2nd International Conference of
"Research and Education "

Results of the SCIENTIFIC COOPERATION between the National Technical University "Kharkiv Polytechnic Institute" and the University of Miskolc

17-19 March, 2004 Miskolc

Lukács, Edit: Corporate Planning –Yesterday and Today

In: Besenyei, L; Döbröczöni, Á; Szintay, I; Kundrák, J (szerk.) Nauka i osvita : Zbirnik naukovih prac': do 40-ricca spivpraci Nacional'nogo tehnicnogo universitetu "Harkivs"kij politehnicnij institut"-ta Miskolc'kogo universitety /International Conference of "Research and Education" for the 40 years jubilee of the cooperation Harkovi Nemzeti Műszaki Egyetem, (2004) pp. 285-294.

CORPORATE PLANNING – YESTERDAY AND TODAY

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Most books and articles dealing with strategy formulation and planning agree on the importance of giving an answer to the question regarding how forward-looking thinking began, how company planning started and developed. Several authors have already made some attempts to determine periods of planning on the basis of peculiarities of methodology of planning.

'Some researchers—making reference to its military roots—mention ancient times while talking about the beginning period of planning, indicating that this word is of Greek origin. They consider the 'Art of War', a book written in China in 300 BC, to be the first work dealing with strategic theory.' (Barakonyi, 1999). Planning as a company strategy is linked with the twentieth century. In relation to companies its appearance is placed as early as the 1920s, but only after the Second World War did it become widespread in industrial countries. It was also this time when the analysis of its practical and theoretical issues started to be conducted.' [17.p.16]

The literature more or less agrees on the fact that planning and strategic management started to develop rapidly after World War II. In the development of planning several significant periods can be distinguished, the methodology and the planning techniques of which are very peculiar and very characteristic of each period. While analyzing the development of planning Tamás Mészáros calls this development an evolution and claims that '…in general planning and strategy management can be considered an evolutionary process, during which certain periods are characterized by very peculiar features, and not only overlapping both in time and context can be traced, but it preserves-and-develops-further principles as well; this means that certain results from the previous phase find their way into the way of thinking of the following period.' [17.p.17]

An important characteristic feature of this development (evolution) is that both the theory and the practice of planning develop 'hand in hand' and complement each other. There is hardly an investigated field in corporate management with more literature than strategy formulation and planning. As soon as strategic thinking appeared in corporate practice, theoretical specialists started to investigate this issue and analyze its peculiarities. Their suggestions and methodological ideas found their way into the day-to-day operations of company management. This tight linkage and reciprocity can be an explanation for the rapid development observed in planning. While conducting analysis of the history of planning it turned out that different authors have slightly different ideas as far as their dominant methodologies and the naming of certain periods is concerned. While analyzing the history of development of strategic theory and practice Ernõ Tari states the following:

‘The development of strategic theory and practice can be divided into definite stages or strongly marked phases. Although the stages of development cannot be strictly separated from each other, very characteristic interpretations and corporate strategic behaviour can be observed in certain periods. While studying the history of development and performing its analysis it came to light that the theoretical and practical results of the previous historical phases were used in the strategic thinking of the following periods. The special literature mostly agrees on the chronological division of the development of strategic theory and practice into four periods starting from the 1940-50s and based on conscientious foresight. The phases of development are as follows:

- the period of financial planning (until 1955 or so),
- the period of long-term planning (about 1955-1970),
- the period of strategic planning (1970-1980),
- the period of strategic management (1980 to present).’ [1.p.13]

The book mentioned above examined the periods of planning and methodological peculiarities of its stages until the mid-1990s. The fact that the development of planning has been rapid since then is justified by the appearance of a fifth period mentioned in the literature shortly after Tari’s book was published.

Examining the development of planning based on studies published by PricewaterhouseCoopers (2000), Tamás Mészáros distinguishes five major periods of planning (Table 1).

Table 1. The development of strategic thinking [17. p.18]

	Periods of the development of strategic management	**Tools, methodology**
1950	Financial planning	Financial indicators
1960	Long-range planning	Study curve, increase-share matrix
1970	Strategic planning	Strategic business units, profit-oriented marketing strategies
1980	Strategic management	Five-factor model, value-chain
1990	Strategic changes	Basic skills, scenario evaluation

1. THE PERIOD OF FINANCIAL PLANNING

In the management of companies and enterprises conscientious foresight, imagination and planning of the immediate or distant future has always played some role in one form or another. In the initial phases of the development of Western market economies the planning of a company’s future embraced only a relatively short period of time (just several months or at maximum a year). However, for quite a long time the plans for the future existed only in the heads of the managers; there was no need for making detailed plans and formulating them in writing. This ‘informal’ way of the conscientious shaping of the future was very characteristic of companies in the early twentieth century, as the economic processes of that time did not require any special complex forecasting regarding the organization of marketing sales, ensuring resources or maintaining continuous production.

In the period between the two world wars and especially in the years following the Second World War formulation and implementation of these ideas in an ‘informal’ way became more and more difficult. The increasing size of companies, the widening scope of their business activities, the increasing market competition and other changes going on in the society resulted in the gradual introduction of ‘institutional’ forecasting, making estimates and their documentation in a written form. The activity appearing in regulated forms, guaranteed by internal organizational penalties and usually issued in a written final form, having set objectives and used for decision-making is called *formal planning* in the literature.

The first form of formal planning, called simple financial planning, was observed in American and Western European companies. The essence of this planning system lay in a short-range approach and the usage and estimate of indicators of a financial character. The time span of this planning covered only one year, i.e. there was no demand for long-range forecasting or if there was, it occurred very rarely. Estimated calculations and budgeting covering a period of a year or less strongly reflected the basic approach: taking into account the data of the previous year the sales, production, stock and financial figures, the company revenues and the cash flow or even the company balance were determined. As a result, business activities based on financial data were put into the focus of attention while planning the resources, whereas issues related to the provision of the workforce, supply of materials, equipment and tools were neglected by the planners.

The introduction of the system of financial planning was the first step in designing the conscious operation of a company compared to the methods of an informal character. However, giving priority to ensuring a short-range financial balance hindered the development of a strategic way of thinking and profit-focused long-range planning. It was in the early ‘40s and ‘50s that the environmental conditions in the society (relatively slow product development, moderate market competition, modest demand for capital) last provided a favourable basis for a short-range and biased budget or profit-focused approach.

Some progressive and dynamic organizations (especially certain large American companies) made efforts to formulate their long-range comprehensive ideas and their practical implementation in the period between the two world wars. Such major companies as General Motors, Dupont and Standard Oil realized the role a strategy plays (or as it was called at that time the ‘company policy’) and the importance of its separation from daily and operational assignments [1.pp.14-15].

2. THE PERIOD OF LONG-RANGE PLANNING

In the years following the Second World War, starting from the ‘50s and ‘60s, the boom in the economy changed the situation of companies based on the market economy. The scientific technical sector experienced a rapid and intensive development and consumer demand, which had suffered suspension as a result of the war, created gradually increasing market needs for companies in the processing industry. The majority of industrial organizations had a relatively simple structure of activities (with one of the dominant profiles), but the relatively narrow range of products completely met the basic needs of that time. The fast and steady economic increase utilizing the steady growth of the market opportunities was an incentive for companies to create a basis for mass production. Companies started to adopt a strategic behaviour ensuring them a favourable future in the long-range in the times when there was a steady upswing in the market.

From the mid ‘50s and on, long-range planning started to replace simple financial planning. Short-range financial planning was no longer suitable for monitoring and managing the long-lasting factors affecting the company and the society, nor was it suitable for strategic decision-making processes offering a reasonable profit in the long run. It was the first time that long-range planning provided assistance to company managers in setting clear and well-defined objectives for the members of the organizations managed by them and harmonize the steadily increasing market demand with the growing possibilities of the organization.

Long-range planning was based on a financial basis as well, but it targeted a longer period of time of the future (usually 5-10 years). In addition, instead of partial trends related to certain company areas, it aimed at encompassing the entire activity of the company and attempted to make forecasts by exploring business opportunities.

In the system of long-range planning firstly the growth trends in sales (taking into account the market forecasts) were defined. In the next phase of the planning process (on the basis of sales figures) the production estimates were elaborated. When on the demand side all products found consumers, it seemed wise to plan a gradual increase in the production. The provision of resources necessary for the growing production and the elaboration of the optimal utilization of the available resources provided a further basis for long-range planning. Finally, after the financial impact of the elaborated programs had been summarized and their results were evaluated, budgets and profits for the following years were drawn up, which actually meant further development and extension of the annual financial calculations of the previous year.

This course and method of planning used in corporate practice developed in the organizational study process, as the theory of corporate strategy did not possess a mature planning methodology (modern mathematical and statistical methods of forecasting, demand and resource allocations were becoming more and more popular at that time) In order to carry out the assignments pointed out by financially focused long-range planning and to apply proper methods meeting the needs, separate planning departments were founded within the factories. They became independent from financial budget units and formed a special organizational unit.

Examining the development of long-range planning, it can be stated that only in the mid ‘50s did American companies start to apply the modern and comprehensive method of ‘long-range planning’ and later in the ‘60s this type of planning based on forecast was commonly used both in the United States and the United Kingdom. In the second half of and especially in the late ‘60s formal long-range planning was applied. From the mid and late ‘60s the big companies in France turned to planning activities (in most cases they embraced five years), whereas in the Federal Republic of Germany planning targeted a shorter period of time (generally 2-3 years) [1.p.15-16].

3. THE BEGINNING OF THE MODERN THEORY OF STRATEGY—STRATEGIC PLANNING

A new planning philosophy, *strategic planning*, came into existence after the weaknesses of traditional planning had been revealed. The pressure of circumstances gave rise to marketing and financial planning in the ‘80s. There were signs of shifting from over-formal annual planning towards a money-focused and sales-oriented planning approach. The move from formal planning to strategic planning and strategic management took place in the ‘90s. This was the task of companies whose owner (or owners) wanted to ensure sustainability within the framework of the market economy.

Strategic planning is the most important task of company managers: they concentrate on formulation of the strategy, the task of which is to establish objectives and to elaborate various sub-strategies. In the system of strategic planning an extremely important role is played by the management, which is responsible for formulation of the strategic objectives, ensurance of tools required for their implementation and redefinition of implementation methods.

Strategy = Objectives + Tools + Methodology

Apart from formulation of the strategy the strategic management is in charge of the creation and supervision of an implementation system. It is a complex and future-oriented managerial process targeting conscious building of the future. It is a link between a strategic planning assignment formulating the future and the continuous management activities required to execute the plans.

There is an extensive literature on the issues of strategic planning, development of strategic formulation, various strategic methods and trends as well as different interpretations of this topic, although this section will not address all of them.

As a result of the changes experienced in the ‘60s and ‘70s (the explosion in oil prices, shortage of raw material and energy, intensification of competition, the glut in the market) there was a considerable increase in the environmental complexity, intensity of the changes and diversification of companies. There was a great need for methods which on the one hand would predict potential changes, and would be able to formulate the answers to the constant changes and challenges and support decision making related to the allocation of resources, on the other. The new method for being able to react to the new changes was strategic planning. According to Porter [21], a committed contributor to this method, strategic planning originates from two currents of management:

1. The first is programming and budgeting currents developed after the Second World War. Initially this method was used for controlling the operation of companies. Later the five-year plans followed the budgeting. Managers realized that the decisions they made had far-reaching consequences.
2. The second is the management theory that highlights the need for a comprehensive corporate strategy. This management theory focuses on business functions like production, finance, marketing, logistics and control. It discusses these issues separately, applying its own theory and methodology. However, the theory cannot give an answer to the question regarding ways of integration of these functions.

In order to formulate the strategy a systematic process was needed and this gave rise to strategic planning. Formal planning provided a basis for the evaluation of strategic issues, as without applying the formal planning process priority would have been given to daily problems.

In the early ‘60s and ‘70s several companies started to diversify. The possibilities appeared to be strong, but there was a shortage of capital. There was a great need for a methodology on the basis of which a company could come to a decision as to where to invest and where not. The method the management could get an answer to this question was the portfolio method. This method and its model provided considerable assistance to assessment of the competitive environment of certain branches of business and formulation of their strategies. Porter developed strategic planning methods to be used for analysis of the structure of business branches, competition and competitors.

Strategic planning was in its glory in the ‘70s. It was obvious that a new management method had been formulated. But at the same time there was some skepticism about this issue. By the mid ‘80s strategic planning was disputed heatedly, described as unessential and considered to be the source of all problems. Magdolna Csath summarized the peculiarities of strategic planning as follows [20]:

- its time span is calculated taking into account the features of the company and the conditions;
- it is future-oriented and its cognition depends on the information collected about the future;
- it is change and revival oriented;
- there is a close link between objective setting and implementation;
- the management mechanism providing assistance to achieving the target and organizational solutions is given priority;
- methods target the cognition of the environment and forecasting
- planning is controlled by the top management;
- it is a dynamic, self adapting and self improving process.

Before considering strategic planning to be the top of the planning process it should be stated that a growing number of researchers have made critical remarks regarding the system of strategic planning. According to them [26] the process of strategic planning does not promote strategic thinking. The form suppresses the essence. According to linear managers it is a needless ceremony. The management techniques provide very simple answers, because each of them places only one variable in the center, shows only one way to success, which cannot always be used in practical life.

Moreover, strategic planning neglects several company factors leading to success. The fact that Japanese companies managed to break into the market was considered convincing evidence for the failure of the strategic planning. The Japanese companies focused on productivity, quality and teamwork. As a result companies started to pay more attention to the ‘soft parts’ of the organization. The popular book ‘In Search of Excellence’ by Peters and Waterman also supports this idea.

Porter acknowledges the drawbacks and faults of strategic planning. By the mid-‘80s issues related to the implementation and practical application of the strategy became the center of attention. Porter also underlines the importance of strategic thinking. According to him ‘strategic thinking is the glue that keeps together the variable systems and initiatives within the company’. He proposes that strategic questions should always be answered, but the processes used for providing answers can be changed.

Thus, the solution is to improve strategic planning and not to reject it: Strategic planning cannot be separated from implementation. Strategic planning belongs to the duties of linear leaders in the so-called multifunctional working relationships. The units involved in strategic planning should be the formulators, advisors and shift toward integrating activities. Strategic planning needs more information, but less formality and has to be accomplished before detailed events are launched. The ‘improvement’ of strategic planning will lead to a new era, to the era of strategic management.

4. STRATEGIC MANAGEMENT

The other ‘guru’ in this field, Mintzberg, gives preference to strategic thinking and not strategic planning. Compared to Porter, who does not neglect strategic planning while talking about the necessary changes, Mintzberg [24] thinks that this planning has already fallen off the pedestal.

Strategic planning often spoils strategic thinking and has an unfavourable effect on managers by confusing them. They cannot distinguish between their pictures of the future from their manipulation with figures.

Examining strategy formation, Mintzberg came to the conclusion that strategies could be elaborated not only by planning, but in other ways as well. While planning involves identification of a strategic environment and forecasting the conditions changes in a wider sense, the strategy formation deals with offering alternative responses to future pictures and challenges while creating a series of strategic decisions.

Mitnzberg’s theory of ‘crafting strategy’ [22] is based on traditional professional knowledge, devotion and striving for perfection of details. Metaphorically speaking he considers managers to be craftsmen and the strategy is their clay. They are placed between the past of their company capacity and the future of the market opportunities and have an immediate knowledge of the material in their hands. This is the way that effective strategies are created.

Mitnzberg [24] distinguishes ten schools of strategic planning and gives a detailed description of them in the chapter dealing with strategy. According to him, highly formalized strategic planning does not mean the way a company has to follow. The most successful strategies are visions and not plans. The real process of strategic planning is as follows: collect what a manager can from various sources and synthesize the findings into a future vision of business to be followed.

Thus, in the early ‘90s there was a tendency to give preference to visions and missions. The main reason for generating changes was the changes going on in the world, the period of ‘acceleration of acceleration’.

- Competition is globalized and many-fronted. Companies face confrontation not only in one line of business, but in a cluster of related businesses.
- The technical development is of ‘discontinuous’ character, as at first a technology is developed and only later the means of its implementation and market needs come into the focus of attention. Thus, ‘the needs have to be seen’ and not assessed.
- The application of more and more sophisticated IT systems results in the appearance of more informal markets, i.e. in the development of systems commonly applied by related branches of business.
- The results of technological development lead to changes in the knowledge and skills required of employees, the world of competitors and thus, in the expansion of various branches of business.

· Accelerated innovation results in specialization of experts and problems experienced in coordination of an organization. Traditional management hierarchies become insecure, and networks replace the tree structures. “Soft’ integration tools like company interests, mission awareness and leadership are given priorities

· The essence of strategic thinking lies in synthesis, intuition and creativity. Strategies like this can emerge at any time and any place in the organization.

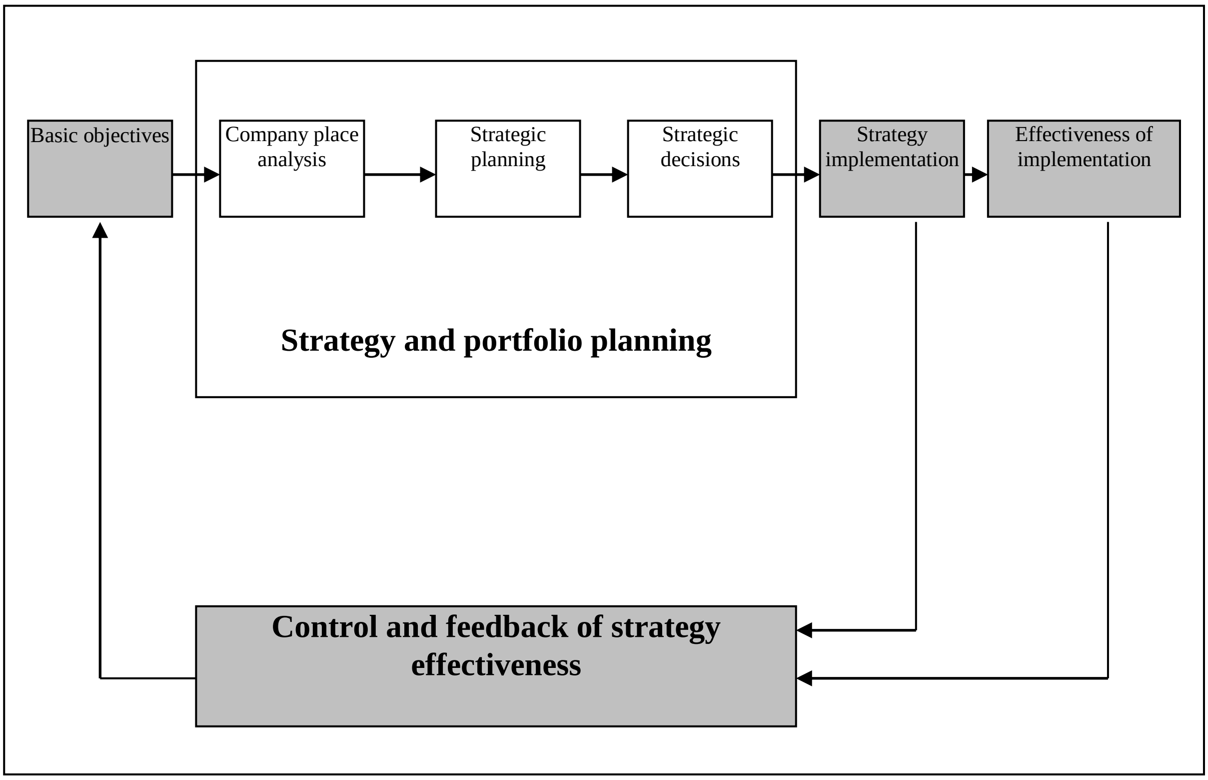

Figure 1. The process of strategic management [7]

In the time of strategic management scientists researched management responsibilities and provided methodological proposals to ensure more efficient and successful implementation. ‘The final objective of strategic management is to develop values, management skills, organizational responsibilities and administrative systems which build a link between strategic and operative decision-making at each level of management including company and functional competences. (Max and Hajluf 1984, p.72) [2, p.16]

5. STRATEGIC CHANGE

We are living in a time of strategic change. The economic actors live and operate in the society of information technology. They are affected by various changes. Nothing is stable or foreseeable as far as the market is concerned. This is the environment in which company managers have to develop a company strategy and achieve success.

The basic abilities of the company come into focus of attention, under which not the individual ability or technology is meant, but some kind of a combination of these. In order to consider an ability to be basic, it has to be valuable for a consumer, unique and promotable. Companies create scenarios in order to react to the rapid and unexpected changes in the market.

There are only some hints related to this new approach in the management literature, and its regularities and features have not yet been formulated.

6. SUMMARY OF THE HISTORY OF THE DEVELOPMENT OF PLANNING

Various phases of the development of theories and models are stations of never ending studies, which on the one hand, criticize the previous theories, and on the other hand in reacting to the changes going on in real practical life give priorities to new aspects and apply various models. A model or a method cannot be evaluated independently, but only in the light of a particular problem, namely whether it is applicable to identify and resolve a current problem in a particular environment or not. There is no one and only true method, just as there are no similar situations either.

The successful operation of a company does not lie in the methods, but depend on the managers who choose and apply them. This recognition provides basis for the philosophy, theory and tools system of strategic management. This approach undergoes constant change reflecting the changes occurring in the market. Changes in planning result from the rapid changes around dus and arise from them as well. While examining the history of the development of planning we sought to identify the determining processes and events in the macro-economy that distinguish the planning periods from each other.

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