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## SELECTED ASPECTS OF FINANCIAL PLANNING AT MINING COMPANIES\*\*

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### **1. Introduction**

Planning represents one of the functions of the management process. In essence, it is about setting the goals of an organisation as well as selecting the means for and ways of achieving them. The planning process is necessary to organise resources: technical, financial and human. Diligent planning drives the company's development or at least survival in the market. This is because market mechanisms determine the volume of product or service sales, force the company to adjust to customers' needs, and also create demand [3].

Planning is indispensable for the success of any economic activity. Uncertainty is present in every economic system, so the impact of potential decisions on the financial results of the activity conducted must be analysed in detail. In a market economy, the nature of the planning process is much different from that in the centrally planned economy, where planning was aimed at ensuring that enterprises operated in accordance with guidelines imposed top-down by the state. In a free market system, planning is to help take decisions that are rational from the perspective of microeconomic criteria, i.e. from the company's point of view. This represents a shift away from material planning towards a focus on financial planning, as in the free market, the increase in a company's worth depends on its positive financial results [10].

Financial planning brings many benefits. On the one hand, it allows the company to identify what funds it can use to implement its plans in the material sphere and provides information on the expected cost of these operations. On the other hand, it supports analysing the impact of alternative activities on the financial result of the company, so it makes decision-

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taking processes dependent on financial criteria. Without a doubt, controlling the course of business processes also represents an important element of the planning process. Its purpose is to assess the progress in generating planned results and to secure funds if planned tasks are abandoned as a result of changing external conditions [9].

Planning is a decision-making process in which a vision of the company's state is predicted and the methods of achieving it are defined. It consists in designing the desired future state and effective ways of reaching it as well as researching the future and matching the right activities to it. The purpose of every plan is to ensure the efficient achievement of the goal set. A plan should identify actions leading to the intended goal and account for the risk [2].

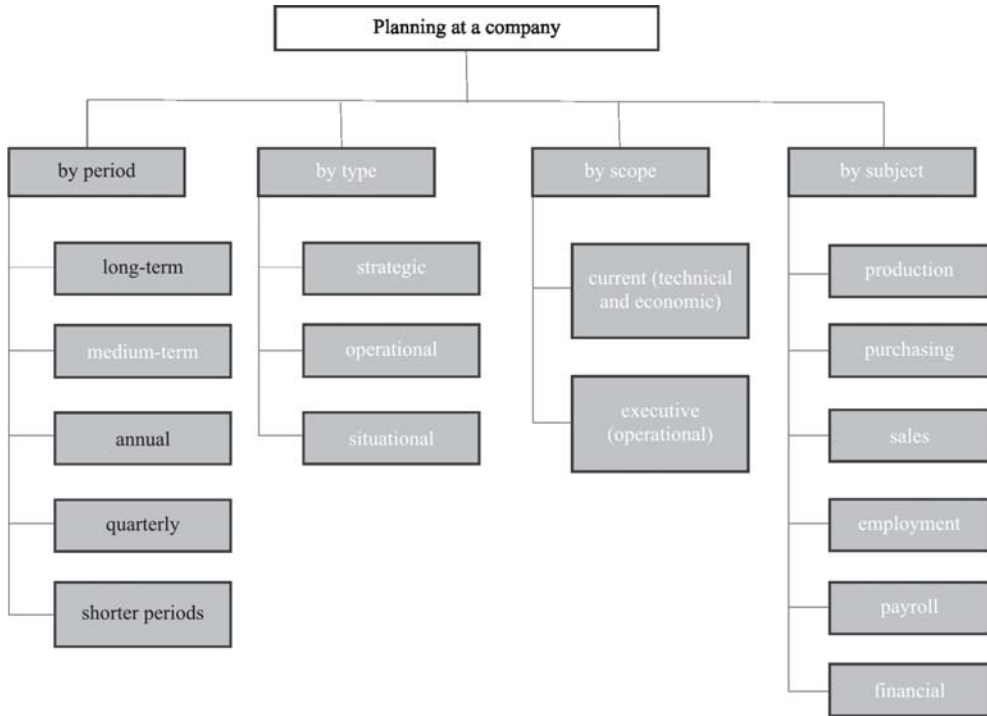
## **2. Financial planning at a mining company**

Corporate financial planning is a continuous process of detailing methods of achieving financial targets. It constitutes a significant element of the entire planning cycle of a company (Fig. 1). It is considered that the main purpose of company operations is to maximise the market value of its shareholders' equity [5]. Frequently its basic purpose is defined as its survival, which requires maintaining liquidity. Corporate financial planning is necessary because the company aims to maximise value and remain liquid. The main objectives of company operations, which include maintaining liquidity and raising value are financial in nature, so the degree of their achievement can be assessed using financial measures. Financial planning constitutes an indispensable tool for achieving priority objectives of the operation of any economic entity [7].

The introduction of new, completely different rules of commerce in the 1990s forced the mining sector to make radical changes, also in its organisation and management sphere. The current structure of the hard coal mining industry is clearly dominated by multi-facility mining enterprises. The largest is Kompania Węglowa SA comprising 16 mines, followed by Jastrzębska Spółka Węglowa SA (6 mines) and Katowicki Holding Węglowy SA (4 mines and 1 subsidiary mine — KWK (Hard Coal Mine) „Kazimierz Juliusz”) and other important players: Lubelski Węgiel Bogdanka SA as well as Południowy Koncern Węglowy SA [1].

The financial planning process, one element of which is the preparation of both operational and strategic financial plans, is carried out at the head office level. Financial planning in hard coal mining is extremely complex, as it has to account for the specific nature of this sector stemming from geological mining conditions. In addition, mining enterprises are carrying out intensive investment projects to extend the technical infrastructure of individual mines. Notable ones include major projects constructed by LW Bogdanka SA and Jastrzębska Spółka Węglowa SA.

Apart from long-term investment projects, mining companies are taking steps to source and use new technologies of coal bed mining. One example are the purchases of new coal plow systems (LW Bogdanka SA, JSW SA) which make it possible to mine low seams which were not mined before due to their mining and geological conditions as well as the lack of an effective mining technology.



**Fig. 1.** A diagram showing the division of corporate planning [3]

Here it is worth noting that, according to a report by the Global Economy Institute of the Warsaw School of Economics [8], hard coal and lignite mining represents the most innovative sector of the Polish economy, mainly as a result of:

- conducting research and development activities;
- introducing new technical and technological solutions (including the implementation of advanced IT technologies).

This rank of the mining sector may seem rather surprising as there are limited opportunities to source money for this purpose, e.g. from European funds. The above examples presents links in the financial planning chain of the Polish mining.

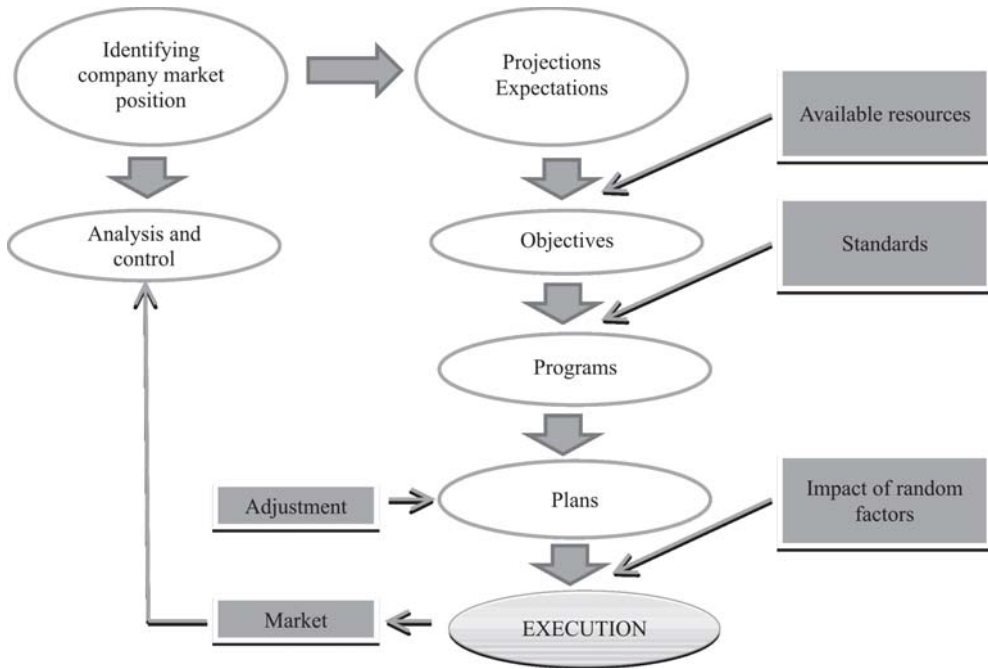
### **3. The role of financial planning in corporate management**

Planning at a company consists in preparing activities within a specific time frame. In terms of activities, it is a process of elaborating plans. It can also represent the way of thinking about the future of the enterprise. Planning forms an element of the management

process. Management includes planning, decision-taking and controlling [4]. Planning entails considering alternative future states or results and directions of activities or sequences of management actions necessary to achieve intended results. In contrast, decision-taking means choosing one direction of action from among the proposed opportunities after comparing their possible results. A rational choice can only be made if objectives which are used for comparing results have been set in advance. Financial planning exhibits the following characteristics [4]:

- anticipating the future, i.e. including future executive action in the contents of the plan;
- the directing nature of plans, which are an expression of the management's decisions containing instructions to use the available means for execution;
- the indicative nature of planning, i.e. defining the directions of action supporting the achievement of objectives;
- the standardising nature, consisting in formulating rules, standards and principles associated with the planning process;
- reactivity, consisting in taking advantage of opportunities identified in the environment and dealing with threats;
- retroactivity, meaning that past experience is used in planning;
- the informative nature — information about company capabilities and intentions, verbalising tasks and visions of the future;
- organising the work and the participation of an executing team interested in implementing the plan because they are either obliged or motivated to do so.

Financial planning is a process at whose first stage an assessment is made of the current state of the company, understood as a set of information about its economic standing, the results it achieves and the operating resources available to it. The above information is obtained from financial statements, internal controls and from economic analyses, i.e. the financial controlling. Data from economic forecasts which include the market situation is also used for this purpose [4]. This helps select the appropriate directions of operations. The planning organisation must set relatively accurate objectives for the company, taking into account the expectations of the market, the shareholders and the staff, the development requirements of the company as well as the current business standards, the productivity, organisation and standards of work. The next step in the planning process is to develop programs containing the sequence of actions and operating resources leading to achieving these objectives. The last stage in the planning cycle consists in adopting a decision to implement the plan. This entails defining the necessary details of the plan concerning the implementing units, the start and end dates of work and the workflow. The planned tasks may be adjusted during their execution. The task execution having been completed, an assessment is made of the economic results achieved. The above elements constitute the planning cycle of the enterprise (Fig. 2). The advantages of planning are seen in the economic results [11].



**Fig. 2.** Corporate planning cycle [4]

Financial planning can be considered from the angle of enterprise management tasks. The main tasks in financial planning include [4]:

- setting company objectives and tasks in financial terms;
- developing the actual financial relations of the enterprise;
- linking the decisions taken to financial figures characterising the value of the company, its financial results, assets and equity, accounts receivable and payable etc.;
- analysing alternative solutions for the future using criteria for assessing the return on investments;
- projecting the use of alternative sources of funding;
- using financial planning to assess the results achieved.

The form of financial planning and its contents change over time. Innovative forms of information transfer are bringing about a rapid growth of financial services, settlement technologies, as well as methods of data analysis and collection. The progress in this field contributes to the development of new forms and applications of financial planning [6]. Financial planning is treated as an element of the enterprise management system, in which it fulfils specific functions. At the same time, it constitutes a subsystem of the financial

system. The financial system of an enterprise covers the subjects of cash accumulation, flows and use. In particular, it consists of the following:

- general rules governing the financial management of economic entities;
- internal financial regulations and procedures effective within the company;
- methods of accounting, planning, economic analyses and of financial controlling;
- rules of information circulation and financial reporting;
- the system of authorities determining the way financial decisions are taken.

Corporate financial management is carried out within the financial system, so the features of this system influence the operating efficiency of the company. This system is improved by searching for and selecting financial tools that are best matched to the operating conditions. Hence this is all about designing a financial system which will help achieve the company's objectives and generate the best economic results possible. When assessing how modern the solutions in the corporate financial system are, account is taken of the following:

- the contribution of modern strategic management concepts to financial management;
- the use of management accounting solutions;
- the way that the financial department is organised;
- whether the individual requirements and the specific nature of the enterprise are considered;
- an assessment of solutions for financial planning, analysis and controlling;
- the level to which corporate finances are computerised.

#### **4. Summary**

This publication deals with financial planning, or more precisely, with selected aspects of this very broad subject. The subject of financial planning has been presented briefly (due to the limited length of the article), taking into account the specific nature of Polish mining companies. Financial planning forms a crucial element of corporate financial management. Corporate financial planning is a continuous process of detailing methods of achieving financial targets. It constitutes a significant part of the entire planning cycle of a company. It is considered that the main purpose of company operations is to maximise the market value of its shareholders' equity. Frequently the company's basic purpose is defined as its survival, which requires maintaining liquidity. Corporate financial planning is necessary because the company aims to maximise value and remain liquid. The main objectives of company operations, which include maintaining liquidity and raising value are financial in nature, so the degree of their achievement can be assessed using financial measures. Financial planning constitutes an indispensable tool for achieving priority objectives of the operation of any economic entity.

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