THE SIGNIFICANCE

OF PLANNING

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I have two principal qualifications for speaking to you today. I believe in planning -- and I practice planning.

I will address "The Significance of Planning" rather than "The Significance of Long-Range Planning," as your seminar material indicates. The distinction is important because the advantages of long-range planning can only be obtained within the broader context of a total planning process. You will note the word process. To be worthwhile planning must be total and it must be continuous -- in short -- a process -- a dynamic, recycling process. Furthermore, it is not a haphazard process, but a systematic means of developing, evaluating and selecting among alternative courses of action.

The need for planning rests primarily on a very commonplace, even trite, observation--things change. If the environment we live in were static, planning would be unnecessary. But we need only look around us to see quite clearly that our world is just the opposite of static. It is fundamentally dynamic, and in this dynamic environment change is a governing force. It is a force which in the past two decades has probably produced a greater variety of changes in every aspect of men's lives than have occurred during any similar period in our history. This increasingly rapid and pervasive change is taking place not only on a national, but an international scale. In our own nation, social, political and economic institutions are being significantly altered, and there are portents of greater changes to come.

It is against this background that we must assess the value of planning. For as the rate of change becomes greater, so does the need to have some idea of the direction in which trends are carrying us. Even more importantly, we must consider what we want our future to be if we are to

have any hope of influencing the course of these trends. Without planning, an organization is at the mercy of change. In such an organization, unlooked-for events tend to produce purely reflexive responses. I call this "knee-jerk" management. Such management by reflex exposes an organization to an insidious kind of error. Its key personnel tend to be victims of their built-in biases. And their decisions so slanted by an egocentric view can launch an organization on a course which may be difficult and costly to turn from even when later events have proven it wrong.

Planning is an organization's best safeguard against this kind of management error. With planning, there is a far better chance of anticipating change and preparing to take advantage of it. The organization has a sense of direction; it is aware of the likely trend of events; it is ready if need be to follow any one of several alternative courses of action as these appear necessary. Furthermore, executives who have been involved in planning inevitably emerge with broadened perspectives. They have an alertness to the numerous possibilities inherent in the future. They possess an increasing ability to take short-term operational actions in the light of long-range objectives.

As the planning process proceeds, other benefits accrue. Once your organization has a sense of where it wants to go and how to get there, it becomes possible to allocate limited resources more effectively and intelligently. Planning can also significantly improve cost analysis by making priorities clearer. What your organization can gain from planning is not only an overall sense of direction but a sharper insight into the usefulness of its current operating goals and procedures. What begins as a long-range vision ends by affecting your daily operating decisions. No other management tool

can give you greater leverage in controlling your organization.

With this general assessment of the significance of planning, we can focus on the opportunities for planning within the banking business itself.

The accelerating rate of social, political, economic and technological change over the past twenty years has, of course, had an enormous impact on commercial banking. It might be well to refresh our memories of what has been happening to our industry over the past two decades.

It was not until after World War II that banking really began to recover from the collapse of the '30's. Lulled by their huge wartime increases in liquid assets, banks did not compete strongly, either with each other or with non-bank financial institutions. Banks did not actively seek savings and time deposits nor were they much interested in making real estate loans. Too many bankers failed to recognize the competitive challenge inherent in the growing number and size of specialized thrift institutions. Here are the hard figures. In 1946, savings and loans shares represented only a small percentage of the liquid assets held by the public. During the late '40's and the '50's S and L shares increased by about 600 per cent, while time deposits of commercial banks only doubled and demand deposits increased by only 50 per cent. Of the several reasons for commercial banking's failure to seize the initiative, Clark Beise, former head of the Bank of America, in a speech in the early '60's, laid the blame largely on the lack of planning. I cannot help but agree with him. This trend toward increased competition could have been identified--*with planning*. Its significance could have been appreciated--*with planning*. But there was none.

Lest you be tempted to view the growth of S&L's as an isolated phenomenon rather than the beginning of a trend toward increased competition for commercial banks, let me mention a few more developments since that time. You have observed the growth of finance companies, the expansion of insurance company investment techniques and lending innovations--the growth of financial markets with wide acceptance of commercial paper and small denomination treasury bills--and finally the entirely new level of competition between commercial banks. Motivated by customer demands and the new profit opportunities opened in part by technological change, banks have expanded their operations. Banks now offer data processing services, enlarged travel agency facilities, equipment leasing, and commingled trust funds, to name only a few.

This trend toward increased competition is still building. To determine its likely scope and direction you must have planning. Let's examine another trend which is well under way and will have a far-reaching effect on commercial banking.

The postwar era has brought with it a steady erosion in the importance of demand deposits. At the end of 1947, demand deposits constituted 73 per cent of the commercial banking system's deposit resources; a decade later they were 69 per cent, and by mid-1968 only 51 per cent. Two principal factors were involved in this decline. First, higher interest rate levels, with the attendant shift to a preference for interest bearing forms of holding liquidity. Second, the advent of the computer and the data processing revolution. Corporate treasurers were quick to seize upon

these new tools, and they used them during the '50's and '60's to manage their cash flows with increasing skill. As a consequence, many corporate demand accounts have come to be maintained at minimal levels. Banks belatedly discovered that most of the growth potential had disappeared from this basic element of their business. How many of you in banking during the '50's recognized the implications of what was happening? I won't embarrass you by asking for a show of hands. I strongly suspect that there were few bankers then who saw their demand accounts dropping and understood that this was the beginning of a trend.

Stepping to a parallel trend, how many bankers were there who recognized in the early '50's what computers would come to mean? Not as many as you would think.

Most of us now agree that automated processing and MICR encoding have virtually saved the present check collection system from sinking under a rising tide of paper. Automation has perhaps been of most value to the larger banks. Without automated bookkeeping it seems unlikely that they could have grown at all, let alone at the rate they have. These developments were anticipated by a fairly large number of bankers. But banks in general are far from ready for the real significance of this technological revolution---an electronic payments mechanism! The electronic payments mechanism promises to produce more headaches than profits for bankers who have not planned properly for it. It implies lower demand balances and thus even more difficulty in making money from money. Therefore, this traditional source of bank income appears a rocky road in the long term.

The corollary implication of this new technology is a very large increase in the customer's demand for services. With automated data processing aggressive banks can offer a wide variety of services--such as total accounting, personal budgeting, automatic bill paying, and so forth. When the customer finds it convenient and satisfying, you will have to offer it.

If margins on lending money trend downward as the deposit mix changes due to demand balance atrophy--and at the same time customer services must be expanded--what are you to do? The answer seems obvious--charge fees for the new services.

With a planning process you can determine for yourself whether or not the answer is obvious. Furthermore, you can anticipate when the services should be introduced and what amount should be charged. Do you have a planning process?

One final trend of banking change that I want to mention is the structure of industry.

The decline in the number of banks, the expansion of branch systems, the sharp rise in mergers, the rapid increase in the '60's in the number of multi-, and especially one-bank holding companies, and the dramatic expansion of overseas banking activities have drastically altered the very nature of banking in the United States. Some aggressive banks have expanded their operations into novel service areas through banking subsidiaries or holding company affiliates.

All these changes have, of course, taken place within the framework of equally significant revisions in the statutes and regulations relating to banking. And they have, in part, been responses to shifts in

these regulatory controls as well as to changing economic and technological pressures. On the one hand, there were the chartering and other liberalizations instituted by Jim Saxon. On the other, there have been the restrictions imposed by the Bank Merger and Holding Company Acts, by interest rate ceilings, and by the expansion of many of the Reserve Board's regulations, especially D and Q. These regulatory shifts have been inextricably involved in creating not only the type of banking, but the very environment of banking we see today. With planning, many of these changes could have been foreseen.

The past two decades, then, have been filled with change: banking's slow start in the race for time deposits; the declining importance of demand deposits; the growing pressures generated by automation; the dramatic alterations in banking structure; and the influence of regulatory changes--these are the principal factors which have had bankers scrambling in order to maintain their share of the financial market.

What I have been attempting to do by reviewing what must be familiar ground to all of us, is to emphasize how very much change the nature and environment of banking have undergone in the relatively brief span of twenty years.

If the commercial banking industry or your bank is to maintain, let alone expand, its current position relative to others who share your markets, you must continue to innovate. And to innovate with insight into what the future may hold---to innovate so as to shape that future---you must do three things.

First, you must have a process which identifies trends at an early stage and interprets their significance.

Second, you must provide a vehicle for converting this interpretation into a program. Such a program will shift

the resources and management efforts of your organization in the appropriate direction without unnecessary dislocation or disruption.

Third, you must lay out a detailed budget and schedule of efforts for the immediate future to begin moving in the direction of your program.

The three steps I have just described are the three types of planning which I believe make up the total planning process: advance planning, program planning and action planning. These phases in the process have no rigid time spans. Their duration must instead be based on such elements as the nature of a given organization's industry, market and general economic environment.

For some corporations, advance planning may cover a 20-year period, for others it may be 15 or 30 years. What would be an appropriate time span for a women's clothing designer would be too short for a paper manufacturer. It might be important here to point out that many current decisions have an impact on the full range of time spans. For example, when a banker decides not to join a credit card group or to issue one of his own, he is making a decision which affects more than just his bank's current profitability, or the scope of its customer service, or its competitive position. It should be obvious that his decision will affect his bank's share of the market for years to come. He is also saying something very significant about his view of the rate of change in the payments system and the role of credit cards in that system. If he is unaware that he is doing and saying these things about the future, then he cannot be acting intelligently; and his bank will be likely to suffer for it.

Let's go through a quick overview of the three stages of total planning with a closer look at advance planning. Its particular function is to provide our banker with the broad perspective he needs to make his action decisions. How does it do this? First, advance planning must deal with a future far enough distant from the present so that current conceptions will not act as constraints. This stage of planning is concerned with the future as it will be, not just as an extrapolation of current trends. It must, therefore, examine the widest range of possibilities. It must be flexible because it deals with uncertainties, not facts. It must be open-ended, because events will probably require extensive restructuring of any conclusions it may reach about the future. It must place the present in perspective in order to separate temporary from long-term trends. Above all, it must be a "there to here" type of planning and not a "here to there" view. That is, it must be a process which works backward from the future to meet program planning as that stage extends the present toward the future. If this sounds difficult to do, that's because it is. But it is well worth the doing.

---One example related to banking. In advance planning you do not assume that the commercial banking business some 20 years from now will be what it is today, except more so. ---You don't even assume that commercial banks will exist as a distinct type of financial intermediary. You first try to decide what the economic environment is likely to be and what sorts of financial services it will be likely to require. Only then do you begin to consider the possible shape of the financial institutions

that will be needed to meet these demands. Admittedly, not all banks will have the resources to do detailed research into the issues that even this single example raises. But any bank can consider these <u>types</u> of issues. In doing so, a bank develops the long-range plans it needs to deal adequately with the alternatives the future will surely present. The new ideas, the new ways of looking at things generated by this process will be of invaluable benefit.

I must emphasize that the results of long-range planning are not intangibles. Coherent priorities and overall guidelines for the organization's development are direct results of this planning. Without them no organization can face the future with real confidence that it will remain viable.

Now let's examine the second stage of planning. Program planning, or intermediate planning, of course, covers the time period between long-range planning and action planning--usually about five years. Program planning serves to tie together the long-range objectives and action components of planning. It allows the organization to change direction in a graceful curve rather than by a sharp corner. Its output is a set of intermediate goals, an ordering of priorities, and, through program budgeting, a suggested resource allocation.

While program planning is still a forward planning effort and therefore must, like long-range planning, be both flexible and open-ended, it is much more constrained by the present than advanced planning. Considerations of resource allocation, incorporation of feedback from current operations, and the development of targeted goals and time schedules have become significant now. These are not, however, as detailed as they will become in action planning.

The third stage, action planning, is the one we operating men are most familiar with because it is an operating man's type of planning. Here carefully detailed plans, final budgets, and operating schedules for one, or at most two years are developed. These budgets and schedules are designed to begin moving your organization towards its intermediate goals. It is in this phase that the efforts of the other two stages bear fruit and thought finally becomes action.

Now I have described the total planning process--advance planning, program planning, and action planning. But--in addition to being total--planning must be continuous. It must include a review or recycling process. The purpose of review is to make certain that the three stages are at all times properly integrated to form a total and coherent whole and to take account of change. This recycling must be a continuous process powered by a steady flow of feedback information. Review cannot be restricted to systematic annual or semi-annual studies of all planning stages. Although reviews of this kind are valuable they are limited. To really assure that your plans are still viable ones, and are still consistent with your own planning assumptions, the review procedure must be primarily event-oriented. By this I mean that the review process must be geared to a continuous examination of events as they occur. An organization cannot afford, any more than a man, to wait for a 6- or 12-month checkup to roll around when all the symptoms indicate that something is dreadfully amiss. Having elaborate alternative plans is pointless if you are not aware of when the time has come to implement them. A continuous review procedure can save an organization from this considerable embarrassment.

I would like to examine with you briefly some of the other basic elements of a successful planning effort. To be productive, planning must be something more than a largely intuitive process carried on by a few executives and staff personnel in comparative isolation from the mainstream of an organization's activities. First, planning must be committed to paper, it cannot be carried about in the head. Even the most modest planning efforts, to be of any use at all, must be written down, otherwise they cannot be adequately defined or reviewed and no one can be quite certain of their real nature.

Second, coherent organizational planning cannot be limited to providing the overall sense of direction which comes with having commonly agreed on objectives. If planning is to be effective, it must in the final analysis be action-oriented. It must culminate in affecting current management decisions. And it must make managers more aware of what Peter Drucker has termed the "futurity" of their decisions: that is, the likely impact of those decisions on the future interests of the organization.

Giving planning an action-orientation, of course, means that it cannot be an "ivory-tower" occupation. Planners ought to include operating executives. There are many reasons for this: your operating officers know better than anyone else the details of how their organization really functions. They know where its true strengths and weaknesses lie. Without such information, planning can easily go astray; it can over- or under-rate organizational capabilities. The result is unrealistic objectives and interim goals.

While planning is immeasurably improved by having operating executives among the planners, these executives also benefit. Their daily

decisions will inevitably become more future-directed. The result will be decisions which are sounder and more valuable in the long run. Without the involvement of your line executives, planning runs the considerable risk of not being accepted. It is novel. It is untried. It threatens long-established and tested ways of thinking and doing. It may also seem merely a device for carving new principalities out of other men's hard-won domains. But the dangers of rejection are considerably reduced when the executives who will ultimately be most affected by planning are included among the planners. With familiarity should come reassurance that planning is no threat but merely a very useful, very desirable, and very vital instrument for better management.

There is, however, one group which is even more crucial to the success of planning than operating executives--senior management. Without the interest and enthusiasm, the support and most important, the involvement of senior management, no planning effort has the slightest hope of success. If other executives see that their superiors have only a token interest in planning, what sort of interest can *they* be expected to take? Senior managers must themselves be among the planners if their organization is to treat planning as more than simply a novel exercise. By their own intimate involvement, top management indicates (as they really can in no other way) that planning is a major corporate undertaking worth the considerable time and effort it demands. Most important of all, only if senior managers have been active participants in this planning process can there be any real assurance that the more significant proposals generated by planning will actually be implemented. Without this certainty, planning cannot be effective.

The range of personnel who should be involved in the planning process must then be broad. It must encompass operating executives and senior management. It must, of course, include professionals as well. It is these professionals who will carry on the greatest part of the research and writing which are inherent in planning in larger organizations. But I cannot emphasize too much that if the process is to succeed, these professionals cannot be the sole planners.

The impact of planning on an organization's personnel reaches well beyond those directly involved in the planning effort. When planning is optimally effective, all levels of key personnel are "planning-sensitive". Their thinking, like that of the line executives I have spoken about, is future-oriented, not narrowly circumscribed. Their thinking habitually goes beyond daily decisions to their more distant ramifications. They have a sense of long-range direction and purpose. When an organization is staffed top-to-bottom by individuals of this kind, it makes a very tough competitor.

I would be derelict in talking about bank planning this morning without mentioning the industry planning currently under way.

The A.B.A. is now engaged in a major industry planning effort, spear-headed by its MAPS, or Monetary and Payments System, Committee of which I have the privilege of being an Observer. Task forces of that committee have been engaged in examining the future from several vantage points: marketing; operations and technology; economics; legal and legislative. I commend its efforts to you. They are deserving of your active interest and support because every bank has a vital stake not only in its own progress but in the banking industry's as well.

Now to summarize very briefly some of the things I have been saying about planning and banking. Planning is essentially a process for making today's decisions in the light of our best estimates of what their ultimate future effects will be. To do this we must think long and hard about the fairly distant future. If we do this well, we will develop a sense of balance in our daily operations, a broadness of perspective and a sensitivity to change. We must possess these qualities if we are to help insure that in the midst of a rapidly and dynamically changing environment, we will not simply survive, but will prosper.

Finally, planning is of particular significance to commercial banking because it is an industry which has been vastly altered in the past 20 years and promises to change even more dramatically in the next 20. With planning, banks need not miss trend changes in the economy and industry, and suffer as a result. They can not only be prepared for change, they can shape it. The history which I recited earlier, of the clear failure of commercial banks to recognize important competitive trends and react vigorously to them teaches a valuable lesson of the desperate need for planning by banks. Your presence at this meeting is a strong indication that that lesson has indeed been learned by a growing number.