To the Graduate Council:

I am submitting herewith a dissertation written by Dexter Robley Wood, Jr., entitled "An Analysis of the Strategic and Operational Planning Systems in Large United States Banks." I recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Business Administration.

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AN ANALYSIS OF THE STRATEGIC AND OPERATIONAL PLANNING SYSTEMS IN LARGE UNITED STATES BANKS

A Dissertation

Presented for the

Doctor of Business Administration

Degree

The University of Tennessee, Knoxville

Dexter Robley Wood, Jr.

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13[illegible]

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ABSTRACT

The purpose of this research was to investigate the nature and effectiveness of formal planning in large U.S. banks. The study focused on the utilization of profit planning in large U.S. banks, the evolution and state of development of strategic long-range corporate planning by the largest U.S. banks, the identification of the type of strategic long-range corporate planning system that seemed to be evolving as the most effective for large U.S. banks, and the quantification of the relationship between the comprehensiveness of formal planning and financial performance in selected large U.S. banks.

The sample population for the first phase of this study was the fifty largest banks in the following ten states: Alabama, Georgia, Pennsylvania, New York, North Carolina, Maryland, Illinois, Massachusetts, Virginia, and Tennessee. Mostly Eastern banks were selected because of their geographical proximity which made interviews possible within the limits of time and resources. Initially, a personal letter of inquiry on planning activities was sent to the presidents of the fifty banks and officers in twenty-nine of the fifty banks responded. Subsequently personal "depth interviews" were held with executives or planning specialists in seventeen of the responding banks. Upon completion of each interview, the interviewee was asked to rate his bank's comprehensiveness of planning by means of a quick-answer questionnaire. The responses were analyzed according to the Guttman Scalogram-Analysis procedure and six of eighteen questions were identified which formed a cumulative planning scale. Later a revised

three-page questionnaire was constructed around the six questions and it was mailed to the 150 largest domestic, non-related, non-special purpose banks in the 48 contiguous states and the District of Columbia. Officers in 92 of the 150 banks (61%) completed the questionnaire and the data generated were used to supplement that which had been previously collected and to subdivide the banks into categories in order to test the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

The study indicated that in 1976 "profit planning" was receiving an unusual amount of attention within the banking industry because of a general earnings decline which had started for many banks in late 1974. The questionnaire results showed that only 37% of the sampled banks had profit planning systems in 1966 but that by the middle of 1976 the figure had risen to 99%. Bank "profit planning" information obtained in the interviews on implementation, design, and semantic problems were reported and discussed.

This study also indicated that there was considerable interest in formal strategic long-range corporate planning among the large U.S. bankers. The questionnaire responses revealed that 73% of the sampled banks had started strategic planning systems by September 1, 1976, but that only 9% of the banks had systems which were over ten years old. The depth interview data indicated that the percentage of large U.S. banks with fully developed and operational strategic planning systems was probably closer to 20% than it was to 73%. Information on the organization for strategic bank planning and the administrative procedures

being utilized were presented and discussed. A strategic planning system that seemed to be evolving as the most effective for large U.S. banks was described and analyzed by means of a case study.

This study focused on the effectiveness of formal large U.S. bank planning by quantifying the relationship between comprehensiveness of planning and financial performance in selected institutions. Analyses were conducted using a cumulative planning scale, two averaging methods, two control groups, three measures of financial performance, the student "t" distribution, and four different groupings of the sampled banks. The result offered some support for the study hypothesis when the measures of financial performance were either changes in net income or return on owners' investment and almost no support when the measure was return on total assets.

The study led to the conclusion that formal planning in the form of profit planning and strategic planning is increasingly being integrated into the management systems of large U.S. banks. Finally the results of this study suggest that future research into the effectiveness of formal planning is warranted.

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CHAPTER I

INTRODUCTION

In the United States, the 1970's will certainly be recorded as an unusually dynamic decade for the banking industry. For generations the banking industry has been influential, but in the 1970's its trust department holdings have accelerated and given it unprecedented power. International banking has also increased in importance so that many of the large U.S. banks now have branches--and influence--in financial centers around the world.

At the same time competition in the U.S. has reduced the dominance of commercial banking in some of its traditional markets. Mutual savings banks, credit unions, savings and loan associations, personal finance companies, sales finance companies, and industrial loan companies have all made inroads into the bailiwick of commercial banks.

Together these national and international changes have created new growth opportunities as well as increased competition for the banking industry. The whole tempo of commercial banking has increased with individuals and corporations taking a more sophisticated approach in their financial dealings. To cope with his situation the literature indicated that banks had turned increasingly since 1970 to formal strategic long-range corporate planning. The purpose of this study was to learn the nature and effectiveness of such formal planning systems in large U.S. banks.

I. THE PROBLEM

Statement of the Problem

The two purposes of this study were (1) to obtain and analyze unpublished information about the evolving character of formal planning systems and efforts in the U.S. banking industry, and (2) to evaluate the effectiveness of formal bank planning. Specific objectives of this study were (1) to determine the extent and manner of utilization of profit planning in large U.S. banks, (2) to describe the evolution and state of development of strategic long-range corporate planning by the largest U.S. banks, including trends and the nature of planning procedures which have been adopted, (3) to describe and analyze the type of strategic long-range corporate planning system(s) that seem(s) to be evolving as the most effective for large U.S. banks, and (4) to quantify the relationship between the comprehensiveness of formal planning and financial performance in several large U.S. banks.

Importance of the Study

A review of the literature indicated formal planning was in vogue within the banking community. In a November, 1974, article it was stated that banks are now "shifting into high gear" in their planning efforts.[1] In the same article it was reported that in 1974 the American Bankers Association formally recognized bank planning as an important banking function by creating the Corporate Planning Executive

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[1] "Corporate planning: after a slow start, banks are shifting into high gear," Banking, LXXVI (November, 1974), 32.

Committee to study and disseminate information on bank planning.[2]

In general the literature on bank planning has steadily increased since Joseph K. Bailey's 1962 survey and subsequent report.[3] However the recent literature has been predominantly of the case study or how-to-do-it variety. Only two surveys on bank planning in the 1970's were found, and both were very narrow in scope.

The most recent known bank planning survey was conducted in 1972 by Dr. Israel Unterman. Dr. Unterman did a survey of more than twenty major banks and discovered that only three or four were formally committed to strategic planning. He also reported that "By far the most prevalent approach to planning that is found in the banks sampled could be characterized or described as a fragmented approach. That is different aspects of the planning process are the responsibility of different sets of executives."[4] Unfortunately Dr. Unterman did not comment further on the survey results in his article but instead went into a discussion of how banks should do strategic planning. He did not provide any information on which banks were in his "over twenty" sample or discuss how they were surveyed.

The only other recent bank planning survey found in the literature was by Professors Edward A. Nicholson and Robert L. Litschert.[5]

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[2]Ibid.

[3]Joseph K. Bailey, "Organizational Planning: Whose Responsibility?" Academy of Management Journal, VII (June, 1964), 95-96.

[4]Israel Unterman, "Strategic Planning in Banks," The Bankers Magazine, CLVI (Spring, 1973), 57.

[5]Edward A. Nicholson and Robert L. Litschert, "Long-Range Planning in Banking: Ten Case Studies," Journal of Bank Research, IV (Spring, 1973), 31-40.

In 1971 they contacted six U.S. banks and four banks in Great Britain to determine who was responsible for the various planning functions.

The research of Professors Nicholson and Litschert revealed that bank planning groups were generally responsible for helping in the establishment of corporate goals and for giving assistance in the area of forecasting. In addition they investigated the location of responsibility for other planning activities--organizational change, searching for new marketing strategies, identifying acquisition or diversification opportunities, and preparing capital investment proposals--but they were unable to develop any additional generalizations.

The two surveys by Professor Unterman, Nicholson, and Litschert were not the only ones found in the literature. In the 1960's there were three known surveys of formal bank planning practices conducted.[6] However the literature indicated that in the 1960's most of the largest banks had either just started their formal planning efforts or still had them on the drawing board. An example of the state of development of bank planning in the 1960's was my finding in 1968 that only six of the fifty largest banks on the East Coast had planning that extended for more than one year into the future.[7] However an additional nine of the fifty banks indicated that they would have long-range planning programs in the near future. Given this information and the finding by Professor

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[6]The three surveys were: E. Sherman Adams, "Survey of Bank Planning Activities" (unpublished survey, First National City Bank, New York, September, 1964); Bailey, op. cit.; and D. Robley Wood, "An Analysis of Formal Planning Practices in the Banking Industry" (unpublished Masters thesis, The University of Tennessee, Knoxville, 1968), 99.

[7]Wood, op. cit., 99-100.

Unterman that some banks are now doing formal strategic long-range corporate planning, it was logical to assume that major changes in bank planning practices have taken place in the 1970's and therefore a new survey was needed. For if executives and students of bank management are to benefit by the experience of those institutions already engaged in formal planning programs, a current study was needed to provide information on their efforts and accomplishments.

The investigation reported herein also includes the topic of bank planning effectiveness which at present has not been found in the literature. However the literature did contain two studies which indicated that ". . . companies which are actively engaged in formal long-range planning in the drug and chemical industries significantly outperformed those who are not."[8] And in another study the research showed that planners outperformed non-planners on four different financial criteria in the durable goods industry but not in the service industry.[9] Therefore, since the banking industry is basically a service industry and there were a number of reports in the literature on the increased activity of large U.S. banks in the strategic long-range planning area, it seemed worthwhile to attempt to empirically determine if there is a relationship between formal planning efforts and the financial performance of banks. For if it cannot be shown empirically that

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[8]David M. Herold, "Long-Range Planning and Organizational Performance: A Cross-Valuation Study," Academy of Management Journal, XV (March, 1972), 100.

[9]Robert M. Fulmer and Leslie W. Rue, "The Practice and Profitability of Long-Range Planning," Managerial Planning, XXII (May/June, 1974), 1-7.

banks which plan formally do outperform those that plan informally, then bank officials need to reevaluate their increasing commitment of resources to formal planning efforts.

In summary the results of this research provided current information on the subject of formal bank planning. It extended the literature on bank planning into the previously unresearched areas of bank planning effectiveness and at the same time made it possible to highlight trends and changes which have occurred in this important area of bank management. Hopefully the results of this study will prove a valuable guide to educators in their training of future bank managers and contribute to the knowledge available on bank management. Also this current information on bank planning should be extremely valuable to those banks which are in the process of setting up or making changes in their planning programs and to those who wish to improve their planning effectiveness.

Definitions of Terms

In reviewing the literature it was apparent that terms used by planners meant different things to different people. For example, in a recent article by Dr. George A. Steiner--perhaps the foremost authority on the area of business planning--he stated that the terms long-range planning, formal planning, comprehensive planning, and corporate planning can be used synonymously.[10] In the interest of clarity and consistency, the following terms are defined and/or described to show how they were used in this study.

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[10]George A. Steiner, "How to Improve Your Long-Range Planning," Managerial Planning, XXIII (September/October, 1974), 13.

Planning. "Planning is deciding what to do and how to do it."[11] It involves selecting the course of action for the enterprise from among the alternatives open to it.

Formal planning. Any planning where specific assignments had been made, administrative procedures had been developed, and which resulted in written plans was considered as formal planning.

Long-range planning. Any planning that extended for periods beyond one year was considered as long range.

Corporate planning. Any formal planning which was bank-wide in scope was called corporate planning. Other names for this type of planning are institutional planning and comprehensive planning.

> Profit planning. "Profit planning" is an integral part of the other types of planning in the sense that planning to make profits is a universal business goal. However, the term has been given a special meaning in the last decade, and refers to a planning procedure in which profit goals are set initially above previous attainment levels, and then operational plans are developed to achieve the profit objectives.[12]

Formal strategic long-range corporate planning. "Formal strategic long-range corporate planning" was planning which had the following characteristics: (a) extended for periods beyond one year, (b) provided for the setting of major objectives or goals and the formulation

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[11]Harold Wilkinson Henry, "Long-Range Planning in Industrial Corporations: An Analysis of Formalized Practices" (unpublished Doctoral dissertation, The University of Michigan, Ann Arbor, 1965), 4.

[12]Ibid., p. 19.

of broad policies, (c) contained provisions for the evaluation of alternative courses of action in a systematic manner, (d) involved the development and selection of strategies and action plans that complemented the major objectives and goals, and (e) took place in a competitive environment where the overall objective was to find the best course of action within the constraint of limited resources.

II. SCOPE OF THE STUDY

The initial phase of this study was limited to the fifty largest banks in the following ten states: Alabama, Georgia, Pennsylvania, New York, North Carolina, Maryland, Illinois, Massachusetts, Virgina, and Tennessee. The fifty largest banks in this East Coast area were determined from a list entitled "The Three Hundred Largest Banks in the United States" which appears annually in Moody's Bank and Finance Manual. The list was compiled by The American Banker which ranks the banks in order of amount of deposits. According to the 1975 list, there were fifty banks in the selected ten states which were among the top 100 largest banks in the United States, and they were the ones that served as the initial sample. Mostly Eastern banks were selected because of their geographical proximity which made interviews possible within the limits of time and resources.

The sample population for the second phase of this study was the 150 largest domestic, non-related, non-special purpose banks in the 48 contiguous states and the District of Columbia. According to Moody's Bank and Finance Manual, 1975 list, there were 150 banks that satisfy the above criteria which are among the 165 largest banks in the United States.

This study covered all areas of bank corporate planning but the stress was on the nature of strategic long-range corporate planning procedures and the evaluation of planning effectiveness. Large banks were selected for the study because they were more likely to be advanced in planning techniques due to their resources and because their financial data was available from public records. The comments and quotations are credited to individual contributors only "as a bank officer," since all of the participating banks were promised that specific names would not be associated with survey results.

III. METHOD OF PROCEDURE

The research methods were questionnaires and field interviews. A general letter of inquiry on planning activities was sent to the initial fifty banks that were selected for this study. The purpose of the letter was to obtain an indication of the state of development of the formal planning efforts in large U.S. banks in 1976 and at the same time make a contact who could be interviewed at a later date. The letter was addressed to the presidents of the banks and contained a brief explanation of the study, several questions on their planning systems, and a request for permission to visit their banks at an appropriate time in the future in order to talk with one or more of their key executives or planning specialists about their planning methods. A typical letter of initial inquiry is reproduced in Appendix A.

The initial letter and brief questions enabled the author to obtain a contact in twenty-nine of the fifty banks. Of the twenty-nine responding banks, officers in all but three provided useful data on

their banks' planning systems. Officers in the three responding banks that did not provide useful data stated that their banks did not wish to participate in a study of bank planning practices.

The responses ranged from telephone calls to complete strategic long-range corporate planning manuals with detailed instructions. The respondent was typically a staff planner. However in three instances the respondents worked for the comptroller and an administrative assistant on special assignment answered the inquiry in the one bank that did not have any type of formal planning.

Seventeen banks were selected for interviews based on their answers to the initial letter and location. Banks were selected which were at different stages of development in their formal planning efforts so that the evolutionary process could be studied. Several banks which were known to be unusually well managed and several which had lesser reputations were also chosen for the contrast effect. In addition two banks were selected because they did not have strategic long-range corporate planning systems and one bank was visited which had a reputation for being an innovator in bank management practices. It was felt that the combined interview data from these seventeen banks would provide comprehensive information on the nature and evolving character of formal planning among large U.S. banks. The interviews were held with bank officers in the following states: North Carolina (3), Virginia (1), Maryland (1), New York (5), Massachusetts (1), Pennsylvania (5), and Illinois (1). Six of the ten largest banks in the United States were among the seventeen banks that were visited by the author. The seventeen banks where interviews were held are alphabetically listed in Appendix B.

In order to insure that comparable information was obtained from the seventeen banks, an interview guide was constructed and used by the author. The interviews were with at least one planning specialist in eleven of the seventeen banks. In five banks the interviews were with officers who worked for the comptroller and in one bank the interviewee was a member of the marketing department. In addition, multiple interviews were held with bank officers in five banks so that in some instances both planning specialists and line executives were interviewed. The individual interviews lasted between one and four hours.

Upon completion of each interview, the interviewee was asked to complete and mail to the author a two-page quick-answer questionnaire on the comprehensiveness of planning in his bank. A reproduction of the questionnaire appears in Appendix C. The questionnaire was part of a pilot study on the feasibility of constructing a large U.S. bank planning scale and it contained statements where the responding officer was asked to rate his bank's planning efforts on a four-point scale. Completed questionnaires were received from officers in fifteen of the seventeen banks and their responses were analyzed according to the Guttman's Scalogram-Analysis procedure in order to discover questions which could be combined into a planning scale.[13] The purpose of forming a planning scale was to develop an instrument which would enable the author to measure the comprehensiveness of the planning systems of

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[13]For a detailed description of Guttman Scalogram-Analysis see: A. M. Oppenheim, Questionnaire Design and Attitude Measurement (New York: Basic Books, Inc., 1966), 143-155.

large U.S. banks in order to test the hypothesis that large U.S. banks with more comprehensive planning have outperformed those with less comprehensive planning when compared on the basis of selected financial criteria. Fortunately, using Guttman's technique, questions were identified which did form a scale and these were used as the base for the construction of a new questionnaire.

The new questionnaire was sent to the 150 largest domestic, non-related, non-special purpose banks (including those that had been previously visited) in the 48 contiguous states and the District of Columbia. The questionnaire was three pages in length and contained questions on bank planning formality, utilization, procedures, initiation dates, and objectives. The purpose of the questionnaire was to obtain data to supplement the previously collected interview information on the large U.S. banks' strategic long-range corporate planning efforts and to obtain quantitative ratings which could be combined into a planning scale. The questionnaire and accompanying letter are reproduced in Appendix D.

A total of ninety-two banks completed the questionnaire which resulted in a 61% return rate. The responses on the first page of the questionnaire were analyzed according to the Guttman Scaling Technique and it was determined that six of the eighteen questions could be grouped together into a planning scale. Subsequently information was collected on the financial performance of the large U.S. banks for the period 1965-1975. In the search for financial data, it was discovered that income data could not be obtained on most banks that were part of multi-bank holding companies since they only issue consolidated

income statements. It was also discovered that some questionnaires were incomplete which made it impossible to place some institutions on the bank planning scale. Together these two problems eliminated over half of the ninety-two banks which means that complete data was obtained on forty-two banks. The analysis of the data on the forty-two banks--planning scale score versus financial performance information--is presented in Chapter V. The additional information that was obtained through the questionnaires is combined with the interview findings and is presented in Chapters III (profit planning), IV (formal strategic long-range corporate planning), VI (a description and analysis of one formal strategic long-range corporate planning system that seems to be one of the most effective ones used in large U.S. banks), and VII (summary and conclusion).

CHAPTER II

REVIEW OF THE LITERATURE

The literature review for this study is divided into the following four sections:

I. Bank Profit Planning

II. Bank Formal Strategic Long-Range Corporate Planning

III. The Evaluation of Planning Effectiveness

IV. Previous Research on Bank Planning Practices

I. BANK PROFIT PLANNING

Introduction to Bank Profit Planning

Formal bank planning started out as an extension of the budgeting process in a form known as profit planning. Profit planning is a process whereby management determines the amount or rate of earnings it wishes to achieve in a given period and then develops operational plans to achieve the profit objectives. It transcends the restrictive connotations of budgeting by emphasizing ". . . the production of maximum income, not merely the restriction of expenses."[14] "At the same time, it is not merely forecasting. Forecasting may be defined as what a reasonable man thinks will happen. Profit planning is what he thinks he can make happen."[15]

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[14]Frank M. Dana, "Planning for Tomorrow's Profits," Bankers Monthly, LXXXI (January, 1964), 40.

[15]Ibid.

The move to profit planning was a natural step for the banking industry but it was not immediately accepted by all banks. This was because, according to Charles C. Ellis, Senior Vice President and Comptroller of Irving Trust Company, bankers ". . . have been particularly prone to deemphasize profitability and in its place substitute size."[16] He went on to state that size has been the status symbol of the industry and that "Where we stand on the profitability ladder no one seems to know or care about."[17] However it was his opinion that "Much of the growth in banking over the years ahead may well be in service areas where there is little or no effect on the balance sheet."[18] Because of this and the necessity for a good profit record when trying to raise additional capital, Mr. Ellis predicted that profitability would replace size as the goal toward which bank management would strive in the future.

The First Known Bank Profit Planning System

Various reports of successful bank profit planning systems appeared in the literature in the 1960's and 1970's. The first known bank profit planning system was adopted by the Bank of America in 1957.[19] In a 1964 article, Mr. Frank M. Dana, Executive Vice President, Bank of America, explained why and how his bank went to profit planning in 1957 along with some insight into the benefits and

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[16]Charles C. Ellis, "Establishing an Effective Profit Planning System, Bankers Monthly, LXXXIV (September, 1956), 36.

[17]Ibid.

[18]Ibid.

[19]Dana, op. cit.

limitations of such a system. He went over their planning cycle on a month-by-month basis and told about the problems they had experienced in getting the data they needed. He ended his article by stating that their profit planning system had accomplished the following:

1. Our managers have become more profit conscious.
2. Managers have increased their knowledge of their areas and have a keener appreciation of their responsibilities.
3. Managers are more cognizant of the need for planned local business development efforts.
4. The monthly progress reports have provided managers with a tool for measuring progress and taking action to overcome adverse situations.
5. Managers received advance indications of the future effects of current policies and practices, and is alerted to possible need for revisions.
6. Our managers aid management in the decision-making process.
7. The program aids in the objective measurement of performance.
8. We have reduced the element of chance in setting our profit goals. Profits result from careful preparation and execution of our plans.[20]

The Ellis Articles on Profit Planning

Three years after Mr. Dana's article appeared on profit planning, Mr. Charles C. Ellis, Senior Vice President and Comptroller, Irving Trust Company of New York, wrote four articles on bank profit planning for the Bankers Monthly magazine. In his first article Mr. Ellis wrote about the need for formal bank planning and explained that to him "Profit planning is essentially a strategy for achieving a company's profit goals. As such, it is a means for controlling rather than guessing the future."[21] He then went on to explain that the

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[20]Ibid., p. 54.

[21]Charles C. Ellis, "Planning for Bank Profits," Bankers Monthly, LXXXIV (August, 1967), 17.

computer was now available to quickly process bank-wide profit planning data so that in the future the profit plan would serve as ". . . a communications system, a device for measuring the effectiveness of personnel and organizational units, an educational system, a corporate discipline and a provider of numerous other peripheral benefits."[22]

He ended his first article by stating that planning ". . . is what separates management from wishful thinking."[23]

In his second article Mr. Ellis reviewed what he saw as the critical elements in bank profit planning systems. The following are his critical elements in an abbreviated form:

1. Top management must believe that "Profits are essential to business survival and growth."[24]
2. Management must believe that "It is possible to plan."[25]
3. Line management must have the ". . . assurance of top manage's belief in, and dedication to, the profit planning program . . . ."[26]
4. Those people who have direct responsibility for activities which contribute to the bank's income and expenses must do the actual planning. They will be charged with its implementation so it must be ". . . their plan, not a plan arbitrarily imposed on them by a top management who is rather

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[22]Ibid., p. 18.

[23]Ibid., p. 45.

[24]Ellis, "Establishing An Effective Profit Planning System," op. cit., p. 36.

[25]Ibid.

[26]Ibid.

far removed from the problems associated with carrying out the plan."[27]

5. Each person who participates in the planning process should ". . . plan only those income or expense items for which they are directly responsible."[28]
6. The accounting system must be designed so that each planner is provided with accurate information as to the actual income and expenses generated in his area.
7. Close attention must be given to the establishment of an intra-company pricing system to account for the transfer of funds or services between divisions. "To achieve realism and avoid the transfer of operating efficiencies between divisions an intra-company pricing system that approximates market prices as closely as possible seems to provide the most desirable solution."[29]
8. In order for the profit plan to be meaningful and integrable, ". . . it is essential for all divisional plans to be prepared on the same basic assumptions or ground rules."[30] Therefore a bulletin on factors such as the expected prime interest rate, rate of inflation, and general wage level should be issued to those who will be doing the planning.
9. "After each division has completed its profit plan it is generally desirable to prepare a preliminary consolidation

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[27]Ibid., p. 38.

[28]Ibid.

[29]Ibid., p. 40.

[30]Ibid.

and review of these plans to determine where and to what extent they meet or miss top management's objectives for the bank in total."[31] A meeting should then be scheduled with each divisional manager submitting a plan so that top management ". . . has an opportunity to explore in depth the problems confronted by each manager in the operation of his division in the implementation of his plan."[32]

10. To conserve time and insure that all pertinent factors are discussed, ". . . it is desirable to have a standardized presentation format."[33]

Mr. Ellis went on to explain that the profit planning review meetings ". . . afford an excellent opportunity for bank management to judge the extent to which division managers understand their operations and at the same time more fully educate themselves on the details involved in the operation of the various divisions of the bank."[34] He ended his second article with a warning about drastic plan revisions which ". . . could convert a division manager's plan into a top management plan for which the division manager could justifiably disclaim responsibility."[35]

In Mr. Ellis' third article he discussed profit planning follow-up systems.[36] He pointed out that the ". . . follow-up system should constantly focus attention on the future, which unlike the past, is

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[31]Ibid., p. 42. [32]Ibid.

[33]Ibid. [34]Ibid. [35]Ibid.

[36]Charles C. Ellis, "Profit Planning for Banks," Bankers Monthly, LXXXIV (October, 1967), 22-24.

controllable."[37] In addition he advocated monthly review meetings where the managers can discuss mutual problems and have to explain significant variations from the profit plan. Mr. Ellis believes that the meetings will motivate the individual managers to concentrate on the plan and stimulate corrective action. He summarizes his third article by stating that, "The follow-up system is the mechanism which enables management to translate its profit plans into action."[38]

In his fourth and final article Mr. Ellis discusses the proper way to present a profit plan report to top management.[39] He discusses the importance of appearance, brevity, the use of charts, and proper timing. Finally he ends his series of articles by reminding the reader of the vital part that the follow-up system plays in any profit planning system by stating, "the ability of the follow-up system to keep the attention of all managers focused on the achievement of their planned profits is the key to success in the entire profit planning effort."[40]

Long-Range Profit Planning

Reports in the literature disclosed that bankers continued to improve their profit planning skills in the 1970's. In 1970 Mr. Robert E. Reuter, Profit Planning Officer, the Bank of America, reported that his bank was now doing long-range profit planning.[41]

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[37]Ibid., p. 23.

[38]Ibid., p. 24.

[39]Charles C. Ellis, "Profit Planning for Banks," Bankers Monthly, LXXXIV (November, 1967), 30-32, 55.

[40]Ibid., p. 55.

[41]Robert E. Reuter, "Can Banks Plan for Long-Range Profits," Managerial Planning, XVIII (May/June, 1970), 16-19.

He defined "long-range" as more than one year and indicated that a bank's primary objective should be "profit" which he said could be ". . . simply expressed as the optimum rate of return on stockholders' equity."[42] In his article Mr. Reuter discussed long-range bank profit planning in general terms and offered some suggestions on how to set up a system.

Another 1970 report of bank long-range profit planning was by Mr. Robert P. Jones, Controller-Budget and General Accounting, the Equitable Trust Company of Baltimore.[43] In a presentation to the Planning Executives Institute he explained that they used the expected Gross National Product to predict their future deposits. Then using their expected deposits and a set of ratios which related such things as investments, reserve requirements and expenses, they could construct ". . . a five-year average Statement of Conditions and Income Statement in a skeletonized form."[44] He went on to explain that no one at the bank expected the figures to be accurate for all five years but it did give them something to work from.[45]

Profit Planning and Simulation

In addition to the above, Mr. Jones revealed that the staff at the Equitable Trust Company of Baltimore had constructed a series of

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[42]Ibid., p. 17.

[43]Robert P. Jones, "Progress from Budgeting to Planning in Banking," Managerial Planning, XVIII (March/April, 1970), 19-23.

[44]Ibid., p. 20.

[45]For additional information on long-range bank profit planning in general terms, see the following article: E. Everett Smith, "Organizing for Bank Planning," The Bankers Magazine, CLIII (Summer, 1970), 23-25.

equations which mathematically portray the way their bank operates under a given set of circumstances. He reported that with this "Financial Simulator" they are able to pose the "what if" type of questions and see what the effect would be on profits.[46]

The use of mathematical modeling as reported by Mr. Jones seems to be the ultimate in profit planning and it would be interesting to know how many banks have this capability. In 1973 William D. Snider, Second Vice President, Continental Illinois National Bank and Trust Company of Chicago, reported that his bank had constructed and discarded three financial planning models during the past six years.[47] He went on to report that he did not believe that their experience was unique and that they were now building and using a much larger model. Mr. Snider's article contains an excellent reference section and anyone interested in bank model building should certainly consult his bibliography.[48]

In December, 1975, the author had an interview with a bank planner who indicated that the Equitable Trust Company and the Continental Illinois National Bank and Trust Company were two of the leaders in the area of bank planning. He also indicated that it would be at least 1979

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[46]Ibid., p. 22.

[47]William D. Snider, "Building an On-Line Financial Planning Model," Journal of Rank Research, IV (Autumn, 1973), 232-238.

[48]Another article on planning models which is directed at the banking industry is the following: Kenneth C. Levine, "A Practical Approach to Corporate Plan Modeling," Burroughs Clearing House, LIX (February, 1975), 18-19, 55-56. In his article Mr. Levine gives nine suggestions for building a useful bank planning model.

before his bank (it is among the 200 largest in the U.S.) would have the capability to simulate their financial operations.

The How-to-Do-It Profit Planning Literature

In 1971 and again in 1974 there appeared two excellent "how-to-do-it" articles on bank profit planning. Both articles were by consultants who were associated with the Chicago-based firm of Lester B. Knight and Associates, Inc.

The first of the two articles was by Mr. F. David Brangaccio, Senior Consultant, Lester B. Knight and Associates, Inc.[49] In his article Mr. Brangaccio discussed the setting up of profit centers, service centers, administrative centers, the profit contribution concept, variance analysis, unit costs, and the implementation of the total system. He also displayed a flow chart which showed the various phases that are involved in setting up a profit planning system and warned that it takes considerable time and effort to make it work.

Three years later, in 1974, Mr. Stuart C. MacIntire, a vice president of Lester B. Knight and Associates, Inc., wrote an article in which he provided additional detail on the setting up of a profit planning system.[50] In his article he discussed such things as the design of the chart of accounts, the design of the ledger system, the selection of a computer package, and the holding of management meetings. In addition he reported that through the use of profit planning

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[49]F. David Brangaccio, "Bank Financial Planning and Control," The Bankers Magazine, CLIV (Summer, 1971), 33-40.

[50]Stuart C. MacIntire, "Implementing Bank Planning and Control," The Bankers Magazine, CLVII (Spring, 1974), 67-73.

a 200 million dollar bank ". . . increased net operating income before taxes by approximately $400,000 in the first year."[51] Both Mr. Brangaccio and Mr. MacIntire did a good job of explaining the "nuts and bolts" of a bank profit planning system and anyone who is thinking of setting up such a system should certainly consult their articles.

In summary it is obvious that some of the largest banks were getting quite sophisticated in their profit planning efforts by the late 1960's and early 1970's. However profit planning has not been the exclusive domain of the largest banks and the reader is referred to a 1971 article entitled "Profit Planning in a Country Bank" for a discussion of small bank profit planning.[52] However it is the largest banks that have the greatest economic resources, technical skills, and need for such a system, so it is only natural that they have been the leaders.

II. BANK FORMAL STRATEGIC LONG-RANGE CORPORATE PLANNING

The 1970's issued in a new era in the bank planning literature. The bank planning literature of the 1960's was dominated by profit planning but in the 1970's banks discovered formal strategic long-range corporate planning which ". . . may be defined as the systematic process of defining and evaluating alternative goals, strategies, and action plans, and selecting those to be pursued in future years which will

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[51] Ibid., p. 68.

[52] Thomas R. Smith, "Profit Planning in a Country Bank," Burrough Clearing House, LVI (October, 1971), 16-17, 48-52.

most likely lead to the fulfillment of the firm's major objectives . . . . ."[53]

The first literature on bank formal strategic long-range corporate planning (that was found by the author) appeared in 1970. The article was entitled "Strategic Planning Is Growth Insurance" and it was written by Mr. William E. Haberlin, Vice-President, Corporate Planning and Research, the Union Bank, Los Angeles.[54] In the article Mr. Haberlin indicated the state of strategic planning in the banking industry by stating, ". . . top executives of many banks, including some of the nation's largest, apparently are not yet employing formalized strategic planning as one of their management tools."[55] He went on to speculate as to why this was the current situation--too expensive for small banks, limited competition in some states, and chief executive officers who were not educated in the need for or tools of long-range planning--and then stated that "in the very process of constructing a strategic plan, bankers are finding and then correcting fundamental weaknesses in the way they are organized and conducting their business."[56] Finally he ended his article by suggesting that all banks could benefit from formal strategic long-range corporate planning.

One year later, 1971, Mr. Haberlin wrote another article in which he announced that the Union Bank had just completed its strategic

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[53]Henry, "Formal Long-Range Planning and Corporate Performance," op. cit., p. 25.

[54]William E. Haberlin, "Strategic Planning Is Growth Insurance," Banking, LXIII (July, 1970), 46, 83.

[55]Ibid., p. 46.

[56]Ibid., p. 83.

corporate plan.[57] In the one page article he described how committees were used to develop area plans which were consolidated by the staff corporate planners. He went on to explain that they had already made several changes in their organization which should result in greater growth in the future.

The following year, 1972, Mr. William D. Clendenin, a management consultant with the McKinsey and Company, Inc., wrote an article on bank strategic planning in which he stated that ". . . while the time span between important changes in the economic, regulatory, and competitive environment of banking institutions is getting shorter and shorter, the 'lead time' required to redirect the bank tends to get longer and longer. It is this phenomenon that is rapidly making strategic planning a key determinant of success in the banking industry."[58] He went on to give examples of good and poor bank planning along with some advice on overcoming obstacles to effective planning. In addition he did an excellent job of describing the information that should be included in a bank's strategic plan. According to Mr. Clendenin, all of the following items should be part of a bank's formal strategic long-range corporate plan:

> The prime objectives to which the bank is committed, and the specific goals or yardsticks for measuring management performance against these objectives
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> A statement of the basic business concept and institutional philosophy that underlies the bank's approach for achieving its objectives

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[57] William E. Haberlin, "Strategic Planning for Future Growth," Banking, LXIII (January, 1971), 38.

[58] William D. Clendenin, "Better Strategic Planning Now for Bigger Bank Profits Tomorrow," The Bankers Magazine, CLV (Autumn, 1972), 64.

Conclusions drawn from the diagnostic analysis that identify the bank's main competitive strengths and weaknesses

Economic and market projections, together with explicit identification of the assumptions on which they are based

A comprehensive summary of the important strategic issues and major business decisions confronting management over the years immediately ahead

Detailed descriptions of the components of the bank's strategy (i.e., management's answers to the strategic issues) and the general plans for implementing them

Statements of the important implications of the strategy for each of the major departments or organization units of the bank, highlighting where management should concentrate its emphasis and noting the particular projects and priorities required to support the strategy

Budgets and pro forma financial statements anticipated under the strategy.[59]

The article by Mr. Clendenin was a real contribution to the formal strategic long-range bank planning literature. He succinctly described the information that a bank needed to include in its strategic planning program and did a good job of showing why this type of planning was becoming increasingly important in the banking industry. Special note should be taken of his last item--budgets and pro forma financial statements anticipated under the strategy--which is basically "profit planning" that was started by many banks in the 1960's.

The 1973 Strategic Planning Articles

The banner year for strategic bank planning literature was 1973. In 1973 the Journal of Bank Research devoted part of their summer issue to bank planning and it included three articles on strategic

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[59] Ibid., p. 69.

planning in banks. One of the articles was especially informative and it was written by Mr. Herbert E. Johnson, Vice President, Continental Illinois National Bank and Trust Company, Chicago, Illinois.[60] In his article Mr. Johnson explained that banks now have more aggressive managers who are responding to the increased intensity of bank competition by planning more deliberately. He explained that in his opinion the one-bank holding companies had considerably increased the complexity of banking and therefore the need for strategic planning.

After his introductory comments, Mr. Johnson reviewed and commented on the initial strategic planning cycle they had completed at his bank and the following is a summary of his description and observations.

1. In the beginning, "Each line department was asked to define its mission, functions and existing objectives."[61] During this phase it was discovered that "The road to the establishment of the basic strategies of a bank is a much longer and more difficult journey than the textbook or consultant's description of the process implies."[62] It quickly became evident that ". . . some of the organization units were not structured relative to markets, products or businesses in a way that a meaningful statement of mission and functions could be made."[63] Mr. Johnson went on to report that they never did completely solve their organizational problems.

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[60]Herbert E. Johnson, "Strategic Planning for Banks," Journal of Bank Research, IV (Summer, 1973), 79-83.

[61]Ibid. [62]Ibid. [63]Ibid.

1a. "While the line was examining their mission, the staff was preparing the basic material to examine the external conditions surrounding each of the major businesses."[64] The staff prepared materials on ". . . the economic outlook and a view of the legislative and regulatory climate anticipated over the planning horizon; in this case five years."[65] In addition a report was prepared on ". . . the various publics facing our bank as 'stakeholders' to determine what they expected of Continental Bank and whether we were meeting their expectations."[66]

2. "Step two for the line functions was to take the presentations on environment as the base of information to examine their markets for threats to future development or opportunities not yet exploited."[67]

3. "The third step in the strategic planning program probably was the most difficult, yet in many ways the most critical. With the recent examination of the external threats and opportunities in mind, each team was asked to examine the abilities of the department to meet these problems by examining their own strengths and weaknesses."[68] Mr. Johnson reported that at this point in the planning process so many conflicts appeared--each department wanted to blame other departments for their problems--that a new section to

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[64] Ibid. [65] Ibid. [66] Ibid.

[67] Ibid. [68] Ibid.

planning called policy studies had to be organized to resolve the disagreements.

4. The completion of the first three ". . . steps provided a framework and a basis for the selection of final long-range objectives and supporting strategies."[69]
5. Following the selection of the long-range objectives and supporting strategies, the next step was ". . . the establishment of programs to support each strategy. This is where the strategic planning process began to mesh with the existing profit plan."[70]
6. Finally, "The strategic plan was brought to a close with a financial statement that specified the requirements for the next five years."[71]

In connection with steps 5 and 6 Mr. Johnson reported that once again there were problems which could not be completely reconciled. He stated, "In our case at least, the sum of the strategies of the departmental planning teams consistently have been less than the corporate ambitions and objectives. Thus, a gap of unknown source of income remains to be designated."[72] He went on to state that the responsibility for overcoming the gap between departmental strategies and corporate objectives had been assigned to ". . . those in the organization who are concerned with the search for diversification or expansion opportunities."[73] Mr. Johnson ended his article by listing

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[69]Ibid. [70]Ibid. [71]Ibid.

[72]Ibid. [73]Ibid.

some pitfalls and benefits of planning along with a call for more research in bank planning. According to him, "Only a few tools have been described in the literature. The opportunities for research are unlimited."[74]

In the same 1973 summer issue of the Journal of Bank Research Mr. Charles J. Zwick, President, Southeast Banking Corporation, Miami, Florida, wrote about strategic bank planning in general terms. He labeled his discussion as ". . . broad and philosophical in tone . . ." and started out by discussing the importance of "explicit" objectives which can be evaluated by others.[75] He then discussed the difficulty of setting corporate objectives in the "new" banking environment. He stated that in the "old" banking environment customer confidence was everything and that "In fact, many banks only published balance sheets; profit and loss statements were internal documents and year-to-year variations in the profit and loss statements were given little weight in evaluating overall performance of the organization."[76] He went on to say that in the "new" banking environment, "The nature of banking itself has changed from passive fiduciary to active money market broker."[77] According to Mr. Zwick the new environment has been brought about by ". . . the growing competition of other financial intermediaries, such as savings and loan associations . . ." and the

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[74]Ibid., p. 83.

[75]Charles J. Zwick, "Strategic Planning and Its Role in the Banking Environment of the 70's," Journal of Bank Research, IV (Summer, 1974), 74.

[76]Ibid., p. 76.

[77]Ibid.

rise of bank holding companies.[78] In connection with bank holding companies he said ". . . the emergence of bank holding companies operating in the broader spectrum of financial activity has forced a rapid, sometimes frenetic pace of acquisitions and of new activities on the existing institutions."[79]

After his discussion of corporate objectives and the changing banking environment, Mr. Zwick gave some examples of strategic planning at his bank. He ended his article with the following statement, "As in all activities, some organizations will be successful because of intuitive brilliance and luck. I merely suggest that the safer course to follow in the dynamic banking environment in which we live is explicit planning."[80]

The third article on strategic planning that was in the 1973 summer issue of the Journal of Bank Research was by Joseph M. Moag, Associate Professor, Northwestern University.[81] Dr. Moag discussed bank strategic planning for a behavioral science perspective. He pointed out that the power structure in banking might be inappropriate for the dynamic environment in which banks now operate. He used as an example the possible discovery by a bank's intelligence system that an electronic payment system was being planned by a competitor and the additional possibility that this information might be ignored by the bank's management. This could happen he explains because ". . .

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[78]Ibid.

[79]Ibid.

[80]Ibid., p. 78.

[81]Joseph M. Moag, "Strategic Planning in Banks--A Behavioral Science Perspective," Journal of Bank Research, IV (Summer, 1974), 84-92.

". . . the current system of allocating power usually creates a system which filters out most intelligence data which doesn't favor the system."[82]

The second topic Dr. Moag discussed was organizational design. Dr. Moag sees most banks as "mechanistic"--highly centralized, highly standardized and highly formalized--and warned that in the banks' new dynamic environment the "organic"--much more decentralized, much less standardized and much less formalized--might be the more appropriate.[83]

Finally Dr. Moag warned about the natural resistance that people have to change. He reminded the strategic planner that "People are afraid of things they don't understand . . ." and that they don't like to lose status or power.[84] He went on to suggest that people will always resist planning since it tends to take away some of their freedom.

These 1973 articles were the high point in the literature on formal strategic long-range corporate bank planning. The author does not know of any articles that have been published after 1974 that had bank strategic planning as their primary topic. However there was one article published in 1974 which contained a discussion of strategic bank planning.

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[82]Ibid., p. 86.

[83]Ibid., p. 88.

[84]Ibid., p. 81.

The Most Recent Discussion of Formal Strategic Long-Range Corporate Planning in Banks

In 1974 Mr. Dean O. Allen, Director of Computer Services for Collins Radio Company, wrote an article on the rapid advances that have been made in information systems.[85] Mr. Allen's article was directed at the banking industry which he sees as one of the big benefactors of past and future improvements in information processing systems. However he warned that the planning which was being conducted by many banks was not providing the guidance that is necessary for the design of better information systems and that "The success of a bank in its future systems endeavors will be subject to the formulation of and commitment to a strategic plan."[86] He went on to report that strategic planning ". . . is the exception and not the rule in banking today" and that what planning does occur is often fragmented.[87] Mr. Allen ended his article by warning banks that they should take a close look at their strategic plan before trying to design an information system for the bank.

Summary

Unfortunately these articles are the only ones found by the author that address formal strategic bank planning. However the authors of these articles did do a good job of discussing the major facets of formal strategic bank planning with relatively little overlap.

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[85] Dean O. Allen, "Bank Systems Planning in Perspective," The Bankers Magazine, CLVII (Autumn, 1974), 103-109.

[86] Ibid., p. 105.

[87] Ibid.

It is obvious from these articles that the banking industries' operating environment is rapidly changing and that good strategic planning is becoming increasingly important. In all likelihood the bank holding companies will continue to expand and it is strategic planning that will help them grow in profitable directions and aid them in coping with their increasing coordination problems. Strategic planning will also help them in dealing with the rapid change in their supporting technologies, broadening market areas, and more intense competition.

III. THE EVALUATION OF PLANNING EFFECTIVENESS

In addition to determining the state of development of formal strategic long-range corporate planning in large U.S. banks, another primary objective of this study is to discover if there is a relationship between formal planning and financial performance for large U.S. banks. Unfortunately the literature on evaluating the effectiveness of formal planning efforts is very limited. Only five planning effectiveness evaluation studies were found in the literature and all were directed at nonbanking industries. In addition two of the five research efforts were very narrow in scope. For example, one study focused only on the effectiveness of acquisition planning.[88] And in another study the primary emphasis was on evaluating the marketing

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[88]H. Igor Ansoff, Jay Avner, Richard G. Brandenburg, Fred E. Porter, and Raymond Radosevich, "Does Planning Pay? The Effect of Planning on Success of Acquisitions in American Firms," Long-Range Planning, III (December, 1970), 2-7.

segment of strategic planning.[89] However there have been three broad studies conducted on evaluating formal planning effectiveness, and they are the ones that will be reviwed.

The Groundbreaking Study

The first study on evaluating the effectiveness of formal planning that is known to the author was conducted in 1965.[90] In 1965 Stanley Thune and Robert House sent questionnaires to 145 firms having annual sales of $75 million or more in order to get information which would allow them to identify those companies that were actively engaged in formal long-range planning. "Responding companies were classified as formal planners if their questionnaire responses indicated that they determined corporate strategy and goals for at least three years ahead, and if they established specific action programs, projects, and procedures for achieving the goals."[91] Any firms that did not meet all of the requirements were classified as informal planners.

Out of the 145 companies contacted, 92 responded, of which 36 were roughly matched for size and industry into the following 6 industrial groupings: drug, chemical, machinery, oil, food, and steel. To determine whether changes in performance were associated with long-range planning, Thune and House made the following comparisons:

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[89]Sidney Schoeffler, Robert D. Buzzell, and Donald F. Heany, "Impact of Strategic Planning on Profit Performance," Harvard Business Review, CII (March/April, 1974), 137-145.

[90]Stanley S. Thune and Robert J. House, "Where Long-Range Planning Pays Off," Business Horizons, XIII (August, 1970), 81-87.

[91]Ibid., pp. 81-82.

". . . first, the performances of a group of companies over two equal periods of time before and after they initiated planning, and, second, the performances, during a comparable period of time, of companies that use formal planning with a group of comparable companies that do not."[92] The companies were compared on the basis of sales, stock prices, earnings per share, return on common equity, and return on total capital employed.

After comparing the performance of the formal and informal planners as a group, the investigators reported:

> Thus, the first major conclusion of the study is quite clear: formal planners, from the time they initiated long-range planning through 1965, significantly outperformed informal planners with respect to earnings per share, earnings on common equity, and earnings on total capital employed. Furthermore, these companies outperformed their own records based on an equal period of time before they began formal planning. Finally, informal planners did not surpass formal planners on any of the measures of economic performance after long-range planning was introduced.[93]

Thune and House also did industry-by-industry comparisons which showed that "The long-range planning firms in the drug, chemical, and machinery industries consistently outperformed the informal planners on all five criteria of business success." However they were unable to establish a clear association between economic performance and long-range planning for the food, oil, and steel industries. They went on to suggest that the results could mean that industries with rapid technological innovation and new product introduction are the ones who benefit the most from formal planning.

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[92] Ibid., p. 81.

[93] Ibid., p. 84.

Thune and House ended their article with the following, much needed cautions:

> However, it would probably be naive to conclude that formal planning is the sole cause of the successful performance of the firms studied. It is more likely that these companies are using other analytically oriented and modern management practices in other decision areas as well. For example, we have speculated that firms engaged in formal planning also use more sophisticated methods for organization design and analysis; managerial selection, development, and compensation; and administrative control. Thus, it is most likely that formal planning is a characteristic of a well-managed firm rather than the single cause of successful economic performance.
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> Although the data make an impressive case for long-range planning by firms in the medium-size, rapidly changing category, the results should be considered suggestive rather than conclusive. Because serious efforts were made to isolate critical variables by matching companies by size and industry, the sample was necessarily small, and the matched groups were still less than perfectly comparable.[94]

A Partial Replication of the Groundbreaking Study

In 1972 David M. Herold reported that he had investigated the relationship between long-range planning and organizational performance by using the pairs which comprised the drug industry group and the chemical industry group in the Thune and House study.[95] He used sales and profit data for the seven-year period from 1962 to 1969 and found that as a group the formal planners had significantly outperformed the informal planners. Professor Herold reported that between 1962 and 1969, ". . . formal planners had achieved a 150% increase in sales with a 139% increase in profits. This contrasts with only 89%

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[94] Ibid., p. 87.

[95] Herold, op. cit., pp. 91-102.

and 59% increase in sales and profits, respectively, for informal planners."[96] He also did an industry-by-industry comparison and reported the following results:

> In the drug industry, formal planners enjoyed a 162 percent increase in sales accompanied by a 191 percent increase in profits, while informal planners managed only 98 percent and 78 percent increases in sales and profits, respectively.
> In the chemical industry, formal planners achieved a 141 percent growth in sales with an 88 percent increase in profits, while the informal planners achieved only an 81 percent growth in sales with a 37 percent increase in profits.[97]

The findings of Professor Herold support those of Thune and House in the drug and chemical industries. However it is unfortunate that he did not attempt a replication of some of the industries where Thune and House did not find any relationship between long-range planning and organizational performance.

The 1974 Study on Evaluating Planning Effectiveness

The most recent report of an investigation into the relationship between formal planning and financial performance was by Professors Robert M. Fulmer and Leslie W. Rue.[98] In 1974 they reported that they had sent questionnaires to 1,333 firms in order to gain information on their planning systems. They received 386 useful responses which they used to divide the firms into two groups which represented those that did formal planning and those that did not. They then used four different financial criteria--sales growth, earnings growth, earnings/sales ratio, and earnings/total capital--to test the hypothesis ". . . firms which use more sophisticated long-range planning

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[96] Ibid. [97] Ibid.

[98] Fulmer and Rue, op. cit., pp. 1-7.

techniques exhibit better financial performance than firms utilizing less sophisticated techniques."[99]

For the purpose of analysis they divided the firms into the following industrial groupings: non-durable, durable, and service. Their results showed that there was no simple relationship between formal long-range planning and financial performance. For the durable goods industry the planners outperformed the non-planners on all four measures; in the service industry the results were reversed with the non-planners outperforming the planners on all four measures; and in the non-durable industry the results were mixed.

Professors Fulmer and Rue summarized their article by stating:

> While we cannot conclude that long-range planning pays or does not pay, this preliminary study does indicate that there is no simple, across the board relationship between financial success of the firm and its use of long-range planning. Obviously, such variables as timing, luck, and the immeasurable quality of "overall managerial competence" have a more direct relationship on a firm's performance success than the formality of its long-range planning activity.[100]

Implications of the Planning Effectiveness Evaluation Literature for the Banking Industry

The finding by Professors Fulmer and Rue that in the service industry the non-planners outperformed the planners on all four financial measures should be of considerable interest to bankers. Possibly it is a warning that in the service industries there are low cost-benefit ratios associated with formal planning. However recent reports in the literature indicate that the banking industry is becoming one

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[99] Ibid., p. 2.

[100] Ibid., p. 7.

with rapid technological innovations and new product introductions which, according to the Thune and House findings, would mean that they would increasingly benefit from good formal long-range planning. In addition the study on acquisition planning discovered that "On virtually all relevant financial criteria, the planners outperformed the non-planners."[101] This means that bankers should benefit from a good formal planning system when making decisions on future mergers and moves into non-traditional banking services. Taken together the findings are mixed and do not offer any clear guidelines for the banking industry. Therefore, a study of the relationship between formal strategic long-range corporate planning and the financial performance of banks does seem especially desirable since it just may be that the banking industry is in the stage of its development where good formal planning will pay the largest dividends.[102]

IV. PREVIOUS RESEARCH ON BANK PLANNING PRACTICES

The first three sections of this literature review provide the background for each of the study objectives. In this section all of the known research on formal bank planning practices will be reviewed.

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[101] Ansoff, Anver, Brandenburg, Portner, and Radosevich, op. cit., p. 2.

[102] The recent activities of the American Banking Association (ABA) indicates that many bankers believe that they could benefit from better formal planning. In 1974 the American Banking Association created the Corporate Planning Executive Committee to study and disseminate information on bank planning. In 1976 the ABA's Corporate Planning Executive Committee published a small booklet entitled A Guide for Bank Planning. Unfortunately the booklet is very general but it does contain an annotated bibliography which could be used to order additional references.

The Bailey Study

The first known report of research on formal bank planning appeared in 1964 in the Academy of Management Journal. The article was by Joseph K. Bailey and entitled "Organizational Planning: Whose Responsibility?"[103] The article was based on information obtained from a 1962 mail survey of 750 organizations, fifty of which were commerical banks. His findings with respect to banks were as follows: (1) four banks of the twenty-nine answering his questionnaire had organizational planning departments; (2) three banks had assigned organizational planning to already existing departments and five had assigned the job to a specific individual or group; (3) ten of the banks reserved organizational planning for top management and the remaining seven of those banks reporting had it shared by top management and "Divisional and/or Departmental Management."[104] The study showed that some banks were doing formal planning before 1962 but that it was apparently very limited in scope.

The Adams Study

The second know study of bank planning practices was conducted by E. Sherman Adams, Vice President of the First National City Bank in New York. In 1964 he made a survey of bank planning activities among sixty leading bank institutions throughout the United States. The following is a list of the twelve questions that Mr. Adams used in his questionnaire:

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[103]Joseph K. Bailey, "Organizational Planning: Whose Responsibility?" Academy of Management Journal, VII (June, 1964), 95-96.

[104]Ibid., p. 99.

1. Is your bank giving more attention to planning activities now than five years ago? If so, why? And what type of planning activities are receiving more attention?[105]

2. How are these activities organized? Who is assigned to do what types of planning? Do you have any interdepartmental committee which has some responsibility for certain types of planning activities?[106]

3. Is there a "Planning Officer"--someone other than the chief executive officer who is responsible for various planning activities? If so, what is his title and the name of his office? To whom does he report?[107]

4. About what percentage of this officer's time is devoted to planning activities? What kind of a staff (if any) does he have assisting him in connection with these activities? Are his activities heavily weighted toward a particular function--marketing or budgets, for example? Is he also responsible for planning business developments?[108]

5. What changes have been made over the past five years in the organization of responsibility for your bank's planning activities? Is management generally satisfied with the way they are organized and operating at the present time?[109]

6. Does your bank go through an exercise that might be called "profit planning?" Is this largely a matter of preparing income and expense budgets for the coming year? Or is it considerably elaborated?[110]

7. Do you employ asset allocation techniques in connection with some of your asset management problems? If so, have they proven to be useful? With what types of problems?[111]

8. Has the management of your bank ever attempted to formulate a statement of the overall purposes and objectives

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[105]Adams, "Survey of Bank Planning Activities," op. cit., p. 1.

[106]Ibid., p. 3.

[107]Ibid., p. 5.

[108]Ibid., p. 7.

[109]Ibid., p. 8.

[110]Ibid., p. 9.

[111]Ibid., p. 10.

of your institution--or statements for individual divisions? Was this exercise worthwhile? If so, in what areas?[112]

9. Have you used outside consultants in connection with your planning activities? If so, in what areas?[113]

10. Is most planning done by relatively small groups or is there broad participation?[114]

11. On the basis of your bank's experience, what type of planning activities have been most worthwhile? Have some been failures? If so, why?[115]

12. What would you say are some of the chief dangers to guard against in planning in a bank?[116]

The twelve questions are necessarily broad since Mr. Adams was trying to cover the whole gamut of bank planning. Mr. Adams summarized the answers to the questions under the headings of "principal reasons" and "some general comments." Under each of the two headings he usually listed about ten different statements and general comments from bankers. He did not attempt to summarize or draw any conclusions from the responses he received.

The Wood Study

In 1968 the author conducted a study of the current practices and the evolving character of formal planning in the banking industry.[117] The study was focused on the following aspects of bank planning: the reasons for formal bank planning, the functional areas of bank planning, the use of written objectives in bank planning, the organization for

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[112] Ibid., p. 12.

[113] Ibid., p. 13.

[114] Ibid., p. 14.

[115] Ibid., p. 15.

[116] Ibid., p. 15

[117] Wood, "An Analysis of Formal Planning Practices in the Banking Industry," op. cit.

bank planning, the location of responsibility for bank planning, the administrative procedures in formalized bank planning, the benefits and limitations of formal bank planning the nature of long-range bank planning, and the evolution of bank planning practices. Both mail surveys and personal interviews were used to obtain information from a total of forty-one banks. All forty-one banks were among the one hundred largest in the United States and all were located along the East Coast.

The study indicated that most banks had not formalized their planning activities until the 1960's. No bank in the study reported the existence of a comprehensive planning cycle in the 1950's and only a few reported they had staff planners who had been in a planning position within the bank for more than five years. Most banks reported that internal planning during the 1950's had been conducted informally by their President and a few other key executives.

The study indicated that it was the very largest banks which had formal planning efforts. Of the ten largest banks responding, eight reported having full-time staff planning personnel. This was in contrast to the group of the ten smallest banks responding in which only two banks had full-time staff planning personnel.

Although most banks had not formalized their planning until the 1960's, both rapid progress and widespread interest were indicated by the existence of organizations for planning in many of the forty-one banks that participated in the study. Of the responding banks, fourteen, or 34%, had planning departments. Three more had a single full-time planning officer and ten others reported that full-time planning committees were used. This brought the number having a full-time

planning department, planning officer, or planning committee to twenty-seven or 66% of those responding. The remaining fourteen banks reported that they did not have full-time planning assignments.

The results of the study indicated several other trends in formal bank planning. Wider participation in the planning effort was being encouraged and practiced in most banks with formal planning. An increasing use of staff planners was indicated by seventeen banks which reported having one or more full-time staff planners. Finally the study indicated that some large U.S. banks were extending the length of their planning period to five years in advance with annual updatings. All together fifteen of the forty-one banks said that they had or would soon have long-range planning programs.

The study led to the conclusion that there was much room for improvement in the formal planning systems of most banks in the United States. No bank reported that it was completely satisfied with its planning efforts, and it was obvious that many changes would be made in the future. However it seemed certain that formal planning would continue to increase in use among the United States banks.

The Nicholson and Litschert Study

A more recent study of bank planning was conducted in 1971 by Professors Edward A. Nicholson and Robert L. Litschert.[118] They contacted ten banks by letter and follow-up sixty-minute interviews. Six of the ten banks were in the U.S. (the other four were in Great Britain) and all of them had a formal planning effort. However only two of the

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[118]Nicholson and Litschert, op. cit.

six U.S. banks had planning groups that had been in existence more than one year.

The research of Nicholson and Litschert was focused on who had the responsibility for the various planning functions. They looked at who had the primary responsibility for forecasting all of the following: (1) environmental factors, (2) demand for major products, (3) product price trends, (4) economic conditions, (5) technological change, and (6) competitive market conditions. Their conclusion was that ". . . the forecasting responsibilities of the long-range planning groups in this study are extensive but vary widely among banks."[119] In general they found that they had to discuss each bank on an individual basis as no two of the six had exactly the same responsibilities in the area of forecasting.

Professors Nicholson and Litschert also investigated the responsibility of long-range bank planning groups in connection with the following five activities: establishing long-range goals, planning organizational change, searching for new marketing strategies, preparing capital investment proposals, and identifying acquisition or diversification opportunities.

For the first activity, establishing long-range goals, they reported finding "That all six of the long-range planning groups in U.S. banks are very much responsible for the establishment of long-range corporate goals. The importance of this activity was emphasized by each of the directors and it was evident that they considered it

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[119]Ibid., p. 36.

their primary responsibility."[120] Their survey also revealed that most ". . . U.S. banks have developed a separate marketing staff at the corporate level that serves the purpose of developing new market strategies. Moreover, to the extent that acquisitions or opportunities for diversification are considered, it appears that this too is the responsibility of the marketing department."[121]

In summary Nicholson and Litschert reported that U.S. banks are making good progress in developing their planning functions. They found that "Despite the relative newness of long-range planning in banking, the U.S. groups have extensive responsibilities for a wide variety of activities."[122] They reported that the U.S. banks in their study ". . . are moving now in the direction of adopting more sophisticated planning technology, educating line management in the area of formal long-range planning, (and) developing a better data base for planning. . . ."[123]

The Unterman Study

The fifth and most recent known study of bank planning was conducted in 1972 by Dr. Isreal Unterman, Professor of Management, C. W. Post Center - Graduate School of Business.[124] Dr. Unterman conducted a ". . . survey of more than twenty major banks . . ." and found that ". . . only three or four were formally committed to strategic planning."[125] He went on to report:

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[120] Ibid., p. 37.

[121] Ibid., p. 38.

[122] Ibid., p. 40.

[123] Ibid.

[124] Unterman, op. cit.

[125] Ibid., p. 57.

> By far the most prevalent approach to planning that is found in the banks sampled could be characterized or desscibed as a fragmented approach. That is different aspects of the planning process are the responsibility of different sets of executives. One group, typically the controller's or treasurer's department, is responsible for profit planning; another group, such as "Corporate Planning" for diversifications; another group for operations relating to growth of branches and deposits; and yet another group to solve specific problems of immediate importance, such as new regulations. What is most obvious to a consultant is that the major fragments are rarely put together in any formal sense.
>
> Furthermore, the degree of communication among the groups is often little or none at all.[126]

Dr. Unterman did not comment further on his bank survey in his article. Instead he gave several examples of planning efforts he had observed along with some advice on three approaches to strategic planning. He summed up his article by stating, "When compared to other industries, bank management has been slow in adopting modern planning techniques."[127]

Conclusion of Literature Review

In 1966 Mr. E. Sherman Adams described the amount of information available in bank planning with the following statement, "The literature on planning in banking is meager indeed."[128] The preceding literature review has shown that the amount of information on bank planning has vastly improved in the last decade. However this literature review also revealed that there was a need for information on the previously unresearched areas of bank planning effectiveness. In addition it appeared likely that banks had made valuable unreported progress

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[126] Ibid., p. 58.

[127] Ibid., p. 65.

[128] E. Sherman Adams, "Bank Planning Activities," The Banker's Handbook (Homewood, Illinois: Dow Jones-Irwin, Inc., 1966), 896.

in the area of formal strategic long-range corporate planning which needed to be investigated and the findings made available to other bank planners. In general it was apparent from the literature review that banks were increasing their formal planning efforts under conditions of limited knowledge about the development of this aspect of management in their industry. Therefore this bank planning research was needed in order to provide current and comprehensive information to those banks which were in the process of setting up or making changes in their planning programs and to those who wish to improve their planning effectiveness.

CHAPTER III

FINDINGS ON PROFIT PLANNING SYSTEMS IN MAJOR UNITED STATES BANKS

I. INTRODUCTION

The literature review revealed that the realm of formal bank planning has increased in both volume and sophistication during the past decade. However the literature is mainly constructed of isolated reports about individual banks and provides only scattered evidence on the overall state of development of bank planning systems and techniques. Therefore one of the objectives of this research was to fill the void in the literature by obtaining accurate information on the growth of formal bank planning. In order to accomplish this objective the two areas of "profit" planning and "long-range strategic" planning were researched.

Questionnaires and depth interviews were used to obtain primary information on the development of formal planning systems in 94 of the 150 largest domestic, non-related, non-special purpose banks in the 48 contiguous states and the District of Columbia. In addition three of the 150 largest U.S. banks chose to provide information on their planning systems by telephone so that a total of 97 banks participated in this study.

In this chapter the findings on the importance, evolution, problems, and unique applications of profit planning systems are presented. In addition several survey findings on the preparation and use of profit plans by the large U.S. banks are discussed and some contradictory data are reviewed.

The information on profit planning will be presented initially since it typically precedes the development of more comprehensive forms of bank planning. The findings on long-range strategic planning in the banking industry will be presented in Chapter IV.

II. THE EMPHASIS ON PROFIT PLANNING

"In 1976 the Profit Plan Is Everything"

Profit planning is a process whereby management determines the amount or rate of earnings it wishes to achieve in a given period and then develops operational plans to achieve the profit objectives. In 1976 profit planning within the banking industry was receiving an unusual amount of attention. The increase in attention was the result of an earnings decline which had started for many banks in late 1974. Just how much importance some bankers were attaching to their profit plans is evident from the following typical statements obtained from bank officers who were interviewed by the author:

> In 1976 the profit plan is everything. It dictates all our moves and it is watched religiously by top management.
>
> In 1975 and again in 1976 all our attention has been on the profit plan and every effort has been toward cost cutting and making the bank look as strong as possible. No new projects have been approved and a number of employees have been transferred from staff to line positions.
>
> All planning in 1976 was directed at the financials. Hopefully in 1977 we can get back to expanding and improving service.
>
> When profits are down we have to run the bank more like a business and that means improved revenues and good cost control so profit planning is really in vogue around here at this time.

In addition to the above statements, the findings from the survey portion of this study revealed that profit planning has become an

integral part of bank management systems. Altogether 90 of the 150 largest banks in the U.S. indicated whether they did or did not have a profit planning system and, if so, when it was started. The research results are presented in Table 1 and they reveal that before 1970 over 50% of the responding large U.S. banks had profit planning systems. The findings also show that by 1976 all but one of the ninety responding banks had installed a profit planning system.

The preceding indicates that almost all of the large U.S. banks had profit planning systems by the mid-1970's. In the following section the findings on which banks were the leaders in the profit planning area are discussed.

The Very Largest Banks Were the First To Have Profit Planning Systems

The 150 banks that served as the sample for this study were all among the 165 largest in the United States as of December 31, 1975. And, since there were over 14,000 commercial banks in operation during 1975, it also means that each of the 150 banks was ranked in the top 2% of all banks when compared on the basis of total deposits. However, the fact that they were all among the very largest in the United States did not mean that they were all about the same size. For instance, the largest bank in the sample had total assets of over 66 billion dollars and 65,000 employees[129] while the smallest bank had 808 million dollars in total assets and 1,218 employees.[130]

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[129]Robert P. Hanson (ed.), Moody's Bank and Finance Manual (New York: Moody's Investment Service, Inc., 1976), 23.

[130]Ibid., p. 1008.

TABLE 1

YEAR LARGE U.S. BANKS STARTED
PROFIT PLANNING SYSTEMS

Year Bank Initiated Profit Planning Effort	Number of Banks	Percentage of Those Responding
Before 1967	33	37
1967	2	2
1968	6	7
1969	7	7
1970	6	7
1971	6	7
1972	4	4
1973	5	7
1974	7	6
1975	4	5
Banks which could not provide exact date profit planning started	9	10
Banks which did not have profit plan as of August 30, 1976	1	1
Total banks responding	90	

Because there was this wide range in available resources, the relationship between the size of the sample banks and the time period when they installed a profit planning system was investigated. The relationship was investigated by dividing the ranked banks (ranked from largest to smallest) into six groups of twenty-five banks each and conducting a frequency count of the banks that had adopted profit planning systems before 1966 and before 1971. The results of the frequency count are presented in Table 2 and they show that before 1966 there were profit planning systems in 46% of the responding banks that were ranked among the 75 largest in the United States while only 30% of the banks ranked 76 through 150 had similar systems by that time. The information in Table 2 also reveals that by 1971 the gap between the two groups had increased from 16% to 31% with 83% of the responding banks that were ranked among the seventy-five largest in the United States having profit planning systems versus 52% for those banks that were ranked among the second seventy-five largest. However the gap was eliminated between 1971 and 1976 in that by September 1, 1976, there was only one of the eighty-four responding banks that had not adopted some form of profit planning system.

In general both the survey research and the interview data indicated that it was the very largest banks with their superior resources that were the leaders in the profit planning area. For example, during two interviews the author was shown identical profit planning manuals that had been purchased by two different banks as part of a packaged profit planning system. The packaged system had been originally developed by a much larger bank which was now marketing the manual and accompanying computer programs. Both of the purchasing banks were large

TABLE 2

PROFIT PLANNING SYSTEM ADOPTION PATTERN BY TIME AND SIZE FOR EIGHTY-FOUR RESPONDING BANKS

Rank by Deposits in 1975*	No. of Banks in Each Category Providing Data	Time Period When Profit Planning System Was Installed			
		Before 1966		Before 1971 (Cumulative)	
		No.	%	No.	%
Top 25	17	9	53	14	82
26-50	19	7	37	15	79
51-75	12	6	50	11	92
76-100	10	1	10	3	30
101-125	12	4	33	7	58
126-150	14	6	43	9	64
Totals	84	33		59	

*As ranked in the 1976 edition of Moody's Bank and Finance Manual.

enough to afford the staff to develop their own systems but in both cases it was their opinion that this was a much more efficient way for them to meet their needs. It should also be noted that it was not always the largest banks that were selling systems to the smaller banks. In one instance there was a relatively smaller bank that had spent considerable time and effort in developing a profit planning package which had been purchased by several much larger banks. However this was a unique situation and in general it was the largest banks who had pioneered the profit planning area in the banking industry.

III. FINDINGS ON THE "HOW" AND "WHO" OF BANK PROFIT PLANNING

Profit Planning Goals and Goal Setting

The first step in constructing a profit plan is "goal setting" by top management. In each of the seventeen banks visited by the author, the officers were asked if they could provide specific information on their bank's primary goal for 1976. Officers in seven of the seventeen banks declined to answer the question since the information was considered to be confidential, but responses were obtained from the other ten banks. The answers of eight of these ten banks are presented in Figure 1 and they show that five of the eight were concentrating on earnings, one had growth as its primary target, and two said that earnings and growth were equally important. The other two banks that responded had unique situations. In one, the primary goal for 1976 was "to make the bank look as strong as possible." In this bank there had been some severe losses in the real estate investment trust business which had hurt their financial stability. Therefore the

1. The primary goal is to get a 15% increase in return on equity for the year and to make each quarter look better than the previous quarter, even if it means holding back some earnings for a period or two.

2. Our number one goal is for a 12% increase in earnings after taxes.

3. The main goal is to have a 15% increase in earnings per share.

4. We have two major goals which are treated as equals. The two goals are to have a 13% increase in return on equity and a 12% increase in total assets.

5. Our goal is to have a 12% increase in earnings.

6. The main target this year is to increase return on assets from .59 to .70 or better.

7. Our goal for 1976 is to have a 15% growth in total assets.

8. Our goals this year are to increase earnings by 10% and total assets by 15%. The two goals are considered to be equal.

FIGURE 1

TYPICAL 1976 PRIMARY PROFIT PLANNING GOALS

officers in this bank were watching their outstanding loans very closely and the loan officers had to get top management approval before making any "risky" loans. In addition the general operating policy was to reduce costs in order to increase profits and thereby make the balance sheet look better. In the other bank an officer stated their situation in the following manner:

> Top management has never given us specific goals to work toward. However from past experience you have a feel for what you should aim for since if they are not pleased with the profit and growth picture when the divisional plans are consolidated, they send the profit plans back for revision.

He went on to state that a good rule of thumb was that any project proposed had better have a projected rate of return of at least twice the prime interest rate and that profit plans which had called for a 6% increase in net income had been rejected by top management in the previous year.

Along with their answers to the question on their bank's primary goal, officers in two banks further provided the following rare look into their bank's goal-setting process. The first banker stated:

> Our goal for 1976 is to have a 15% growth in total assets. We arrived at that goal by asking ourselves what will keep our largest stockholders happy.

In the other bank the officer stated:

> Our goals this year are to increase earnings by 10% and total assets by 15%. The two goals are considered to be equal. We arrived at these goals by looking at what other banks our size had historically done, not by looking at what we could or could not do. Our goal is to be in the middle of the pack in all areas. If you are in the middle of the pack, then neither the stockholders nor the regulatory authorities can squawk.

The answers by the two bankers were very enlightening and at the same time discouraging. However that evidently is how goal setting

takes place in some instances, and the author is grateful to the bankers for being straightforward in their responses. In addition to goal setting, the areas of line executive participation in the profit planning process and the use of profit plans in the evaluation of executive performance were investigated. The findings on "participation" and "evaluation" are presented in the following section.

The Line Executive and the Profit Planning Process

As part of this study, information was collected on the individuals who actually prepare the profit plans. Specifically, officers in each bank were asked to indicate how their line executives participated in the profit planning process. Altogether eighty-nine banks responded in a useful manner to the question--an officer in one bank indicated that his bank did not have a profit planning process and officers in three other banks did not indicate the extent to involvement of their line executives in their profit planning processes--and the results are summarized in Table 3.

The information in Table 3 reveals that in a majority of the cases (81%) the line executives prepare profit plans, provide additional information when necessary, and participate in the review process. However the findings also revealed that in sixteen of the eighty-nine banks (18%) the line executives are only partially involved in the profit planning process and that in one bank there is no involvement of the line executives. The banks were also questioned on whether they used the profit plans to evaluate the performance of their line executives. Eighty-eight banks responded to the evaluation question and 80%

TABLE 3

INVOLVEMENT OF LINE EXECUTIVES
IN THE PROFIT PLANNING PROCESS
AS OF SEPTEMBER 1, 1976

	No. of Banks out of 89 Responding	Percent of Total
Full Involvement		
The line executives prepare profit plans, submit additional information if needed, and participate in the review process.	72	81
Partial Involvement		
A. The line executives prepare profit plans but they are not asked for additional information and they do not participate in the review process.	7	8
B. The line executives do not actually prepare profit plans but they are asked for input and they participate in the review process.	5	6
C. The line executives only participate in the review of profit plans that are prepared for them by staff specialists.	3	3
D. The line executives provide input into the profit planning process but they do not actually submit plans and they are not in on the review process	1	1
No Involvement		
The line executives do not participate in the profit planning process.	1	1
Total	89	100

indicated that they did use the profit plans to evaluate managerial performance.

Profit Plan Utilization

In addition to the surveys, information obtained in the interviews provided further insight into the utilization of profit plans. Information obtained in the interviews revealed that there was a direct link between the compensation of bank officers and the profit planning results in only three of the seventeen banks that were visited by the author. In the other banks it was felt that the embarrassment of having to explain to top management the reasons for your unit's variances from the profit plan was ample admonishment. Some typical comments from the bankers on the use of profit plans in their banks were as follows:

> The profit plan is not used to reward or control people but to just decide which things we can afford or which to cut.

> The profit plan is a communications device. No one has ever been severely reprimanded because he did not meet his profit plan.

> Top management likes to set goals, develop profit plans to achieve the goals, and then sit back and wait until the end of the year to see what happens. As it turns out, just so you do better than last year is all that counts.

In summary it appears that in most large U.S. banks there is extensive involvement of the line executives in very humanely operated profit planning systems. Perhaps one reason why bank executives are not more strictly held accountable for their profit planning results is that there are still some "bugs" in the systems. Profit planning system problems that were most mentioned by the interviwed bankers are discussed in the following section.

IV. PROFIT PLANNING PROBLEMS

The depth interviews with bank officials revealed a variety of profit planning system and implementation problems. Most of the banks had conflicts that revolved around personalities or concentrations of power that were unique to the particular institution which do not lend themselves to summary and discussion. However there are three specific problems that were mentioned in 25% or more of the interviews and they are discussed below.

Intra-Bank Transfer Prices

The most mentioned profit planning problem (eight of the seventeen) was that of establishing intra-bank transfer prices for services and funds. Evidently it is almost impossible to get complete agreement on the transfer prices for services and funds and this in turn leads to conflicts over the reasons for variances from the profit plan. Time after time the author heard discussions about profit center managers who took up the majority of performance review meetings with charts and rhetoric in order to explain how much better his area would have done if it had not been unjustly charged for the inefficiencies of other departments that were passed on to him through the unfair price system. In an effort to reduce this problem, several banks had spent considerable time and effort on standard cost systems but the officers were quick to admit that the arguments still surfaced when someone needed an excuse for his area's performance.

Improper Accounting Systems

The second most mentioned problem (six of the seventeen) was that the bank's accounting system was not designed to produce accurate

data on the actual revenues and expenses that were generated by the profit centers. Because of this, the profit center managers were constantly complaining that they were being charged for items over which they had no control and that they were being assigned a given percent for divisional expenses for services that they did not want or need. On the positive side it should be noted that about half of the banks that were visited by the author seemed to have excellent profit center accounting systems and that most of the others were working to improve their methods. In fact it appeared that about all of the banks would have excellent profit center accounting information in the near future because of the work they were doing in redesigning their systems to show customer and service profitabilities. One of the banks visited by the author had its customer profitability accounting system completely operational and the officer interviewed stated that the number of complaints about the accounting data had been reduced to almost zero. Therefore this problem should be completely solved by all but a few of the largest banks in the next few years.

Excessive Detail and Paperwork

A third problem that often came up in the conversations about profit planning systems (five of the seventeen) was that of excessive paperwork. One bank officer showed the author a list of over 600 cost centers for his bank which averaged out to one for every six to seven employees. In another bank they had over 1,000 cost and profit centers or one for every four employees. In the latter bank, the monthly consolidated profit plan report came to over 2,000 pages and individual center documents were between four and 20 pages. Unfortunately this

problem for most banks was like that of the weather--everybody liked to talk about it but no one was doing anything about it. Officers in only one bank stated that they were making a concerted effort to reduce the amount of the profit planning paperwork and they did not have any progress to report.

It appeared that there was a direct relationship between the effort that had gone into a profit planning system and the number of problems the bank was having with it. Five banks had spent considerable effort in developing their systems and it appeared that they were the ones with the fewest problems. In one of these five banks they were using its profit planning system in a unique manner and it is discussed in the following section.

V. A UNIQUE APPLICATION OF PROFIT PLANNING DATA

In one bank the branches had been set up as profit centers as is a common practice among financial institutions. This allows branch managers to be judged on how well their branch is doing in relation to other branches of approximately the same size. In order to judge branch performance, selected measures such as those in Figure 2 were used in this and other banks. The unique part of this bank's system was that the performance measures were weighted according to the current desires of top management as expressed in the annual tactical plan. That is "Growth in Deposits" might carry a weight of "5" when loan demand was low but a weight of "20" when it was high. With this system an extra dimension of motivation and control was added to the bank's management system with little increase in cost or effort.

Performance Measures	Weight
Return on Earning Assets	5
Profit Margin	20
Net Interest Margin	20
Total Direct Personal Cost Ratio to Total Tax Equivalent Income	10
Staffing Level Ratio	5
Growth in Deposits	20
Growth in Loans	20

FIGURE 2

WEIGHTED BANK PERFORMANCE MEASURES
IN BANK "X"

VI. CONTRADICTORY PROFIT PLANNING INFORMATION

Both mail surveys and depth interviews were used to obtain information for this research. Officers in fifteen of the seventeen banks that were visited by the author completed the mail questionnaires and each of them indicated that his bank had a profit planning system. However when responding to specific questions about their bank's profit planning system, three of the fifteen described fancy cost control systems. That is their bank was set up on a cost center basis with revenue only being collected at the divisional or higher level. In addition, an officer in one of the very largest U.S. banks had the following to say about the state of development of his bank's profit planning system.

> We have been working on our profit planning system since 1968 and it still does not work. There are many things that are not controlled for and we still do not have a satisfactory format for the submission of cost and income projections. However our recent earnings picture has changed things and by 1977 we will have a good profit planning system that is backed up by a proper information system.

Together this information indicates that there are still some of the largest banks in the U.S. that operate with traditional budgeting systems. The findings also reveal that there is certainly not universal agreement among bankers on the actual meaning of "profit planning" and that there is much diversity in the systems that do exist. These data also serve as a reminder that inaccuracies can creep into survey research and it highlights the importance of depth interviews as a backup to mail questionnaires. However the sample was large enough in this study that the inaccurate information is not likely to have had a major effect on the findings in any chapter except Chapter V. In Chapter V

an attempt was made to quantify the relationship between the financial performance and formal planning practices of large U.S. banks. Unfortunately problems in obtaining historical financial data made it necessary to use a subsample of the original sample and therefore these and other inaccuracies definitely affected the results that were obtained.

Conclusion

The research findings clearly indicated that by 1976 the majority of the largest U.S. banks had profit planning systems. The information also revealed that there was much diversity in the design of the systems which in turn caused a variety of problems. However it is obvious that among bankers the general feeling is that profit planning is an important part of any bank's management system and that investments in improvements to it are well worth the time and expense.

CHAPTER IV

FINDINGS ON FORMAL STRATEGIC LONG-RANGE CORPORATE PLANNING SYSTEMS IN MAJOR UNITED STATES BANKS

I. INTRODUCTION

The profit planning efforts that were discussed in Chapter III were often the basis for a more comprehensive form of planning that was known as strategic long-range corporate planning. The fact that profit planning systems were almost always in operation before the large U.S. banks attempted strategic long-range corporate planning is supported by the information in Table 4. The data in Table 4 shows that out of the fifty-seven banks[131] surveyed that reported having long-range strategic planning systems by September 1, 1976, fifty-five had either previously (fifty-two banks) or simultaneously (three banks) installed a profit planning system. The information in Table 4 also shows a narrowing of the time lag between the implementation of profit planning and strategic long-range corporate planning systems. The time

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[131]The number of sampled banks with strategic long-range planning systems by September 1, 1976, as reported in Table 4 and Table 5 do not match--fifty-seven versus seventy-one respectively--because the criteria for their inclusion in the tables were different. More specifically, for a bank to be included in Table 4 an officer in the bank had to have provided the author with the date it started its profit planning system (if it had one) and the date it started its strategic long-range corporate planning system (if it had one). However, for a bank to be included in Table 5, all the responding officer had to do was state that his bank either did or did not presently have a strategic long-range corporate planning system and if not, what the bank's future plans were with respect to such a system.

TABLE 4

THE YEAR THE SAMPLED LARGE U.S. BANKS STARTED THEIR PROFIT PLANNING SYSTEMS VERSUS THE YEAR THEY STARTED THEIR STRATEGIC LONG-RANGE CORPORATE PLANNING SYSTEMS

Year Sample Banks Started Profit Planning Systems	Year Sample Banks Started Strategic Long-Range Corporate Planning System										Had Not Started Strategic Long-Range Corporate Planning System By Sept. 1, 1976	Approximate Time Period Between the Starting of Profit Planning and the Starting of Strategic Long-Range Corporate Planning
	1964	1967	1968	1970	1971	1972	1973	1974	1975	1976		
1954	1										1	10
1957		2									1	10
1958								1	1			16+
1962								1		1	1	13
1963			1								1	5
1964				1	1	1		1			2	7+
1965				1		2			2	1	2	8+
1966			1			1			3		2	7
1967				1					1			5+
1968				1		1	1		1		2	4+
1969				1				1	1	1	1	4+
1970					1		1	1	1	1	1	3+
1971					1	1	1		1	1	1	2+
1972								1			2	2
1973							1	1	1	1	2	1+
1974							1	1	2	1	1	1-
1975									1	2	2	1-
Had Not Started Profit Planning By Sept. 1, 1976									1			

lag between adoptions of the two systems has steadily declined during the past twenty-two years from around ten years to approximately one year. It is also interesting that twenty-two of the sampled banks reported that they had not expanded their planning efforts beyond that of profit planning. However information presented later in this chapter will show that a majority of these banks do plan to install strategic long-range corporate planning systems during 1977 or 1978.

For the purpose of this research, formal strategic long-range corporate planning was defined as planning which has the following characteristics: (a) extended for periods beyond one year, (b) provided for the setting of major objectives or goals and the formulation of broad policies, (c) contained provisions for the evaluation of alternative courses of action in a systematic manner, (d) involved the development and selection of strategies and action plans that complemented the major objectives and goals, and (e) took place in a competitive environment where the overall objective was to find the best course of action within the constraint of limited resources. Planning of this type has been conducted for many years by firms in industries such as steel, chemicals, and electronics; but the literature review indicated that the use of it by large United States banks was fairly recent. For example, all the known articles on bank strategic long-range corporate planning were published in the 1970's and most of these were reports about the experiences of single banks or of the "how to do it" variety. Only one survey of bank strategic long-range corporate planning was found in the literature and it was evidently loosely conducted. That is, Dr. Israel Unterman who conducted the survey and reported the results

did not list the banks that were in his sample but instead just stated that he contacted ". . . more than twenty major banks . . . ."[132] In addition he did not report how the banks were surveyed and his only major finding was that for the banks in his survey, ". . . only three or four were formally committed to strategic planning."[133] However his survey did provide evidence that the large U.S. banks were active in the strategic long-range corporate planning area and thereby revealed the need for a comprehensive survey to highlight the trends and changes which have occurred in this important area of bank management. Therefore one of the major objectives of this research effort was to investigate the area of strategic long-range corporate planning in large U.S. banks and make this information available to present and future bank managers as well as their teachers.

Extent and Type of Participation by the Banks

The responses to the requests for information on strategic long-range corporate planning in the banking industry were unusually productive. In 1976 this area of bank management was receiving considerable attention and many bankers were pleased to share data on their progress in return for information on where the banking community in general was headed.

The initial phase of this study was the mailing of a general letter of inquiry on planning activities to the presidents of the fifty

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[132] Unterman, op. cit.

[133] Ibid.

largest banks in the following ten states: Alabama, Georgia, Pennsylvania, New York, North Carolina, Maryland, Illinois, Massachusetts, Virginia and Tennessee. The purpose of the letter was to obtain current information on the state of development of the formal planning efforts in the large U.S. banks and at the same time make a contact who could be interviewed at a later date. The letter contained a brief explanation of the study, several questions about bank planning activities, and a request for permission to visit the banks at an appropriate time in the future in order to talk with one or more of their key executives or planning specialists about their planning methods. A typical letter of initial inquiry is reproduced in Appendix A.

The initial letter and brief questions enabled the author to obtain planning information about and a contact person in twenty-nine of the fifty banks. The planning information was reviewed and seventeen of the twenty-nine banks were selected for follow-up personnel interviews. Banks were selected which were at different stages of development in their formal planning efforts so that the evolutionary process could be studied. Several banks which were known to be unusually well managed and several which had lesser reputations were also chosen for the contrast effect. In addition two banks were selected because they did not have strategic long-range corporate planning systems and one bank was visited which had a reputation for being an innovator in bank management practices. It was felt that the combined interview data from these seventeen banks would provide accurate and complete information on the nature and evolving character of strategic long-range corporate planning among the large U.S. banks.

In order to insure that comparable information was obtained about the seventeen banks, an interview guide was constructed and used by the author. The interviews lasted between one and four hours and were typically with more than one bank official. Upon completion of each interview, the interviewee was asked to complete and mail to the author a two-page quick-answer questionnaire (reproduced in Appendix C) on the formalization of planning in his bank. The purpose of the questionnaire was to obtain comparable written documentation from each bank that was visited. In addition the questionnaire was used to pilot test a formal planning rating system which is discussed in Chapter V.

The final step in the data collection process was the mailing of a three-page questionnaire (reproduced in Appendix D) to the 150 largest domestic non-related, non-special purpose banks (including those that had been previously visited) in the 48 contiguous states and the District of Columbia. The purpose of the questionnaire was to obtain data to supplement the previously collected interview information on the large U.S. banks' strategic long-range corporate planning efforts and to obtain quantitative ratings which could be combined to form a planning scale. Altogether 97 out of the 150 banks contacted provided information on their efforts (or lack of them) in the strategic long-range corporate planning area. The information from these ninety-seven banks was compiled, summarized, and analyzed, and is presented in this chapter under the following headings:

History

The Leaders

Timing

Coordination

The Duties of the Staff Planning Specialists

The Duties of the Line Executives

Variability

Endurance

Problem Areas

Informal Planners

Summary and Conclusion

II. FINDINGS ON STRATEGIC LONG-RANGE CORPORATE PLANNING SYSTEMS IN LARGE U.S. BANKS

History

Bankers in each of the ninety-seven institutions that provided information for this study were asked to indicate whether or not their bank had a formal strategic long-range corporate planning system, and if so, when it first became operational. The responses from the bankers are presented in Table 5 and they show that seventy-one of the ninety-seven (73%) responding banks had started strategic long-range planning systems before September 1, 1976. The information in Table 5 also reveals that officers in sixty-nine of the seventy-one banks were able to indicate the year that the strategic long-range corporate planning system was started in their banks. And, when the starting date information is broken down, it shows that only six of the sixty-nine banks (9%) had strategic long-range corporate planning system before 1970 and that 62% of them (forty-three out of sixty-nine) started their systems between January 1, 1974, and September 1, 1976. In general the

TABLE 5

TIMETABLE OF LARGE UNITED STATES BANKS' EFFORTS IN THE AREA OF FORMAL STRATEGIC LONG-RANGE CORPORATE PLANNING PRIOR TO SEPTEMBER 1, 1976

Year Strategic Long-Range Planning System Was Started	No. of Banks Out of 97 Responding	Percent of Total
1976	9	9
1975	24	25
1974	10	10
1973	5	5
1972	6	6
1971	3	3
1970	6	6
1969	1	1
1968*	2	2
1967*	2	2
Before 1967	1	1
Had strategic long-range planning system but did not indicate year it was started	2	2
Bank does not presently have a strategic long-range planning system but it does expect to start one during 1977 or 1978	16	17
Bank does not presently have a strategic long-range planning system and there are no plans to begin one	10	10
Total	97	99**

*Two banks reported that they had started and later discontinued their strategic long-range planning efforts. One of the two banks started its system in 1968 and the other in 1969.

**Totals do not add to 100 because of rounding error.

research results indicated that a majority of the large U.S. banks had strategic long-range corporate planning systems by September 1, 1976, but that many of the systems had been in operation for three years or less.

The bankers whose institutions did not have a strategic long-range corporate planning system were asked to indicate whether they expected their banks to start one during 1977 or 1978. Of the twenty-six responding banks that did not have a strategic long-range corporate planning system, officers in sixteen stated that their banks did plan to install such a system during the next two years while ten said that their banks would not adopt such systems in the near future. All together the figures indicated that 90% of the responding banks will have long-range strategic planning systems in operation by 1979.

The Leaders

The research results showed that it was the very largest of the U.S. banks that were the first to make use of strategic long-range corporate planning. For when the 69 banks that stated the year they adopted their long-range planning systems are compared on the basis of their relative position among all the 150 banks that made up the original sample, it turns out that 10 of the 12 banks (83%) that had long-range strategic planning systems before 1971 were in the upper half of the sample. However the smaller banks in the sample quickly caught up in that by September 1, 1976, thirty of the sixty-nine banks (44%) which had operational strategic long-range planning systems were in the lower half of the original sample.

Timing

The information in Table 5 showed that seventy-one of the ninety-seven responding banks had started strategic long-range planning systems by September 1, 1976. However two of the seventy-one had abandoned their efforts before 1976 so that a total of sixty-nine had operational systems on September 1, 1976. Information on planning cycles, frequency of plan preparations and revisions, and time frames were obtained from these sixty-nine banks and the findings are presented in Table 6.

The information in Table 6 shows that the typical long-range strategic planning system among large U.S. banks resulted in an annually updated five-year plan. Almost three quarters of the banks stated that they prepared plans annually and 68% reported that they developed plans for five years in advance. The information in Table 6 also shows that 45% of the banks revised their long-range strategic plans annually while 34% made their revisions either semiannually or quarterly. In general the banks had their strategic long-range corporate planning systems on an annual cycle with set times for plan preparation and revision.

Coordination

The coordination of the strategic long-range planning efforts was typically through a planning group which consisted of one to five full-time employees. Table 7 shows a frequency count for the number of employees in the various planning groups as reported by the banks. The information in Table 7 shows that in seven banks the planning group consisted of more than five people, in ten banks there was a single person in charge, and that the mode was a group of three. Also shown

TABLE 6

ADMINISTRATIVE PROCEDURE INFORMATION ON SIXTY-NINE LARGE U.S. BANKS WHICH REPORTED HAVING A STRATEGIC LONG-RANGE CORPORATE PLANNING SYSTEM AS OF SEPTEMBER 1, 1976

	No. of Banks	Percent of Total
I. Bank Had a Regular Strategic Planning Cycle		
a. Yes	59	86
b. No	10	14
Total	69	100
II. Frequency of Plan Preparation		
Quarterly	6	8
Semiannually	1	1
Annually	51	74
As Needed	10	15
No Response	1	1
Total	69	99*
III. Frequency of Plan Revision		
Quarterly	13	19
Semiannually	10	15
Annually	31	45
As Needed	13	19
No Response	2	3
Total	69	101*
IV. Time Frame of Strategic Long-Range Corporate Plans		
One Year	2	3
Over one year but 3 years or less	17	25
Over 3 years but 5 years or less	47	68
Over 5 years	2	3
No set time period	1	1
Total	69	100

*Totals do not add to 100 because of rounding error.

TABLE 7

NUMBER OF EMPLOYEES ASSIGNED TO STRATEGIC LONG-RANGE CORPORATE PLANNING EFFORTS IN RESPONDING LARGE U.S. BANKS AS OF SEPTEMBER 1, 1976

No. of Full-Time Employees Assigned to Strategic Long-Range Planning Groups	No. of Banks	Percent of Total
1	7	10
2	12	17
3	22	32
4	5	7
5	4	6
More than 5	7	10
Banks which did not have any full-time employees assigned to a strategic long-range planning group	10	15
Banks which did have a strategic long-range corporate planning system but which did not respond to the staffing question	2	3
Total	69	100

in Table 7 were ten banks which had long-range strategic planning systems and did not have a full-time person or group in charge. A closer analysis of these ten banks revealed that half of them used committees of top management personnel to coordinate the strategic long-range planning, two used a part-time person, and the remaining three used a combination of bank managers and outside consultants.

The banks which had large full-time planning groups also deserved a closer scrutiny. Most of the sixteen banks which had four or more staff planners could be put into one of three categories. Five of the sixteen were still in the start-up phase of their strategic planning efforts and the additional manpower was probably on temporary assignment. Four of the sixteen were very large banks and they had established a full-time planner within each division in order to keep the process running smoothly. In five banks the planning groups reported that they had responsibilities other than long-range planning which took up part of their time. Finally there were two banks with four or more staff planners where it was impossible to determine just how they utilized their manpower. Of course the actual number of people that are needed in a planning group depends on the duties that are assigned to it. Each of the banks that had long-range strategic planning groups was asked to indicate the duties of its group and the results are presented in Table 8.

The Duties of the Staff Planning Specialists

The information in Table 8 shows that the development of the planning process was always assigned to the planning group. All but

TABLE 8

DUTIES OF THE STRATEGIC LONG-RANGE PLANNING GROUPS IN LARGE U.S. BANKS AS OF SEPTEMBER 1, 1976

Duty	No. of Groups	Percent of Total
Develop Planning Process	57	100
Coordinate Planning Effort	55	97
Review Plans	41	72
Consolidate Divisional Plans	32	56
Prepare Plans	25	44
Set Objectives	21	37

one of the nine members of strategic long-range planning groups who were interviewed stated that they were continually having to mold the strategic long-range planning process to fit their bank and that it seemed to be a neverending activity. Only one banker was able to state that in his bank there had not been any major changes in the strategic long-range planning system during the past twelve months and he was an officer in a bank that had been perfecting its system since the late 1960's.

The information in Table 8 also shows that the coordination of the strategic planning effort was usually the duty of the planning group. In their coordination capacity the staff planners would do such things as develop timetables for the submission of information, arrange for objectives and assumptions to be formulated and distributed to the officers who were preparing plans, work out PERT charts, and help arrange joint meetings between divisional personnel so that all the plans would mesh in the end.

Another common function of the strategic long-range planning group was that of reviewing the divisional plans. The depth interviews with members of various bank planning groups revealed that the reviews were for omissions or inconsistencies and not for content. In fact all of the staff planners who were interviewed indicated that top management had made it clear to them that they were not to question directly the content of any divisional plan. However in six of the seventeen banks visited by the author it was the job of the staff planner(s) to prepare a list of questions on the content of the divisional plans which were used by the Chief Executive Officer in his review of the

various plans. This way the planning unit was indirectly involved in the line review process without formally breaking the distinction between line and staff. In addition, in five of the six banks, the head of the planning group was invited to sit in on the line reviews and was available to answer questions if called upon by the Chief Executive Officer or divisional vice-presidents. However in all five banks the planning officers indicated that they were rarely called on during the review meetings but that after the meetings they were often questioned in private by the Chief Executive Officer.

The consolidation of the divisional plans into a corporate plan was another duty of the strategic long-range planning group in a majority of the banks. In the banks where interviews were held, the corporate plans were from five to seventy-five pages in length and they were the summary of total divisional plans which ranged from "around 100" to "over 500" pages in length. An interesting observation about the length of these corporate plans was that the length of the plans appeared to be inversely proportional to the amount of time the bank had been doing long-range strategic planning.

The preparation of plans was also the duty of the strategic long-range planning group in many of the large banks. Strategic planning groups in twenty-five of the fifty-seven banks reported that they prepared plans for top management. Information from the interviews indicated that typically these were one-time special purpose plans for things such as (1) reorganization of the bank, (2) the acquisition of another institution, or (3) the revamping of the bank's information system. In two banks where interviews were held the planning groups

had been assigned the task of developing ten-year plans for the banks based on two or three different scenarios. In both of these banks the line managers were actively involved in the development of the ten-year plans but it was the duty of the planning groups to do the final write-ups.

Finally, bank planning groups in twenty-one of the fifty-seven banks reported that they helped in the setting of bank objectives. Unfortunately only two of the twenty-five were ones where interviews were held and in both cases they were just beginning their strategic planning efforts. Therefore the Chief Executive Officers and the planning groups were having an unusual amount of communication which may or may not continue in the future. The bank planning officers in the banks which had established strategic planning efforts did not indicate that they had any organized part in the setting of bank objectives.

In general the members of the strategic long-range planning groups were in charge of developing and running the strategic planning system. However it was the line executives who usually formulated the actual plans and the findings on their part in the strategic long-range planning process are presented in the following section.

The Duties of the Line Executives

The research findings disclosed that it was the line executives who usually prepared the divisional strategic long-range plans. In order to get more specific information, officers in each of the sixty-nine banks which had long-range strategic planning systems were asked to indicate how their line executives participated in the process.

Officers in sixty-eight of the sixty-nine banks responded to this question and the results are summarized in Table 9.

The information in Table 9 reveals that in a narrow majority of the banks (52%) the line executives prepare long-range strategic plans, provide additional information when necessary, and participate in the review process. Some interesting and somewhat surprising findings from the information in Table 9 were that in 29% of the banks with long-range strategic planning systems the line executives did not prepare long-range strategic plans and in 27% of these banks they did not get a change to review the corporate plans before they were finalized. This is surprising in that it is the line executives who have to implement the strategic plans and therefore it would seem logical that in order to get their commitment it would be best to fully involve them in the preparation and review stages. However this is apparently not the case in some banks and one bank even reported that the president and his staff were the only persons involved in the preparation of the bank's strategic plans.

It would be difficult to overemphasize the importance of line-executive involvement in a stratetic long-range corporate planning system. The line executives are the persons who make or break the planning effort and it is the opinion of the author that they should be fully involved in every step of the process. However a detailed, step-by-step description of line-executive involvement in a bank strategic long-range corporate planning system is presented in Chapter VI of this report and therefore additional statements at this point would only be unnecessary duplication.

TABLE 9

PARTICIPATION OF THE LINE EXECUTIVES IN THE FORMAL STRATEGIC LONG-RANGE PLANNING PROCESS OF LARGE U.S. BANKS AS OF SEPTEMBER 1, 1976

		No. of Banks	Percent of Total
I.	The line executives prepare plans, provide additional input when needed, and review the corporate plans before they are finalized.	36	52
II.	The line executives provide input to the planning process and review the corporate plans before they are finalized but they do not actually prepare plans.	11	16
III.	The line executives prepare plans and provide additional input when necessary but they do not review the corporate plans before they are finalized.	5	7
IV.	The line executives prepare plans but they are not called on for additional inputs and they do not review the corporate plans before they are finalized.	7	10
V.	The line executives provide input to the planning process but they do not prepare plans or review the corporate plans before they are finalized.	5	7
VI.	The line executives review the corporate plans before they are finalized but they do not prepare plans and they are not asked to provide inputs into the planning process.	3	4
VII.	The line executives are not involved in the planning process.	1	2
VIII.	No response	1	2
Total		69	100

Variability

The literature on formal long-range strategic planning indicates that enduring systems have common elements such as clearly stated objectives, top management support, and the commitment of line executives to the accomplishment of the tactical plans. Therefore the officer in each of the sixty-nine financial institutions which indicated that his bank had a strategic planning system was asked to comment on his bank's situation with respect to selected planning attributes. The first attribute each officer was asked to comment on was that of top management support for the strategic planning effort. The responses revealed that 90% of the sixty-nine officers felt that top management fully supported the strategic planning effort in their banks. Along this same line, each officer was asked if in his opinion the line executives were fully committed to accomplishing the strategic plans that were formalized in his bank. This time the responses were not as favorable in that 31% stated that they did not feel that the line executives in their banks were fully committed to accomplishing the strategic plans.

In addition to management support, well thoughtout corporate objectives are important in any strategic planning effort. Therefore the officers in the sixty-nine banks were asked to indicate whether or not top management in their banks had developed a formal statement of what business the bank was in or wanted to be in. The replies revealed that in 31% of the banks the top management had not developed this type of guidance for the long-range strategic planning effort.

The tactical plans that are followed in accomplishing the corporate objectives are another important part of any strategic planning

system. Each of the sixty-nine bankers were asked to indicate whether or not detailed action plans were developed to support each major strategy and 26% of the bankers indicated that this was not the case in their banks.

In forming strategy for corporations, an analysis of one's own strengths and weaknesses is a very valuable input. Fortunately most bankers agreed that this was the case as only 3% reported that they had never undertaken an analysis of their own strengths and weaknesses. In addition most bankers agreed that an analysis of their competition's strengths and weaknesses was a valuable undertaking in that 94% reported that they had conducted that type of study and 36% felt it was so important that they updated it annually.

In general a few bank strategic long-range planning systems were almost textbook perfect while others were lacking in one or more areas. Unfortunately a long-range planning system which is lacking in too many areas will soon falter and two examples of this are discussed in the next section.

Endurance

Two of the banks that provided information for this study reported that they had started and later abandoned their long-range strategic planning operations. A special effort was made to include both institutions in the group of banks that were visited by the author but officers in only one of the two agreed to be interviewed. However an officer in the other bank, who had been in the long-range strategic group before it was dissolved, did agree to be interviewed by phone.

The bank that was visited by the author had been in and out of

the strategic planning business between 1968 and 1974. One of the interviewed officers reported that in 1968 they had developed ". . . a very detailed strategic plan for five years in advance. Both the internal and external environments were considered and any plans that were not well done were sent back for revision." The officer went on to report the following:

> Unfortunately we never did develop a tie between the budget and the strategic plans and no effort was made to tie the evaluation of managerial performance to accomplishment of long-range plans. In addition the planning staff was on a project basis so they did not follow up on the plans once they were made and we did not at that time have good coordination between the holding company staff and the bank's staff.
>
> In 1971 we put together another long-range plan and attempted to link it with an MBO operation. Unfortunately top management never really supported the MBO effort so it fell apart within one year.
>
> In 1973 we put together a two-year plan. The President and top line managers got together for two days of meetings at a retreat and worked out six objectives for the bank. The line executives then went back and developed strategies to go with the objectives that were applicable to them. The strategies were complete with assumptions, goals, and dates so that the accomplishment of them could be closely monitored. We had just completed our first quarterly progress review when the real estate problem hit us hard. The President called in each division head and told him to cut costs and announce to his people that there was a freeze on both salary increases and the hiring of additional personnel. The President announced that the bank staff would be reduced as far as possible and that the planning staff was to be reassigned to line positions.

The officer also reported during the interview that they now have a new president and that he likes to ". . . call quick meetings and make quick decisions." The officer further reported that they had recently set up a "Planning and Tactics Committee" and that he expected that they would revive their long-range planning efforts during 1977.

The situation in the second bank that had abandoned its long-range strategic planning effort was similar to the one just discussed.

That is they had started their system in the late 1960's and later discontinued it in the mid 1970's because of a drastic drop in profits due to the faltering real estate industry. In this bank the interviewed officer stated that the corporate strategic plan had been updated annually between 1969 and 1975 but that it had only been given "lip service" when the budget was prepared. He also reported that only selected parts of the long-range plan were ever carried out in any one year and many parts were ignored completely during the entire six-year period. In addition he stated that his bank had a new president and that they did not have any plans to resume their long-range strategic planning effort in the foreseeable future.

It is unfortunate that both of these banks wasted their resources on superficial long-range strategic planning efforts. That is in both cases they did not have adequate top management support and they did not integrate the long-range stratetic planning and budgeting processes. The lack of these two things made it highly unlikely that either of the two banks could have obtained any meaningful results from their strategic planning efforts. In the long-run it may be that the "real estate problem" did them both a favor in that it kept them from wasting further resources on strategic planning systems that had little chance of success. However the officers that were interviewed in both banks did realize what had gone wrong and they agreed that it wasn't the "system" but their implementation--or lack of it--that had caused things to go awry. However, even banks that were able to put together complete strategic long-range corporate planning systems were having their problems and they are discussed in the following section.

Problem Areas

Officers in the banks that were visited by the author were asked to comment on the major problems they were having in getting their long-range strategic planning systems to operate effectively and efficiently. Only six of the seventeen banks visited by the author had fully operational strategic planning systems and the responses by their planning officers were as follows:

Bank 1

> Everybody wants too much. The plans always add up to much more than we can possibly do. Somehow we have got to find a way to get the divisional personnel to be more realistic and to work better together on the development of their plans.

Bank 2

> The divisions always send us incomplete plans. For instance the Corporate Division just sent me its plan and they did not discuss why they should be in a given market or where their projected growth was going to come from. All they gave us were generalities. They did not address the tactical questions. Incomplete plans are our big problem at this time.

Bank 3

> In our bank each division has at least one full-time person to work on the preparation of the divisional plan. The problem is that division heads often do not get involved in the actual planning but instead form a committee to work with the divisional planner. Another problem we have is that there is one division head who is very powerful and he will not submit a plan and so far he has refused to have anything to do with the planning process.

Bank 4

> Our major problem is that only a few divisions make any effort to tie together the profit plan and the strategic plan. Other problems are that deadlines are never met and so far we have not found a good way to consolidate the divisional plans.

Bank 5

> The only big problem we have is that of relating the corporate goals to the divisional plans. That is we have specific corporate goals but it is often hard for the division head to see how they relate to his operations.

Bank 6

> The divisional vice-presidents only worry about getting their plans approved, not what the results will be for the bank. We have got to get the divisional vice-presidents to think of what is best for the bank first and what is best for their divisions second.

In general the problems are unique to the various banks but most appear to fall back in the lap of top management. For it is up to top management to give common vision to the bank and reprimand the division heads when they or their subordinates do not do their parts. And, if this is not done, then it is only a matter of time before these problems are superseded by even bigger problems which will ultimately lead to the collapse of the long-range strategic planning system.

Informal Planners

It is important to emphasize that all of the large U.S. banks that were included in this study were undoubtedly doing some type of long-range planning. In this study the focus was on banks that were doing comprehensive long-range strategic planning but information obtained in the interviews revealed that some bankers preferred divisional or project long-range planning. For example, in one bank that was visited by the author there were seventy-six "Divisional Action Plans" that were being worked on. Each divisional action plan was for a long-range project which had a time frame between one and five years. Work on the divisional action plans was coordinated and monitored by a

member of the bank's marketing department and, if combined, would in effect have been the long-range strategic plan for the bank. However the bank's top management did not want a comprehensive planning system as they wanted to operate each division as if it was a separate organization in order to heighten intrabank competition.

In another bank that was visited by the author they did what they called "long-range strategic planning." In this bank the top executives were periodically asked to list any "issues" they knew about whose impact could effect the way the bank needed to be operated. People from the financial planning function would then get together with the person(s) who raised the issue(s) and prepare alternatives for the bank. A statement of the issue along with the list of alternatives would then be submitted to top management for review and action. The officer who was interviewed said that there were between twenty and twenty-five issues a year that were acted upon and that the system seemed to work well for their bank.

Finally in three banks where interviews were held there was a full-time planning officer or group that worked completely on the project basis. The projects ranged in scope from the complete reorganization of the bank to the introduction of a minor innovation to an existing service. In all three banks the planning officers who were interviewed said that they wanted a comprehensive planning system but that the bank's top management preferred the project approach.

The point in mentioning these banks is that all five were doing formal long-range planning and they were probably indicative of what many other large banks were doing that did not have corporate long-range

strategic planning systems. That is it would probably be impossible to find any large U.S. bank that was not doing some type of long-range planning and there is certainly more than one way that it can be accomplished. However the long-range planning in these banks was fragmented and certainly not comprehensive in nature.

Summary and Conclusion

By 1976 the majority (71%) of the large U.S. banks that participated in this study had strategic long-range corporate planning systems in operation. However only twelve of the banks had been doing strategic long-range planning more than five years and nine of the sixty-nine banks had not even completed their initial year by mid-1976. The research findings showed that the long-range strategic planning effort was typically coordinated by a three-man group whose duties in a majority of the banks include developing the planning process and coordinating the planning effort. The typical planning time frame was five years in advance with annual updatings. The actual plans were usually prepared by the line managers after they had been provided with necessary objectives and assumptions by top management. The executives in 90% of the banks indicated that top management fully supported the long-range strategic planning efforts but typically the problems they mentioned could be traced back to inadequacies on the part of top management. Two banks reported that they had abandoned their strategic planning efforts after trying it for a number of years and their problems were thoroughly discussed.

Nine of the seventeen banks that were visited by the author were making a concerted effort to install a strategic long-range corporate

planning system. At the time interviews were conducted, only three of the nine banks had smooth running strategic long-range planning systems. It was interesting to note that all three had similar systems and therefore one of the three is presented as a case study in Chapter VI. In three other banks the strategic long-range planning systems appeared to be off to good starts but they had only been in existence a few years and major changes were still being made. The remaining three banks were having trouble getting the top management support they needed in order to make the systems bankwide in scope. In each of the three banks one or more divisional vice-presidents were opposing the long-range planning system and therefore the planning system had in effect been put on a project basis. In all three banks the planning coordinator felt that the obstruction was only temporary but in one bank it had gone on for one and a half years at the time this study was conducted.

In general the interviews made the author realize the importance of complete and continuous top management support for successful strategic long-range corporate planning efforts. For it was evident from talking with the bank officers that strategic long-range planning systems would either never get going or quickly fall apart if top management waivered in its support. The interview data also made the author realize that there were probably only a small number of fully developed and operational strategic long-range corporate planning systems in the large U.S. banks. The evidence from the questionnaire responses showed that 71% of the sample banks had installed such systems but the information from the interviews indicated that it takes years

and a lot of hard work to fully implement a strategic long-range corporate planning system. Therefore, since only three of the seventeen banks that were visited by the author had mature systems, the actual number of large U.S. banks that had fully developed and operational strategic long-range planning systems by 1976 was probably closer to 20% than it was to 71%.

In conclusion it can certainly be said that a lot of progress has been made by large U.S. banks in the area of strategic long-range corporate planning but that there is still plenty of room for improvement. In addition one major question about bank formal planning has not been approached in this chapter. The question is, do large U.S. banks with more comprehensive planning financially outperform those with less comprehensive planning? This question in addressed in Chapter V where the relationships between the financial performance of large U.S. banks and their formal planning efforts are analyzed and discussed.

CHAPTER V

A QUANTITATIVE ANALYSIS OF THE RELATIONSHIP BETWEEN COMPREHENSIVENESS OF PLANNING AND FINANCIAL PERFORMANCE FOR SAMPLED LARGE UNITED STATES BANKS

I. PURPOSE OF RESEARCH

A major objective of this research effort was to evaluate the effectiveness of formal bank planning. To accomplish this, the relationship between formal planning practices and financial performance in several large U.S. banks was determined by quantified comparisons. The goal was to see if a direct relation existed between the completeness of the formal preliminary planning and the level of financial performance. More specifically it was hypothesized that the large U.S. banks which had more comprehensive planning would financially outperform the large U.S. banks which had less comprehensive planning. Categories for "comprehensiveness of planning" were developed by grouping the banks according to whether or not they had strategic long-range corporate planning systems and, if so, whether the banks scored high or low on a cumulative planning scale.

II. RESEARCH PROCEDURE

The initial step in the research for this chapter was a pilot study to determine the availability of information on the comprehensiveness of bank planning practices during three different time periods. The time periods chosen were 1969, 1972, and 1975. The year 1969 was

chosen because previous research indicated that some large U.S. banks had installed formal long-range planning systems in the late 1960's. The year 1975 was selected because it was the most recent year for which complete financial information was available. The year 1972 was selected because it represented the midpoint between 1969 and 1975 and at the same time provided an additional reference period.

A quick-answer questionnaire was developed for use in the pilot study and it contained eighteen questions on bank planning practices. The first three questions on the questionnaire were designed to collect information on banks which had little formal planning while the remaining fifteen questions were on different aspects of formal planning practices. The questionnaire was designed so that the respondent could indicate his bank's situation during the three different time periods--1969, 1972, and 1975. A Likert-type response system was used whereby the bankers were asked to respond to each item in terms of several degrees of agreement or disagreement: Strongly agree = 4, Agree = 3, Disagree = 2, and Strongly disagree = 1. In addition the banker could indicate that he did not know the answer to the question by using a "0" and he could state that in his opinion the question was irrelevant through the use of an "X". The questionnaire also consisted of instructions and definitions on a cover page as well as a third page which was used to query the banks about their corporate objectives--net income, growth, market penetration, etc. A copy of the questionnaire is presented in Appendix C.

The questionnaire was distributed to bank personnel in the seventeen banks that were visited by the author during the summer of 1976.

A list of the banks is presented in Appendix B. Officers in fifteen of the seventeen banks completed the questionnaire and mailed it to the author. In three of the seventeen banks the questionnaires were given to more than one officer but only one form was ever received from any one bank.

Development of the Planning Scale

The responses to the eighteen quick-answer questions by officers in the fifteen banks were analyzed to determine if they could be combined into a planning scale. The purpose of developing the planning scale was to get a measure of the completeness of the formal planning efforts in the banks in order to investigate the planning-financial performance relationship. The method of scale analysis used was the Guttman technique which is a method of determining whether a series of questions form a cumulative, unidimensional scale.[134] A cumulative scale is one where the questions are related to each other in such a way that an individual who replies favorably to the second question should reply favorably to the first question; one who replies favorably to the third question should reply favorably to questions one and two, etc. This meant that all banks for which any particular question was answered favorably should have higher scores on the total scale than

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[134]Please consult any of the following for more information on the Guttman scaling method: A. N. Oppenheim, Questionnaire Design and Attitude Measurement (New York: Basic Books, Inc., 1966), pp. 143-154; Ross Stagner, W. E. Chalmers and Milton Derber, "Guttman-Type Scales for Union and Management Attitudes Toward Each Other," Journal of Applied Psychology, XLII (October, 1958), pp. 293-300; Louis Guttman, "A Basis for Scaling Qualitative Data," American Sociological Review, IX (February, 1944), pp. 139-150.

should those banks for which that question was answered unfavorably. The score for an individual bank was computed by counting the number of questions that were answered favorably. One advantage of cumulative scaling is that a given score for a series of questions always has the same meaning. That is officers in every bank that scored a "2" responded favorably to the first two questions and unfavorably to the remaining questions. In practice a perfect cumulative scale would be very difficult to develop and therefore Guttman allows for 10% errors. For example an error would result if a banker responded favorably to questions one and three while responding unfavorably to question two. Guttman contends that if one can develop a series of questions on a given subject (bank planning in this instance) where the responses deviate only slightly from the ideal scale pattern, then those questions form a scale which is ordinal. He also maintains that if a series of questions are related in such a way that they form a cumulative scale proves that the characteristic being studied only involves a single dimension which means that a Guttman scale is also unidimensional.

While the Guttman technique is very specific about the results that are necessary for a scale to be formed, it offers little guidance in the selecting of the questions that are likely to form a scale. However in this study it seemed reasonable to assume that there would be a hierarchial pattern starting with elementary financial planning and running through strategic long-range corporate planning. Therefore the responses from the fifteen bankers were arranged in a logical hierarchial order and checked to see if they formed the proper cumulative pattern.

Questionnaire Design and Response Validity

Some of the responses did not form the proper pattern and several problems immediately surfaced which required action. First of all there were some questions which were answered inconsistently by individual bankers. For example, one statement that the bankers were asked to respond to for 1969, 1972, and 1975 was, "A written analysis of the competition's strengths and weaknesses was a required part of the planning process." As it turned out most bankers do not go through this exercise every year and therefore they answered "yes" to one year and "no" to other years. Therefore this and several similar questions had to be eliminated from the scaling effort. A second problem was that some bankers refused to respond to questions that might place their superiors in a bad light. An example of this type of statement is, "Top management did not consistently reject the formal planning mechanism by making decisions which conflicted with formal plans." Therefore additional questions had to be eliminated because of the "refuse to respond" problem. A third problem was where the responding bankers simply did not know some of the answers and indicated this on the questionnaire by using the symbol "0". However by making additional inquiries it was possible for the author to obtain the necessary information and salvage the two questionnaires where this was a problem. Finally by studying the questionnaires, it became obvious that some bankers had modified the Likert-type response system in that a few bankers used almost all ones (strongly agree) and fours (strongly disagree) while others took the middle ground and only used threes (agree) and twos (disagree). In addition one banker did not use the numbering

system at all but instead just put "yes" and "no" in the appropriate squares. Therefore it was decided to treat the responses as dichotomous and not make use of the several degrees of agreement or disagreement.

After these problems were resolved by elimination and clarification of certain questions and responses, the remaining questions were analyzed to see if the responses to them did constitute a cumulative scale. It was discovered that they did form the general triangular pattern but that the errors were greater than 10% for each of the three time periods. However through an iterative procedure it was possible to find a set of questions which were more than 90% reproducible for each of the three time periods and the results are presented in Tables 10, 11 and 12.

The information in Tables 10, 11 and 12 show that only six of the original eighteen questions appeared in the final scale and that the error rate ranged from a low of 4.4% for 1969 to a high of 6.7% for 1972. The six questions that scaled are presented below in the order they appear in the scale from "more of the banks agreed with" to "fewer of the banks agreed with."

	No. of Question in Questionnaire	
More of the banks agreed with	No. 4	The bank had a short-range (one year) profit plan.
	No. 17	The planning process was such that the final plans were accepted by those responsible for their attainment.

TABLE 10

PLANNING SCALE SCORE OF THE FIFTEEN SAMPLED LARGE U.S. BANKS IN 1969

Bank*	Question No. in Questionnaire 4	17	9	13	8	14	Score
Bank 1	0	0	0	0	0	0	0
Bank 2	0	0	0	0	0	0	0
Bank 3	0	0	0	0	0	0	0
Bank 4	1	0	0	0	0	0	1
Bank 5	1	0	0	0	0	0	1
Bank 6	1	0	0	0	0	0	1
Bank 7	1	0	0	0	0	0	1
Bank 8	1	1	0	0	0	0	2
Bank 9	1	1	0	0	0	1	3
Bank 10	1	1	1	0	0	0	3
Bank 11	1	1	0	1	0	0	3
Bank 12	1	1	1	0	1	0	4
Bank 13	1	1	1	0	1	1	5
Bank 14	1	1	1	1	1	1	6
Bank 15	1	1	1	1	1	1	6

*All of the participating banks were promised that the bank's name would not be associated with specific information. However the fifteen banks that are represented in this chart are denoted in Appendix B by use of an asterisk.

Error Rate Allowed 10%; Error Rate 4.4%; Scoring Code: 1 = Agree; 0 = Disagree.

TABLE 11

PLANNING SCALE SCORE OF THE FIFTEEN SAMPLED LARGE U.S. BANKS IN 1972

Bank*	Question No. in Questionnaire 4	17	9	13	8	14	Score
Bank 1	0	0	0	0	0	0	0
Bank 2	0	0	0	0	0	0	0
Bank 3	1	0	0	0	0	0	1
Bank 4	1	0	0	0	0	0	1
Bank 5	1	1	0	0	0	0	2
Bank 6	1	0	0	1	0	0	2
Bank 7	1	1	0	0	1	0	3
Bank 8	1	1	0	0	0	1	3
Bank 9	1	1	0	1	0	0	3
Bank 10	1	1	1	1	0	0	4
Bank 11	1	1	1	0	1	0	4
Bank 12	1	1	1	1	1	0	5
Bank 13	1	1	0	1	1	1	5
Bank 14	1	1	1	1	1	1	6
Bank 15	1	1	1	1	1	1	6

*All of the participating banks were promised that the bank's name would not be associated with specific information. However the fifteen banks that are represented in this chart are denoted in Appendix B by use of an asterisk.

Error Rate Allowed 10%; Error Rate 6.7%; Scoring Code: 1 = Agree; 0 = Disagree.

TABLE 12

PLANNING SCALE SCORE OF THE FIFTEEN SAMPLED LARGE U.S. BANKS IN 1975

Bank*	Question No. in Questionnaire 4	17	9	13	8	14	Score
Bank 1	1	1	0	0	0	0	2
Bank 2	1	1	1	0	0	0	3
Bank 3	1	1	1	0	0	0	3
Bank 4	1	0	1	1	0	0	3
Bank 5	1	0	1	1	0	0	3
Bank 6	1	1	0	1	0	0	3
Bank 7	1	1	0	0	1	0	3
Bank 8	1	1	1	1	0	1	5
Bank 9	1	1	1	1	1	0	5
Bank 10	1	1	1	1	1	1	6
Bank 11	1	1	1	1	1	1	6
Bank 12	1	1	1	1	1	1	6
Bank 13	1	1	1	1	1	1	6
Bank 14	1	1	1	1	1	1	6
Bank 15	1	1	1	1	1	1	6

*All of the participating banks were promised that the bank's name would not be associated with specific information. However the fifteen banks that are represented in this chart are denoted in Appendix B by use of an asterisk.

Error Rate Allowed 10%; Error Rate 5.6%; Scoring Code: 1 = Agree; 0 = Disagree.

	No. of Question in Questionnaire	
	No. 9	There was a person or group whose full-time responsibility was to coordinate a bank-wide strategic planning effort.
	No. 13	The bank's top management had developed a climate in the bank which supported the planning effort.
	No. 8	Top management had developed a formal statement of what business the bank was in or wanted to be in.
Fewer of the banks agreed with	No. 14	The plans were used to judge managerial performance.

The sequence in which the questions emerged reflects a natural growth pattern from less to more formality in the planning process. And, since the results from the pilot study did scale according to the Guttman criteria, it was decided to expand the sample in order to further test the relationships among the above statements.

The Revised Questionnaire

A new questionnaire was constructed around the six statements which scaled in the pilot study and a copy of it is presented in Appendix D. The revised questionnaire contained statements which did not appear in the pilot study version and it was hoped that some of these could be used to expand the scale. In addition the revised questionnaire was used to obtain nation-wide information on the nature of formal bank planning practices.

The revised questionnaire was sent to the 150 largest domestic, non-related, non-special purpose banks (including those that had been previously visited) in the 48 contiguous states and the District of

Columbia. A total of ninety-two banks completed the questionnaire and returned it to the author for a 61% return rate. The responses to the statements on the first page of the questionnaire were analyzed according to the Guttman criteria and the six statements which had been identified in the pilot study also scaled in the expanded sample. In addition the other statements were checked to see if they could be included in the scale but they were all rejected.

While preparing to obtain financial performance measures on the responding banks for the period 1970-1975, it was discovered that income data could not be obtained on most banks that were part of multi-bank holding companies since all but a few only issue consolidated income statements. This problem eliminated thirty-seven of the ninety-two banks from this part of the research but at the same time it resulted in a sub-sample which was more homogeneous.

Another problem that eliminated eleven more banks from the sample was that of incomplete questionnaires. The person answering the questionnaire was unable to provide information on what his bank had been doing in the formal planning area during 1969 or 1972 and therefore would indicate this with the appropriate symbol. Because of this problem the sub-sample was reduced to forty-four banks which served as the sample for the initial analysis on the relationship between the comprehensiveness of planning and financial performance.

III. THE ANALYSIS--PART 1 CORRELATIONS/FOUR MEASURES

The first step in the analysis was to check the previously identified six questions to make sure that they scaled for the forty-four

bank sub-sample. The relationship was investigated for 1969, 1972, and 1975 and it was found that the six questions did meet the Guttman criteria of being 90% reproducible[135] for each of the three time periods.

The second step of the analysis was to investigate the reliability of the questionnaire responses. A copy of the revised questionnaire had been mailed to each of the fifteen officers that had completed the original version in order to get a reliability measure. Seven questions were identical in both versions and over two months had passed since the officers had completed the original questionnaire. In nine instances the same officer completed the revised questionnaire and the intra-rater correlation coefficient for the responses to the seven questions was .97. In three cases a different officer responded to the revised questionnaire and the inter-rater reliability correlation coefficient was .84 for their responses. Responses to the revised questionnaires were not received from the remaining three banks but the responses from the above twelve banks indicated that the reliability of the responses was adequate.

The third step of the analysis was to obtain financial data on each of the forty-four banks for the 1970-75 time period. The financial data was obtained from the following three sources: Moody's Bank and Finance Manual, Fortune, and The Value Line Investment Survey. Annual data were collected on each of the forty-four banks which consisted of the following: total assets, owners' investment, net income, and number of employees. Once collected, the data were converted into the

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[135]To be 90% reproducible only one out of every ten responses can have a reversal in order.

the following four performance and size measures grouped by different time periods:

1. Average annual percentage earned on total assets for the period 1970-72.
2. Average annual percentage earned on total assets for the period 1973-75.
3. Average annual percentage earned on total assets for the period 1970-75.
4. Average annual percentage increase in total assets for the period 1970-72.
5. Average annual percentage increase in total assets for the period 1973-75.
6. Average annual percentage increase in total assets for the period 1970-75.
7. Average annual percentage earned on owners' investment for the period 1970-72.
8. Average annual percentage earned on owners' investment for the period 1973-75.
9. Average annual percentage earned on owners' investment for the period 1970-75.
10. Earnings per average employee for the period 1970-72.
11. Earnings per average employee for the period 1970-75.

The data on each of the above performance and size measures were correlated with the bank's planning scale score in order to investigate the relationships between completeness of the strategic long-range planning efforts and the selected measures of financial success. The correlations

were computed by means of Spearman's rho which is nonparametric and requires only an ordinal level of measurement.[136] The correlations were computed using the Statistical Package for the Social Sciences (SPSS) program which also provided the author with a scattergram of the relationships.

Correlations were computed between each bank's 1969 and 1972 individual and combined planning scale scores and the appropriate performance measure. The results are presented in Table 13 and they show that all of the correlations were too low to be meaningful and that some were in the wrong direction. The expectation was that a bank's planning scale score and financial measure of performance would increase together which would result in a positive correlation, but in five of the fourteen correlational tests in Table 13 the relationships were negative. The highest positive correlation (0.2168) was between the 1969 bank planning scale scores and the average annual percentage earned on owners' investment for 1970-72 and it was too low to have any statistical significance. Therefore it was concluded that this part of the research did not support the hypothesis that large U.S. banks with more comprehensive planning financially outperform the large U.S. banks with less comprehensive planning.

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[136] Norman H. Nie, C. Hadlai Hull, Jean G. Jenkins, Karin Steinbrenner, and Dale H. Bent, Statistical Package for the Social Sciences New York: McGraw-Hill Book Company, 1975), p. 277.

TABLE 13

CORRELATIONS BETWEEN BANK PLANNING SCALE SCORES AND SELECTED MEASURES OF FINANCIAL PERFORMANCE

Relationships	Correlation Coefficient
1969 planning scale score with percentage earned on total assets for 1970-72.	-0.1451
1969 planning scale score with percentage earned on total assets for 1970-75.	-0.0863
1969 planning scale score with percentage increase in total assets for 1970-72.	0.2036
1969 planning scale score with percentage increase in total assets for 1970-75.	0.0529
1969 planning scale score with percentage earned on owners' investment for 1970-72.	0.2168
1969 planning scale score with percentage earned on owners' investment for 1970-75.	0.1298
1969 planning scale score with average earnings per employee for 1970-72.	-0.0423
1972 planning scale score with percentage earned on total assets for 1973-75.	0.0241
1972 planning scale score with percentage increase in total assets for 1973-75.	-0.0185
1972 planning scale score with percentage earned on owners' investment for 1973-75.	0.1021
Combined 1969 and 1972 planning scale scores with percentage earned on total assets for 1970-75.	-0.0374
Combined 1969 and 1972 planning scale scores with percentage increase in total assets for 1970-75.	0.0555
Combined 1969 and 1972 planning scale scores with percentage earned on owners' investment for 1970-75.	0.1169
Combined 1969 and 1972 planning scale scores with average earnings per employee for 1970-75.	0.0575

III. ANALYSIS--PART 2 NET INCOME/SIMPLE AVERAGES

After finding little support for the study hypothesis in the correlations between the banks' planning scale scores and the financial performance measures, the forty-four sampled banks were divided into the following two groups: (1) banks which had strategic long-range corporate planning systems, and (2) banks which did not have strategic long-range corporate planning systems by September 1, 1976. After that the 1975 planning scale scores were used to partition the sample banks that had strategic long-range corporate planning systems into two groups: (1) banks which had strategic long-range corporate planning systems and scored high on the planning scale, and (2) banks which had strategic long-range corporate planning systems and scored low on the planning scale. By subdividing the banks in this manner it was possible to form the following four basic groupings and subsequently make financial comparisons between the four categories:

1. The sample banks which had strategic long-range corporate planning systems and scored high on the planning scale versus the sample banks which had strategic long-range corporate planning systems and scored low on the planning scale.

2. The sample banks which had strategic long-range corporate planning systems and scored high on the planning scale versus the sample banks which did not have strategic long-range corporate planning systems.

3. The sample banks which had strategic long-range corporate planning systems and scored high on the planning scale versus all insured U.S. banks.

4. The sample banks which had strategic long-range corporate planning systems and scored low on the planning scale versus the sampled banks which did not have strategic long-range corporate planning systems.

5. The sample banks which had strategic long-range corporate planning systems and scored low on the planning scale versus all insured U.S. banks.

6. The sample banks that did not have strategic long-range corporate planning systems versus all insured U.S. banks.

The expectations with respect to the above comparisons were that the banks with strategic long-range corporate planning systems would financially outperform both those banks which did not have strategic long-range corporate planning systems and the average insured U.S. banks. It was also expected that the banks which had strategic long-range corporate planning systems and scored high on the planning scale would financially outperform those banks which had strategic long-range corporate planning systems and scored lower on the planning scale. In order for a bank to score high on the scale (4, 5, or 6), the responding officer in the bank had to agree that one or more of the following three statements described the situation in his bank in 1975--in contrast officers in the sample banks which received a low score should not have agreed with any of the following three statements:

1. The bank's top management had developed a climate in the bank which supported the planning effort.
2. Top management had developed a formal statement of what business the bank was in or wanted to be in.
3. The plans were used to judge managerial performance.

In addition it was expected that the average U.S. bank would outperform the large U.S. bank which did not have a strategic long-range corporate planning process.

The measure of financial success that was used for this part of the study was net income. Net income is the ultimate financial measure of success for profit-making organizations and the interviewed bank officers had indicated that it was the figure that was monitored the closest by top management. Therefore it seemed logical to conclude that a study of the relationship between comprehensiveness of bank planning and bank net income was the most promising avenue to investigate. The method of computing the average annual percentage changes in aggregate net income within the subsamples of banks in the forthcoming data on pp. 116, 119, 121 and 125 was by summing the individual net incomes for all banks in a given category/year and subsequently comparing that total with the summation of the individual net incomes for the same grouping of banks in the following time period.

The initial results of the net income comparisons are presented in Table 14. The data in Table 14 show that the results were all in the anticipated direction. The twenty-nine banks in the sample which had strategic long-range planning systems and scored high on the planning scale did outperform the other three groupings when compared on the basis of five-year averages of annual percentage changes in aggregate net income, but they only did 2.96% better than the performance for all insured U.S. banks. The sample banks which had strategic long-range corporate planning systems and scored low on the planning scale also outperformed the group of all insured banks but only by 0.69% when compared on the basis of five-year averages of annual percentage changes in aggregate net income. The unexpected finding was the very low performance record for the group of eight sampled banks that did

TABLE 14

ANNUAL PERCENTAGE CHANGE IN AGGREGATE NET INCOME
OF SAMPLED LARGE U.S. BANKS

	Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7	Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29	Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by Sept. 1, 1976 N=8	All Insured U.S. Banks
1970-71	4.93	7.33	(2.55)	8.25
1971-72	4.33	8.87	1.68	7.99
1972-73	17.25	16.68	15.35	16.35
1973-74	17.15	15.55	3.98	7.79
1974-75	2.50	9.07	(16.11)	2.31
Average % Change	9.23	11.50	0.47	8.54
Range	14.75	9.35	31.46	14.04

not have strategic long-range corporate planning systems. The data in Table 14 show that the eight sample banks that did not have strategic long-range corporate planning systems increased their net income at an average rate of only 0.47% for the five-year period between 1970 and 1975. In contrast, all insured U.S. banks had an 8.54% average annual increase in net income and the sample banks that had strategic long-range corporate planning systems and scored high on the planning scale enjoyed an 11.50% average annual increase in net income between 1970 and 1975.

The data in Table 14 offered support for the hypothesis that large U.S. banks with more comprehensive planning financially outperform the large U.S. banks that have less comprehensive planning. The group of twenty-nine sampled banks which had strategic long-range corporate planning systems and scored high on the planning scale not only outperformed the other three groups overall but they were also more consistent from year to year. However the difference between the performance of the group of banks that had strategic long-range corporate planning systems and that of all insured banks was modest and therefore the investigation was expanded.

Before and After

The first step in the expanded research effort was that of collecting net income data on each of the forty-four banks back to 1964. This doubled the time span of the study and thereby made possible some "before and after" financial comparisons. Unfortunately two of the forty-four banks had been formed by large mergers during the expanded

time period and therefore the sample was reduced to forty-two. The expanded data on the forty-two banks are presented in Table 15.

In Table 15 the banks are grouped according to the year in which they did or did not start a strategic long-range corporate planning system. The measure of financial success was percentage change in annual aggregate net income for the grouped banks. The data show that the banks with strategic long-range corporate planning systems increased their net income at about the same level or below that of all insured U.S. banks during the eleven-year period between 1964 and 1975. The data in Table 15 also show that the eight banks in the sample which did not have strategic long-range corporate planning systems by September 1, 1976, increased their net income during the same eleven-year period at a rate that was approximately 5% under the average annual increase for all U.S. banks. In addition the rate of increase in aggregate net income for the eight banks which did not have a strategic long-range corporate planning system was below all but one of eleven groupings of banks that had installed strategic long-range corporate planning systems between 1964 and 1976.

In order to further analyze the information in Table 15, the fifteen banks that started strategic long-range corporate planning systems between 1970 and 1973 were analyzed on a "before and after" basis. Because of the small N's, the five sampled banks that started strategic long-range corporate planning systems before 1970 were not analyzed on a "before and after" basis. In addition the fourteen sample banks that started strategic long-range corporate planning systems in 1974, 1975, or 1976 were not analyzed on a "before or after" basis since the

TABLE 15

ANNUAL PERCENTAGE CHANGE IN AGGREGATE NET INCOME

	Sample Banks With Strategic Long-Range Corporate Planning Systems											Sampled Banks Which Did Not Have Strategic Long-Range Corporate Planning Systems by Sept. 1, 1976 (N=8)	All Insured United States Banks
	1964 (N=1)	1967 (N=1)	1968 (N=2)	1969 (N=1)	1970 (N=3)	1971 (N=3)	1972 (N=5)	1973 (N=4)	1974 (N=1)	1975 (N=11)	1976 (N=2)		
1964-65	6.67	0.00	0.00	12.12	13.55	7.76	7.24	8.59	9.52	12.41	2.60	8.39	10.12
1965-66	6.25	(7.00)	35.48	21.62	13.99	11.73	7.00	14.50	7.19	10.05	15.96	15.69	6.75
1966-67	5.88	(8.60)	(2.14)	2.22	2.71	8.35	12.03	4.03	10.92	8.00	9.88	8.32	17.04
1967-68	22.22	27.06	14.84	10.87	13.53	10.41	11.16	12.31	9.85	9.08	12.16	22.12	9.04
1968-69	13.64	39.81	25.21	33.33	8.51	7.78	6.10	1.23	7.04	14.45	5.78	6.22	26.52
1969-70	12.00	4.64	0.01	4.41	2.71	9.42	9.55	18.98	22.09	9.45	6.77	6.18	11.60
1970-71	3.57	12.03	0.01	19.72	2.69	7.44	0.40	5.83	6.96	(0.08)	8.61	(2.55)	8.25
1971-72	(24.14)	22.03	9.50	5.88	4.86	13.71	(5.15)	9.08	9.81	8.56	5.78	1.68	7.99
1972-73	13.64	4.76	12.02	(4.44)	24.13	25.41	11.10	11.52	21.54	6.06	15.44	15.35	16.35
1973-74	32.00	(17.71)	14.54	(23.26)	10.90	23.81	21.43	8.22	23.90	6.37	16.40	3.98	7.79
1974-75	18.18	(32.60)	6.29	48.49	28.75	9.20	0.88	20.15	6.37	(4.37)	17.22	(16.11)	2.31
Average % Change	9.99	4.04	10.52	11.91	11.48	12.27	7.43	10.40	12.29	7.27	10.60	6.30	11.25

financial data for the "after" period would have been for a relatively short time span.

The "before and after" analysis of the fifteen banks that started strategic long-range corporate planning systems in 1970, 1971, 1972, and 1973 is presented in Table 16. The banks were grouped according to the year they started their strategic long-range corporate planning systems and the measure of financial performance was average annual percentage change in net income. The average annual percentage changes in net income were computed by averaging the annual increases that were presented in Table 15. The time span for the "before and after" analysis depended on the number of years that had passed since the system has been installed.

The information in Table 16 shows that the banks in all four groupings--1970, N=3; 1971, N=3; 1972, N=5; and 1973, N=4--had greater average annual percentage increases in net income in the time periods following the introduction of the strategic long-range planning systems than they had in equal time periods before the introduction of the systems. The information in Table 16 also shows that for all four groupings the banks with strategic long-range corporate planning systems had aggregate net income increases which were about equal to the group of eight sampled banks that did not have strategic long-range corporate planning systems in the "before" periods but that in the "after" periods the banks which had put in strategic long-range corporate planning systems were definitely superior in performance. In addition the information in Table 16 shows that for all four groupings the banks that put in strategic long-range corporate planning systems had aggregate

TABLE 16

NET INCOME ANALYSIS OF SAMPLED BANKS WHICH STARTED STRATEGIC LONG-RANGE PLANNING SYSTEMS BETWEEN 1970 and 1973 INCLUSIVE

	Before 5-Year Period 1965 to 1970	After 5-Year Period 1970 to 1975
Average annual percentage change in aggregate net income of the three banks in the sample which started strategic long-range planning systems in 1970.	8.29	14.24
Average annual percentage change in aggregate net income of the eight banks in the sample which did not have strategic long-range planning systems by 1976.	11.71	0.47
Average annual percentage change in aggregate net income of all insured United States banks.	14.19	8.54

	Before 4-Year Period 1967 to 1971	After 4-Year Period 1971 to 1975
Average annual percentage change in aggregate net income of the three banks in the sample which started strategic long-range planning systems in 1971.	8.76	18.03
Average annual percentage change in aggregate net income of the eight banks in the sample which did not have strategic long-range planning systems by 1976.	7.99	1.23
Average annual percentage change in aggregate net income of all insured United States banks.	13.85	8.61

TABLE 16 (Continued)

	Before 3-Year Period 1969 to 1972	After 3-Year Period 1972 to 1975
Average annual percentage change in aggregate net income of the five banks in the sample which started strategic long-range planning systems in 1972.	1.63	11.14
Average annual percentage change in aggregate net income of the eight banks in the sample which did not have strategic long-range planning systems by 1976.	1.77	1.07
Average annual percentage change in aggregate net income of all insured United States banks.	9.28	8.82
	Before 2-Year Period 1971 to 1973	**After 2-Year Period 1973 to 1975**
Average annual percentage change in aggregate net income of the four banks in the sample which started strategic long-range planning systems in 1973.	10.67	14.19
Average annual percentage change in aggregate net income of the eight banks in the sample which did not have strategic long-range planning systems by 1976.	8.52	(10.05)
Average annual percentage change in aggregate net income of all insured United States banks.	12.17	5.05

net income increases in the "before" periods which were below the average increases for all insured United States banks but during the "after" periods the same four groupings of banks had average annual increases which were larger than those enjoyed by the group of all insured United States banks. This means that on the average the fifteen banks that put in strategic long-range corporate planning systems between 1970 and 1973 not only improved their financial performance after installing the systems but that they also moved from a position of underperforming the average insured U.S. bank to a position of outperforming the average insured U.S. bank when compared on the basis of average annual percentage increased in aggregate net income. These data offer additional support for the hypothesis that large U.S. banks with more comprehensive planning financially outperform the large U.S. banks with less comprehensive planning and it provided the basis for the next step in the analysis which was to look at the relationship between the comprehensiveness of planning, financial objectives, and financial performance.

A Match of Primary Objective and Financial Measure

Officers in each of the forty-two sampled banks were asked to provide information on the primary goal of their institution for 1969, 1972, and 1975. Unfortunately some officers indicated that the information was confidential and others stated that they did not know what the primary goal had been in past years. However officers in thirty of the forty-two banks were able to provide this information and it allowed for a type of analysis which was one step beyond any the author found in the literature review. This analysis is especially noteworthy

in that it really is not logical to use a whole array of financial measures to evaluate the effectiveness of strategic long-range corporate planning. This is because one organization may be going after growth or market penetration in a given time period and thereby have reduced profits while another may be concentrating on net income and foregoing some expansion opportunities. Therefore the only way to correctly evaluate the effectiveness of planning is to compare the financial performance of similar organizations that are trying to accomplish the same type of goal but have differences in their planning methods.

In this study it was possible to partition out fourteen banks which stated that net income had been their primary goal for the years 1969, 1972, and 1975, and the financial data on these banks are presented in Table 17. The fourteen banks in Table 17 are divided into three groups according to the comprehensiveness of their planning efforts. The banks with the most comprehensive planning were the group of four banks which had strategic long-range planning systems and scored high on the planning scale in 1969, 1972, and 1975. These banks had an average annual increase in aggregate net income of 14.81% for the 1969-1975 time period and they outperformed the group of all insured U.S. banks by an average of over 5.50% a year. The group of six banks that were second in comprehensiveness of planning was also second in average annual increases in net income. The group of four banks which did not have strategic long-range corporate planning systems by 1976 had a very poor performance record for the six-year period and they actually made less total net income in 1975 than they did in 1969.

TABLE 17

ANNUAL PERCENTAGE CHANGE IN AGGREGATE NET INCOME OF THE FOURTEEN SAMPLED LARGE U.S. BANKS WHICH STATED THAT NET INCOME WAS THEIR PRIMARY OBJECTIVE IN 1969, 1972, AND 1975

	Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4	Banks in the Sample Which Stated That Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6	Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4	All Insured United States Banks
1969-70	3.83	14.29	7.52	11.60
1970-71	(4.58)	6.89	13.41	8.25
1971-72	.59	9.61	16.94	7.99
1972-73	10.13	15.64	24.13	16.35
1973-74	3.81	19.00	20.51	7.79
1974-75	(16.50)	7.78	6.37	2.31
Average % Change	(.45)	12.24	14.81	9.05

These findings were all in the anticipated direction and they offered additional support for the hypothesis that large U.S. banks with more comprehensive planning financially outperform the large U.S. banks which have less comprehensive planning.

III. ANALYSIS--PART 3 NET INCOME/STUDENT "t" DISTRIBUTION

Because of the encouraging results in the preceding section, it was decided that it would be useful to reanalyze the data in Tables 14, 15, 16, and 17 using alternate methods. The first step in the reanalysis was the selection of an alternate averaging method. The average annual percentage change entries in Tables 14, 15, 16, and 17 were computed by summing the individual net incomes for all banks in a given category/year and subsequently comparing that total with the summation of the individual net incomes for the same grouping of banks in the following time period (hereafter known as Method A). This method of averaging was originally selected because it was applicable to the only available data on "all insured U.S. banks" which were used as reference points in Tables 14, 15, and 17. The main problem with this method is that the size of the bank and its influence over the average tend to move together. An alternate method of averaging is to compute the average changes for each bank and subsequently average those changes in order to develop the subgroup percentage changes (hereafter known as Method B).[137] This method results in a figure which is an average of the annual percentage changes and it has the advantage of allowing for

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[137]Please see Appendix E for an example of a table entry computed by means of the two different averaging methods.

the comparison of performance scores over time within each group of banks. The main disadvantage of this averaging method is that it tends to be more volatile than Method A. Also it would have been almost impossible to use this method in the computation of average percentage changes for the group of "all insured U.S. banks" since they numbered over 14,000 during the period of time covered by this research. Therefore a new control group was selected by use of a random digits table and the net income changes were subsequently analyzed by use of averaging Method B.

The new control group was randomly selected from a subsample of the 150 largest U.S. banks that served as the population for the qualitative portion of this research effort. The subsample consisted of the 107 banks in the population which were either one-bank holding companies or banks which were associated with multi-bank holding companies that published individual bank income statements and balance sheets. The banks in the control group were selected by using the random digits table which appeared in the 1969 edition of Statistics for Modern Business Decision Making by Kyohei Sasaki, page 528. The bank's ranking in the 1976 edition of Moody's Bank and Finance Manual was used as the reference number for each bank and the random digits table was used by starting with the first entry and going down the column. Altogether a total of twenty-two banks (20% of the 107 subsample) was included in the random control group.

Reanalysis of the Data Using An Alternate Averaging Method

In this section averaging Method B--average changes in net income were computed for each bank and subsequently the changes were

averaged in order to develop the within subsample changes--was used to reanalyze the data which were previously presented in Tables 14, 15, 16, and 17. To facilitate comparisons, the data are presented in the same general groupings and order in which they previously appeared. However in this section the student "t" distribution is used to check for significant differences in the combined net income performances of the banks in the different subgroups. The "t" test was appropriate since the subgroups each contained fewer than thirty banks.[138] A one-tailed "t" test was used since the hypothesis of this study specified the direction that the financial data was expected to exhibit. The "t" tests were computed by means of the Hewlett Packard Basic Program T-Test A401-36170A which was written by J. L. Mulcahy of the Raychem Corporation. The T-test program computes two-tailed probabilities which were subsequently converted to the appropriate one-tailed values by using the procedure outlined on page 271 of the Statistical Package for the Social Sciences, second edition, by N. Nie, C. Hull, J. Jenkins, K. Steinbrenner, and D. Bent.

The Reanalysis of Table 14 Data

The reanalysis of the net income data which previously appeared in Table 14, page 116, is presented in Table 18. The percentage changes in Table 18 are very uneven from year to year and across the subsamples

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[138]Professor Leslie W. Rue of Indiana University and Professor Robert M. Fulmer of Trinity University have used the student "t" test to analyze similar data. They presented their research results in a monograph entitled The Practice and Profitability of Long-Range Planning which was published in 1973 by the Planning Executives Institute of Oxford, Ohio. See especially pages 33-37.

TABLE 18

AVERAGE OF ANNUAL PERCENTAGE CHANGES IN NET INCOME OF SAMPLED LARGE U.S. BANKS

	"A" Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29	"B" Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7	"C" Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by Sept. 1, 1976 N=8	"D" Randomly Selected Control Group N=22
1970-71	5.15	4.14	4.16	4.56
1971-72	11.62	1.19	4.51	7.97
1972-73	12.59	10.72	14.51	9.97
1973-74	12.30	7.67	5.29	1.60
1974-75	9.75	(10.97)	(9.55)	3.77
Average % Change	10.28	2.55	3.77	5.57
Standard Deviation	3.08	8.37	8.62	3.36

but the twenty-nine banks which had strategic long-range planning systems and scored high on the planning scale did obtain average annual increases in net income during the five years between 1970 and 1975 which were larger than those obtained by the banks in the other three groupings. In order to check for significant differences, the data in Table 18 were used in the computation of "t" scores across the four subgroups of banks and the confidence levels associated with the differences are presented in Table 19. The data in Table 19 show that at the .05 level of significance, the banks which had strategic long-range planning systems and scored high on the planning scale did outperform the other three subgroups of banks. The data in Table 19 also show that there were not any significant differences between the other three subgroups and therefore the null hypothesis of equal means could not be rejected in any cases between the control group; the sampled banks which did not have strategic long-range planning systems by September 1, 1976; and the sampled banks which had strategic long-range planning systems by September 1, 1976, but scored low on the planning scale.

The data in Table 18 and subsequently Table 19 offer some support for the hypothesis that large U.S. banks with more comprehensive planning financially outperform the large U.S. banks that have less comprehensive planning. The group of twenty-nine sampled banks that had strategic long-range planning systems and scored high on the planning scale did significantly outperform the group of twenty-two banks in the control group, the eight banks that did not have strategic long-range planning systems, and the group of seven banks which had strategic long-range planning systems but scored low on the planning scale.

TABLE 19

CONFIDENCE LEVELS ACROSS SUBSAMPLES
FOR NET INCOME DATA DISPLAYED IN
TABLE 18

"A" = Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29

"B" = Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7

"C" = Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=8

"D" = Randomly Selected Control Group N=22

Average Annual Percentage Change in Net Income Within Bank Subsamples	Confidence Level of Difference*
"A" 10.28 versus "D" 5.57	0.963
"A" 10.28 versus "C" 3.77	0.999
"A" 10.28 versus "B" 2.55	0.978
"B" 2.55 versus "C" 3.77	NS**
"B" 2.55 versus "D" 5.57	NS

*Using the "t" distribution and a one-tailed test.

**Differences below the 95% confidence level were considered to be non-significant (NS).

The Reanalysis of Tables 15 and 16 Data

In order to further study the relationship between comprehensiveness of planning and financial performance, the data which had been used to compute the entries for Table 15, page 119, were reanalyzed using averaging Method B. For analysis purposes, the banks in Table 15 had been organized according to the year in which they had or had not started a strategic long-range corporate planning system. The reanalysis of the data which previously appeared in Table 15 is presented in Table 20.

The data in Table 20 show that there was a large amount of variation in the percentage change scores from individual subgroups to the control group and over time within each subgroup of banks. In order to highlight the relationships in Table 20, the 1967-68 through 1974-75 data on the forty-two non-control group banks were collapsed into two categories which represented banks that had long-range strategic planning systems in operation and banks which did not have similar systems. The expectation was that the banks with strategic long-range corporate planning systems in operation would have average annual percentage increases in net income which were greater than those of banks which did not presently have formal long-range planning systems. The entries in the two columns were computed by taking the data in Table 20, dividing the data into groups of banks with long-range planning systems in operation and banks which did not currently have systems, weighting for the number of banks that had been used to compute the subgroup data, and averaging the data. The results are presented in Table 21 and they show that in six of the eight years between 1967 and 1975 the groupings of

TABLE 20

AVERAGE OF ANNUAL PERCENTAGE CHANGES IN NET INCOME OF SELECTED LARGE U.S. BANKS

	Sample Banks With Strategic Long-Range Corporate Planning Systems											Sampled Banks Which Did Not Have Strategic Long-Range Corporate Planning Systems by Sept. 1, 1976 (N=8)	Randomly Selected Control Group (N=22)
	1964 (N=1)	1967 (N=1)	1968 (N=2)	1969 (N=1)	1970 (N=3)	1971 (N=3)	1972 (N=5)	1973 (N=4)	1974 (N=1)	1975 (N=11)	1976 (N=2)		
1964-65	6.67	0.00	5.48	12.12	16.57	7.45	19.95	8.46	9.52	12.47	8.20	7.60	10.51
1965-66	6.25	(7.00)	42.74	21.62	17.79	11.07	12.95	17.57	7.19	12.61	8.68	15.33	11.64
1966-67	5.88	(8.60)	5.57	2.22	6.50	8.34	10.30	6.03	10.92	6.88	10.60	7.76	7.83
1967-68	22.22	27.06	14.42	10.87	18.39	10.97	12.07	11.48	9.85	9.65	11.66	13.11	12.20
1968-69	13.64	39.81	42.19	33.33	18.28	6.32	12.56	11.26	7.04	15.23	12.60	18.96	16.06
1969-70	12.00	4.64	0.97	4.41	5.94	7.70	9.86	18.10	22.09	8.51	12.81	11.56	9.76
1970-71	3.57	12.03	0.35	19.72	21.86	5.02	4.88	4.00	6.96	(0.75)	2.88	4.16	4.56
1971-72	(24.14)	22.03	8.79	5.88	18.68	(0.07)	0.56	12.03	9.81	11.45	4.18	4.51	7.97
1972-73	13.64	4.76	11.85	(4.44)	21.56	19.14	13.15	13.02	21.54	9.97	9.71	14.51	9.97
1973-74	32.00	(17.71)	14.77	(23.26)	(3.36)	17.38	13.86	(1.81)	(23.90)	5.58	7.94	5.29	1.60
1974-75	18.18	(32.60)	7.58	48.49	3.66	(10.73)	(10.70)	27.52	6.37	(2.86)	12.79	(9.59)	3.77
Average % Change	9.99	4.04	14.08	11.91	13.26	7.51	9.04	11.61	7.95	8.07	9.28	8.47	8.72
Standard Deviation	14.07	20.76	14.81	19.05	8.50	8.10	8.23	7.82	11.93	5.60	3.37	7.72	4.17

TABLE 21

DICHOTOMIZED AND WEIGHTED* TABLE 20 NET INCOME DATA FOR THE FORTY-TWO NON-CONTROL GROUP BANKS

Year	Strategic Planning Banks		Non-Strategic Planning Banks		Confidence Level of Difference**
	N	Mean Value	N	Mean Value	
1967-68	2	24.64	40	11.96	0.999
1968-69	4	34.46	38	14.91	0.999
1969-70	5	4.60	37	10.71	NS***
1970-71	8	12.70	34	2.74	0.999
1971-72	11	7.02	31	7.46	NS
1972-73	16	14.09	26	12.26	NS
1973-74	20	6.24	22	4.35	NS
1974-75	21	4.33	21	(3.93)	0.998

*Weighted by number of banks in each of the twelve subgroups.

**Using the "t" distribution and a one-tailed test.

***Differences below the 95% confidence level were considered to be non-significant (NS).

sampled banks with long-range strategic corporate planning systems did have average percentage changes in net income which were superior to those obtained by the groupings of sampled banks which did not have similar systems. However when the "t" distribution was used to test for equality of means between the two classifications of banks, it was discovered that the null hypothesis of equal means could not be rejected in four of the eight years at the .05 level of significance.

In order to further investigate the financial performance patterns of banks with long-range strategic planning systems versus banks which did not have similar systems, the fifteen sampled banks that started strategic planning systems between 1970 and 1973 were analyzed on a "before and after" basis using averaging Method B. The financial data on the fifteen banks are presented in Table 22 and they reveal that the average annual percentage increases in net income were greater in the "after" period for each of the four groupings of strategic planning banks than those obtained by the control group banks. However when the "t" distribution was used to compare the "before and after" differences in average changes in net income of the strategic planning banks with similar data on the control group banks, it was discovered that the null hypothesis of equal means could not be rejected for the 1970, 1971 or 1972 (three of four) groupings of banks at the .05 level of significance. Therefore it had to be concluded that the data in Tables 20, 21, and 22 did not support the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

TABLE 22

NET INCOME ANALYSIS OF SAMPLED BANKS WHICH STARTED STRATEGIC LONG-RANGE PLANNING SYSTEMS BETWEEN 1970 AND 1973 INCLUSIVE*

	Before 5-Year Period 1965 to 1970	After 5-Year Period 1970 to 1975
Average of annual percentage changes in net income of the three banks in the sample which started strategic long-range planning systems in 1970.	14.07	12.48
Average of annual percentage changes in net income of the twenty-two randomly selected control group banks.	11.50	5.57
	Before 4-Year Period 1967 to 1971	**After 4-Year Period 1971 to 1975**
Average of annual percentage changes in net income of the three banks in the sample which started strategic long-range planning systems in 1971.	7.50	10.18
Average of annual percentage changes in net income of the twenty-two randomly selected control group banks.	10.64	5.83

TABLE 22 (Continued)

	Before 3-Year Period 1969 to 1972	After 3-Year Period 1972 to 1975
Average of annual percentage changes in net income of the five banks in the sample which started strategic long-range planning systems in 1972.	7.47	5.44
Average of annual percentage changes in net income of the twenty-two randomly selected control group banks.	7.43	5.11
	Before 2-Year Period 1971 to 1973	**After 2-Year Period 1973 to 1975**
Average of annual percentage changes in net income of the four banks in the sample which started strategic long-range planning systems in 1973.	12.53	25.13
Average of annual percentage changes in net income of the twenty-two randomly selected control group banks.	8.97	2.69

*Using averaging method "B".

The Reanalysis of Table 17 Data

As part of this study it was possible to partition out fourteen banks which stated that net income had been their primary goal during the years 1969, 1972, and 1975. Net income financial data on these banks were previously presented in Table 17, page 125, and they are represented in Table 23 after having been recomputed using averaging Method B. These data are unique in that they match the banks' primary objective and a financial measure over time.

The data in Table 23 show that the best performance was by the group of six sampled banks which had net income as their primary objective in 1969, 1972, and 1975 and that had strategic long-range planning systems and that scored low on the planning scale in one or more of the three years--1969, 1972, or 1975. When the average increase in net income performance of these six banks (mean = 10.01) was compared with that of the control group (mean = 6.27) it was found that the null hypothesis of equal means could be rejected at the .05 level of significance. It was also found that at the .05 level the same six banks significantly outperformed the group of four banks which stated that net income was their primary objective in 1969, 1972, and 1975 but that did not have strategic long-range planning systems by September 1, 1976. The confidence levels for the above comparisons are presented in Table 24.

A disappointing result which appears in Tables 23 and 24 was the mediocre performance of the group of four banks which stated that net income was their primary objective in 1969, 1972, and 1975 and that had strategic long-range corporate planning systems and that scored high on the planning scale in 1969, 1972, and 1975. It was expected that this

TABLE 23

AVERAGE OF ANNUAL PERCENTAGE CHANGES IN NET INCOME OF THE FOURTEEN SAMPLED LARGE U.S. BANKS WHICH STATED THAT NET INCOME WAS THEIR PRIMARY OBJECTIVE IN 1969, 1972, AND 1975

	"A" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4	"B" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6	"C" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4	"D" Randomly Selected Control Group Banks N=22
1969-70	3.62	11.88	8.59	9.76
1970-71	9.16	8.52	(1.01)	4.56
1971-72	10.46	8.25	3.82	7.97
1972-73	20.06	9.38	10.44	9.97
1973-74	12.01	12.80	7.71	1.60
1974-75	(18.27)	9.20	(7.41)	3.77
Average % Change	6.17	10.01	3.69	6.27
Standard Deviation	13.01	1.88	6.80	3.46

TABLE 24

CONFIDENCE LEVELS ACROSS SUBSAMPLES
FOR NET INCOME DATA DISPLAYED IN
TABLE 23

"A" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4

"B" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6

"C" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4

"D" = Randomly Selected Control Group Banks N=22

Average Annual Percentage Change in Net Income Within Bank Subsamples	Confidence Level of Difference*
"A" 6.17 versus "D" 6.27	NS**
"A" 6.17 versus "C" 3.69	NS
"B" 10.01 versus "D" 6.27	0.989
"B" 10.01 versus "C" 3.69	0.987

*Using the "t" distribution and a one-tailed test.

**Differences below the 95% confidence level were considered to be non-significant (NS).

group of banks would have the highest average annual increase in net income of any subsamples but in reality they actually underperformed the control group. However the large standard deviation of 13.01 was a clue that something unusual had happened and the problem was that one of the four banks in the subsample experienced a 95% decrease in net income when the real estate market in its area became unusually depressed during the 1974-75 time period.

In parts 2 and 3 of the analysis section the focus has been on the changes that were taking place with respect to net income without taking into consideration the changes in the asset base that the banks had to support the earnings they were generating. In general the data do not support or reject the hypothesis that large U.S. banks with more comprehensive planning outperform large U.S. banks with less comprehensive planning when the measure of financial success is changes in net income. In the following section data will be presented on the relationship between comprehensiveness of planning, owners' investment, and net income.

III. ANALYSIS--PART 4 OWNERS' INVESTMENT/STUDENT "t" DISTRIBUTION

In parts 2 and 3 of this chapter's analysis section the financial performance measure was net income. In this portion of the research the financial performance measure will be the return on owners' investment. Operationally "owners' investment" was defined as common stock and retained earnings. Ratios were computed by dividing owners' investment into net income for each of the sampled banks in each of the time periods and subsequently these ratios were averaged in order to obtain

subsample ratios. The importance of this measure of financial performance is that it focuses on the rate of return being earned by the owners and also provides a measure of how efficiently the stockholders' capital is being utilized. This is a more meaningful measure of the financial performance of the large banks than was "net income" which was previously used since changes in net income can have varying interpretations if the capital required to generate them is not also considered.

For consistency and to facilitate comparisons, the data are presented in the same general groupings and order as were used in parts 2 and 3. The first data to be presented are in the same subgroups as that which appeared in Table 18, page 129. The expectation with respect to these groupings was that the large U.S. banks with more comprehensive planning would earn returns on owners' investment which were greater than those earned by the large U.S. banks with less comprehensive planning. The initial "percentage rate of return on owners' investment" data are presented in Table 25 and they show that the two groups of banks which had strategic long-range planning systems did have average returns on owners' investment which were greater than the average returns that were earned by either the control group banks or the group of sampled banks which did not have strategic planning systems. The data in Table 25 was used in the computation of "t" scores across the four subgroups of banks and the confidence levels associated with the differences are presented in Table 26. The data in Table 26 show that at the .05 level of significance it was possible to reject the null hypothesis of equal means between the average annual percentage return

TABLE 25

AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON OWNERS' INVESTMENT OF SAMPLED LARGE U.S. BANKS

	"A" Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29	"B" Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7	"C" Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by Sept. 1, 1976 N=8	"D" Randomly Selected Control Group N=22
1970-71	11.93	12.41	11.56	11.55
1971-72	11.64	11.40	10.38	11.19
1972-73	12.09	12.08	11.73	11.37
1973-74	11.73	12.47	11.33	10.57
1974-75	10.91	10.98	9.70	9.88
Average % Return	11.66	11.87	10.94	10.91
Standard Deviation	0.45	0.65	0.87	0.68

TABLE 26

CONFIDENCE LEVELS ACROSS SUBSAMPLES FOR RATE OF RETURN ON OWNERS' INVESTMENT DATA PRESENTED IN TABLE 25

"A" = Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29

"B" = Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7

"C" = Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=8

"D" = Randomly Selected Control Group N=22

Average Annual Percentage Rate of Return on Owners' Investment Within Bank Subsamples	Confidence Level of Difference*
"A" 11.66 versus "D" 10.91	0.981
"A" 11.66 versus "C" 10.94	0.965
"A" 11.66 versus "B" 11.87	NS**
"B" 11.87 versus "C" 10.94	0.977
"B" 11.87 versus "D" 10.91	0.987

*Using the "t" distribution and a one-tailed test.

**Differences below the 95% confidence level were considered to be non-significant (NS).

on owners' investment that was earned by the two subgroups of strategic planning banks and the control group banks. The data in Table 26 also show that on the basis of average annual percentage return on owners' investment the two groups of strategic planning banks significantly (at the .05 level) outperformed the group of eight sampled banks which did not have strategic long-range planning systems by September 1, 1976. In general the data in Tables 25 and 26 support the hypothesis that large banks with more comprehensive planning do financially outperform large U.S. banks with less comprehensive planning when the measure of financial success is average annual percentage rate of return on owners' investment.

A more detailed analysis of the relationship between comprehensiveness of planning and average percentage return on owners' investment is presented in Table 27. In Table 27 the banks are organized according to the year in which they had or had not started a strategic planning system. The massive amount of data in Table 27 makes it difficult to detect relationships between completeness of formal planning and financial performance and therefore the data are condensed in Tables 28 and 29.

In Table 28 the 1967-68 through 1974-75 non-control group bank data which were presented in Table 27 are collapsed into two categories which represent banks which had long-range strategic planning systems in operation and banks which did not have similar systems. The data in Table 28 show that in six of the eight years between 1967 and 1975 the grouping of sampled banks which had strategic planning systems did have average annual percentage rates of return on owners' investment which

TABLE 27

AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON OWNERS' INVESTMENT

	Sample Banks With Strategic Long-Range Corporate Planning Systems											Sampled Banks Which Did Not Have Strategic Long-Range Corporate Planning Systems by Sept. 1, 1976 (N=8)	Randomly Selected Control Group (N=22)
	1964 (N=1)	1967 (N=1)	1968 (N=2)	1969 (N=1)	1970 (N=3)	1971 (N=3)	1972 (N=5)	1973 (N=4)	1974 (N=1)	1975 (N=11)	1976 (N=2)		
1964-65	10.35	12.18	9.87	9.54	10.56	9.66	10.23	10.81	9.30	10.31	10.69	10.88	10.98
1965-66	10.53	11.01	11.98	11.31	11.22	10.47	11.07	11.75	9.87	10.85	11.07	12.08	11.14
1966-67	10.97	10.05	10.27	11.39	10.95	10.48	11.47	11.56	10.60	11.05	11.46	11.90	11.67
1967-68	10.53	12.07	11.22	12.30	12.33	10.54	12.01	11.48	11.29	11.62	12.06	12.10	11.55
1968-69	13.67	13.75	14.08	15.43	13.20	10.93	12.55	11.80	11.68	12.45	12.82	13.35	12.10
1969-70	14.45	11.66	13.14	14.43	13.12	11.26	12.78	12.61	13.58	12.66	13.51	12.51	12.90
1970-71	13.86	10.26	12.16	12.88	14.17	10.98	12.43	11.68	13.37	11.64	12.86	11.56	11.55
1971-72	13.06	10.15	11.68	12.84	13.15	10.20	11.77	10.92	13.60	11.55	12.57	10.38	11.19
1972-73	9.36	10.11	12.38	11.93	14.36	11.08	12.46	12.05	15.22	11.41	12.96	11.73	11.37
1973-74	10.46	8.11	13.10	8.90	12.20	12.03	13.08	11.70	17.27	10.93	13.22	11.33	10.57
1974-75	12.87	5.41	12.09	9.23	11.55	10.50	10.22	13.33	15.72	9.77	13.11	9.70	9.88
Average % Return	11.83	10.43	12.00	11.84	12.44	10.74	11.83	11.79	12.86	11.30	12.39	11.59	11.36

TABLE 28

DICHOTOMIZED AND WEIGHTED* TABLE 27 RATE OF RETURN ON OWNERS' INVESTMENT DATA FOR THE FORTY-TWO NON-CONTROL GROUP BANKS

Year	Strategic Planning Banks		Non-Strategic Planning Banks		Confidence Level of Difference**
	N	Mean Value	N	Mean Value	
1967-68	2	11.30	40	11.73	NS***
1968-69	4	13.90	38	12.60	0.999
1969-70	5	13.36	37	12.63	0.997
1970-71	8	12.98	34	11.81	0.999
1971-72	11	11.77	31	12.82	NS
1972-73	16	12.17	26	11.87	NS
1973-74	20	11.93	22	11.57	NS
1974-75	21	11.33	21	10.06	0.996

*Weighted by number of banks in each of the twelve subgroups.

**Using the "t" distribution and a one-tailed test.

***Differences below the 95% confidence level were considered to be non-significant (NS).

were greater than those obtained by the groupings of sampled banks which did not have similar systems. However when the "t" distribution was used to test for equality of means between the two classifications of banks it was discovered that the null hypothesis of equal means could be rejected in only four of the eight years at the .05 level of significance.

In order to further investigate the relationships contained in Table 27, the fifteen sampled banks that started strategic planning systems between 1970 and 1973 were analyzed on a "before and after" basis. Consolidated financial data on the fifteen banks are presented in Table 29 and they show that the average annual percentage rates of return on owners' investment were greater in the "after" period for each of the four groupings of strategic planning banks than those obtained by the control group banks. However when the "t" distribution was used to compare the "before and after" differences in average changes in return on owners' investment of the strategic planning banks with similar data on the control group banks, it was discovered that the null hypothesis of equal means could not be rejected for the 1970, 1971, or 1972 (three of four) groupings of banks at the .05 level of significance. Therefore it had to be concluded that the data in Tables 27, 28, and 29 did not support the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

As part of this study it was possible to partition out fourteen banks which stated that net income had been their primary objective during the years 1969, 1972, and 1975. "Average annual percentage

TABLE 29

RATE OF RETURN ON OWNERS' INVESTMENT ANALYSIS OF SAMPLED BANKS WHICH STARTED STRATEGIC LONG-RANGE PLANNING SYSTEMS BETWEEN 1970 AND 1973 INCLUSIVE

	Before 5-Year Period 1965 to 1970	After 5-Year Period 1970 to 1975
Average annual percentage rate of return on owners' investment of the three banks in the sample which started strategic long-range planning systems in 1970.	13.09	12.16
Average annual percentage rate of return on owners' investment of the twenty-two randomly selected control group banks.	11.87	10.91
	Before 4-Year Period 1967 to 1971	**After 4-Year Period 1971 to 1975**
Average annual percentage rate of return on owners' investment of the three banks in the sample which started strategic long-range planning systems in 1971.	10.93	10.95
Average annual percentage rate of return on owners' investment of the twenty-two randomly selected control group banks.	12.03	10.75

TABLE 29 (Continued)

	Before 3-Year Period 1969 to 1972	After 3-Year Period 1972 to 1975
Average annual percentage rate of return on owners' investment of the five banks in the sample which started strategic long-range planning systems in 1972.	12.33	11.92
Average annual percentage rate of return on owners' investment of the twenty-two randomly selected control group banks.	11.88	10.61
	Before 2-Year Period 1971 to 1973	**After 2-Year Period 1973 to 1975**
Average annual percentage rate of return on owners' investment of the four banks in the sample which started strategic long-range planning systems in 1973.	11.49	12.52
Average annual percentage rate of return on owners' investment of the twenty-two randomly selected control group banks.	11.28	10.23

rate of return on owners' investment" data on these banks are presented in Table 30 and they show that the two groupings of strategic planning banks did have average annual rates of return on owners' investment which were greater than the ones obtained by either the control group or the group of sampled banks which did not have strategic planning systems by September 1, 1976. The data in Table 30 were used in the computation of "t" scores across the four subgroups of banks and the confidence levels associated with the differences are presented in Table 31. The data in Table 31 show that at the .05 level of significance it was possible to reject the null hypothesis of equal means between the average annual percentage rate of return on owners' investment that was earned by the two subgroups of strategic planning banks and the control group banks. The data in Table 31 also show that the strategic planning banks significantly outperformed the group of sampled banks which did not have strategic planning systems when the basis of comparison was average annual percentage rate of return on owners' investment. These data supported the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning. However it must be considered within the context of the previous findings which were contradictory. In order to try to clarify the contradictions, it was decided to analyze the groupings of banks using a third measure of financial performance. The performance measure chosen was "average annual rate of return on total assets" and the findings with respect to it are presented in Part 5 of the analysis.

TABLE 30

AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON OWNERS' INVESTMENT OF THE SAMPLED LARGE U.S. BANKS WHICH STATED THAT NET INCOME WAS THEIR PRIMARY OBJECTIVE IN 1969, 1972, AND 1975

	"A" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4	"B" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6	"C" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4	"D" Randomly Selected Control Group Banks N=22
1969-70	13.65	13.54	11.45	12.90
1970-71	13.01	12.78	9.97	11.55
1971-72	12.99	12.76	8.93	11.19
1972-73	14.15	12.98	10.16	11.37
1973-74	14.12	13.51	10.58	10.57
1974-75	10.60	12.99	9.36	9.88
Average % Return	13.09	13.09	10.08	11.24
Standard Deviation	1.32	0.35	0.89	1.02

TABLE 31

CONFIDENCE LEVELS ACROSS SUBSAMPLED FOR AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON OWNERS' INVESTMENT DATA DISPLAYED IN TABLE 30

"A" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4

"B" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6

"C" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4

"D" = Randomly Selected Control Group Banks N=22

Average Annual Percentage Rate of Return on Owners' Investment Within Bank Subsamples	Confidence Level of Difference*
"A" 13.09 versus "D" 11.24	0.995
"A" 13.09 versus "C" 10.08	0.999
"B" 13.09 versus "D" 11.24	0.999
"B" 13.09 versus "C" 10.08	0.999

*Using the "t" distribution and a one-tailed test.

**Differences below the 95% confidence level were considered to be non-significant (NS).

III. ANALYSIS--PART 5 TOTAL ASSETS/STUDENT "t" DISTRIBUTION

In this portion of the analysis the measure of financial performance is "average annual percentage rate of return on total assets." Average annual percentage rate of return on total assets is a measure of both how completely the bank's management has kept its assets employed and the rate of return on the uses of the assets. Operationally the ratios were computed by dividing each sample bank's total assets into its net income and subsequently these ratios were averaged in order to obtain subsample ratios. In general the rate of return on total assets is a measure of how well management has used all the resources entrusted to the bank and it is often considered to be a very useful way of comparing overall performance of corporations.

To facilitate comparisons, the data in this portion of the study are presented in the same general groupings and order as were used in Parts 2, 3, and 4. The initial "average annual percentage rate of return on total asset" data are presented in Table 32 and apparently the most appropriate way they can be described is with the word "inconsistent." All the differences between the subgroups were small and they did not form any particular pattern. The data in Table 32 were used in the computation of "t" scores across the four subgroups of banks and the confidence levels associated with the differences are presented in Table 33. The data in Table 33 show that at the .05 level of significance it was not possible to reject the null hypothesis of equal means between any of the subsamples when the measure of financial performance was average annual percentage rate of return on total assets. Therefore it had to be concluded that this data did not

TABLE 32

AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON TOTAL ASSETS OF SAMPLED LARGE U.S. BANKS

	"A" Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29	"B" Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7	"C" Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by Sept. 1, 1976 N=8	"D" Randomly Selected Control Group N=22
1970-71	0.70	0.79	0.76	0.75
1971-72	0.65	0.71	0.62	0.68
1972-73	0.61	0.66	0.67	0.64
1973-74	0.59	0.64	0.68	0.60
1974-75	0.59	0.58	0.64	0.57
Average % Return	0.63	0.68	0.67	0.65
Standard Deviation	0.05	0.08	0.05	0.07

TABLE 33

CONFIDENCE LEVELS ACROSS SUBSAMPLES
FOR NET INCOME DATA DISPLAYED IN
TABLE 32

"A" = Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29

"B" = Sampled Banks Which Had Strategic Long-Range Planning Systems but Scored Low on the Planning Scale in 1975 N=7

"C" = Sampled Banks Which Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=8

"D" = Randomly Selected Control Group N=22

Average Annual Percentage Rate of Return on Total Assets Within Bank Subsamples	Confidence Level of Difference*
"A" 0.63 versus "D" 0.65	NS**
"A" 0.63 versus "C" 0.67	NS
"A" 0.63 versus "B" 0.68	NS
"B" 0.68 versus "C" 0.67	NS
"B" 0.68 versus "D" 0.65	NS

*Using the "t" distribution and a one-tailed test.

**Differences below the 95% confidence level were considered to be non-significant (NS).

support the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

A more detailed analysis of the relationship between comprehensiveness of planning and average annual percentage rate of return on total assets is presented in Table 34. In Table 34 the banks are organized according to the year in which they had or had not started a strategic planning system. The massive amount of data in Table 34 makes it difficult to detect relationships between completeness of formal planning and financial performance and therefore the data are condensed in Tables 35 and 36.

In Table 35 the 1967-68 through 1974-75 non-control group data which were presented in Table 34 are collapsed into two categories which represent banks which had strategic planning systems in operation and banks which did not have similar systems. The data in Table 35 are completely consistent in the opposite direction from that which was hypothesized. That is in all eight years between 1967 and 1975 the grouping of sampled banks which did not have strategic planning systems had average annual percentage rates of returns on their total assets which were greater than the ones obtained by the grouping of sampled banks which had strategic planning systems. Using a one-tailed "t" test the differences could not be significant since they were in the opposite direction from that which was hypothesized. However it should be noted that if a two-tailed "t" test had been used it would have resulted in the non-strategic planning banks significantly (at the .05 level) outperforming the strategic planning banks in six of the eight years.

TABLE 34

AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON TOTAL ASSETS

	Sampled Banks With Strategic Long-Range Corporate Planning Systems											Sampled Banks Which Did Not Have Strategic Long-Range Corporate Planning Systems by Sept. 1, 1976 (N=8)	Randomly Selected Control Group (N=22)
	1964 (N=1)	1967 (N=1)	1968 (N=2)	1969 (N=1)	1970 (N=3)	1971 (N=3)	1972 (N=5)	1973 (N=4)	1974 (N=1)	1975 (N=11)	1976 (N=2)		
1964-65	0.49	0.78	0.73	0.63	0.71	0.59	0.82	0.81	0.86	0.75	0.71	0.79	0.76
1965-66	0.46	0.74	0.82	0.71	0.79	0.63	0.86	0.88	0.82	0.79	0.73	0.85	0.78
1966-67	0.45	0.60	0.73	0.64	0.72	0.58	0.84	0.83	0.78	0.76	0.71	0.81	0.80
1967-68	0.40	0.64	0.73	0.60	0.77	0.57	0.85	0.82	0.75	0.76	0.73	0.80	0.76
1968-69	0.47	0.71	0.73	0.75	0.85	0.54	0.89	0.84	0.73	0.84	0.86	0.92	0.77
1969-70	0.54	0.60	0.69	0.69	0.81	0.54	0.86	0.94	0.84	0.82	0.87	0.87	0.85
1970-71	0.53	0.54	0.61	0.64	0.85	0.49	0.80	0.86	0.80	0.70	0.80	0.76	0.75
1971-72	0.47	0.49	0.57	0.54	0.78	0.44	0.73	0.80	0.73	0.66	0.75	0.62	0.68
1972-73	0.35	0.46	0.56	0.45	0.75	0.43	0.69	0.73	0.72	0.61	0.70	0.67	0.64
1973-74	0.33	0.44	0.61	0.35	0.70	0.42	0.66	0.64	0.70	0.62	0.65	0.68	0.60
1974-75	0.51	0.30	0.60	0.45	0.68	0.40	0.56	0.72	0.74	0.60	0.59	0.64	0.57
Average % Change	0.46	0.57	0.67	0.59	0.77	0.51	0.78	0.81	0.77	0.72	0.74	0.77	0.72

TABLE 35

DICHOTOMIZED AND WEIGHTED* TABLE 34 RATE OF RETURN ON TOTAL ASSETS DATA FOR THE FORTY-TWO NON-CONTROL GROUP BANKS

Year	Strategic Planning Banks		Non-Strategic Planning Banks		Confidence Level of Difference**
	N	Mean Value	N	Mean Value	
1967-68	2	0.52	40	0.77	NS***
1968-69	4	0.66	38	0.83	NS
1969-70	5	0.64	37	0.80	NS
1970-71	8	0.69	34	0.74	NS
1971-72	11	0.57	31	0.69	NS
1972-73	16	0.59	26	0.66	NS
1973-74	20	0.58	22	0.65	NS
1974-75	21	0.58	21	0.61	NS

*Weighted by number of banks in each of the twelve subgroups.

**Using the "t" distribution and a one-tailed test.

***Differences below the 95% confidence level were considered to be non-significant (NS).

TABLE 36

RATE OF RETURN ON TOTAL ASSETS OF SAMPLED BANKS WHICH STARTED STRATEGIC LONG-RANGE PLANNING SYSTEMS BETWEEN 1970 AND 1973 INCLUSIVE

	Before 5-Year Period 1965 to 1970	After 5-Year Period 1970 to 1975
Average annual percentage rate of return on total assets of the three banks in the sample which started strategic long-range planning systems in 1970.	0.79	0.75
Average annual percentage rate of return on total assets of the twenty-two randomly selected control group banks.	0.79	0.65

	Before 4-Year Period 1967 to 1971	After 4-Year Period 1971 to 1975
Average annual percentage rate of return on total assets of the three banks in the sample which started strategic long-range planning systems in 1971.	0.54	0.42
Average annual percentage rate of return on total assets of the twenty-two randomly selected control group banks.	0.78	0.62

TABLE 36 (Continued)

	Before 3-Year Period 1969 to 1972	After 3-Year Period 1972 to 1975
Average annual percentage rate of return on total assets of the five banks in the sample which started strategic long-range planning systems in 1972.	0.80	0.64
Average annual percentage rate of return on total assets of the twenty-two randomly selected control group banks.	0.76	0.60
	Before 2-Year Period 1971 to 1973	**After 2-Year Period 1973 to 1975**
Average annual percentage rate of return on total assets of the four banks in the sample which started strategic long-range planning systems in 1973.	0.77	0.68
Average annual percentage rate of return on total assets of the twenty-two randomly selected control group banks.	0.66	0.59

In order to further investigate the relationships contained in Table 34, the fifteen sampled banks that started strategic planning systems between 1970 and 1973 were analyzed on a "before and after" basis. Consolidated financial data on the fifteen banks are presented in Table 36 and they show that the average annual percentage rates of return on total assets were greater in the "after" period for three of the four groupings of the strategic planning banks and that in only one grouping did the non-strategic planners have the higher rate of return. However when the "t" distribution was used to compare the "before and after" differences in average changes in return on total assets of the strategic planning banks with similar data on the control group banks, it was discovered that the null hypothesis of equal means could only be rejected for the 1973 grouping of strategic planning banks. Therefore it had to be concluded that the data in Tables 34, 35, and 36 do not support the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

As part of this study it was possible to partition out fourteen banks which stated that net income had been their primary objective for the years 1969, 1972, and 1975. "Average annual percentage rate of return on total assets" data for these banks are presented in Table 37 and the results are inconsistent. The group of banks which had the highest average annual rate of return on total assets was a group of strategic planning banks but the second best performance was by a group which did not have strategic planning operations. There was not any detectable pattern to the data and the information in Table 38 shows that there were not any significant differences in average performances

TABLE 37

AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON TOTAL ASSETS
OF THE FOURTEEN SAMPLED LARGE U.S. BANKS WHICH STATED
THAT NET INCOME WAS THEIR PRIMARY OBJECTIVE
IN 1969, 1972, and 1975

	"A" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4	"B" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6	"C" Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4	"D" Randomly Selected Control Group Banks N=22
1969-70	0.77	0.85	0.91	0.85
1970-71	0.74	0.78	0.76	0.75
1971-72	0.70	0.75	0.58	0.68
1972-73	0.73	0.69	0.68	0.64
1973-74	0.72	0.68	0.71	0.60
1974-75	0.55	0.68	0.74	0.57
Average % Return	0.70	0.74	0.73	0.68
Standard Deviation	0.08	0.07	0.11	0.10

TABLE 38

CONFIDENCE LEVELS ACROSS SUBSAMPLES FOR AVERAGE ANNUAL PERCENTAGE RATE OF RETURN ON TOTAL ASSETS DATA DISPLAYED IN TABLE 37

"A" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored High (4, 5, or 6) on the Planning Scale in 1969, 1972, and 1975 N=4

"B" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 and that Had Strategic Long-Range Planning Systems and that Scored Low (0, 1, 2, or 3) on the Planning Scale in One or More of the Three Years--1969, 1972, or 1975 N=6

"C" = Banks in the Sample Which Stated that Net Income Was Their Primary Objective in 1969, 1972, and 1975 but that Did Not Have Strategic Long-Range Planning Systems by September 1, 1976 N=4

"D" = Randomly Selected Control Group Banks N=22

Average Annual Percentage Rate of Return on Total Assets Within Bank Subsamples	Confidence Level of Difference*
"A" 0.70 versus "D" 0.68	NS**
"A" 0.70 versus "C" 0.73	NS
"B" 0.74 versus "C" 0.73	NS
"B" 0.74 versus "D" 0.68	NS

*Using the "t" distribution and a one-tailed test.

**Differences below the 95% confidence level were considered to be non-significant (NS).

between any of the four groupings. In general almost all of the data in Part 5 of the analysis did not offer support for the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

IV. SUMMARY AND CONCLUSION

The purpose of this chapter was to present and analyze financial data on large U.S. banks in order to investigate the relationship between comprehensiveness of planning and financial performance for large U.S. banks. The hypothesis was that large U.S. banks with more comprehensive planning would financially outperform the large U.S. banks which had less comprehensive planning. Comprehensiveness of planning was determined by the use of a cumulative planning scale and by asking individual banks whether or not they had a strategic long-range corporate planning system.

Financial data were collected on forty-four large U.S. banks which met the following criteria: (1) they were among the 165 largest banks in the United States in 1975, (2) they fully completed a questionnaire on their formal planning practices, and (3) they were either a one-bank holding company or they were part of a multi-bank holding company which provided full financial data on member banks. Annual financial data were collected on each of the forty-four banks between 1970 and 1975 and it consisted of the following: total assets, owners' investment, and net income. In addition, information on the number of employees that each bank had working for it was collected for each of the five years between 1970 and 1975.

Correlations were computed between the 1969 and 1972 bank planning scale scores and financial performance measures that were computed from the above data. The correlations were computed by means of Spearman's rho which is nonparametric and requires only an ordinal level of measurement. Unfortunately all of the correlations were either in the wrong direction or too low to have any practical meaning.

Given the fact that the correlations between the bank planning scale scores and financial performance measures had failed to provide direction for further investigation, it was decided to concentrate the research effort on the relationship between net income and comprehensiveness of planning. The forty-four banks were divided into three groups depending on whether or not they had a strategic long-range planning system and if so, whether their planning scale score was high or low. The three groups were compared on the basis of annual percentage change in aggregate net income for the five-year period 1970-75. The groups of banks were compared with each other and with the group of all insured U.S. banks. The results showed that the group of banks with the most comprehensive planning increased their net income at an average rate for the 1970-75 period which was above that of the other groupings. In addition the group of banks which was second in comprehensiveness of planning was also second in average rate of increase in net income and the group of banks which did not have strategic long-range corporate planning systems by September 1, 1976, underperformed all groups on the net income measure. These results were encouraging and led to the next step in the research which was to investigate the percentage changes in aggregate net income for

groups of banks before and after they put in strategic long-range corporate planning systems.

The first step in this phase of the research was to collect annual financial data on each of the forty-four banks back to 1964. Unfortunately two of the forty-four banks had been formed through large mergers during the 1964-70 time period and therefore they had to be excluded from the study at this point. In this phase of the research the fifteen banks which had installed strategic long-range planning systems between 1970 and 1973 were studied. The average annual percentage change in aggregate net income of the four groups of banks--1970, 3; 1971, 3; 1972, 5; and 1973, 4--were compared on a "before and after" basis and in every case the groups increased their net income at a faster rate in the "after" period than they had in the "before" period. In addition the four groups of banks outperformed the group of "all insured banks" in the "after" period in every case while in the "before" period they had in every case underperformed that comparison group. These findings were very encouraging and they provided the basis for the next phase of the research which was to investigate the relationship between comprehensiveness of planning, financial objectives and financial performance.

In this phase of the study the fourteen banks in the sample which stated that net income had been their primary objective in 1969, 1972, and 1975 were compared on the basis of annual percentage changes in aggregate net income. The banks were divided into three groups depending on whether they did or did not have strategic long-range planning and if so, whether they had scored high or low on the planning

scale. Once again the group of banks with the most comprehensive planning outperformed all other groupings. The group of banks which was second in comprehensiveness of planning was second in performance and the group of banks which did not have strategic long-range planning systems had total net income in 1975 that was below the total net income they had made six years earlier.

These above encouraging results were the basis for a more extensive quantitative investigation of the relationship between comprehensiveness of planning and financial performance for large U.S. banks. Using an alternate averaging method, a randomly selected control group, and the "t" distribution, the previously analyzed net income data were reanalyzed and comparisons were made across subsamples for significant differences in mean performances. In general the results showed that the large U.S. banks with strategic planning systems did have mean increases in net income which were greater than those of either the randomly selected control group banks or the sampled banks which did not have strategic planning systems. However the mean performance differences were not always statistically significant and there were several reversals in the data.

In order to get a clearer description of the relationship between comprehensiveness of planning and financial performance for large U.S. banks, two additional measures of financial success were utilized. The first one of the two to be used was "average annual percentage rate of return on owners' investment." Unfortunately the results were once again inconsistent in that some of the data did statistically support the study hypothesis while other data did not.

However when the second new measure of financial performance was used a definite trend did appear. The second new measure, and third overall, was "average annual percentage rate of return on total assets." The results of comparing the various bank subgroupings on the basis of "average annual percentage rate of return on total assets" were almost void of statistical support for the study hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

In conclusion, since the results from the first two measures were inconsistent and the results of the third measure non-supportive, it had to be concluded that the results of this study did not support the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning. However it should be noted that the mean values for the strategic planners were almost always higher than the mean values of the non-strategic planners when the measure of financial success was either increases in net income or return on owners' investment. In addition, the results from a number of the comparisons across subgroups statistically supported the study hypothesis and therefore certainly provide sufficient encouragement to suggest that further studies in this area are warranted.

CHAPTER VI

FORMAL STRATEGIC LONG-RANGE CORPORATE PLANNING AT "UNITED BANK"

I. INTRODUCTION

The results of this research have indicated that large U.S. banks are increasingly making use of strategic long-range planning systems. In addition the author observed that the three banks--out of the seventeen visited--which reported that they were reasonably satisfied with their strategic long-range corporate planning systems, all had systems which were similar in design. One of the three banks had been very active in long-range planning for over ten years and it reported that it had not made any major modifications to its system for the past three years. All three banks have financially outperformed the average for all U.S. banks during the last decade and two of the three have been unusually successful. Therefore it seemed worthwhile to present one of these three banks as a case study in order to provide an example of a strategic long-range corporate planning system which appeared to be very effective in the banking industry.

The bank chosen to be presented as a case study was one of the largest in the United States in 1976. The bank had a very large domestic operation as well as offices in over twenty different countries. The organization of the divisions was on a predominantly functional basis with corporate direction and control. However two divisions were organized on a geographical basis and one on a market basis. In

addition, since fully implementing the strategic planning system in 1973, the bank's management has increased the bank's average return on owners' investment from 11.97% to 13.47% (one of the highest rates of return on owners' investment in the U.S.) and during the 1974 and 1975 years when most banks were suffering earnings declines, this bank reported record earnings with increases of 11% and 24% respectively. In this chapter, the bank shall be known by the pseudonym "United Bank" in order to provide anonymity.

II. THE ORGANIZATION FOR STRATEGIC LONG-RANGE CORPORATE PLANNING

In 1969 two members of United Bank's Board of Directors told the bank's senior management about the long-range planning systems in their businesses and they offered to help the bank organize a strategic long-range corporate planning effort. The bank's senior management agreed with the directors' recommendation and in 1969 one of the bank's key men was made vice-president of the newly created Strategic Planning Department. Under this man's leadership the planning department was established with personnel recruited from both within and outside the bank. The planning department was given the job of developing and coordinating the planning effort but the primary responsibility for formulating the strategic long-range plans was assigned to planning committees which were appointed in each division. The divisional planning committees were appointed by the divisional vice-president within the following guidelines: the committee was to consist of not more than nine members and it had to include a marketing specialist, an

operations specialist, and an accountant. In addition a special section called "policy studies" was created within the staff planning operation and its task was to supervise planning projects which crossed organizational boundaries.

III. THE PHILOSOPHY OF THE HEAD OF THE STRATEGIC PLANNING DEPARTMENT

The head of the Strategic Planning Department at United Bank had some very firm convictions about the formal planning effort. It was his opinion that the line officers would not do long-range planning unless it was formalized. He saw line officers as "producers" who were reluctant to devote time and effort to planning and therefore had to be persuaded to contribute. He pointed out that the practice in banking was to promote on the basis of past successes and therefore long-range planning was easily postponed. It was also his opinion that the line officers contributed both knowledge and creditability to the long-range planning effort and that it was doomed to failure without their active support.

The hand of the Strategic Planning Department at United Bank also felt very strongly about the involvement of the head of the bank in the planning effort as evidenced by the following statement:

> To put the matter bluntly: If the chief executive officer does not stake his career on the success of planning at critical points in the development, the remainder of the organization will conclude that he does not use planning in his decisions and they may safely ignore all but the most routine requests for planning effort.

He also felt that "Planning is a distinct style of management . . ." which in practice is difficult to separate from other managerial

activities. He stated that he sees planning as ". . . a special kind of decision making, the purpose of what is to manage change--to establish the alternatives available to the bank, where it is going and how it is expected to get there." In addition he felt that the planning effort would only be a success if the staff planners and line managers were willing to stake their careers on the outcome of their specific planning projects.

IV. STEPS IN STRATEGIC LONG-RANGE CORPORATE PLANNING PROCESS

The strategic planning effort at United Bank is on a January-to-December cycle. Actual preparation for a cycle starts in October for the planning department since it is its duty to publish an Environmental Survey Report by the first of December. In preparation of the report the Strategic Planning Department staff members make use of line department personnel as well as outside consultants and researchers. The Environmental Survey Report contains information on trends in such areas as demographics, technology, economics, and politics. An analysis of the trends is presented with respect to its impact on the bank and a summary of the implications is prepared to assist in the formulation of corporate objectives and strategies.

In December the Strategic Planning Department prepares a Corporate Competitive Report. The report contains information on objectives and strategies of major competing industries and companies from the corporate perspective. The purpose of the report is to identify and assess the changing structure of the industries with which the

bank competes and make this information available to the divisional planning committees to help them assess their competitive environment. Once the Strategic Planning Department staff has completed both the environmental survey and the competitive surveillance report, they prepare an analysis of the bank's competitive situation. This report is also published during December and it contains an analysis of the opportunities and threats to the bank in relation to its strengths and weaknesses. This report goes directly to the bank's top management and is used to help them set meaningful corporate objectives. In addition the planning staff publishes a report during late December which is a summary of all the current and past corporate objectives. In this report an attempt is made to summarize both written and implied corporate objectives and it contains key financial data and charts on historical performance. This report also goes to top management and is used as a basis for the setting of future objectives and goals.

Cycle I "Objectives"

In January the official planning cycle begins with the setting of new or revised corporate objectives, goals, and strategies by top management. The planning process at United Bank is depicted in Figure 3 and it shows that this portion of the planning effort is entitled "Cycle I" and that it takes place between January 1 and March 15. During the two and one half months of Cycle I the Strategic Planning Department prepares suggested corporate objectives based on the reports it published in December. The recommendations are supported by appropriate documentation and broad strategies that will lead to their attainment. The bank's top management discusses these objectives in

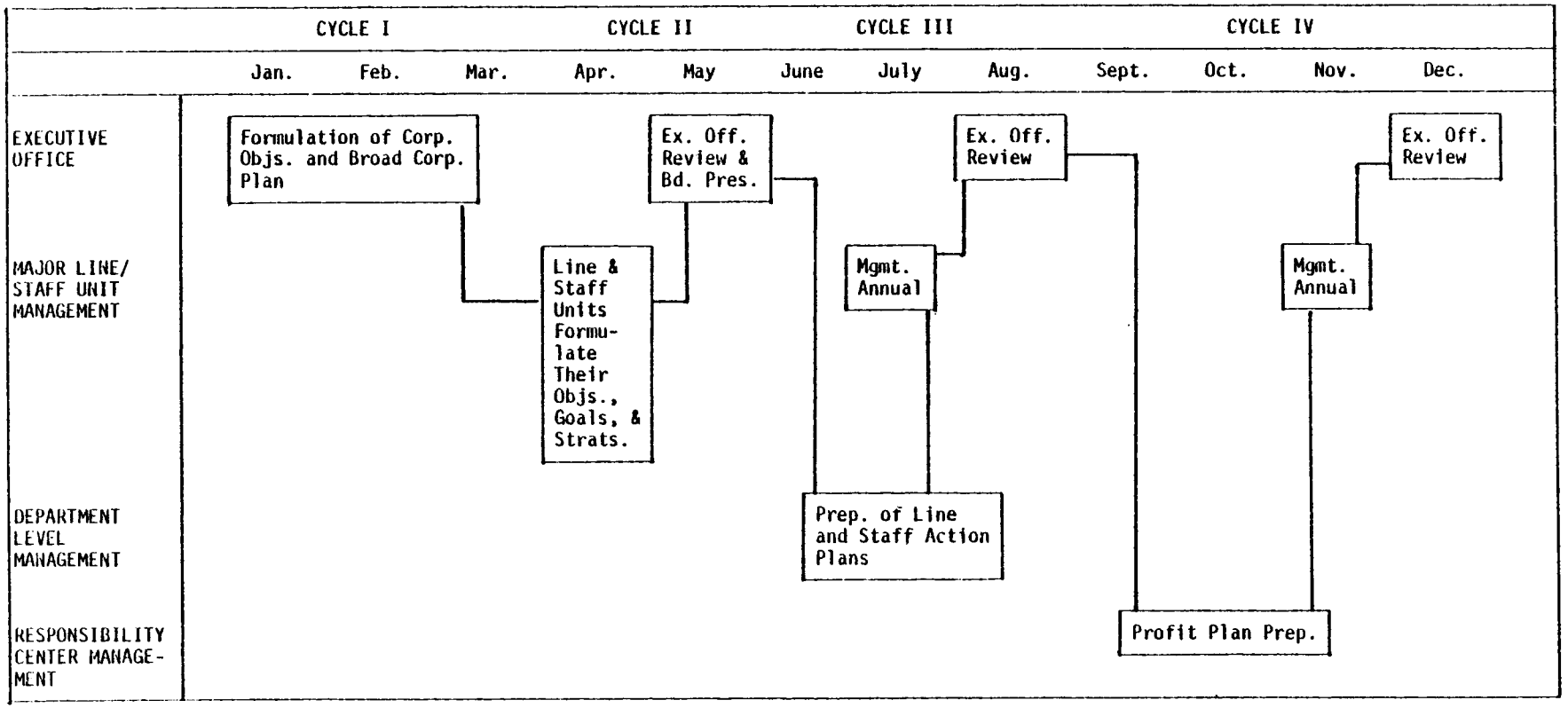

FIGURE 3

DIAGRAM OF THE FORMAL PLANNING PROCESS AT "UNITED BANK" IN 1976

committee meetings and refers problem areas to subcommittees for further analysis. The end product of the top management deliberations is reports which contain top management recommended corporate objectives, policy statements, and discussions of the critical issues that are affecting the bank.

Cycle II "Strategic Plans"

The formal beginning of the annual planning process for the divisional and lower line and staff management is April 1. On the first of April the Chief Executive Office issues a planning letter in which he strongly expresses his interest in the planning process and discusses the benefits to be achieved from it. Accompanying the letter is a broad five-year corporate plan which has been prepared by the Strategic Planning Department. The Strategic Planning Department uses the previously discussed top management reports to prepare the corporate plan. Suggested corporate plans are submitted to top management for its review and the final approved version is issued in April by top management under its signature.

In addition to the above, a planning guide is issued on the first of April. The planning guide contains specific information on the format and sequence in which the line and staff plans are to be prepared and organized. The Strategic Planning Department has complete responsibility for the preparation and distribution of the planning guide and it conducts briefings on its contents. The planning guide is very specific and it contains detailed descriptions of the subjects to be covered, time frames to be met, required supporting data, and forms to be completed.

During April the major planning units--divisions and staff areas--use the five-year corporate plan and the planning guide in the formulation of their objectives, strategies, and goals. The planning horizon for the major planning units is three years and the deadline for their submission is May 1. The major planning units' objectives, goals, and strategies are submitted directly to the bank's top management and from there are forwarded to the Strategic Planning Department. The Strategic Planning Department prepares a critique of the relationship between the documents that are submitted by the major planning units and the five-year corporate plan. The critique is forwarded to the bank's top management and meetings are scheduled between representatives of the major planning units and the bank's top management. The meetings take place in early May and are finished by May 15. In the meetings any problems or conflicts are resolved and hopefully by May 15 all of the major planning units' objectives, goals, and strategies have the approval of top management.

In late May the bank's top management presents the five-year broad corporate plan and the three-year major planning units' objectives, goals, and strategies to the Board of Directors for its comments, suggestions, and approval. Upon approval of the Board of Directors, the major planning units are notified and they begin the preparation of action plans.

Cycle III "Action Plans"

The action plans are the means by which each planning unit's objectives and strategies are linked to specific actions, assignments, and responsibilities. The action plans, when consolidated, are to

result in the planning unit being able to accomplish its previously specified goals and objectives. The action plans have a three-year time horizon and they are to be submitted to the Strategic Planning Department by August 1.

In addition to the action plans, each planning unit is to prepare a financial plan which reflects the impacts of the objectives, goals, strategies, and action plans. It is recommended that alternative financial strategies and assumptions be simulated on the bank's financial planning system in order to help develop the financial plan. The financial plan is to accompany the action plans and it is due in the Strategic Planning Department on August 1.

During the first two weeks in August the Strategic Planning Department reviews the planning units' objectives, goals, strategies, action plans, and financial plans to ensure thoroughness. The information is checked to see that all of the planning requirements in the planning guide are met and that the plans and supporting documentation are consistent. Once any problems are resolved, the Strategic Planning Department prepares a critique of each planning unit's efforts. The Strategic Planning Department also consolidates all of the information it has received from the planning units and attempts to interpret the impact of the combined plans on the bank. In addition the Strategic Planning Department prepares a report on the relation of the consolidated plans to the original corporate goals and objectives of the corporate five-year plan. All of these documents are forwarded directly to the bank's top management for use in the ensuing review process.

During the last two weeks in August the representatives of the

planning units make a presentation to top management of their objectives, goals, strategies, action plans, and financial plans. A member of the Strategic Planning Department is present at these meetings to make note of questions and directives which arise during the course of the presentations but he does not get actively involved in the deliberations. After each presentation the Strategic Planning Department representative prepares a summary of requested changes and revisions and forwards copies of these to top management and the planning unit. The carrying out of the revisions is then monitored by the Strategic Planning Department to ensure complete compliance by the planning units. Once the revisions have been made and acknowledged, the Strategic Planning Department notifies the bank's top management and then starts work on the final consolidated corporate plan which is due in the Chief Executive's office by September 15. On September 15 the Chief Executive Officer notifies the planning units that their plans have been accepted and he attaches to the letter a copy of the guidelines for the preparation of the annual budget.

Cycle IV "Profit Plans"

The Controller's Profit Planning Department prepares the guidelines and answers any questions about the budgeting process. The profit plans are to be completed by November 15 and at that time the Strategic Planning Department reviews them to make sure they mesh with the previously approved three-year planning unit plans. Once any discrepancies are resolved, the bank's top management reviews and gives its approval to the annual profit plans during the first part of December.

The Review Process

The performance of the bank is reviewed on a quarterly basis. A financial performance analysis is prepared by the Controller's office and it includes a comparison of actual results against the profit plan. The Strategic Planning Department is charged with monitoring each action plan and with assessing the actual progress against the plan. The Strategic Planning Department develops a control chart for each action plan and tracks the progress on a time-bar chart. Top management meets with representatives from the planning units on a quarterly basis to discuss the progress they have made in meeting their objectives and goals. In these meetings any unanticipated problems are discussed and corrective actions are taken.

V. EVALUATION OF STRATEGIC PLANNING EFFORT

Beneficial Features of United Bank's Strategic Long-Range Corporate Planning System

One of the beneficial features of United Bank's formal planning effort was its comprehensiveness. In the words of the head of the Strategic Planning Department, "The development of planning activities of all types at 'United Bank' has extended over a period of approximately ten years and developed to the point that we now have planning procedures in practically every area that a bank holding company can plan." Another beneficial feature of United Bank's formal planning effort was the way it tied the whole process together. For example, the five-year broad corporate plan contained objectives in each of the following six categories:

A. Profits

B. Market Position

C. Market Development

D. Innovation and Productivity

E. Personnel Policies

F. Public Responsibility

The same six categories were used in the three-year plans that were prepared by the planning units and every line planning unit had to develop a goal, strategy, and action plan for each of the six categories. The staff planning units had to follow a similar format but they were exempt from categories that were not applicable. The management at United Bank also did a good job of integrating the profit and strategic planning efforts and thereby prevented the problem of having long-range projects which were never included in the budget.

The planning manuals were another strong point of United Bank's planning effort. The manual pages contained columns in which each aspect of the planning process was clarified. For example, under the heading Environmental Survey were the following columns: (1) a description column where it was made clear just what was meant by an Environmental Survey and just what was to be included in it, (2) a column where the role of the Strategic Planning Department staff was outlined with respect to the Environmental Survey, (3) a document column where the title that was to appear on the Environmental Survey was listed, and finally, (4) a column which contained the date by which the document was to be published. In addition the manuals contained diagrams of the planning process like the one presented in Figure 3, page 175

and they contained slightly different instructions for the line and staff planning units.

Another impressive feature of the planning effort at United Bank was its focus on "reality" and "workability" in its approach to planning. For example, the economic surveys the Strategic Planning Department developed for the planning units were in terms of car sales or home loans for the bank's area, not Gross National Product as is often the case. The management at United Bank wanted its planning units to think in terms of "flow of funds" and how operations could be financed rather than total government spending for the United States. In evaluating planning unit objectives the bank's top management used the same type of "relevant" criteria. The planning units were told that they did not have to defend their objectives to all who might read them and that what was important was that they were clear and crisp to them. The general criteria that were used to judge all objectives were the following: Are they ambitious?, Are they realistic?, Are they explicit?, and Are they consistent with corporate objectives? A similar evaluation was made of strategy selections which were evaluated according to the following three guidelines: (1) consistency, (2) workability, and (3) appropriate time horizon. In addition the planning units were periodically reminded that the optimal strategy would probably never be found and therefore what they needed to do was find one that would work.

Finally there was a planning room at United Bank where copies of all the manuals and finished plans were kept for reference. These were available to any of the planning unit committee members or other

key executives who had a "need to know." Through use of this facility the executives at United Bank could quickly locate any information they needed about the planning system or other divisional plans.

Potential Limitations of United Bank's Strategic Long-Range Corporate Planning System

There were several potential limitations in the planning process at United Bank. One potential limitation was the possible future conflict between the Strategic Planning Department and the Profit Planning Department over jurisdictional boundaries. The two departments had completely different chains of command which only came together at the highest level in the bank. In time this could cause problems as each department looks for justification for its manpower allocation which will not be as large once the system becomes routine.

Another potential limitation was the unusually strong position of the Strategic Planning Department. In some instances the Strategic Planning Department staff had the authority to communicate directly with the line managers about problems in the plans that had been submitted by the unit planning committees. If not handled properly, this could lead to some resentment on the part of the line managers toward the members of the Strategic Planning Department.

Appraisal of the Strategic Long-Range Corporate Planning Effort Within United Bank

The strategic long-range corporate planning system at United Bank was selected for presentation as a case study because it was well developed and it was similar to other systems which appeared to be

effective for large U.S. banks. The planning effort at United Bank was a year-round process and it was very comprehensive in nature. However there was enough built-in flexibility that the bank could readily deal with any unforeseen changes in its environment. In addition a concerted effort was underway to reduce excessive documentation, detail, and duplication which should make the system even more effective and efficient in the future. In general the formal planning system contained many good features and other banks could benefit by studying the procedure this bank has developed over the years.

CHAPTER VII

SUMMARY, MAJOR FINDINGS, RECOMMENDATIONS FOR FUTURE RESEARCH AND CONCLUSION

I. SUMMARY

This study was initiated for the purposes of learning more about the evolving character of formal planning systems and efforts among large U.S. banks and to evaluate the effectiveness of formal bank planning. The existing literature seemed to contain little comprehensive information on this area of bank management and the few available documents were either dated or narrow in scope. More specifically the objectives of this study were (1) to determine the extent and manner of utilization of profit planning in large U.S. banks; (2) to describe the evoluation and state of development of strategic long-range corporate planning by the largest U.S. banks, including trends and the nature of planning procedures which have been adopted; (3) to describe and analyze the type of strategic long-range corporate planning system(s) that seem(s) to be evolving as the most effective for large U.S. banks; and (4) to quantify the relationship between the comprehensiveness of formal planning and financial performance in selected large U.S. banks.

Two non-mutually exclusive sample populations were used in this study. The sample population for the first phase of this study was the fifty largest banks in the following ten states: Alabama, Georgia, Pennsylvania, New York, North Carolina, Maryland, Illinois, Massachusetts, Virginia, and Tennessee. Large banks were selected for this study since

they were more likely to have advanced planning techniques due to their resources and staff specialists. Mostly Eastern banks were selected because of their geographical proximity which made interviews possible within the limits of time and resources.

The sample population for the second phase of this study was the 150 largest domestic, non-related, non-special purpose banks in the 48 contiguous states and the District of Columbia. According to Moody's Bank and Finance Manual, 1975 list, there were 150 banks that satisfied the above criteria which were among the 165 largest banks in the United States.

The research methods were questionnaires and field interviews. Initially, a general letter of inquiry on planning activities was sent to the presidents of the fifty banks selected for the first phase of this study. The letters contained a brief explanation of the study, several questions on the bank's planning system, and a request for permission to visit and talk with key bank executives or planning specialists in the near future.

Officers in twenty-nine of the fifty banks responded to the initial letter and the information obtained provided a basis for the selection of seventeen banks for subsequent personal interviews. Banks were selected which were at different stages of development in their formal planning efforts so that the evolutionary process could be studied. The interviews were held with bank officers in the following states: North Carolina (3), Virginia (1), Maryland (1), New York (5), Massachusetts (1), Pennsylvania (5), and Illinois (1).

Upon completion of each interview, the interviewee was asked to

complete and mail to the author a two-page quick-answer questionnaire on the comprehensiveness of planning in his bank. The responding officers were asked to rate their banks' planning efforts on a four-point system and subsequently their responses were analyzed according to the Guttman Scalogram-Analysis procedure in order to discover questions which could be combined into a planning scale. Completed questionnaires were received from officers in fifteen of the seventeen banks that had been visited and six questions were identified which did form a scale according to Guttman's criteria.

The six questions which the pilot study showed as forming a planning scale were combined into a revised questionnaire which contained questions on bank planning formality, utilization, procedures, initiation dates, and objectives. The revised questionnaire was mailed to the 150 largest domestic, non-related, non-special purpose banks in the 48 contiguous states and the District of Columbia. Officers in 92 of the 150 banks (61%) completed the questionnaire and returned it for analysis. The analysis, according to the Guttman Scaling Technique, showed that the same six questions could be grouped together into a planning scale and subsequently financial data on the banks were collected. Because of problems with incomplete questionnaires and multi-bank holding company financial information, full quantitative data could only be collected on forty-four of the ninety-two banks back to 1970 and on only forty-two of the banks back to 1964. However this was a workable size sample and subsequently the quantitative data were analyzed in an attempt to determine if the data supported the hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning.

II. MAJOR FINDINGS

In 1976 the need to maintain profitability, to improve operating efficiency, to better coordinate the various activities of large complex organizations, and to find new business opportunities were among the factors which were forcing bank executives to give increased attention to their planning efforts. This interest by bankers in formal planning was evident from the increases in volume and sophistication of articles on bank planning and the announcement in 1974 that the American Bankers Association had created the Corporate Planning Executive Committee to study and disseminate information on bank planning. Therefore in order to contribute to the knowledge available on bank management, it was the purpose of this study to learn the nature and effectiveness of the formal planning efforts in large U.S. banks.

The initial finding of this study was that in 1976 the area of "profit planning" was receiving an unusual amount of attention within the banking industry. Profit planning is a process whereby management determines the amount or rate of earnings it wishes to achieve in a given period and then develops operational plans to achieve the profit objectives. The increased attention on profit planning was the result of a general earnings decline which had started for many banks in late 1974. The results of this study showed that by the end of 1966 only 37% of the sampled banks had profit planning systems but that by the middle of 1976 the figure had risen to 99%. This study showed that the preparation and review of the profit plans were typically (in 81% of the responding banks) by the line executives and that the profit plan results were used (in 88% of the responding banks) to evaluate

managerial performance. In general the data indicated that it was the very largest of the sampled banks with their superior resources that had been the leaders in developing profit planning systems.

The depth interview data which had been obtained from officers of seventeen large U.S. banks indicated that there were a variety of profit planning system and implementation problems. The two most mentioned problems were intra-bank transfer prices and improper accounting systems. Intra-bank transfer prices for services and funds were a problem because if they were not accurate then each manager would attempt to explain away unsatisfactory performances by showing how much better his area would have done if it had not been unjustly charged for the inefficiencies of other departments that were passed on to him through the unfair price system. The problems associated with the accounting systems were ones of improper designs. The accounting systems had not been originally designed to produce data on the revenues and expenses that were generated by profit centers, and therefore the bank managers complained that they received inaccurate data, that they were charged for items over which they had no control, and that they were assigned a given percent for divisional expenses for services that they did not want or need.

Information from the depth interviews also revealed that some bankers called their financial planning control systems "profit planning systems" but in reality they were just fancy cost control systems. That is the bank was set up on a cost center basis with revenues only being collected at the divisional or higher levels. In addition the interviews revealed that it can take years to fully implement a profit

planning system and that some of the very largest U.S. banks still do not have fully operational systems.

The results of this study showed that profit planning was almost always the forerunner of a more comprehensive form of planning that is known as strategic long-range corporate planning. The fact that profit planning systems were almost always in operation before the large U.S. banks attempted strategic planning was shown by the study results which revealed that among the banks surveyed that reported having long-range strategic planning systems by September 1, 1976, 97% had either previously or simultaneously installed profit planning systems. In addition this study showed that the time lag between adoptions of the two systems has steadily declined during the past ten years from around seven years in 1966 to approximately one year in 1976.

The responses to the requests for information for this study revealed that within the banking community there was considerable interest in the topic of formal strategic long-range corporate planning in 1976. For the purpose of this research, formal strategic long-range corporate planning was defined as planning which had the following characteristics: (a) extended for periods beyond one year, (b) provided for the setting of major objectives or goals and the formulation of broad policies, (c) contained provisions for the evaluation of alternative courses of action in a systematic manner, (d) involved the development and selection of strategies and action plans that complemented the major objectives and goals, and (e) took place in a competitive environment where the overall objective was to find the best course of action within the constraint of limited resources. Planning

of this type has been conducted for many years by firms in industries such as steel, chemicals, and electronics, but this study revealed that the use of it by large U.S. banks was fairly recent. Bankers in each of the institutions that provided information for this study were asked to indicate whether or not their bank had a formal strategic planning system, and if so, when it first became operational. The responses from the bankers revealed that by September 1, 1976, strategic planning systems had been started in 73% of the responding institutions. The study results also showed that only 9% of the responding large U.S. banks had strategic planning systems before 1970 and that 62% of the sampled banks had started their systems between January 1, 1974, and September 1, 1976. Officers in the institutions that did not have strategic long-range corporate planning systems were asked whether they expected their banks to install strategic planning systems during 1977 or 1978 and 62% of the responding officers answered in the affirmative.

This study disclosed that it was the very largest of the U.S. banks that were the first to make use of strategic long-range corporate planning. For when the banks that stated the year they installed their strategic planning systems are compared on the basis of their relative position among the 150 banks that made up the study population, it turns out that 10 of the 12 banks (83%) that had long-range strategic planning systems before 1971 were in the upper half of the population. One possible explanation for this situation is that the larger the bank, the greater the need for formal planning due to the many assets (people and funds) that must be coordinated and kept productively employed. Another reason is that the larger the bank the more likely

it is to have the resources to have and utilize full-time staff specialists that are necessary to do the detailed work associated with implementing and operating a strategic planning system.

This study indicated that the large U.S. banks made widespread use of staff planning groups which typically consisted of three full-time employees. The actual number of people assigned to a staff planning group depended on the state of development of the bank's strategic planning system and the group's assigned duties. Typical duties assigned to the staff planning groups were (a) to develop the planning process, (b) to coordinate the planning effort, (c) to review divisional plans for top management, and (d) to consolidate the divisional plans.

This study indicated that in a majority of the banks the actual preparation of the strategic plans was primarily the responsibility of the operating managers. The typical strategic planning system among the banks which had formalized their long-range planning and which stated that it was operating satisfactorily was one in which divisional managers developed their plans within the limits of broad corporate policies set by top management on total bank earnings, rates of return on investments, and new ventures. Timetables, formats, and other assistance were supplied to divisional managers by the staff planning personnel. The various divisional plans would be submitted to the staff planners who would check for conflicts and integrate the plans into a corporate plan. The president, chairman of the board, or committee of top executives would then review, adjust, and approve the divisional and corporate plans. This system provided for wide

participation by the bank personnel and was the typical planning system among the banks which reported that they were pleased with their strategic planning efforts.

The results of this study indicated that strategic planning systems will probably not be successful unless they have full top management support and unless the strategic planning and budgeting processes are adequately integrated. Interview information was collected on two large U.S. banks which had terminated their strategic planning efforts and in both cases there had been wavering top management support and inadequate coordination of the strategic and budgeting processes. In the end it was cost cutting because of the "real estate problem" that caused the strategic planning efforts at the two banks to be terminated. It is interesting to note that they terminated their strategic planning efforts when the banks were having financial problems--a time when good strategy selection and implementation could have helped save the jobs of the presidents of the two banks who were also terminated during this period.

The interview data from this study also indicated that there were probably one a small number of fully developed and operational strategic planning systems in large U.S. banks. The evidence from the questionnaire responses showed that 73% of the sampled banks had installed such systems but the information from the interviews indicated that it takes years and a real commitment by the operating managers to fully implement a strategic planning system. Therefore, based on the interview data, the actual number of large U.S. banks that had fully developed and operational strategic planning systems by 1976 was probably closer to 20% than it was to 70%.

In addition to researching the nature of formal planning in large U.S. banks, this study focused on the effectiveness of such planning. The effectiveness of formal planning by large U.S. banks was researched by quantifying the relationship between the comprehensiveness of planning and financial performance in selected institutions. The goal was to determine if a direct relationship existed between the completeness of the formal preliminary planning and the level of financial performance. More specifically it was hypothesized that the large U.S. banks which had more comprehensive planning would financially outperform the large U.S. banks which had less comprehensive planning. Categories for "comprehensiveness of planning" were developed by grouping the banks according to whether or not they had strategic long-range corporate planning systems and, if so, whether the banks scored high or low on a cumulative planning scale.

The results of this study indicate that it is possible to construct a simple planning scale for large U.S. banks to measure the completeness of their planning systems. The method of scale analysis used was the Guttman technique which is a procedure which determines whether a series of questions form a cumulative, unidimensional scale. In both a pilot study of fifteen banks and a follow-up study with fifty-nine banks it was discovered that a series of six quick-answer questions did combine into a cumulative planning scale with an error rate of less than the 10% allowed by the Guttman technique.

The six questions that appear in the scale were part of an original group of eighteen questions which had been submitted in the form of a questionnaire to the bank executives who were interviewed.

The six questions that scaled are presented below in the order they appear in the scale from "more of the banks agreed with" to "fewer of the banks agreed with":

	No. of Question in Questionnaire	
More of the banks agreed with	No. 4	The bank had a short-range (one year) profit plan.
	No. 17	The planning process was such that the final plans were accepted by those responsible for their attainment.
	No. 9	There was a person or group whose full-time responsibility was to coordinate a bank-wide strategic planning effort.
	No. 13	The bank's top management had developed a climate in the bank which supported the planning effort.
	No. 8	Top management had developed a formal statement of what business the bank was in or wanted to be in.
Fewer of the banks agreed with	No. 14	The plans were used to judge managerial performance.

The study results also indicated that the reliability of the responses by the bankers was adequate--the intra-rater correlation coefficient equaled 0.97 and the inter-rater reliability correlation coefficient equaled 0.84--and therefore correlation tests were conducted to investigate the relationship between a bank's planning scale score and its financial performance. Four measures of financial performance were used and they consisted of the following: total assets, owners' investment, net income, and earnings per average employee. Annual data between 1970 and 1975 were collected on each of the four measures of financial performance for a group of forty-four sampled banks.

Correlations were computed between the bank's planning scale score and fourteen variations of the four measures of financial performance by means of Spearman's rho which is nonparametric and requires only an ordinal level of measurement. The expectation was that a bank's planning scale score and financial performance would increase together which would result in a positive correlation. Unfortunately five of the fourteen correlation results were negative and the highest positive correlation (0.2168) was too low to have any statistical significance. Possible explanations for the negative and low correlations are given below but the list is certainly not exhaustive and an imaginative mind could undoubtedly add to the ones listed. To begin with the planning scales were not 100% reproducible and therefore the data contained some measurement error. Secondly, the information in Chapters III and IV revealed that a few officers incorrectly stated the planning situation in their banks which resulted in some questionnaire response errors. Thirdly, the number of banks was small in relation to the six position scale. This situation served to magnify any errors and also meant that the performance of each bank had a big influence on its scale position. Fourthly, there were several banks in the sample that had unique short-term situations which served to make their financial pictures look unusually good or bad. Fifthly, even though the banks in the sample were all among the largest 2% in the United States, there was a wide range in total resources between the largest and smallest banks in the sample. Finally it is possible that there is not any relationship between comprehensiveness of planning and financial performance for large U.S. banks.

After finding little support for the study hypothesis in the correlations between the banks' planning scale scores and financial performance measures, forty-four of the sampled banks were divided into the following two groups: (1) banks which had strategic long-range corporate planning systems, and (2) banks which did not have strategic long-range corporate planning systems. Once divided into the two groups, the 1975 planning scale scores were used to partition the banks that had strategic long-range corporate planning systems into two additional groupings: (1) banks which had strategic long-range corporate planning systems and scored high on the planning scale, and (2) banks which had strategic long-range corporate planning systems and scored low on the planning scale. The expectations with respect to the above groupings were that the group of banks which had strategic long-range corporate planning systems and scored high (4, 5, or 6) on the planning scale would financially outperform both the group of sampled banks that had strategic planning systems and scored low (0, 1, 2, or 3) on the planning scale. In addition data on "all insured U.S. banks" were used as a reference group and it was expected that both groups of strategic planning banks would financially outperform the reference group.

The study results indicated both support and non-support for the above expectations. When the measure of financial success was "average annual percentage change in aggregate net income" for the five-year period between 1970 and 1975, it was discovered that the results were exactly as anticipated. That is the group of strategic planning banks which scored high on the planning scale in 1975 (N=29, mean = 11.50)

did have average annual percentage changes in average annual aggregate net income which were superior to (a) the group of all insured U.S. banks (N=14,000+, mean = 8.45), (b) the group of sampled banks which had strategic planning systems but scored low on the planning scale (N=7, mean = 9.23), and (c) the group of sampled banks which did not have strategic long-range planning systems (N=8, mean = 0.47). In addition the group of strategic planning banks that scored low on the planning scale did financially outperform the non-strategic planning group and the group of all insured U.S. banks.

Since the initial results were encouraging the measure of financial success was changed to "average of annual percentage changes in net income" and the reference group to a randomly selected control group of large U.S. banks. The study results after these two changes showed that the group of sampled banks which had strategic long-range planning systems and scored high on the planning scale in 1975 (N=29, mean = 10.28) did financially outperform (a) the randomly selected control group (N=22, mean = 5.57), (b) the sampled banks which had strategic planning systems but scored low on the planning scale (N=7, mean = 2.55), and (c) the group of sampled banks which did not have strategic planning systems (N=8, mean = 3.77) when the measure of financial success was average of annual percentage changes in net income for the five years between 1970 and 1975. In addition the "t" distribution was used to test for equality of means between the various combinations of the four groupings and it was discovered that at the .05 level of significance the null hypothesis of equal means could be rejected between the strategic planning banks that scored high on the

planning scale and each of the other three groupings. However it should be noted that the group of strategic planning banks that scored low on the planning scale did not perform as expected in that their financial performance on this measure was actually under that of the control group.

In order to further investigate the relationship between formal planning and financial performance of large U.S. banks, the rate of return on owners' investment was used as the measure of financial succes. Using "average annual percentage rate of return on owners' investment" the study results showed that the group of strategic planning banks (N=29, mean = 11.66) did significantly (at the .05 level) outperform the randomly selected control group banks (N=22, mean = 10.91) and the sampled banks which did not have strategic planning systems (N=8, mean = 10.94) when compared over the five-year period between 1970 and 1975. However the best five-year performance using this measure of financial success was by the strategic planning banks that scored low on the planning scale in 1975 (N=7, mean = 11.87) but it should be noted that the mean difference between this group and the group of banks that were strategic planners and scored high on the planning scale was not significant at the .05 level.

Finally, for these groupings, the sampled banks were compared on the basis of "average annual percentage rate of return on total assets." Using average annual percentage rate of return on total assets as the financial measure it was discovered that at the .05 level there were not any significant differences in the mean performances of any of the previously discussed four groupings. In addition the average

annual percentage rate of return on total assets during the five-year period between 1970 and 1975 was greater for the randomly selected control group (N-22, mean = 0.65) and the sampled banks that did not have strategic planning systems (N=8, mean = 0.67) than it was for the banks that had strategic planning systems and scored high on the planning scale in 1975 (N=29, mean = 0.63).

The study results showed that the same general pattern as that discussed above tends to repeat itself when the sampled banks were further subdivided into the following three groupings: (a) sampled banks which stated that net income was their primary objective in 1969, 1972, and 1975 but that did not have strategic long-range planning systems by September 1, 1976, (N=4); (b) banks in the sample which stated that net income was their primary objective in 1969, 1972, and 1975 and that had strategic long-range planning systems by September 1, 1976, and that scored low on the planning scale in one or more of the three years--1969, 1972, or 1975, (N=6); and (c) sampled banks which stated that net income was their primary objective in 1969, 1972, and 1975, and that had strategic long-range planning systems by September 1, 1976, and that scored high on the planning scale in 1969, 1972, and 1975, (N=4). Using the above three groupings along with the group of all insured U.S. banks and the randomly selected control group, data were presented and analyzed using the 1970 to 1975 time frame, the three financial performance measures, and the "t" distribution. In general the results showed support for the hypothesis that banks with more comprehensive planning financially outperform banks with less comprehensive planning when the measure of financial success was either

average annual percentage changes in net income or average annual percentage rate of return on owner's investment but no support when the performance measure was average annual percentage rate of return on total assets.

The financial data in the study were also organized on a "before and after" basis. At this point in the research two of the forty-four banks dropped out of the sample because accurate pre-1970 financial data were not available. Banks which started their strategic planning systems in the same year were grouped together and their "before and after" financial performances were compared to that of a control group. The study data showed that the banks which installed strategic planning systems usually did financially outperform the control group banks in the "after" period on the basis of simple averages but that the differences were rarely significant at the .05 level. An effort was also made to divide the sampled banks into the two categories of banks with operational strategic planning systems and banks without strategic planning systems. Financial data on the two categories of banks were compared on a year-by-year basis starting in 1968 and going through 1975. The results from studying the data in this manner were inconsistent when the financial measures were either changes in net income or return on owners' investment and completely consistent in the opposite direction of that which was hypothesized when the financial measure was rate of return on total assets. This was an unusual result and one possible explanation for it is given below.

It is unfortunate that the analysis of the quantified data did not produce consistent and convincing support either for or against

the study hypothesis that large U.S. banks with more comprehensive planning financially outperform large U.S. banks with less comprehensive planning. One possible explanation for these results is that banks are subject to large amounts of government regulation which work to prevent one bank's management from significantly outperforming another bank's management. Another possible explanation is that strategic planning is so new to the banking industry that there has not been enough time for it to have had an effect on the financial performance of the banks. A third possible explanation is that present day bank managers are chiefly concerned with the performance measures that are watched by security analysts as well as current or potential investors. If this explanation did happen to be factual, it could help account for some of the support for the hypothesis when the measure of financial success was either changes in net income or rate of return on owners' investment. It is also interesting to speculate on the overall financial differences between the strategic and non-strategic planning banks which actually account for the fact that there is some support for the hypothesis when one financial measure is used and almost none when another measure of financial success is applied. Evidently the difference is that the large U.S. banks with strategic planning systems are rapidly expanding their asset base while their amount of owners' investment is growing at a slower rate. This could help account for their favorable showing when the measure of financial success is changes in net income or rate of return on owners' investment and their less favorable showing when the financial measure is return on total assets. On the other hand, their non-strategic planning

competition is evidently not realizing increases in net income which are as spectacular as that of the strategic planning banks but they are apparently making more efficient use of their total assets which puts them in the more favorable situation when the measure of financial success is rate of return on total assets. The situation with respect to rate of return on owners' investment should help distinguish which group of banks is financially outperforming the other, strategic planning or non-strategic planning, but this measure has been clouded in recent years because of government pressure on selected banks to increase their amounts of owners' capital so as to look financially stronger in the aftermath of losses in the real estate investment trust end of their banking business.

III. RECOMMENDATIONS FOR FUTURE RESEARCH AND CONCLUSION

This study has shown that it is possible to construct a scale to measure comprehensiveness of formal organizational planning and therefore additional research needs to be conducted in this area. Different types of scaling methods should be tried and certainly more research is needed using the Guttman scaling technique. Planning scales which contain more than the six positions used in this study are needed in order to increase reliability and validity. Planning scales need to be tested on populations larger than the one used for this study so that the impact of each element of the population is reduced. Follow-up accuracy checks should be conducted in order to minimize the amount of error in the scaling effort and it is recommended that information on the state of development of formal planning in

selected organizations be collected from personnel at various levels in the chain of command.

More research is needed on the relationship between organizational objectives and comprehensiveness of planning. This study contains the first known data on this type of comparison which in actuality is the only logical approach to follow. However it is difficult to obtain organizational objectives because of their confidential nature or because they often have not been clearly stated by top management.

It is recommended that future research be conducted with less stringent contraints than the ones used in this study as it appears that the restrictions may have hampered the research support for the study hypothesis. The .05 level of statistical significance may have been unnecessarily restrictive and the .10 level was probably more appropriate for this type of data.

Another restriction was that the questionnaire results were strictly adhered to in the financial analysis portion of this research. However the depth interviews revealed cases where a few bankers had exaggerated the state of development of planning systems within their banks in their questionnaire responses, and by only correcting one of the known overstatements, the data on the group of banks in the sample which stated that net income was their primary objective in 1969, 1972, and 1975 and that had strategic long-range planning systems and that scored high on the planning scale in 1969, 1972, and 1975 would have been significantly improved.

Limitations associated with the method of analysis may also have

resulted in the support for the hypothesis being understated. For example when the groupings with the largest N's are compared on all three financial measures you get the following results:

	Sampled Banks Which Had Strategic Long-Range Planning Systems and Scored High on the Planning Scale in 1975 N=29	Randomly Selected Control Group N=22	Confidence Level of Difference
Five-year average of annual percentage changes in net income	10.28	5.57	0.963
Five-year average annual percentage rate of return on owners' investment	11.66	10.91	0.981
Five-year average annual percentage rate of return on total assets	0.63	0.65	Wrong Direction

The above comparisons show that there was statistically significant support for the study hypothesis when the measure of financial performance was either "average of annual percentage changes in net income" or "average annual percentage rate of return on owners' investment" and no support when the measure was "average annual percentage rate of return on total assets." However this method of comparison disguises the fact that in the case of return on total assets the strategic planning banks were underperforming the randomly selected control group banks at the start of the five-year period and were outperforming them by the end of the five-year period. Therefore it is recommended that future research include methods of analysis which more accurately reflects changes in financial performance over time.

Finally, although this study has failed to prove that there is a direct, positive relationship between comprehensiveness of planning and financial performance for large U.S. banks, it does offer support for such a relationship and it certainly provides sufficient encouragement to suggest that future studies in this area are warranted. This study also led to the conclusion that formal planning in the forms of profit planning and strategic planning is increasingly being integrated into the management systems of large U.S. commercial banks. Both the interview and questionnaire information indicated that bank managers consider formal planning to be a valuable management tool for improving their effectiveness and efficiency both now and in the future.

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APPENDICES

APPENDIX A

COPY OF A TYPICAL LETTER OF INITIAL INQUIRY TO BANKS

The University of Tennessee
708 Wm. B. Stokely Center
for Management Studies
Knoxville, Tennessee 37916
615/974-5001
June 2, 1976

Mr. W. B. Eagleson, Jr.
Chairman and President
Girard Bank
One Girard Plaza
Philadelphia, Pennsylvania 19101

Dear Mr. Eagleson:

I am pursuing a research study on bank planning and would like to learn more about the planning process in your bank. I completed a similar but less extensive study of formal bank planning practices as a masters thesis project here at The University of Tennessee in 1968. This undertaking is for my doctoral dissertation and will be conducted in several stages.

This initial stage involves gathering information on the current state of bank planning practices from the 50 largest banks in the states of Alabama, Georgia, Pennsylvania, New York, North Carolina, Maryland, Illinois, Massachusetts, Virginia, and Tennessee. Specifically I need for you or one of your colleagues to answer the following three questions about your managerial planning system so that I will have current information to supplement my previous research.

1. How are your planning activities organized--titles, functions, and authority hierarchy?

2. Would you please describe for me the procedures you follow in preparing your plans--inputs, outputs, reviews, integration, decision points? (If you have a procedures manual, could you forward a single copy to me?)

3. What major changes have taken place in your managerial planning system during the last ten years?

Your answers to these questions will supply valuable information for my research and help define areas for additional study in the second stage of this project which will involve a series of interviews with bank officials. I plan to request permission to visit and interview personnel who are involved in the planning process in at least 15 banks during the months of June, July, and August, according to the following schedule:

June 14, 15, 16	Tennessee banks
June 28, 29	North Carolina banks
July 1, 2	Virginia banks
July 6, 7	Maryland banks
July 8, 9	Pennsylvania banks
July 12, 13, 14, 15, 16	New York banks
July 19, 20, 21	Massachusetts banks
July 26, 27, 28	Illinois banks
August 3, 4	Georgia banks
August 5, 6	Alabama banks

The final part of the study will be an attempt to develop a planning scale in order to get a measure of "extensiveness of planning" among the 200 largest banks in the United States. This portion of the study will involve the use of quick answer questionnaires which will be sent to randomly selected banks.

All information provided will be handled in complete confidence and explicit permission will be sought before any fact is associated with the name of your bank. In addition a summary of the findings will be made available to the banks participating.

Your answers to the questions posed will be most helpful and I look forward to hearing from you or one of your colleagues in the near future.

Sincerely yours,

D. Robley Wood, Jr.

D. Robley Wood, Jr.

APPENDIX B

SEVENTEEN BANKS WHERE EXECUTIVES OR STAFF SPECIALISTS WERE INTERVIEWED

The asterisks denote banks from which quick-answer mail questionnaires were received.

Bankers Trust

*Chemical Bank

*Continental Illinois Corporation

*Equibank NA.

*Equitable Trust Company (of Baltimore)

*First and Merchants Corporation

*The First National Bank of Boston

*First National City Bank

*First Union National Bank

Girard Bank

*J. P. Morgan & Company, Incorporated

*Manufacturers Hanover Corporation

*North Carolina National Bank

*The Philadelphia National Bank

*Pittsburgh National Bank

*Provident National Bank

*Wachovia Bank and Trust Company

APPENDIX C

COPY OF THE QUESTIONNAIRE THAT WAS DISTRIBUTED

TO BANK EXECUTIVES WHO WERE INTERVIEWED

QUESTIONNAIRE FOR RATING THE EXTENSIVENESS OF BANK PLANNING SYSTEMS AND PROCEDURES

Instructions for Bank Planning Questionnaire

This questionnaire should be completed by a bank official who is familiar with the bank's historical efforts in the planning area. It is an initial attempt to develop an "extensiveness of planning" scale, so please complete all questions. Neither your bank's name nor your name will be associated with this information without permission. However a space is provided for your name and title which will be combined with others and appear in an appendix. A summary of the findings will be made available to each participating bank upon completion.

Definitions

In order to insure consistency within and across banks, please think in terms of the following two definitions when formulating your replies:

"Profit planning" is a procedure in which profit goals are set initially above previous attainment levels, and then operational plans are developed to achieve the profit objective.

"Strategic planning" is the systematic process of defining and evaluating alternative goals, strategies, and action plans, and selecting those to be pursued in future years which will most likely lead to the fulfillment of the bank's major objectives.

Please complete by placing the appropriate number or symbol in each box according to the following system:

Strongly agree	4	Strongly disagree	1
Agree	3	Do not know	0
Disagree	2	Not relevant bank planning question	X

	This was the situation in our bank in 1975.	This was the situation in our bank in 1972.	This was the situation in our bank in 1969.
1. Most bank planning was conducted by top management as it was needed.			
2. The bank objectives were too general to serve as guides for action.			
3. Each functional area was expected to do its own planning with little bank-wide direction or coordination.			
4. The bank has a short-range (one year) profit plan.			
5. There was a bank profit plan for more than one year in advance.			
6. The management stress was on getting results from the planning process, not the filling or boxes with numbers.			
7. Clear planning assumptions were formulated by top management.			
8. Top management had developed a formal statement of what business the bank was in or wanted to be in.			
9. There was a person or group whose full-time responsibility was to coordinate a bank-wide strategic planning effort.			
10. A written analysis of the bank's strengths and weaknesses was a required part of the planning effort.			
11. A written analysis of the competition's strengths and weaknesses was a required part of the planning process.			
12. The various planning activities were consolidated into a written bank-wide strategic plan.			
13. The bank's top management had developed a climate in the bank which supported the planning effort.			
14. The plans were used to judge managerial performance.			
15. Top management did not consistently reject the formal planning mechanism by making decisions which conflicted with the formal plans.			
16. Alternative courses of action were actively sought in the planning process.			
17. The planning process was such that the final plans were accepted by those responsible for their attainment.			
18. There was an integrating of the planning and budgeting processes.			

The purpose of this part of the questionnaire is to obtain information that will allow me to analyze the relationship between the "type of objective" and "organization for planning". Therefore, please indicate the priority your bank assigned to the general business objectives listed below. Please enter 1, 2, 3, etc. or indicate any equality in priority. If "Other", please specify.

	This was the situation in our bank in 1975.	This was the situation in our bank in 1972.	This was the situation in our bank in 1969.
Growth in size			
Profits			
Survival			
Market penetration			
Other:			
Do not know			
We did not have formally stated objectives at that time. Please check if applicable.			

_____ Complete Name of Your Bank

_____ Name of Person Completing Form

_____ Position of Person Completing Form

_____ Date Completed

Please return to:

Mr. D. Robley Wood, Jr.
The University of Tennessee
708 Wm. B. Stokely Center for
Management Studies
Knoxville, Tennessee 37916

APPENDIX D

COPY OF A TYPICAL LETTER AND QUESTIONNAIRE THAT WAS MAILED TO 150 OF THE LARGEST BANKS IN THE UNITED STATES

708 Wm. B. Stokely Center
for Management Studies
Knoxville, Tennessee 37916
August 20, 1976

Mr. E. D. Smith, Chairman
First National Bank of Atlanta
P.O. Box 4148
Atlanta, Georgia 30302

Dear Mr. Smith:

In order to complete the research requirements for a Doctor of Business Administration degree in Management at The University of Tennessee, I have chosen to study the field of bank planning. This is the third stage of a three-part study and involves sending quick-answer questionnaires to the 150 largest U.S. banks.

This questionnaire was developed with the help of planning personnel in nine banks (First National City Bank, Pittsburgh National Bank, Morgan Guaranty Trust Company, Provident National Bank, Equibank, First National Bank of Boston, North Carolina National Bank, First Union National Bank, and First and Merchants Corporation) who completed a more elaborate initial questionnaire. These questions were selected from the original replies because it appears they divide banks into categories with respect to their planning effort.

The first part of this study was conducted in January/February, 1976, when I reviewed and summarized all the public literature on bank planning practices. Subsequently, I interviewed planning personnel in 17 banks which were located in the following cities: Baltimore, Boston, Charlotte, Chicago, New York, Philadelphia, Pittsburgh, Richmond, and Winston-Salem. The study will be finished when I analyze the replies to this questionnaire and conduct a few more personnel interviews with bank planners in October and December.

Therefore, I would really appreciate it if you or one of your colleagues would complete the enclosed questionnaire and return it to me. Regardless of how elaborate or informal your planning system is, it is important that I hear from you since all points on the scale need to be represented. Neither your bank's name nor your name will be associated with this information without permission. In addition, a summary of all the findings of this study will be made available to each participating bank upon completion of this project.

I look forward to hearing from you in the near future.

Sincerely yours,

D. Robley Wood, Jr.

D. Robley Wood, Jr.

Please complete by placing the appropriate number or symbol in each box according to the following system:

Strongly agree	4	Strongly disagree	1
Agree	3	Do not know	0
Disagree	2	Not relevant question for our bank's planning system at that time.	X

	This was the situation in our bank in 1975.	This was the situation in our bank in 1972.	This was the situation in our bank in 1969.
1. Most bank planning was conducted by top management on a project basis.			
2. The budget was the only comprehensive bank plan.			
3. Each functional area was expected to do its own planning with minimal bank-wide direction or coordination.			
4. The bank had a short-range (one year) profit plan.			
5. There was a bank profit plan for more than one year in advance.			
6. Division heads had to submit written long-range plans to top management for review.			
7. Top management had formulated quantified goals for the bank.			
8. Top management had developed a formal statement of what business the bank was in or wanted to be in.			
9. There was a person or group whose full-time responsibility was to coordinate a bank-wide, long-range strategic planning effort.			
10. There was a regular long-range strategic planning cycle.			
11. Clear planning assumptions were formulated and distributed to the line managers who had formal planning responsibilities.			
12. The various planning activities were consolidated into a written bank-wide strategic plan.			
13. The bank's top management had developed a climate in the bank which supported the planning effort.			
14. The plans were used to judge managerial performance.			
15. Detailed action plans were developed to support each major strategy.			
16. The bank identified specific segments of the market to which it wished to appeal.			
17. The planning process was such that the final plans were accepted by those responsible for their attainment.			
18. There was an integrating of the long-range strategic planning and budgeting processes.			

19. Questions applicable to banks with profit planning systems.

a. When did your bank first develop its profit plan? _____

b. Does top management use the profit plan to evaluate managerial performance? YES ( ) NO ( )

c. How do line executives participate in the profit planning process? Check all applicable. Prepare plans ( ), Provide input ( ), Review plans ( ), Not involved ( ), Other _____

d. In your opinion does top management fully support the profit planning effort? YES ( ) NO ( )

20. Questions applicable to banks with separate long-range strategic planning groups.

a. When was it established? _____

b. Where in the organization does it report? _____

c. How many employees are there in the group? _____

d. What is the primary responsibility of the group? Check all that are applicable. Develop planning process ( ), Prepare plans ( ), Review plans ( ), Set objectives ( ), Coordinate planning effort ( ), Consolidate divisional plans ( ), Other _____
_____

e. Why was the group established? _____

f. What effect has the recent economic recession had on the attitude of top management toward the group? _____
_____

21. Questions applicable to banks that have a long-range strategic planning system.

a. Is there a regular schedule or planning cycle that is followed? YES ( ) NO ( )

b. How often are plans prepared? Monthly ( ), Quarterly ( ), Yearly ( ), Over one year ( )

c. For what period of time in the future are they prepared? 0-1 years ( ), 1-3 years ( ), 1-5 years ( ), More than 5 years ( )

d. How do line executives participate in the long-range planning process? Check all that are applicable. Prepare plans ( ), Provide input ( ), Review plans ( ), Not involved ( ), Other _____

e. Does your long-range strategic plan contain procedures for anticipating or detecting differences between the plan and actual performance and for preventing or correcting these differences? YES ( ) NO ( ) If yes, how frequently is this done? _____
_____

21. (continued)

f. Is a written analysis of the bank's strengths and weaknesses a required part of the planning process? Always ( ), Often ( ), Seldom ( ), Never ( )

g. Is a written analysis of the bank's competition's strengths and weaknesses a required part of the planning process? Always ( ), Often ( ), Seldom ( ), Never ( )

h. In your opinion, are the line executives fully committed to accomplishing the strategic plans that are developed with the aid of your system? YES ( ) NO ( )

i. What year did your bank start its strategic planning system? _____

j. Has any attempt been made to use the strategic plans to judge managerial performance? YES ( ) NO ( ) If yes, were the attempts successful? _____

_____

k. In your opinion, does top management fully support the strategic planning effort? YES ( ) NO ( )

l. How frequently are your bank's strategic plans reviewed for possible modification or revision? Quarterly ( ), Semiannually ( ), Annually ( ), As needed ( )

22. Questions applicable to all banks.

a. What was the primary goal of your bank (e.g., profits, growth, market penetration, etc.) in 1975? _____ In 1972? _____ In 1969? _____

b. If your bank does not presently have a long-range strategic planning system, do you expect it to institute one within the next two years? YES ( ) NO ( )

_____ Complete Name of Your Bank

_____ Name of Person Completing Form

_____ Position of Person Completing Form

_____ Telephone Number

_____ Date Completed

Please return to:

Mr. D. Robley Wood, Jr.
The University of Tennessee
708 Wm. B. Stokely Center
for Management Studies
Knoxville, Tennessee 37916

APPENDIX E

AN EXAMPLE OF THE COMPUTATION OF A TABLE ENTRY BY AVERAGING METHOD "A" AND AVERAGING METHOD "B"

Averaging Method "A". The average annual percentage change entries were computed by summing the individual net incomes for all banks in a given category/year and subsequently comparing that total with the summation of the individual net incomes for the same grouping of banks in the following time period.

Bank (N=7)	Net Income 1970	Net Income 1971
A	8.6	8.3
B	102.0	109.1
C	7.5	8.0
D	9.1	9.6
E	5.9	6.6
F	22.2	23.1
G	23.2	22.6
Total	178.5	187.3

$$\begin{array}{r} 187.3 \\ -178.5 \\ \hline 8.8 \end{array}$$

and

$$\frac{8.8}{178.5} = 4.93\%$$

Averaging Method "B". The average annual percentage change entries were computed by determining the average change for each bank and subsequently averaging those changes.

Bank (N=7)	1970 Net Income	1971 Net Income	Difference	Percentage Change
A	8.6	8.3	(0.3)	(3.49)
B	102.0	109.1	7.1	6.96
C	7.5	8.0	0.5	6.67
D	9.1	9.6	0.5	5.50
E	5.9	6.6	0.7	11.86
F	22.2	23.1	0.9	4.05
G	23.2	22.6	(0.6)	(2.59)
			Total	28.96
			N=7	$\frac{28.96}{7} = 4.14\%$

APPENDIX F

NINETY-SEVEN BANKS PROVIDING USEFUL INFORMATION

The following banks provided information on their planning practices for use in this study. The amount of information ranged from single letters to complete planning manuals with detailed instructions. The banks are listed in order of deposits as of December 31, 1975.

Bank of America NT&SA, San Francisco
Citibank N.A.
Manufacturers Hanover Trust Company, New York
Morgan Guaranty Trust Company, New York
Chemical Bank, New York
Bankers Trust Company, New York
Continental Illinois NB&T Company, Chicago
First National Bank, Chicago
Wells Fargo Bank N.A., San Francisco
Crocker National Bank, San Francisco
United California Bank, Los Angeles
First National Bank, Boston
National Bank of Detroit
Seattle-First National Bank
Republic National Bank, Dallas
First National Bank, Dallas
Union Bank, Los Angeles
Harris Trust & Savings Bank, Chicago
North Carolina National Bank, Charlotte
Girard Bank, Philadelphia
Philadelphia National Bank
Wachovia B&T Company, N.A., Winston-Salem, NC
Northern Trust Company, Chicago
First City National Bank, Houston, TX
Valley National Bank, Phoenix, Arizona
Detroit Bank & Trust Company
Bank of California NA., San Francisco
Texas Commerce Bank, NA., Houston
Fidelity Bank, Philadelphia
Citizens & Southern National Bank, Altanta, GA
Pittsburgh National Bank
United States National Bank of Oregon, Portland
Rainier National Bank, Seattle
Bank of New York

Maryland National Bank, Baltimore
First National Bank of Arizona, Phoenix
First Wisconsin National Bank, Milwaukee
California First Bank, San Francisco
Hartford National Bank & Trust Company, Connecticut
First Union NB of North Carolina, Charlotte
Marine Midland Bank-Western, Buffalo, NY
Virgina National Bank, Norfolk
First National Bank, Atlanta, GA
Equibank NA., Pittsburgh
First National Bank, St. Louis, MO
Southeast First National Bank, Miami, FL
Indiana National Bank, Indianapolis
Provident National Bank, Philadelphia
Trust Company Bank, Atlanta, GA
State Street Bank & Trust Company, Boston
Shawmut Bank of Boston NA.
First National Bank, Minneapolis, Minnesota
Lloyds Bank California, Los Angeles
First National Bank, St. Paul, Minnesota
Manufacturers & Traders Trust Company, Buffalo, NY
Bank of the Southwest NA., Houston, TX
American Security & Trust Company, Washington, DC
First American National Bank, Nashville, TN
Union Commerce Bank, Cleveland
First & Merchants National Bank, Richmond, VA
Ohio National Bank, Columbus
Equitable Trust Company, Baltimore, MD
First National Bank, Memphis, TN
Continental Bank, Norristown, PA
First National Bank, Birmingham, AL
Mercantile National Bank, Dallas
Michigan National Bank of Detroit
Arizona Bank, Phoenix
Midlantic National Bank, Newark, NJ
Citizens Fidelity B&T Company, Louisville, KY
National Central Bank, Lancaster, PA
National Commercial B&T Co., Albany, NY
Pacific National Bank of Washington, Seattle
Third National Bank, Nashville, TN
Commerce Union Bank, Nashville, TN
Old Kent B&T Company, Grand Rapids, Michigan
Union Planters National Bank, Memphis, TN
Old Stone Bank, Providence, RI
Liberty National B&T Company, Oklahoma City, OK
First National Bank & Trust Company, Tulsa, OK
Fidelity Union Trust Company, Newark, NJ
First National Bank of Commerce, New Orleans, LA
First Security Bank of Idaho NA., Boise
Rhode Island Hosp. Tr. National Bank, Providence
Merchants National B&T Company, Indianapolis, IN
United Bank of Denver NA., Colorado

Fort Worth National Bank, TX
Union Trust Co. of Maryland, Baltimore
Huntington National Bank, Columbus, OH
First National Bank, Fort Worth, TX
Central Trust Company, NA., Cincinnati
First National Exchange Bank, Roanoke, VA
Birmingham Trust National Bank, AL
M&I Marshall & Illsley Bank, Milwaukee, Wisconsin
LaSalle National Bank, Chicago
First National Bank, Akron, OH
Fifth Third Bank, Cincinnati

APPENDIX G

FIFTY-THREE BANKS NOT PROVIDING USEFUL INFORMATION

Three of the following fifty-three banks said that they had a policy against answering letters of an unofficial nature. In one of the following fifty-three banks the president sent a short note saying that one of his subordinates would respond in the near future but no response was ever received. The other forty-nine banks did not respond to the letters or questionnaires.

Chase Manhattan Bank NA., New York
Security Pacific National Bank, Los Angeles
Irving Trust Company, New York
Mellon Bank NA., Pittsburgh
First Pennsylvania Bank NA., Philadelphia
Cleveland Trust Company
National Bank of North America, New York
Manufacturers National Bank, Detroit
First National Bank of Oregon, Portland
National City Bank, Cleveland
American Fletcher NB&T Company, Indianapolis, IN
Industrial NB of Rhode Island, Providence
Connecticut Bank & Trust Company, Hartford
Mercantile Trust Company NA., St. Louis, MO
Northwestern NB, Minneapolis, Minnesota
Central National Bank, Cleveland
Riggs National Bank, Washington, DC
Michigan National Bank, Lansing
American National Bank & Trust Company, Chicago
Republic National Bank, New York
First National State Bank of New Jersey, Newark
New England Merchants National Bank, Boston
Whitney National Bank, New Orleans, LA
Lincoln First Bank of Rochester, Rochester, NY
Northwestern Bank, North Wilkesboro, NC
First-Citizens Bank & Trust Company, Raleigh, NC
Society National Bank, Cleveland
United Jersey Bank, Hackensack, NJ
Idaho First National Bank, Boise
American Bank & Trust Company, Reading, PA
First National Bank, Baltimore, MD
First Security Bank of Utah NA., Ogden
First National Bank, Louisville, KY
First National Bank of Nevada, Reno

Bank of the Commonwealth, Detroit
Suburban Trust Company, Hyattsville, MD
City National Bank, Detroit
Union National Bank, Pittsburgh
First National Bank, Denver, Colorado
First National Bank, Cincinnati
South Carolina National Bank, Charleston
Industrial Valley B&T Company, Philadelphia
Deposit Guaranty National Bank, Jackson, MS
United Virginia Bank, Richmond
Peoples National Bank of Washington, Seattle
New Jersey National Bank, Trenton
Union Trust Company, New Haven, Connecticut
New Jersey Bank NA, Clifton
State Bank of Albany, NY
National Community Bank of NJ, Rutherford
First National B&T Company, Oklahoma City, OK
Zions First National Bank, Salt Lake City, Utah
First National Bank, Jackson, MS

APPENDIX H

COMPUTATIONAL DEFINITIONS

Net Income — Net income was defined as net after tax operating income before security gains and losses.

Owners' Investment — Owners' investment was defined as the sum of the amounts in accounts with the following headings: common stock, surplus, undivided profits, and retained earnings.

Total Assets — Total assets was defined as the value of all resources owned by the banking institution.

VITA

Dexter Robley Wood, Jr., was born in Roanoke, Virginia on January 24, 1944. He graduated from Greenbrier Military School in June, 1962, and entered Emory and Henry College the following September.

While attending Emory and Henry College he was active in extra-curricular activities and was elected to vice president of his social fraternity and president of the Student Body. He was also elected to the Blue Key National Honor Fraternity and selected for Who's Who Among Students in American Universities and Colleges.

During the summers of 1964 and 1965, the author worked for the National Bank of Blacksburg, Blacksburg, Virginia. He received a Bachelor of Arts degree in Economics from Emory and Henry College in 1966 and immediately went to work for the E. I. DuPont Company in Seaford, Delaware. In August, 1966, the author entered The University of Tennessee graduate school. In August, 1968, he completed the work for a Master of Science degree in Industrial Management and accepted a position as an Instructor in the Department of Management at the Virginia Commonwealth University in Richmond, Virginia. In August, 1973, the author was married to the former Patricia Dale Creed and in the following September he reentered The University of Tennessee graduate school. Between January, 1974, and August, 1976, the author was a graduate assistant in the Office for Executive Development Programs at The University of Tennessee. In September, 1976, the author accepted a position as an Instructor in the Department of Management at

the James Madison University in Harrisonburg, Virginia. After completing the work for a Doctor of Business Administration degree in Management, his present career plan is to continue teaching at James Madison University.