

# THE MULTI-ANNUAL PLANNING, A CONNECTION BETWEEN THE STRATEGIC PLANNING AND THE OPERATIVE PLANNING

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*Abstract: The operative success of a company results from the use of success potentials. If a company intends not only to react, but also to structure its evolution consciously, then the entire company has to be oriented to the success potentials. Thus the company plans strategically a vision of its superior objectives for the following years. In addition, the strategic planning includes the ways through which these objectives have to be attained.*

## **1. Conceptual delimitations on budgets, budgetary systems and related principles**

Designing budgets is a management technique which allows the management board to set objectives and to define strategies. The budgetary process is used in the European organizations (especially in the French ones) since the 30s and has reached a large use and diversification based on the fact that the budget is a way of rationalizing expenses. In the US, the budget has a contractual reasoning as base and it represents an important control management tool.

The function of forecasting the management process could not provide enough orientation capability to the managers without the creation of budgets and programmes. The budgets draw the directions to achieve the objectives, in terms of financial and efficiency terms, and they also set clear competences and responsibilities regarding resource allocation and use. Budgets ensure a management style which creates coherence, decentralization, and subsystems control. Along the forecast function, budgets also have a function in control and financial balance. Budgetary control compares results of budgetary forecasting to identify the causes of differences and to implement various corrective measures for various hierarchy levels. The budgetary system ensures a change from strategic planning (long term) to short term management. For some organizations, the budget is only a management control tool, as for others serves as management control. The budgetary process is intended to define the objectives and action plans to achieve these objectives with the existing means whereas the budgets quantify in an accountable and financial manner the way an organization will obtain and use its resources in a given period. The budget as an instrument of financial planning has a series of advantages, such as:

Coordinates the efforts of functional departments involved in the budgetary process to obtain the most advantages in the overall activity;

Favours an efficient control system by comparing the achievements against the forecast and by taking corrective measures at the right moment;

As a control and work tool, it guides the organization to achieve economic management;

To take advantage of all its attributes of economic-financial management tool, the budget must evolve into a network of budgets, to take into account every responsibility centre to determine the points with negative influence over the results of the organization.

The budget is a figure forecast of resource allocation and of responsibility setting to achieve the organizational objectives in an efficient way. The budget is a fundamental component of control management but also an important short-term planning instrument.

Traditionally, budgets are linked to the establishment of responsibility centres and of functions, therefore being called functional budgets. Some budgets (administration budget, investment budget) have an imperative character as they prevent financial responsible and organizational management team from going over the budgeted limits. The operating budget and the treasury budget are orientational budgets.

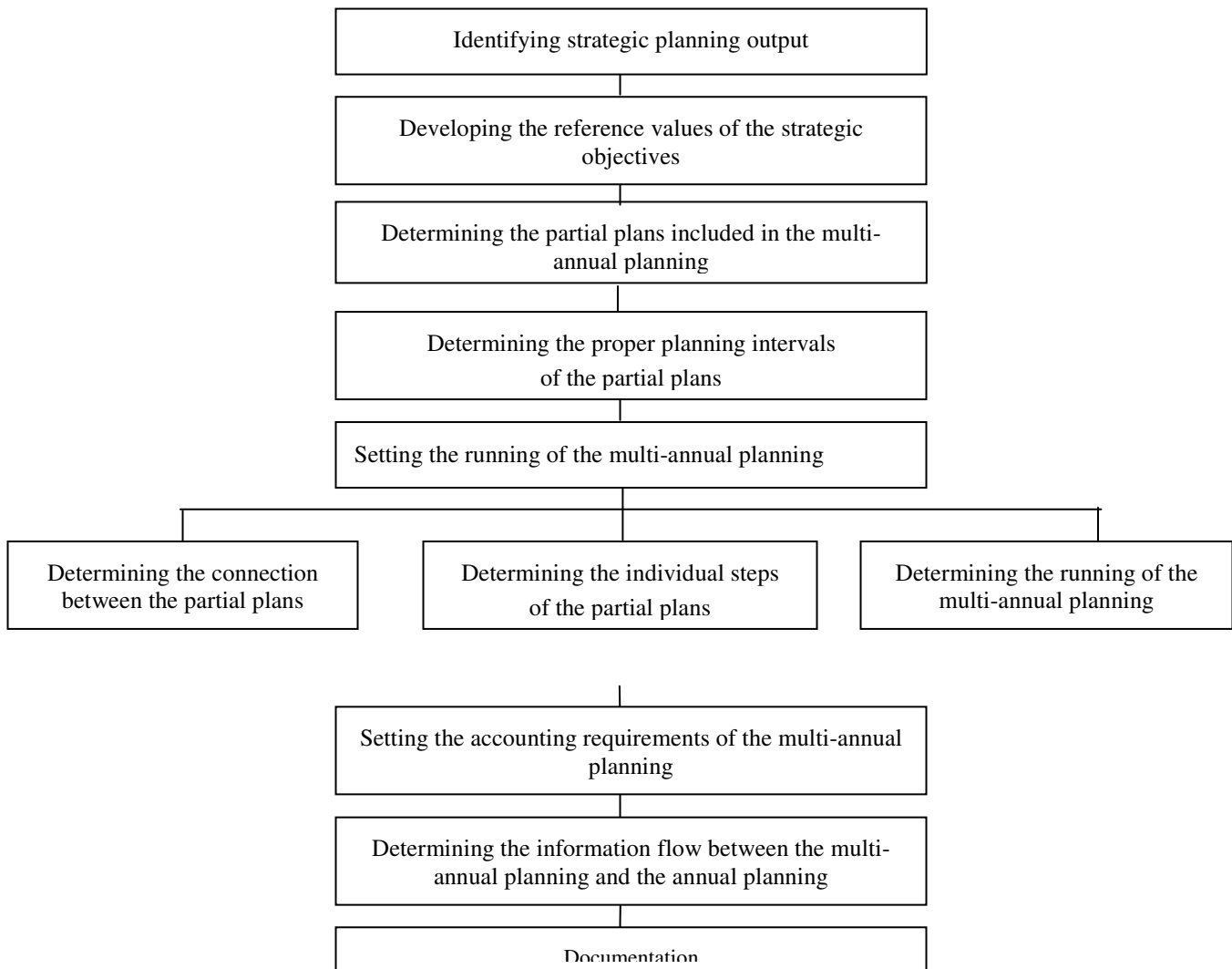
The organizational budgetary system reunites two main components: a system of budgets and a budget control procedure. In theory and practice, the general principles of budgetary management correspond to their objectives.

The coherence of the budgetary system is achieved by ensuring the following principles are respected:

- The principle of overlapping the budgetary system with the organizational authority system: the budget is always under the authority of an operation responsible who has a role in the overall context (forecast, organization, command, control). For example, the commercial manager is responsible for the sales budget; the chief engineer is responsible for the operating budget.
- The principle of totality which states that the coordination of the overall activity of the organization must ensure the balance between various functional and operational services. The totality of budgets represents the engagements of budget responsible to the management of the organization, according to the operating objectives of the organization.
- The principle of flexibility states that a budget must adapt to changes, to new information regarding the evolution of hexogen economic variables.
- The principle of maintaing solidarity among departments and the principle of correspondence with general organizational policies. The budgetary system must eliminate the tendency of over evaluating the importance of certain departments compared to other departments and to contribute to achieving the strategic objectives of the organization.

## **2. Defining the information flows between the multi-annual planning and the annual planning**

The multi-annual planning, also named the medium-term planning has to make a connection between the strategic planning and the operative planning. This transposes the strategic planning that often operates with qualitative sizes with operative standard values. Therefore it represents the framework of a detailed annual planning.



**Figure 1. The stages of the multi-annual planning**

The type of *output* provided by the strategic planning has to be established during the first stage. It does not refer to the so-called content, but to the form of the strategic plan, to be exact: if the strategic planning provides *hard facts*, as the standards of business records for five years, or limits to sensitive objectives, as to improve *Corporate Identity*. The first offers better approaches for the multi-annual planning.

The strategic planning *output* has a rather qualitative nature, so that the quantification process of the strategic objectives should be considered even since the multi-annual planning system is structured.

The third stage refers to choosing the respective partial plans and not all the responsibilities have to be planned on many years. The multi-annual planning is necessary mainly for investment planning, turnover, research and development, staff. Purchase and stock planning is usually made for one year.

The planning intervals do not have to be similar for all partial plans, though the three year multi-annual planning is often used in practice. The proper planning intervals vary from company to company. For example, a pharmaceutical company with long-term research and development processes should use a five year plan of research-development.

The precise running of the multi-annual planning is determined during the fifth stage. This is about the data flows between the partial plans and the multi-annual plans, and the individual processing stages for each partial plan. The terms, references, the decisional bodies and information transfer have to be settled. Moreover, the adequacy period has to be determined, that is the period between plan processing and its transmission.

To define accounting requirements and the information flows between the annual and multi-annual planning means to assign responsibilities. The controlling function should consider them permanently due to their major importance within the structure of the multi-annual planning system and its application.

When concluding the procedure plan, the documentation of the multi-annual planning system results and integrates usually in the annual planning manual.

The result: the annual planning has been extended to a multi-annual planning on medium-term.

A comprehensive planning system may be achieved only when the strategic procedures mentioned in the procedure plan for the multi-annual planning have a structured order, also known as the strategic planning process.

### **3. The connection between strategic planning, multi-annual planning and annual planning**

The operative success of a company results from the use of success potentials. If a company intends not only to react, but also to structure its evolution consciously, then the entire company has to be oriented to the success potentials. Thus the company plans strategically a vision of its superior objectives for the following years. In addition, the strategic planning includes the ways through which these objectives have to be attained.

An integrant part of the strategic planning is to define the company model. It shows how to understand the company and represents a guiding line for the company's members and their behaviours. For example, if a company's model is to offer trade mark products of high quality, than the operative planning almost excludes the sale of mass products. The strategic objectives determine the elements the company intends to insist on in his operative activity. If the objective is to reach a 10% market share in the USA for the next five years, the strategy may result in establishing a branch in the USA. Strategies are ways to achieve objectives. They settle the development direction which should be structured in the multi-annual and annual planning with precise individual stages.

The strategic planning means also to establish the premises to start planning. They are very important because the entire planning structure and the company's activities are based on them. Therefore the strategic controlling should supervise them.

The main objective of the strategic planning is to establish the company's future framework of development. Secondly, the strategic planning has to identify the new success potentials, in order to develop and secure the existing potentials. This may influence the future success and liquidity at the time the company still has numerous possibilities to action .Thus it provides the company's main objectives of development which are structured and materialized in the following planning steps:

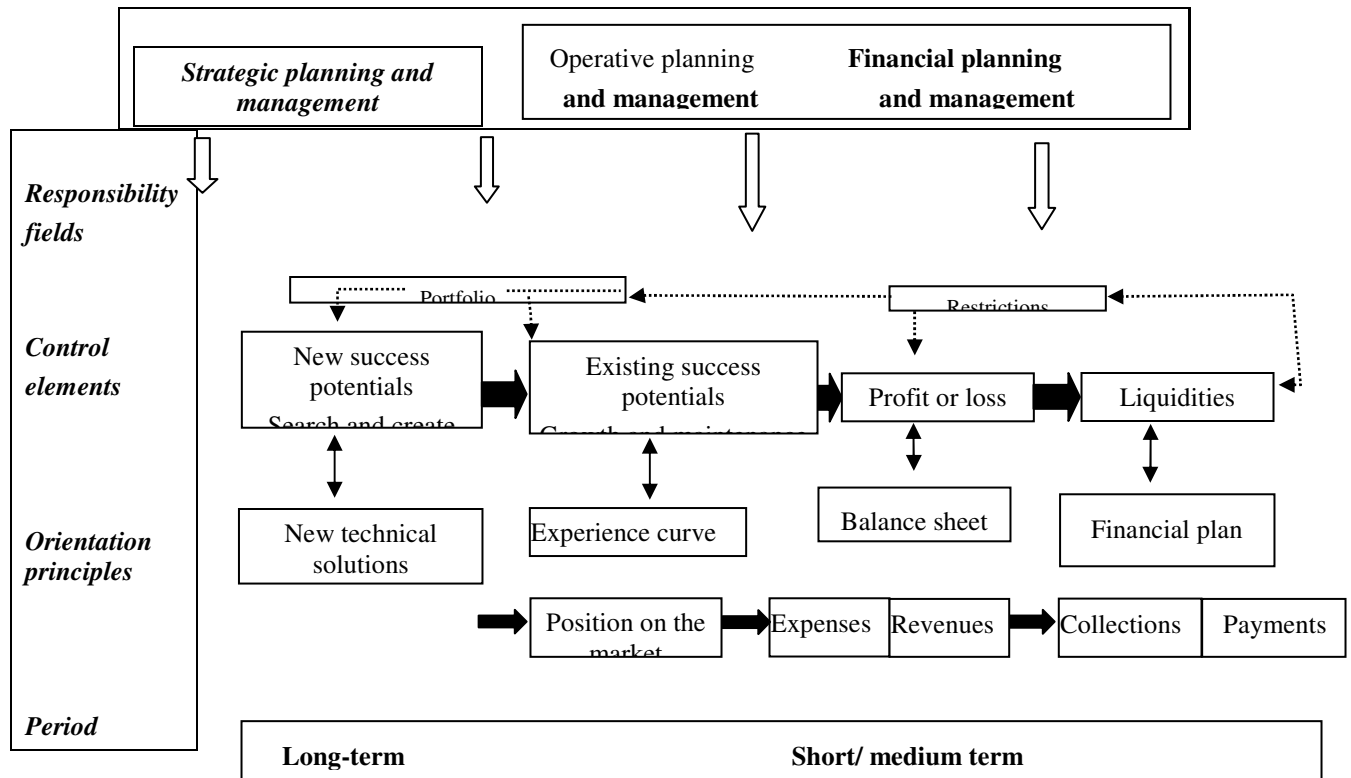


Figure 2. The strategic planning of the company (Galweiler, 1990)

The strategic planning turns into achievement stages through the multi-annual planning. The multi-annual planning turns the strategic objectives into operative key values, whose achievement leads gradually to strategic objective achievement. Therefore it is obvious that the strategic objective development and the consequently the multi-annual planning are useful in controlling the strategic planning.

A multi-annual planning is usually structured as a rotation planning. This means that the planning is processed yearly and the planning period leads to updating yearly the planning values and ensures that the planning corresponds to the latest information.

The multi-annual planning shows the strategic objectives in precise programs and responsibilities as key sizes. For example, one of the objectives of the multi-annual planning would be to introduce a new special line of products in the USA by the year N+3. Therefore the development process must be completed by the year N+1 and the performing resources must be available by the year N+1.

A detailed annual planning should be derived during the next stage, since the first year of the multi-annual planning. Thus the multi-annual planning becomes the liaison between the strategic planning and the annual planning. Its objective is to turn the strategic objectives and the key sizes into precise sizes on medium-term for the next financial period. By deriving the annual and the long-term planning for strategic reasons, the strategic objective achievement comes to be included in the operative activity of a financial year.

The annual planning assigns precise objectives for each person in charge precise for the following financial period. The annual planning is an estimate that corresponds to the superior levels that will turn into precise values. The expected results for the financial period are also precisely stated.

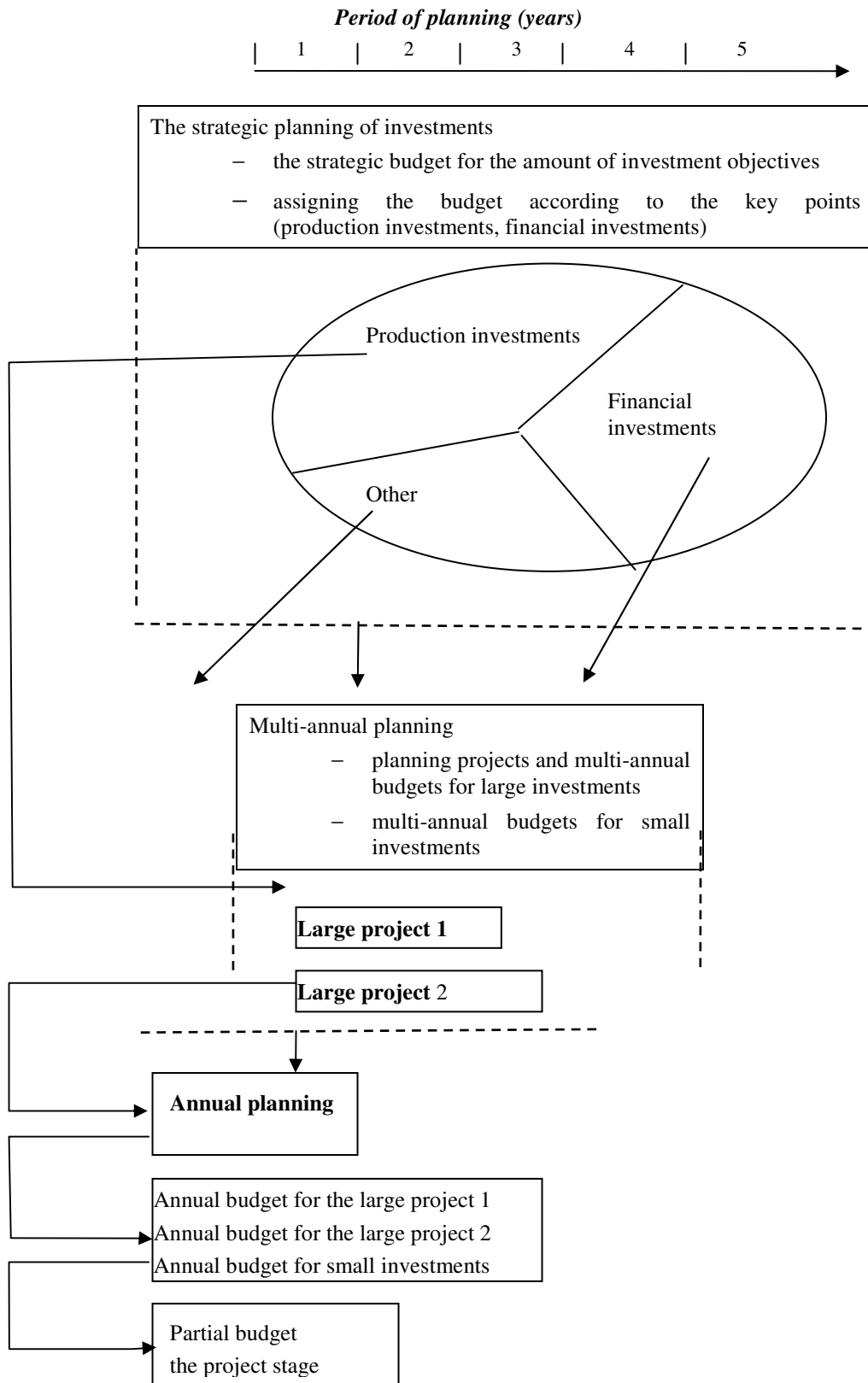
There is a *feedback* process between the different planning stages. The strategic planning shows whether the annual planning is approved by the management. In addition, the annual planning shows whether the strategies are achievable and are not mere visions. An important component of the annual planning is the financial planning. Differences may occur here because the precise values show clearly that the strategic objectives cannot be achieved or they will not be achieved so soon as planned. The annual planning may

also show a necessary revision of the strategic planning. The objectives should be watched retroactively or covered with the new strategies.

#### **4. The multi-annual planning based on investment planning**

The multi-annual planning for investments represents the connection between their strategic planning and the annual plan of investments. The entire process is described below. The framework of available means is the strategic planning of investments. As part of the strategic planning, it shows where the company's resources should be implemented. The objective is to reach a competitive advantage as high as possible. Beside the investment framework, the strategic plan of investments establishes important investment projects. The multi-annual planning records the strategic plan of investments in individual objectives. They are planned from the point of view of the individual stages and the necessary means to achieve them. Planning the achievement stages and the payment moments after the financial periods are very important here. The larger investment objectives usually run as projects. Therefore they are fundamental in planning the project, from its beginning to its end.

The annual planning specifies the partial investment projects that have to be made within the planning period. The investment needs are presented in the annual budget. In addition to the annual budget for the investment individual projects, one may provide partial budgets for certain stages of the project.



**Figure 3.** Example of combining the strategic planning of investments with the operative annual planning  
 Source: Horváth & Partners, *Controlling: Sisteme eficiente de creștere a performanței firmei*, Publishing House C.H. Beck Bucuresti, 2007

## Conclusions

Combining the approach of the leadership strategy with regards to costs and the differentiation strategy makes the organization aware of the importance that it has to grant to product innovation, to creating product features which are appreciated by clients, to constantly reduce costs by investing in production equipment, to rigorous control of fixed and total costs, to sales costs reduction.

Achieving all these objectives is imperative as a series of factors operate on the competition: increase in competition among organizations, new emerging organizations, new replacement products, buyers and sellers' business power.

An organization which learns, has the following traits:

- quality improvement processes as a result of gaining new knowledge and new insight;
- transforming the lessons learned during the organizational evolution into routines which guide behaviours;
- it is an organization able to create, achieve and transfer knowledge, and to adapt its behaviour depending on the new knowledge it has gained;
- doubting the past and transforming result into knowledge which is accessible to the entire organization and adapted to its objectives;
- ability to gain new knowledge based on own and others' experience and ability to transform the way it acts according to the new perception;
- the organization is a place where people continuously improve their ability to get results, where new and stronger learning patterns continuously develop, where common inspiration is stimulated and where people continuously learn.

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