



The
Columbia Journal
of
World Business

International Diffusion of Corporate and Strategic Planning Practices

Noel Capon
John U. Farley
James Hulbert

Many firms have adopted formal corporate-level strategic planning activities to help cope with rapid environmental changes in markets, competition, resource availability, currency values and political alignments.¹ Relatively little is known, however, about diffusion of innovations in planning practices among national and transnational firms throughout the world or about managers' evaluation of the usefulness of planning in the domestic or international business environment.² To provide such information, the Fellows of the International Academy of Management³ were asked to participate in a study of corporate and strategic planning. Each Fellow responded to parallel questions about the practices of leading national firms based in his country and those of foreign-based transnational firms operating in his country.

The study focuses on "leading" manufacturers of industrial and consumer goods. These firms are likely to be exposed to and to have the need for sophisticated planning systems. In addition, these firms can be expected to play key roles in international diffusion of innovation. In terms of technical innovation, for example, large firms, though not necessarily the innovators, have been shown to be quicker on average to adopt certain industrial innovations.⁴ Further, they have relatively strong professional, technical and informal contacts which often speed up the diffusion of technical innovations.⁵ The rapid international diffusion of product- and production-process related innovations may carry over to "institution-related" technologies, — for example, management skills such as sophisticated planning practices.⁶

Noel Capon, John U. Farley and James Hubert are on the Faculty of the Graduate School of Business, Columbia University.

LONG RANGE PLANNING AND DIFFUSION OF MANAGERIAL INNOVATIONS

Long range planning on a formal basis is essentially a post World War II phenomenon whose history can be traced to a series of organizational and managerial innovations in major United States companies such as Ford and General Electric.⁷ However, the overall rate of diffusion of corporate planning practice has been relatively slow, even among United States firms. Thus, although a significant number of United States companies had developed formal corporate planning systems by the late 1960s, Ringbakk reported that the degree of diffusion was less than might have been expected.⁸ Further, Lorange and Vancil reported that as a result of the 1970-71 recession, between a third and a quarter of the extant corporate planning departments were either decimated or completely eliminated.⁹

However, the 1970s saw a rebirth of interest in corporate planning as the impact of new planning concepts and methods began to be felt. Early among these was the notion of the experience curve developed by the Boston Consulting Group¹⁰ and the results of the Profit Impact of Market Strategy (PIMS) study, which empirically related the financial performance of individual business units to decisions on a few key strategic variables.¹¹ Perhaps more important at the corporate level was the dissemination of portfolio concepts which provided CEOs with important tools for understanding the function of individual business units in the total enterprise, and enabled resource allocation decisions to be made on a firmer conceptual footing than had hitherto been possible.¹²

Preliminary analysis of data from a 1980 study of corporate planning practice in 104 of the United States Fortune 500 manufacturing firms (mostly multinationals) indicates that 90 percent

now engage in some form of long range planning, but that two fifths began such activities formally only within the past five years.

Outside the United States, there are indications of a substantial diffusion of planning practices in recent years. Thus, while European firms are generally thought to have lagged behind in the adoption of sophisticated planning practices, a rapid catch-up appears to be in progress.¹³ Little is known about planning practices in the industrializing or developing world, although there are indications of fairly rapid adoption in Brazil and some development in India.¹⁴

THE STUDY

The working hypothesis for the study was that multinational firms would lead national firms in the adoption of long-term and strategic planning. First, most discussions of international planning stress the inherent greater complexity of multinational business operations,¹⁵ and second, as multinationals have evolved from fairly autonomous organizations of subsidiaries to much more structured matrix organizations, planning has become more important internally for both coordination and control.¹⁶

The 171 Fellows received a four-page, semi-structured questionnaire with a return envelope, a description of the study and a copy of the results of an earlier study on multinational firms and national interests in which they had participated.¹⁷ Usable questionnaires were received from 42 Fellows, 14 of whom responded to a follow-up mailing. Six Fellows felt unable to respond because of retirement and seven others declined for a variety of other reasons chiefly related to unfamiliarity with the field. Responses were received from 20 of the 30 countries in which 152 of the 171 Fellows reside:

Argentina	France	Netherlands
Australia	German Federal Republic	Philippines
Belgium	India	Sweden
Brazil	Ireland	Switzerland
Canada	Israel	Venezuela
Denmark	Japan	United Kingdom
Finland		United States

For analysis purposes respondents were divided into four groups of countries to provide at least minimal sample size:

United States
 Japan
 Other industrialized countries
 Developing and industrializing countries

Results are reported in the form of mean responses to the various items. If there was evidence of statistically significant difference in response from one or more of the subgroupings, the within-group means and the mean for the remainder of the sample are reported. Otherwise, the mean response of the entire sample is reported.¹⁸

The number of firms considered "leading" and thus in the relevant populations vary across respondents. As few as ten national and transnational firms were cited by some Fellows from smaller industrialized or industrializing countries, while several thousand formed the basis for responses by some United States Fellows.

CORPORATE PLANNING PRACTICE

Most large national and transnational firms do at least some corporate planning; as one European Fellow put it, "I don't think there are big differences, as (our) companies are so Americanized."

National firms in the Other Industrialized countries are perceived as least likely to plan, while Japanese national firms are most committed to planning. Subsidiaries of foreign based companies operating in the United States are reported as less committed to planning, probably reflecting the fact that many are based in the Other Industrialized countries where national companies are also less likely to plan.

Typical long-term corporate planning horizons for those national firms which plan range from 3.0 to 8.0 years, while transnationals are thought to plan slightly further ahead—4.0 to 8.3 years was the range of average time spans cited. These relatively long time frames indicate that Fellows' responses in fact focus on the period generally associated with long range planning (approximately five years), as opposed to operating planning and budgeting which typically occur in a shorter time frame.

FACTORS WHICH ENCOURAGE AND DISCOURAGE PLANNING

Some consistencies are evident in Fellows' evaluations of factors which encourage and discourage the practice of corporate planning.

	Almost no companies have written corporate plans		Some companies have written plans and some do not		Almost all companies have written corporate plans	
Among national * companies	1	2	Other Industrial 3 ↑	Others ↑ 4	Japan ↑	5
Among subsidiaries ** of the foreign transnational companies	1	2	United States 3 ↑	4	Others ↑	5

* "Others" refers to the country groupings of all responses not specified as statistically different for any scale item. In this scale, "Others" comprises national firms in the United States and in the Developing and Industrializing Countries.

** In this scale "United States" refers to subsidiaries of transnational firms operating in the United States. "Others" comprises subsidiaries operating in all other countries.

Among factors encouraging planning are:

- *Compelling problems which require longer term solutions* such as energy, increasing competition and government regulation (cited by Fellows from the United States, Japan, Brazil, the United Kingdom, Switzerland, West Germany, Denmark, Venezuela, Israel, Ireland and Sweden).

- *Increased availability of data, planning techniques, skilled consultants and computer capacity* (cited by Fellows from the United States, India, Finland, Argentina, West Germany, Sweden, Japan, and the Philippines), and of good management training for planning (cited by Fellows from the United States, the Netherlands, and the United Kingdom).

- *"Success stories"* circulating about planning (cited by Fellows from the United States, Australia, the Netherlands and Belgium).

- *Increased commitment by Boards of Directors and senior management* to planning and increased ability of management to use plans. A number of United States Fellows cited this, although it was also mentioned by several Northern European Fellows.

Factors cited as discouraging corporate planning fell into three groups:

- *Substantial environmental uncertainty* was mentioned most often and was cited by Fellows in all four groups, including the United States, Canada, Japan, Switzerland, West Germany, Argentina, France, Sweden, Denmark, Venezuela, Brazil, the Philippines, and the Netherlands. Specific references ranged from terrorism and gov-

ernmental instability to inflation and uncertainty about raw material supplies.

- *Organizational problems* such as resistance from managers (particularly operating management) and inability to secure broad participation were referred to by Fellows from the United States, the United Kingdom, the Netherlands, Australia and India. Confusion of line and staff responsibilities was cited by Japanese and United States Fellows, as traditional boundaries are often breached in the planning process.

- *Procedural problems with planning* manifest as costs in time, paper work and organizational effort which are sometimes not counter-vailed by clear benefits were cited by United States, Swiss and Swedish Fellows. These problems seem more characteristic of multinational firms which are fairly sophisticated in planning. In contrast, some European and Third World Fellows cited shortage of technical expertise for getting the planning process started.

PLANNING ORGANIZATION

Fellows report that transnational subsidiaries are likely to have separate planning departments, while national firms, other than the Japanese, are less likely to.

Among national firms, planning tends to be a staff activity, but in the subsidiaries of transnational companies operating in their countries, United States Fellows perceive planning to be more of a line function than do Fellows from other countries. Many firms operating in the

	Almost no companies have a department		Some do and some do not			Almost every company has a department		
Do national firms have formal planning departments?	1	2	Other Industrial ↑	3	Others ↑	4	Japan ↑	5
Do subsidiaries of foreign transnational firms have formal planning departments?	1	2		3	All ↑	4		5

	Typically a line function		Sometimes staff Sometimes line &		Typically a staff function			
The responsibility for planning in national companies is	1	2	3	All ↑	4	5		
The responsibility for planning in subsidiaries of foreign transnational companies is	1	United States ↑	2	Japan ↑	3	Others ↑	4	5

United States apparently feel that involvement of line managers produces both more realistic and more acceptable plans. In contrast, a European Fellow remarked, "In our country, we strongly are of the opinion that essential planning activities should be taken away from line managers and their assistants and given to planning departments." This European attitude toward staff

marks a considerable departure from the traditional European organization structure which is heavy on line management and light on staff.

FUNCTIONS OF PLANS

Responses to questions about the importance of various functions of corporate plans indicate that financial considerations are dominant. Market planning, budgeting and acquisition/divestiture are

	Generally very unimportant		Moderately important		Generally very important		
Capital budgeting	1	2	3	All ↑	4	5	
Short term market planning	1	2	3	All ↑	4	5	
Cash flow planning	1	2	3	Developing & Industrializing ↑	4	Others ↑	5
Planning for raw materials	1	2	3	All ↑	4	5	
Development of long term strategies	1	2	3	Developing & Industrializing ↑	4	Others ↑	5
Improving the quality of management thinking	1	2	3	Developing & Industrializing ↑	4	Others ↑	5
Preparing operating budgets	1	2	3	All ↑	4	5	
Planning acquisitions and divestitures	1	2	3	All ↑	4	5	

generally perceived as less important. Longer term strategies and improvement of management thinking are also considered relatively unimportant, particularly in the developing and industrializing countries. This relative lack of emphasis on management and strategy probably indicates important differences across countries in what is meant by "long term" and "strategic" planning. Where they are newly adopted, the practices may more nearly resemble sophisticated budgeting systems than they do full-fledged strategic planning activities.

PERFORMANCE OF PLANNING

Fellows feel that some firms are satisfied with their planning and some are not.

As one European Fellow put it, "The last years have made [our] companies skeptical as to planning more than three years ahead by staff people."

However, Fellows think that top managers are generally favorable to planning, and that view is for practical purposes identical for national and transnational firms.

THE FUTURE OF PLANNING

Fellows agree that transnational firms will place more emphasis on planning in the future. However, there was some disagreement about the national firms. Japanese Fellows anticipate more emphasis on planning in the future and Fellows from industrial countries other than the United States anticipate less emphasis. Combined with the earlier findings in this paper, this suggests that the Japanese are more committed to further development of planning at the present time.

TECHNOLOGY TRANSFER

One potentially important route for technology transfer is through improvement of management

	Almost all are satisfied	Some are and some are not	Almost none are satisfied
Do you think that firms are generally satisfied with the effectiveness of their planning?	1	National firms ↓ ↑ 2 3 Subsidiaries of Transnational firms	4 5

	Most are favorable	Some are and some are not	Most are unfavorable
Do you think that top managers are generally favorable to planning?	1	National firms ↑ ↓ 2 3 Subsidiaries of Transnational firms	4 5

	Strongly agree	Others	Other Industrial	Strongly disagree
National firms will place more emphasis on corporate planning in the future	Japan 1 ↑	2 ↑	↑ 3	4 5
Subsidiaries of the foreign transnational firms will place more emphasis on corporate planning in the future	1	All 2 ↑	3	4 5

skills and application of advanced techniques of planning. Transfer of managerial skills is recognized as an important result of private direct investment of multinational firms, and knowledge and skills are also recognized as key elements of technology transfer.¹⁹ Because planning procedures and practices are not patentable or subject to licensing, as are many products and production processes, flow of ideas should be relatively free and should move through multiple channels—e.g., public sources, the hiring of experienced managers, and internal practices. However, it is also recognized that substantial managerial “know how” is embodied in proprietary skill bases that are developed within organizations only with significant investment.²⁰

Management Practices

The Fellows were asked about the extent to which foreign transnational subsidiaries have contributed to increased skill of domestic managers in their countries:

	To a great extent	Moderately		To a negligible extent
	1	2	3	5
Foreign transnational subsidiaries have contributed to increased skill of domestic managers		↑		
			↑	
				↑

Some feeling for the dynamics of technology transfer can be seen in responses from individual countries. Fellows from Argentina, Brazil, Venezuela and India report that transfer of managerial technology has occurred to a significant extent. Fellows from Japan, France, the United Kingdom, Belgium, Australia, Switzerland, Sweden, Denmark, and Finland generally consider such transfer moderately important. Fellows from the United States, where many planning procedures first developed, and Germany and the Netherlands, where economic planning is relatively advanced, see managerial technology transfer as negligible. While this can only be considered directional because of the small samples and variation of opinions of Fellows within countries (especially in the United States), the responses are consistent with the notion that many of the newer approaches to planning, such as those addressed in the next section, originated in the United States and spread

elsewhere with some definite benefit for domestic management in most countries.

Fellows also report a distinct difference between national and transnational firms in sources of information about planning. Transnational firms are almost universally seen as providing that input themselves through internal publications and planning procedures, while national firms depend (in order) on management seminars, technical publications, consultants and hiring of experienced managers. The emphasis is very heavily on formal communications channels, with very little indication of effects of informal or word of mouth communications, which are important in the domestic diffusion of technological innovations.²¹

Diffusion of New Approaches to Planning

Each Fellow was asked about the extent to which some relatively new approaches to the development of corporate strategy have been used in his country. Three such approaches were used as illustrations:

Product/market scope matrix—Evaluation of the fit to the company of product or market opportunities on the basis of the existing product/market combination it offers. This approach is often associated with Igor Ansoff.²²

Product/business portfolio analysis—Assignment of different products to different strategic roles on the basis of their market shares and market growth rates. This approach is often associated with the Boston Consulting Group.²³

Policy matrices—Extension of product portfolio analysis to include company strengths, weaknesses, and environmental factors. This is often associated with such companies as McKinsey, General Electric and Shell.²⁴

In only the two indicated cases are there differences across the country groupings, so diffusion of these ideas among both national and transnational firms has been rather rapid.

The results were as follows:

	Product/market scope matrix	Product/business portfolio analysis	Policy matrices
Fraction of Fellows familiar with each	53%	62%	62% ^a
Fraction of Fellows who know each is being used by at least one national firm	44%	48%	46%
Fraction of Fellows who think each is used commonly by national firms	25%	23%	31%
Fraction of Fellows who know each are being used in their country by at least one subsidiary of a foreign transnational firm	51%	56%	56% ^b
Fraction of Fellows who think each is commonly used in their country by subsidiaries of a foreign transnational firm	38%	33%	33%

^a A smaller proportion from the developing and industrializing world were familiar with this approach.

^b A larger proportion from the industrial countries other than the United States and Japan reported that foreign transnationals used this approach.

This pattern of relatively rapid diffusion of strategic planning ideas has similarities with evidence of the shortening of time lags in the introduction of products by multinational firms into various markets,²⁵ and with patterns of diffusion first in markets with substantial similarities to the home market and later to more dissimilar markets, usually in the developing or industrializing world.²⁶ It is, of course, important to realize that familiarity with or even use of these approaches does not necessarily imply heavy commitment to their real implementation. In fact, the majority of the 104 United States firms mentioned earlier have had both procedural and organizational problems in implementing strategic planning.

However, the Fellows are not universally enthusiastic about these developments. One Fellow responded, "I've never heard of the three phases (i.e., the three approaches to strategic planning) . . . and what I suppose is much worse, I don't want to hear of them."

SUMMARY

Overall, the results produce a picture of relatively rapid diffusion of the practice of corporate and strategic planning, originating mainly from

the practices of large United States transnational firms but also influenced by familiarity with central economic planning in some other market-oriented industrialized countries. Managers are perceived as generally favorable to planning, although not completely satisfied with their planning performance. The primary benefits of planning are seen as financial, for capital budgeting over the long term and managing cash flow in the shorter term. The importance of planning for developing longer term strategies and improvement of management thinking are considered less important, particularly among Fellows from the developing and industrializing countries. It is also likely that planning means different things in different settings, ranging from forecasts and budget projections in firms where planning is relatively new to major conceptual analysis of the basis on which the firm wishes to compete in more mature planning situations.

In terms of diffusion patterns, non-United States Fellows acknowledge the impact of the planning practice of transnational firms on the skills of domestic managers. Some more "advanced" approaches to strategic planning have penetrated practice in many countries, apparently with the transnational firms leading the way.

While United States firms have in general managed to retain their technological edge over foreign competition, in part as a result of both patents and advanced technical skills, this lead appears to be less in the diffusion process of managerial technologies discussed in this paper. The wealth of published articles and management seminars and the international activities of leading consulting companies as well as executive mobility have contributed to fairly rapid diffusion.

Indeed, we may be entering an era in which corporate and strategic planning leadership will

join technological leadership as a basis for growth and profitability. Thus, the greater anticipated commitment of Japanese companies to strategic planning found in this study is congruent with the enviable success of Japanese companies in the past decade. If this relationship is valid, success in the remainder of this century will be achieved only if the short term focus (often dominated by preoccupation with stock price), which is especially prevalent in the United States, is replaced by institutionalization of corporate and strategic planning concepts which embrace a longrun view.

NOTES

1. Examples of market planning systems developed by industrial firms in the United States, United Kingdom, France, Belgium and Brazil are discussed in:

Capon, Noel, and James Hulbert, "Decision systems analysis in industrial marketing," *Industrial Marketing Management*, 4 (1975), 143-160.

Capon, Noel, John U. Farley, and James Hulbert, "Pricing and forecasting in an oligopoly firm," *Journal of Management Studies*, 12 (May, 1975), 133-156.

Farley, John U., John A. Howard and James Hulbert, "An organizational approach to an industrial marketing information system," *Sloan Management Review*, 13 (Fall, 1971), 35-54.

Farley, John U., and James Hulbert, "Sistemas de planejamento mercadologico de uma firma multinacional sediada no Brasil," *Revista de Administracao de Empresas*, 15 (January-February, 1975), 7-14.

Farley, John U., James Hulbert and David Weinstein, "Price setting and volume planning by two European industrial companies: a study and comparison of decision processes," *Journal of Marketing*, 44 (Winter, 1980), 46-54.

Such systems generally have a shorter term orientation than do most corporate and strategic planning systems.

2. A number of studies which vary in quality and comprehensiveness have attempted to relate the adoption of planning to financial performance. Among those which found positive relationships were:

Gershelski, George W., "Corporate models: the state of the art," *Management Science*, 16 (February, 1970), B303-B312.

Ansoff, Igor H., Jay Avner, Richard G. Brandenberg, Fred E. Portner and Raymond Radosevich, "Does planning pay? the effect of planning on success of acquisitions in American firms," *Long Range Planning*, 3 (December, 1970), 2-7.

Eastlack, Joseph U. Jr., and Philip R. McDonald, "CEO's role in corporate growth," *Harvard Business Review*, 48 (May-June 1970), 150-163.

Thune, Stanley S., and Robert J. House, "Where long-range planning pays off: findings of a survey of formal, informal planners," *Business Horizons*, 13 (August, 1970), 81-87.

Herold, David M., "Long range planning and organizational performance: a cross-validation study," *Academy of Management Journal*, 15 (March, 1972), 91-102.

Karger, Delmar W., and Zafar A. Malik, "Long range planning and organizational performance," *Long Range Planning*, 8 (December, 1975), 60-64.

Studies which cast doubt on the economic benefits of planning include:

Fulmer, Robert M., and Leslie W. Roe, "The practice and profitability of long range planning," *Managerial Planning*, 22 (May-June 1974), 1-7.

Grinyer, Peter H., and David Norburn, "Planning for existing markets: perceptions of executives and financial performance," *The Journal of the Royal Statistical Society*, 138 (1975), Series A, 70-97.

Kudla, Ronald J., "The effects of strategic planning on common stock returns," unpublished manuscript, Arizona State University (1979).

3. The International Academy of Management is the honorary society of the World Council of Management (CIOS). Fellows are elected on the basis of outstanding contribution to improvement of management practice. About two-thirds are reflective, successful executives and one-third professors and consultants. All have distinguished international reputations, and each Fellow is an acknowledged observer of current management practice. Academy Fellows live in thirty-nine countries on all continents, and this dispersed membership makes the Academy a unique source of world-wide knowledge about both the channels of diffusion of new management practices and of their adoption by various types of enterprise.

4. Edwin Mansfield, John Rapoport, Jerome Schnee, Samuel Wagner and Michael Hamburger, *Research and Innovation in the Modern Corporation*. New York, W.W. Norton, 1971. A more general discussion of international patterns in the spread of innovations may be found in

E. Rogers and F. F. Shoemaker, *Communication of Innovations*. New York: The Free Press, 1971.

5. John A. Czepiel, "Patterns of interorganizational communications and the diffusion of a major technological innovation in a competitive industrial community," *Journal of the Academy of Management*, 186 (March, 1975), 8-24.

6. Yoshi Tsurumi, *The Japanese Are Coming*. Cambridge, Mass.: Ballinger Publishing Co., 1976, Chapter 7.

7. An excellent summary of the development of long range planning is E. Kirby Warren, *Long Range Planning: The Executive Viewpoint*. Englewood Cliffs, N.J.: Prentice-Hall, 1966.

8. Kjell-Arne Ringbakk, "Organized planning in major U.S. companies," *Long Range Planning*, 2 (December, 1969), 46-57.

9. Peter Lorange and Richard F. Vancil, *Strategic Planning Systems*. Englewood Cliffs, N.J.: Prentice-Hall, 1977.

10. The Boston Consulting Group, *Perspectives on Experience*. Boston, Mass.: The Boston Consulting Group, 1972.

11. Sidney Schoeffler, Robert D. Buzzell and Donald F. Heany, "Impact of strategic planning on profit performance," *Harvard Business Review*, 52 (March-April 1974), 137-145.

12. See for example, Bruce G. Henderson, "The product portfolio," Boston, Mass.: The Boston Consulting Group, 1973; Barry Hedley, "Strategy and the business port-

August 1970), 53-60, and P. J. Howell, "International operations and corporate planning," *Journal of Management Studies*, 6 (October, 1969), 302-317.

16. James M. Stopford and Louis J. Wells, *Managing the Multinational Enterprise*. New York: Basic Books, 1972.

17. In 1979, the Fellows participated in a study of ways to reconcile nationalism with the interests of transnational firms. See William H. Newman, "Adapting transnational corporate management to national interests," *Columbia Journal of World Business*, XIV (Summer, 1979), 82-88.

18. Inter-group differences were assessed using Chi-square analysis of each group against the rest of the sample. Results must be treated as directional, however, as the cell sizes frequently drop below the minimum number generally desirable for statistical testing using this approach. The sample sizes vary slightly from question to question because of occasional non-response. There was considerable variation around the reported means on responses to each item, and in most cases variation within country group on any given time. For example, one United States Fellow commented, "It is very hard to give answers for such a broad universe of firms as we have in the United States," and another said, "The companies are so numerous and management practices so variable that it is very difficult to generalize."

19. Stefan H. Robock, *The International Technology Transfer Process*. Washington, D.C.: National Academy of Sciences, 1980.

20. United Nations, *Multinational Corporations*, III, 11