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7 Methods and Principles of the Planning Process

Content

Planning can be generally described as a process of setting goals and determining ways to achieve them. Planning is an essential part of a company’s management. From the strategic point of view, the main aim of the planning process is to support a company’s long-term development. Therefore, the decision making process should include an analysis of internal and external conditions, the prognosis of these conditions and an evaluation of the uncertainties and risks connected with a company’s future activities. The planning process immediately follows the above mentioned analysis. Planning can be understood as the projection of future consequences of current decisions. This should enable management to remove potential future surprises caused by changed internal or external conditions.

7.1 Company’s management and planning

Company’s management is a specific kind of human activity that causes or secures activities of things or of other people. A company’s management is focused on managing inputs, converting inputs or managing outputs. The decision making process is a crucial part of a company’s management. Within a company’s management, simplified models of future real systems are used. If the model includes business goals, then the plan describes actions that will lead to achieving the set goals in a certain amount of time. After choosing a concrete goal, a company works up a formal document – **a plan** – that should help by achieving set goals and their subsequent control. Next, a company’s management indicates any possible deviations that are calculated as a comparison between planned and actual values. (Mikovcová, 2007, p. 109-110)

A company’s management is a collective name for various management activities. A company’s management includes the following areas: planning, organizing, staffing, leading (or directing) and controlling. ***Planning*** includes the selection of goals and activities necessary for achieving these goals. The planning process, therefore, explicitly formulates business goals and ways to achieve them. The planning process is especially important in big companies that are divided into divisions and departments. The plan is a key tool for coordinating and communicating in a company. It should also diminish the occurrence of future risks. To establish a successful plan, a detailed analysis of historical data has to be carried out. The planning process, therefore, immediately follows the above-mentioned analysis. Planning should also motivate people to increase their performance and support their creativity. Based on the prognosis of development of internal and external factors, a company's own activities are planned. These plans are made in various alternatives that describe different developments of individual internal and external factors.

The necessity of planning is often underestimated. Doubts about the usefulness of the planning process are unfounded. **The following objections are mentioned against the planning process:**

- Planning is a relic from the communist era that is not relevant in the market economy. The market economy is led by the invisible hand of the market as defined by Adam Smith. Each entrepreneur tries to invest his own capital in such a business that ensures him the best possible profit. The entrepreneur does not intentionally respect public interest.
- Planning is considered unnecessary because the future is always uncertain. There is a small likelihood that plans will be realised. Only uncertainty requires sophisticated reactions to various alternatives of future development. These reactions are embodied into alternative scenarios of future development that help a company to achieve its goals.
- Strategic planning is unnecessary because a goal cannot be set for a few years ahead without needing any additional changes. This objection results from a misunderstanding of what a strategic plan is. This is not about setting detailed goals and strategies for the long run that should be met. A strategic plan is rather a source of information for making current decisions that influence a company's future development.
- The globalization of the world economy makes it difficult to forecast any specific company's future development. Therefore, it is recommended to replace forecasting with flexibility. This objection is justified in that macroeconomic forecasts on the domestic and world economy have recently been unreliable. On the other hand, flexibility should be also planned with respect to the growth of risk. Financial planning should create a reasonable assurance that a company's financial situation is sustainable even if certain unexpected situations occur.

Planning is a tool for realising set goals and it also helps a company by achieving optimal results. This activity is focused on the future which can be distant (strategic planning) or close (operative or tactical planning). The set goals can be both quantitative with objectively identifiable values and qualitative, depending on a subjective assessment of reality.

A strategic plan includes the following key elements**: a mission statement, vision, goals, strategies, business culture, business policies.**

A condensed version of a strategic business plan is called a **mission statement**. It should be formulated as easily remembered slogans that do not have to be concrete. These slogans are not goals, but rather ideas that should be understandable for ordinary people. The mission statement should be easily applicable for both written and spoken usage. The ideas embodied in this document are described in more detail in individual corporate strategies or even business goals. The planning process should optimize the results of a company as a whole. Without effective companywide planning individual departments would follow their own goals, which could harm the company as a whole. (Brigham and Houston, 2009, p. 527).

The mission statement describes the purpose of a company's existence. Therefore, it usually determines its branch of activity. The fulfilment of the mission statement should be embodied in permanent business goals such as retaining and strengthening the market position of the company and maximizing its market value. Žůrková (2007, p.16) gives the following example of a mission statement:

- the mission statement has to be defined clearly, understandably, simply and briefly;
- it should include not more that 30 words and not more than three or four sentences;
- the document should say who a company is what the company deals with and why;
- all members of a company should participate in the creation of a mission statement;
- a company should not mention that it is an extraordinary company, it produces quality products or it has quality service;
- before creating your own mission statement, the mission statements of other companies should by analysed but not copied because every company is **unique**;
- the created mission statement has to be credible, otherwise the whole document is false and customers will quickly recognise that.

A vision specifies a company's business goals. In other words, it is a long-term direction for the company's development. It should be a dream that a company would like to achieve over a very long period. (e. g. T. Baťa saw the purpose of his activity in providing cheap shoes to all people around the world). Vision is a certain challenge for employees in order to motivate them to fulfil day-to-day tasks.

A strategy is generally understood as thought-out ways of achieving a set and mostly distant target.

Modern definitions describe a strategy as preparedness for the future. This definition is based on the needs of a company and so the strategy determines its long-term goals and the allocation of the company's resources needed for achieving set goals. It also respects possible changes in these resources and responds to the changes in the company environment. (Srpová, 2011, p. 160)

A strategy can also be understood as a clearly defined process that describes the actual state of a company in the most important business areas. It also sets the ways of achieving set goals by respecting current conditions. These activities are realised with the help of **strategic scenarios**. A strategic scenario can be understood as a coordinated sequence of steps and activities across all departments of a company. The scenario is created with a partial lack of knowledge about future conditions. These activities are embodied in a document that is called a strategic plan. In other words the strategic plan describes the current situation and the goals that should be achieved. (Srpová, 2011, p. 160)

A corporate strategy is a single and integrated plan that coordinates strengths and weaknesses with opportunities and threats. It defines the way for achieving strategic goals. The strategy is formulated and implemented by a company's top management. Through this process, the interests of owners (shareholders) should be respected, which means maximizing the company's market value.

The strategy is not a detailed list of a company's individual activities. Instead, it determines the direction in which the company should move over the long run. It is also a tool for implementing the company's mission statement and vision. A successful strategy should meet the following conditions: (Srpová, 2011, p. 161)

- be oriented towards the future;
- use the competitive advantage of the company and its strengths;
- be consistent with the current trends that exist in the company environment;
- respect the business culture.

According to the amount of market share, the following strategies can be distinguished: market-challenger strategies, market-follower strategies, market-nicher strategies. According to the life cycle of a product, four basic strategies can be distinguished: introduction strategy, growth strategy, mature strategy and decline strategy. (Kotler and Keller, 2012, p. 300-323)

<u>**Goals**</u> determine the results that should be achieved in certain time periods. The process of setting goals is closely connected with the determining the mission statement and vision. The top management sets two groups of goals – strategic (wide, long-term) and specific. **Strategic goals** are formulated for individual parts of a company to realise the company's mission statement. **Specific goals** are derived from the strategic goals and they set concrete goals for a defined time horizon.

<u>**The business culture**</u> is established from the beginning of a company. The business culture is understood as a system of values, standards of conduct, ways of thinking and acting that all members of a company should adopt. The aim of the business culture is to diminish the negative impact on the company's reputation. It is used for resolving problems with customers or conflicts between employees, between employees and company's management and between the company and its partners. The business culture is closely linked to social responsibility in the relation to the general public, which means that a company not only creates new jobs, but also social programs.

If a company set its goals, it has to determine how to achieve these goals. To do so, a <u>**business policy**</u> has to be set. This policy shows individual decision makers what they should or should not do by achieving the goals. Individual (partial) policies follow each other and they create a system of standards of conduct. These standards were approved by the company's top management and, therefore, they have to be respected by all departments of the company. The individual policies contribute to a systematic solution of individual partial situations. The main partial policies include:

- <u>a marketing policy</u> – it includes a company's sales, price and distribution and promotion policies;
- <u>a production policy</u> – it deals with large-scale production, reaction to seasonal sales; it expresses factual goals for individual products, divisions etc.;

- a personnel policy – it is focused on the amount and structure of employees, recruitment of new employees, requalification programmes, etc.;
- a financial policy – it sets the general rules for a company's financial management (see chapter 5.1.1 Financial policies of a company)

After setting the goals and business policies **a business plan** has to be created. This plan includes the business strategy for the coming years. **The financial plan** is a part of the business plan and it connects all activities with a quantified financial target and timely proportioned strategic goals.

7.1.1. Financial policies of a company

The aim of the financial policy is to give instructions for dealing with corporate finance to not only prevent potential threats, but also to take advantage of potential opportunities. The goals and strategies should be financially feasible. Non-financial activities must not disturb the financial policy. The financial policy can be possibly changed only at the top level of management. (Brealey, Myers and Allen, 2011, p. 7)

The object of the financial policy is to determine the rules for safe behaviour by creating financial resources and their use in investment and operating activities (the allocation of capital into fixed assets causes investment risks and the operating activity causes risks connected with the liquidity of current assets and their financing). In other words it should secure sufficient liquidity and financial stability for a company. The financial policy gives answers to the following questions:

- According to which principles will profit be calculated (dividend policy);
- What should the proportion of internal and external sources of financing be? (debt policy);
- What are the financial restrictions of investment development (investment policy);
- What should the proportion of the long-term capital on the financing of current assets be? (liquidity policy);
- What is an adequate amount of cash and cash equivalents held? (liquidity policy);
- According to which principles should business credit be provided to the customers? (credit policy).

Which impact has a strategy on the financial policy?

If the business strategy is focused on the **decline**, the financial policy leads to a decrease in the payment of dividends and increased attention is paid to cash flows. Through the **expansion,** the level of indebtedness can be increased, but the influence of a dividend payment has to be considered. During the **maturity** period, it is suitable to establish good relationships with banks (financial credibility) and pay a stable dividend.

Modern financial theories state that the financial goal of a company is the maximization of its market value. This goal especially respects the needs of company owners (shareholders). If there is a stock market, the market value of a company is calculated as the price of a share multiplied by the number of shares issued. (The market value of a company is different from the book value, which is equal to the equity presented in the balance sheet).

Joint-stock companies can achieve certain results through a combination of various factors that influence the market price of a share and thus affect the market value of the company. To do so, some companies use a financial policy that includes individual partial policies (tax, debt, accounting, liquidity, credit, investment and dividend policy).

Ad 1) Tax policy

The tax policy deals with the difference between the profit and the tax base for calculating the income tax. The profit is adjusted to eliminate permanent or time differences. The time difference is caused, for example, by the difference between accounting and tax depreciation.

Ad 2) Debt policy

Liabilities are cheaper because interest expenses decrease the tax base and the cost of credit is reduced [cost of debt = i x (1-t)]. An increase of indebtedness seems to be tempting, but it is not suitable to increase the risk so that higher liabilities will not be paid back in time (interest expenses, repayments). On the other hand, with increasing risk, a creditor will react by increasing the interest rate or he or she will not provide credit in the requested amount.

For the debt policy, general recommendations can be given. These recommendations can be expressed in the following principles:

- the rate of indebtedness cannot be increased without serious reasons;
- the rate of indebtedness should be similar to the average indebtedness in a given branch; significant deviations should be avoided;
- in a recession or in a period of strong competition a less indebted company is more likely to survive.

Ad 3) Accounting policy

The accounting policy is focused on the items of the profit and loss account that influence the operating profit (profit before interest and taxes). The possibility of alternative accounting policies is mostly connected with measuring individual items of assets and liabilities, depreciation of fixed tangible assets, etc.

The principle of prudence recommends using historical costs for measuring almost every item of financial statements. A deliberate increase or decrease in operating expenses could cause a presentation of the required amount of operating profit, which would lead to changes in taxable and also disposable income. This is the reason why accounting regulations require presenting measurement, depreciation and other accounting techniques in notes enclosed to the financial statements

Ad 4) Liquidity policy

The level of risk of insolvency can be expressed by the following ratios:

- ***Long-term liquidity ratio*** **–** this ratio is useful for creditors who lend money to a company for a period that exceeds 1 year.
- ***Short-term liquidity ratio*** – should indicate if there is a risk of potential insolvency within the next year.

When creating a business plan, the financial manager should apply a rational liquidity policy as an input value of that plan.

Ad 5) Credit policy

This policy is focused on providing business credits to customers. The supplier does not require an immediate payment of his or her invoice, but he or she allows a deferred payment. The credit policy deals with the total amount of business credits as well as with trade and payment terms (payment deadline and the percentage amount of discounts).

Business credit is a tool that should help to increase sales and thereby to increase profit. The cost of the business credit is included in the price of goods sold. Customers are able to buy more than they otherwise could by immediate purchase payment in cash. To be competitive, companies have to follow industry practices. Companies have to find a balance between the amount of turnover and profit.

Ad 6) Investment policy

This policy is related to the development of business operations and to the allowed usage of financial resources. A conservative company chooses a rate of growth that does not cause insufficient financial resources, high levels of indebtedness or low level of liquidity and dividend payments. This situation is called a sustainable growth rate, which is dependent on:

- profit creation;
- avoiding growth that is based on unsure hopes, not achieved results;
- the unwillingness to issue new shares, in particular when emissions costs are high.

Ad 7) Dividend policy

The owners of a company decide how to distribute profits (in a joint-stock company – its shareholders).

Profit after taxes can be distributed to shareholders in the form of:

- **dividends,**
- **retained earnings used for further reinvestment in the company.**

The dividend policy includes rules for profit distribution. To choose an appropriate dividend policy the following questions have to be answered:

1) How do the dividend payments influence the share price?

Dividend payments in cash indicate that a company has disposable cash flow. If there is an unfavourable cash flow development, dividend payments cannot be made even if there is enough profit for it. Dividend payments should not endanger a company's liquidity.

2) Which factors influence the distribution of profit after tax into the part paid as dividends and the part called retained earnings?

To answer this question the following factors have to be analysed:

- *the amount (supply) of profitable investment opportunities,*
- *the preference of shareholders to raise the share price instead of receiving regular dividend payments.*

Many shareholders are interested in capital gains, in other words, in the difference between the selling and purchase price of shares. They are willing to retain only so much profit that can be effectively invested into the company's assets so that this investment will lead to a favourable increase in profit and possible dividend payments. If there are many such investments, shareholders are willing to accept a residual dividend policy – only the residual profit is paid as dividends.

Retaining earnings in a company is favourable for shareholders who do not use dividends to satisfy their needs, but who invest it into securities or into another company.

A company has to choose between a stable and residual dividend policy. Most companies choose a compromise. They retain so much earnings to effectively reinvest retained earnings.

7.2 The essentials of planning

Each company performs many economic activities to be competitive and profitable. One of the most important activities of the top management is **planning**. Planning (planning process), as well as many others economic activities, includes several phases. In literature, no precise evidence of the number of these phases is given. This number is dependent on many factors, such as the size of a company or its type of business. But it is important that business planning creates a closed cycle as is shown in figure 5.1.

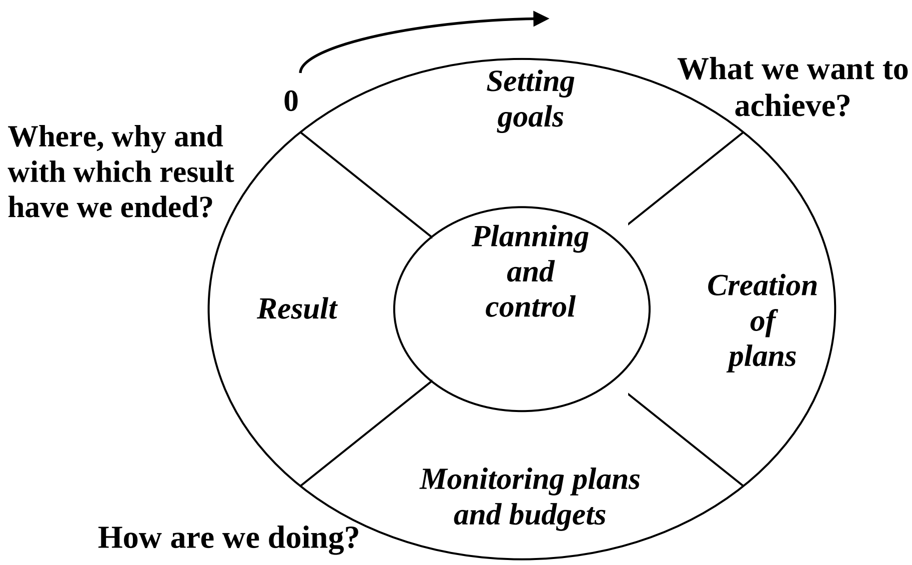

Figure 7.1 ***Individual phases of the planning process:***
Source: ŽŮRKOVÁ, H. Plánování a kontrola klíč k úspěchu, p. 12.

For a correct understanding of the individual phases the following questions have to be answered. Based on the answers, a plan will be created. Point zero is the starting point of the planning process. It is a preparatory phase, which means collecting information and analysing individual influencing factors. The process proceeds clockwise from point zero through the individual phases as is shown in table l.

Table 7.1 Phases of the planning process

Phase	The content of individual phases of the planning process	Question
Point 0	Collecting information and analysing individual influencing factors	
Phase 1	Setting goals and strategies	What we want to achieve?
Phase 2	Creation of plans	How best and most effective can the goals be achieved?
Phase 3	Monitoring plans and budgets	How are we doing?
Phase 4	Result	Where, why and with which reset have we ended?

Source: ŽŮRKOVÁ, H.: Plánování a kontrola klíč k úspěchu. p. 13.

In practice, individual phases are mingled. Therefore, before moving into the next phase, feedback from a particular phase has to be taken. This feedback should diminish potential false decisions and thus improve the whole planning process.

The success of the planning process is dependent on the primary data, its quality and adequacy. Therefore, the members of a **planning team** have to be carefully chosen. The size of this team is dependent on the size and structure of the company. In a small company with single-stage management the planning team is usually represented by one person, namely the company owner and top manager himself. To have proper and high-quality plans it is necessary that these plans be worked up by all responsible persons.

The planning process facilitates coordination and communication between individual centres and subsidiaries of big companies. Planning also prevents potential risks. Since planning is concerned with companywide goals, it optimizes the results globally throughout the entire company. To have a good planning process, the following principles have to be met (Grünwald and Holečková, 2006, p. 119)

- knowledge of the market situation and estimation of future development;
- focusing on profitability and increasing the company's market value;
- interconnection of all departments in the company;
- a factual and timely reconciliation of plans;
- attendance of all employees implementing plans;
- securing a continuous control;
- annual creation of plans for the next period and allowing for possible changes, which allows them to be adjusted to the current market situation and thus secures the feasibility of the plans;
- a uniform procedure for creating business plans and their final layout in the form of a report.

7.2.1. Types of plans

A complete business plan that includes all plans of individual business areas is called the **financial plan.** Its main aim is to govern and control liquidity in various areas of a company as well as secure sufficient financial resources for the company's investment and financing activities. The financial plan is based on the financial analysis of the company that provides data for creating individual plans for future periods. Partial plans can be distinguished according to the following factors: (Grünwald and Holečková, 1993, p. 53)

- the time aspect;
- the object of the plan;
- the function of a plan.

I) Classification according to the time perspective: (The main characteristics of individual plans are shown in table 2) (Žůrková, 2007, p. 21)

- *Strategic plans* are focused on the long-term, global goals of a company with regard to its size, structure, mission statement etc.
- *Tactical plans* deal with resources and their best usage in a company to achieve set strategic targets.
- *Operative plans* are connected with the current situation in a company on all its levels.

Table 7.2 Differences between individual plans

	Strategic planning	**Tactical planning**	**Operative planning**
Time horizon	Long-term – more than a year	Usually up to one year	Short-term (daily, weekly, monthly, quarterly)
Main stress	Clarify and plan future decisions	Planning the implementation of a strategy in practice	Planning the daily business operations
Uncertainty	Very high	Middle	Low
Level of detail/ backlogs	Only global questions	More detailed	Very detailed
Width of content	Very wide	Focused on detailed planning of a given strategy	Very specific
Planning methods	Mostly unstructured	More structured	Highly structured (often special SW)
Ability of evaluation and change of plans	Quite complex and difficult to correct	After implementing a strategy into practice	Often easily interpretable and correctable

Source: ŽŮRKOVÁ, H. Plánování a kontrola klíč k úspěchu. p. 22.

II) Classification according to the object

- *Plans of an organisational structure* are strategic plans dealing with a company's organisational structure and the technical equipment for all processes running in the company.

- *Program plans* are connected with production, i.e. its main activity and, therefore, they are closely linked with strategic plans. The actual management of production processes is concerned with operational management.
- *Plans of business processes* harmonize all factors of production in the manufacturing process, which begins with the purchase of materials and ends with the selling of final products. (Mikovcová, 2007, p. 110-111)

III) Classification according to the function: (Mikovcová, 2007, p. 111-112) (Vysušil, 2000, p. 49- 51)

- *A marketing plan* is the first step of introducing the manufacturing process into a company. It analysis the market situation, competition and macro environment of a company. It also estimates demand and customer needs, analyses market segmentation and tries to develop the final product for a given target group. This plan creates the basis for other plans such as the sales plan, production plan or an personnel plan.
- *The sales plan* is a key assumption for creating the production plan. It is based on the marketing plan and so it reflects the current market situation (price, market position of competitors etc.). Sales are calculated as the amount of goods sold multiplied by their prices.
- *Planned costs* reflect the division of costs into individual business units.
- *Planned profit* deals with the amount of profit from different perspectives (profit of the whole company, profit of individual departments, lost profit etc.)
- *The investment plan* harmonizes the requirements of individual departments concerning new investments with both the current market situation and the actual financial situation of a company.
- *The production plan* harmonizes the manufacturing process of final products with a company's production capacity. It deals with launching new products, individual product groups and the total amount of production workers, inputs consumed in production and other issues.
- *The purchase plan* secures the timely supply of raw materials and other inputs, such as energy in the optimal amount.
- *The research and development plan* is focused on improving products or whole product groups through the innovation of technology.
- *The human resources plan* is concerned with the recruitment, training, valuating, professional growth and retirement of the staff.
- *The financial plan* links all the above-mentioned plans and deals with obtaining resources and their allocation between individual activities in a company.

7.3 Methods used in planning

A team of people participates in the planning process. These people use various subjective and objective methods. The objective methods are independent of the people's opinion. The most-commonly used are mathematical or other generally accepted methods. On the other hand, subjective methods are purely based on the human factor.

The subjective methods are Delphi method, Brainstorming, Brainwriting, the scenario technique and strategic games. The objective methods are regression and correlation analysis, time series analysis, interpolation and extrapolation of a function and early warning systems.

The Delphi method is based on the subjective opinions of experts (usually about 5 people) who are questioned in written form. These experts estimate the possible occurrence of strategic events in the future. Each expert writes about 10 events. Individual answers are summarized in a new questionnaire. The experts evaluate the probability of the future occurrence of the events chosen in this questionnaire. (Mikovcová, 2007, p. 117)

Brainstorming is based on the division of a specific problem into individual partial problems. During the analysis of partial problems easy and original solutions can be found. These solutions are collected and subsequently analysed. The basic assumption of this method is a spontaneous and unbiased suggesting of potential and even at first glance unrealistic solutions. The group performing brainstorming usually consists of 6 to 10 people. There should not be too many experts in this group because they tend to be biased by finding possible solutions. For a successful brainstorming the following principles are recommended: (Mikovcová, 2007, p. 117-118)

- the whole discussion should not last longer than one hour;
- criticism is forbidden (negative opinions can be expressed later);
- informality is welcomed;
- a vast amount of suggestions is welcomed (the more suggestions, the greater probability of success);
- the suggestions should be combined and developed.

Brainwriting is similar to brainstorming. It is a creative activity based on a discussion of selected problems. It is not verbal, but written communication. This method is called the 635 method. This means that each of 6 people writes 3 suggestions on his or her paper and sends the paper to the another person who develops them more deeply. The whole cycle is repeated five times. This process creates 90 suggestions that are further evaluated. This process enables creating new ideas that have evolved from suggestions by individual people. (Mikovcová, 2007, p. 118)

Companies should also use methods that are able to predict different variants of the future development of situations that are unlikely to happen or difficult to predict. One such method is the **scenario technique,** which describes the current status and possible future situations. Companies try to incorporate complex and extraordinary situations into their plans so that they make various scenarios of future development out of certain external and internal factors. Scenarios are usually worked up during a companywide seminar. The team normally consists of employees who have sufficient knowledge about the current market situation as well as the company environment, including its competitors. The scenario technique includes the following steps: (Mikovcová, 2007, p. 118-119) (Vollmuth, 2004, p. 315-317)

- a definition of the object analysed;
- identification of the surrounding facts;
- a description of the current status and definition of the given target;
- a description and forecasts of future development, including possible extraordinary situations;

- obtained information is included in scenarios on which the company strategy is based.

Strategic games are also used within the planning process. These are mostly focused on the estimation of potential competitors, product improvements or the recognition of potential suppliers. Its aim is to analyse the future options in a relatively short amount of time, with relatively low costs and with a relatively high degree of reliability. During strategic games creativity, experience and intuitive thinking are used. The experts try to empathize with the customer's role and assess the situation from their point of view.

To describe the interrelationships between individual economic phenomena (correlation) and determine the form of their dependence (regression), a **regression and correlation analysis** is used. The correlation coefficient determines the power and direction of the interdependence of individual phenomena. If the correlation coefficient is equal to 1, it means absolute dependence (i.e. 100%). If the correlation coefficient is equal to 0, it means absolute independence. A negative correlation coefficient expresses indirect dependency. The regression coefficient expresses the dependence on economic variables.

The time series analysis examines given economic variables over several time periods (chronologically) and tries to forecast its future development. This method can be used by both state and flow variables. For a successful time series analysis, the time series should be long enough and other conditions should be stable. To make this analysis more synoptic, a graphical representation is recommended. For a deeper analysis of time series, it can be broken down into four basic components:

- *the trend component,* which describes the development of a variable over time (growth, decline, stagnation);
- *the cyclical component*, which is connected to the economic cycle (this fluctuation on the micro-level is hard to be recognised because the cycles are shorter);
- *the seasonal component,* which describes regularly repeating fluctuations within a year;
- *the random component,* which includes other factors.

The interpolation and extrapolation of a function is recommended for finding certain values that should be inside or outside of the interval examined**.** Linear interpolation is used for calculating certain values within the interval of values. The extrapolation is suitable for finding values that are outside the given interval of values. If a longer time interval is assumed, the values calculated by extrapolation can be less accurate because the surrounding conditions have already changed. (Mikovcová, 2007, p. 127)

Early warning systems are designed to monitor the actual financial situation of a company and identify potential failures. Certain critical ratios of business activity are usually compared with their standard (normal) values. If a deviation occurs, an immediate analysis has to be made and corrective measures should be taken. Credibility models and the Altman model are representatives of these types of systems. If a company wants to use early warning systems, it has to build such a system and adhere to the following procedure: (Mikovcová, 2007, p. 129)

- to set indicators in every area of monitoring; but not too many indicators;
- to set the involvement system at all levels of management that should secure a prompt catching and distribution of signals;

- management has to respond to signals;
- detected signals have to be recorded to enable the calculation of cumulative effects.

Summary

The planning process is an essential part of a company's management. From the strategic point of view, planning should support the long-term development of a company. The planning process includes the selection of goals and activities that are necessary for achieving these goals.

In practice, there are some objections against the planning process. This is known as a hangover from the communist period. Planning is also regarded as useless because the future is always uncertain and, therefore, setting goals several years into the future is nonsense. These goals should be corrected in the future to respect any changes in external and internal factors.

Strategic planning includes the following key elements: a mission statement, vision, goals, strategies, business culture and business policies. The mission statement determines the aim of the company's existence. The vision defines a company's long-term goals. Strategy includes premeditated actions of achieving set and mostly timely remote goals. Goals determine results that should be achieved in a certain amount of time. The business culture contains system of values, standards of conduct, ways of thinking and acting that all members of a company should adopt. To achieve individual goals a company creates partial policies, including marketing, production, personnel and financial policy. The financial policy determines the general rules for financial management and consists of individual partial policies (tax, debt, accounting, liquidity, credit, investment and dividend policy).

The planning process consists of several phases. The number of phases is dependent on many factors, such as the size of the company or type of business. The planning cycle includes the following phases: collecting information, point zero, setting goals and suggestions for solutions, creating plans, monitoring plans and budgets and results.

The total business plan which includes all plans of individual business areas, is called the **financial plan.** Partial plans can be distinguished according the time aspect, the object of the plan and its function.

A team of people participates in the planning process. These people use various subjective and objective methods. The objective methods are independent of the people's opinion. The most common-used methods are mathematical or other generally accepted methods. On the other hand, the subjective methods are purely based on the human factor.

The subjective methods are the Delphi method, brainstorming, brainwriting, the scenario technique and strategic games. The objective methods are the regression and correlation analysis, the time series analysis, the interpolation and extrapolation of a function and early warning systems.

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