Chapter - II

Review of Literature
REVIEW OF LITERATURE

Several empirical studies have been conducted to know the strategic management practices of companies. This chapter surveys some of these empirical studies carried out both in India and other countries.

Most of these empirical studies relate to strategic planning and whether strategic planning helped the companies to improve their performance or not. There is a wealth of literature available on the continuously evolving concepts of corporate planning and the state – of – the art of its practice in the western corporate world. However, there is very little literature on the application of these concepts in the Indian organizations and the prevalent practices of corporate planning in the Indian corporate sector. Also there are studies relating to environmental analysis, corporate models, acquisitions, role of top management etc.

FOREIGN STUDIES

Studies concerning formal planning systems and influence of environmental factors

The survey carried out by Denning and Lehr, with 300 respondents, showed that 22% of the companies practiced corporate planning. (Denning and Lehr, 1971; 1972)37. Hegatty (1976) in his study during 1970 to 1973 observed that successful companies were the ones who were able to link strategies with objectives. Kono, in his survey carried out during 1971, found that 77% of the Japanese companies and 85% of the U.S. companies were having some form of long range plan. (Kono,1976)38.


Bhatty examined 26 medium-sized companies in U.K which showed that only 46% of them practiced planning. (Bhatty, 1981)\(^{39}\).

Taylor and Irving, in their study found that the triggers or reasons for planning in 82% of the companies were some form of top management change, exposure to outside influences, technological developments, merger or reaction to a critical situation (Taylor and Irving, 1971)\(^{40}\). Denning and Lehr also found that the major factor in the introduction of planning was the rate of technological change. (Denning and Lehr, 1971, 1972).

Ringbakk, showed that companies generally feel the need to introduce corporate planning only under crisis conditions and identified a number of externally caused reasons for organized planning, like dynamics of the environment and changing business conditions, increased competitive pressure, market changes and technological development. His study also revealed that the size of organizations was a factor for the introduction of corporate planning. (Ringbakk, 1969)\(^{41}\). Denning and Lehr also found that size and capital intensity were important causes for the introduction of planning. (Denning and Lehr 1971, 1972).

The study by Kono identified the high growth of the Japanese economy, technological innovation, severe competition between corporations and national economic plans as the most important reasons behind the high incidence of corporate planning in Japan (Kono, 1976).

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Glueck (1984) in his study of 358 large corporations, observed that economic and governmental factors were important to be considered in the formulation of strategies. The next important factor was market changes. Similar observations were also made by Bibault (1982).

According to Miller and Friesen (1977) impulsive and stagnant bureaucratic managers do not adequately study the environment. The study by Collings (1969) also confirmed that the most important environmental factor was market/competitive factor. Aguilar (1967) and Wall (1974) also identified in their study that the most important environmental factor was market/competitive factor.

Many studies were also made to know the role of top management in corporate planning. Ringbakk found that 4 out of every 10 of his respondents stated that there were problems of getting top management support for planning (Ringbakk 1969). Taylor and Irving have also stressed the need for personal involvement of the chief executive in planning. However, they found that 26% of their respondents did not report to the Chief Executive (Taylor and Irving, 1970). The study by Khandwala (1977) suggested that entrepreneurial or proactive mode was preferable under maximum turbulency of the environment and conservative or reactive mode was preferable under minimum turbulency of the environment. The society for Long Range planning found that 48% of the managers who were responsible did not report to the Chief Executive (Hussey, 1983). Many studies have been made to show empirically a relationship between planning and company performance. While some studies have concluded that

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companies adopting strategic planning achieve better levels of performance than companies which do not adopt strategic planning, other studies do not show such relationship.

Studies which claim a positive relationship between strategic planning and performance

Thune and House analyzed the financial results of 36 U.S. companies in six different industries, using matched pairs of 'planning' and 'non-planning' companies. Also the results of each planning company's performance after the introduction of planning was compared with its pre-planning performance. The analysis revealed that planning in general did lead to an improvement in financial results (Thune and House, 1970)\textsuperscript{45}.

Schoeffler, Buzzel and Heany (1974) studied 57 large corporations and showed that strategic planning helped them well in achieving high profitability and high return on investment.

Malik and Karger, used a sample of thirty-eight companies in three industries and compared the companies which did planning with those companies who did not plan. They concluded that planning improved financial performance (Karger and Malik, 1975)\textsuperscript{46}.

Ansoff et al., studied the financial performance of 93 companies. They used thirteen variables and twenty-one different measures within these variables. The companies which did extensive strategic planning were found to outperform the other companies (Ansoff, et al. 1970)\textsuperscript{47}.


Fulmer and Rue (1974) made a survey of the strategic management practices of 386 companies over a three year period and came to the conclusion that durable goods manufacturing firms with strategic management practices were more successful than those firms which did not practice strategic management.

Karger and Malik (1975) surveyed 90 US companies in five industries and concluded that strategic long range planners outperformed non-planners in terms of generally accepted financial measures.

Armstrong (1991), a quantitative critique, after studying 28 studies concluded that formal planning was valuable to firms.

Strategic management has been found to be useful for small scale firms also by Gibb and Scott (1985). In a survey of 101 firms, Robinson (1982) found that strategic planning was useful to small scale firms.

Many studies have been made relating to the gain or loss in the share values of companies before and after mergers, acquisitions and takeovers. Dodd and Ruback (1977), Kummer and Hoffmeister (1978), Bradley (1980), Jarrel and Bradley (1980), Bradleley, Desai and Kim (1983) and Ruback (1983), all have estimated positive abnormal returns to the target companies of successful tender offers in the month or two surrounding the tender offer. Dodd (1980), Asquith (1983), Eckbo (1983), Asquith, Bruner and Mullins (1983) and Malatesta (1983) had observed that almost half of the abnormal returns associated with the merger announcement occur prior to their public announcement. Wier (1983) estimated in his study the abnormal returns from the first public announcement through the outcome day that incorporate all the effects of changing information regarding the offer that occur after the initial announcement.
Fama, Fisher, Jensen and Roll (1969) in their study measured the abnormal returns in the stock prices arising out of stock splits.

Keown and Pinkerton (1981) in their study found that roughly half of the price adjustments occurs prior to the public announcement date.

**Studies which do not claim any relationship between strategic planning and performance.**

Grinyer and Norburn used a single measure of financial performance – return on net assets – in their study of 21 organizations. They made a correlation analysis of the relationship between financial performance, common perception of objectives, role perception and formality of planning. In all the cases, they found no association with financial performance (Grinyer and Norburn, 1974).

Kudla tested the hypothesis that the shareholders of planning companies would receive higher returns than the shareholders of non-planning companies and came to the conclusion that strategic planning did not have any significant effect on the level of shareholders' earnings (Kudla 1980).48

Leontiades and Tezel in their study of 61 organizations used five variables – return on equity, return on assets, price-earnings multiples, earnings per share growth, and sales growth for measuring the performance. They concluded that there was no evidence of an association between the perceived importance of strategic planning and company performance (Greenley, 1986). Greenley concluded, in relation to the manufacturing companies, that the research published to date is far from conclusive in establishing a relationship between strategic planning and performance.

Rhyne also made a comparison of a set of studies that empirically investigated the relationship between strategic planning and financial performance, and concluded

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48 Kudla, R.J., the effects of strategic planning on common stock returns, academy of Management Journal, Vol.23 (1), 1980.
that the evidence provided by them was inconclusive. He also identified i) inconsistent definition of planning, ii) inadequacy of the performance measure used, and iii) neglect of industry effects as the major limitations of such studies (Rhyne, 1986).

Studies which analyse the criteria for success or failures

Ringbakk made an analysis of over 350 companies in Europe and U.S.A and deduced ten major reasons for the failure of planning. They were: (1) failure in integrating corporate planning system into the firm’s total management system; (2) inadequate understanding of the various dimensions of planning; (3) inability to gain the involvement of management of various levels in the organization; (4) delegation of the task to the staff personnel who do the planning; (5) failure to change plans as dictated by needs; (6) trying to do too much in a short time when introducing planning; (7) failure of management to operate through the plan; (8) equating financial extrapolation and projection with planning; (9) planning without inadequate information; and (10) too much emphasis on petty detail as against the overall picture of planning (Ringbakk, 1971).

Steiner studied 215 U.S. companies and observed that only 24% of his respondents claimed to be dissatisfied with planning. He used a checklist of fifty planning pitfalls and ranked these according to the degree of significance attached to them by his respondents. The study was repeated by Steiner and Scholl hammer on an international scale, and the same pitfalls were ranked in the top ten by the respondents, though not in the same order. These pitfalls were: (1) the top management assuming that planning can be delegated to a planner; (2) top

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management devoting more time to current problems at the expense of planning related long term issues; (3) lack of clarity in company goals; (4) failure to create the proper climate for planning; (5) inadequate review of divisional and departmental plans by top management; (6) inadequate involvement of line personnel in the planning process; (7) isolating planning from the management process; (8) top management’s lack of understanding of planning; (9) positioning the corporate planner at too low a level in the hierarchy; (10) failure to link plans to performance measurement (Steiner, 1975)^50.

Grinyer and Norburn, in their study of 21 U.K. companies, found that nineteen of them appeared to be practicing some form of formal strategic planning. However, they found confusions over objectives, ambiguities over decision making responsibility and little consideration of long-term environmental influences on the strategies. (Grinyer and Norburn, 1974).

**Studies on specific aspects of planning**

There have been studies which looked into the relationship between strategy and structure, usage of tools and techniques in corporate planning, effectiveness of specific strategies like acquisition and divestiture.

The relationship between strategy and structure has received wide attention in the literature on strategic management. Chandler, in his pioneering study, established that structure follows strategy (Chandler, 1962)^51.

Grinyer, et al. in their study of 48 U.K. companies tested twenty-two hypotheses relating to the linkages of strategy, structure, environment and financial

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performance. They established the relationship between the fit between strategy and structure and perceived environmental hostility (Grinyer, et al. 1980).

Grinyer and Wooller, in their study of 68 U.K. companies found the growing importance of corporate modeling and the use of models in the respondent companies (Grinyer and Wooller, 1975)\(^2\).

Kitching studied the success and failures of acquisitions in Europe. His study showed that only 53% of the mergers were successful, and that success or failure was primarily determined by the choice of acquisition target, and the soundness of underlying corporate strategy. He also found that only financial synergy is easily realized; marketing, production and research and development synergies are more difficult to realize. (Kitching, 1983)\(^3\).

**INDIAN STUDIES**

**Studies on Corporate Planning in India**

Prof. C.N.S. Namboodiri\(^4\) conducted a detailed study in 1974 to understand the strategic management practices of the Indian corporate private sector. Thirty-five companies participated in his study. The significant findings of his study were: 1) Formal long term planning could not be said to be very widely practiced by private sector companies in India. 2) More companies were moving towards formal planning by having a planning system for special projects. 3) The existing small number of planning companies have achieved a certain level of sophistication. 4) the well-defined financial planning indicates the concern for combining resource generation

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with attracting resource investment and thereby achieving efficient linkage of current operations with implementations of strategic decisions in future. 5) In the Indian environment, uncertainties are more from the government decisions, than from the market place or obsolescence of technology.

A study on corporate planning in public enterprises was carried out by K.S.Bhat (1985) which covered 146 public sector organizations, out of which 96 organizations were found to be engaged in corporate planning. This study concluded that i) Market demand, government policies and finances seem to be the dominant concerns of the planners.(K.S. Bhat, 1985)55.

A study conducted by S.Subramaniam56, published in concluded, on the basis of a survey of thirty organizations that the major reasons for initiating corporate planning by most companies was the need felt by the top management. Pressure from the market place and emergence of a new technology were also the other factors that contributed to the introduction of corporate planning.

The concept and practice of scanning and appraisal of the external environment in Indian context was studied by Dixit. He found that most of the environmental factors studied by the Indian organizations related to inputs, regulatory framework, government policies and programmes and marketing environments. (Dixit, 1985)57.


57 Dixit, M.R., the Concept Practice of Scanning and appraisal of external environment, Vikalpa, April/June, 1985.
A summary of three studies made in India relating to the ranking of environmental factors in strategic planning are given under:

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*Over all ranking done by Prof. Azhar Kazmi

n.c.: not considered in research study


Dilip Roy (1997) made a survey with 426 managers to know their risk taking nature under varying environmental conditions. He observed that the mode of strategy planning was closely associated with the state of environment and is rarely dependent upon the risk taking attitude of the strategist.

Rey A.L. Tagana and Vijay Kumar Kaul (2006) made an empirical investigation of Indian IT industry and concluded that the existing innovation systems in the firms studied were not satisfactory with regard to the technological and commercial transformation of scientific knowledge into IT products, processes or services.

Gautam Chakroborty (1997) after conducting a study relating to the importance of marketing strategy, came to the conclusion that the consumer has placed more or less equal emphasis on his perception of the product with reference to the P’s.

G.S. Shergill and Maninder S. Sarkaria (1986) made a study of 115 largest manufacturing companies in India in the private corporate sector to understand the differences in performance among different industries. Ahluwalia (1985) conducted a similar study of firms on growth rates.

George Paul, in an elaborate study of corporate diversification in India, found that the diversified companies performed better than non-diversified companies in terms of growth, profitability, risk reduction and market performance (Paul, 1985, 1986). He further classified the diversifiers into related diversifiers, dominant unrelated diversifiers, restricted unrelated diversifiers and unrestricted unrelated diversifiers outperformed other classes of diversifiers (Paul, 1985, 1986). The industry-wise diversification profiles have also been examined. It has also been proposed that the government policies and regulations are the major influences on the

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choice of diversification strategy in the Indian industry. (Chaudhuri, et. Al. 1982; Kaura, 1987)\(^61\)

The effectiveness of mergers in India has been studied by Kaveri. His analysis was mainly from the point of view of merging the sick companies with healthy companies to revive the former. He observed, from his study of eleven cases, that 1) sick companies did increase their sales after the merger, 2) the healthy companies continued to be healthy after the merger, 3) revival measures for the sick companies had been taken by the healthy companies after the merger, 4) the post-merger performance (of the sick companies) in a majority of the cases were not above the projected pre-merger performance, 5) sick companies contributed to the sales of healthy companies. (Kaveri, 1986)\(^62\).

Turnaround for reviving sick companies have also been studied. Based on his study of five public sector and four private sector enterprises, which has fallen sick and had subsequently been turned around, Khandwalla\(^63\) proposed a model representing the strategy for turnaround.

Issues relating to implementation of strategic plans and their dependence on structure and systems have been discussed (Bhattacharya, 1988)\(^64\). Also, issues relating to corporate planning in specific sectors like public sector, airlines, road transport and railways have been qualitatively discussed (Subramaniam, 1974 – 76, 79)\(^65\).


Chaudhary et al. (1982) in a research study of 72 large public and private sector companies in India, which highlighted the pattern of diversification in the Indian Industry during the period 1960 – 75, concluded that:

1. The large enterprises in the Indian Industry in both the private and public sectors are very diversified.
2. Both the private and public sector companies have diversified rapidly but in different ways. Private sector companies have typically diversified into unrelated areas while public enterprises have diversified into related ones.
3. Governmental regulation plays a greater role in diversification strategies than the interplay of market forces.
4. Private sector companies have followed diversification strategies in response to the needs of regulatory mechanisms such as industrial policy resolutions, the IDR Act, FERA, and others.
5. Public enterprises have adopted diversification in response to the public policy of national self – sufficiency and import substitution.

The present study of the researcher brings out the most important corporate level, business level and functional level strategies followed by the public companies in Coimbatore. It tests whether the companies have changed their strategies in tune with the change in the business environment, as captured by the opportunities, threats, strengths and weaknesses available to them and what were the important opportunities, threats, strengths and weaknesses available to them. Strategies of individual companies were

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Chaudhuri, Shekar, et.al., Patterns of diversification in larger Indian Enterprise, Vikalpa, Jan/Mar 1982.
analysed and suggestions were made. Also, like many earlier studies cited above, the study evaluates the impact of the opportunities, threats, strengths and weaknesses in the performance of the companies.