
UNIT 5 STRATEGIC PLANNING IN MNEs

Objectives

After reading this unit, you should be able to:

- identify planning needs and focus,
- understand the planning modes adopted and longitudinal changes within MNEs,
- understand the subsidiary development path and its role in MNE planning,
- identify the general pitfalls in planning, and
- understand and appreciate the environmental scanning and modes used.

Structure

- 5.1 Introduction
 - 5.2 Type of MNEs
 - 5.3 Planning Needs
 - 5.4 Planning Focus
 - 5.5 Planning Modes
 - 5.6 MNEs Planning in Practice
 - 5.7 Subsidiary Development Path
 - 5.8 Pitfalls in Planning
 - 5.9 Environmental Volatility
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5.1 INTRODUCTION

Strategic planning is an important tool used by the MNEs for meeting their strategic objectives, viz., expansion, etc. The planning concept changes with the change in the stage of development of an MNE. The focus accordingly, may, change from purely financial planning to strategic planning. The planning process depends on various factors. There are some differences in the planning pattern of the MNEs of different country origins. However, one can identify the kind of relationship that exists between the parent company and subsidiaries in so far as planning is concerned. In spite of instituting a formal planning process, many MNEs are prone to pitfalls.

One of the major concerns in strategic planning is environmental volatility. Different industries are affected by different factors with varying intensity. This necessitates an MNE to identify the scope of environment scanning and the appropriate mode of collection of information.



5.2 TYPE OF MNEs

Most of the MNEs are multi-plant firms. The MNEs try to make full use of (special) 'firm-specific advantages' which are usually intangible, viz., technology know-how, management and marketing skills. They create an "internal" market by establishing property rights over their specific advantages. The firm specific advantages help them in offsetting additional costs and risks which are associated with foreign operations. You will appreciate that a multi-national firm, compared to a local firm, incurs certain inherent disadvantages which arise due to natural market imperfections or uncertainties. It has to incur additional costs (i.e., transaction costs to obtain or collect information about overseas markets) and risks from cross-cultural operations. The MNEs attempt to minimise transaction costs by the process of internalization i.e. by setting up their offices or units or by transferring their own people abroad. In this way they try to extend their own direct operations rather than simply use the external market. Many intermediate product markets, particularly for types of knowledge and expertise embodied in patents and human capital, are difficult to organise and costly to use. In such cases the firm has an-incentive to create internal markets whenever transaction can be carried out more efficiently within the firm than through external market.

The creation of an internal market permits the firm to transform an intangible piece of research into a valuable property specific to the firm. The firm can exploit its advantage in all available markets and still keep the use of the information internal to the firm in order to recoup its internal expenditure on research and knowledge generation.

The internalisation process may result in three types of the MNEs viz., horizontally integrated MNEs, vertically integrated MNEs and diversified MNEs.

The horizontally integrated MNEs have firm specific advantages in technological knowhow, management skills and marketing knowhow. Such an MNE tries to maintain and utilise its unique advantages as a competent edge over other MNEs in the global markets. Most of these MNEs exploit their firm specific advantages and overcome the market imperfection such as buyer or market uncertainties through internalisation. Such MNEs expand horizontally. This kind of phenomenon observed in pharmaceutical industries. The second type of the MNEs are vertically integrated, examples of these can be found in oil and mineral industries. Firms in these industries try to establish control and minimise transaction costs. For example in the oil industry, an MNE may try to integrate from extraction to transportation to refining and distribution of oil. This creates internal market within the MNEs.

The third type of the MNEs are those which are diversified into different products. The advantages to the MNEs arise from utilising the market imperfections in terms of information cost and government regulations in different countries, reducing its cost of information and search cost (Rugman et. al., 1986).

Activity 1

Name and describe any one MNE with which you are acquainted. Identify in what category this company falls.

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5.3 PLANNING NEEDS

The planning needs of the MNEs may differ among different types of companies. One can differentiate on the basis of two criteria: stages of growth on the basis of products, and management style (whether it is broad or 'narrow in scope). Leontiades (1977) has identified three stages in the growth-evolution or organisation structure and strategy, which are presented in Table 5.1:

Table 5.11

Evolution of Structure and Strategy

Stage	Structure	Strategy
I	Functional	Single product line
II	Product	Related product line
III	Divisional	Unrelated product line

The emphasis under these stages may vary. It may be either narrow or broad in scope for the corporate planning. One can classify Polaroid company-being at stage I, and narrow in scope. Proctor and Gamble has diversified from its basic soap and detergents into related consumer goods. Thus, it can be said that the company has moved to stage II from narrow to broad category. Colgate Palmolive, which is very diversified and has a broad management style, is at stage III. Depending upon the company's emphasis, narrow or broad, different kinds of planning approaches are required. If one takes a narrow scope management under different stages, the traditional planning model may be alright at stage I. The emphasis will be on functional planning. The planning is budget oriented. In stage II, when an MNE diversifies into more than one product, a specialist in staff functions is required in the planning process. In stage III the specialist will dominate in the planning process of diversification. In contrast to this, in broad scope management there will be an additional role for "Generalist style" in all the stages of development. The main difference between the narrow and broad scope planning is the receptivity to change. The latter accepts the high risk in diversification and associated activities.

The location of an MNE on the planning matrix prepared on the basis of the Stage and Degree of Diversification will determine the type of corporate planning needs. Accordingly, the planners with appropriate training and orientation have to be assigned the task in the corporate planning function. The mismatch may result in either 'over-killing' by creating a new planning department or in lack of creative planning due to a traditionalist being appointed when actually a specialist is required.

5.4 PLANNING FOCUS

Planning focus can be analysed in terms of types, time horizon and formality. The basic orientation of the MNEs can be classified into three groups, viz., strategy, business unit programming and operations planning. Strategic planning involves overall missions, objectives, goals and policies. It identifies strengths and weaknesses of the company vis-à-vis macro-environment and the time horizon is 5-10 years. Business unit programming deals with selected strategic business units. It may include market select' on, product planning, and marketing strategies. The time horizon is 1-3 years. Te operations planning is mainly concerned with short term operational activities. Depending on the organisational set up and the nature of planning, one can classify planning focus into four phases of planning evolution :

**Table 5.2 : Planning Evolution**

Phase	Objective	Plan orientation	Plan Attribute
1)	Meet budget	Financial planning	Annual budgets, Functional focus
2)	Predict future	Forecast based planning	Multi year budgets
3)	Think strategically	Externally oriented planning	Thorough situation analysis and competitive assessment
4)	Create future	Strategic Management	Well-defined strategic framework strategically focused organisation. Supportive value system and climate.

Adapted from: Gluck, Kaufman and Walleck, Phases in the Evolution of Strategic Decision Making, Journal of Business Strategy, Winter 1982, Vol. 2, No. 3.

Activity 2

Describe the orientation and objectives of planning in your organisation.

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5.5 PLANNING MODES

One way to view strategic planning process is to look at the structural relationship in a large organisation between the user and the planner.

Corporations have tried various ways to tackle the issue of agency in a complex organisation. They have attempted structural or cultural solutions as control mechanisms. The structural solutions have resulted in multi-divisional structure in a large and diverse corporation. Here, an attempt is made to divide the corporation into manageable units and assigning responsibility and accountability to each unit. The cultural solution assumes shared values and goals. The corporation tries to grow on a set of 'core skills', and invest heavily in socialising the members.

The principals are those who receive, review and approve plans, monitor and reward the performance. The agents are those who prepare, propose and implement plans and manage the business.

In a large organisation, normally those managers who prepare plans will know more than the managers who have the authority to revise or approve.

Due to their superior information, the former, who are a sort of agents, can avoid or defeat control by the latter. There are two dimensions in this agency relationship between the principals and those who prepare plans: Shared Values and skills and experience, and Information Asymmetry. Based on this thinking Allaire and Firsirotu (1990) have classified five planning modes as shown in Table 5.3.

Table 5.3: Planning Modes

Modes	Agents Advantage	Shared Values
Leader driven planning	L	H
Culture driven planning	H	H
Line driven planning	M	M
Number driven planning	H	L
Staff driven planning	L	L
L = Low	M = Medium	H = High



Most of the companies which depend on the leader-founder have in fact, one-system corporation. There is one-game business e.g., Wall-Mart, Federal Express, etc. Whenever the leader is replaced by a professional manager(s), the company may move either to culture driven or line driven management. The culture driven planning is mostly observed when the product and geographically diverse requirements have a major centre of gravity in terms of goals, skills and values of the company. IBM has a single centre of gravity under worldwide design, manufacturing and marketing computer systems. Similarly, 3M regards itself in bonding and coating packages, Proctor and Gamble in market development and distribution of consumer packages. These companies have created a culture driven planning, and their plans are simple and action oriented. All this has created a functional culture supported by tangible means of promotion and reward systems. Here, culture predominates over plans or budgets.

In line-driven planning, as there may be diversity in the social context and in the geographic diversification of the MNEs, attempts to specify some key requirements such as legitimacy and credibility of numbers, relative information plans between agents and principals, small set of corporate values and unifying themes. An example is Philip Morris who have leadership in product innovation and quality. The incentive systems has to be adaptive and flexible. This type of planning depends on line managers for both strategic thinking and implementation.

Number-driven Planning: When the MNEs diversify into different fields, both product and geographically based control through the planning process becomes long and detailed. The management tries to control the different activities of its subsidiaries through numbers. The number-driven planning is based on two premises: belief in market control and control by incentives. Strategic business units (SBUs) are set up, and their performance is monitored through quantitative indicators, such as market share, ROI and cash flows. In some concentrated industries, there could be a lagged response from the market. This happened to Pratt and Whitney when they lost to GE in the jet engine business. The Japan Airlines was unhappy with Pratt and Whitney regarding their service, and changed with a long time-lag.

Finally, the Staff-driven planning normally means top-down planning with corporate planners playing an active role. A great deal of information is accumulated to control and catch the line people. The line personnel start thinking that their fate depends on their ability to control pressure from the headquarters. This results in a cat and mouse chase between the staff planners and the line managers. Though a corporation may have a fancy for planning with scenarios, the actual events may bring many surprises.

Out of these five, the first three have been found to be functionally successful in large corporations, while the other two may be found to be dysfunctional.

AN ILLUSTRATION: General Electric (GE)

From Table 5.4, it will be seen that the dynamics of strategic planning at GE have been changing.

Table 5.4: Strategic Planning at GE

Year	Modes of Planning	Details
1950 and 1960	Culture driven planning	Growth in diversity of business— competed in 23 out of 26 two-digit SIC
1970	Number-driven Planning	Portfolio planning (1970) Elaborate data bank basis of PIMS 43 SBU
1977	Staff-driven planning	6 Sector executives (1977)
1981	Line-driven planning	Reduction of corporate staff and number of SBUS Emphasis on general values Sector executives as chief operating officers



GE has changing its planning modes. Until the 1960s, it was operating on the basis of culture driven planning. By 1968, it had diversified into different industries. It began to move towards number-driven planning. In the early 70s, professional planning was adopted, and 43 strategic business units were defined. Then it started moving towards staff driven planning. In 1981, when Welsh took over as CEO, he tried to push it to line-driven planning, reducing the planning staff and hierarchy. It also reduced SBUs.

Activity 3

Identify the mode of planning adopted by the organisation with which you are associated. Describe if any change has taken place in the recent past.

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5.6 MNEs PLANNING IN PRACTICE

Because of the nature of growth and the complexity involved in the multinational operations strategic planning has become almost inevitable. Several studies reveal that there has been tendency on the part of more and more MNEs, after 1970s, to resort to strategic planning. Table 5.5, based on some research studies, gives a comparative view of long range planning adopted by American, German and Japanese companies. Though the sample size is limited to a few MNEs and their various subsidiaries, it indicates that both American and German companies have a strategic planning of 3-5 years at the headquarters. It was found that only 72 per cent of the Japanese companies have yearly resorted to strategic planning. Other Japanese companies or ad hoc planning by the headquarters. The strategic planning of 3-5 years for subsidiaries is more prevalent in the American companies than in the German and Japanese. While German companies mostly emphasise mostly on yearly operational planning, Japanese companies adopt both yearly and ad hoc planning of subsidiaries.

Of the same sample, the nature of subsidiary involvement in strategic planning is given in Table 5.6. The table indicates the nature of communication between the headquarters and subsidiaries. Communication is more frequent and more prevalent among the American the MNEs than the German or Japanese. German and Japanese subsidiaries adopt ad hoc informal communication in the planning process. In terms of the extent of information exchange, the majority of communication in all the three countries consists of one way communication from the headquarters to the subsidiaries. This indicates that the MNEs from all the three countries, i.e., the US, Germany and Japan use strategic long-range planning and environmental scanning for the integration and coordination of their global activities. As such, communications are very much headquarters-oriented. The subsidiaries have a marginal role in determining the goals are target-setting of their operations.

Table 5.5: Long Range Planning

		Table 5.5: Long Range Planning		
		American	German	Japanese
Sample size:	HQ.	9	7	14
	Sub.	24	43	22
Planning				
Headquarters				
3-5 years		100	100	72
Yearly		—	—	14
Ad hoc		—	—	14
Subsidiaries				
3-5 years		46	33	18
Yearly		16	63	46
Ad hoc		38	4	36

Source: Negandhi, 1987, p. 233.



Table 5.6: Subsidiary Involvement

	American	German	Japanese
1) Nature of Communication			
Formal	81	54	50
Ad hoc	19	46	50
2) Information exchange			
Extensive	42	33	34
One-way from HQ	58	67	66

Source: Negandhi, 1987, p. 234

Activity 4

Meet an executive of the subsidiary of an MNE, and discuss with him the nature of strategic planning adopted by the parent company, and the extent of involvement of the subsidiary in the process.

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5.7 SUBSIDIARY DEVELOPMENT PATH

The strategic planning at subsidiary level helps the MNEs to localise the global strategy according to the local market conditions. Here, one has to differentiate between the subsidiary operating as an autonomous functioning unit and a mere branch with no autonomy. The latter more or less is a foreign affiliate, and is meant to work as a public relations office (may be to appease the local government). It will be a 'paper subsidiary'. If it is an autonomous business entity, it would act to localise the global strategy of its parent company. It can also maximise the subsidiary's added value to the parent company. Strategic planning process would try to provide a forum for the development of subsidiaries consistent with the company's global mission, objectives and culture. It will build up the confidence of the local management and also help them in aligning their plans, goals and activities for the common viable purpose.

Localisation of Global Strategy

Many MNEs have attempted to adapt to differences in market segments. This has been done by Microsoft Corporation, which allows its European subsidiaries to develop their own strategy to meet the local needs. Similarly, Digital Equipment has started its own subsidiary centre in Europe, primarily to serve the European market. This may maximise the subsidiaries' added value. The firm looks after the subsidiary, and its plans are designed to complement the global strategy. The subsidiary's added value is planned to increase in several functional areas.

Growth and Development of the subsidiaries

The growth of the subsidiary can be measured in terms of the sales volume, asset volume or number of the employees. The growth of a subsidiary, can be classified into three stages. The relationship of the subsidiary with the parent company would depend upon the stage at which the subsidiary finds itself. In other words the relationship would correspond to the stage of growth. Table 5.7 summarises the three growth stages and the corresponding subsidiary culture. In the initial stages subsidiary is concerned with the product and sales of the products. As it grows in the market, it may develop the mentality to act as a branch to the MNE. Once this happens, there is the likelihood of the subsidiary becoming a self-contained business where planning, control and management become integral parts of the subsidiary.

The subsidiary's dependence on the parent company may diminish.

**Table 5.7: Subsidiary Development Path**

Growth Stage	Subsidiary culture
— Childhood	Product and sales mentality
— Adolescence	Branch mentality
— Adulthood	Self-contained business mentality

In the initial stages the planning effort is that of top-down from the headquarters to the subsidiaries. As the subsidiary matures, it increases its autonomy in planning its future business. This was the basis of the Digital European Headquarters in Geneva where it has been decentralised since early 1980s. Involving the subsidiaries in strategic planning by the headquarters increases the confidence of the subsidiary managers in the overall global strategy. Proctor and Gamble have started using this approach in recent years. Similarly, Colgate has created a global market. The parent company is involved more in giving the direction, setting global vision, and allocating the company's resources and capabilities, while encouraging entrepreneurship among its foreign subsidiaries. Finally, strategic planning also gives the subsidiary the means to integrate its plan with corporate plans and goals to accomplish its purpose.

Activity 5

Meet the executive of a multinational subsidiary. Discuss with him to identify its culture and position in the stage of development.

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5.8 PITFALLS IN PLANNING

Earlier, it was pointed out that strategic planning is being increasingly adopted by the MNEs. However, some of the surveys have revealed the pitfalls of the planning process of the MNEs. Steiner and Schollhammer (1975), in their Cross Country MNEs study, have stated some critical pitfalls in planning (as identified by the respondents). The author's survey included the US, European and Japanese companies. They have classified 50 reasons into four categories of pitfalls as follows:

- a) Pitfalls in getting started.
- b) Pitfalls related to misunderstanding of the nature of long range planning.
- c) Pitfalls in doing long-range planning.
 - i) Managerial involvement,
 - ii) Process of planning,
 - iii) Credibility of result, and
- d) Pitfalls in using long range plans

At each stage of the process, there are several pitfalls in multinational long range planning. Ranking of the 10 pitfalls is given in Table 5.8. These are the ones that most of the executives felt they should avoid. There are some pitfalls, which are considered less important depending on whether the company can easily avoid, or whether they have a limited negative impact on the effectiveness. Such pitfalls relate to assumptions about planning that it is hard or easy, or that techniques are not useful. These pitfalls can be easily overcome. According to the Survey, the major pitfall is that "top management becomes so engrossed in current problems that it spends insufficient time on long range planning, and the process becomes discredited among the managers and staff." This may have the greatest negative impact on planning effectiveness. The other reasons in the decreasing importance are given in the aforesaid Table.



Table 5.8 : Ten Important Pitfalls in Planning

Range Order	Pitfalls
1)	Engrossed in current problems
2)	Delegation to a planner
3)	Developing suitable company goals
4)	Climate (resistant to planning)
5)	Lack of involvement
6)	Assuming planning as separate from the management process
7)	Not using plans as standards for performance
8)	Failure to review by top management with other levels
9)	Failure to locate the planner in the hierarchy
10)	Failure to understand the nature of planning by the top management

Source: Steiner and Schollhammer, 1975

Activity 6

Examine thoroughly the strategic planning precepts and process in your organisation. What do you think are the pitfalls? How could they be avoided?

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5.9 ENVIRONMENTAL VOLATILITY

The MNEs, by their very nature, have to globalise their strategic approach. The globalisation exposes the business to more risks than the domestic operation. Though the global operations give the MNEs flexibility in their operations, the advantages may be short run or may disappear, depending upon how an MNE tackles the environment. As you might be aware, there have been major changes in the environmental; some of these are given in Table 5.9.

The MNEs have to walk on a tightrope between the home and host countries' demands. The factors, for which political pressure may be brought to bear include employment, technology and exports. Both only want to encourage more employment in their respective countries. Once the MNEs establish overseas manufacturing facilities, they might be able to meet the host country demands with regard to employment etc., but may lose competitiveness in the home country due to the 'hollowing effect' i.e., the loss of creative aspects in changing or shifting the production processes. This might, in turn, change the country's trade pattern.

The earlier economic logic of looking for low wage countries for production is losing its relevance due to:

- the reducing proportion of direct labour cost in the total cost
- the relative cost advantage becoming marginal, and
- the improvement in productivity as a result of restructuring of the manufacturing systems.

Table 5.9: Environmental Trends

Environmental Drives	Demands	
	Host	Home
Political Factors	Employment	Employment
	Technology Acquisition	Hollowing Effect
	Exports	Trade Patterns
Economic Issues	Labour Use	Labour Content



	Exchange Rates	Restructuring
	Industrial Policy	Productivity
Social Demands	Freedom	Control
Technology Imperatives	Market Access	New Manufacturing
		Material Sciences
Competitive Dimensions	Convergence	Divergence

Source: Barrie James (1990).

The social pressures are mounting in different countries as living standards improve. Besides, a new set of manufacturing techniques like CAD (Computer Aided Design), CAF (Computer Assisted Engineering), FMS (Flexible Manufacturing Systems), CIM (Computer Integrated Manufacturing), and Robotics are available now. These developments have reduced the product cost, and increased flexibility in production runs. All these factors create conflicting demands by both host and home countries for the MNEs.

There are divergent pulls of competitive dimensions: one is towards standardisation of products (homogenous products) to meet the needs around the world, and the other is the move towards finer customer segmentation due to different countries being at different stages of development, and also due to different customer preferences.

The MNEs try to minimise these environmental risks either through restructuring of their business or/and through migration.

5.10 ENVIRONMENTAL SCANNING

The MNEs normally, before entry, try to obtain all the needed information about the market potential and competition in different countries. Once an MNE has established its operations, the information required would broaden. The process of information acquisition is referred to as scanning. Keagan (1982) has identified four major categories of information. These are :

- Market information,
- Prescriptive information,
- Resource information, and
- General information.

The market information deals with marketing mix factors, competitive products, nature of competitive operations and investments. The prescriptive information is about regulations, relating both to the home and the host country, with regard to foreign exchange, taxes, incentives and any other regulations affecting the company. The resource information is mostly about various resources, other regulations affecting the company e.g., manpower, money, raw materials, potential acquisitions and mergers, joint ventures, and any regulations in this respect. General information relates to macro level information. This would cover economic, social, political, scientific and management practices in different countries.

Activity 7

Describe the characteristics of environment scanning for which information has to be regularly collected.

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5.11 SCANNING MODE

Once the type of information needed is identified by the MNE, there will be a systematic scanning of information. There are two modes of scanning, surveillance and* search. In surveillance, information is collected on the basis of whatever crosses the scanning field. In search, there is a deliberate information search. The surveillance orientation can either be just viewing for general exposure or focussed attention. The latter means monitoring well defined external information. In search orientation, it can be either investigation or research. Investigation has limited scope, and consists of mostly informal attempts to seek specific information. The research is a formal approach to acquire specific information. Most of the MNEs resort to monitoring of surveillance and investigation by search.

5.12 COMPARABILITY

A number of problems may be encountered regarding the comparability of international statistics. A standardised data gathering technique, may be based on several assumptions. However, these assumptions may have different interpretations in different countries. For example, the TV in Germany is treated as recreation and entertainment, but in the U.S. it is a household equipment. Similarly, the definition of youth and age classification may have a different meaning in different countries.

Activity 8

Discuss with the executive of an MNE subsidiary about the scanning mode adopted by it. Ascertain how the parent company makes the data/information comparable?

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5.13 SUMMARY

The firm's specific advantages largely determine the strategy of an MNE. There are three stages in the growth of the organisational structure and strategies of the MNEs. The growth stage, in turn, determines the planning needs as to whether a specialist or a generalist would be required. The time horizon of strategic planning can vary from one year to ten years. The modes of planning can vary from 'leader driven' to 'staff driven'. Some modes of planning may be more appropriate or successful such as leader-driven, culture-driven and line-driven, planning. The other modes like number-driven and staff-driven planning may often be found to be dysfunctional. This fact was highlighted by the illustration of the G.E. planning modes. The role of the subsidiary in the overall corporate planning may change from simple sales mentality to self-contained business mentality, depending upon its stage of growth and maturity. Despite strategic planning being in existence for a number of years now, the planning processes, in many companies, may suffer from some common pitfalls, such as overriding importance being given to current problems.

Planning involves a good assessment of environmental trends. Many companies have introduced environmental scanning systems to collect and analyse the data.

5.14 KEY WORDS

Planning Needs: Identifying the purpose and appropriate staff to do the planning

Planning Modes: Modes for initiation of planning activity in the company



Localisation: Adapting to local environment

Volatility: Rapid changes in the environment which may affect the operations of a company

Scanning: Acquisition of relevant information

Scanning Mode: The method utilized for gathering information

5.15 SELF-ASSESSMENT QUESTIONS

- 1) What are the evolutionary changes in the MNE strategy and structure?
- 2) What is planning evolution? Illustrate with a case,
- 3) How does nationality of an MNE affect its planning?
- 4) What are the development paths for a subsidiary vis-à-vis the parent company?
- 5) What are the major pitfalls of planning?
- 6) How does one identify the environmental volatility for a given company?
- 7) Describe the variables for the environmental scanning and the corresponding modes of scanning.

5.16 FURTHER READINGS

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Appendix : HOECHST (An Illustrative Case)

Hoechst started, in 1863, as a small dyestuffs factory, and steadily expanded. During the inter-war period it became a part of the IG Fabens Industries along with Bayer, BASF and Alga. After World War. II, it was reconstituted to its original shape. The Hoechst group had the highest profit in 1988 (in its over 100 year's history). It reported DM 2 billion post-tax profit on its sales of DM 41 ban. The group has 454 c6mpanies, world-wide. the region-wise distribution of market share and revenue earned (1988) is given in Table 5.10.

Table 5.10: Hoechst in World Chemical Market

Region	Market Share %	Revenue Earned %	Production %
West Germany	8	24	48
EEC Excluding West Germany	20	26	15
Rest of Europe	19	9	3
Africa, Asia, Oceania	24	14	7
Latin America	6	5	4
North America	23	22	23

Source: C. Kennedy (1990) p. 20.

Hoechst has 60:40 ratio of specialities to commodities. In agro-chemical products, the composition in 1975 was fertilisers (42%), plant protection (46%) and animal health products (12%). During 1989, it announced to phase out fertiliser production and concentrate on the other two. With this, it gave a new corporate slogan 'Hoechst High Chem' (Hoechst means Highest in German).

During the 1980s, it went for acquisition and divesture. The biggest acquisition was the Celanese in 1987 for \$ 2.8 bn. The Federal Trade Commission of the U.S. forced Hoechst to divest the American company's \$320 m. polyster business. It first divested, in 1980, its monostyrene and polystyrene business in the U.S. and a further sale of loss-making units in plastics, refineries and fertilisers. It is now trying to concentrate on specialities.

Hoechst was not permitted to have genetic engineering in Germany, which forced it to cancel its pilot plant for human insulin. It is also phasing out its production of fully halogenated chlorofluoro carbons (CFC) world-wide by 1995. The group spends about 20% of its R&D costs on environmental research.

The Hoechst restructured itself during the 1980's, and strengthened its corporate planning function by making it report directly to the Board. The head of the planning department attends the fortnightly meetings of the Board as a non-Board member.

The planning system has three main layers (Table 5.1 i). The first layer is the strategic planning of goal setting for a 10 year time horizon. The operational planning, the second layer, is on a rolling basis of four years. The third layer is a control system to monitor the progress of the operational planning.

Table 5.11: Planning System

Duration	Plan	Activities
10 year	Strategic Planning	Goal Setting
2—4 year	Operational Planning	Medium-term Plan and Actions Required
1 year	One-year Plan	Comparison of Plan and Action
Quarterly	Action Plan	Early Results

The strategic planning covers products or activities and regions. It has four phases as shown in Table 5.12.

**Table 5.12: Four Phases of Strategic Planning**

Phases	Activity
1) Survey of Basic Data	-- Organising the Project
2) Analysis of Critical Issues	-- Environment Trends
-	-- Industrial Trends and Competition
	-- Critical Success Factors
	-- Market Interviews
3) Strategy Development	-- Development of Strategic Options
	-- Selection and Evaluation of Alternatives
	-- Formulation of Strategy
4) Implementation	-- Making a Time Table
	-- Defining the Milestones
	-- Action Planning
	-- Incorporation into the Budget

Hoechst adopted a 'workshop' system for strategic decisions. A workshop comprises teams from the divisions and one or two members from the corporate planning department. The planning staff only provides the Hoechst-wide view. The final decisions are taken by the divisional members. Who and where depends on the level of competence. There are three main workshops in the planning process: 1 for diagnosis, 2 for developing strategic options and 3 to decide on measures to implement the chosen strategy. This may take a year to work through. The large product groups, like pharmaceuticals are divided into sub-product groups to evolve the strategic plan.

The operational planning is evaluated for every product group (Hoechst has 350 product groups) on the basis of the turnover and profit level forecasts.

Hoechst introduced the concept of 'business units'. This came into operation world-wide, since 1991. Under this concept all functions necessary for a business are combined under one person, who reports to divisional management. This concept first seemed to have a negative effect on the pharmaceuticals division. But this was due more to the German Government policy decision to switch from the branded to generic drugs. However, this led to rethinking and restructuring of the pharmaceutical division into five business units. By 1991, this might extend to 100 units, world-wide, including all products.