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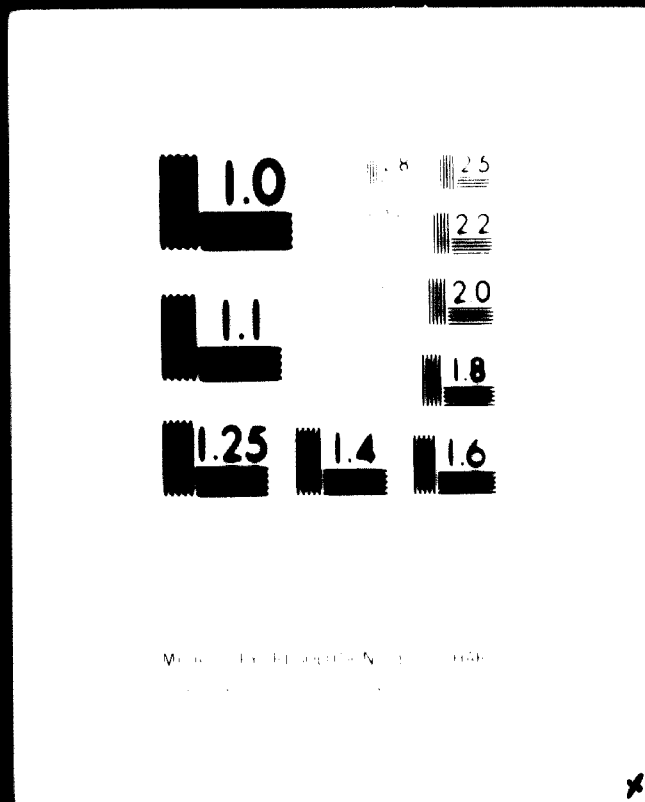
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# Report

Prepared for  
UNIDO

**CORPORATE PLANNING PRACTICES AND NEEDS IN  
LESS DEVELOPED COUNTRIES WITH SPECIAL REFERENCE TO TURKEY**

January, 1978

The Economist Intelligence Unit Ltd

**THE ECONOMIC NEEDS OF A MANUFACTURING REPORT**

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**CORPORATE PLANNING PRACTICES AND NEEDS IN  
LESS DEVELOPED COUNTRIES WITH SPECIAL REFERENCE TO TURKEY**

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## INTRODUCTION

### **BACKGROUND TO THE STUDY: LESS DEVELOPED COUNTRIES**

In recent decades there has been growing concern throughout the world with the problems of poorer countries. Economic development, widely regarded as the panacea for their problems, has become one of the great world causes of our time. There has been a plethora of literature, seminars, courses and research projects - particularly in the United States - on the subject. Nevertheless, it will be useful, at the beginning of this report to describe briefly what is meant by the phrase "less developed country" (LDC), to consider what the predicament of such a country is and to discuss the role of the individual business enterprise and its management in the context of an LDC's development.

In the first place, it is important to recognise that there is no such thing as a typical LDC. The development of a country's economy is a continuous process through various stages and the problems that this poses vary considerably from country to country. For the purpose of this study a range of levels of economic development has been assumed and less developed countries will be taken as those commonly referred to in U.N. publications. These will include all African countries, with the exception of South Africa, all countries in the Americas, excluding the U.S.A. and Canada; the whole of Asia, except for Japan; and the southern European countries of Portugal, Spain, Greece and Yugoslavia. Turkey, the country selected for special study, is considered to fall within this last group in view of its close ties with both O.E.C.D. and E.E.C.

The common economic denominator that applies to all these countries without exception is the preponderant role played by the traditional sector. Agriculture, fishing, rural industries employ or, rather, provide the livelihood for varying proportions of the population, but in most cases between 60 and 80 per cent of the total. Industry is at an early stage of development, producing between 10 and 30 per cent of GNP and employing a small proportion of the total population, and the tertiary sector is in most cases at a rudimentary level.

The causes and problems of this distribution of employment and of G. N. P. tend to be similar, although the range of alternative solutions may be wider. The high percentage of population in the primary sector reduces the level of productivity of agriculture whenever, as generally is the case, population increases. Fertile land is limited and probably already used - albeit not in the most efficient manner - to its fullest. Further agricultural improvements can only take place if there is considerable capital investment in irrigation, fertilisers, better seeds, etc, which are not perhaps given the necessary priority. The consequence is that productivity per head declines, the agricultural surplus needed for the maintenance of a non-agricultural population does not materialise, the farmer is less able to purchase the goods produced by the manufacturing sector, which leads to a worsening of the terms of trade between the two sectors, and the country needs to import more food and raw materials. This already creates further difficulties for the secondary sector: in most L.D.C.'s the basis for manufacturing industries lies in the primary sector. Some 60 to 70 per cent of all manufacturing industry in L.D.C.'s is related to the primary sector in the form of food processing, fertilisers, mechanisation, etc. Any slowing down of the primary sector in its capacity both to produce a surplus and to absorb the production of the secondary sector will perforce affect the latter.

The result is that the manufacturing sector is heavily dependent on the primary sector (with all the above drawbacks, including the vagaries of the weather), is limited in its domestic market, and must be geared to foreign trade, both for import substitution and for export, the latter being necessary to pay for the increased imports of those items that cannot be produced internally.

This tends to bring about the problem of the dual economy, in which there is an increasing divorce between the traditional, mainly primary sector activities, and the modern, mainly manufacturing sector. The dual economy often has a concomitant physical manifestation: the modern sector almost invariably is urban based, the traditional sector by definition is rural based. A further problem emerges from this in relation to income distribution: the town based industrial workers become a financial elite, whilst very little development, improvement, and income advancement takes place in the traditional sector.

The problems described so far exist in all L.D.C.'s in varying degrees and they are common to any system of government. It is interesting to note that most countries have adopted similar policies for solving them. The overall policies adopted in most L.D.C.'s have been to improve agriculture, prevent the flight from the land, increase the productivity of the primary sector, but, almost invariably and most importantly, to concentrate above all on industrialisation. This is seen as the key element in raising the standard of living of the mass of the population, providing employment for growing numbers of people of working age and, particularly, providing the State with the means of developing the structures that will enable the nation to escape the vicious circle of poverty, disease and malnutrition.

However, the path of industrialisation is not an easy one. Development economists and national policymakers have stressed the need for L.D.C.'s to plan to achieve sustained economic development and industrialisation. The popular instrument for this purpose has been the Five-Year Plan in which national economic goals are formulated and strategies for development charted out. In some L.D.C.'s economists have for years been perfecting the art of producing such plans and in countries such as India, Pakistan and Turkey economic planning has reached a high level of sophistication.

The great need that has now emerged is for effective implementation of such plans. Economic development and, in particular, industrialisation has been retarded in many L.D.C.'s by ineffective implementation; in other words, by ineffective management at the business enterprise level. This is probably due to lack of attention paid hitherto to the managerial aspects of economic development strategies.

Moreover, such plans are frequently based on the assessment of economic criteria which do not have any reference, or relevance, to the practicality and problems of implementation at enterprise level. This is considered to be a significant defect, since, ultimately, it is at the level of the individual enterprise that realisation of plans must be achieved. Too often the implementation of national plans is left to state initiative and is the responsibility of administrators having little or no experience of industry, and its requirements at the level of the individual enterprise. It is not,

therefore, altogether surprising that, even in those LDC's where planning, at the national level, has achieved a degree of sophistication, that there is still a very wide gap to be bridged between planning at the state level and implementation at the level of the individual enterprise. No doubt the massive problems inherent in resolving this situation could be overcome with time. However, it is our view that more is likely to be achieved quickly, in the short to medium term, if planning aid and advice is concentrated at the level of the individual enterprise.

The aid which has in the past been given to the LDC's has been mainly in the form of capital and technology. These are, of course, vital ingredients in the industrialisation process, but they are essentially passive in nature and only become activated by the managerial element. It is now becoming increasingly recognised by scholars, economic planners and national leaders in LDC's that the key to development, particularly in relation to industrialisation, lies with investment in human "capital formation" and, above all, a strong management cadre. Management, whether of state-owned or private enterprises, is now seen as a factor which has been grossly neglected in the context of economic development.

In his famous book "The Practice of Management" Peter F. Drucker wrote (in 1954): "The manager is not merely a creation of the economy. He is at the same time the creator of the economy. He is both orchestra leader and composer. Technology expects the manager to create new markets. In the new age of technology, the system that denies the autonomous management institution and wants to replace it with central planning, is doomed to impoverished collapse. The development rhythm of an economy is measured by the development of ideas it is able to create, by its capacity to produce men of strong imagination, feeling, knowledge and authority. Managers are the responsibility of the public. Their successes are public successes".

On the same theme L. Armand and M. Drancourt wrote in *Le Pari Europeen* (1968): "Managers prepare the tomorrows of those societies whose aim is development. Management, with its forecasts, its plans, its research, its creativity and its inventiveness is responsible for making development a reality".

In the broadest sense, management is concerned with the process of bringing together and modifying resources in one way or another to produce goods or generate services. Management can be viewed as a continuous process consisting of three basic elements: deciding what to do, doing it and seeing whether the action taken has produced the desired results - i. e. planning, executing and controlling. Whether the task is manufacturing motor cars in Detroit, growing coffee in Kenya or drilling for oil in Nigeria, every manager must plan, execute and control.

Planning, which is the first task of management, is concerned with determining the objectives of an organisation and then deploying the human, physical and financial resources available to the organisation in the manner most likely to ensure achievement of the objectives.

Planning involves a systematic and thorough examination of the alternative courses of action open to a business and the selection of the particular grouping of strategies which are expected to optimise the return on the resources invested.

Skilled manpower, money and materials are generally much scarcer in LDC's than in advanced economies and thus, when bad investment decisions are made, the effect on the economy is proportionately much more serious. Effective planning in a business enterprise minimises the likelihood of making poor decisions on the deployment of resources and optimises the likelihood of exploiting the strengths of the business and the opportunities open to it, thus maximising the returns on investment. It is therefore undeniable that planning is potentially a most valuable tool for the efficient management of business enterprises, especially in LDC's where it is important to channel the limited available resources into the most advantageous activities.

## **PURPOSE OF THE PROJECT**

**The aims of the project, as defined by the United Nations Industrial Development Organisation, are:**

- a. To investigate, analyse and recommend priority areas for operational assistance in corporate planning practices of business enterprises in the developing world.**
- b. To provide assistance to UNIDO's professional staff in the formulation of appropriate programmes of action directed toward the aforementioned needs and requirements of business enterprises in the developing world.**

## **DEFINITIONS AND BOUNDARIES**

The project was conducted at two distinct levels of detail and the subject matter of this report will naturally reflect this.

Some parts deal with less developed countries as a whole in which case the treatment is necessarily of a general nature. Others are concerned with the case study - Turkey - and here the information, analysis, findings, conclusions and recommendations are much more detailed.

Furthermore, the E. I. U. was asked by UNIDO to concentrate on the industrial sector only. Thus agriculture and related sectors, infrastructural services, and so on, were deliberately excluded from the scope of the project.

## **METHODOLOGY**

**The method of approach adopted by the E. I. U. with UNIDO's approval, was as follows:**

**1. First, a conceptual approach to corporate planning was developed, based upon the best practices employed by business enterprises in the United States and United Kingdom.**

**This approach, or model, was intended to serve several purposes:**

- a. as a standard for comparing business planning practices in LDC's with those in the best managed American or British companies.**
  - b. as a means of identification and analysis in the field i. e. Turkey.**
  - c. as a broad guideline for assistance programmes which might be mounted as a consequence of the project.**
- 2. Then an analysis was made of those factors (economic, social, political, cultural, etc.) which impinge upon business enterprises, in LDC's generally and in Turkey in particular, and affect their management - especially their ability, need or desire to plan their operations effectively and comprehensively. Some of these environmental factors were recognisable as external forces exerting their influence on the business from the outside while others manifested themselves as forces, influences and attitudes within the enterprises themselves.**
- 3. The next step was to assess the extent to which corporate planning practices have been developed in industrial business enterprises of all kinds in:**
- a. LDC's generally**
  - b. Turkey in particular.**



The "state of the art" and planning needs in LDC's generally was to be assessed from information gathered by the E. I. U. in the course of other consulting and research work carried out in LDC's, also from available published material and interviews with some informed sources on the subject.

The "state of the art" and planning needs in Turkey was to be appraised as the result of field work carried out in that country.

4. The fourth step was:

- i. to compare the "state of the art" and the planning needs of business enterprises in LDC's and Turkey with the planning model in order to focus upon the areas of deficiency;
- ii. to consider the impact of the special factors identified under 2 on the development of planning in business enterprises;
- iii. then to determine the most useful kinds of operational assistance which could be given in the light of the identified deficiencies, needs and prevailing factors.

## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

### **LESS DEVELOPED COUNTRIES IN GENERAL**

1. The evidence gathered by the E. I. U. indicates that there is an almost total lack of planning at the individual indigenous enterprise level in less developed countries. Many political, cultural, social and economic conditions have contributed to this situation.
2. A major problem is the implementation at enterprise level of plans formulated at national level.
3. One of the main obstacles is the lack of professionalism in business management and a general ignorance of modern management methods.
4. There is, therefore a need to educate, train and encourage managers in the use of planning techniques, particularly since the achievement of growth is of such fundamental importance in LDC's.
5. The planning techniques to be introduced and applied in any prospective assistance programmes should be fundamentally basic and simple. These should be viewed as "building blocks" which will form part of the ultimate structure of more sophisticated planning systems.
6. The areas in which planning assistance is considered to be most necessary, in the initial stage, are:

production planning and control  
materials planning and control  
financial planning and control  
management control and information systems

7. Apart from seminars and courses, which are considered to play an important role in management education, assistance should take the form of the provision of foreign experts to assist in the assessment of needs, installation of systems and training of management in the use of the systems, at enterprise level. Counterpart local personnel should be appointed to work alongside foreign consultants. While they would provide a valuable insight into local conditions, the local personnel would themselves benefit from the consultancy experience and would ensure continuity of the work after the departure of the foreign experts.

8. The selection of sectors and individual enterprises for assistance should, of course, be done in consultation with the government of the LDC and in co-operation with local chambers of commerce, management bodies, and so on.

However, the following are some criteria which might usefully be applied in this process of selection:

- i. the sector should have expansion potential and should be capable of making a significant contribution to the growth of the economy, the provision of jobs, etc.
- ii. the sector should feature in the government's development plans.
- iii. the sector should contribute to the import substitution effort and/or to the export effort.
- iv. there should be evidence of technological development in the sector.

## TURKEY

1. Turkey is a relatively advanced developing country. Even so, few business enterprises plan their activities systematically. Thus the recommendations for assistance made for LDC's in general apply also to the great majority of Turkish businesses.

2. However, there are in Turkey relatively more medium-sized and large enterprises, many of which are experiencing problems connected with their growth and their lack of professional management (competition is not yet a problem and most sectors are well-protected). These businesses urgently need, and could benefit greatly from, assistance in planning their activities. In addition to the areas mentioned above in relation to LDC's in general the larger Turkish enterprises also need help with manpower planning and, to a lesser extent, with market planning. However, market planning will become increasingly important in the future as competition increases.

3. The State Economic Enterprises in Turkey have special problems which spring from:

- i. state dictation of objectives which, all too often, are changed;
- ii. political appointments to top jobs;
- iii. state interference with policies and strategies (on pricing, employees, investment, etc.).

However, the present government is considering proposals to make the SEE much more autonomous and to allow them to operate on more strictly "commercial" lines with a minimum of state interference. If these proposals are enacted there will be an excellent opportunity to assist the SEE in improving their present unsatisfactory form of derivative planning. Such a programme of assistance should concentrate on:

- a. help with the development of meaningful and workable sets of objectives consistent with the government's development plans;
- b. improvement of existing planning procedures;
- c. education and training of management - especially the top echelon - in business planning philosophy and methods.

4. As in other LDC's the participation of local personnel in assistance programmes is important for their success. In Turkey there are bodies such as the Turkish Management Association, the Productivity Association and the Productivity Centre who are already doing excellent work in management consultancy, education and training and who are able and eager to participate in prospective programmes of assistance with business planning.

## PART I. AN APPROACH TO CORPORATE PLANNING

Planning is the primary responsibility of top management and most, if not all, other functions of management are conducted as a result of, or with reference to, planning. However, it is only in comparatively recent times that the planning aspects of management have been accorded their proper degree of importance in management literature and practice. Evidence of the increasing importance attached to planning is provided by the adoption of formal Corporate Planning by a growing number of business enterprises in the United States over the past two decades and by businesses in other developed western economies such as the U. K. and West Germany over the past 10 years or so.

Corporate planning is a systematic management approach designed to determine the purpose and objectives of an organisation or corporate body and, in the light of identified environmental and internal constraints, to develop the strategies most likely to optimise the chances of achieving the defined objectives. The corporate planning process does not relieve top management of its responsibility to make strategic decisions: it does not come up with automatic answers. What it does, in the absence of complete information, is to identify the alternative courses of action open to the organisation or corporate body. It is then the responsibility of top management to decide which alternatives, or combinations of alternatives, are most likely to produce the desired end-results.

An effective corporate planning system permeates through the entire organisation in which it is applied and it has many aspects. In fact, it is probably best described from various points of view, and in the following pages it will be considered in terms of.

- i. its philosophy
- ii. its essential elements
- iii. its process
- iv. its product, i.e. plans.

## **CORPORATE PLANNING PHILOSOPHY**

**Corporate planning is a style of management, an attitude, a way of life in business. The planning philosophy is a philosophy of change, with the emphasis on the future rather than present and a logical rather than intuitive approach to decision making. This does not mean that planning is concerned with future decisions; it is concerned rather with the future implications of present decisions and with establishing a frame of reference within which present decisions can be made.**

**Planning is the opposite of "reacting" - instead of merely reacting to environmental forces the business which plans its affairs takes the initiative and anticipates changes in the environment.**

**Planning places little value on company tradition and openly questions conventional approaches to problems of the future. The planning approach advocates a look at things from first principles, questions assumptions, ideas, methods and company practices which may have existed for many years. Moreover, it requires a flexible mental approach and, in many cases where planning is introduced, managers are required to think fundamentally for the first time.**

## ELEMENTS OF CORPORATE PLANNING

The essential elements which are present in any comprehensive planning system can be summarised as follows:

- Purpose
- Objectives
- Policies
- Strategies
- Tactics/Action programmes
- Monitoring
- Control

The purpose of an organisation is the continuing reason for its existence - its long term aspirations. A statement of an organisation's purpose would be expressed in rather broad terms e.g. "the corporation's purpose is to become a successful world-wide publishing organisation" or "the company aims to become the largest restaurant operation in the United Kingdom".

An organisation's objectives are its aims and aspirations related to a time-scale and quantified, as far as possible. Some objectives will be expressed in financial terms and will deal with sales, profits, earnings, return on capital employed, share price/earnings ratio, and so on. Other objectives will be less readily quantifiable. Some of these will be to do with the organisation's responsibilities towards its employees, its customers, its suppliers and even the community at large.

A statement of objectives answers the question "what exactly is the organisation seeking to achieve in the next year/5 years/10 years?".

The policies of an organisation are, perhaps, best thought of as the ground rules by which the organisation will abide while carrying out its business in pursuit of its objectives. Policies express a code of practice or behaviour.



An organisation's strategies, on the other hand, spell out the way in which the organisation proposes to achieve its objectives. The more obvious kinds of strategy will relate to a company's products or services and markets: they will specify the product/market mix upon which the company will be concentrating. Strategies will also relate to other key areas such as finance and manpower. A company's strategies, taken together, will form the corporate strategy which is an expression of the kind of company it wishes to be.

Tactics are a translation of the broad strategy statements into specific terms for the organisation. These might, for example, show what action a subsidiary or division of the company is expected to take at points in time, or over a period of time, as part of an overall company strategy.

Descending to a further stage of detail action programmes spell out the nature and timing of the separate managerial action steps which are necessary to translate the "paper tactics" into reality. Ideally, every manager should have an action programme to guide his work over the plan period.

The above are the pure "planning" elements, but a planning system cannot be considered effective without the further ingredients of monitoring and control. These are essentially concerned with the practical working out of plans. Monitoring is the activity of checking progress against plan and detecting any deviations as soon as possible while control is a mechanism for dealing with deviations from plan and ensuring that appropriate corrective action is taken to bring the company back on its planned course.

## THE CORPORATE PLANNING PROCESS

The logical sequence of steps in the corporate planning process are as follows. (It should be noted, however, that these do not necessarily occur in serial order because the planning process is a continuing activity).

- a. Review of corporate purpose/philosophy
- b. Setting of corporate objectives
- c. Survey of external environment
- d. Appraisal of corporate capability or internal audit
- e. Forecasts of future performance
- f. Identification of "planning gap"
- g. Analysis of: opportunities/threats  
                  strengths/weaknesses
- h. Development and selection of corporate strategies (including resource allocation)
- i. Determination of corporate tactics
- j. Translation of tactics into management action programmes
- k. Monitoring of performance, control, feedback.

a. The logical starting point for any corporate planning exercise is a fundamental re-consideration of the corporate purpose. A business enterprise does not exist in a vacuum, and changes can occur, over a period of time, in its environment, ownership, management, etc., which might require some modification (or possibly a major change) in its basic purpose. In most cases, the corporate purpose will be found to be perfectly valid and acceptable, but the periodical questioning of its validity is an integral part of the corporate planning process.

b. Corporate objective-setting is a normative process. A corporation planning for, say, 5 years ahead must determine where it wishes to be in 5 years' time: it must state the targets or goals which it wishes to achieve. This is quite different from forecasting which is merely concerned to assess the most likely future results.

One of the most difficult tasks in corporate planning is to pitch objectives at the right level. Objectives which are so high as to be incapable of achievement tend to demotivate and lose the commitment of management, while easily attainable objectives do not "stretch" the organisation sufficiently, with resultant slackness, complacency and loss of momentum.

It is essential to secure the commitment of individual managers to the objectives they are expected to be responsible for achieving. Thus it is inadvisable to impose objectives downwards from the top. It is far better to let objectives be the agreed product of a dialogue between an individual manager (say, the chief executive of an operating subsidiary) and his boss (say, the managing director of the group).

c. A business enterprise operates in a constantly changing environment, and its activities are affected, to a greater or lesser degree, by various factors in its environment. Thus it is only sensible that any plan it makes for the future should take into account the changes which are currently taking place, and which are likely to take place in the future, in those environmental factors which impinge upon it.

The particular factors which an individual company needs to study will, of course, depend upon the nature of its business. Thus, while most companies will make an assessment of the general economic climate in the period under review, a firm in the consumer goods business will concentrate on levels and breakdown of consumer expenditure, changes in spending patterns, etc., whereas a company in capital goods will be more interested in levels of investment or perhaps, public expenditure. Every business will obviously need to analyse the trends in its own markets, its market share and those of its competitors, and most companies will also be very interested in establishing trends in wages and other costs. Examples of other environmental factors which will be of importance to some businesses are technological developments, availability and cost of raw materials or components, changes in tariffs or restrictions on imports, and so on.

Clearly, each company has to identify those environmental factors which influence its own business activities to any significant degree.

d. While every business enterprise is affected by its environment, its success or otherwise in its interaction with its environment is determined by its own internal capability, and one of the cornerstones of a realistic corporate plan is an objective assessment of this capability. The word "capability" in this context covers resources of all kinds (physical, human and financial), management and technological expertise and know-how, organisational efficiency and adaptability, capacity to cope with increased volumes of work, etc.

The product of this "internal audit" will be a comprehensive inventory of the company's strengths and weaknesses.

e. In the corporate planning cycle a forecast of the company's performance in the plan period is prepared after the completion of the steps outlined in c) and d) above. The forecast is based on the assumption that there will be no radical change in the company's strategies.

f. Having prepared a forecast it is then possible to compare the likely performance of the company in the plan period with the original objectives which were set at the beginning of the planning process. It will almost invariably be found that a gap exists between the objectives and the forecast, and the remainder of the planning process is concerned to find means of bridging this gap.

g. In the search for means of bridging the gap the method adopted is to carefully analyse the strengths and weaknesses of the company as revealed by the internal appraisal of the business, with the intention of capitalising on the strengths and minimising the weaknesses. At the same time, a detailed analysis is made of the material provided by the survey of the external environment. The survey should have made possible the identification of areas of opportunity for the company while at the same time indicating incipient threats to its well-being. These areas of opportunity

and threat are likely to emerge from the detailed analysis of the company's product/service/market posture vis-a-vis those of its competitors. Other indications of ways in which the company can improve future performance will emerge from the analysis of the company's past performance. The focus throughout this gap-bridging exercise is upon the exploitation of areas of opportunity and strength and it should be emphasized that the work requires perceptive and creative powers of a high order.

h. The development of strategies which will exploit to the maximum the strengths of the business and the opportunities which are perceived for it is also an activity which demands an effort of creativity and imagination from the manager. It is at this point in the corporate planning process that a challenge is presented to the entrepreneurial flair and innovative spirit of the management.

In a company which is dynamically managed it will be found that a host of possible strategies, or broad courses of action, will be suggested at this point and the task of top management will be to evaluate these and select the particular portfolio, or grouping, of strategies which will secure for the business the optimum allocation of resources and thus optimise its chances of attaining its objectives.

i. and j. When the broad strategies of the business have been agreed, it is then necessary to translate these into more precise statements about the way in which the organisation will carry them out. The tactics to be employed will then be broken down further into programmes of action for individual managers.

Thus a framework will have been established for short-term operating decisions and this will enable each manager or executive to steer his part of the business in the same direction as the whole business i. e. towards the attainment of its clearly defined objectives.

k. A planning system loses much of its value unless there is in existence a mechanism for ensuring that the plan is being adhered to. Hence the need for monitoring actual progress against plan and correcting deviations, where possible. This is done in business enterprises by fixing responsibility on particular managers for carrying out agreed programmes of action, achieving specified financial results, and so on. The long term plan is phased into shorter periods so that progress can be assessed at intervals (perhaps monthly).

This is not to say that plans must be adhered to slavishly so that they become a confining strait-jacket to the individual manager. On the contrary, any intelligent chief executive will recognise that circumstances can change, assumptions made in plans may be incorrect and uncontrollable factors may emerge. In short, there can be good reasons for deviating from plan, but any significant deviation should be properly explained and, where possible, corrective action taken to bring the business back on course again.

## PLANS

Written plans are the natural outcome of a corporate planning activity in a business, but the types of documents that emerge vary enormously. Plans, in fact, tend to reflect the organisation structure of a business. If a business is divisionalised (perhaps, by product or market), there will tend to be divisional plans and each division's plans will show how the division proposes to achieve the sub-set of objectives allocated to it. Similarly, a business with a holding company/subsidiary structure will probably have plans for each subsidiary. Where a business is organised into departments there will tend to be departmental plans.

Again, where functions are well developed in businesses they will produce their own plans to dovetail with the others. Thus, one frequently finds marketing, financial, manpower, production, and research and development plans.

Plans can also be classified according to their time-scale. Some corporations who are sophisticated in planning techniques have long-term, medium-term and short-term plans. Most companies have opted for 5-year "rolling" plans, but the most appropriate planning horizon is bound to vary according to the nature of the business.

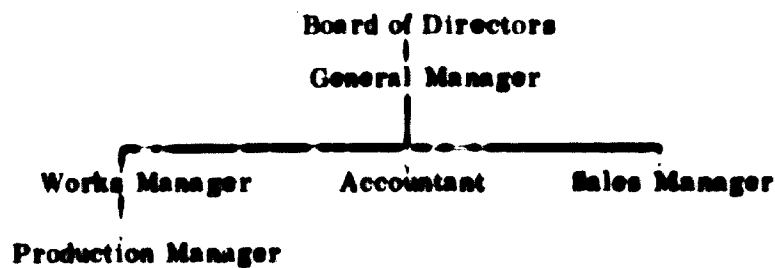
One point which must be emphasised here is that plans are not made by planners but, rather, by line managers. The planners are essentially the technicians who co-ordinate the planning activity, give help to the management and, frequently, act as catalysts. But the real meat in any worthwhile plans must come from the managers themselves. It cannot be emphasised too strongly that the complete involvement and commitment of line management is essential to the success of any planning exercise.

Another point worth making about plans is that they are in themselves less valuable than the process which has been gone through to produce them. This is not to say that the plans have little value - on the contrary; but it is the process of questioning, re-thinking, re-appraising and innovating that is most valuable.

### Business Organisation and Planning

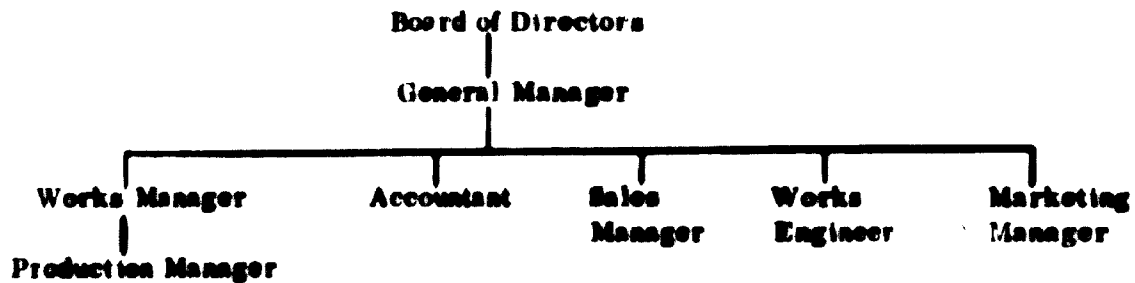
The effect of business organisation on planning merits some further consideration. We illustrate below the changes in approach and emphasis which may result from different organisational arrangements. To do this we compare two, relatively unsophisticated, enterprises.

i.



In the planning context the organisation illustrated above would tend to give emphasis to the production and financial aspects of planning. The sales function is, by definition, concerned with selling whatever is produced - not with marketing, which is a much broader activity, concerned with satisfying the needs of consumers and embracing such techniques as market forecasting and market planning. Thus, in the absence of the marketing function it is likely that this fundamental element would be lacking in the planning processes of the above organisation.

ii.





The second organisation differs from the first in two respects. The Marketing and Engineering functions are provided for. Thus, it follows, that both of these elements will tend to be reflected in the planning process. The marketing plans and forecasts will pre-determine the desired levels of output. The Engineering function will be of material benefit in determining levels of plant utilisation and optimum capacity. Such an organisation would therefore be more likely, in theory, to prepare a more comprehensive plan relative to the company's objectives and capacity.

Earlier in this section of the report we made brief reference to the divisional type of organisation. In such cases, the organisation will have been determined by geographical considerations, product considerations, market considerations or possibly process considerations. However, although this will affect the form of the plans it does not fundamentally affect the planning process. The planning process is the same - but the procedure is more complex, principally because it is implicit that a divisional organisation embraces a much wider range of products, markets, processes and locations. The basic planning skills required are the same as those needed in the smaller enterprise but their application is more complicated and much more sophisticated. Another feature of the divisional organisation is that it is normal to produce divisional plans and budgets which are then consolidated into the total company plan. It is not unusual, in such cases, to find divisions competing for such resources as are available. In that situation it is necessary to determine priorities in relation to such issues as:

- Development of new products;
- Development of new markets;
- Expansion of capacity;
- Divestment;
- Acquisition;
- Funds required;
- Availability of funds;
- Sources of funds.

Thus the procedure is one of determining the best "mix" of plans which will produce the best result for the company as a whole.

The above briefly illustrates the impact of different organisational arrangements upon the planning process: it is fundamentally a question of changes in emphasis, form and approach. The important point is that the procedures and techniques (whilst being more sophisticated in some cases) are basically unchanged - irrespective of the organisational structure of the business.

## **PART II: LESS DEVELOPED COUNTRIES IN GENERAL**

### **FACTORS INFLUENCING THE MANAGEMENT OF BUSINESS ENTERPRISES IN LESS DEVELOPED COUNTRIES**

While accepting that the business climate in each of the less developed countries will be unique to that country and that the circumstances under which business enterprises operate will therefore differ in each country, it is nevertheless possible, and useful, to identify various environmental factors which create difficulties for the management of businesses and tend to be present in most LDC's. Naturally, the relative importance of the factors and the influences which they exert upon business management will vary considerably between countries and each LDC will have its particular grouping of the factors.

The purpose of this part of the report is to seek to identify these actual or potential obstacles to the efficient management of businesses in LDC's and to indicate the ways in which they impinge upon the individual enterprise, whether publicly or privately owned.

For the sake of convenience the factors have been grouped under three main heads:

- a. Socio-cultural factors
- b. Political factors
- c. Economic factors

#### **a. Socio-Cultural Factors**

There are few countries in the developing world that have a homogeneous population: most countries, and particularly the larger ones, are formed by groups of peoples of different stock, origin, language, religion, tradition, etc.

Even a small country like Tanzania, with a population of 12 million, has over 100 different ethnic groups, speaking different languages, which, reduced to their main groups, amount to some 12 irreconcilable tongues. This is a first basic hindrance to development.

Effective communication - the speedy and accurate transmission of information and ideas - is essential to the efficient running of any business enterprise. It is particularly important at management level and a special problem almost invariably emerges here. Even assuming that there is one common local language, concepts such as "management" itself, "accountability", "delegation", and so on, almost invariably have no meaningful equivalent in the language.

Often a foreign tongue is used as a common means of communication. This however poses new problems. The common tongue is sometimes resented and considerable effort has to be put into maintaining its quality since for most people the common tongue will be their second or even third language.

The large number of ethnic groups causes further problems: firstly there is the traditional animosity or rivalry between one group and another. Secondly, the idea of a 'commonwealth' has to be introduced, both at the national level and at the lower level of the individual enterprise in which people are engaged. Thirdly, there are different customs, traditions and codes of behaviour which make it difficult to bind people together into effective organisations.

The traditional societies which exist in LDC's rely heavily on authority: authority is acquired almost invariably by descent and age. This means that there is a strong vested interest in the most powerful sections of the population against any change: change would undermine established positions. The same applies to religion; many religious leaders for the same reasons resist change.

All this forms a barrier against the able and enterprising person who wishes to advance through education and hard work: the acquisition of prestige through personal ability and enterprise is frowned upon.

Within the individual enterprise these factors will manifest themselves in an unwillingness to engage anyone who is outside a well established group or who could present a future threat. This is by no means a universal practice - groups like the Ibo in Nigeria or the Parsees in India have both. through their religious beliefs and social structures, encouraged personal responsibility and hard work.

However, it is evident that religion, traditional authority and paternalistic attitudes in many countries have played and will play a significant negative role towards change, and therefore towards industrialisation, and development of entrepreneurship and the introduction of modern management methods.

Another major obstacle to development in LDC's and one which has a direct effect on business enterprises, is the lack or inadequacy of education both of the population at large and of the vocational/technical kind needed in business. The vast majority of the adult population of the developing world cannot read nor write. This, quite apart from hindering personal development and enjoyment of life, is an obstacle to the formation of the essential "human capital" from which the workers, managers and leaders of the LDC's must be provided. It means that the pool from which modern manpower of various kinds can be drawn is extremely inadequate.

Nowhere is this inadequacy more marked than in the provision of managers themselves. Generally speaking, the type of education which is available to the small elite in an LDC which is fortunate enough to be educated tends to be "traditional" or "classical" and not geared in any way to the modern needs of the country. Technical and vocational training are usually grossly neglected. It is significant, for example, that the largest faculty in several African universities is that which teaches religious studies.

Not only do the systems of education in most LDC's not prepare their pupils/students for business careers but, in addition, a business career does not rank high in terms of prestige among the alternatives open to the better-educated members of the community in such countries. A civil service career is without exception considered to be more prestigious than a career in business in LDC's. Similarly, the professions (legal, medical, teaching, etc.) tend to be chosen in preference to business.

In a survey conducted two years ago among the students of three East African universities it was revealed that less than 4 per cent of respondents indicated an interest in business management as a career.

In consequence, there is a serious shortage of indigenous managers with training and ability in LDC's and this acts as a very serious constraint upon the capability of business enterprises - both publicly and privately owned - to operate efficiently and, moreover, to use and adapt the modern management methods and techniques which have contributed so much to the efficiency of businesses in advanced countries.

b. Political Factors

Less developed countries tend to be politically unstable and to have relatively frequent changes of government. Thus, businessmen tend to be in a state of constant uncertainty about the continuity of the key policies which affect them. Such a state of affairs inhibits long-term thinking and it is one of the main reasons why businessmen in LDC's are much more concerned with the short-term future and much less inclined to look as far ahead as their counterparts in developed countries. This obviously has implications for the prospective adoption of corporate planning by business enterprises in LDC's.

Another politico-economic factor which often becomes an obstacle to the management of businesses in LDC's is the development planning of the government. Over the past 20 years or so most LDC's have adopted plans which are usually of 5 years' duration. As mentioned earlier in this report, such plans vary considerably in their sophistication and realism. Some countries (India, Pakistan and Turkey among them) have developed techniques, learnt from past mistakes and improved their mechanism of planning to a very high degree. In other countries plans are very much more modest documents reflecting a set of government desiderata rather than any plan of action.

Only too frequently such development plans are formulated without any consultation with, let alone the participation of, the private sector of business within the economy, despite the fact that the private sector is frequently expected to implement substantial parts of the plan. Thus, the private business sector is often expected to carry out the impossible or the inappropriate.

Publicly-owned businesses are frequently affected adversely by Government policies in LDC's. In most developing countries, the idea of business efficiency per se is not accepted as a worthwhile goal for the state-owned industries. There seems always to be a conflict between, on the one hand, the conventional objectives of making profits and optimizing the return from the resources of the enterprise, and, on the other hand, the common government-oriented objective, which is for the enterprise to be a provider of jobs and welfare. The objectives of such enterprises seem, all too often, to become diffused and they seem consequently to lose any strong sense of purpose or direction.

State-owned enterprises in LDC's are also often seriously hampered by the fact that the top jobs in them are in the gift of the Government of the day. Thus, the top management of a state enterprise changes with each change of government. In addition, since the appointments are political ones anyway, the likelihood of finding the right man in the right job, even for a short time, is remote. State enterprises, therefore, tend to suffer from the poor quality of, and frequent changes in, their top management.

Both public and privately-owned sectors of industry are commonly affected by another obstacle in LDC's which is the tendency for Government controls to be extremely rigid and cumbersome. The controls imposed by Government on business are very wide-ranging in most LDC's. A normal feature is a complicated licensing system through which the state can effectively control the development of private industry. This means that a business enterprise is frequently prevented from carrying out its plans, since the priorities of a government are often very different from those of an individual enterprise, even if the enterprise is itself government-owned and run.

Population pressure and growing unemployment in LDC's tend to create pressure for the use of labour-intensive techniques, regional development demands the physical dispersal of enterprises, revenue needs mean taxation, import duties and fiscal control; while decisions to join multi-national economic or political groupings (such as EEC, RCD, CARIFTA, etc.) demand balanced growth.

All these concerns of government find their expression in controls which often run contrary to the interests of the individual enterprise and make it difficult for a business to plan its affairs in a sensible way. These difficulties are often exacerbated (from the point of view of the business enterprise) by a strong tendency for centralisation in the government departments of LDC's. This tends to produce bottlenecks and inordinately long delays before decisions are given to business enterprises.

### c. Economic Factors

i. Macro-Economic Influences. The particular economic factors which affect business enterprises in LDC's will vary not only from one country to another but also from one sector to another within the same economy. However, there are some prevailing economic conditions which will, to a greater or lesser degree, affect most business enterprises in LDC's.

In most developing economies imports tend to rise relative to exports, leading to foreign exchange and balance of payments problems, and it is usual for an LDC to impose import restrictions and high tariff walls in respect of certain goods. At the same time, the governments of LDC's have relatively heavy public spending programmes. Demand is stimulated and the money supply is increased, and thus inflationary conditions are brought about. The lack of adequate imports protects many of the home industries from foreign competition and these are allowed to enjoy a "seller's market". This would not be too pernicious if there were healthy competition among domestic enterprises, but there is almost invariably a lack of adequate competition because of a lack of entrants into given product/markets (due to i. rigid government controls; ii. a low propensity to save and to invest and iii. import restrictions on capital goods.



The protection of home industries, the presence of a sellers' market and the prevailing inflationary trends all exert a direct and powerful influence on the management of business enterprises in LDC's. Their precise effect on business planning will be discussed later in this report.

ii. Ownership of Private Businesses. Another major economic influence on the management of business enterprises in LDC's is the ownership of private business. Most business enterprises in the private sector of developing economies are, particularly in the earlier stages of development, owned and run by families. Such family-owned concerns are typically small in size and generally found in the commercial and service sectors of the economy, but not so frequently in manufacturing. When a family-owned business is a manufacturing concern, it will normally be found in the traditional sectors and not in the new areas of need. Generally speaking, family-owned enterprises are not effective vehicles for change, innovation and development; on the contrary, they usually reinforce traditional attitudes and ways of doing things. They tend to impede the development of professional management and the introduction of improved management methods and techniques, such as corporate planning. This will be discussed in more detail later on.

iii. Inadequate Capital Market. A factor which tends to prolong family domination of private businesses in LDC's is the lack of an adequate capital market. The capital market of a LDC, if it exists at all, is rudimentary. The population are unwilling or unable to save. Those that do save tend to convert their savings into gold or property (real estate). The idea of lending to a second party, such as a bank, for re-lending to a third party, such as an industrial undertaking, is not readily accepted.

Furthermore, in most LDC's, the legislation governing company ownership and structure, public accountability, management responsibility, etc., is usually inadequate with resultant discouragement of equity participation in industrial enterprises. Thus under-capitalisation is a common problem among businesses in LDC's.

iv. Lack of Sectoral Support, Information, etc. In most advanced countries the individual enterprise is so much part of a network of supporting and specialised services that it probably could not survive without them. In LDC's, however, circumstances are quite different. There are few specialist journals or facilities for contact between people coping with similar problems, industrial associations are non-existent or ineffective and the consultancy services available in the fields of management, training, market research, advertising, and so on are very limited.

One of the greatest difficulties encountered by individual enterprises is the absence of information which they require in order to be able to plan effectively. It is rare for a firm in a developing country to be able to obtain the economic and market information which it needs. Where information is gathered by the government and published it is all too frequently inaccurate and/or out of date.

## **CORPORATE PLANNING PRACTICES AND NEEDS OF BUSINESS ENTERPRISES IN LESS DEVELOPED COUNTRIES**

The information available on the subject indicates quite clearly that comprehensive corporate planning of the kind outlined in Part I of this report, with few exceptions, is not practiced in business enterprises in the less developed countries of the world. This is not surprising in view of the fact that an effective integrated planning system requires a considerable degree of sophistication from the managers of the business, at all levels. It is not a style of management that can be easily assumed in business enterprises where there is a basic lack of management skills and where advanced management methods and techniques are notable by their absence, which is the prevailing situation in the industries of LDC's. It should also be remembered that even in the highly developed economy of the United States there are a surprising number of substantial business enterprises which do not plan their activities in any systematic fashion but still employ "seat of the pants" methods. Again, corporate planning is found in the U. K., in the main, only in the major companies and, even in such companies, it is neither as well developed nor as fully accepted as one might expect. Its almost complete absence from business enterprises in the developing world is, therefore, hardly to be wondered at.

The types of business enterprise in which comprehensive and systematic planning are found in LDC's fall into two broad categories:

- a. the local operations of multi-national or international enterprises - these are wholly or partly owned by parent companies in the United States, the U K., West Germany or other European country.
- b. large state or privately-owned indigenous enterprises in LDC's which are usually approaching the point of economic "take-off".

a. The best managed business enterprises in LDC's are usually the offspring of the large American or European companies which operate on an international scale. These are sometimes wholly-owned subsidiaries of the parent company, but, more usually, there is some local participation in their equity capital. Such enterprises are set-up and managed, so far as possible, in much the same way as the "home" operations and the top managers and other key personnel are usually expatriated. These businesses benefit from the experience and know-how of the parent company and it will commonly be found that planning is a normal part of their method of management. The managers of such enterprises are quick to point out that they (the local operation) are labouring under a number of constraints which do not obtain in the "home" environment. Nevertheless, it would seem that they endeavour to employ the same advanced management methods, systems and techniques (adapted as necessary to suit local conditions) as the parent company in the more advanced economy.

b. From the E. I. U.'s investigations, it has emerged that the only types of indigenous enterprise in LDC's in which corporate planning, or anything approximating to it, is employed are large enterprises in countries which are at least approaching the point of economic "take-off". Such businesses operate usually in comparatively highly-developed and competitive sectors or sub-sectors of the economy and they are often export-oriented. These enterprises are usually privately-owned, but where they are wholly or partly-owned by the state they are given a good deal of autonomy in the running of their affairs. Rigidly controlled state enterprises do not, therefore, come within this category.

Business enterprises of this progressive type have some common features which are worth mentioning:

- i. they are professionally managed and the quality of their managers is comparatively good.
- ii. they operate on a comparatively large scale i. e. within their country they are among the largest enterprises.

iii. they are spurred on by the pressures of competition within their sector and sometimes from outside the country.

Within the sorts of business enterprise briefly described under a and b above it is possible to identify a system of planning which corresponds in all essential elements to the corporate planning model outlined in Part I of this report. However, the overwhelming number of businesses in LDC's have nothing which approaches such a sophisticated system and it is with these enterprises and their needs that we are mainly concerned.

For the purpose of assessing the "state of the art of corporate planning" in these businesses we have taken a view of corporate planning as a relatively advanced point on a continuum of development in business planning. Using this concept it has, in fact, been possible to trace in business enterprises a common pattern of planning development which is related both to the stage of development of the country and to the growth of the business itself.

The pressures which lead to the development of the planning function at state level in less developed countries may be expressed as follows:

1. Government recognition of the need to improve the economic health of the country.
2. Recognition of the natural aspiration of the population for improved standards of living.
3. The desire to be self-supporting over time.
4. Recognition of the need, for example, to move from an agriculture-based economy to an industrial economy.
5. The need to reduce imports and increase exports.

The above points, taken together, describe the motivation which lead to planning at Government level. This usually results in the production of development-plans, covering each sector of the economy. Frequently, much of the new investment is in state-owned and controlled enterprises.

Public investment acts as a catalyst which motivates the private sector of industry to react to the changing circumstances. The establishment of new businesses, in addition to expanding output, tends to generate increases in demand since more people are employed and disposable incomes increase. Coupled with the natural aspiration of the population to improve its standard of living the internal market expands - sometimes at a rapid rate.

The effect of this upon the private sector of business is to enable it to sell more of its products. Thus, the first action is to increase output. Depending on the product and processes involved this is normally achieved by purchasing new equipment and/or increasing the labour force. However, at this stage the recognition of the need to increase output is characterised by a total absence of planning in the sense of determining levels of output and standards, and measuring achievement against these. It should be remembered that, in the early stages of development a business is, typically, owned and managed by the same person. It is not difficult for it to survive because it will usually have few competitors within the country and probably none from outside because of high tariff barriers. The owner-manager merely reacts to the increased demand. However, because of the absence of planning, inventory problems arise: perhaps a shortage of components or raw materials leading to an out-of-stock situation and therefore to loss of sales. Thus emerges the need for inventory control for raw materials and finished goods.

With demand still buoyant, and having overcome inventory problems and determined inventory levels, the business now finds it necessary to schedule production. Thus the first stages of production planning emerge.

It is a feature of the relatively small, but expanding, enterprise in the less developed countries that, as production and sales increase, so the business is faced with financial problems. More wages have to be paid, higher expenditures have to be incurred on raw materials and components with, at the other end of the scale, more credit having to be allowed to customers and greater difficulty being experienced in obtaining payment. Thus emerges the need for some form of financial control and planning. Initially, this is relatively simple and amounts to estimates of expenditure and income as a basis for determining the cash requirements (working capital) of the business.

Eventually the internal market, while still growing, expands at a decreasing rate. What was a sellers market becomes a more sensitive buyers market. The purchaser becomes selective and begins to compare prices and qualities of competing products. So emerges the competitive element. This causes the business to think about methods of maintaining or increasing its sales in the face of increasing competition. Thus it is forced to think of reducing costs. This in turn leads to the need to improve efficiency - so standards of production are developed. It may be necessary to question the amount of labour required and thus manpower planning is begun. At the same time the business has to think about how much it can sell and how this might be done. So begin the first attempts at planning in the sales and marketing context. This requires consideration of such factors as the demand for the product, the activities of competitors, price, quality and terms of trade.

It is when competition begins to show a marked increase and his business is no longer small and easily manageable that the owner-manager feels the need to recruit professional managers to help him with his task. In addition to the labour and market problems which had already taken him out of his depth, the owner-manager might at the same time be faced with problems of growth such as general control of the business, communications and information flow, location, acquisition, merger, etc.

The effective planning of markets and manpower (and, indeed, finance and production) necessitates the employment of professionally qualified people and it is the injection of this all important ingredient of professional management into a business enterprise which leads to comprehensive and intelligent planning of its activities.

A "planning progression" is, therefore, identifiable in the business enterprises of LDC's. The need to plan is, in effect, forced upon the enterprises as a result of changing external circumstances and the progressive "building blocks of planning relate to functional areas of the business. These are, in sequence: production, finance, purchasing, manpower or personnel and, finally, marketing. The presence of these functional planning elements in businesses is broadly related to the stage of development of the country in which they operate, but this is not a linear relationship because of the influence of other factors such as: i. uneven sectoral development within and between countries; ii. the size of the individual business enterprise and iii. the presence of a professional element in the management of the individual business.

It must be emphasised that most business enterprises in LDC's will either not even have begun to plan their activities at all or will, at best, be developing a rudimentary form of production planning and control with perhaps some inventory control and simple cash budgeting. Most enterprises in LDC's are owned by individuals or families who tend to follow a policy of short-run profit maximisation perhaps due to:

- i. uncertainty about the future caused by the political instability of the country and inflationary trends in the economy.
- ii. the presence of a sellers' market offering quick returns.

Such behaviour by owners is rational and understandable but, while it brings increased returns in the short-term, it is neither conducive to the introduction of advanced managerial know-how nor to the betterment of the long-term prospects of the organisation.

The circumstances described above tend to produce over-emphasis of the production function. A production technician is therefore in greater demand and more valued than a person possessing managerial skills. Since the technician is in high demand his "aspiration level" tends to go up and he frequently attains high management office for which he may not be trained.



In developed economies competitive market forces compel inefficient enterprises to close down or improve their efficiency. In the sellers market situation which exists in LDC's a business is assured of a good profit on its investment regardless of its cost structure or the quality of its products; hence the inefficiency of its management is neither discovered nor questioned, unless the owner is exceptionally forward looking.

The owner-managers of business enterprises in LDC's (whether individuals or families) can hardly be expected to introduce planning systems and techniques into their organisations unless they are convinced that such advanced management methods will satisfy certain perceived needs within their businesses. As long as the businesses are making satisfactory profits, as they tend to in the protected sellers' market conditions, there will be little impetus to change their short-term profit maximisation policies.

The owner-managers of business enterprises will generally see their planning needs, if they recognise any, as being confined to the production area and, possibly, finance. They will not be concerned about such other considerations as manpower, marketing and research and development.

The types of technical assistance which are most likely to be favourably received and, more importantly, made proper use of by most businesses in LDC's will therefore be oriented towards production and finance. Help in these areas will be useful and appreciated, not because the owner/managers subscribe to planning philosophy, but merely because they regard production and finance, especially the former, as being the key to their success.

Before most businesses in LDC's are ready to receive and use any further assistance, other than in the areas indicated, it will be necessary to educate the owner / managers in planning philosophy. The benefits of planning their affairs in a systematic way will have to be demonstrated to them.

Two years ago the E. I. U. was engaged in a wide-ranging study of the needs of business enterprises in Ceylon. Businesses were examined in all industrial sectors which included chemicals and chemical products, textiles, plastics, tanning and leather products, rubber products, wood products, light engineering and metal products, food and agricultural processing, and so on. Although there were differences in the precise needs of each sector, the E. I. U.'s conclusion was that the general needs of Ceylon's businesses, so far as planning control and information systems were concerned, were of a simple and basic kind. It was concluded that development of Ceylon's industries had not reached the stage where highly sophisticated application of planning and control systems was appropriate or desirable. The E. I. U.'s recommendations, therefore, were focused on simple applications of production planning and control, materials planning and control, cost control and management information systems. The E. I. U. recognised, however, that as businesses in Ceylon grew and market conditions changed the management needs would alter radically.

## **PART III. THE CASE STUDY: TURKEY**

### **FACTORS INFLUENCING THE MANAGEMENT OF BUSINESS ENTERPRISES**

#### **Historical, Social and Cultural Background**

The modern republic of Turkey was established as a secular state in the 1920's by Kemal Ataturk. He instituted wide-ranging reforms - among them, the adoption of roman script, abolition of Koranic schools and curtailment of the power of religious (Moslem) leaders - designed to bring Turkey firmly into the twentieth century.

However, in present-day Turkey, over 65 per cent of the population still eke out meagre existences in small villages where the predominant way of life is subsistence farming. According to official figures, about half the total population is illiterate, but the true extent of illiteracy is probably much higher. The pre-Ataturk traditions and values are still surprisingly strong. In the last 30 years new Koranic schools and mosques have been opened, and in a recent survey among villagers almost two-thirds of them indicated that the person they looked up to most was not Ataturk but the 'imam' or religious leader.

Unfortunately, the Moslem faith encourages believers to accept their present lot and the status quo. It therefore supports the traditional way of life and acts as an obstacle to development and industrialisation.

The main political parties have in recent years increasingly been wooing the peasant vote and this has meant a weakening in the effort to restrict consumption in favour of encouraging investment and also in the determination to modernise the outlook of the vast majority of the population.

Turkey is in fact caught between the demands of the majority of the population for a greater immediate share of economic advances, and an intellectual elite - backed

by the Army - which believes in modernism. The conflict is likely to continue for a long time. The intellectual minority looks to the West and it favours change. The majority resists change and clings to tradition.

Until the first world war Turkey was the head of a large empire. The educated classes made careers either in the civil service or the army, both of which offered status and security. It was frowned upon for an educated person to enter commerce or industry. As a result, these activities remained in the hands of minorities: Armenian, Jewish and Greek. Although these minorities number only some 120,000 in total, they still exercise a disproportionate influence in commerce and industry.

Over the last 30 years there has, however, been a considerable change of attitude towards business in general. The civil service no longer enjoys the unrivalled status and security it formerly had. On the other hand, private industry offers good salaries, and the number of openings for professionally qualified people has expanded greatly. In consequence industry has been able to attract much better educated and trained people into its ranks.

Turkey has undergone traumatic changes in the last 50 years and has survived many of these. There is undoubtedly in the country a capacity to cope with innovation and advancement and a desire to learn. For about 10 years now Turkey has been poised on the verge of economic take-off but the present period of political uncertainty is undoubtedly causing a considerable slow-down of the economy.

### Political Factors

The political situation in Turkey has not been particularly stable over the last 20 years; there have been 3 devaluations, 2 military coups and several irregular changes of direction in government policy. The result has been an uncertain climate for industry to operate in, both in the private and in the public sector.

i. State Enterprises: The role of the public sector in the country has been considerable, both in the plans drawn up since 1963, and in the considerable public ownership of industrial enterprises, which account for about one third of total GNP. The origin of the State Economic Enterprises (SEEs) goes back to the 1930's: after waiting for a considerable time for private industry to develop, the Government, conscious, among other factors, of the rapid growth of the Soviet economy, decided to set up its own corporations. These have become increasingly important, in so far as they control many sectors of the economy, particularly heavy industry. Their access to government finance enables them to escape the strait-jacket of under-capitalisation, which confines private enterprise in Turkey.

Their close involvement with the Development Plan, which is compulsory for the public sector and indicative only for the private sector, facilitates their long-term business planning. It also means that they are involved at all stages in Government plans for regional development or for sectoral encouragement.

However, the state enterprises also suffer from their political connections. Directors-General are changed whenever there is a change of Government and the average length of service of a D-G is 18 months. There is also considerable overstaffing because the power of the management to dismiss employees is restricted. However, it is part of programme of the non-political government in force in 1971 to divorce the SEEs from politics and to let them operate in a more "commercial" way. It is also part of the government's intention to encourage each SEE to set up its own planning department.

A further considerable problem arising from close ties between the government and the SEEs is to do with the level of employed salaries: the salaries of management staff are geared to those of civil servants of equivalent rank which are well below the salaries paid in the private sector of business.

ii. The Plan: The first five-year development Plan was introduced in 1963, and the second plan in 1968. The third five-year plan currently being prepared will run from 1973 to 1977. Within each Plan, an annual programme is prepared each year

covering specific projects and targets for that year. Overall the plans set a 7 per cent annual rate of growth of GNP: during the period up to 1970 the real rate of growth was about 6.5 per cent.

In the first five year plan there was little consultation with the private sector, which nevertheless exceeded its targets, though much of its growth was in construction and real property rather than in industry. The constant changes of policy have discouraged the private sector and certainly during the latter part of 1970 and in 1971 there has been a sharp decline in industrial activity and in investment in particular. During the Second Plan and in the present period of preparation for the Third Plan it appears that much closer discussion is being encouraged between the private sector and the state sector. During the Second Plan certainly much greater reliance was placed on private enterprise, but it is likely that the present government will in fact reverse this trend. This is likely to hit in particular foreign investment and foreign participation in local industrial projects, which are currently at a complete standstill.

iii. Bureaucratic Control and Centralisation. The Turkish government controls the activities of businesses in the private sector through a multitude of statutory regulations. Unfortunately, these are not administered very efficiently, and the resultant bottlenecks and delays are a serious hindrance to the conduct of business affairs. The underlying reason for the bottlenecks and delays is the tradition of centralisation in Turkish administration. According to one informed source, there are over 1,000 commercial laws which require the personal intervention of a Minister. All this means that the speed of decision making, and therefore - to some extent - of development and change, is dictated by the personal wishes and capacity of a very few people.

Some government regulations, however, have beneficial side effects for the individual business enterprise. It was enacted some time ago that all investment projects with an import content of over \$200,000 had to be the subject of a feasibility report. The result, apparently, is that private businesses are now considering much more carefully every aspect of proposed projects, and attention has been focussed on the general need for planning.

### Economic Environment

Over the last 20 years the economy of Turkey has grown at a very considerable rate, in spite of the unstable political situation. However, there has been no major change in the structural distribution of GNP; even the growth of 10 per cent a year of the industrial sector between 1963 and 1969 has not altered its percentage of GNP, which stands at about 18 per cent. Agriculture accounts for between 25 per cent and 30 per cent of GNP.

One of the major problems of the economy has been that of foreign exchange: the need to pay for imports and the foreign debt accumulated over the years has been one of the main headaches of the planners and the politicians. The heavy dependence of the economy on agriculture, which accounts for over 75 per cent of all exports (by value) has meant constant fluctuations depending on the weather, and the uncertain world prices of primary goods.

The three devaluations of the last 2 decades have caused, and in turn been caused by, severe price inflation. Each inflation has encouraged labour unions to demand higher wages and this in turn has caused further inflation.

1. Capital. The capital market in Turkey is as yet most unsophisticated. The average saver might now be depositing his money in a bank rather than converting it into gold, but there is little sign that long-term deposits are increasing. With interest rates as high as 15-16 per cent, and on private mortgages up to 30 per cent, there is no incentive either for the borrower to borrow long-term or for the lender to think in terms of long-term ventures at a lower profit. The people who can save are the professional and middle classes and, therefore, a large proportion of savings has gone into private housing for owner-occupation.

The present legislation relating to companies (or the lack of it) positively discourages investment in business. Companies with more than 4 or 5 shareholders are penalised, and thus savers are given little opportunity to participate in the equity of industrial enterprises. Reforming legislation has been proposed and discussed for many years

but it has not yet been enacted. The Istanbul Stock Exchange lists the stocks and shares of comparatively few companies and trading occurs in only a few dozen of these.

The dearth of money means that industry generally is under-capitalised. One consequence of this is that a great deal of plant and equipment is obsolete, with resultant breakdowns and production bottlenecks.

### Manufacturing Industry

The overwhelming majority of Turkish industrial enterprises are very small units of production. According to a 1963 survey only 6,476 out of a total of 165,000 manufacturing units were classified as 'large' (a 'large' enterprise being one employing more than 10 workers, if it had no motive power, or more than 5 workers if it had motive power). The large private manufacturing units are most numerous in the food industry (1,257), textiles and clothing (1,429), metal products (691), chemicals (491) and forestry products (374).

All of the 'small' enterprises and most of the 'large' ones are owned and managed by individuals or families. However, as the number of 'large' units increases - the total number had reached 7,000 by 1966 - the percentage owned and managed by an individual or a family declines. However, family ownership of businesses will not decline until legislation is enacted which will encourage the channelling of savings into business enterprises through shareholdings in companies.

Almost without exception Turkish manufacturing industry enjoys 'sellers market' conditions. The average level of import duties is high and when local manufacture of a product is begun for the first time, imports are cut or the level of duty put so high as to make their price prohibitive. It is officially appreciated that new industries will charge high prices initially, but the power to authorise "regulatory" imports to counter high local costs and prices is rarely used. A high local product price is accepted on the grounds that the import bill must be reduced as a prime national objective.



Within this protected market, manufacturers can generally sell all or almost all their output particularly if they are in consumer goods sectors, without too much difficulty, and they are decidedly production oriented.

However, there is an awareness among the more forward-looking businessmen that increasingly competitive conditions can be expected to develop in coming years.

Turkey is now an associate member of the European Economic Community. It is due to become a full member by 1982 and all barriers should be removed by 1994.

The general opinion in government circles seems to be that Turkey has at most 10 years in which to increase and diversify its industrial base and to hoist the efficiency of its business enterprises up to a reasonable level. After that, it is felt that the strength of competition from her EEC partners might well strangle for ever any indigenous enterprise.

## **CORPORATE PLANNING PRACTICES AND NEEDS OF BUSINESS ENTERPRISES**

Generally speaking, Turkish industry, whether publicly or privately owned, cannot be described as being efficient. One of the difficulties it has to contend with is under-capitalisation and there is certainly a need to widen the application of modern technology. However, the greatest deficiency in Turkish business lies in its management. Despite the fact that there is a growing body of professional managers in Turkey who are finding rewarding careers in business, the average business is still owned and managed by an individual or family quite unversed in modern management methods and techniques. In general, there is little or no systematic planning of business affairs and the average enterprise merely reacts to its environment. However, "merely reacting" gives most owners a satisfactory return on their capital and they therefore see no reason to change their ways.

Because their circumstances are rather different it will be advantageous to discuss the State Economic Enterprises and private sector businesses separately.

### **State Economic Enterprises**

The background to the SEE was sketched in the preceding section of this report. They are large enterprises engaged in a wide range of activities in agriculture, manufacturing, mining, power, transport and various other service industries. A great variety of organisational structures prevails, depending on the specific circumstances - when, how and under which law, the particular enterprise was founded. Some are controlled by development banks: thus the Sumerbank controls state activities in the textile sector, Etibank controls the state mining enterprises, etc.

Various government commissions have been appointed to consider, and recommend solutions for, the problems of the SEE (there is a committee appointed by the Prime Minister sitting at the moment) and these have defined the major difficulties as:

- political appointments at the top, with frequent changes
- chronic over-staffing
- weaknesses in organisation, finance and accounting
- political interference in investment and price policies and personnel administration.

The recommendations incorporated in Law 440 of 1964 state that enterprises would be autonomous, would be run on commercial principles, that management would be full time and qualified, and free to make all appointments and policy decisions, including those relating to investment.

However the principles incorporated in Law 440 have been applied only to a limited extent. The financial and structural reorganization has hardly started. Commercial principles are largely or partly ignored and the dominance of extra-economic factors, particularly in price policy, continues through the system of special treatment of basic goods. Law 440 provides that the prices of certain basic goods are determined by the State and that losses so incurred be reimbursed to the enterprises from the budget. Power, coal, cement, iron and steel, fertilizer, copper sulfate for agricultural uses, merchandise transport are considered basic goods, whereas sugar and cereal prices are controlled for social reasons.

There are a number of efficient SEE and many of the weaknesses of other SEE are also found in private sector enterprises. In many instances, at least in manufacturing, it would appear that the basic difficulty of assuring efficiency is to be found in the isolation from international competition behind high protection. In addition, there have been improvements in the economic and financial performance of some of the SEE. The estimates of the First Plan of funds generated by profits and depreciation by SEE of TL 5.5 billion in 1963-67 were exceeded. Also the investments in the sector expanded rapidly during the First Plan indicating increased ability to prepare projects.

Unfortunately, the SEE suffer from a constant drain of good people to the private sector. Salaries and conditions in private sector businesses are very much better than those which prevail in the SEE with the result that the SEE are losing many of the best managers at middle and upper levels which they themselves have trained. This obviously has a serious effect on the quality of management in the SEE.

The approach of the SEE towards planning (at least in relation to investment projects) was strengthened by the establishment of the State Investment Bank in 1964. The State Investment Bank finances from  $\frac{1}{3}$  to  $\frac{1}{2}$  of the SEE requirements for funds, and it has gradually introduced some measure of uniformity in preparing and evaluating SEE projects which were previously not subject to critical examination and evaluation by an outside institution.

The planning that is done in most SEE tends to be a rather unsatisfactory form of derivative planning. The objectives of SEE are handed down to them by the government of the day. Unfortunately, these objectives are all too frequently changed and, in addition, any particular set of objectives is likely to contain conflicting elements. Also, it seems that the SEE are rarely given clear cut priorities which would enable them to develop their own hierarchy of objectives.

The SEE are also seriously hampered from the point of view of strategy formulation and selection because strategies are also frequently imposed on them by the government. As mentioned above, the government of the day often dictates their pricing and personnel policies and their investment decisions.

To a considerable extent, therefore the SEE in Turkey are instruments of government policy. From a planning point of view they operate under severe constraints. Having their objectives set for them in an unsatisfactory way, and their choice of strategy limited, the SEE lack the freedom to manoeuvre which planning philosophy assumes. Also, the development of planning processes is hampered.

From a functional viewpoint, the planning emphasis in SEE is on production: financial planning is done but probably not very well. Manpower planning is made difficult by the intrusion of government policy. Market planning, where it is carried out at all, is at a very rudimentary stage. Research and development is rather neglected but project planning has improved in recent years.

A factor which indicates ineffective corporate planning and implementation in the SEE is the persistent tendency towards centralisation. Too many decisions are referred to the top and there is a reluctance to delegate. Furthermore, it is at the top of the SEE that the greatest managerial deficiency is to be found.

Middle managers in most SEE are generally fairly competent. These are the young managers who have benefited from the improved management education now being provided by the universities and, most importantly, by bodies such as the Productivity Centre and the Turkish Management Association. The SEE are taking the trouble to educate and train their managers at the middle and supervisory levels and this is very much to their credit. Many middle managers have been sent on courses and seminars. Some have gained knowledge and experience in the U.S.A. and U.K. Most of the training at supervisory level is done on the job. However, the SEE have on the whole neglected to educate and train their top managers. These are usually older men who commenced their careers before Turkey began to produce professional managers and most of them do not appreciate that they, too, require education and training.

#### Businesses in the Private Industrial Sector

The types of private business in Turkey which are the most efficiently run and in which modern methods and techniques, such as corporate planning, are employed are those which are partly foreign - owned. The large American and European companies which operate internationally have substantial investments in Turkey and their activities cover a wide sectoral spectrum: textiles, motor cars, oil and petrol, car tyres, detergents, electrical durables, business machines, computers,

and so on. All of these joint ventures benefit from American and European management know-how and expertise and, although the quality of management varies considerably, they are generally much better managed than most indigenous enterprises.

Most of these businesses do some kind of general planning of their activities which is fairly systematic and comprehensive. Sometimes it is highly sophisticated. Nevertheless, the sample interviewed pointed out the difficulty of trying to plan intelligently in the Turkish environment. Because of the uncertain political climate and the strong inflationary trends there is a great temptation to opt for short-term profit maximisation and to forget about the longer term. A great difficulty is the lack of information, especially market information. The cumbersome government control machinery impedes quick decision making and, furthermore, it is difficult to obtain good-quality indigenous managers. This last problem is less serious in an old-established industry, such as textiles, than in some of the newer sectors. Because of the government's exchange restrictions, some of the businesses with a foreign element admitted candidly that the key criterion in the selection of further investment projects is the maximisation of remittable funds.

A few of the indigenous private businesses stand comparison with the businesses just described, but so far these are very much the exceptions to the general rule in Turkey and are, perhaps, no more than 20 in number.

An outstanding example is a large company which was originally in the pharmaceutical business and has since diversified successfully into such fields as ceramic ware and paper products. Real planning began in this company in 1964 but it extended only in to the medium-term future; long-term planning was introduced in 1968 by a British firm of consultants. Today the company operates a comprehensive corporate planning system which dovetails with a philosophy of management by objectives. Managers at all levels are involved in the planning activity which is designed to produce 5-year rolling plans.

Another example is, in fact, the largest private business in Turkey which has an enormous range of activities. In this company a corporate planning department was established only a few months ago as the culmination of planning efforts going back over 9 years. Comprehensive planning is in its early stages in this company but all the essential ingredients for it seem to be present. The consultant who advised the company on "how to plan planning" was a leading U.S. authority on corporate planning.

As mentioned earlier, such sophisticated planning systems are, as yet, quite exceptional in Turkish business enterprise. Most businesses manage with very little planning indeed. It is probable that the factors which propelled the 2 companies mentioned above towards planning were twofold.

- i. the sheer size and scale of their activities
- ii. the need of the family owners to employ professional managers to assist them in their task.

Most businesses in the private sector of Turkish industry are very small and the individuals or families which own and manage them consider that they are perfectly capable of doing the job themselves without any special education or training. They concentrate on production because the products sell themselves with little or no difficulty. Labour presents no problems but a little cash budgeting may have to be done.

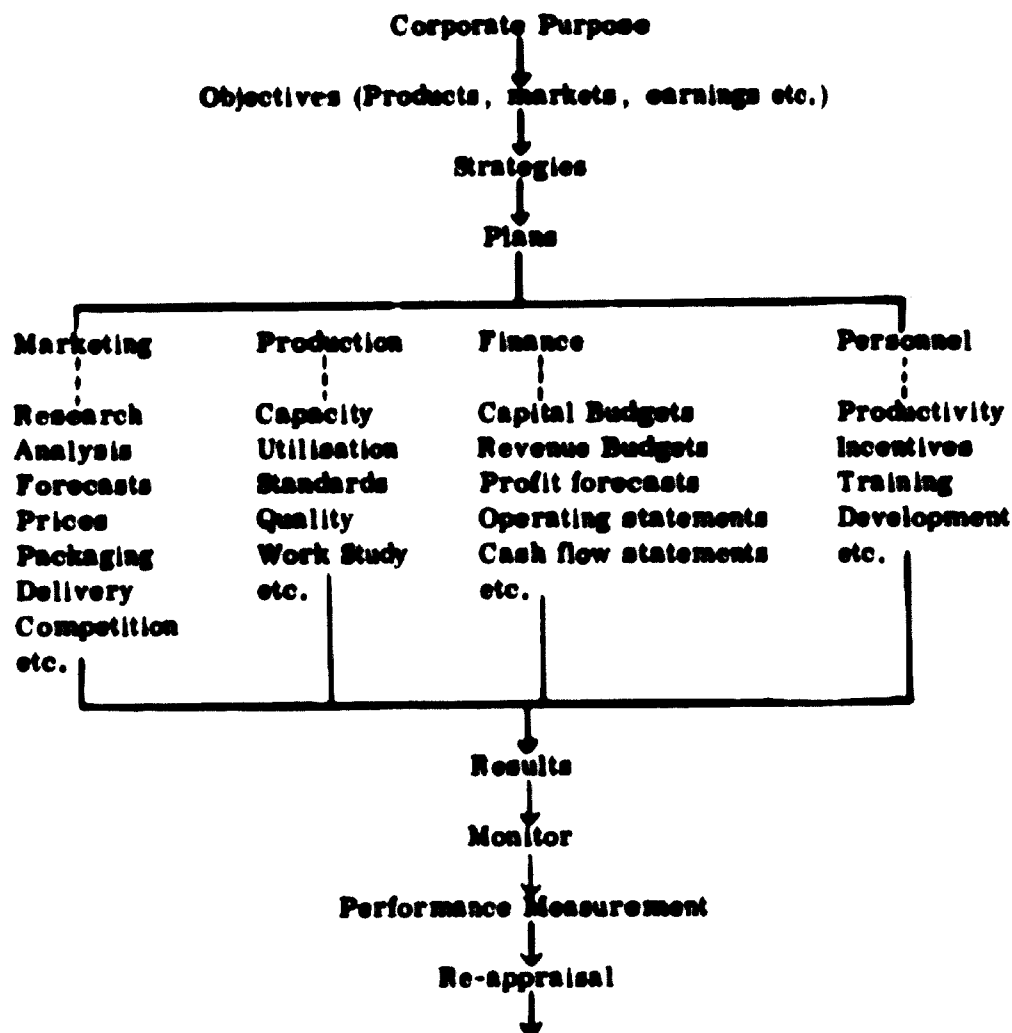
There are, however, quite a number of businesses in various industrial sectors (e.g. chemicals, textiles, metal goods, etc.) which are not small nor yet large. It is the medium sized enterprise that begins to create problems for the individual or family owner and it is in relation to such enterprises that the planning needs in Turkish private industry are most pressing.

#### PART IV. APPLICATION OF THE CORPORATE PLANNING MODEL

In applying a corporate planning model, such as that outlined in Part I of this report it is necessary to distinguish between, for example, the large conglomerate having a multiplicity of products, locations and outlets and the smaller company with low volume output and a minimum of outlets. Equally, the same distinction must be made between the well developed industrial countries and the less developed countries. The proposition therefore is that what is required - indeed is essential - for the effective development and control of the large conglomerate in the economically developed country is not the same as what is required for the smaller enterprise in the less developed country. Practical considerations in the less developed countries compel a pragmatic approach; in general, the necessary skills (in the corporate planning sense) do not exist in such countries. That being so, the first requirement is to give the assistance needed in developing these skills at the enterprise level. To attempt this on the basis of sophisticated models is not considered to be the best approach in the light of the capacity of the individual to apply the techniques required. What is required is for practical assistance to be given in individual techniques at the functional level in enterprises. Thus, the marketing, production, finance and other functions should be assisted in developing basic skills and expertise. Until this is done it would be quite unrealistic to expect them to comprehend the purpose of, and need for corporate planning - let alone be skilled in its application.

The place of the functional "building blocks" in a corporate planning system can be illustrated schematically as follows:





The above model is, of course, cyclical in the sense that input data is constantly being up-dated and plans reviewed.

The validity and value of such a model is undeniable. What is to be doubted is whether it is applicable in its entirety at the enterprise level in the less developed countries. Our experience leads us firmly to the view that at this stage in the history of the less developed countries a more practical and pragmatic approach is required and that this should concentrate on the introduction of techniques relative to each function as broadly outlined in the model. Only when the stage has been reached where the managers have acquired, and have had experience in applying, individual techniques would it then be possible to consider the integration of the functional plans into a comprehensive plan for the whole business. It is for this reason that we recommend that technical aid should, initially, be directed towards assisting individuals and enterprises in the less developed countries to learn and apply the required techniques at the functional level.

To elaborate on the concept of providing assistance at the functional level we have prepared the following synopsis of the building blocks inherent in such an approach.

1. Production

Planning  
Inventory Control  
Plant utilisation  
Flow line and/or batch production methods  
Development of standards for materials, labour and processing  
Elimination of bottlenecks  
Reduction of rejects and rework  
Quality control  
Preventive maintenance.

2. Finance

Cash flow projections using DCF techniques  
Forward Budgets - Capital  
                                  - Revenue  
Management accounts  
Cost accounting  
Operating statements  
Credit control

3. Mannpower/Personnel

Systematic recruitment  
Productivity schemes  
Incentive schemes  
Job descriptions/evaluation  
Staff training/development  
Executive development/career progression  
Management by objectives.

#### 4. Marketing

Simple and basic research into, and forecasts of:

Production )	
Consumption )	
Demand )	as a basis for
Level of Imports)	estimating total market
Level of exports)	
Competition )	as a basis for setting market targets
Market shares)	and determining production requirements
Price )	to improve
Packaging )	competitive position
Distribution)	

#### 5. Information Systems

The techniques to be applied in this connection necessarily cut across the various functional areas. What the E. I. U. has in mind here is the provision of adequate information which will form the basis for sound management decisions. The information system should ensure that management receives regularly (monthly, weekly or daily as the case might be) the critical data which it requires. This is bound to vary from one business to another and may, for the sake of illustration, include the following:

- daily production figures/stock movements/reject rates, etc.
- weekly sales figures, direct costs, etc.
- monthly operating statements, cash projections, debtors' and creditors' analyses, staff position, etc.
- quarterly market intelligence reports, e.g. market share, pricing, competitors' postures etc.

#### 6. R and D

Manufacturing methods  
Manufacturing standards  
Materials specification  
Value analysis.

## **PART V. CONCLUSIONS AND RECOMMENDATIONS**

### **LESS DEVELOPED COUNTRIES IN GENERAL**

The E. I. U. is convinced that there is a real need for planning assistance to be given to business enterprises in less developed countries. It is recommended that such help should be given, so far as possible, at enterprise level and that it should mainly be of a simple and basic kind.

Most business enterprises in LDC's are small in size and they operate in sellers' market conditions. Their current needs are, therefore, not for sophisticated internal planning systems but for simplified management aids in the following areas:

- i. Production planning and control (plant capacity - utilisation - rates of output - quality control - preventive maintenance etc.)
- ii. Materials planning and control (specification - rates of usage - lead and lag times - maximum and minimum stock levels, etc.)
- iii. Financial planning and control (as outlined in Part IV)
- iv. Management control information systems (as outlined in Part IV).

Some business enterprises, usually to be found in relatively advanced LDC's or in highly developed sectors, require assistance of a more sophisticated kind. These will be larger enterprises encountering problems linked with changing market conditions and the growing scale of their activities, but even these companies in the main - do not require highly sophisticated systems. The most useful form of assistance is dictated not only by need but by the ability of the business management to make proper use of it. Before comprehensive planning can effectively be carried out in a business there has to be a "supporting infrastructure" of management methods, techniques and sheer competence in existence. The emphasis in programmes of assistance should therefore be to construct the "building blocks" within enterprises on which more comprehensive planning systems can be built at a later stage.

The needs of these more advanced business enterprises in LDC's will be discussed further in the recommendations relating to Turkey.

Most LDC's suffer from a great shortage of professional management in business. This is a basic infrastructural deficiency which is, perhaps, beyond the scope of the kind of technical assistance programme which UNIDO has in mind to deal with. However, there is a need to focus the attention of the existing cadre of professional managers in LDC's on the role and usefulness of planning in business, and in particular on the importance of gradually building up a planning capability within the individual business. In this connexion, UNIDO might consider assistance with a programme of seminars focusing on business planning in which experts with experience of corporate planning in developed economies could participate with local experts in management and the managers from the more advanced local business enterprises. The emphasis in such seminars should not be on theory but on the practical problems of local businesses.

At a much lower level of sophistication, the planning needs of most business enterprises in LDC's might be met by providing expert help to individual business enterprises in the areas of production planning, materials planning, financial planning and management information. As mentioned earlier the technical help required is of a simple, basic kind but the task of the expert would be not only to install the systems but also to educate the (usually owner) managers in their use on the job. Obviously, the selection of individual enterprises to be assisted would be done in close consultation with the appropriate government department in each LDC and with the assistance of local chambers of commerce, management bodies and so on. The participation of local experts in such programmes of assistance would be vitally important partly because of their knowledge of particular local conditions and problems, partly to ensure the continuity of the work and partly to give them more consultancy experience.

The E.I.U. suggests that the following criteria might be applied by UNIDO in selecting the sectors to be assisted within particular LDC's,

- i. it should be an expanding sector of industry capable of making a real contribution to the growth of the economy as a whole, the provision of jobs, etc.
- ii. the sector's development should fit in with the government's development plans.
- iii. the sector should be contributing increasingly either to the import-substitution effort or to the export effort.
- iv. there should be some evidence of technological development in the sector.

So far as the individual enterprise is concerned, priority should be given to the firm which is experiencing management problems, and this will usually be a medium-sized or large enterprise in sectors or economies in which market conditions are changing.

## TURKEY

Turkey is a relatively advanced developing country. Even so, there is little evidence of systematic planning in most of its business enterprises.

The planning needs of the great majority of Turkish businesses are therefore similar to the needs of most business enterprises in LDC's, as outlined above, and the recommendations for assistance programmes to LDC's in general are valid for the greater part of Turkish business.

However, it is necessary to give separate consideration to the needs of the State Economic Enterprises and those of the medium-sized and larger private enterprises in Turkey.

### State Economic Enterprises

It was stated in Part III of this report that the weakest element in the management of the Turkish SEE is at the top, partly because the key posts are political appointments and partly because most other holders of high office are of the older school of Turkish managers who generally lack professional training in management, have little understanding of modern management methods and are reluctant to learn.

It is difficult to see how the SEE's can be helped to improve their business planning in the present circumstances in which they are given badly formulated objectives which are frequently changed and in which there is constant government interference with strategies and policies.

However, if government policy towards the SEE is changed and if, as is currently proposed, they are given much more autonomy and are allowed to run their affairs on more strictly "commercial" lines with the minimum of state interference, there will be an excellent opportunity to help the SEE to develop effective corporate planning systems. Should these circumstances arise, the E. I. U. recommends that a consultancy programme should be mounted with the following aims:

- i. to help the SEE to formulate meaningful sets of objectives on the achievement of which their efforts can be focused.
- ii. to improve the existing planning processes so as to secure the involvement of managers at all levels and encourage initiative and innovation.
- iii. to educate and train the management of the SEE - especially at the upper levels - in planning philosophy and methods.

Such a consultancy/training programme would require the participation of both foreign and local experts.

#### Private Sector Enterprises

Turkey has a higher proportion of large or medium-sized businesses than most LDC's simply because it is at a relatively advanced stage of development. As mentioned in Part III of this report some of the larger indigenous enterprises have developed seemingly effective planning systems but such sophistication is exceptional. The E.I.U.'s evidence indicates that there are many indigenous private enterprises in Turkey which are experiencing problems connected with their size and growth (not so much with market changes yet because most industries are still well protected) and which would benefit greatly from assistance with planning.

It was not possible, in the course of this general first look at the situation, to identify precisely the sectors of industry in which such business enterprises are mainly to be found (although they certainly exist in the textile, chemicals and metal products sectors) and the E.I.U. therefore recommends that further work needs to be done in this connexion and also to identify the precise needs of the sectors and individual enterprises selected for assistance. It appears, from the E.I.U.'s brief studies, that the greatest needs will be in the areas of production planning, materials planning and financial planning, and in connexion with management information systems



and cost control. A particular need in Turkish industry is for improved quality control. In view of the increasing power of trade unions, some firms may need help with manpower planning, and a few may now be thinking in terms of market planning.

The E. I. U. strongly recommends that assistance with these problems should be given at enterprise level and that there should be a strong element of management training in the consultancy work in each case.

The success of any programme of assistance to Turkish business enterprise will depend not only on its appropriateness and the quality of the foreign experts employed to implement it but also on the effective participation of local people.

Perhaps the best-equipped Turkish organisation in this respect is the Turkish Management Association in Istanbul which is engaged in management consultancy and, through its subsidiary division - the Management Development Centre, in management training. Its 25 full-time consultants have, since 1962, carried out a wide range of consultancy assignments and helped to train the 10,000 or so managers who have attended the Centre's courses and seminars.

The Productivity Centre in Ankara has also done excellent training work concentrated rather more on the public sector.

An organisation which is becoming well-known for its seminars is the Productivity Association which is currently planning to organise a series of seminars on corporate planning, if it can raise the necessary funds. The Productivity Association is also planning to engage in consultancy work.

The university faculties of management (which exist at the Middle East Technical University, Istanbul University, Bozphorus University, Ataturk University and Hacettepe University) are generally less highly thought of by managers than the organisations mentioned above, largely because the teaching staff are considered to be theoretical and lacking in practical experience.

There is a clear need for assistance in management education and business planning in Turkey. That this would be beneficial to the enterprise and - ultimately - to the country cannot be doubted. It is encouraging that there are institutions in Turkey who recognise the need and are endeavouring to satisfy it. However, their efforts need to be extended and supplemented and, therefore, programmes of assistance on the lines outlined above would make a significant contribution to the future development of Turkey.

During the course of the study the E. I. U. had discussions with a number of respondents in Turkey. These discussions included consideration of the need for, and methods of application of, corporate planning. The general consensus of opinion was that there was scope for the introduction of planning procedures, though there was some doubt whether or not this should be attempted in the highly sophisticated manner implied by the term "Corporate Planning". The primary requirement at this stage in Turkey's development was considered to be for assistance in specific techniques, applicable at the functional level, as described earlier in this report. The E. I. U. concurs with this view and recommends that technical aid should be directed towards this end.

It was not possible, within the scope of the present general study, to rank the identified needs into a strict order of priority. The priorities are, in any case, likely to vary from one industrial sector to another and also between business enterprises in any particular sector. Before a programme of technical assistance is mounted it will therefore be necessary to identify the particular needs of the individual sector or business so that the most urgent requirements (whether to do with production, finance or information systems) are given priority.

## **ADDENDUM**

The E.I.U. is currently engaged as an assignment in Nigeria. Although in its very early stages it is possible to offer some general and unpessimistic comments in the context of planning at the state level and at the level of individual enterprises.

### **Planning at State Level**

The Federal Government and the Governments of individual states prepare 5 year plans in which growth targets are established for individual sectors of the economy.

Theoretically, these plans are transmitted, through State Corporations, to the level of the individual enterprise. Even if this is efficiently done - which is doubtful - it is successful only in so far as it reaches those enterprises which are owned by Government or in which Government has a majority interest. There is little evidence that the private sector is substantially involved in this process.

Since it is the position - with the exception of the distributive sector - that a very large number of enterprises are either Government owned or controlled - it would be a reasonable assumption that a fair degree of coordination and correlation is achieved between Government plans and implementation at the level of the individual enterprise. However, on the basis of the E.I.U.'s, as yet, limited experience, this would not appear to be the case. It is our view that the quality of management is poor, the style of management is immature and that there is a lack of control and executive direction and responsibility.

Fundamentally this results from a number of factors:

- a. a high degree of Government involvement.
- b. The existence of highly bureaucratic procedures which result in duplication of effort and lengthy delays at the decision making stages.

c. The existence of nominal directors at Corporation and enterprise level who have no executive control over, or responsibility for, the performance of those enterprises.

The state of the art - or lack of it - is characterised by an almost total absence of operating reports at enterprise level, by the absence of clearly defined and well reasoned targets and by the absence of any attempt to measure and maintain performance.

There is a general understanding of what is required. But equally, there is a serious shortage of personnel with the ability to apply the fundamental principles of planning.

The inescapable conclusion must therefore be that there is an urgent need for assistance to be provided in terms of education and in terms of the application of planning techniques. That the economy of the country would benefit there can be no doubt. GNP is growing - accompanied by inflation. There is a severe shortage of cash, even for those projects which have been approved. Existing enterprises are not generating sufficient funds either to sustain growth or for re-investment in new projects. On the basis of its limited exposure to some projects coupled with a very detailed analysis of one project in particular, the E. I. U. does not doubt that there is much to be gained from the introduction and application of sound planning routines. Indeed we would regard this as a matter of some priority in the sense that the potential which we believe to exist is by no means being realised.

#### Planning in the Private Sector

A very large number of companies in the private sector are owned by parent companies - sometimes with minority Government participation. The E. I. U. has not had access to these enterprises but has had the opportunity to discuss the subject with individual executives.

Our general impression is that planning is an important function in the development of these enterprises and that this is undertaken in a logical and rational manner.

We were impressed with the calibre of executive with whom discussions were held and therefore have no cause to doubt the validity of our information. In the sense that it is possible to check on this without internal access, it is possible to observe that, based on the results achieved (in terms of growth and assets and profitability) by the few companies in the private sector in respect of which we were given this information, there can be no doubt that their performance is incomparably better than that of the few Government enterprises about which we have, as yet, any reliable information. Using this yardstick we therefore conclude that planning activities are an integral and successful part of private sector operations.

## **APPENDIX 1. DERIVATIVE PLANNING**

The phrase "derivative planning" is applied in situations where the individual business enterprise, whether publicly or privately owned, has to operate within a framework of state development planning and is expected to contribute to the achievement of the targets set in the state plan.

The connection between publicly-owned enterprises and the central planning body is obviously closer than that which exists between private sector businesses and the central planners. The public enterprises are usually consulted at the plan preparation stage and their objectives are handed down to them in due course, usually through the government ministry or department which deals with trade and industry. However, the realism of the targets handed down to the public sector and the precision with which these are defined varies greatly between countries, depending upon the degree of sophistication of the government planners.

So far as the private sector is concerned, the channels of communication between the central planning body and the individual enterprise are much less direct. Furthermore, they are a means of transmitting information and not conveying instructions because, whereas targets set in development plans are mandatory for public enterprises, they are usually only indicative for the private sector. The central planners usually communicate with the private sector through the appropriate ministry which has contacts at national level with employers' federations, associations of chambers of commerce and similar bodies. In some countries a separate consultative machinery has been set up to facilitate two-way communications between the state planning body and private sector business.

In the case of Turkey the State Planning Organisation, which is responsible for producing the 5-Year development plans, has close contacts with the State Economic Enterprises, but the extent to which due weight is given to the views of the SEE at the plan preparation stage is open to question. The private sector is apparently not consulted at all when plans are being prepared and the realism of the targets set for the private sector is therefore to be doubted. The State communicates its plans to the private sector through the Association of Chambers of Commerce and Industry and similar bodies.

## **APPENDIX 2.**

### **A Selection of Useful Contacts in Turkey**

At UNIDO's request, the E. I. U. gives below a select list of people and organisations which UNIDO might find useful if a programme of technical assistance with planning is embarked upon in Turkey. The E. I. U. interviewed almost all of the people listed (among others) in the course of its field work in Turkey, but it wishes to emphasise that the views, conclusions and recommendations made in the report are entirely its own and are not attributed to any of the individuals or organisations mentioned below.

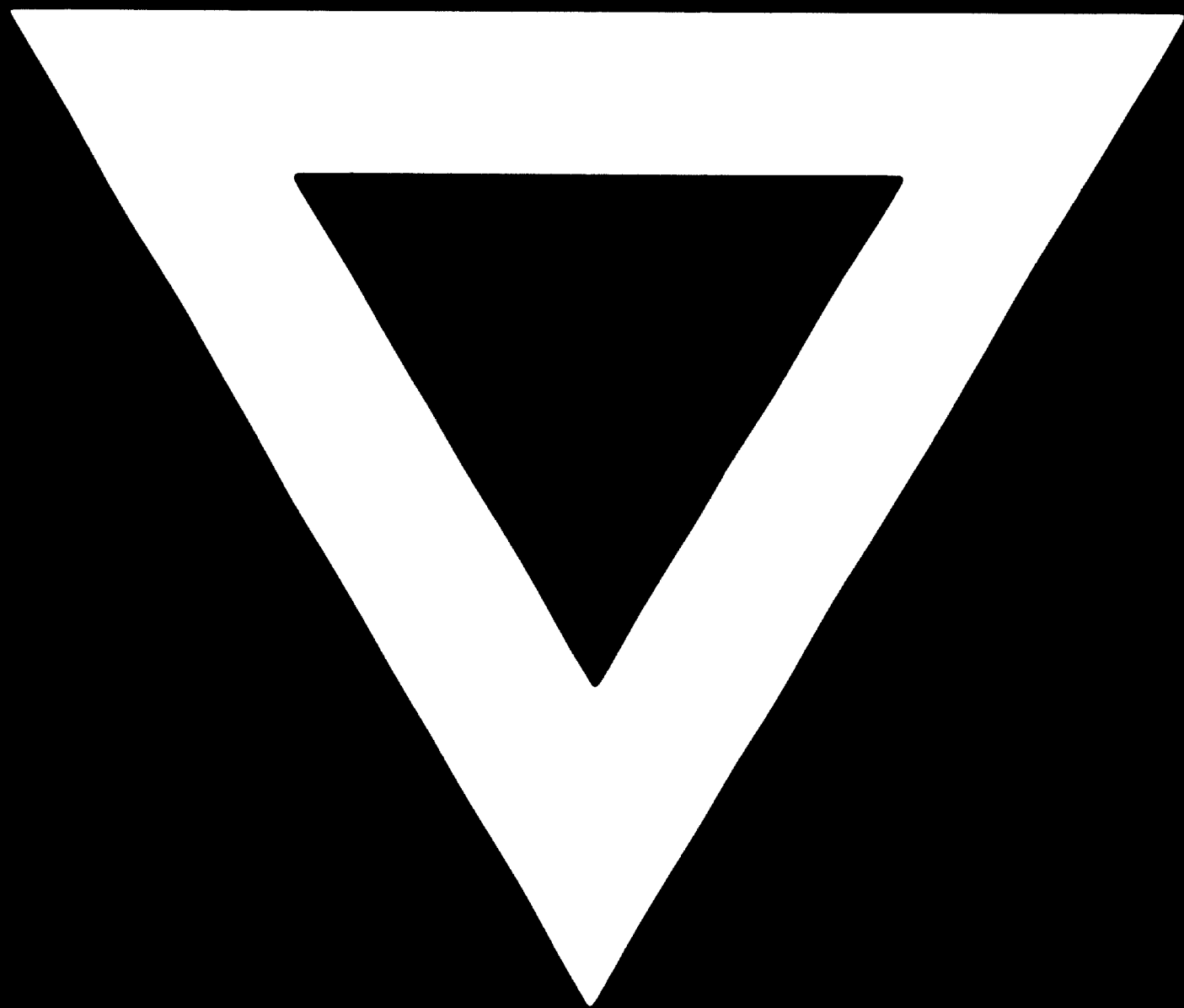
1. **Mr. Faiz Poroy**  
Secretary General  
Turkish Management Association  
Meclisi Mebusan Cad. 323  
Orya Han 6-7  
Findikli, Istanbul.
2. **Mr. Fahir Ozsoy**  
Director  
Turkish Management Development Centre  
(Address as for Turkish Management Association)
3. **Mr. Nuri Cerigenc**  
- Founder member of:  
Productivity Association  
Yemisli Hasan Sokak  
Kucuk Is Hani, Kat 2  
Karakoy, Istanbul  
- also, Director of Management Services  
Eczacibasi (Group of Companies)  
Levent  
Istanbul
4. **Mr. Bahaeddin Kayaliloglu**  
Assistant General Manager  
Industrial Development Bank of Turkey  
Necatibey Caddesi 241-7  
Karakoy  
Istanbul.

5. **Mr. Gunduz Pamuk**  
**Planning Co-ordinator**  
**Koc Holding Company**  
**Buyukdere Caddesi 97**  
**Mecidiyekoy**  
**Istanbul.**
6. **Mr. Behcet Osmanoglu**  
**President**  
**Istanbul Chamber of Commerce .**  
**Unkapani**  
**Istanbul.**
7. **H. Teoman Baykal**  
**General Manager**  
**SADA Industrial Research & Consulting Ltd.**  
**Mithatpasa Cad. 54**  
**Yenisehir**  
**Ankara.**
8. **S. Neset Omay**  
**Union of Chambers of Commerce & Industry**  
**Ataturk Bulvari 149**  
**Bakanliklar**  
**Ankara.**
9. **Mr. Ali Mansur**  
**Managing Director**  
**Ege Kimya Sanayi ve Ticaret A. S.**  
**Rihtim Caddesi**  
**Karakoy**  
**Istanbul.**
10. **Mr. R. Lawson**  
**Managing Director**  
**Santral Dikis**  
**Cumhuriyet Caddesi**  
**Istanbul.**
11. **Mr. Ceyan**  
**Director**  
**Economic Development Foundation**  
**Kent Sitesi, Kat 1**  
**Kent Sinemasi Ustu**  
**Sisli**  
**Istanbul.**



12. **Mr. J. O. M. Rowlands**  
**Senior Industrial Development Adviser**  
**C. E. N. T. O. Secretariat**  
**Old National Assembly Building**  
**Ankara.**
13. **Mr. Aksit Kayalar**  
**Head of International Division**  
**State Planning Organisation**  
**Ankara.**
14. **Mr. Tenker**  
**Head of Economics Department**  
**State Investment Bank**  
**Izmir Cad., Turkes Han**  
**Ankara.**
15. **Mr. Bulent Yasici**  
**Ak Bank**  
**Findikli**  
**Istanbul.**
16. **Mr. Margulies**  
**Managing Director**  
**Bula Biradarlar A. S.**  
**Bankalar Cad. 61/63**  
**Karakoy**  
**Istanbul.**
17. **Mr. D. N. Giresunlu**  
**General Director**  
**Tourism Bank**  
**Istanbul.**
18. **Planning Department**  
**Sumer Bank**  
**Ankara.**
19. **Mr. Lorimer**  
**Managing Director**  
**British Petroleum Company**  
**Effendi Cad. 63**  
**Sisli**  
**Istanbul.**
20. **Mr. Robert Kerwin**  
**Ford Foundation**  
**Istanbul.**

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