5. PLANNING & CONTROL

PLANNING

Plans are formal statements of direction. The planning process suggests a sequence of strategic analysis, strategy generation and evaluation and choice of the best alternative

Different types of Plans

- **Single Use plans** - Plans that focus on unique situations or one specific event. These plans are unlikely to be repeated. Examples include plans for individual projects, plans for action programmes and budgets for a single financial period.
- **Standing plans** - that focus on repeated situations or overall policies, procedures and rules designed to ensure that internal operations are running smoothly.
  - Policy – Sexual Harassment plan
  - Rules – No smoking in class
  - Procedure – Employee grievances
- **Contingency Plans** - Plans formulated in advance that are implemented when certain specific events occur. Often these events will be adverse events, so contingency plans would include disaster recovery plans.

The need for planning

(a) It helps the organisation to take a long view and avoid short-termism, while at the same time providing a sensible approach to the uncertainty of the future.

(b) It guides the allocation of resources.

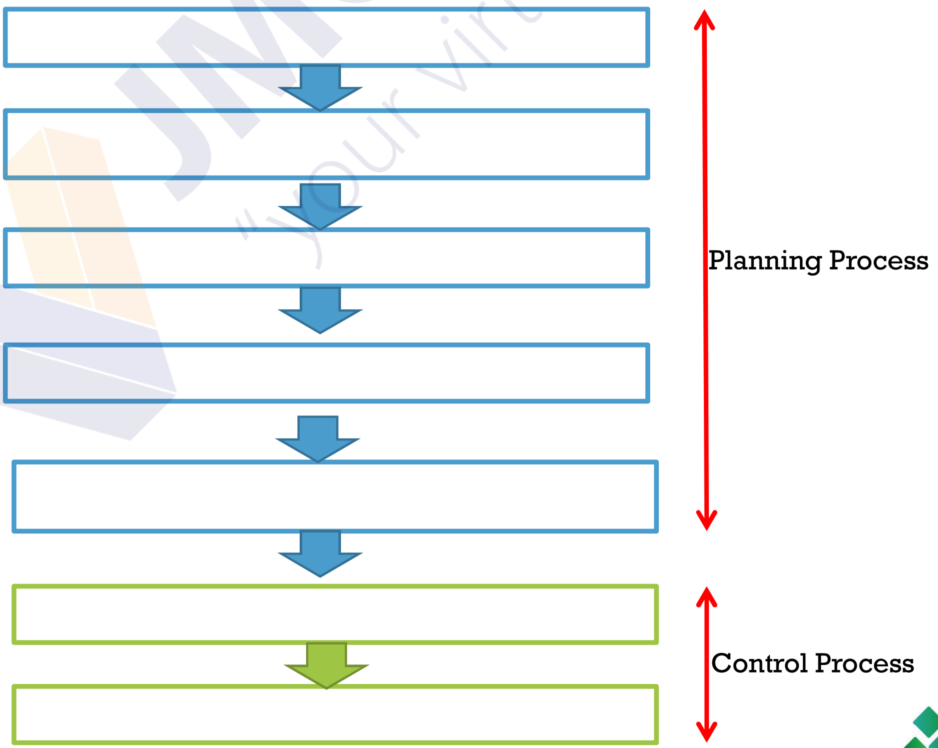
(c) It co-ordinates the activities of the various parts of the organisation, ensuring the integration of operational management decisions into the higher strategy, the wider organisational context and longer-term goals.

(d) It sets a standard by which the actual performance of the organisation is measured and controlled.

(e) It comforts providers of finance in particular and encourages suppliers and employees to think in terms of a long-term relationship.

(f) The process of forming strategy requires wide and complex input so it can have a beneficial effect on managers' personal development and awareness and can assist with management succession planning.

The planning & Control Cycle



1. **Identify objectives**

   Objectives establish the direction in which the management of the organisation wish it to be heading. Typical objectives include the following.
   - To maximise profits
   - To increase market share
   - To produce a better quality product than anyone else

   Objectives answer the question: '**where do we want to be**?

2. **Identify potential strategies**

Once an organisation has decided 'where it wants to be', the next step is to identify a range of possible courses of action or **strategies that might enable the organisation to get there.** The organisation must therefore carry out an **information-gathering exercise** to ensure that it has a full **understanding of where it is now.** This is known as a
'**position audit**' or '**strategic analysis**' and involves **looking** both **inwards** and **outwards**

- gather information from all of its internal parts
- **gather information externally** so that it can assess its position in the environment.

3. Evaluate strategies

The strategies must then be evaluated in terms of suitability, feasibility and acceptability. Management should select those strategies that have the greatest potential for achieving the organisation's objectives

4. Choose alternative courses of action

The next step in the process is to collect the chosen strategies together and co-ordinate them into a long-term financial plan. Typically this would show the following.

- Projected cash flows
- Capital expenditure plans
- Projected long-term profits
- Balance sheet forecasts
- A description of the long-term objectives and strategies in words

5. Implement the long-term plan

The long-term plan should then be broken down into smaller parts. It is unlikely that the different parts will fall conveniently into successive time periods. Strategy A may take two-and-a-half years, while Strategy B may take five months – but not start until year three of the plan. It is usual, however, to break down the plan as a whole into equal time periods (usually one year). The resulting short-term plan is called a budget.

HIERARCHY OF OBJECTIVES

- The planning process usually begins at the highest, or strategic, level in an organisation where the overall mission and objectives are set. These are then cascaded down the organisation through the layers of management to set targets, goals and objectives for functions, departments and, ultimately, individual members of staff.
- The concept of a hierarchy, or cascade of objectives was outlined by Drucker (1989) in the system now known as management by objectives (MbO). Drucker was the first to suggest, as part of the management by objectives system, that objectives should be SMART:
    - S
    - M
    - A
    - R
    - T

Objectives play a key role throughout the organisation. They have the following functions:

- **Planning –**
- **Responsibility -**
- **Integration -**
- **Motivation –**
- **Evaluation** -

P R I M E

ADVANTAGES OF A FORMAL PLANNING SYSTEM

BARRIERS TO EFFECTIVE PLANNING

- Unknown future
- Lack of creativity
- Fear - Fear about the possible adverse consequences of taking decisions can lead to management avoiding planning
- Focus on current developments - Focusing on day-to-day challenges
- Negativity - A lack of positive ideas can be a particularly big handicap to effective strategic planning
- Insufficient resources
- Poor communication -
- Resistance – Resistance to change

A significant role for accountants in business planning is budget preparation. The rational planning framework provides a mechanism for making decisions, although decisions may be made informally or influenced by non-rational factors. The decisions that accountants take are affected by whether the costs involved are fixed or variable, relevant or non-relevant. Non-quantifiable factors may also be important

PLANNING BY ACCOUNTS

	Type of Planning	Description
1.	Strategic/ corporate/ long-range planning	
2.	Budgetary/ short-term tactical planning	
3	Operation planning	

Drucker defines strategic planning as having three aspects.

(a) 'The continuous process of making present risk-taking decisions systematically and with greatest knowledge of their futurity' (ie their future effect)

(b) 'Organising systematically the efforts needed to carry out these decisions'

(c) 'Measuring the results of these decisions ... through organised, systematic feedback'

THE VALUE OF LONG-TERM PLANNING

(a) Without stated long-term objectives, managers do not know what they should be trying to achieve and so there are no criteria against which to assess possible courses of action.

(b) Without long-term planning, budgets may simply be based on a sales forecast. Performance can therefore only be judged in terms of previous years' results, no analysis of the organisation's potential having been carried out.

(c) Many business decisions need to be taken on a long-term basis. For instance, new products cannot simply be introduced when sales of existing products begin to decline. Likewise, capital equipment cannot necessarily be purchased and installed in the short term if production volumes start to increase.

(d) With long-term planning, limiting factors (other than sales) which might arise can possibly be anticipated, and avoided or overcome. If the board is to act effectively, its role must be defined carefully.

A budget is a quantified plan of action for a forthcoming accounting period. A budget is a plan of what the organisation is aiming to achieve and what it has set as a target, whereas a forecast is an estimate of what is likely to occur in the future.

Budgetary planning and controlling system objectives

- Ensure the achievement of the organisation's objectives
- Compel planning
- Communicate ideas and plans
- Co-ordinate activities
- Provide a framework for responsibility accounting
- Establish a system of control
- Motivate employees to improve their performance
- Provide a framework for authorisation
- Provide a basis for performance evaluation

DECISION MAKING

Decisions	Description
Routine planning decisions	Typically, budgeting and scheduling.
Short-run problem decisions	Typically, decisions of a non-recurring nature. Eg: A manager might have to deal with a staff problem, or give instructions to a subordinate about what to do next.
Investment or disinvestment decisions	Eg: Should an item of equipment be purchased? Should a department be shut down? Decisions of this nature often have long-term consequences.
Longer-range decisions	Decisions made once and reviewed infrequently, but which are intended to provide a continuing solution to a continuing or recurring problem.
Control decisions	Decisions about what to do when performance is disappointing and below expectation.

Decisions can be arrived at in different ways.

- **Rational Decisions**

- **Behavioural Decisions**

- **Informal Decisions**

Rational planning model

1. Problem recognition
2. Problem definition and structuring
3. Identifying alternative courses of action
4. Making and communicating the decision
5. Implementation of the decision
6. Monitoring the effects of the decision

Non-quantifiable factors

Non-quantifiable factors in decision making are factors which might influence the eventual decisions but which have not been quantified in terms of relevant costs or benefits. They may stem from two sources.

(a) Non-financial objectives

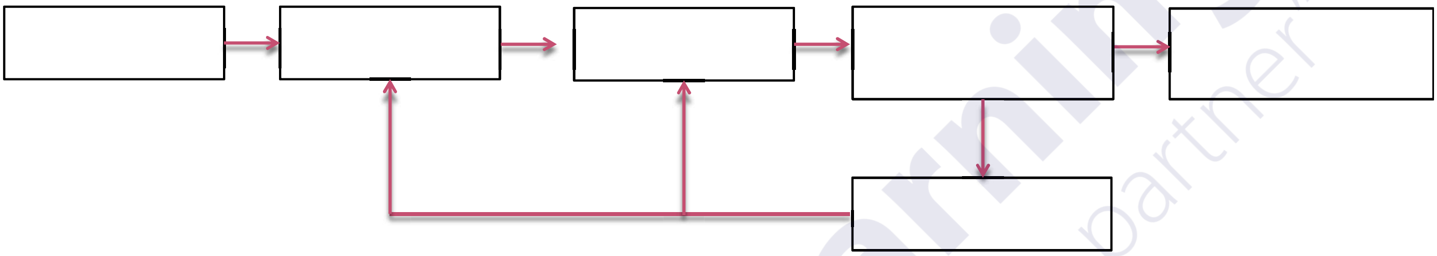
(b) Factors which might be quantifiable in money terms, but which have not been quantified, perhaps because there is insufficient information to make reliable estimates. Such factors tend to focus on the long-term implications of decisions

Examples of non-quantifiable factors

- The availability of cash
- Inflation
- Employees
- Customers
- Competitors
- Timing Factors
- Suppliers
- Feasibility
- Flexibility and internal control
- Society
- Political pressures
- Legal constraints

CONTROLLING SYSTEM

- Control systems exist to support the achievement of organisational objectives. They are many types, both formal and informal.
- Control is the overall process (or set of processes) whereby goals and standards are defined; performance is monitored and measured against the goals and plans for achieving them; and corrective action is taken, if necessary, to ensure that goals are being accomplished, either in the present planning cycle or in the next (through learning). This can be shown, simply, as follows.



Levels of control

Robert Anthony classified managerial activity into three basic levels.

(a) Strategic management (carried out by the strategic apex) –

(b) Tactical management (carried out by the middle line and techno structure):

(c) Operational management (carried out by the operating core) -

1. Strategic control

(a) **Strategic planning**: setting (and monitoring performance against) key objectives for the organisation as a whole, or organisational direction. This also includes environmental scanning, to identify opportunities and threats.

(b) Designing (or reviewing and re-designing) **organisational structures**: decisions on downsizing, delayering, acquisition/merger, divisionalisation and so on.

(c) Determining **policies and codes of conduct**, in a wide range of areas including: HR (eg recruitment, training, reward, promotion, equal opportunities); the environment, ethics and corporate responsibility; risk appetite and risk management measures; sourcing/procurement and so on.

(d) **Organisation-wide initiatives**, such as business process re-engineering or total quality management.

(e) Monitoring of progress and performance against strategic plans at a high (non-detailed) level. This includes setting up a framework for management information and reporting.

(f) Managing **corporate governance**: determining roles of the board of directors; taking board-level decisions; reporting to shareholders and so on.

2. Tactical control

Tactical control relates to the implementation of board-level decisions by functional managers. It involves activities such as:

(a) **Tactical planning**. In the case of a marketing manager, this would include product/market planning, media scheduling and so on. In the case of a production manager it may include capacity planning, resource allocation or production scheduling.

(b) **Budgeting** and budgetary control for the function.

(c) The development and implementation of **procedures** (to fulfil policy requirements set at the strategic level). These would include recruitment, development and reward of functional staff. Other procedures include administrative procedures and systems, risk management, quality control and so on, within the scope of the function's activity.

(d) **Monitoring** compliance with plans and procedures within the function.

3. Operational control

Operational control relates to the control of relatively routine and repetitive activities, to ensure that pre-set plans and targets are met. At this level, little managerial intervention or discretion may be required: operational control systems are often automated, and generate reports only on identified deviations from plan, within pre-set tolerance limits.

Examples of operational control systems include credit controls (in accounting) and order processing, invoicing and delivery scheduling (in sales).

Effective control systems – the 6 As

(a) **Acceptability** to the people who will operate it: a fit with their needs and expectations, and the culture of the unit

(b) **Accessibility**, in terms of its ease of understanding and operation

(c) **Adaptability** to changing conditions and demands

(d) **Action orientation**, so that deviations trigger corrective action or improvements

(e) **Appropriateness** to the circumstances and skills and needs of the people operating it

(f) **Affordability** or cost-effectiveness: the cost of operating controls must be lower than the costs associated with deviation or failure (which will be determined by risk analysis). In other words, prevention costs must be less than failure costs.

Types of Controlling

- Feedback – Feedback is a form of control that takes place after a process or event has happened
- Concurrent – Concurrent control takes place while the process is actually occurring. (Application of rules, standards & procedures)
- Feedforward – Feedforward or proactive controls aim to anticipate or detect a problem before it arises

Technology control

- Physical Security
- Information Security
- Data Management
- Centralised data
- Real time data
- Production monitoring system
- Inventory tracking system
- Automated incentive system

Control processes

In their influential work 'Exploring Corporate Strategy', Johnson and Scholes suggest that control processes can be classified as:

(a) Input-focused (controlling resources input to a given strategy) or outputfocused (controlling the results and outcomes of a given strategy)

(b) Direct (using supervision, monitoring and behaviour-shaping) or indirect (creating environmental conditions within which the desired behaviour or results can be achieved)