# PLANNING "AUDITS"

*James P. Catty*


> "Knowledge is the beginning of practice; doing is the completion of knowing."
> - Wang Yang-Ming (1498)

An annual planning Audit is recommended for each company as a whole and, if large enough, for all of its divisions or profit centers.

The Audit consists of checking the impact of 20 key determinants of corporate success/failure on the company's operations.

It requires concise, precise and honest evaluations as well as descriptions of actions taken to exploit or remedy various situations; results of such actions should also be recorded.

The chief executive of each unit must take the initiative in filling the forms himself/herself—then asking key associates to do the same. The comparison and discussion of individual evaluations on the same subject is usually very revealing. It provides a solid, rational basis for policy changes and important new action programs.

The process has been tested and yields excellent results despite its deceiving simplicity.

> "Every day cannot be a feast of lanterns." Chinese proverb

## 1. Unpredictability

*Prioritize*

- List past events which happened unpredictably and had major positive or negative effects on your business.

*Conclusions*

- What did you learn from it?

*Action Programs*

- What did you do about it?
- What were the results?

*Comments*

- We live in an era of faster change and discontinuity.
- Unpredictable events will continue to occur.
- Businesses must be prepared to react rapidly and cleverly to such occurrences.
- It requires a positive attitude and innovative atmosphere within the key functions of the enterprise.

## 2. Major Strategic Successes/Errors

*Prioritize*

- List past major successes and errors of a strategic nature--in order of importance.
  - e.g. introduction of new product, construction of a plant, major new advertising campaign, expansion into new geographical market, divestiture of a product line.

*Conclusions*

- What did you learn from it?

*Action Programs*

- What did you do to further enhance the successes and minimize the effect of errors?
- What were the results?

*Comments*

- Corporate Planning Audit can be usefully performed at all levels of the corporation. Above analysis is constructive for the chief executive as an overall picture as well as for any departmental/functional executive in his specific area of operations.
- Do not minimize nor circumvent the principle of establishing priorities in any listing of events. It forces better thinking, better analysis and clearly exposes differences of point of view among executives.
- Such differences, handled constructively, can become the basis for many changes and improvements within the company.

## 3. Objectives

*Prioritize*

- List in order of importance the key objectives of the corporation/division/profit center/function/department depending on your interest and position within the company.
- Indicate the quantitative measure for each objective (e.g. dollar earnings per share for "profit"; number of complaints for "customer satisfaction"; percent absenteeism for "workers' motivation"; dollar unit cost decrease per product for "productivity."
- State reasons for objective selection and priority. Check with other executives as to their views.

*Conclusions*

- Determine if actual results and objectives are compatible (realistic).
- Determine if changes are needed--different priorities and/or different objectives.

*Action Programs*

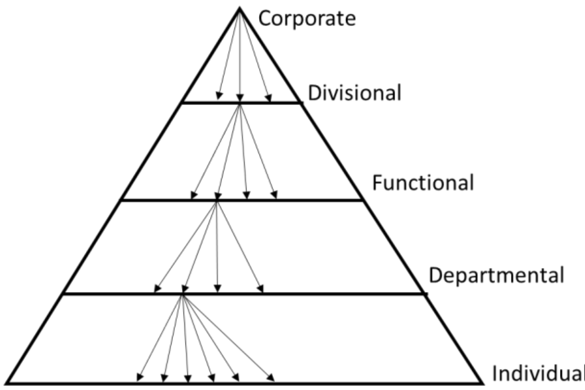
- Do something about your conclusions.
- Check the results.

*Comments*

- Look at objectives as a pyramid (hierarchy). It is a logical flow and expansion from top level corporate objectives (amount of profit, percent of revenue increase, ROI, overall market share) to divisional or profit center objectives. Then a further branching out into functional objectives (marketing, production, service, R & D, etc.).
- Key functional objectives subdivide into appropriate departmental objectives (overall marketing into advertising, regional penetration, service support, product line sales quotas, branch office costs, etc.).

- At the end of the process, departmental objectives are translated into individual performance goals.
- Thus each employee is directly tied into the extensive network of interrelated goals, sub-objectives which logically stem from a few general goals at the corporate top of the pyramid.




### 4. Key External Factors (Non-Government)

*Prioritize*

- List in order of importance/impact external factors other than governmental (see item-5) that had an effect on your business. Analyze/measure that effect.
    - e.g. Impact of increasing number of working women on door-to-door sales (nobody at home). Cost of energy on home insulation market. Trend to lighter cars on substitution of materials (plastic vs. steel).

*Conclusions*

- What did you learn from it?

*Action Programs*

- What did you do about it?
- What were the results?

*Comments*

- External factors will play an increasingly important, even dominant, role in shaping corporate destiny. It is imperative to continuously and systematically scan the outside environment and search for clues of change that may affect the business. Refer to Clue Management section in 1977 Manual of Management Assumptions.

## 5. Government Influence/Impact on Business

*Prioritize*

- List in order of importance favorable and unfavorable effects on various phases of your business due to governmental regulations, legislation (at all levels) or influence.
- Analyze carefully and try to determine future trends.
  - e.g. Potential saccharine ban created a short-range boom and long-range bust probability for firms specializing in saccharine production. Government ban of acrylonitrile plastic bottles for the food industry is bad news for plastic container firms, good news for glass bottle producers.

*Conclusions*

- Compare conclusions of item-4 with item-5, non-governmental vs. governmental, factors. Which are more important?
- Are the effects favorable or unfavorable?

*Action Programs*

- What did you do about it?
- What are you going to do about it?
- What are the results to date?

*Comments*

- Maintain a continuous vigilance of government's impact on the business.
- It is an increasing trend in U.S. and, to a far larger extent, abroad.
- Learn to live and prosper with a difficult "partner."

## 6. Internal Factors - Key Result Areas

*Prioritize*

1. List in order of importance internal factors impacting most the achievement of company objectives. This should be done at all levels of the objectives' pyramid (see item-3). Key internal factors vary according to the business and the management style.
   - e.g. Market share, new accounts, geographical expansion may be dominant in a marketing oriented company. Liquidity, ROI, debt/equity ratio, investment portfolio in a financially motivated business. Productivity, unit costs, labor supply, union peace, automation in a manufacturing environment. R & D results, patents, talent search, innovation to a new products and research directed management.

*Conclusions*

- Which are the key result areas of your business?
- How do you measure them?
- How is the performance at various levels of detail?

*Action Programs*

- What are you doing about it?
- What are the results to date?

*Comments*

- Analyze methodically which internal areas of the business are most important to the achievement of your particular objectives.
- Work on the key items only.
- The rest will fall in place.

**7. Evaluation of Present Position - Strengths**

*Prioritize*

- Determine at various levels of your operations--from the top corporate level, through the pyramid, all the way down to the individual--the major strengths within the business in tune with the objectives. Evaluate, compare, analyze.
  - e.g. One company's major strength may be "quality of product" reflecting management's focus on manufacturing, multi-level quality control, employee motivation, bonus and incentive system based on quality production. Another company's strength may be "marketing excellence" through organization of its sales and support personnel, control over distribution, priority on customers' satisfaction, elaborate feedback system on customers' reactions, training, motivation and rewards to company personnel directed at maintaining "happy" customers. Another company's strengths may be its innovative new products department, maintaining a steady flow of improved and/or new lines. This may be achieved through directed attention to creativity of personnel, proper atmosphere and facilities, rewards geared to exceptional results by individuals, risk taking in experimentation with new ideas, materials, processes, systems, etc.

*Conclusions*

- What did you learn?
- Are the strengths real and sufficient?
- Are they compatible with the objectives?

*Action Programs*

- What have you done about it?
- What are the results to date?
- What are you going to do next?

*Comments*

- It is important to have some major strengths, even coupled with weaknesses, rather than a uniformity (average) throughout the company.
- A major strength is a "uniqueness" (see item-14) to build upon.

**8. Evaluation of Present Position - Weaknesses**

*Prioritize*

- Determine at various levels of your operations the major weaknesses impeding the achievement of your objectives. It must be a multi-level analysis always directed at "what's important." Weaknesses that have little bearing on planned performance can practically be ignored.
  - e.g. For a company with a simple product, a sales force of diligent, medium or low paid "peddlers" is not a weakness. Should, however, the market change and demand a more sophisticated systems oriented approach, the "peddler" becomes inadequate, and a new marketing weakness has to be overcome: transition from peddling to systems marketing.

*Conclusions*

- What did you learn from it?

*Action Programs*

- What did you do about it?
- What were the results?
- What is the next step?

*Comments*

- Strengths (item-7) are usually more important than weaknesses.
- Act from strength first, then correct the most damaging weaknesses.

## 9. Competitive Assessment

*Prioritize*

- List in order of importance and impact on your business major strengths and weaknesses of your competitors-- direct and indirect. Analyze, evaluate in terms of today. Then try to determine future trends and potential changes.
    - e.g. Competition's strength vs. a manufacturer of medium to high priced consumer goods was at the lower/cheaper end of the line (100 of volume). Due to inflationary trends and changing consumer buying habits, moderate priced segment increased to 40% of volume. Competitive impact became correspondingly far more pronounced than in the past. New strategies and actions became imperative.

*Conclusions*

- Is competition increasing or decreasing? Why?
- Which segments of the business are most affected? Why?

*Action Programs*

- What did you do about it?
- What were the results?
- What are you going to do next?

*Comments*

- Consider domestic and international competition.
- Try to put yourself in competitors' shoes.
- Determine their strategies and plans against you.
- Prepare action programs against their future moves.
- Above all, don't be complacent.

## 10. New Opportunities

*Prioritize*

- Scan the outside environment for clues of change that may have a positive effect on your business. Make a determined, continuous effort to search for new opportunities. Prepare a "shopping list," a menu of potential positive trends. Select a few, prioritize and do something about it.
    - e.g. Working wives created a major market for new appliances (from expensive microwave ovens to inexpensive slow cooking pots). Growing crime rate increased the

market for home and industrial protection devices. Reduction of speed limit from 70 to 55 mph was the real trigger for the explosive growth of CB transmitters (originally purchased by speeding truckers, and later regular motorists, to avoid police patrols).

*Conclusions*

- Did you originate any new products or services because of changing external factors?
- How many?
- Why not more?

*Action Programs*

- What did you actually do?
- What were the results?
- What is your next move?
- When?

*Comments*

- Fast change and unpredictability create a greater number of opportunities than ever before. Innovation becomes an all-important management function.
- An organized, top priority effort to exploit change will bring above expectation results.

**11. Key Management Test: 20% Business Downturn**

*Prioritize*

- Assume a 20% drop in your sales revenue (or any other drastic change). Analyze which areas/results/functions of the business will be most affected when compared against objectives.
- Prioritize the areas of greatest impact--product line profits, personnel, production, inventories, fixed costs--and analyze the reason.

*Conclusions*

- Determine your company's and various departments' "sensitivity" to fluctuations. If you conclude that a business decline will create excessive deviations from plan in many areas, you may wish to concentrate on lowering the break-even level of many products/services. This is necessary to withstand future economic fluctuations.

*Action Programs*

- What programs should be instituted?
- What results are expected?

*Comments*

- Management must provide any company with a higher resilience/resistance to unexpected fluctuations which, in the next five years, will occur at a faster rate than in the past.

**12. Risk Determination - Present Products/Services**

*Prioritize*

- Select your present main products/services--representing 80% of total volume. Calculate return of investment and profit margin on each item--classify arbitrarily into low, medium and high profitability. Analyze each item as to its "risk content":
  - Market risk--changing consumer habits/desires/needs
  - Competitive risk--better competitive product in the offing
  - Technological risk--obsolescence due to new technology
  - Financial risk--inflationary costs higher than price elasticity
- Arbitrarily classify into low, medium and high risk.
- Fill the appropriate boxes on the chart.
- Analyze results.

*Conclusions*

- If your low, medium and high profitability matches low, medium and high risk you're OK.
- If high profitability matches low risk, the situation is excellent.
- If, however, high risk items show low profitability, corrective steps are necessary.

*Action Programs*

- What have you done about it?
- What were the results?
- What is the next step?

*Comments*

- Understand your present product/service line, item by item. Look at it realistically and unemotionally.
- Analyze the effects of changing conditions on product's life cycle, costs, usefulness, etc.

## 13. Risk Determination - Future Products/Services

*Prioritize*

- Perform the same analysis as in item-12 on a selected list of your future products/services, now in development or planning stage, representing 80% of your additional or replacement volume.
- Analyze the matrix. It should obviously reflect a better picture than the present product/service array.

*Conclusions*

- What did you learn?

*Action Programs*

- What are you doing about your conclusions?
- What programs are in progress and with what results?

*Comments*

- Re-evaluation of potential profitability vs risk content of new products/services should be made periodically--at shorter time intervals than in the past (due to faster changing conditions).

## 14. Degree of Uniqueness

*Prioritize*

- Every business must have a degree of differentiation, a degree of uniqueness to enable it to operate profitably in a competitive environment. Analyze carefully the key functions and departments of the business (determined in item-6) and isolate "unique" characteristics providing a competitive edge. Classify these characteristics in order of importance.
    - e.g. Marketing uniqueness of Sears was established many years ago by its living up to the promise of "satisfaction guaranteed or your money back." IBM grew because of its original machine rental only policy. Xerox unique pricing based on per-copy usage made its early super growth possible. Rolls Royce automobiles_ established a world-wide unchallenged quality image. Polaroid's uniqueness was based on technological breakthrough and the innovative genius of Dr. Land.

*Conclusions*

- Examine whether your company has valid characteristics of uniqueness in its operations.

*Action Programs*

- What are you doing about it?
- How well?

*Comments*

- It is not necessary for a business to have history-making "uniqueness" in order to be successful. But in key areas of its operations, it has to be "a little bit better" to create characteristics of positive differentiation in one or more fields of endeavor: product specifications, service performance, customer policies, pricing, marketing methods, production techniques, different materials, personnel motivation and rewards, geographical locations, engineering innovations, and so on. To achieve the above, one must establish within the organization an atmosphere conducive to innovation and creativity.

**15. Innovation - Creativity**

*Prioritize*

- List in order of importance favorable and unfavorable factors, promoting or inhibiting innovation and creativity in your organization. Look at your people in various departments and at various levels. Examine your management style (see item-20).
- Review your policies, your rewards system. Are your talented individuals motivated? Are you acting on their suggestions? Do they have some freedom to effect change, to innovate?

*Conclusions*

- What did you learn from the above?

*Action Programs*

- What are you doing about it? What results are being achieved?

*Comments*

- Innovation and creativity does not have to be concentrated only in new products/services area. It can and should be applied in all key areas of the business. It does not have to be always of the "genius" category--just "a little bit better than the other guy" will bring remarkable improvements and successes to the organization.

## 16. Organization for Action

*Prioritize*

- List in order of importance favorable and unfavorable factors, promoting or inhibiting action--getting things done--in your organization. Everything ultimately depends on whether proper action is taken and properly executed. Planning and management systems must be action oriented.
- Examine how your company and your-people are organized/geared for action. Are they motivated in that direction or inhibited by red tape, paralysis through analysis, top management indecision, lack of clear criteria and so on? Look carefully at three factors:
    - Personnel: motivation, fear, incentives
    - Organizational structure: lines of authority/ responsibility, decision making systems, communications flow
    - Criteria and policies: clear or unclear, status of decision parameters, quantitative vs qualitative, available or hard to find.

*Conclusions*

- What did you learn?
- What is the situation?

*Action Programs*

- Did you take action to get action?
- With what results?

*Comments*

- A company must become action oriented.
- Planning without action is a sterile and useless exercise. In times of faster change, actions must be taken more rapidly and more vigorously.
- They must be more innovative and bring faster results.
- Constructive examination of one's "action orientation" can be extremely valuable.

## 17. Control

Prioritize

- List in order of importance favorable and unfavorable factors, promoting or inhibiting, proper controls, checks and balances, in your organization. Control over performance is obviously essential. Management must know whether actions taken are producing expected results. Check carefully your control procedures:
    - Are precise, adequate measuring yardstick established before action is taken?

  - Are feedback data reported correctly, on schedule, at proper intervals?
  - Are deviations from plan flagged, reported and acted upon fast enough?
  - Are people motivated, interested, unafraid to monitor and be monitored?

*Conclusions*

- What did you learn from the survey?

*Action Programs*

- What did you do about it?
- What were the results?
- What's the next step?

*Comments*

- "Control" should not be considered a bad word. It is an essential part of good management of an enterprise. Yet it is often neglected or misused. Lack of control-- lack of knowledge of what's going on--is the biggest single cause of business failures.
- Re-examination, rethinking of the control process, is important to close the management loop: plan, decide, act, control.

**18. Forecasting Methods & Techniques**

*Prioritize*

- List in order of importance essential forecasts your organization needs and must prepare for its operations. Analyze methodically each forecast as to its content, frequency, time span and utilization. What methods of forecasting are being used?
- Survey, research, projection, consensus, crystal ball, combination, etc.
- Check on results/accuracy of forecasts and reasons for deviations/ variances.

*Conclusions*

- What were the key findings?
- What conclusions did you reach?

*Action Programs*

- What did you do about it?
- What improvements did you achieve?
- What's the next step?

*Comments*

- Forecasts are an essential part of any plan. Forecasting was never easy nor very accurate, even in times of steady growth--era of continuity (1960-1972).
- Today in times of discontinuity, forecasting becomes even more important but many times more difficult and even less accurate.
- Actions must be taken to tighten the procedures, increase the frequency of revisions and updates, institute cross-checking, improve feedback of data.

**19. Planning Process**

*Prioritize*

- List in order of importance favorable and unfavorable factors, enhancing or inhibiting the planning process in your organization. Analyze carefully where planning is being done and how it is being done--at all levels of the organization. Ask many questions. What is the depth of planning--from superficial to overwhelming in detail? What time spans are being used and why? Is planning qualitative or quantitative? Is it meaningful, helpful, useful? Is it used? What level of importance is placed on planning by corporate, divisional, functional executives? Who does the planning--line, staff, water boys? Do you have a defined process, schedules, commitments? Is planning formal or informal and why?

*Conclusions*

- What did you learn from all this? What are the key conclusions?

*Action Programs*

- What was done about it?
- What were the results?
- What's the next step?

*Comments*

- Planning is an essential part of managing the future.
- It must and is being done in any organization. The main question is: how effectively? Planning must be customized to the management style of the enterprise (see item-20).
- It can also be improved under any circumstances and any management philosophy. Because the future has become more difficult to foresee, a better planning process is imperative.

## 20. Management Style

*Prioritize*

- List functions or departments of the business in order of top importance/contribution to the success of the enterprise. Be thoughtful. It's harder than you think.

*Type of Management Style*

There are many management styles. Most have both some good and bad points. Evaluate yourself and other executives in key spots according to following criteria:

A. Making the decision (action)

| | | |
|---|---|---|
| "One-man rule"<br>Tyrant/despot<br>Powerful/energetic | Leader through participation/consultation<br>Sensitive to people | Consensus seeker Mediocrity - fear of mistakes – slowness<br>"Security blanket" |

B. Arriving at the decision (methodology)

| | | |
|---|---|---|
| Detail - search for facts – sometimes "paralysis through analysis" | Creative/intuitive<br>Hunches - ideas<br>Lack of reality | Inaction: problem will go away - don't rock the boat. |

C. Personal characteristics (motivation)

| | | |
|---|---|---|
| Manipulation<br>Dirty pull<br>Power politics<br>Self-interest | Dedication<br>Honesty<br>"Boy Scout"<br>enthusiasm & permissive attitude | Negative – indecisive<br>Devil's advocate<br>Rejection of ideas<br>Difficult to reach |

*Recommendations*

- Executives operate in their psychological "comfort zone." So does the corporation as a whole. Examine whether the individual executive styles fit the "company style."
- Initiate actions to change either side to achieve a good fit.