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Richard T. Cass

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## PATTERN FOR PLANNING

*As the need for business planning has intensified, the techniques for doing it have improved. By following these basic steps, any company should be able to produce a plan that is both motivating and controllable.*

*by Richard T. Cass*

*Alexander Grant & Company*

**S**OUND profit planning is both more important and more difficult than ever before in this age of rapid technological change. Fortunately for management, recent changes in production and marketing methods have been accompanied by substantial improvements in planning techniques.

The use of budgeting as a device merely to limit certain expenditures is disappearing. Instead, modern profit planning encourages action rather than restricts it. The growth of incentive systems based on profit plans, with recognition of divisional and departmental autonomy and responsibility within the framework of the plan, is evidence of increasing attention to the motivational aspects of profit planning.

No chief executive can abdicate his responsibility as chief planner, but he can reject the view that the budget is a restrictive authoritarian device. By bringing others into the planning process under his direction, he clarifies and expands their responsibilities to act, not merely to refrain from acting. Such participa-

tion under central direction can produce a plan that is both motivating and controllable, one that includes all the important elements of the business and brings them together in a unified pattern for profit.

How do you get this unified planned pattern? How do you formulate a plan that enables management to cope with complex and changing conditions and supplies information for rapid, informed decisions? And how do you make sure the plan is being followed?

There is no canned procedure for profit planning that can be adopted intact by every company. Because each organization has its own purposes and its own problems, business planning is a highly individual thing. Nevertheless, by following



RICHARD T. CASS is senior consultant in the management advisory services department of Alexander Grant & Company in Chicago and previously held responsible management accounting posts in industry. He is a member of the National Association of Accountants and the Budget Executives Institute.

certain logical steps any company can make sure that its plan for profit is solidly based, complete, and developed in an orderly manner that facilitates subsequent control.

### Definitions

Before discussing these steps, let us briefly define some key terms. There is no mystery about business planning. The hackneyed analogies of the captain charting his ship's course and the motorist planning a cross-country trip are not really necessary to explain a simple idea. Still, even though the ideas are familiar, words mean different things to different people. These are the meanings that should be given to the terms that are used in this article:

A plan is a statement by a person that he intends to do a certain thing by a certain means. Planning is the process by which he develops that statement. Profit planning is business planning directed to the final objective of the business and generally including all the important elements of the business. Budgeting, a word that is sometimes understood

in a purely restrictive sense, here will be used as synonymous with profit planning.

Control goes along with business planning. The term control may be understood negatively as the act of restraining or limiting. Or it may be understood positively as the action of initiating and directing activity in a definite manner for a definite purpose. It is in the latter sense that control is important to planning.

Planning and control are twin aspects of the same managerial activity. Like Siamese twins they cannot survive individually. A plan needs assured direction for its completion. Without that direction or control it has no practical value. The plan is preparation for action; control is the plan in action.

### Basic steps

There are six basic steps in profit planning:

1. Decide in general terms what you want to accomplish.
2. Take a look at what you have to work with.
3. Determine what will happen

if no exceptional action is taken.

4. Decide very specifically what you want to accomplish.

5. Figure out, also very specifically, how you can get these planned results.

6. Follow up with an effective program of reporting and analysis of performance.

### General course

The first thing to do is to decide what you are going to plan for. The chief executive or the few people in the topmost management group should decide the general course the company should take in the period being planned. They may decide, for example, that this should be a period of expansion or one of retrenchment. They may decide to plan for survival, for moderate improvement, or for dramatic growth. This is the "big-thinking" phase of planning, but it should not be derogated, nor should it be omitted because it brings to the plan at its very beginning the intellects and judgment of the most responsible persons in the organization.

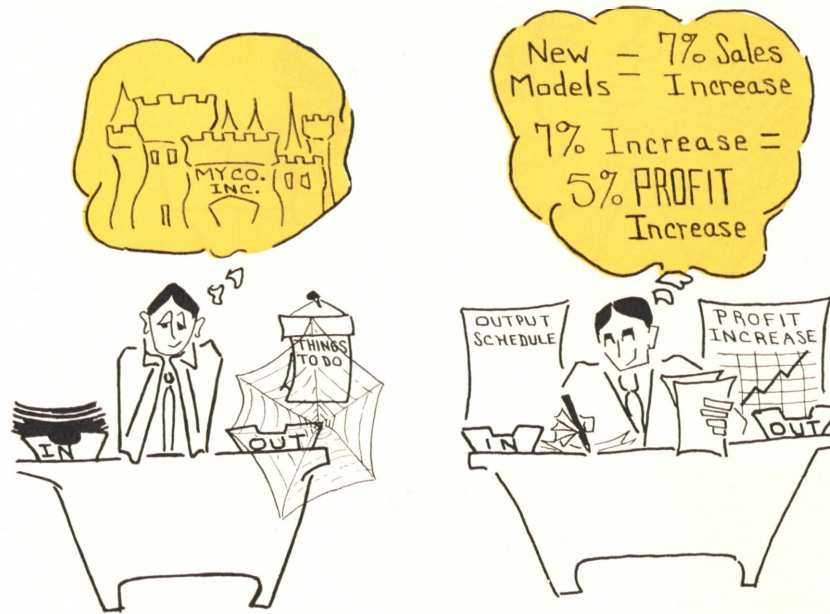
The decision as to the general course of the company should be carefully made. It will determine the purpose and climate of subsequent planning and the character of operating policy as well.

The objectives decided upon, no matter how general, should have quantities assigned to them. The statement "I want this company to go places!" is not a decision or a plan. It is a hope. But the statement "I intend to improve profit by at least five per cent during this coming year by expanding the product line to include these three new models, which will increase sales by seven per cent, and by keeping total expenses at their present level" is a decision and a plan, or at least the beginning of one. One need not be greatly concerned about the perfect realism of the target quantities planned at this stage. The amounts will be refined in a later step of the planning process.

This first planning step should be a comparatively brief one. Time



Planning and control are Siamese twin aspects of the same activity.



Unless objectives have quantities assigned to them, they are mere hopes.

spent can be kept to a minimum, since only one or a few persons will be involved in the setting of overall objectives.

### Capabilities

After the determination of the general course and objectives of the company, the next step is to bring oneself face to face with factual capability. Can the objectives really be achieved, or are they set too high? Or are they too low? This step, like the first, is largely the responsibility of the chief executive. But he begins at this point to bring others into the planning act. He does this by asking them to collect and interpret certain facts that will show him the present strengths and weaknesses of the company, its potential or lack of it. Here are examples of the questions he might ask: What is our rate of utilization of productive facilities? What is our share of market by product line and what is the trend? What is our rate of introduction of new products? What do we spend on research compared to our competitors? How many customers did we gain or lose

last year? What shape are we in financially?

In this step the chief executive puts people to work. He must ask enough questions and require enough answers to provide himself with a clear idea of the capabilities of his organization. He himself will work hard asking the questions; checking the validity, honesty, and completeness of the answers; and interpreting the facts he obtains. And when he finishes, he will know his company better than ever before.

It is important that the information collected in this step be substantiated, organized, and written down. It will form a list of advantages to be exploited and deficiencies to be worked on. For this important purpose of corporate self-analysis, memory deceives and conversation obscures. An adequately documented written analysis, even if not completely detailed, is a reliable guide to improvement.

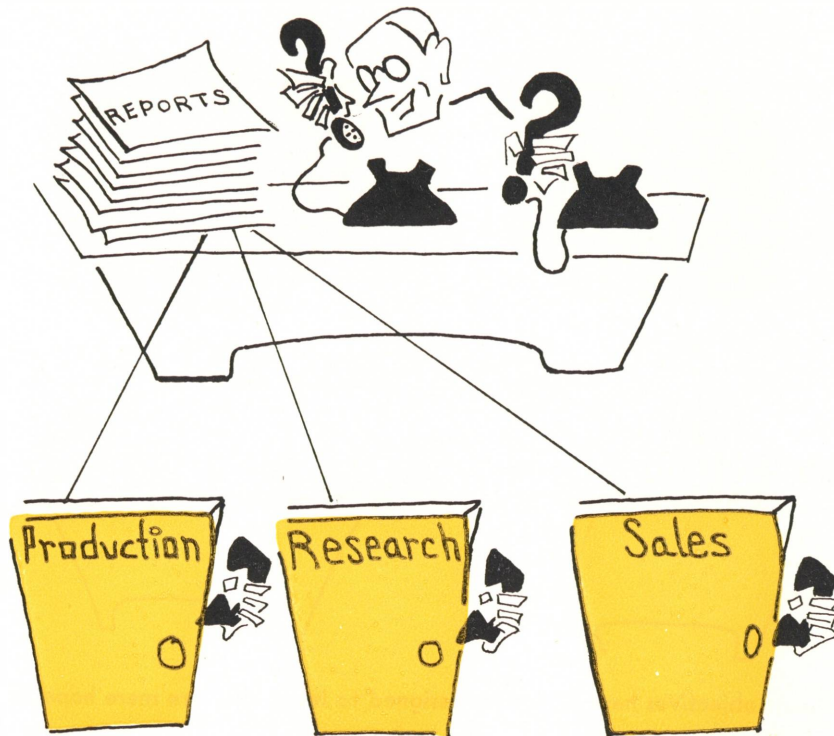
Unless some extremely critical defect is brought to light at this point, attention should not be diverted from the planning program toward the correction of specific defects.

These defects will have been catalogued and will be considered in better perspective, in the context of the entire plan, as the planning process goes along.

Reviewing the facts he has collected about the good and bad points of the current operation, the top executive may revise the objectives and general plans which he formulated in the first step.

### Projection

After developing a picture of the present operation, the next step is to project that picture without substantial change into the future. Some companies spend a lot of time planning to accomplish what will almost inevitably happen anyway. Why not project, on the basis of experience, what is likely to happen whether or not careful planning is done? Why not then take that projected result for granted as a minimum, and spend the real time and effort in planning to improve it? A projection like this destroys complacency. It puts pressure on the persons doing the planning and causes them to take steps to change



The information collected in the analysis of corporate capabilities will form a list of advantages to be exploited and deficiencies to be worked on.

the indicated course of events instead of drifting.

This projection should be a relatively simple one, based on experience and adjusted only for reasonably certain future changes. It should be detailed by responsibility area or by department. Later in the planning procedure, the head of each major department will be asked to develop his individual plan. The chief executive should be able to consult the projected data to determine whether a departmental

plan is one of true improvement or of mere continuation. For example, if sales are shown as increasing in proportion to the increase in population, a sales manager may be told to plan more ambitiously.

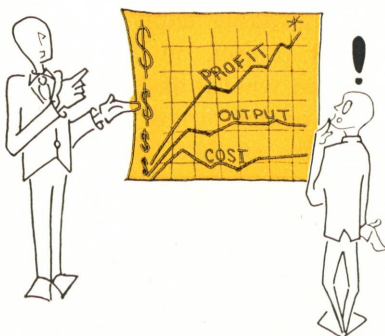
### *Specific goals*

Sufficient historical data should be assembled to make the projection statistically valid. Perfect accuracy is neither practical nor necessary, but the projection should be statistically honest to make it reliable as a base for action planning.

The next step is to decide just what to build upon that base. In Step One, total objectives and general courses were set out by top management. Those general objectives will probably have been modified in the light of the facts assembled in Steps Two and Three. In this, the fourth step, the objectives are made very specific. This is done by department managers, who will set for themselves individually attainable goals.

This should be done in a participative, not an anarchic manner. The over-all objectives originally decided upon should be retained. Individual objectives should be required to be in line with them. The objectives proposed by each individual should be thoroughly reviewed by top management. Revisions should be made to eliminate over-optimism and unwarranted pessimism. In a large organization this review process will take place through ascending levels of responsibility, but in all cases top management should be interested and involved in the review.

The objectives decided upon in this planning step should be very specific. This is the only way to establish a base for subsequent control. The objective "to increase sales" cannot be effectively controlled. On the other hand, "to increase sales of Product Number 127 in the Omaha territory by \$20,000 and 4,000 units during the month of March" is an objective which can be controlled. The degree of detail re-



Project what will happen without planning and then plan to improve it.

quired will vary among companies and among functions. How much detail is required? There should be enough specific detail about each objective so that the person immediately responsible and also his superiors can tell continuously whether the objective is being attained or not.

It might be argued that time and effort could be saved if top management presented specific objectives to department managers. This may be appropriate on occasion, but in general it is better for the detailed planning to be done by the persons who know the details best. In this way the broad knowledge and total requirements of top management are combined with the specialized knowledge and capabilities of the responsible managers in the field and factory. Also, it seems to work out that people who have a voice in setting their own objectives work hard to attain them and have a good chance of succeeding. A manager may have had to revise his originally proposed targets to come into line with the total objective, and perhaps he does not completely agree with his eventual assigned target. But at least his views have been heard, he knows exactly what is required, and he has better knowledge of why the requirement is what it is and why it is believed to be attainable.

In this planning step, when a number of persons become involved, communication becomes important. Having completed the first three steps, at this point the chief executive knows quite clearly what he wants and also what he can reasonably expect. Communication of his meaning should be relatively easy.

### **Means**

After deciding specifically what is to be accomplished, the next logical step is to figure out exactly how to accomplish those things. This is a reflection of the preceding step. Department managers should develop specific methods to accomplish the specific objectives they have set out. As in the preceding step, these planned methods should

**TABLE I**  
**Departmental Plan**

**ABC MANUFACTURING COMPANY, INC.**

**Inventory and Production Control Department**

**Planned Objectives and Methods**  
**For the Year Ending December 31, 19...**

**OBJECTIVES**

1. Maintain inventory at an average level no more than 5% greater in total dollar volume than the average of the past year, despite a forecast increase in sales of 33%.
2. Maintain a stable work force. Layoffs for the entire year because of lack of scheduled production will not exceed 5% of the direct labor force.
3. Reduce items back ordered from 6% to 5% of total items shipped.

**METHODS**

- a. Using the annual sales forecast as a guide, establish base stock levels for each of the seven product classes. Total dollar value of the base stocks will not exceed last year's average inventory.
- b. Schedule production to build and maintain the base stocks by producing in approximately equal amounts each month. Employ sales forecast data embodied in a weighted moving average to schedule production.
- c. Compile a distribution of inventory items according to usage x value (ABC inventory control technique) based on inventory activity of the last three years. Use this information for
  1. Setting base stock levels
  2. Establishing priority by item for attention and expediting.
- d. Expedite production orders systematically:
  1. Schedule starting dates for initial operation and for bottleneck operations.
  2. When scheduled dates are missed, expedite orders according to scheduled date and inventory class.

TABLE 2 Steps in Profit Planning

be reviewed by superior management and revised when necessary. Figuring out methods of accomplishment naturally tests the realism of the objectives, and some further revision of objectives may be indicated.

In this step also, individual plans must be thought out and enough specific detail expressed so that subsequent control is possible.

The review process is a valuable one. Criticism and discussion in the planning phase avert later misunderstandings. Potential problems—and likewise potential excuses—are considered in advance, in a highly rational climate. Timid managers are encouraged to act, and impulsive managers are restrained, before real damage is done by action or inaction. And in every case the chief executive is establishing a firm base for insisting on specific performance.

Depending upon the size of the organization, the written expression of departmental objectives and planned methods may require numerous worksheets and a sizable amount of written data. For illustration, however, the simplified example shown in Table 1 on page 17 may be useful.

### Implementation

Finally, after the plan has been set up in total and in appropriate detail, it is ready to be implemented under control. Performance needs to be reported, evaluated, and corrected. For this a regular, systematic program of reporting and analysis is necessary. The basic requirement of the information program is that it tell accurately, promptly, and in adequate detail whether you are doing what you have planned. The mechanics of the program are a matter for accounting and data processing technicians, but their guide to the reports required and the kind and amount of detail to be provided must certainly be the plan itself. The degree of detail in the reporting program should match that of the plan, so that department managers who have planned objectives and methods in considerable detail

STEP	PURPOSE	COMMENT
1. Decide in general terms what you want to accomplish.	a. To establish the purpose and climate of planning  b. To enable top management at the very beginning of the planning process to set policy in definite terms, which will be translated directly and specifically into the profit plan	a. Restrict activity in this step to top management. Be thorough but brief.  b. Make objectives fairly definite. Express in dollar terms.
2. Take a look at what you have to work with.	a. To bring realism to the objectives established in Step One  b. To gain insight into the organization and the operation, highlighting points to be exploited and to be corrected	a. Begin to involve middle management in the planning process.  b. Revise objectives if necessary in view of factual capability.  c. Organize and record data developed in this step for future reference.
3. Determine what will happen if you do nothing exceptional.	a. To avoid planned drifting, to preclude complacency  b. To prepare for critical evaluation of departmental plans  c. To establish an irreducible minimum standard of accomplishment	a. The projection must be statistically valid but need not be a perfect prediction in order to serve as a guide to action planning.
4. Decide very specifically what you want to accomplish.	a. To begin to establish the plan in specific terms  b. To explode the plan into manageable segments  c. To elicit the active participation of responsible line managers	a. Active participation of middle management is controlled by decisions made and refined in Steps One, Two, and Three.  b. Review and approval process assures top management that over-all

TABLE 2 (continued) Class: Pattern for Planning

<u>STEP</u>	<u>PURPOSE</u>	<u>COMMENT</u>
	d. To establish a measurable base for subsequent control	objectives have been understood and translated into specific individual objectives.
		c. Objectives should be expressed in adequate though not excessive detail so that action can be subsequently controlled.
5. Figure out, also very specifically, how you can get these planned results.	a. To make sure of the practical capability of attaining each specific objective and the total	a. Review process enables top management to communicate and enforce policy in a practical way in the planning stage, before irreversible action is taken.
	b. To bring final realism to the plan	b. Specific disclosure of planned methods precludes alibis.
		c. As in the preceding step, appropriate detail must be provided to permit control.
6. Follow up with an effective program of reporting and analysis of performance.	a. To inform each person at his own level of responsibility whether his plan is being successfully followed and to point to corrective action	a. Reporting system should be matched to the details of the plan to provide clues for investigation of causes of unplanned conditions.
		b. Performance reports may point to a revision of departmental plans. Overall objectives should not be changed.
		c. Performance related to plan helps in evaluating and rewarding management ability.

receive similarly detailed performance reports, while top executives receive more comprehensive but less fully detailed information. The important thing is for each man at his own level of responsibility to know where he stands in relation to his plan. The reasons for unplanned conditions can never be disclosed fully by an accounting system, but analytical accounting techniques should be used to isolate exceptions and provide clues for investigation. Causes can be found when you know what to look for.

### **Revision of plans**

Reporting, analysis, and investigation will ordinarily lead to corrective action within the original framework of the plan. Sometimes, however, a revision of plans is indicated. There are two schools of thought on the subject of revising an operating plan. One holds that the plan must never be revised in any detail. Another permits the plan to be revised readily for accommodation to actual performance. The former has the virtue of determination but may sacrifice realism. The latter attempts to maintain realism but sometimes degenerates into planning by retrospect. Neither is totally right or totally wrong; (P. E.) there is a sensible middle ground.

Long-range plans and total objectives are based on an assessment of factors that are relatively unchanging and predictable in their total effect. Temporary changes in underlying conditions, therefore, should not be allowed to alter original long-range plans or over-all objectives. On the other hand, departmental plans stand on a more narrow base in less stable and less predictable conditions. If these conditions should change so as to make a departmental plan essentially unrealistic and unmanageable, there is no point in stubbornly maintaining that plan, and it should be revised. It should be emphasized, though, that the general courses and objectives developed in the early planning steps should almost never be changed. Deficiencies created by





One school of thought holds the operating plan sacred; the other permits ready revision. Neither is totally right or wrong; there is a middle ground.

heard of in the last decade. Countless new production tools and techniques are available. Faced with complicated and changing conditions, no company can rely wholly on its past, its experience, and its traditional ways. It must have a set of clear-cut objectives and clear ideas of how to achieve them.

The second reason why planning and control are so necessary is that decision times have become very short. Major decisions are now made in days or even hours, with no time to gather new information, to survey and assess the situation. The executive must know his objectives and his present position precisely and continuously in order to see how his decision is likely to improve or impede his progress toward those planned objectives.

Through the comprehensive planning and review process, the chief executive effectively determines company policy. The planning and review procedure makes it possible for him to communicate his objectives and policies easily and clearly, with a minimum possibility of misunderstanding or intentional or unintentional misinterpretation. Not only is it easier for him to communicate his ideas in the framework of a coherent plan; it is also easier for him to persuade others to action, because he can show graphically and effectively the reason for each planned action, its relation to other parts of the plan, its expected effect, and the possible consequence of nonperformance. He sets attainable performance targets in measurable quantities. And the plan completes his control capability by furnishing a solid base for his evaluation of the performance of his people and the effect of his policies.

Finally, a few months of successful operation under a functioning profit plan will give the chief executive and all of the management group a sense of solid confidence in their own abilities to plan and manage. With this confidence come the encouragement and the freedom to exploit to fullest advantage the present capability and the future potential of their company.

vising one departmental plan must be made up in another. Any proposed revision should go through the same review and approval process as the original plan.

An efficiently functioning reporting system matched to a properly developed operating plan makes it possible to reward effective performance. The base for measurement is established in the plan. For each manager and executive it is the carefully considered, attainable, and expected result of his managerial activity. It is the agreement between him and his employer as to what he can do with what he has to work with. The means of measurement are provided in the performance reporting program. Judgment is still required because there are some important elements of managerial performance that can never be precisely quantified, but a plan takes a great deal of the guesswork out of the evaluation of executive performance. Use of the profit plan as a determinant of compensation and promotion has been found to be an effective incentive to improve both future performance and the

quality of planning for the future.

The steps in profit planning are summarized in Table 2 on page 18.

### Results

For some organizations management by plan may be rather strong medicine. In a company accustomed to management by instinct, management by indifference, or management by crisis, a change to management by planned performance may be initially unpleasant. But the benefits are substantial, for the company and its employees and shareholders, for management people, and for the chief executive.

It is a truism that careful planning and adequate control are more necessary for business success today than ever before. This truism is based on two incontrovertible facts:

One is that the complexity of present-day operations makes intuitive management impossible. Producers of goods and services alike are now ranging through markets that they only began to approach a few years ago. Manufacturers are producing an array of products un-