biased sample of large and (predominantly) successful business organizations. *Observation and the formulation of hypotheses are basic.* No advice is attempted. The figures of the plan are of secondary importance. It is the ways and means by which numbers are arrived at and how they are interpreted and put to use that matters. Information is what one makes of facts and figures, not the facts and figures themselves. I find March's (1965 p. XIV) implicit suggestion that academicians have a lot to learn from practiced organizational technique a comforting starting point.

This study began during my visit to the United States in 1969. I am very grateful to the Industrial Institute for Social and Economic Research (IUI, Stockholm) for making this visit possible and Sparbankernas Forskningsstiftelse for supporting the interview series in the U.S. I also want to thank Professor Dale Jorgensen, then at the University of California at Berkeley, for providing generous secretarial help and for many fruitful discussions on economic problems, not in the least on the matter of firm behaviour. I also want to express my gratitude to Professor Hans Brems, Professor Case Sprenkle and Professor John Meyer for a very profitable exchange of ideas and generous secretarial help during my brief stays at the University of Illinois and The National Bureau of Economic Research respectively.

The interviews stretch over the five year period 1969—1974. The bulk of U.S. interviews were conducted in 1969 although several return calls were made in November 1973 and May—June 1974. Most Swedish interviews took place in 1969 and 1970 although my present position as chief economist at the Federation of Swedish Industries has provided ample opportunities of systematic interviewing and return interviews (listed in Supplement 8) and more occasional inquiries as to planning practices with Swedish companies. Similarly, frequent travelling on the European continent in my present professional capacity has facilitated my interview calls to a fairly large number of European firms. I am also very grateful to the Keidanren for preparing my visits to three Japanese firms.

The long observation period has at least two advantages. I have had the opportunity to register substantial reorganizations in planning systems among several of the firms visited twice and three times, changes that were not anticipated by the time the first interview took place. I have observed how new problems like unexpectedly severe recessions in

demand, inflation and flexible exchange rates have brought about modifications of the planning systems.

A preliminary report on the U.S. interviews was discussed at a seminar at the IUI in the spring of 1970. A brief article on some of the results was published in *Svensk Sparbankstidskrift*<sup>1)</sup> the same year. The experience gained during the course of this project has greatly influenced the layout of two "intermediate" studies of mine, one for the Swedish shipyards committee on the financial situation of the shipyards and one survey paper for the OECD on "capital transfers, taxes and international corporate operations".<sup>2)</sup>

A preliminary report was prepared in July 1973 for restricted circulation among participating firms. I am very grateful for all the comments received. They have affected this final version in various ways. An interim report, now revised substantially, was also made public in September 1974<sup>3)</sup> to be used as a text for a graduate course in Investment and Financing at the Department of Business Administration, the University of Stockholm. I very much appreciate several useful and nice comments from students, who have had to read the text.

Some results from this study were presented in a paper given at the Twenty First Conference of the Economic Outlook at the University of Michigan, Ann Arbor in November 1973<sup>4)</sup> Two papers related to this study were also presented at two Swedish-Russian symposia in Stockholm (1974) and Batumi, Georgia (1975) chaired jointly by Professors Erik Lundberg, Handelshögskolan, Stockholm and Tiger Khachaturov, the Association of Soviet Economic Institutions.<sup>5)</sup>

The final form of this report also profited greatly from a seminar in February 1975 chaired by Professor Sune Carlsson at Uppsala University and several very useful comments from Professor Igor Ansoff, European Institute for advanced studies in Management, Brussels.

Many persons have contributed directly and indirectly to the

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<sup>1)</sup> Planering i Amerikanska Företag, *Svensk Sparbankstidskrift*, nr 2, 1970.

<sup>2)</sup> Räntabilitet och finansiering i sex svenska varv under en 20-årsperiod from Ekström; *Varusindustriens problem*, Stockholm 1970 and *Capital Transfers, Taxes and International Corporate Operations*, nr 2 Mimeographed Economic Research series B (Federation of Swedish Industries) April 1972.

<sup>3)</sup> Under the title; *Corporate Planning* — theory, practice, comparison — a study of remote guidance and control systems among U.S. and European Firms. Research report B 10, Federation of Swedish Industries.

<sup>4)</sup> Published in papers and proceedings from that conference under the title *Business Cycles in Business Planning*, Ann Arbor, Michigan 1974 and as nr 8 in Economic Research Reports, series A (Federation of Swedish Industries), Stockholm, March 1974.

<sup>5)</sup> *Planning at the Corporate and Government levels* — some thoughts about the interaction of semi planned systems Nov. 1974 and *Productivity Change and Management Technique* (Sept. 1975); Federation of Swedish Industries, Stockholm, Nov. 1974 (mimeo).



completion of this book over its five year gestation period. I am very grateful to those who have read and commented upon various sections at various stages of completion. This final version benefitted greatly from my discussions in 1973 and 1974 with Professor Robert Anthony and Professor Richard Vancil at Harvard Business School and Professor John Meyer at the National Bureau of Economic Research. Special gratitude goes to Carl Erik Björkegren and his associates at SANDVIK, Sandviken, to Dr. Grove, Dr. Karchere and all their colleagues at IBM, Armonk, Thomas Lindberg at IBM Sweden and to all those who have commented on my manuscript and helped me on several occasions, for instance at Mo and Domsjö (Örnsköldsvik), Telefon AB L M Ericsson and Atlas Copco (Stockholm) and General Electric and Exxon (New York).

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Sollentuna in February 1976

Gunnar Eliasson