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J. Scott Armstrong

University of Pennsylvania, armstrong@wharton.upenn.edu

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Abstract

Book Review of *Corporate Strategic Planning* by Noel Capon, John U. Farley, and James M. Hulbert, New York: Columbia University Press, 1988.

Disciplines

Business | Marketing

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Corporate Strategic Planning (CSP) reports on an important study of planning practices and the value of those practices. Though it is a long book, nearly 500 pages, one can get almost the full benefit by reading about 200 pages. In fact, *CSP* contains an excellent summary (Chapter 11) that is only 33 pages; this chapter should be sufficient for most readers. My review assesses what the book has to offer and provides a guide to the potential reader.

The book provides an extensive and up-to-date review of the literature, but its primary contribution comes from the authors' 1980 survey of corporate planning practices. The firms surveyed were selected from the 258 firms in the *Fortune 500* located in the eastern half of the United States. A random sample of 155 firms was selected from this frame. One hundred thirteen interviews were obtained. There were only nine refusals; most nonresponse was due to scheduling problems during the interview period. Extensive structured interviews were held with the chief planner and one assistant in each of the firms. The researchers also examined planning documents; they obtained 501 measurements on aspects of planning. In addition, information was gathered on another 400 environmental factors for each firm. This is the most comprehensive survey of planning practices published to date.

Despite the wide range of measures, I would have preferred some others. In particular, if one views planning as a way to improve the performance of a system, it would be interesting to examine measures of performance for the total system. Seeing how the various stakeholders (e.g., customers, creditors, employees, community) are affected would be useful. Unfortunately, as with most research, this study focuses only on measures of profit.

The authors of *CSP* recommend that Chapter 2 be read because it provides their definitions and assumptions about formal planning. I concur with this recommendation. Though the work in this chapter is innovative and shows excellent attention to assessing construct validity, it often departs from my own opinions. For example, I disagree that the purpose of strategic planning is to secure a competitive advantage for the firm. One might argue that strategic planning should improve the returns on investment to each of the stakeholders. I also disagree with the assumption that planning is more appropriate for large, multiproduct firms because it is too difficult to gain commitment in such firms. Instead, planning should be done by small units. Finally, the authors' description draws heavily on what they call "received wisdom." I would have preferred more reliance on prior research, especially research from organizational behavior, which is almost totally ignored in *CSP*. The research literature provides a simple definition of formal planning as an explicit attempt to *gain commitment* to a four-step procedure: first, to set objectives; next, to generate *alternative strategies*; then, to evaluate strategies; and finally to *monitor performance*. This definition often clashes with *CSP*'s definition. However, the *CSP* definition is more closely aligned with current planning practices.

CSP provides useful information in Chapter 3. This well-written chapter provides a more up-to-date and detailed description of planning practices than is given by Hopkins (1981), whose work, surprisingly, is not cited in *CSP*. The companies with the best planning practices are compared with the rest of the sample. Though these best planners had consistently better practices by their definitions, the differences are minor.

One of the more interesting findings reported in Chapter 3 is that only 40% of the firms prepare contingency plans. Though not high, this figure is substantially more than the 24% obtained in Hopkins' (1981) examination of plans from 267 firms and the 0% estimated in the survey of 50 corporate planners by Armstrong and Reibstein (1985). This failure to develop contingency plans is a serious omission. Military leaders in Argentina were prosecuted in 1988 for mismanagement in the Malvinas (Falkland Islands) invasion; a major charge was that they failed to provide a contingency plan on what to do if the British attacked the islands.

Another interesting finding in Chapter 3 is that planners claim to devote much more attention to analyzing competitors than they do to analyzing their customers. In my opinion, this practice is detrimental. It may reduce the overall returns to the stakeholders.

The various procedures associated with marketing planning also are examined. For example, the authors found that portfolio methods are widely used and that the BCG approach is the most popular of those methods. Interestingly, they also found the firms using BCG to be less profitable than the nonuser firms.

Chapter 10, an important section of the book, relates planning to performance. The primary criterion for the firm's performance is return on capital. A most unfortunate typographical error appears where the authors define this criterion (see the last paragraph on page 292). The formula is meaningless; it adds dollars and percentages. The formula should read: $(\text{net profit} + \text{interest on long-term debt}) / (\text{long-term debt} + \text{net worth})$. Recognizing the wide variation in year-to-year earnings, the authors average over a five-year period from 1977 through 1981. The procedure is excellent, though it would be useful to look at the period after planning rather than the periods before and during. (The authors do address this point, as noted subsequently).

The authors of *CSP* conclude that their survey furnishes only moderate support for the value of planning. The primary problem is the finding that though the good planners performed better than firms that planned less well, the nonplanners did best of all. However, there were only seven nonplanners and their good performance was due primarily to one firm. In a point that warrants more emphasis, the authors report a follow-up analysis examining the return on capital for these firms up to 1984; it shows that the nonplanners did not do as well as the good planners. In view of the long-term focus of planning, the period after the survey is more relevant than the period before the survey.

CSP found other results supporting the value of formal planning:

1. The planners themselves believe that formal planning leads to better performance (p. 72).
2. The planners report that line managers favor formal planning (p. 100).
3. Formal planning reduced risk (as measured by variability about the trend line for earnings). The nonplanners performed least well of all groups on this criterion (table 10.4; p. 300).
4. The 70 firms whose planning managers responded "yes" when asked, "Does your company develop a formal corporate plan (or plans) on a regular basis?", had higher earnings in 1977-1981 than did those whose planning managers answered "no" (see p. 297). This difference is not significant and is negligible in magnitude. However, the formal planners had less risk by the definition in result 3.

The pattern of results in *CSP*, then, provides support for the value of formal planning that can be added to my box score on the value of planning (Armstrong 1986).¹ Studies by Gershefski (1970) and Welch (1984) should be included; these two studies, which favor formal planning, are included in *CSP* but were omitted by Armstrong. Other recent studies that should be included are those of Robinson et al. (1984), Ackelsberg and Arlow (1985), Bracker and Pearson (1986), Ramanujam and Venkatraman (1987), Rhyne (1987), and Verhage and Waarts (1988), where the direction of the results favored formal planning; Van der Walt et al. (1989) that showed no effects; and Whitehead and Gup (1985) with negative results. The updated evidence on the value of formal planning versus informal is as follows:

- ⊆ 20 studies found higher performance with formal planning,
- ⊆ five studies found no difference, and
- ⊆ three studies found formal planning to be detrimental.

Thus, formal planning, as practiced, does seem useful and the results are statistically significant ($p < .01$ by the sign test). Unfortunately, with the exception of Van de yen's (1980), the prior field research is based on nonexperimental evidence.

¹ The box score on page 184 of that paper contains an error; it should be four ties rather than eight ties. Also, the reference to Terpstra is incorrect; the article was in the *Journal of Applied Psychology*.

Despite these positive results on the value of planning, I suspect that many of the procedures labeled as formal planning are misused (Lyres and Lenz 1982). For example, formal planning is sometimes used in an authoritarian way that can produce resentment in an organization. To find evidence on the planning practices that are most likely to help, one must draw upon the laboratory experiments in organizational behavior.

CSP examines how "good performers" differed from "poor performers" with respect to planning. The conclusions (p. 360-361) seem sensible and in line with prior research. In fact, this list of guidelines impresses me more than the ones advanced in Chapter 2.

CSP closes with useful suggestions for further research. It provides extensive disclosure of the study to aid in replications and extensions by other researchers. For example, the questionnaires are reproduced. In addition, the authors will consider providing the data from their study to researchers for collaborative efforts (p. 551 and personnel communication).

To these suggestions for future research, I would add the need to do quasi-experimental field studies and experimental lab studies. Also, I advocate a greater use of the methods and findings from research on organizational behavior. Latham and Lee's (1986) review of the research on the value of setting objectives is an excellent example here. More details on the type of research needed are provided by Armstrong and Reibstein (1985).

In my opinion, *CSP* is one of the three major field studies on formal planning. The other two are by Ansoff et al. (1970) and Van de Ven (1980). Persons interested in the value of planning for marketing should read Chapter 11 of *CSP*. Those involved in research on marketing planning should also read Chapters 1, 2, 3, and 10. The other chapters would be of interest only to persons who are interested in replicating or extending the research from *CSP*.

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