Planning and Control Planning and control are fundamental aspects of performance management.

Strategic planning is concerned with:
• where an organization wants to be (usually expressed in terms of its objectives) and
• how it will get there (strategies).
Control is concerned with monitoring the achievement of objectives and suggesting corrective action.

Planning and control at different levels within an organization
Planning and control takes place at different levels within an organization.
The performance hierarchy operates in the following order:
(1) Mission
(2) Strategic (corporate) plans and objectives
(3) Tactical plans and objectives
(4) Operational plans and targets

Mission
A mission statement outlines the broad direction that an organization willfollow and summarizes the reasons and values that underlie that organization. A mission should be:
• Succinct
• Memorable
• enduring, i.e. the statement should not change unless the entity's mission changes
• a guide for employees to work towards the accomplishment of the mission
• addressed to a number of stakeholder groups, for example shareholders, employees and customers.

The mission forms a key part of the planning process and should enhance organizational performance:

• It acts as a source of inspiration and ideas for the organization's detailed plans and objectives.
• It can be used to assess the suitability of any proposed plans in terms of their fit with the organization's mission.
• It can impact the day to day workings of an organization, guiding the organizational culture and business practices used.

If the market or key stakeholders have changed since the mission statement was written, then it may no longer be appropriate. A change in the mission statement may result in **new performance measures** being established to monitor the achievement (or otherwise) of the new mission.

Performance management is any activity that is designed to improve the organization's performance and ensure that its goals are met. Performance management aims to direct and support the performance of all employees and departments so that the organization's goals areachieved.Therefore, any performance management system should be linked to performance measures at different levels of the hierarchy. One model of performance management that helps to link the different levels of the hierarchy is the performance pyramid.

Strategic (corporate) planning - What is strategy?

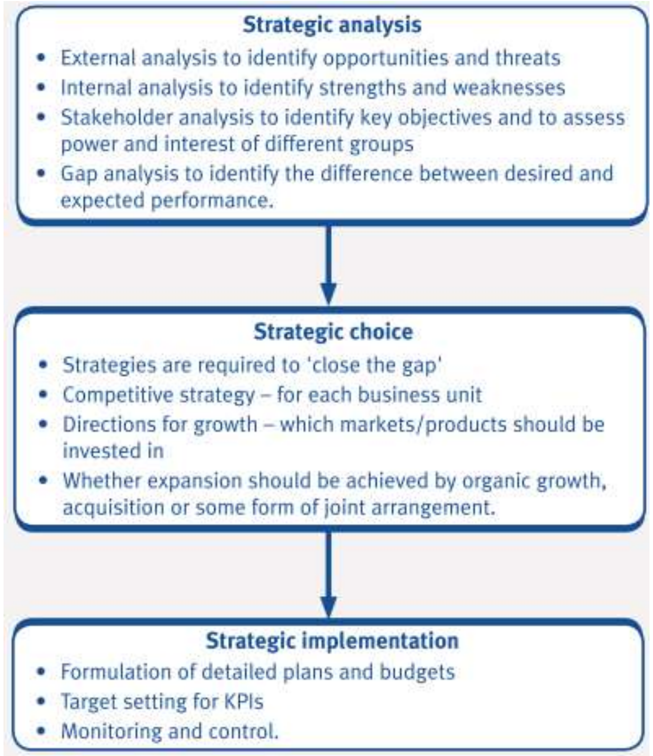
The core of a company's strategy is about choosing:
• **where** to compete and
• **how** to compete.

It is a means to achieve **sustainable competitive advantage**. In terms of performance management, the test of a good strategy is whetherit enables an organization to use its resources and competencies advantageously in the context of an ever changing environment.

Strategic (or corporate) planning involves formulating, evaluating and selecting strategies to enable the preparation of a long-term plan of action and to attain objectives.

Strategic analysis, choice and implementation (rational model)

This three stage model of strategic planning is a useful framework for seeing the 'bigger picture' of performance management



The role of strategic (corporate) planning in clarifying corporate objectives

Corporate objectives concern the business as a whole and focus on the desired performance and results that a business intends to achieve.
The first stage of the strategic planning process, strategic analysis, will generate a range of objectives, typically relating to:
• maximisation of shareholder wealth • maximisation of sales • growth • survival
• research and development • leadership • quality of service • contented workforce

These need to be clarified in two respects:
• **conflicts need to be resolved**, e.g. profit versus environmental concerns
• to facilitate implementation and control, objectives need to be translated into **SMART** targets.
The viability of a strategic choice should be assessed using three criteria:

Objectives, critical success factors and key performance indicators

Once an organization has established its objectives, it needs to identify the key factors and processes that will enable it to achieve those objectives.

Critical success factors (CSFs) are the vital areas 'where things must go right' for the business in order for them to achieve their strategic objectives. The achievement of CSFs should allow the organization to cope better than rivals with any changes in the competitive environment and to maximise performance.

Key performance indicators (KPIs) are the measures which indicate whether or not the CSFs are being achieved.

CSF - The organization will need to have in place the **core competences** that are required to achieve the CSFs, i.e. something that they are able to do that is difficult for competitors to follow. There are **five prime sources** of CSFs:

1 **The structure of the industry** – CSFs will be determined by the characteristics of the industry itself, e.g. in the car industry 'efficient dealer network organization' will be important where as in the food processing industry 'new product development' will be important.

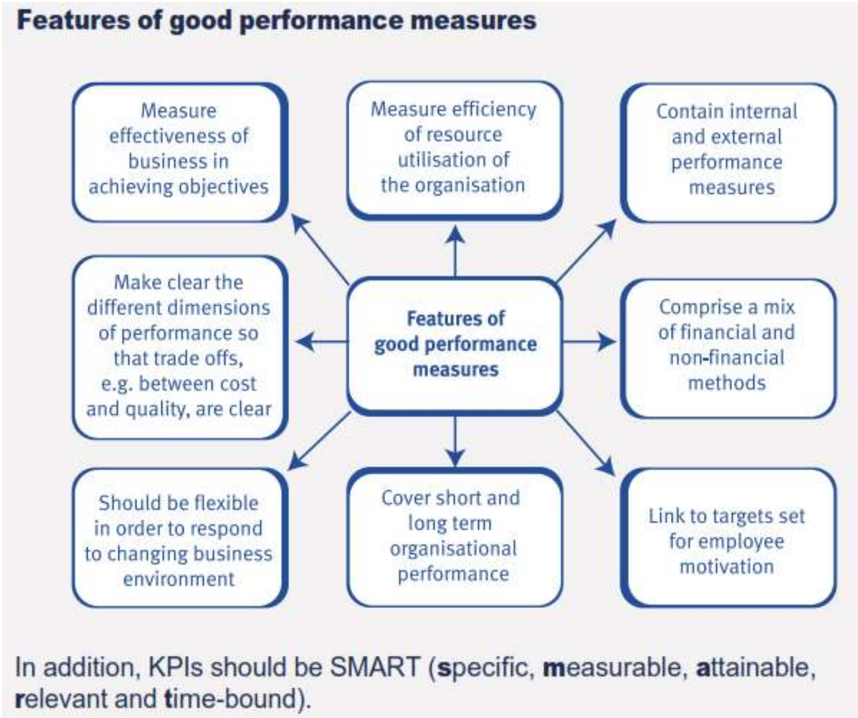
2 **Competitive strategy, industry position and geographic location**
- – Competitive strategies such as differentiation or cost leadership will impact CSFs.
- – Industry position, e.g. a small company's CSFs may be driven by a major competitor's strategy.
- – Geographical location will impact factors such as distribution costs and hence CSFs.

3 **Environmental factors** – factors such as increasing fuel costs can have an impact on the choice of CSFs.

4 **Temporary factors** – temporary internal factors may drive CSFs, e.g. a supermarket may have been forced to recall certain products due to contamination fears and may therefore generate a short term CSF of ensuring that such contamination does not happen again in th e future.

5 **Functional managerial position** – the function will affect the CSFs, e.g. production managers will be concerned with product quality and cost control.

KPIs are essential to the achievement of strategy since **what gets measured gets done**, i.e. things that are measured get done more often than things that are not measured.



The role of strategic management accounting

Strategic management accounting is a form of management accounting which aims to provide information that is relevant to the process of strategic planning and control. The focus is on both **external** and internal information and **non-financial** as well as **financial** factors.

The strategic management accountant plays a key role in performance management helping to determine the financial implications of an organization's activities and decisions and in ensuring that these activities are focused on shareholders' needs for profit.

Changes in the role of the management accountant

The role of the management accountant has changed as a result of environmental pressures. Burns and Scapens studied how the role has changed over the last 20 years.

- The role has changed focus from financial control to business support making the management accountant more of a generalist. Management accountants may now spend much of their time as internal consultants and although they still produce standardised reports, more time is spent analysing and interpreting information rather than preparing reports.

- This new role has been called a hybrid accountant since the management accountant has a valuable combination of both accounting and operational/commercial knowledge.

- Traditionally, it was thought that accountants needed to be independent from operational managers in order to allow them to objectively judge and report their accounting information to senior managers. However, today accountants do not necessarily work in a separate accounting department but may be fully integrated into other departments, thus playing a key part in the operations and decision making process of the department.

DRIVING FORCES FR CHANGE

Driving force	Explanation
Management structure	• Head office has delegated much responsibility to the strategic business units thus reducing the involvement of management accountants in areas such as detailed budgeting. • The management accountant may now provide a link between the operational reports, the financial consequences and the strategic outcomes desired by the board.
Technology	• Management Information Systems (MIS) allow access for users across the organisation to input data and run reports giving the type of analysis once only provided by the management accountant.
Competition	• The competitive environment has driven organisations to take a more strategic focus. • Management accountants no longer focus their efforts on the final profit figure (this is seen as short-termism) but focus on a number of measures which try to capture long-term performance.

Benefits of the changes for performance management

From an organization's perspective, the accountant will be a guide to the strategic business unit manager to ensure that strategic goals are reflected in performance management.

The management accountant will take a supporting role in assisting strategic business unit managers in getting the most from their management information system. This will entail the accountant understanding the needs of the particular manager and then working with them to extract valuable reports from the management information system.

The management accountant can develop a range of performance measures to capture the different factors that will drive its success.

ROLE OF THE MANAGEMENT ACCOUNTANT IN PROVIDING INFORMATION TO STAKEHOLDERS

The demands placed on management accountants have grown in recognition of significant sustainability challenges.

These demands require a rich supply of information, capable of informing stakeholders of the financial and nonfinancial impact of the company's decisions.
Conventional management accounting systems often failed to provide this information.

THE TRIPLE BOTTOM LINE

Whilst all businesses are used to monitoring their profit figures, there are also environmental and social aspects to consider in the longer term. The triple bottom line focuses on economic, environmental and social areas of concern.

Area of concern	Explanation
Economic performance	• The management accountant must monitor the financial performance of the organisation to ensure its continued prosperity and fulfilment of shareholders' needs.
Environmental performance	• Improved environmental practices may include taking steps to reduce waste, increase recycling and use energy efficient equipment. • The management accountant must monitor the costs and benefits of such actions to ensure that the needs of stakeholders are being met.
Social performance	• Many examples exist such as a contribution by a company to community projects. • Perhaps harder to measure than the economic and environmental aspects. • Many activities don't have to cost the organisation much (for example, giving staff time off every year to volunteer for charitable causes) but can have far reaching social benefits. • The management accountant must monitor the costs and benefits (as above).

Integrated reporting

To tackle the problem discussed above, a new approach is being recommended called integrated reporting. With integrated reporting, instead of having environmental and social issues reported in a separate section of the annual report, or a standalone 'sustainability' report, the idea is that one report should capture the strategic and operational actions of management in its holistic approach to business and stakeholder 'wellbeing'.

International Integrated Reporting Council (IIRC)

The IIRC was formed in August 2010 and aims to create a globally accepted framework for a process that results in communication by an organization about value creation over time. The IIRC seeks to secure the adoption of and Integrated Reporting Framework (an alternative to the recommendations by the GRI) by report preparers. The Framework sets out several **guiding principles** and **content elements** that have to be considered when preparing an integrated report.

There are **seven** guiding principles, as follows:

Strategic focus and future orientation
Connectivity of information
Stakeholder relationships
Materiality
Conciseness
Reliability and completeness
Consistency and comparability

There are **eight** content elements:

Organizational overview and external
Environment
Governance
Business model
Risks and opportunities
Strategy and resource allocation
Performance
Outlook
Basis of preparation and presentation

Tools used in strategic analysis

Benchmarking

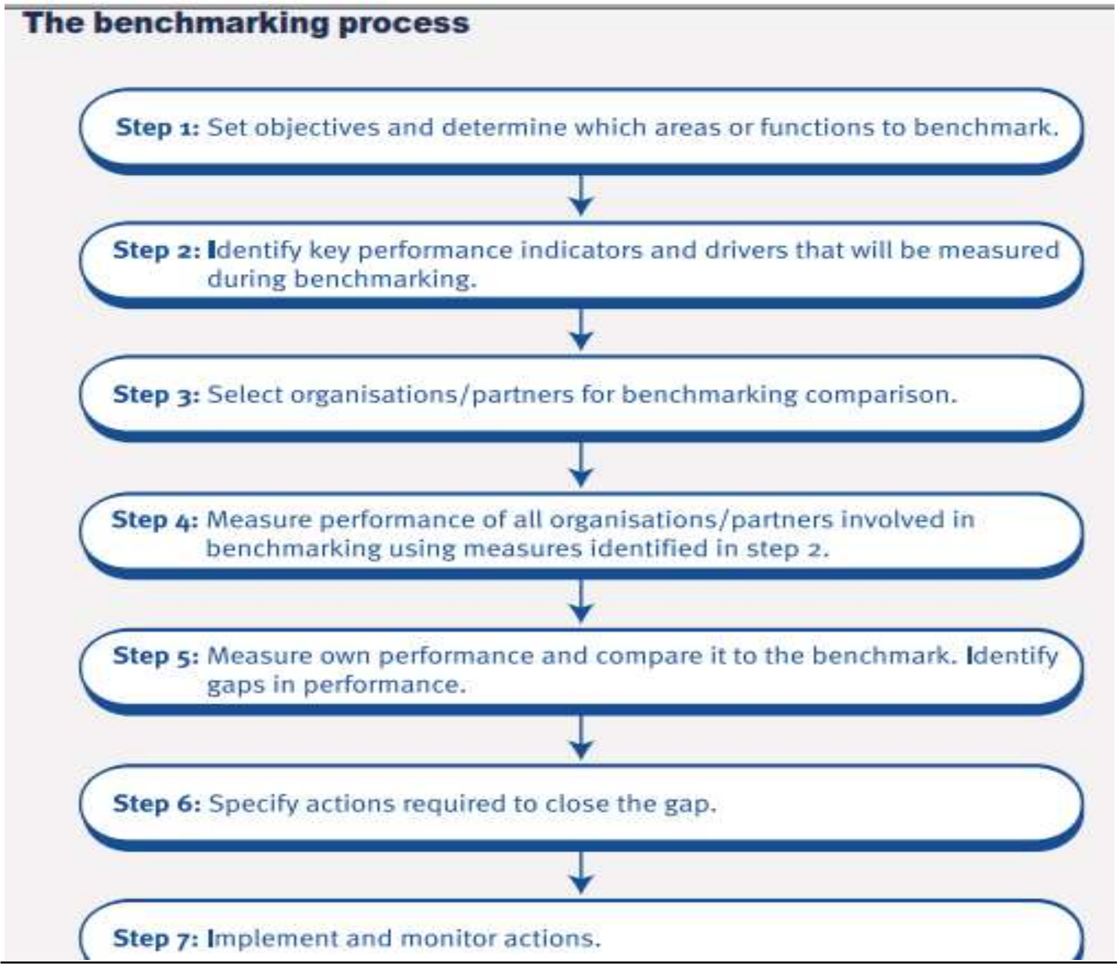
Benchmarking is the process of identifying **best practice** in relation to the products (or services) and the processes by which those products (or services) are created and delivered. The objective of benchmarking is to understand and evaluate the current position of a business or organization in relation to best practice and to identify areas and means of performance improvement.

Types of benchmarking

- **Internal**: this is where another function or department of the organization is used as a benchmark. Can be straightforward but may lack innovative solutions due to there being no external focus.

- **Competitor**: uses a direct competitor in the same industry with the same or similar processes as the benchmark. The biggest problem will be obtaining information from the competitor.

- **Process or activity**: focuses on a similar process in another company which is not a direct competitor.Can prove easier to obtain information from a non-competitor and can still find innovative solutions.



Benchmarking and the strategic planning process

Benchmarking can be used in all three areas of the strategic planning process:

• **Strategic analysis** – a company's mission may be to be 'the premium provider of its products' but without comparison through benchmarking how will they know if they are delivering premium products? In addition, a company's position can be summarised in a SWOT analysis. each of these factors can be identified through benchmarking and any gaps identified.

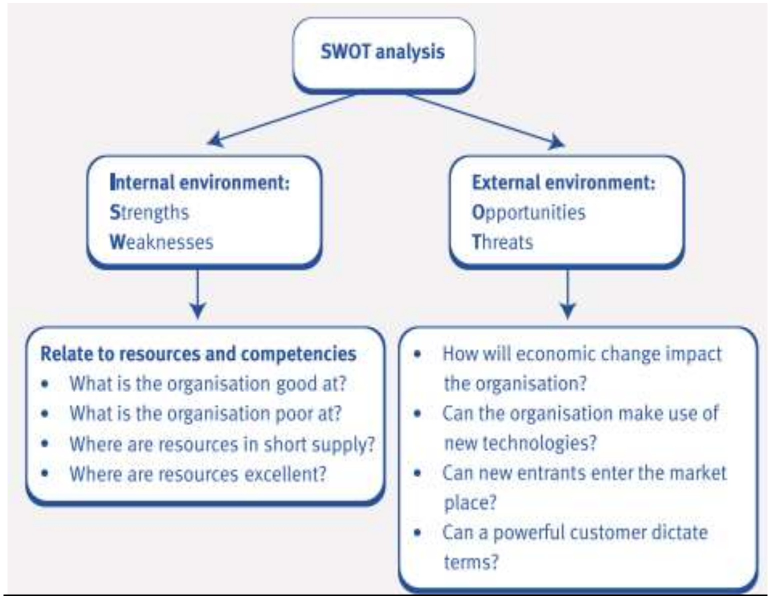
• **Strategic choice** – benchmarking can help in assessing generic strategy. For example, an organization may compare its costs to the leading competitor. If the organization cannot better or equal those results then cost leadership is an inappropriate strategy to pursue.

• **Strategic implementation** – for example, budgetary targets should be benchmarked against other organizations to ensure that they are both challenging and attainable.

Benchmarking metrics

Once an organization has decided which aspects of its performance should be benchmarked, it must thenesta blish metrics for these, i.e. how can performance be measured? Some areas will be easy to measure (such as material used) where as others will be more difficult (such as customer service).

SWOT analysis - The purpose of **SWOT analysis** (corporate appraisal) is to provide a summarised analysis of the company's present situation in the market place. It can also be used to identify CSFs and KPIs.



Once a SWOT analysis has been carried out strategies can be developed that:

• Neutralize weaknesses or convert them into strengths.
• Convert threats into opportunities.
• Match strengths with opportunities – a strength is of little use without an opportunity.

SWOT analysis and performance management and measurement

SWOT analysis helps an organization to understand its environment and its internal capacities and hence to e valuate the potential strategic options it could pursue in its quest to improve organizational performance and to close any performance gaps that exist.

It can also help an organization to identify key aspects of performance (CSFs) that need measuring (through t he establishment of KPIs).

Finally, it can help in determining the information needs of the business in relation to measuring and reporti ng on the KPIs set.

GAP Analysis

Gap analysis is carried out as the final part of strategic analysis. It identifies the planning gap. This is the difference between the desired and the expected performance.

The planning gap is often measured in terms of demand but may also be reported in terms of earnings, return on capital employed etc.