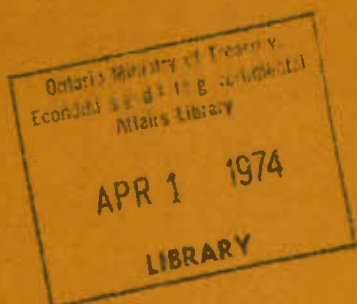


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STAFF STUDY No. 6



Special Survey of Longer Range Investment Outlook and Planning in Business

by B. A. Keys



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*prepared for the
Economic Council of Canada*

SPECIAL SURVEY
OF
LONGER RANGE INVESTMENT OUTLOOK AND PLANNING IN BUSINESS

by
B. A. Keys

Staff Study No. 6
Economic Council of Canada
December 1964

This is one of a series of technical studies which have been prepared as background papers for the First Annual Review of the Economic Council of Canada. Although these studies are published under the auspices of the Economic Council, the views expressed in each case are those of the authors themselves. At the end of this Study is a list of additional studies which are being published separately and are available from the Queen's Printer, Ottawa.



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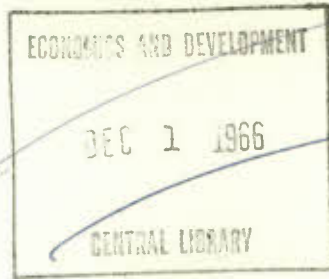
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Grateful appreciation is expressed on behalf of the Economic Council of Canada to the many business executives whose co-operation made this survey possible and who entrusted to certain individuals of the Council's staff the forward plans of their companies.

Valuable assistance was received also from officials of the Dominion Bureau of Statistics the Department of Trade and Commerce and the National Energy Board.

John J. Deutsch,
Chairman.

SPECIAL SURVEY
OF
LONGER RANGE INVESTMENT OUTLOOK AND PLANNING IN BUSINESS

This survey was carried out in mid-1964 in conjunction with the Economic Council's assessment of the medium and longer term prospects of the economy. The survey was designed to serve two main purposes:

- 1) to determine the capital spending intentions of a sample of Canada's leading business concerns,
- 2) to explore the extent to which these firms undertake longer term planning of capital investment and to learn the nature of their planning procedures.

As a further objective, information was sought from the companies on:

- the availability of adequate manpower skills for future requirements,
- steps taken to improve their current and anticipated manpower positions,
- the likely effects of any technological changes on their proposed capital expenditures or on their manpower requirements.

The selection of companies was designed to cover those firms considered likely to be making the largest capital expenditures in new plant and equipment between 1965 and 1970, the period under consideration in the First Annual Review of the Economic Council of Canada. ^{1/} Since utilities constitute the highest spending group in this respect, early attention was directed to them. Furthermore because of the magnitude of many of the utility projects, most firms in this group are required to lay plans well in advance. Most of the other firms surveyed were from industries which appear to be entering major development phases - especially the pulp and paper, chemical, steel, automotive, petroleum and mining industries.

^{1/} Economic Council of Canada, "Economic Goals for Canada to 1970," First Annual Review, 1964, Ottawa: Queen's Printer.

It was decided that as broad coverage as possible would be desirable within the time available for this survey, and consequently a moderately large selection of 86 companies was chosen. Because of the basis of selection of the sample, the results cannot be assumed to be representative of all business enterprises but, as will be described in more detail in the section on Investment Outlook, the group of companies covered was responsible for a substantial proportion of total recent capital investment by all business concerns.

It should be noted that the regular annual survey of capital spending intentions conducted jointly by the Dominion Bureau of Statistics and the Department of Trade and Commerce^{1/} is designed to provide significantly broader coverage and produce results which pertain to the entire Canadian economy. The primary interest of that survey is centered in the single year ahead and it is limited essentially to gathering quantitative data on spending intentions, including repair as well as capital expenditures.

By contrast, the Economic Council study has been more concerned with the longer term outlook for capital investment, with the extent to which business firms undertake forward planning and with gathering other qualitative information. The two surveys are thus not directly comparable.

Procedure

The Council survey was conducted almost entirely by means of personal interviews following an introductory letter outlining the nature of the Council's basic assignment for 1964 and the purpose of the survey. The letter also requested authorization to obtain from the Dominion Bureau of Statistics each concern's back record of capital spending for comparison with reported future intentions. Company representatives interviewed were relatively evenly divided among Presidents and General Managers, Vice-Presidents of Finance, Comptrollers or Treasurers, and planning co-ordinators. All information from individual firms was made available to the author on a confidential basis; hence the information provided in this report will be confined to broad totals and general observations.

^{1/} Department of Trade and Commerce, "Private and Public Investment in Canada, Outlook and Regional Estimates," Ottawa: Queen's Printer.

Since many of the contacts were with financial executives and since only financial information was requested in the introductory letter, many of the interviews provided only limited information in the areas of technology and manpower. Moreover, the tight interviewing schedule usually did not permit consultation with other personnel more directly concerned with these matters. In practically all cases, technology was discussed in relation to its probable effects on capital investment and manpower, rather than on its own account.

Investment Outlook

The time periods over which capital expenditure forecasts were made varied considerably. Most frequent was a two-or three-year plan which was considered quite definite; in many instances, firm commitments to contractors and suppliers and decisions on matters such as engineering and financing are required that far in advance. However, forty-nine of the companies, or 57 per cent of the total number surveyed, were able to provide specific figures through to 1970. A further 20 per cent added their best 'guesstimates' from around 1967 to 1970 in response to a request for such information. An additional 17 per cent of the companies claimed they were unable even to guess as far forward as 1970 but they did have reasonably definite capital investment plans up to four years ahead. The final 6 per cent, comprising only five firms out of the total sample, either did no formal capital planning or did not wish to reveal their plans.

The 81 companies which supplied forecast figures account for an estimated 50.5 per cent of total business capital investment in Canada, excluding that in agriculture, institutional services and housing. ^{1/}

The published results of investment surveys in the United States have usually shown a marked decline in the total value of spending intentions over a period extending only four years ahead of the survey date. Of the companies interviewed here, a significant proportion -- over 45 per cent -- reported specific plans to spend at least as much in 1970 as in 1965 or 1966.

It is important to note however, that virtually all of the firms which provided forecasts of their anticipated capital expenditures, review their plans at least

^{1/} See Derek A. White, "Business Investment to 1970," Staff Study No. 5, Economic Council of Canada, Ottawa: Queen's Printer.

once per year in order to make possible adjustments on account of changed conditions or a revised outlook. Many companies, especially those which supplied figures beyond 1966, acknowledged that their actual expenditures over the next few years could vary considerably from the forecasts if conditions develop which have not been taken into account at this time.

The main obstacles to making plans six years in advance were expressed as uncertainties regarding general economic conditions, government economic policies, and international conditions, especially in the field of trade. In addition, unpredictable technological changes make it difficult to forecast far in advance, especially for companies such as those in the chemical industry whose operations are being continually affected by the development and introduction of new products and new processes. Similarly, firms involved in resource exploration are influenced greatly by discoveries of new deposits and find it virtually impossible to make firm longer term plans.

On the other hand a number of companies which can bring new facilities into operation within a couple of years expressed doubt concerning the value of trying to look much further ahead. Many of the executives believe, too, that flexibility is a vital element in successful planning in the midst of today's changing marketing patterns and technological advances.

Investment Forecast

The over-all quantitative results of the capital investment forecasts are summarized in the following indexes based on data for the year 1963 = 100. These index figures relate to the total capital expenditures which are anticipated by the companies covered for both construction and machinery and equipment. They include, however, only the investment intentions which were considered to be fairly specific and do not take into account the aforementioned 'guesstimates' which were provided by 20 per cent of the companies for the period from around 1967 to 1970.

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
	100.0	123.9	144.1	151.0	135.9	131.7	121.0	123.8
No. of firms included:	78	78	81	78	73	69	57	49

Because the number of firms providing estimates falls off towards the end of the period, the index numbers have been built up from overlapping year-to-year comparisons rather than being based upon simple totals of the forecast figures. Each comparison pertains to the same firms in the two adjacent years. Thus, although the coverage of the index is narrower in the later years than earlier, there is no distortion arising from the lack of figures for some firms.

Nevertheless, this index should be regarded as valid only through 1966. The figures imply that at the time of the survey, capital investment was expected to increase steadily through to 1966, reaching a maximum 51 per cent above the level recorded for 1963, and then to decline gradually through to 1970. However, virtually none of the executives interviewed indicated an expectation that capital expenditures on the whole would in fact turn downward later in the period from the peak level projected for 1966.

The trend of the index figures merely reflects the finding noted earlier in this report that the most frequently encountered capital investment plan was for a two- or three-year period ahead. The apparent decline beyond 1966 should be interpreted only as further evidence that two to three years is as far forward as many companies feel they need to plan, or can plan with much confidence or certainty. Several of the companies whose currently planned future expenditures show a decline beyond 1966 or 1967 expressed the opinion that actual expenditures in the years 1968-1970 will likely be at levels at least as high as during 1965-1967.

It should be pointed out that the modest upturn indicated in 1970 is due to one single company in a highly capital-intensive industry. No special significance should therefore be attached to the change in direction of the index figures between 1969 and 1970.

For various reasons no attempt has been made to break down the total data into industry detail. First, the number of firms covered was too limited for this purpose and, as was noted early in this report, the selection of firms was not undertaken with the object of providing significant industry relationships. Second, a number of firms operate in more than one industry but no appropriate basis is available for allocating their forecast capital investment over the different industries

concerned. Third, several industries comprising large numbers of smaller firms were not represented at all in the list of companies contacted.

When the capital forecast figures are broken down between construction on one hand and machinery and equipment on the other, the indexes indicate that significantly greater increases are anticipated for new machinery and equipment than for construction.

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Machinery and Equipment	100.0	136.3	161.5	162.5	154.1	146.1	143.5	146.2
Construction	100.0	119.1	124.0	121.9	117.3	117.8	102.0	103.8

It should be emphasized that, as in the case of the index of total capital investment intentions, the figures beyond 1966 in these two indexes should not be construed as accurate indications of actual future expenditures.

In 1963, the base year of the indexes, total business capital investment in Machinery and Equipment amounted to \$2,309 million and in Construction to \$1,881 million. That year the group of companies in the survey accounted for an investment of \$767 million in Machinery and Equipment representing a coverage by the survey of 33.2%, and in Construction of \$1,167 million providing a substantially greater coverage of 62.0%. A reconciliation of these figures may be found in the aforementioned paper on Business Investment to 1970, by Derek A. White.

Investment Planning

The procedures for constructing capital expenditure forecasts follow a generally similar pattern in most of the companies surveyed. An estimate of demand is prepared by the sales department, the result is translated by the engineering department into the physical facilities required, the Comptroller calculates the financial implications and probable profitability, the whole is co-ordinated by the Treasurer or financial Vice-President and presented to top management for review and thence to the Board of Directors for appraisal and final approval. A few companies, usually the larger, employ a specific planning group to co-ordinate all of the planning and forecasting activities. Most of these latter companies have professional economists on

their staffs. A few others employ economists but tend to use them primarily in sales forecasting. In several others, the entire planning function is conducted by the senior executive group on quite an informal basis as a part of their regular administrative activities.

Financing the proposed capital expenditures is not considered to pose any serious problems. Retained earnings and depreciation are expected to continue to provide the principal source of funds for most of the programmes. Those companies expecting to need outside financing virtually all plan to look to borrowing to meet as much of their requirements as possible. For the most part they intend to raise the funds in the Canadian capital market but indicated a readiness to employ United States sources if the latter offered more favourable terms or conditions.

In a number of instances, predominantly in the field of resource development, financing is planned in the form of advances from foreign parent companies. Few of the firms interviewed, with the exception of some of the utilities, contemplate financing in the form of additional equity.

Manpower Situation

In the field of manpower, a considerable number of companies report a scarcity of managerial, technical and scientific personnel, especially engineers, and they expect the problem to become more acute in the future. A few companies reported that the supply of engineers was the limiting factor in their capital expenditure programmes; others were anticipating a shortage of skilled construction personnel. Aside from a few extensive training programmes, some replacement of engineers by technicians and a few instances of foreign recruitment of senior technical staff, most companies have not yet taken any steps aimed directly at enlarging the future supply of qualified technical personnel in Canada.

Only a few of the executives interviewed expressed concern over the present supply of managerial manpower, but some of them foresee critical shortages developing in this area as their operations expand and as replacements are required for present senior staff. This concern was expressed mainly by middle management executives who indicated that one of their main difficulties has been to convince top management of an

impending problem and of the need for early action to strengthen management for the future.

This situation may prove to have added significance when related to the anticipated decline to 1970 in the 30-39 age group as pointed out in the First Annual Review of the Economic Council of Canada and as analyzed in greater detail in the Council staff study on population.^{1/}

There was some recognition too, of a need to update and familiarize management in general with new developments and the latest techniques in fields such as data processing, automation, personnel administration, sales and economic planning. It was felt that management training of this nature is important in order that younger staff educated in the newest methods and procedures may be satisfactorily supervised by staff members whose formal training was taken several years ago. Companies which expressed concern in this area have taken initial steps with local universities towards the establishment of appropriate management training programmes.

Technological Developments

Technological developments in the form of new products or new processes are expected to be responsible for up to 50 per cent of the planned capital expenditures in some industries, particularly in chemicals, petrochemicals and synthetic fibres. In all industries, a substantial portion of the proposed new capital investment is for increasing the capacity of existing operations. In some cases, such as steel, this involves not only expanding the output of present products but also adding facilities to produce sizes and types not currently being manufactured and consequently being imported into Canada. Part of the pulp and paper investment is for new equipment and new processes to improve product quality; a large part, however, is for increased capacity and a substantial remainder is for further mechanization, particularly in the woodlots and in the general handling of wood. Many of the companies in this industry have reduced their wood-handling manpower requirements by as much as 50 per cent in the past five to ten years and further reductions are in prospect.

^{1/} Frank T. Denton, Yoshiko Kasahara and Sylvia Ostry, "Population and Labour Force Projections to 1970," Staff Study No. 1, Economic Council of Canada, Ottawa: Queen's Printer.

Summary and Conclusions

While the survey revealed an encouraging degree of careful forward planning in the field of capital investment, it also disclosed a lack of comparable concern regarding future manpower needs and pointed up, too, the desirability of more study and research in the area of technological change.

Even with regard to investment planning, this survey appears in a number of instances to have prompted the first attempt to look as far ahead as six years. The planning procedures in several cases also appeared to lack specific organization, although there is a noticeable trend towards more organized planning, including both the segregation of this function as a separate responsibility and the growing use of well-qualified and experienced planning personnel. There is however, a reported scarcity of such staff.

Throughout the survey, both the degree and calibre of the forward planning seemed to vary, in general, in relation to the size of the firm. Thus, it seems reasonable to assume that beyond the range of the larger firms which were covered, there is probably a greater proportionate need for basic, careful planning among the intermediate and smaller sized concerns. Consequently the inclusion in a survey of this type of a substantially greater number of companies, which would necessarily include many smaller sized concerns, would not likely yield a proportionate increase in results in the form of either capital spending intentions or general planning information.

As mentioned earlier, executives identified some of the major problems and obstacles which limit the ability of businessmen to plan effectively for the medium and long term. Even those who presented figures through to 1970 and sometimes beyond, recognized the need for more knowledge which would enable them to plan further ahead with greater confidence and accuracy. The business officials interviewed in this survey frequently expressed the hope that the continuing work and analysis of the Economic Council would provide information of assistance to them in making better long-term business decisions. In turn, there was a general willingness on their part to co-operate in the provision of information which could be of assistance to the Council in its current and future work.

Few generalizations can be drawn from the survey but a number of summary observations seem useful:

Virtually all larger companies plan ahead at least for a term of approximately three years.

Many companies believe that the future holds too great a number of unknown and unpredictable factors, and factors over which they have no control, to justify planning beyond three to four years.

The companies which now plan further ahead have limited confidence in the accuracy of their forecasts beyond about three years.

Most of the forward planning being done at the present time is concentrated on capital investment, with relatively less attention devoted to areas such as future manpower requirements and prospective technological developments.

Much of the planning is done by line executives in conjunction with their other regular duties.

There is evidence of the recognition of a need for more and better planning and of a growing view that effective planning calls for segregation of the function as a separate full-time responsibility under the guidance of specialized staff.

TECHNICAL STUDIES

The following is a list of technical studies which have been prepared as background papers for the First Annual Review of the Economic Council of Canada. They are being published separately and are available from the Queen's Printer, Ottawa. Although they are being published under the auspices of the Economic Council, the views expressed in them are those of the authors themselves.

Staff Studies

1. Population and Labour Force Projections to 1970, by Frank T. Denton, Yoshiko Kasahara and Sylvia Ostry.
2. Potential Output, 1946 to 1970, by B. J. Drabble.
3. An Analysis of Post-War Unemployment, by Frank T. Denton and Sylvia Ostry.
4. Housing Demand to 1970, by Wolfgang M. Illing.
5. Business Investment to 1970, by Derek A. White.
6. Special Survey of Longer Range Investment Outlook and Planning in Business, by B. A. Keys.
7. Canada and World Trade, by M. G. Clark.
8. Export Projections to 1970, by J. R. Downs.
9. Federal Tax Revenues at Potential Output, 1960 and 1970, by D. J. Daly.
10. National Saving at Potential Output to 1970, by Frank Wildgen.
11. Changes in Agriculture to 1970, by John Dawson.

Special Studies

1. Immigration and Emigration of Professional and Skilled Manpower During the Post-War Period, by Louis Parai.
2. A Survey of Labour Market Conditions, Windsor, Ontario, 1964: A Case Study, by G. R. Horne, W. J. Gillen and R. A. Helling.

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