FINANCIAL PLANNING: ITS IMPORTANCE AND CONTRIBUTION FOR THE MANAGEMENT OF COOPERATIVE ENTERPRISES

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SUMMARY

The objective of this article is to evidence the importance of the adoption of financial planning for the production cooperatives, based in the Misiones region and its effective contribution in the management of those organizations. With the current market dynamics and the constant changes of competitive atmosphere, the cooperatives also need to change, and, in times of changes, one needs plan quickly. Agility, efficient budget, use and adaptation of the forecasts, analysis and effective information management, are the key for managing the change process and to achieve the planned performance. Broadly adopted in large private enterprises, Financial Planning is a highly important management instrument in the decision taking process. Yet, very few are the cases of cooperatives, here highlighted are the production ones, which have as a practice the elaboration and maintenance of a financial planning. Planning facilitates the anticipation of the decisions and solutions, avoiding waste on behalf of the organization. In synthesis, we try to present the importance of maintaining an appropriate financial planning to the reality of the management of production cooperatives, just as the contribution that will bring about the regional development, because healthy management of those cooperatives generates wealth, employments and they contribute for the effective and sustainable growth of the region.

KEY WORDS: Financial planning, Production Cooperatives and Regional Development.

INTRODUCTION

With the current market dynamics and the constant changes of the competitive atmosphere, cooperatives also need to change, and, in times of changes, it is necessary to plan quickly.
Agility, efficient budget, use and adaptation of forecasts and analysis and effective management of information, are the key for managing the change process, with the purpose of achieving the planned performance.

Broadly adopted in large enterprises, Financial Planning is a very important high performance management instrument in the decisions making process. Yet, there are very few cases of cooperatives that have as a practice the elaboration and maintenance of such a planning. And now is the time to review this concept.

The financial planning has many advantages, as the anticipated knowledge of the whole consumptions budget and investments for the following period, allowing to establish, in advance, the necessary recipe to obtain the lucre sought for in the period to that is referred in the planning, which helps to fix goals and to establish more concrete management guidelines. Its practice, allows even, the identification on behalf of the enterprise, of necessities such as the clarifying or the expansion possibility, the viability of its budget for the market, the evaluation of possibilities in implementing new projects and their costs, and the planning of reserves for future investments.

Another important financial planning aspect is the possibility of identifying exaggerated costs, or even waste, qualifying the agent or the directors to review and to adjust such expenses to the reality of the cooperative and the market, leaving them further away from empiricism, allowing them to make more reliable decisions, innovating in this way profits.

The purpose of this article is to increase the understanding and the importance of elaborating and maintaining to reality an appropriate financial planning, in the production cooperatives, in the missions region, in this way being able to make a more effective contribution for the regional development. Being able to give business continuity at healthy levels, mainly in the current economic situation, that demands a rigorous control of what one wants to maintain the market.

PLANNING

Planning consists on the establishment of objectives and in the determination of what should be done, and in what way these objectives will be achieved. In that process the administrator uses information related to the past and the present, that is to say, the acts or means in which forecasts that can be made, are elaborate.

According to Hoji (2000, p.359) planning consists in establishing beforehand, actions which would be executed within the scenarios and conditions previously established, considering the resources which would be used, and attributing responsibilities to achieve the fixed objectives. These objectives would only be achieved with an appropriate and formally structured planning.

Financial Planning

Initially it is necessary to define what is a financial planning that according to Groppelli & Nikbakth (2002, p. 319) it is the process in which one calculates how much financing is necessary to give continuity to the operations of an organization, and if one decides how much and how the necessary funds will be financed. One can suppose that without a reliable procedure to estimate the necessary resources, an organization mat not have enough resources to honor its assumed commitments, such as obligations and operational consumptions.

Financial planning establishes the way in which financial objectives can be achieved. A financial plan is, therefore, a declaration of what should be done in the future. In a situation of uncertainty, it should be analyzed with great anticipation. Financial planning is an important part of the administrator's work. Defining the financial plans and budgets he will be strengthening them, to achieve company objectives. Besides that, these instruments offer a structure to coordinate the diverse activities of the company and they act as control mechanisms, establishing performance model with which it is possible to evaluate the real events (Gitman, 1997).

In the elaboration of a plan, it will be necessary to adapt to the economic reality in which that company is. At a short term, the financial plan takes into account, mainly the analysis of decisions that affect the assets and passive which are circulating. The absence of long term effective financial planning is often a reason mentioned, when financial difficulties, in the company, take place. The financial plan allows to determine the type and the nature of the financing necessities.

The success of the operation, the performance and the long term viability of any business, depends on a continuous sequence of individual and collective decisions taken by the managerial team. Each one of those decisions, ultimately, causes an economic impact, for better or for worse, in the business. Financial planning, through its methods, formalizes the procedure by which the financial goals should be achieved, integrating the decisions of investments and financings in one and only cooperative plan.

Advantages of the use of financial plans

According to Gitman (1997, p. 608) the long term financial plans (strategic) serve as script in the preparation of the short term financial plans (operational) (...). The short term financial plans are visualized in one period from one to two years, the long term plans already go from two to ten years. Naturally that these periods change according to the activity and the interests of the organization.

Already Ross et al. (1995) affirmed that financial planning should include some guidelines, such as the identification of the company's financial goals, and an analysis of the differences between those goals and the company's current financial situation, and a declaration of the necessary actions to be taken, so that the company achieves its financial goals. Thinking in this way, one observes that, initially an analysis of the financing options and investment that the company disposes of, should be made, as well as a performance evaluation related to the objectives established at the beginning of the financial plan. In the implementation of the plan, an itinerary and adjustments of the projections, is fundamental, in function of the variations of the internal and external atmosphere of the organization.

According to Brealy and Muers (1998), there are two factors related to the process of financial planning that, in themselves, already are of great importance for the organizations: first the fact that planning imposes the agents to project the conjugated effects of all the decisions, of investments and financings of the companies and according to the necessity of pondering on the possible events that could, directly or indirectly, affect the company, as well as the formulation of

alternative strategies to combat possible difficulties or of taking advantage of new opportunities.

The speed of the business world, does not only allow to manage the day by day routine of the company, needing to produce information, which sre unlimited, in relation to the accuracy and the opportunity in making decisions. That information should be available to any moment, avoiding making the wrong or non convenient decisions.

Minimum Condition for the elaboration of Financial Planning

Basically there are three minimum conditions for the elaboration of the investment system:

a) Structure of defined organization: This means that there should be hierarchical level, interdependence of the level, upward and downward communication lines, delegation of authorities and acquiring responsibility.

b) Open Accounting: Means that the accounting, besides elaborating demonstrative balances of results, and others, it should strengthen trustworthily information able to help in the elaboration of investments.

c) Fixation of company objectives: Apart from the specific objectives that each company has, there are other general, direct or indirect objectives, in the investment process, such as investment return rates, market participation; increase of the benefits and costs reductions, (reception of resources).

For Ross et al. (1995) thee are some basic financial policies, on which the company should decide on to form a financial planning, checking its growth and its profitability. Among them there are: opportunities of investments that one seeks to take advantage of; the degree of indebtedness that the company seeks to adopt; the amount of money that the company considers appropriate and necessary to pay to shareholders.

As financial plans include hypothesis groups, it is opportune to say that alternative plans, should be prepared, mainly in the case of long term plans. In that way, three types of plans are generally prepared:

- Optimistic plan: based on optimistic hypothesis as to company products and to the economy, inclusive being able to include new products and expansion.

- Normal plan: working on probable hypothesis as to the company and to the economy;

- Pessimistic plan: pessimistic hypothesis are used, being able to take the sale and the liquidation of assets.

It is suggested that a sensibility analysis should be made, according to Brealey and Myers (1998) in the most outstanding and susceptible aspects, in which the agents analyze the consequences of the plan with the base on the most probable circumstances group, to continue they do the pretexts variation, one in turn, analyzing its influence in the results of the plan. There are even, methods based on software which calculate the variation possibility for each plan component, with base on the possibility that each one of them could take place.

To begin a financial projection one should try to identify a tendency line to judge decisions on the future behavior of the recipes, costs, consumptions and other incomes and payments. Once that is done, it is necessary to judge and rigorously analyze on probable environment changes. That analysis, notably, is based on scenarios that, somehow, can cause impact in the results. But, whatever may be the scenario and the idealized plan, one should not put aside the intention of thinking and identifying what could happen in the future, in case certain events should take place. Besides that, no matter how careful and structured the process of analysis of formation of forecasts is, it is common for there to be unforeseen oscillations in certain variables. That evidences the importance of an effective accompaniment of the plans, so that corrective measured may be taken earlier, reducing risks and damages.

Aspects based on financial planning

According to Ross et al (1995), some common elements are found in the diverse types of financial plans. They are:

a) Sales Prevision: Sales prevision is a basic element in all financial plans;

b) Projected financial Demonstrations; made up of a balance, a result demonstration and a demonstration of the origins and of the applications;

c) Necessities of assets; the plan will describe the necessary capital expenses;

d) Financing necessities: it will treat with the types of financing, being based on the dividends and financing policies;

e) Close: variable necessary in a future projection, so that the growth of the demonstration indexes give results compatible with the growth of the balance indexes;

f) Economic Premises: the plan should clarify the economic atmosphere in which the company hopes to act during the time covered by the plan. Among the economic premises that should be formulated, there is the rate level.

g) Summary: Brealey and Myers (1998) enlarge that thought, commenting that most of the plans contain a summary of the financial planning, which facilitates the systematic vision of the planning;

h) Descriptive Memory: responsible for the explanation of the strategy used in the planning and the reasons for the adoption of certain actions or investments. According to Brealy and Myers (1998, p. 797), those descriptions register the final result of the discussions among the diverse agents and they assure that all those that are evolved in the plan implementation, understand what has to be done.

Yet, it should be taken into account that the elements to be used by the cooperatives should vary according to their own characteristics, such as kind of activity field, performance sector, the executives' training, technical, financial and human resources existing, culture, economic stability of the country, among others.

Financial Planning Models

There are diverse types of Financial Planning models used by the companies, and they change as to the complexity level, that is within the activities and processes of the organizations. That is why, it is said that each company should have an appropriate model for its needs, because no company is similar to another one.

The types of models generally change from the most generic, that possess single basic planning guidelines, up to the most sophisticated ones, that contains hundreds of equations and interdependent variables.

The companies can, even, use more than one model: a detailed one that integrates the investment and the operational planning or a simpler model, centered in the global impact of the financing strategy. The models automate an important part of the planning, simplifying and lowering the costs of the elaboration of the financial demonstration provisions. If we consider the necessity of elaborating the charts for several years and different scenarios, one clearly perceives the importance of the use of models for financial planning. Apart from that, the necessary adjustments due to oscillations of a certain variable also become more practical, because changing the variable that caused the oscillation, the other variables related to that, will be altered.

The use of electronic charts, at present, is the financial model's simplest way of representing a group of relationships for an analysis and manipulation of information in medium and large sized companies. Small and micro companies can use general models, offered by banks, management consultants, accounting companies or companies specialized in software (Brealey and Myers, 1998). It is important to highlight that nothing is really a formidable plan, based on an excellent and wonderful software, if the group of budgets were wrong.

Thus arises the fundamental importance of a reflection and analysis process of the basic variables to be used in the formation of financial planning. For Brealey and Myers (1998, p. 805), one should be careful when building a bigger and more detailed model, that can become exhaustive and too heavy for routine use. According to the authors,the smaller actions deviate the attention of crucial decisions, such as share emission and dividends policy, and the investment distribution, for the diverse business segments.

The use easy of computerized models allows the analyst to examine several groups of suppositions and to evaluate alternative results (Helfert, 2000). One should observe that the financial planning models, do not give optimum financial indications. Their importance reflects, in the case of supplying subsidies for the agents to analyze, which alternatives and strategies to adopt. The financial indications come from the managerial information system, which will be produced as from the financial planning. The result of that whole information system is the company's possibility of deciding long beforehand, maintaining an enviable financial health and in this way obtaining real competitive advantages.

CONCLUSION

The speed of the changes in the business world, of the, does not allow the production cooperatives to be empirically administered, or that it is only administrated by daily routine, it is necessary to produce information that evidences the financial health of these cooperatives, projecting the future, so that their directors can then, identify critical points and detect needs of amplification or retraction, to revise expenses, to re-evaluate the necessary recipe levels, finally, to bring about the necessary questions for the continuity of the business at healthy levels.

Therefore, to elaborate and to maintain a good financial planning in production cooperatives, means nothing else than not to play with money, and if this is the case with the associates, it is to act in a responsible and coherent way and consequently to provide the increase in the business and employment levels, to evidence the development of the region where they are installed.

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