

Raimo Nurmi\*

ON CORPORATE OPERATIVE PLANNING

Background

On Corporate Planning

In the history of corporate planning the period of 1973-1974 headed for discontinuity. Strategies had to be re-evaluated and operative planning had to be modified. This turning point showed that earlier substantial assumptions were unrealistic but it also pointed out shortcomings of planning systems<sup>1</sup>.

The present paper is a reflection of a project for the re-assessment of corporate planning system<sup>2</sup> and experiences gained in applying it in Finnish corporates.

Corporate planning consists of modules that are presented in fig. 1.

The first module is the analysis of the present state of the affairs of the corporate. In this connection corporate strengths and weaknesses are charted<sup>3</sup>. The present state is continuously

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<sup>1</sup> J. H o n k o, Recent Developments in Business Planning, "The Finnish Journal of Business Economics" 1977, vol. 26, p. 93-104, see for a detailed account of the history.

<sup>2</sup> P. H a r j u, S. H a k a n s, P. K a l l i t i o, O. K a r t t u n e n, R. N u r m i, A. S ä ä s k i l a h t i, Maynard Approach to Corporate Planning, Helsinki, Turku 1974, an unpublished manual for corporate planners.

<sup>3</sup> R. N u r m i, Miten yritys näkee uhkansa ja mahdollisuutensa. (How a firm charts its threats and possibilities), Turun kaup-pakorkeakoulu. Tutkielmia. Research reports, Turku 1975, p. 261-271.



moulded by the environment, and the internal changes of the corporate. Corporate planning is a way to manage internal changes to make them meet the environmental changes.

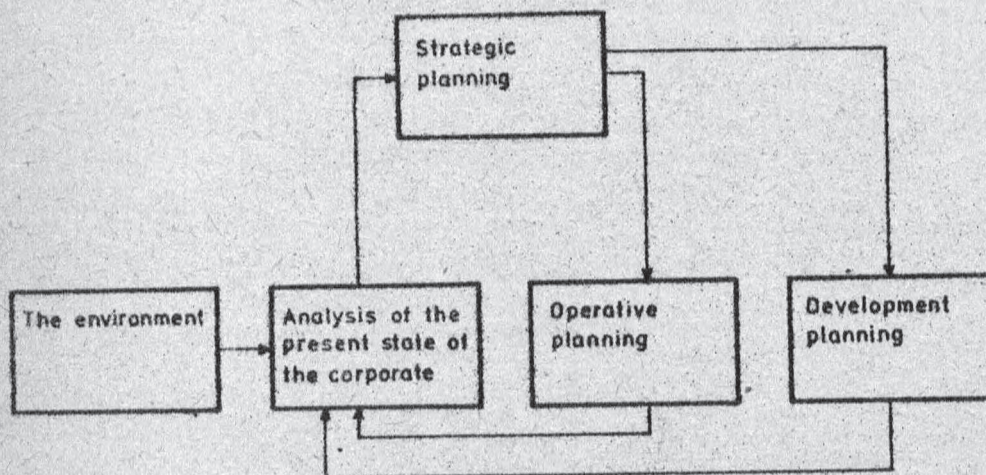


Fig. 1. A Corporate Planning System

The second module is strategic planning. By means of strategic planning desirable and obtainable objectives and purpose of the corporate are defined. Product-market strategies, finance strategies, and administrative strategies make up the three key areas of strategic planning.

The two remaining modules are operative planning and development planning. They are the two ways to fill the gap between the present state of affairs and the strategy. They are both linked back with the present state of affairs to make planning a yearly, iterative process. While strategic planning defines the right things to do, the operative planning spells out how to achieve the strategy in the right way. Development planning is composed of unique projects set up to contribute to the strategy.

The present paper is confined to operative planning. Operative planning is subdivided into long range operative planning and short range operative planning. As long range operative planning is based on strategy, short range operative planning is based on long range operative planning. This has turned out to be easier said than done. As the history of corporate planning in Finland



commenced with short range planning (budgeting), the latter has had too much effect on the longer planning horizons.

### On Corporate Organization and Planning

Operative planning is strictly bound to organization. But the organization varies from corporate to corporate, and corporate planning varies accordingly. What can be generalized though, are some organizing principles and types of organizations where the essential planning responsibilities are of similar nature. These two aspects of reorganization, relevant to corporate planning, are now examined in turn.

1. A principle of organizing planning. Operative planning is built on the principle of decentralization of planning. According to this view a manager's charge consists of planning, doing and control (see fig. 2) contrary to the view that the upper level plans and controls what the lower level does. The tripartite unity of planning, doing, and control<sup>4</sup> implies that every manager is involved in corporate planning so that the plan of a manager is the frame of his subordinates' planning and subordinates' plans are means of achieving the plans of their superior. Then, corporate plan is realized through a two-way organizational process from top to bottom as well as from bottom to top. The process is time consuming and it gives rise to co-ordination problems but these costs are paid back by the greater realism of the plan and the better motivation of managers that have been involved in planning their own work. However, proper treatise of the process and a responsibility accounting system feeding each manager with information about his function are needed to make this organizing principle work.

It may be worth noting in passing that in our economy the micro-level organizing principle is very potent, because the macro-level control-sphere<sup>5</sup> is fairly weak. We restrict ourselves

<sup>4</sup> S. M. M e y r s, Every Employee a Manager, New York 1970, see for the elaboration of the view.

<sup>5</sup> J. K o r n a i, Anti-Equilibrium. On Economic Systems Theory and the Tasks of Research, Amsterdam 1975, p. 41.



here, however, to the micro-level, well-aware that the macro-level co-ordination problems would earn a thorough analysis.

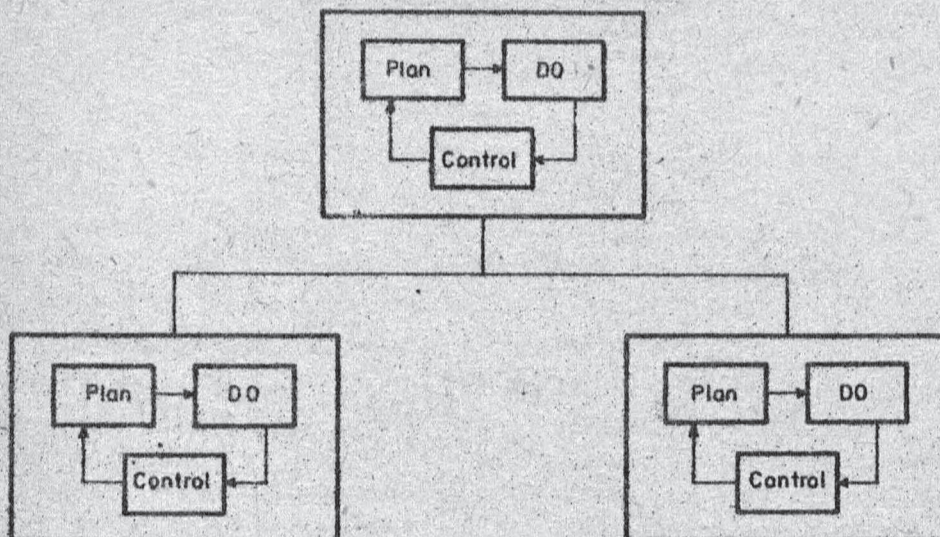


Fig. 2. Division of managerial Work

2. On the organization structure and corporate planning. In the following we shall confine ourselves to the concern type of structure comprising 1) the top management of the corporate, 2) the corporate staff, 3) units organized as profit-centres, and 4) the functional departments within the units (see fig. 3). All the four levels are involved in corporate planning. The profit-centres are autonomous within the limits of corporate strategy operative planning accordingly rests heavily on them.

The reasons for choosing this type of organization for the analysis are two-fold. Firstly, it is a fairly general type of organization in the Finnish forest industry where much experience about operative planning has been gained. Secondly, it is an organization complicated enough to necessitate an advanced planning system and to make the organization of planning troublesome. In smaller organizations simpler procedures will do, and also the processual side of planning is easier to handle.



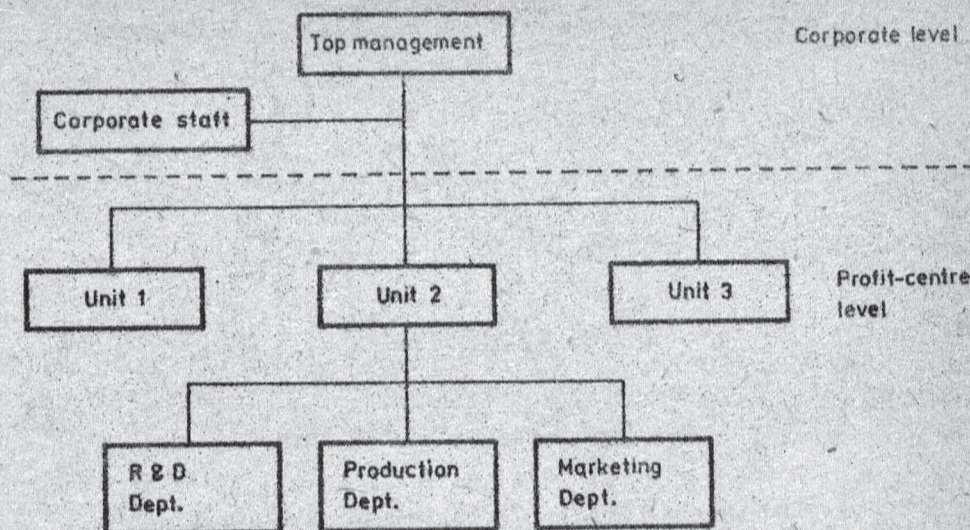


Fig. 3. The Type of Organization Structure Under Study in the Paper

#### Process and System

Even within the general type of organization presented above there is a spectrum of variation of the structure and a corresponding variation of planning. But there are generalities of planning within this range as well. The fit between the generalities and the individual organization is then reached in the process of planning. Therefore, the processual side of planning requires explicit attention when installing a planning system<sup>6</sup>.

In the paragraph to follow generalities of operative planning are outlined with the above mentioned restrictions in mind. What follows could be called a planning system in the sense that it is a collection of parts organized for a purpose<sup>7</sup>. The term system then is used in a very general sense. Probably the system approach

<sup>6</sup> R. N u r m i, (1976). Developing a Climate for Planning, "Long Range Planning" 1976, June, p. 48-53.

<sup>7</sup> R. G. C o y l e, Management System Dynamics, London, 1977, p. 3.



ach is an appropriate designation instead of the systems theory.

The system to be presented is a practitioner's system, and its development, refinement and evaluation have been guided by pragmatic criteria instead of methodical sophistication. In fact, the installed systems have tended to grow simpler in terms of methods though more complex as processes.

### Operative Planning System

#### Long Range Operative Planning

The long range operative planning consists of sequence of modules and of the process of fixing them into the organization. The planning horizon generally extends to three years and more. A great flexibility must be built in plans extending up to ten years and more. The presentation of the modules is to follow (see fig. 4 for illustration).

1. Operative key result areas for the whole corporate and its units are derived from the strategic plan. It is the top manager of the corporate who is in charge of this phase but the heads of the units are also involved.

2. Next, a quantitative measure for each key result area is found. Staff personnel can do the work for quantification. The corporate level starting values as a frame for the detailed planning of units and functions are results of the phase.

3. Preliminary marketing plan is worked out from the clients' demand. It is customarily formulated in terms of product-market mix. The plan is preliminary in the sense that it suffices to know the possibilities to sell. Market and competitor analyses are means of getting the needed information. Even though preliminary the demand is a corner-stone of all subsequent planning.

The preliminary marketing planning is decentralized as near to the clients as possible; this principle means that it is the responsibility of the marketing managers in the functional level, though even salesmen who have direct contacts with the clients are involved.



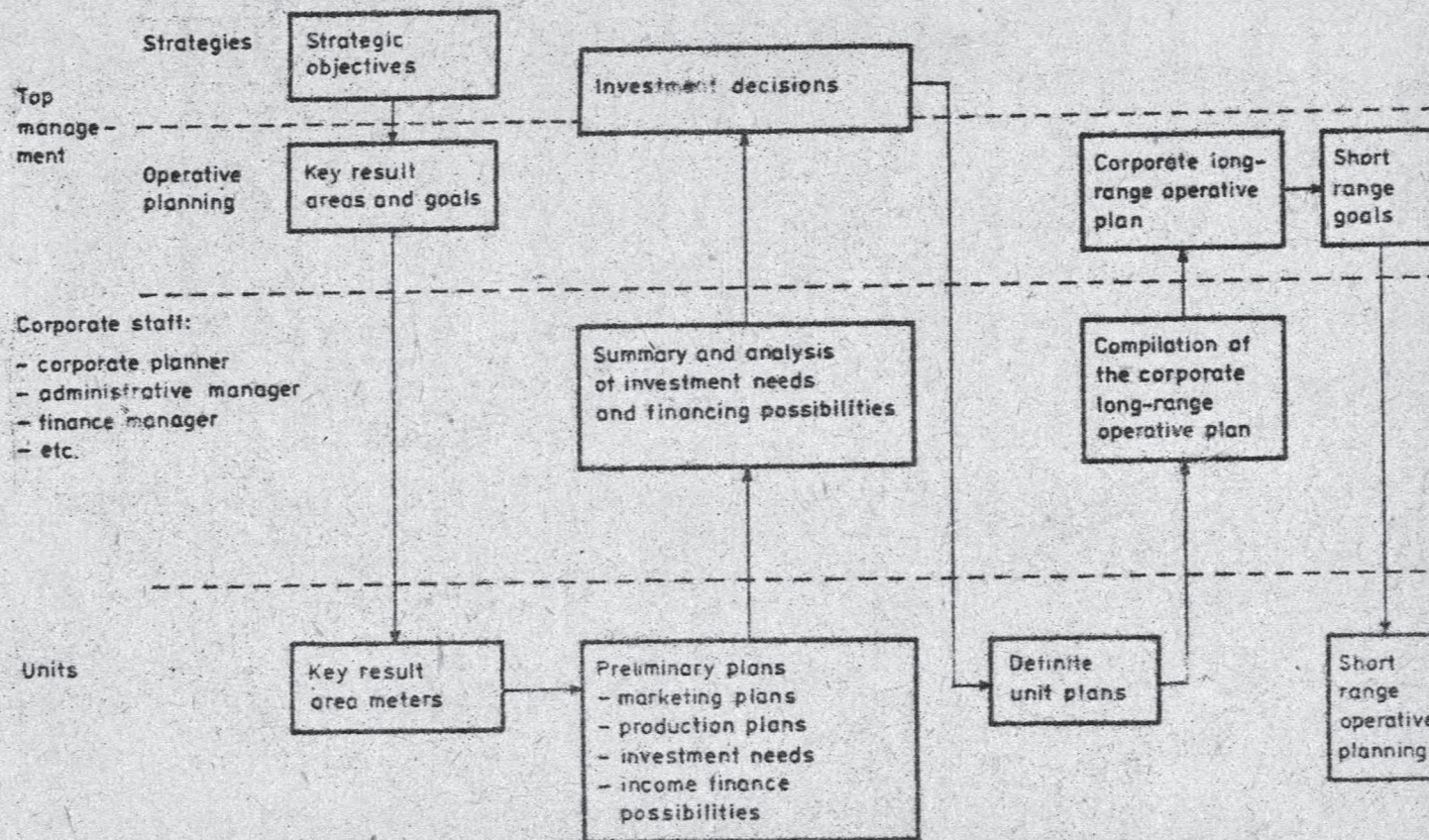


Fig. 4. The Planning Process Illustrated



4. Preliminary production plan can now be prepared. It is based on the preliminary marketing plan on the one hand and on internal resource analysis on the other.

Knowing the possibilities to sell and the internal resources it is possible to optimize the use of present resources and to get an idea of the need for new resources. A quantitative production programme, an estimate of the development of the cost structure, and a first estimate of investment needs are the concrete outcomes of the phase.

The responsibility of preparing the preliminary production plan rests likewise on the functional level or on the production managers.

5. We have learned by experience that a definite phase for the co-ordination of the preliminary marketing plan and the preliminary production plan is needed. The gap between the marketing potential and the production capacity is herewith bridged.

The co-ordination brings out adjusted quantitative marketing and production plans including a detailed selling programme, a preliminary estimate of revenues and costs, a resource utilization plan, and a revised estimate of investment needs. Normally marketing managers and production managers can agree upon the co-ordination and their common unit heads only confirm the co-ordinated plans.

6. Now the investment needs can be collected from the units and examined on the corporate level against financing possibilities.

Corporate level investment needs, an analysis of the impacts of the investments and a review of financing possibilities are outcomes of the phase.

The investment analyses are worked out by the corporate staff - a corporate planner, a financial manager, an accounting specialist or whatever the appropriate staff organization may be.

7. Investment decisions can now be taken on the basis of pre-laid strategies, investment needs and financing possibilities. The outcome of the phase is a detailed investment plan for the next 3-5 years.

Investment decisions cannot be delegated by the top manager.

8. Definite long range operative plans for the units will



next be fixed. Their purpose is to maximize the key result areas (or 1) within the limits of resource restrictions.

The long range operative plan is a combination of marketing plans, production plans, research and development plans and administration plans of the units. The latter are further decomposed into selling plans, income statements, cash flows, balance sheets, investment plans, manpower plans, purchasing plans, and other relevant minute plans.

The heads of the units are the ones to confirm these plans.

9. The corporate long range operative plan is then completed from the plans of the units and the functional plans.

The quantitative key figures constitute the core of the corporate long range operative plan. Also verbal statements are needed. The assumptions behind the plans must be explicated.

This phase is again corporate staff work.

10. The corporate long range operative plan can be fixed. It is the top manager that makes the decision.

11. Key figures for one-year plans are deduced from the long range operative plan the same way as the long-range operative planning commenced with the key result areas from the strategic plan.

This phase is again the responsibility of the unit heads.

12. Lastly, the process and system of long range planning is worth reviewing for the next iterative round in order to learn from the experience and to ease the planning process next year.

The review is conducted by corporate staff specialists.

### Short Range Operative Planning

Short range operative planning could be considered an integral part of long range operative planning - in other words, the short range plan is the first year of the long range plan. It is not necessary to plan the first year separately. There are, however, good reasons to separate the two as processes. Short range planning is namely more strictly bound to organization than the long range operative planning, and the former goes about one level deeper down the organization. A proper accounting system can make the



organizational responsibilities easily measurable in the shorter time period.

The short range operative planning means generally one year. The traditional budgeting procedures are a kind of a skeleton of the one-year planning. But budgeting as such does not suffice, unless it is based on business planning.

In the following the phases of short range operative planning are presented.

1. Derivation of the first year goals of long range operative planning and fixing them to the organization (cf. 11 above).

2. Discussions between superiors and subordinates about the attainment of key result goals of last year and setting the goals for the next year. These performance reviews are held throughout the organization.

The performance reviews link the process of Management by Objectives with the process of corporate planning. Management by Objectives is a widely disputed management system whose success likewise seems to depend on the process that it may or may not initiate<sup>8</sup>. Properly applied management by objectives may provide a good ground for corporate planning by increasing the planning climate throughout organization and by imposing self-control.

3. One year marketing plans are prepared by marketing managers and their subordinates. Note that even during the one year period marketing gives the starting values for other functional planning.

The one year marketing plan is broken up into products, clients, market areas, distribution channels and other relevant subcategories.

4. One year production programmes are prepared by production managers and their subordinates.

Production programmes are compiled from manufacturing programmes, maintenance programmes and purchasing programmes. They are further itemized by raw material, labour, production schedules, loading of machines etc.

<sup>8</sup> W. J. Reddin, *Effective Management by Objectives*, New York 1971, p. 121-134.



5. One year investment programme is prepared on the basis of the long range plans and the one year production programme.

This programme is prepared by corporate staff specialists, but the decision must be made by the top manager.

6. Preparation of administrative programmes is a staff responsibility, though their co-ordination with the line operations must be particularly borne in mind.

7. Budgeting is the projection of the plans in the monetary dimension. Technically budgeting has well-established forms only the operative planning can be laid on substantially valid basis.

As the units are profit-centres they give estimates of revenues and costs. The budgets of the units are brought to the corporate level as bases of the corporate budget expressing corporate income statements, balance sheets, and cash flow.

In the corporate staff there is a person in charge of corporate budgeting, but the profit-centres have accountants for the unit-level budgeting.

8. Fixing the short-range operative plan is a top management responsibility.

9. Reviewing the process and system of short range operative planning for the following year can again be done by a relevant member of staff.

#### Concluding Comments

It is evident that corporate operative planning has come to stay. There are well-founded criticisms of corporate planning. But the response to them is better planning instead of removal of planning.

The mechanism of planning seems to be getting well-established. The processual throughput has tended to simplify the system and the methods. As a consequence planning has grown more cost-effective. The sophistication remains below the ambitions of a methodically oriented researcher. But a general systems theorist could yet be happy for the accomplishment that a domain as complicated as the modern corporation in its totality and comprehensiveness has been captured by the systems approach planning.



Raimo Nurmi

## O PLANOWANIU OPERACYJNYM W KORPORACJACH

Artykuł przedstawia system korporacyjnego planowania operacyjnego. Planowanie operacyjne jest przedstawione jako środek zmiany obecnego stanu rzeczy w kierunku celów korporacyjnych. Decentralizację planowania rozpatruje się w odniesieniu do struktury organizacji i procesu planowania.

Długookresowe planowanie operacyjne składa się z dwunastu faz, które są szczegółowo rozpatrywane wraz ze swoimi granicami organizacyjnymi. Podobnie bada się dziewięć faz planowania operacyjnego w krótkim okresie czasu.

