

AGILE CORPORATE PLANNING

OFTEN CLAIMED HARDLY EVER DONE

An ever-growing volatility of the competitive environment makes reliable long-term planning more and more difficult. At the same time the importance of forward-looking information is increasing, both for decision makers as well as for investors. One common demand for modern planning therefore is to be “agile”. But what does that mean, and how agile is corporate planning today?

By *Andreas Krüger and Marcel Frey*



PROF. DR. ANDREAS KRÜGER
lectures business information systems at the University of Applied Sciences in Rosenheim, Germany. Andreas has worked in BI-consulting for more than 15 years and has been lead architect in several international corporate planning projects.



MARCEL FREY
Marcel is partner of Stampa & Partners AG in Zug and has been working in IT and Business consulting for more than 15 years. He has led several major corporate planning projects in international companies, both from a functional and technical perspective.

Dynamics of business are changing. New business models emerge that change the mechanisms of whole markets. It is becoming more and more difficult to foresee the future environment a company will work in. But insecurity is an enemy of economic efficiency. From a logistics perspective it requires to hold unnecessary stock quantities, in a financial perspective it increases the average capital employed. Thus stakeholders show a great interest in data that can reduce this risk. And planning is a means to reduce this insecurity. The inherent goal of corporate planning is to anticipate the future development of the organization, taking into account the effects of internal decisions as well as external side effects. The more unpredictable external effects become, the more difficult it is to derive meaningful projections of a company’s future.

One would expect that corporate planning reacts to the increasing dynamics of the organization’s environment. In theory, both the processes as well as the content of planning should anticipate and adjust to changing external side conditions in order to derive an accurate projection of future performance. This is what would be considered agile planning.

Agility should not be mixed up with adaptability. The demand for adaptability in planning is not new. When a planning system is introduced, a certain flexibility with regards to reorganizations or a change of master data has to be considered. IT systems often form a bottleneck for adaptability, e. g. if they are not flexible enough to adjust to changed organizational hierarchies or account structures. Adaptability is a passive and mainly process-related concept. It requires planning processes to still work as before, even after an external change like a reorganization happened.

In contrast to that, agility is pro-active and content-related. Agile planning is supposed to provide data to support internal management decisions in anticipation of upcoming changes. It allows management to simulate the effects of alternative future scenarios. It helps to identify the critical drivers of future success. IT can actively support agile planning in various ways, e. g. with the help of predictive analytics functionalities.

Agility is quite a new requirement for planning. And traditional planning processes restrain agility rather than fostering it. An ongoing benchmark study (www.benchmark2017.com) by the university of applied sciences in Rosenheim, Germany, is looking into the reality of corporate planning processes. Some tendencies already become obvious:

- *Most participating companies stick to an iterative budgeting process, in which top-down and bottom-up elements are combined and a final budget is derived within an average of three iterations. These processes involve a large number of organizational units and in most cases take between one and four months, with some companies taking up to nine months for this exercise.*
- *A majority of companies derives business and also individual management targets directly out of the budgeting cycles.*

- *Though most companies claim to focus on the most important topics in planning, budgeting is typically done on a very granular level. Usually hundreds or even thousands of cost centers and other organizational units are involved, frequently planning down to individual account level.*
- *IT systems seem to lead to even more granular planning and to an increased process complexity.*
- *Though most companies want to focus on critical value drivers, only a small fraction of them systematically identifies and analyzes these value drivers, e. g. with the help of statistical methods or IT systems.*

These preliminary results show that agility in corporate planning is still not a widespread reality. While predictive analytics and value driver orientation can be found in almost any theoretical publication on the topic of planning, IT systems today are still used mainly as data collection tools. The potential to leverage modern IT to support flexible decision making, simulations and planning scenarios is hardly utilized. As the grown processes are closely connected to individual target setting, the yearly negotiations of budgets turn into a ritual, the efficiency of it not even being questioned.

A small number of best-practice companies show how agility can be achieved by overcoming the budget traditions. Instead of repeated iterative negotiations in a long-lasting budgeting process, they move to a rolling forecasting model. Top-down targets become more prominent in these cases, as regular forecasts are compared against these targets. The regular discussion of the upcoming target achievements and on ways to improve them distinguish this process. The future is not discussed once a year, but on a regular basis. The renegotiation of budgets is replaced by a constant rethinking on the influence of upcoming developments.

Especially in a dynamic environment agility in corporate planning is desirable, because it boosts efficiency and effectiveness. Agile companies report a significantly lower effort for the determination of planning data. Less time and effort is spent on ritual budgeting exercises, reducing the overall costs of planning and thereby increasing its efficiency. More than that, the planned data itself has more informative value and validity than traditional planning results, e. g. because distracting side effects from target settings are not mixing with business forecasts. Agile planning becomes more effective, i. e. its targets are achieved in a better way.

However, accomplishing agility in planning requires the willingness to rethink processes quite fundamentally. A change of mindset is required more than the introduction of sophisticated IT tools. Agile planning processes are not primarily an IT topic. This needs to be reflected in the organizational setup of such projects. The recipients of planning data, i. e. the company’s management, need to actively drive this change. Only then agility will be more than a buzzword.

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* Townsend und Shu, Journal of Consumer Psychology, 20, 452-458

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