Section 1

BACKGROUND TO THE PLANNING FRAMEWORK

PLANNING FUNDAMENTALS

Planning in today's volatile business environment is very different from what it was ten years ago. Creating effective plans requires organisations to understand the things they can control, acknowledge the things they cannot control, and create a planning process that makes sense.

WHAT IS PLANNING?

Bloodhound SSC (www.bloodhoundssc.com) is a project that makes most boys' (as well as men and some girls) hearts race. Their mission is 'to confront and overcome the impossible using science, technology, engineering, and mathematics'. This statement may not be that interesting, but the way they plan to achieve their goal is: to create a car that will travel at over 1,000 miles per hour.

1,000 mph cars are not easy to build. At that speed the drag on the car is over 20 tons, the force on the wheel rims is greater than 50,000g. Everything is conspiring to destroy the car or make it take off like a rocket, both of which are undesirable. To achieve that vision the team is using a Rolls Royce EJ200 jet engine coupled with a Falcon rocket engine, which together produces over 135,000 HP, which is 25,000 HP more than the Queen Elizabeth 2 ship liner.

So how does the small team based in England go about this seemingly impossible task? Well it is down to managing three factors, each of which are controllable. First are the business processes that bring different members of the team together to plan and create the car. Second are the outcomes generated by those business processes, such as the car with incredible amounts of thrust. Third are the resources that the business processes will consume to deliver those outcomes. Those resources include money, talent, and a lot of fuel.

These three factors—processes, outcomes and resources—have to work together if they are to have any chance of achieving the mission. However, although these factors are under the control of management, the team operates in an environment that is both uncontrollable and sometimes unknowable. For example, the surface on which the car will run has to be perfect, but that is subject to the uncontrollable vagaries of the weather. Similarly, permission has to be granted by the federal government of the country where the car will run, and they must ensure local population support or they could take action to prevent the record attempt. Although contracts and agreements can be made to control these areas, the reality is that they are outside of the team's control. As such they are more like assumptions that carry a certain level of risk.

The role of planning for the Bloodhound project is to consider all facets of the mission to ensure its success. This involves a whole range of activities from building the car to raising funds. It also includes assessing those things that are not predictable or knowable and ensuring that the risk they pose are either eliminated or minimised.

And so it is with business planning.

Every organisation has a purpose for its existence. For commercial companies this is typically to make a financial return for its owners; for not-for-profit organisations this is to benefit the chosen subject that may be people, objects, or ideals; and for governments this is to provide a safe environment where citizens can prosper.

The way this purpose is achieved is through a series of interconnected business processes that typically consume resources to produce directly related outcomes. For example, a commercial manufacturer will produce goods it can sell for a profit by taking raw materials and adding value by shaping, combining, and transforming them into things customers are willing to buy. For a service company the business processes could include training people in skills and techniques that enable them to pass on knowledge for a profit to clients.

Business processes are key to an organisation's success. They are generally under the control of management, such as the workload that is applied within each activity, how resources are allocated, and the quality of any outputs. But these business processes are also conducted within a business environment where some elements that impact workload, resources and outcomes are both uncontrollable and unknowable by management. Uncontrollable elements include market trends, inflation, and the supply of finance, but other elements are unknowable until it is too late (such as competitor actions and natural disasters). Each of these areas has an impact on the purpose of the organisation. It is the role of management to adjust what can be controlled, to suit the uncontrollable and unknowable aspects of the business environment, in order to deliver business goals.

Planning allows managers to assess the future for a range of scenarios that reflect an ever-changing business environment. Planning is also a continuous process by which past trends are analysed, assumptions are made about the future, and predictions are made based on a range of inputs and changes to business processes. This is not an annual event as the business environment in which we operate is continually changing. Therefore, plans have to continually adapt if an organisation is to survive and thrive.

Planning is not a science and is unlikely to produce extremely accurate forecasts. Its value is in providing managers with a way to communicate what drives success, to evaluate the risks an organisation faces, and to guide the best way to allocate resources to achieve desired outcomes, given an anticipated business environment and the limitations in which the organisation operates.

Figure 1-1: Six Ways of Viewing Business Processes, Resources, and Outcomes
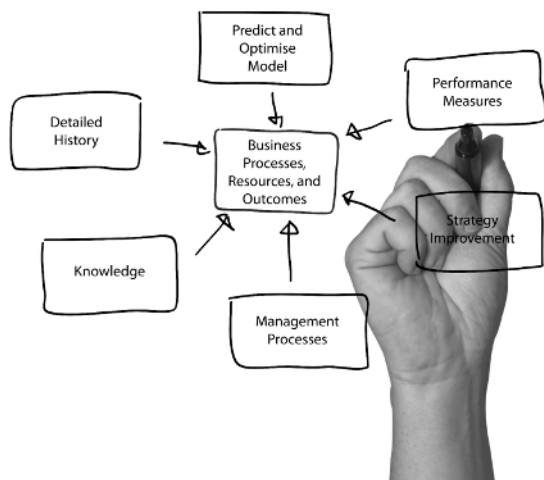
COMPONENTS OF PLANNING

Given that planning is about managing business processes within an anticipated yet uncontrollable business environment, there are six ways of looking at them, as depicted in figure 1-1.

Detailed history. This view looks at past processes and related outcomes. It is focused on what happened and can be analysed in minute detail as to the resources that were applied, the outcomes that were generated, the structure of the organisation, and a whole host of other information. For a commercial organisation this could include data on customers, products and channels. For a not-for-profit this could be by project or funding source.

The value of this view is in assessing whether the inputs and the outputs generated were worth it, given the business environment that existed.

Predict and optimise. This looks at the mathematical relationships between the organisation's business processes from which future performance can be predicted. Its focus is on the future and can be used to set targets, allocate resources, assess different management structures, and evaluate the different sources of funds.

Performance measures. This view of business processes looks at the economics of individual activities, processes, and the enterprise as a whole. It recognises that organisations do not operate in a vacuum and are in continual competition for resources and customers. Performance measures consist of key performance indicators (KPIs) that relate inputs with outputs. For example, seeing how assets are being utilised compared to the industry 'norm', or the quality and accessibility of services compared to peer organisations. This provides the basis for an explicit dialogue about resources required to achieve objectives, and about any assumptions being made concerning service level and quality targets the organisation seeks to achieve.

Strategy improvement. In looking at how performance can be improved or how to meet the challenge of a change in the business environment, management may consider a range of strategic initiatives. These may include changes to existing business processes, the creation of new ones, or the terminating of others. The strategy improvement view looks at how selected initiatives could impact existing business processes, along with the cost implications, and how initiatives can be combined for optimum effect.

Management processes. These are the established management activities through which business processes are reviewed, resources allocated, and adjustments are made. They typically encompass the six traditional processes of strategic, tactical, and financial planning; forecasting; management reporting; and risk management. They are often seen as discreet processes that are driven by a date on the calendar. However, increasingly organisations are seeking to perform these as a single continuous and fully integrated activity.

Knowledge. This last view looks at the business processes through the eyes of experience and intuition. It recognises that measures do not tell the whole story and that stored up within management's 'know-how', as well as from external sources, there is much anecdotal information through which performance can be justified.

It is important to note that these six views cannot be treated in isolation. By this we mean that no one view can ever provide all of the relevant information in the context of the business processes. For example, knowing that an organisation was 10 per cent over budget on using resources does not tell you whether that was actually a bad performance. To gauge this you would need to look at past and future trends of the activity to which the resource was assigned, what output was generated, and how other organisations were performing the same task.

None of these views can be left out or management could easily jump to a wrong conclusion. The aim of planning is to take decisions on the things that can be controlled, by reviewing all relevant information, as this gives any organisation the best chance of achieving its purpose.

In chapter 4, 'Business Planning Framework', we will show at a summary level how these different views can be translated into a series of planning models, while chapters 5 to 10 will drill down into each area with examples.

PLANNING IN TODAY'S BUSINESS ENVIRONMENT

In case you have not noticed, we live in an unpredictable world where the future is increasingly uncertain. When using the word 'unpredictable' or 'volatile', what we are saying is that the mechanism used for predicting the future has inaccuracies. Things happened that were not foreseen or that impacted the plan differently from what was expected. As mentioned earlier, some of these things are external and beyond an organisation's control. For example, a competitor changing their prices, a company introducing a disruptive technology, the impact of natural events such as the weather, a change in government policy, a significant change in the local economy, or a combination of any of these.

Despite these factors, senior executives are still expected to navigate their organisations through all of these challenges to ensure that limited resources are allocated to the right products and services for maximum return. For them planning is about providing a reasoned explanation as to when, where, and how the organisation expects to achieve its long-term strategic goals. However, today's business environment is problematic and has a number of significant challenges to overcome.

The Increasing Speed of Business and Globalisation

Perhaps the biggest challenge is the speed of business. In the 1980s it was difficult for an organisation to enter a market, introduce a new product or service, or to make a major change to its business model. The problem was primarily one of communication.

To reach potential customers, there must be a reliable method to contact them, to explain how the product or service can help them, and for them to be able to respond and ask questions. Before the era of the Internet these methods (for example, direct mail, television, or newspaper advertising) were slow, and difficult to target ideal customers. It also required a local presence to handle any responses, which is expensive in time, effort, and the resources required to recruit and train sales staff.

As mentioned in the introduction to this book, the Internet and the advent of e-commerce has totally changed this. To start with, geographic boundaries are removed, and the technology allows both real and virtual companies to be established and effectively communicate to customers in a fraction of the time of previous years. Not only can the medium use a combination of text, sound, pictures, and video, but it can also be interactive and made to automatically respond to specific customer enquiries.

Today, the reach of the Internet is far more advanced than previous marketing channels and is more adaptable, targeted, and substantially cheaper. Organisations no longer need to have a local presence, product promotion is global 24/7, and social media sites mean that others can promote products at no involvement or cost to the supplier.

This capability has transformed the speed at which new entrants can come to market, from years to months and even weeks. To combat this threat, existing suppliers have responded by changing their business model. Again, Internet-based technologies have allowed them to do this at unprecedented speed. Organisations like Dell can introduce changes to product specifications and pricing scenarios in minutes in response to a competitor, where in previous times, months of planning were required together with the expense of reprinting product literature and re-training staff.

The Internet has totally changed the business environment by making it inordinately faster than in times past. To survive organisations must now plan and adapt at the speed of the Internet.

The Increasing Complexity of Business

The second challenge facing organisations is the complexity of business that has been caused by technology. Twenty years ago organisations were typically aligned with defined markets where they offered mass-produced products and services. There was little scope for collecting feedback other than by conducting manually intensive surveys. With better communication, organisations today can gain competitive advantage by marketing specific products directly to individuals. Similarly, better and faster information has allowed more agile production techniques and 'just in time' inventory management systems that reduce stock levels and the associated costs involved.

The Internet has also made it possible for intermediaries to operate and tailor products for individual needs. In doing so they do not need much in the way of capital for the business to operate, and yet they can still give the appearance of being a large, stable organisation. Insurance, utilities, and some forms of banking are prime examples of industries that have been transformed in this way.

Another phenomena affecting companies is 'people power' in the form of criticisms or endorsements on social networks that has significant influence on customer purchases. These kinds of comments, which often have nothing to do with the product or service being offered, are more to do with social attitudes to corporate responsibility, but they can be just as devastating as not keeping up with fast changing fashions.

Nike found this to their detriment when it was revealed that their shoes were manufactured by sweatshops in South Korea, China, and Taiwan. The resultant bad publicity greatly affected sales and Nike was forced to ensure those working for them were treated and paid better. Similarly, when it was reported that Starbucks had not paid any corporation tax between 2009 and 2012 on its UK sales of around £1 billion in the same period, a large number of customers boycotted the coffee chain and chose competitors who were seen to be more socially responsible. Of course Nike and Starbucks are by no means the only companies to be affected in this way, and the chances are that social pressure will increasingly affect organisational behaviour in the future.
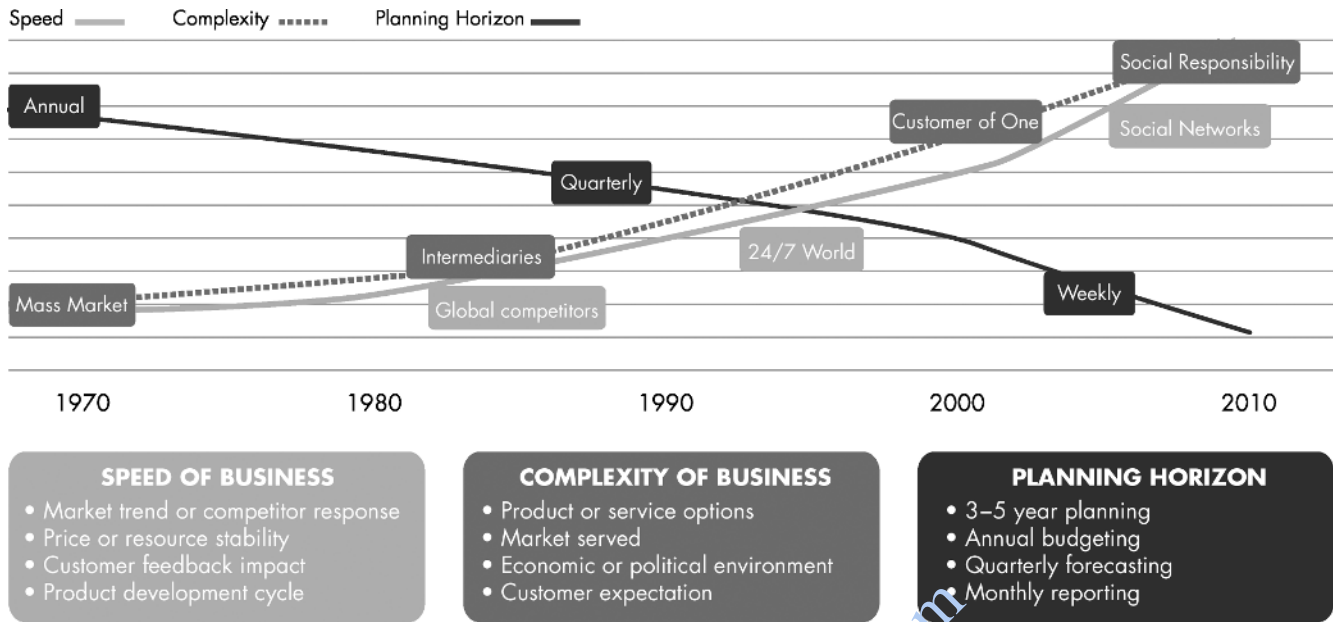
At no other time in history has the business environment been so complex.

The Decreasing Planning Time Horizon

As a direct result of the speed and complexity of business, there has been a corresponding rapid decrease in the planning time horizon (that is, the ability to predict into future time periods with any degree of accuracy). Figure 1-2 outlines the impact of speed and complexity of business on a planning horizon.

In the past, the typical management processes of annual budgeting, quarterly forecasting, and monthly reporting were acceptable as changes in the market could be accommodated within the established planning timeframe. It is interesting to note that this timing was common place back in the 1920s and was written up by James McKinsey in his book, *Budgetary Control*, which sought to lay the foundation for effective management. However, the pace and complexity of the business world was very different, so it is strange to see those timings are still in place today when they are most unsuitable.

Figure 1-2: Today's Fast Changing Business Environment Requires Different Tools, Techniques, and Approaches

Speed ▬▬▬ Complexity ▪▪▪▪▪▪ Planning Horizon ▬▬▬

SPEED OF BUSINESS	COMPLEXITY OF BUSINESS	PLANNING HORIZON
• Market trend or competitor response • Price or resource stability • Customer feedback impact • Product development cycle	• Product or service options • Market served • Economic or political environment • Customer expectation	• 3–5 year planning • Annual budgeting • Quarterly forecasting • Monthly reporting

PLANNING CHALLENGES

In a survey of finance staff conducted in June 2013 by the Chartered Institute of Management Accountants in the UK and the American Institute of Certified Public Accountants in the US, over 53 per cent of the respondents said they were not satisfied with their organisation's strategic planning process for achieving its purpose. Most felt that too little time was spent in this key area of planning. Also, not surprisingly, almost 40 per cent were dissatisfied with their financial planning and budgeting process because participants felt that too much time was spent on these annual activities. Other findings from this survey can be found in Appendix I at the end of this book.

Combined these imply there is an imbalance toward where the emphasis should be—strategic planning over budgeting. The latter statistic reflects a growing awareness that the annual budget could be streamlined using driver-based expense modelling methods and possibly a bridge toward more use of rolling financial forecasts.

One unexpected observation was that over 50 per cent of the respondents do not perform scenario planning. This might indicate that they only have time to evaluate a single choice. Interestingly for those who responded on not using scenario planning, many commented that scenarios are not important. This begs the question, 'What is planning?'

Comments from respondents also indicate ominous concerns with their organisation's planning processes. When asked what one thing they would change in the planning process, the comments received fell into the categories outlined in the subsequent sections.

Dissatisfaction With the Planning Process

Many respondents thought that strategic, tactical planning and budgeting should be integrated and linked with goals, objectives, and accountability. That there should be more rolling forecasts and less annual processes such as budgeting. One participant emphasised that organisations should move toward an environment where the

planning process is a part of our regular activities, not a periodic exercise. Comments were also made about placing more emphasis on strategy and not just financial projections.

Issues With the Planning Culture

Culture is something that is acquired over time through management attitudes that are allowed to operate. Respondents made a number of comments about the ownership of budgets and that there should be more focus on the long-term health of the company rather than the current month or short-term goals. Someone made the remark that planning should be based on real numbers and not what they want them to be, and that senior management should commit to being accountable on goals and objectives of the plan and the budget. The lack of accountability was seen by some to be a significant barrier that led to a lack of buy-in. This in turn leads to poor or no implementation, and a reduced desire to properly plan next time around.

Need for a Holistic Approach

The third area of improvement is in better performance measures that tie to critical organisational success factors. This requires a better awareness of how functions interact with each other and discussions around individual budgets and plans. To make this happen it was suggested that leaders of functional areas should be committed to the interrelationships required to meet overall corporate goals and to have a better follow-up on execution. One correspondent also commented that there should be a stop on having bonuses determined solely on earnings made, as depicted in the budget.

Need for Better Planning Technologies

The last area for improvement concerned the use of technology. Most participants still use spread sheets for planning, which they describe as being too manual and error prone, and wanted something more robust. A few made the comment that some planning systems are lacking key functionality, such as the requirement to produce cash flow forecasts and cash flow trending. By implementing enterprise planning systems, some thought opportunities would be offered for better analysis and personal skill set improvements.

In our experience, these planning issues have been known for some time. What management lacks is the exact knowledge of how these issues can be addressed, and in a way that the organisation can adopt in a timely manner.

PLANNING PRINCIPLES

The challenges outlined in our survey are fairly common, and are ones that we come across all the time. There is no simple solution to them; if there were then someone would have patented the idea and we would no longer be discussing these issues. Despite the hype you may read on business consulting and software vendor marketing literature, there is currently no widely accepted solution.

However, we believe many of the issues outlined in this chapter, particularly those that are specifically generated by today's complex and fast moving business environment, can be overcome; but it requires a radical re-thinking about the role of planning and how it is conducted within an organisation. The principles discussed in the following sections capture the core planning principles that help shape our business planning framework.

Principle 1: Planning Connects Inputs and Outputs and is Therefore Directly Related to Organisational Activities

At the heart of every organisation are a series of related activities through which goods or services are produced for its intended customers. It does not matter whether that organisation is a government department, not-for-profit, or a commercial entity. These activities exist in every industry and in every family unit.

How well they perform this chain of activities in the prevailing economic environment will determine the level of success it will achieve. Michael Porter's book, *Competitive Advantage: Creating and Sustaining Superior Performance*, published in 1985, described these activities as a value chain.

Each industry has a different chain of activities through which it delivers products or services to customers. For example, a manufacturer buys raw materials and, through a series of processes, will transform them into a finished product. Each process adds value to the raw materials so that at the end of each sub-process the original materials are now worth more than what they were at the start.

For a service organisation such as a software vendor, value is added in the form of knowledge, functions, and presentation capabilities, which transforms a computer into a more valuable piece of equipment. For example, a relatively low-cost computer with the right software is able to control a production facility that previously would either have been impossible or required a team of expensive staff to operate.

In both examples, the end result is that the finished goods and services are worth more than the collection of its individual parts to a prospective customer. That additional value came through a chain of activities defined by the business processes of the originating organisation.

With a not-for-profit organisation or government department, the business process or activity chain concept is just as valid. The main difference is that the focus will be on the delivery of a service that may be quantified in measures other than monetary. However, that service is still delivered through a range of value-add business processes.

Principle 2: Planning is About Maintaining a Shared Understanding of the Economics of a Business

Organisations operate in an ever-changing business world. They have to continually evaluate that their business processes—their chain of value added activities—are still able to sustain growth or at least allow them to survive. They also need to understand the demands being placed on these processes by products, customers, and

business segments. As a result, according to Professor Andy Neely, Founding Director of the Cambridge Service Alliance and as published in a white paper, *Rethinking the Planning Process*,[1] organisational planning falls into one of three categories:

1. *To predict what may happen in the future.* This is achieved by making use of known facts, assumptions, and relationships to generate a forecast of future performance. For example, sales forecasts can be derived from past trends such as market growth and the organisation's conversion rates, which are then used to automatically calculate production and support costs.

2. *To challenge established theories on how the business operates.* This looks at generally accepted past (or current) relationships between business processes and the outcomes generated. This is used to model past performance and assess the accuracy of predictions to determine whether those relationships were valid predictors of performance.

3. *To innovate an established business model.* This type of planning allows management to assess changes to the way the business operates. For example, the way in which it is structured or funded and the new things the business would like to try out. Output from these different scenarios can then be used to make decisions on future changes to business processes.

Whatever type of planning occurs, all require a good understanding of how the organisation generates value.

Principle 3: Planning is About Shifting Focus From the Past and Onto the Future

Much management time today is spent in looking at the past. Monthly profit and loss reports, detailed sales analyses, and KPI variances all compete for management attention. By looking at such historic detail it is hoped that something about the future may be garnered. However, the business world is increasingly under major performance-impacting influences that have not been experienced in the past. As mentioned earlier, these influences include comments on social media that are able to add or destroy organisational value overnight, the ability for organisations to compete in markets around the world in a matter of months but without having to establish a local base, and the connected nature of the world where news of impending economic gloom in one area can produce a market-changing impact in others. In this new world, studying the past is unlikely to be of much help in predicting the future with any significant accuracy.

For planning to be effective, it has to shift focus away from the past and onto what is likely to happen in the future. That includes looking at all of the relevant influences, both in and out of the control of the organisation, which could potentially make a significant impact on planned goals and the way they are delivered. It is a future that may not align itself with past trends, and it is one that that will change quickly according to events that are currently unknown, but for which the organisation needs to be ready.

Principle 4: Planning is About Aligning Budgets With Strategy to Achieve Corporate Objectives

For the moment, imagine that you have been put in charge of a national sport whose aim is to compete at the highest level in the Olympic games. In taking on that responsibility, how do you think performance is going to be measured at the games? It could be by the number of gold medals won, the number of world records set, or the ranking of the team in comparison with other nations. All of these results are outcomes (that is, the things to be achieved).

Now let's go back a few years to when the team is preparing for the games. How is performance going to be managed? You can be sure it will not be solely in terms of the number of medals they hope to win. Instead the focus will be on the type of training to be given, the diets to be prepared, the way in which equipment and facilities are to be used. To ensure these activities can take place, budgets and other resources will need to be allocated appropriately. In short, the focus for managing performance is on the process of preparing athletes and not on the outcomes they hope to achieve.

To make a real difference, these organisational activities need to be better than what the competition does. If all you do is the same as everyone else, then there is no competitive advantage. This is where strategic planning comes to the front. How can we increase the efficiency or value of the things we do? Can we save some costs elsewhere and improve or introduce other new activities? Strategy is directly linked to budgeting and improving organisational effectiveness.

Now compare this approach to the way organisations typically plan and budget. Most tend to focus on outcomes—the gold medals of profit to be made and the total amount to be spent. Meanwhile the actions required to produce the 'gold' are left as a note in an operational plan document, only to be forgotten when actual results are produced. For the average company this process can take as long as four months and yet, as our survey shows, is usually devoid of any link to strategy and how it can be achieved.

Planning involves maximising the impact of organisational activities. This requires a process whereby management sets realistic corporate goals, chooses a particular course of action to meet those goals for a given business environment, communicates how those actions relate to individual departments, and ensures adequate resources are made available.

Principle 5: Planning is a Continuous Process

Planning is not something that happens just once a year. The business world is continually changing and organisations are never going to be able to predict or anticipate every twist and turn. This means some things will work as planned while others will need to change or be replaced.

To determine this, plans have to be monitored for execution against set milestones, and their impact on corporate goals. Plans must also be developed and monitored against assumptions made about the business landscape as these can affect what decisions are required.

Every decision made can have an impact on other areas, and so changes must always be assessed in the context of overall objectives. This assessment cannot be left to a date on the calendar and must be triggered when exceptions are detected, or events that could change the future take place.

For example, if a competitor introduces a competing product that is just as good but half the price as your product, then something will have to change. There is no point in telling sales representatives to sell more or threaten them with dismissal. The business world in which the organisation competes has just changed, and so the budgets and actions that were originally set may no longer be viable. As Gary Hamel famously comments in his book, *Leading the Revolution*

> Dakota tribal wisdom says that when you discover you are on a dead horse the best strategy is to dismount. Of course there are other strategies. You can change riders. You can get a committee to study the dead horse. You can declare that it is cheaper to feed a dead horse. You can harness several dead horses together. But after you've tried all these things, you're still have to dismount.

Because of this, planning is continuous. Continuous means you do it as often as required, rather than just by a date on a calendar. Trends and variances must be continually monitored, as well as changes in the business environment. Variances, events, and anticipated change become the trigger for plan revisions.

Principle 6: Planning is a Learning Process

All plans evolve over time. Planning systems that focus purely on results do not reveal the process that individual managers went through in setting targets, the actions that were going to be required, and, just as important, the reasons why.

Similarly, knowing what works in a plan and what does not is extremely valuable. Predicting outcomes requires plans to record what activities were carried out, who did them, how they were financed, and whether the assumptions made about the business environment were correct. All of this information must be available for future reference when reviewing past results. Even knowing where a course of action failed has worth, assuming that lessons are learned and history is not allowed to repeat itself.

OBJECTIVES OF THE PLANNING FRAMEWORK

It is likely that most of the issues raised in this chapter are well known and the principles that we have covered are common sense. The big question is how exactly do you overcome the issues and implement the principles? We have met many organisations that struggle with this question at a practical level, and that is why we have developed the planning framework outlined in chapter 4, 'Business Planning Framework'.

The aim is to help organisations create joined-up plans in an increasingly fast-paced, complex business environment. This framework combines the principles of planning while avoiding the issues that many organisations face, to provide a mechanism that will bring the whole organisation together where different departments are able to jointly act as a single entity. It is also a framework that challenges current beliefs and practices about the way performance is planned and managed.

It is important to recognise that the models defined within the framework are not about predicting numbers with high accuracy, but more about promoting a fact-based discussion. They allow management to think logically about the goals the organisation would like to achieve and the activities and resources required to get there.

By adopting the framework to be described in chapters 4–10, organisations will be able to realise a number of business benefits, including the following:

- Provide senior executives with a clear holistic view of what needs to be managed across the organisation.

- Provide an organisation-wide strategic focus within an adaptable planning time horizon.

- Help operational managers to overcome a myopic, departmental view of the business.

- Enable departments to create more accurate forecasts and understand their implications on corporate goals.

- Obtain a more effective use of working capital.

- Provide the basis for risk management.

- Help identify the planning technologies required and how to put them together to support performance management.

Having established the need for a business planning framework, many would question whether this is anything new. After all, there are countless methodologies in existence that are supposed to provide such a structure. That is what we will be looking at in the next chapter.

Endnotes

1 Corpeum. *Rethinking the Planning Process* (white paper).
  October – November, 2013. Corpeum.