A framework for strategic planning

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Strategies, whether they be for nations or corporations, are seldom made at one point in time through a system of formal analysis. Rather, they evolve gradually, as a diverse array of dynamic pressures and are reacted to in an incremental and adaptive fashion. This approach well suits man's nature. He need not analyze a complex environment, rather he can react to small parts of it; he need not face conflicting values and goals, rather he can attend to them sequentially (and inconsistently). The difficulty is that the incremental path may lead the policy-maker to a place where he might never have wanted to go had he stopped and thought about it in the first place.

Hence there are those who advocate strategic planning for governments and businesses. They emphasize the value of standing back occasionally, doing a careful assessment of one's current position, and designing a path to be followed. Advocates of strategic planning suggest that we must build throughways, not find our way through the forest as Champlain once did.

Strategic planning is not a sophisticated art. In fact, if we distill the literature down to its basic message, all we really find is a simple but useful framework to guide the collection and analyses of data. In its simplest terms, this framework says: (I) Carry out three studies – a determination of the values or goals of the organization, an assessment of its basic strengths and weaknesses, and an analysis of the relevant trends in its environment. (II) From these studies, isolate the basic problems and opportunities facing the organization. (III) Design an integrated set of strategies to solve the problems and exploit the opportunities, making sure to build on the strengths of the organization, account for the environmental trends, and satisfy the goals. (IV) Design a group of programmes and a set of budgets to implement the integrated strategy.

This simple procedure is, in fact, a difficult one to execute. In a typical corporation, it can consume a great number of man-years; it becomes immensely complex when the organization in question is a nation. Nevertheless, if any nation has ever had need for an industrial strategy, it is Canada today. It is highly doubtful that any past government leader would be pleased where adaptive policy-making has in fact taken us. Considering the successes which nations such as Sweden and Japan appear to have had with their strategic planning (Does it suggest something else when we call it national planning?), there is reason to believe that the exercise may be worthwhile for Canada.

We follow such a procedure below, not because a national industrial strategy can be designed in a small article such as this, but to see what might result from such an exercise.

I CANADA'S GOALS

Without addressing the difficult question of setting priorities among them, it is probably safe to suggest that Canadians have four basic goals with respect to their economy:
- steady economic growth
- reduction of unemployment
- upgrading of jobs (higher quality employment)
- maintenance of independence and development of the Canadian way of life (whatever interpretation is given to this term)

Canada's Strengths and Weaknesses: As an industrial nation, we may count among our strengths the following:
- extensive national resources
- a hard-working, well-educated, sophisticated workforce
- political stability, including a relative absence of social or political problems and a relatively strong currency
- a solid industrial infrastructure, including an effective transportation system
- a good world image, in the sense of being an advanced and democratic nation, involved in peacekeeping but not in wars to extend national influence

Among our weaknesses are the following:
- a domestic market that is thinly spread out and expensive to serve
- high cost labour
- forces of regionalism that weaken the country's ability to act decisively
- extensive foreign ownership that (perhaps together with the nature of our banking system) stifles entrepreneurial initiative
- (stemming from above) a sense of national helplessness, a feeling (however unsupported by the facts) that anything we can do the Americans can do better

Environmental Trends: Among the world trends, the following may be among the most important to Canada:
- the development of large blocks, especially the European Common Market
- possible U.S. isolationism
- developing detente with the Communist nations and the opening up of their markets to Western goods and services
- recognition of new markets developing in Asia, Africa, South America
- emergence of Japan and Germany as major industrial powers
- the growth of the multinational enterprise
- development of high technology industries with particular importance for world trade
- developing importance of government as a major factor in economic development

II MAJOR PROBLEMS AND OPPORTUNITIES

We can begin to put this material into perspective by defining some major problems and opportunities that these strengths, weaknesses, and trends suggest for Canada. We describe some of these below.

Foreign Ownership: The Gray Report suggests that the greatest cost of foreign ownership may be the one we are only now beginning to recognize – truncated entrepreneurship. For the most part, subsidiaries lack the power to make important entrepreneurial decisions – specifically to develop new products and export them freely. With foreign firms controlling virtually every high growth, high technology industry in Canada, the Canadian government may simply be unable to develop the high quality exports many people think we need to remain an advanced industrial nation. Consider one set of evidence. Gruber, Vernon, and Mehta, three U.S. researchers, found that five American industries – transportation equipment, electrical machinery, instruments, chemicals, and non-electrical machinery – account for 72% of all American exports, but only 39% of her domestic sales. (They also found that these five industries accounted for 89% of all the research and development done in American industries.) What is the Canadian experience? There is extensive foreign ownership in each of these industries (88% in transportation equipment, 83% in non-electrical machines, etc.), relatively little research done in Canada (according to a comment by C. M. Drury), and a high incidence of export restrictions (according to the findings of A. E. Safarian)[1]. The conclusion – foreign ownership interferes with our ability to develop exports in those sophisticated industries where the United States earns three of every four of its exports dollars! (In machinery alone, Canada suffers a trade deficit of one and one-half billion dollars!) If the government intends to develop sophisticated exports, then foreign ownership must be recognized as a critical problem in this country.

An Uncertain Trade Position: Canada appears to have missed the boat on the development of large trading blocs. We do not belong to Europe, and recent events suggest that the Americans view their trading bloc as comprising fifty states. Canada appears to have emerged as an orphan among the families of world trade. Furthermore, we are caught in an interesting vise between two of our major trading partners. America has the sophisticated technology and the large market in which to develop it; Japan has the low cost labour to mass produce goods inexpensively. Standing between the two, Canada has neither.

Internal Competition: The competition among provinces and among specific regions of the country has interfered with our ability to deal with our industrial problems effectively. Provincial competition has stifled our ability to develop a strategy that will deal with problems on a national scale. Quebec subsidizes a plant (foreign owned) which serves the domestic market only and cuts into the business of an existing plant (Canadian owned) in Ontario. In effect, tax money is used to help a foreign-owned firm weaken or perhaps put out of business a Canadian firm. What is ostensibly done to create jobs essentially shifts them from one place to another at public expense.[2] Clearly, it is time for Ottawa to insist that industrial development is a national, not a regional, problem.

Rationalization of Industry: Canada is a high cost producer of goods in large part because of what has been referred to as the "miniature replica effect". With the high tariff walls as the key element in our traditional industrial strategy, foreign firms set up miniature replicas of their parent organizations to serve the Canadian market. If eight major chemical firms served the U.S. market of 200,000,000, then eight subsidiaries came up here to carve up a market one-tenth that size. Extra-territorial application of U.S. anti-trust law ensured that there would be no rationalization of production. All eight must compete – there could be no mergers. Each firm remained to unload its U.S. developed technology with no added cost, while Canadian firms could never capture enough of the market to support a domestic research program.

Where there was little or no foreign ownership, rationalization occurred naturally. We have two major railroads, two major airlines, eight large banking firms, and a small number of major steel and aluminum producers. Imagine what these industries would be like if every major U.S. firm had a Canadian subsidiary!

Clearly, there is a great need for rationalization within many of our major industries. We need fewer producers who can serve the Canadian market more efficiently, and who can reach economies of a scale that would enable them to develop distinct products in Canada, suited to the needs of our market and suitable for export. This cannot happen naturally in those industries that remain dominated by foreign firms.

Bargain with Resources: One major area of opportunity is in the resource sector. With a vast supply of resources, and near monopoly positions in some, and with the political stability to ensure a stable flow of resources to our customers, we are in a position to negotiate lucrative contracts. We can insist on more value added (processing) in Canada, and we should be able to extract higher prices for our resources in many cases. We can exploit these opportunities only if the federal government is prepared to insist that provincial competition be replaced by cooperation for the national good, to use our resources for effective long-term economic development rather than short-term generation of jobs for the sake of publicity. We must view our natural resources as just that – national assets which belong to the society and not to any foreign investor who happens to drive in a stake or drill a hole. The subsidiary may have no incentive to maximize profit or to do more processing if all his supply is sold to his foreign-based parent.

Supplier of Technology to Developing Nations: Many of the developing nations of the world view Canada as a non-aligned middle power with whom they can easily do business. This presents us with another kind of opportunity. Our access to so much of the American technology puts us in an effective position to serve many of the developing nations that are hesitant to accept American help, especially when it comes with demand for control from the multinational enter-

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prise. Particularly in the service sector (engineering, management consulting, research, etc.), there may be a major opportunity for Canada to develop as a major supplier of the developing nations of the world.

III COMPONENTS OF A NATIONAL INDUSTRIAL STRATEGY

The analysis to this point suggests that at the core of an industrial strategy must be two key elements – strong federal government action and support for Canadian entrepreneurship. In other words, we shall have no significant change until our federal government realizes that strong governmental action will be required to bring about major change and until it is realized that the domestic economy must be sufficiently free of foreign domination to allow domestic iniative to develop. Among the components of such a strategy, we may designate the following six areas:

1. *Primary Industry Strategy*: The Federal Government could be more actively involved in negotiations concerning the export of our resources. At one extreme, it might consider taxes on the export of certain raw materials to encourage more processing; at the other extreme, it could nationalize where it wished to establish a powerful bargaining position. A variety of strategies in between these two is possible.
2. *Secondary Industry Strategy*: Rationalization within a number of industries (chemicals, electrical appliances, oil refining, etc.) could be encouraged. In some cases, the government may force the creation of two or three major producers to replace the eight or ten that exist currently; in other cases it may ask the multinational firm to find a product line for which the Canadian subsidiary can take full responsiblitiy, including product development and worldwide exporting. (Clearly, any industrial strategy should derive from detailed study of particular industries and their problems, and should in its design account for industry differences.)
3. *Sector Strategy*: Clearly, we cannot continue to base our industrial strategy on high tariffs that protect inefficient manufacturers. We must specialize and alter our tariff agreements so as to let in the goods that we cannot produce cheaply and so as to allow the goods we can make efficiently into foreign markets. It is the duty of the federal government to determine (with the help of industry) the sectors in which we can specialize and then to institute programmes that will gradually allow our firms to concentrate in these sectors. Those sectors that merit particular government attention would, presumably, reflect our inherent strengths and our ability to export (e.g., pulp and paper, related machinery, snowmobiles, services to developing nations). Programmes could be developed for each involving, for example, tax incentives for Canadian-owned firms, special support from the trade commissioners, inter-government negotiations to develop advantageous tariff arrangements and establishment of long-term loans. In certain high-technology sectors where it is felt that there are inherent Canadian strengths, the "major programme" approach recommended by the Science Council could be adopted. The federal government could create and fund major projects that include extensive export potential involving sophisticated research, product development, and so on.
4. *Trading Strategy*: There is no obvious solution to our trading dilemma. It is doubtful that we can join the Common Market or that we would want to join in a tighter trading partnership with the U.S. One strategy might be to establish closer trading relationships with the independent industrialized nations – Sweden, Switzerland, Japan, etc., while continuing to build our trading ties with the Communist nations (particularly the USSR and China) and with the nations of the developing world.
5. *Financial Strategy*: A number of points can be investigated here, including actions to encourage the conversion of some foreign equity investment into debt investment, some restriction on the exporting of Canadian capital (especially pension plan capital, union funds, mutual fund capital), and the development of a merchant banking system to better serve domestic entrepreneurs.
6. *Manpower Strategy*: A final component of a national industrial strategy could involve a series of programmes to develop Canadian manpower in line with the other components of the national industrial strategy. In particular, attention should be given to the development of Canadian entrepreneurial and managerial talent.

This outline of a strategic planning process has necessarily been preliminary and sketchy. Our intention was only to suggest a framework for strategic planning, and to raise a few of the many issues that must eventually be addressed. The job of developing a national industrial strategy for Canada will be a difficult one. But it seems to me that we have no practical choice but to develop a bold, imaginative strategy. We should recognize this, and begin our job immediately.

FOOTNOTES

1. In an article in *Research Management* (March, 1968), C. M. Drury commented that "research investment of U.S. industry exceeded that of Canadian industry (in 1963) by 4.6 in machinery, 3.0 in electrical products, and 2.6 times in chemical and petroleum." And A. E. Safarian, in his book *The Performance of Foreign-Owned Firms in Canada* (Canadian-American Committee, 1969) discussed two means by which a parent can stifle a subsidiary's exports — forcing it to work through the parent's sales organization and allocating patent rights so as to limit its ability to export. Safarian found that among the subsidiaries he questioned, only 15% claimed these restrictions existed, but those were "highly concentrated in the machinery industries, electrical products industries, and in some branches of the chemical industries."

2. Consider this example, reported recently in the *Montreal Star*: "The Ontario government has been badly burned by the steps it has taken so far in the direction of economic nationalism. It feels that Falconbridge Nickel is building a smelter at Three Rivers, Quebec, because of Ontario attempts to require the processing of Ontario ore in Ontario." ("Ontario backs 'moderate' economic nationalism" by Harold Greer, Dec. 9, 1971)