STRATEGIC PLANNING FOR SMALL BUSINESS INSTITUTES IN POLAND

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Center on Education and Training for Employment
The Ohio State University
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STRATEGIC PLANNING FOR SMALL BUSINESS INSTITUTES IN POLAND

Randy Rollinson
Walery Lach
Zdzisław Krajewski
M. Catherine Ashmore

Solidarność Economic Foundation
Gdańsk, Poland

and

Center on Education and Training for Employment
The Ohio State University
1900 Kenny Road
Columbus, Ohio 43210-1090

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S.Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in *Entrepreneurship, Marketing, Management, Finance, Strategic Planning,* and *Export-Import.* In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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FINANCE	Lynn Neeley, Northern Illinois University Bogusław Plawgo, The Białystok Business School
STRATEGIC PLANNING	Randy Rollinson, The University of Illinois at Chicago Zdzisław Krajewski and Bogdan Sojkin, Poznań Academy of Economics

EXPORT-IMPORT Martha Cooper, The Ohio State University
Krzysztof Kaszuba, Rzeszów Polytechnic

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CASE STUDIES OF POLISH ENTREPRENEURS

Lisa Mazzei, The Ohio State University
Alicja Zajączkowska and Alicja Unterschuetz
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The editors of these six curriculum products deserve special thanks for two years of attention to detail and schedules that everyone thought was impossible. Both Piotr Koryński and Elżbieta Jacowicz have masters degrees in economics from the University of Gdańsk in Poland. Since the beginning of this project, they have worked at The Ohio State University in an effort to make these curriculum products appropriate for use in their country.

We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Małaszkiewicz.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

ACKNOWLEDGEMENTS

We are grateful to the primary author, Mr. Randy Rollinson, University of Illinois at Chicago, for development of this teaching outline for use in the Enterprise Institutes in Poland. He was assisted by Walery Lach, Zdzisław Krajewski, and M. Catherine Ashmore, as the materials were assembled in 1991 - 1993.

We are also indebted to the publishers or authors who gave permission to use selected portions of their copyrighted materials. They include:

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STRATEGIC PLANNING MODULE

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STRATEGIC PLANNING MODULE

Basic Expectations

This entire module is built around the fundamental premise that each person enrolling in the module will prepare a strategic plan for either the entire organizational, one strategic business unit or one function of the firm over the course of the six units.

To maximize the probability that participants will achieve this objective the module is best structured as follows:

Unit 1

At the completion of Unit 1 participants should form a planning team and complete Worksheet 1

Unit 2

At the completion of Unit 2 the planning team should complete Worksheet 2

Unit 3

At the completion of Unit 3 the planning team should complete Worksheet 3

Unit 4

At the completion of Unit 4 the planning team should complete Worksheet 4

Unit 5

At the completion of Unit 5 the planning team should complete Worksheet 5

Unit 6

Ask each participant to give a 5-10 minute presentation on their plan. Ask them to focus on the one or two most important objectives. Following the presentation ask the class to critique the presentation.

At the completion of Unit 6 ask each planning team to prepare a written strategic plan. Suggest they follow the outline which was given out in Unit 1. Tell them to turn in the plan within one month to the Institute for an in depth review of the document. Following review of the plan by the faculty meet with the participant (or planning team) to give them individualized feedback on what they can do to strengthen the plan.

Competencies

Upon completion of this program participants will:

- understand the essential elements of the strategic management model
- understand the difference between socialist and free-market planning
- understand the difference between feasibility studies, business planning and strategic planning
- be able to describe the steps involved in preparing an overall strategic plan for a small business
- appreciate the critical importance of getting organized to plan
- be able to initiate a systematic analysis of their firms internal strengths and weaknesses and external opportunities and threats
- be able to prioritize the critical issues the firm should focus its planning efforts on
- be able to define their firms distinctive competency
- be able to write a vision statement for their firm
- be able to define their products and/or services
- be able to define their target market(s)
- be able to define the geographic boundaries they will primarily serve
- be able to define their strategic posture
- be able to write goal statements
- be able to define key result areas for each goal statement
- be able to write measurable and quantifiable objectives for each KRA
- be able to prepare strategy statements for each objective
- be able to apply criteria for evaluating strategies
- be able to prepare action plans for each strategy
- be able to prepare a first draft of their firms strategic plan
- be able to delegate responsibility for implementing sections of the plan
- be able to design a basic management control system
- be able to draft a process for keeping the plan up-to-date
- be able to understand the basic elements involved in developing a board of directors

STRATEGIC PLANNING (MANAGEMENT) OVERVIEW

UNIT 1

Title: **STRATEGIC PLANNING (MANAGEMENT) OVERVIEW**

Purpose: This unit is designed to help participants understand the nature of strategic management and how to proceed with developing a strategic plan.

Objectives: Upon completion of this unit, participants will . . .

- understand the essential elements of the strategic management model.
- understand the difference between socialist and free-market planning
- understand the difference between feasibility studies, business planning and strategic planning.
- be able to describe the steps involved in preparing an overall strategic plan for a small business.
- appreciate the critical importance of getting organized to plan.
- be able to initiate a systematic analysis of their firms internal strengths and weaknesses and external opportunities and threats.

Materials:

Transparency 1-1:	Definition of Strategic Management
Transparency 1-2:	Basic Elements in the Strategic Management Process
Transparency 1-3:	Definition of Strategy Formulation
Transparency 1-4:	Definition of Strategy Implementation
Transparency 1-5:	Definition of Evaluation and Control
Transparency 1-6:	Communist versus Free Market Planning
Transparency 1-7:	Planning Tools for Small Business
Transparency 1-8:	Business Life Cycle and Type of Plan
Transparency 1-9:	Feasibility Study Process
Transparency 1-10:	Strategic Plan Model
Transparency 1-11:	Describe the Planning Horizon
Transparency 1-12:	Illustrate the Planning Horizon
Transparency 1-13:	Contrast Strategic Planning with Long-Range Planning
Transparency 1-14:	Advantages of Strategic Planning
Transparency 1-15:	Disadvantages of Strategic Planning
Transparency 1-16a:	How to Develop a Strategic Plan - Suggestions
Transparency 1-16b:	How to Develop a Strategic Plan - Rules of Thumb

Transparency 1-17:	Illustrate "Life-threatening Situations"
Transparency 1-18:	Get Organized to Plan
Transparency 1-19a:	Strategic Planning Process - Step 1
Transparency 1-19b:	Strategic Planning Process - Step 2
Transparency 1-19c:	Strategic Planning Process - Step 3
Transparency 1-19d:	Strategic Planning Process - Step 4
Transparency 1-19e:	Strategic Planning Process - Step 5
Transparency 1-19f:	Strategic Planning Process - Step 6
Transparency 1-19g:	Strategic Planning Process - Step 7
Transparency 1-19h:	Strategic Planning Process - Step 8
Transparency 1-19i:	Strategic Planning Process - Step 9
Transparency 1-19j:	Strategic Planning Process - Step 10
Transparency 1-19k:	Strategic Planning Process - Step 11
Transparency 1-19l:	Strategic Planning Process - Step 12
Transparency 1-19m:	Strategic Planning Process - Step 13
Transparency 1-19n:	Strategic Planning Process - Step 14
Transparency 1-19o:	Strategic Planning Process - Step 15
Transparency 1-19p:	Strategic Planning Process - Step 16

Handouts:

Handout 1-1:	The Strategic Management?
Handout 1-2:	Business Plan Model
Handout 1-3:	Recommended CBA Strategic Plan Outline
Handout 1-4:	Worksheet #1 - Get Organized to Plan
Handout 1-5:	The Strategic Management Process
Handout 1-6:	Introduction: Strategic Planning in the Small Business
Handout 1-7:	Strategic Planning in the Small Business
Handout 1-8:	50 Trends Shaping the World

Class Exercise:

Role play exercise — How to introduce planning process in the firm.

Assignment:

1. Go back to the firm and form the planning team

2. Complete Worksheet #1

Notes to Instructor:

Whenever possible encourage each participant to express their feelings and to ask questions. Take plenty of time to discuss participant's concerns regarding the concept of "planning." Let participants know that it is quite natural to feel overwhelmed when they initiate the process of developing a plan. Stress the fact that the participant needs to take one step at a time. Stress the fact that business owners <u>must</u> set aside time on a regularly scheduled basis if they are to be successful at developing a plan.

Estimated time:

Definition of strategic management	10 minutes
Socialist versus free market planning	10 minutes
Types of plans	40 minutes
Planning process introduction	30 minutes
Role play exercise	15 minutes

Content	Process
A. **Overview of the Class**	Introduce yourself. Briefly describe your background and firm.
This unit is designed to help participants understand the nature of strategic planning and how to proceed with developing a plan.	
Upon completion of this unit, participants will . . .	Hand out HO 1-1: Strategic Management Competencies.
• understand the essential elements of the strategic management model. • understand the difference between socialist and free-market planning • understand the difference between feasibility studies, business planning and strategic planning. • be able to describe the steps involved in preparing an overall strategic plan for a small business. • appreciate the critical importance of getting organized to plan. • be able to initiate a systematic analysis of their firm's internal strengths and weaknesses and external opportunities threats.	
B. **Define the strategic management process**	
Today, managers, including small business owners, must deal with a broad range of business pressures. They include production deadlines, staff meetings, quality control improvements, and customer demands	

Content	Process
for better pricing. To succeed in this environment, small businesses must utilize proven business management techniques or they will likely not survive.	
One of these techniques is called strategic management. Include in this discipline is the process of "strategic planning."	Put up TP 1-1: Definition of Strategic Management.
Simply stated, strategic planning is a disciplined process for making decisions and taking actions that shape and guide what a firm is, and what it wishes to do.	
The strategic management process includes three components: • Strategy Formulation • Strategy Implementation • Evaluation and Control	Put up TP 1-2: Basic Elements in the Strategic Management Process. Hand out a reading on strategic management process (HO 1-5). Put up TP 1-3: Definition of Strategy Formulation. Put up TP 1-4: Definition of Strategy Implementation.
Briefly discuss each term.	Put up TP 1-5: Definition of Evaluation and Control.
C. **Communist/Socialist versus free market planning**	
Indicate that there is a great deal of resistance to planning Poland largely due to the history of Poland being controlled by the USSR.	Put up TP 1-6: Communist/Socialist versus Free Market Planning.
Stress the importance of not abandoning planning because of this experience.	
Go on to contrast the types of systems	

Content	Process
D. Difference between feasibility studies, business plan and strategic plan.	
Indicate that there are a number of planning "tools" a small business owner can use, depending on where the business is in terms of the product life cycle.	Put up TP 1-7: Types of Plans and When to Use.
Explain the product life cycle.	Put up TP 1-8: Business Life Cycle and Type of Plan
	Put up 1-9: Feasibility Study Process.
When the entrepreneur is seeking to raise money in order to grow the firm, he should use the "business plan tool."	
Explain the business plan.	Provide the participants with an example of HO 1-2: Business Plan. And allow time for students to read it.
When the entrepreneurs has truly begun to experience growth and financing is in place, he should focus on the strategic plan.	
Indicate that a discussion of the strategic plan will follow shortly.	Put up TP 1-10: Strategic Plan Model.
	Hand out HO 1-3: Strategic Planning for the Small Business.
In summary, the entrepreneur must remember when to use what planning tool.	Provide the participants with a reading on it (HO 1-7).
Review this data.	Put up TP 1-7: Types of Plans and When to Use.
E. Strategic Planning	
Before the planning process is initiated, it is important for the small business owner to define the planning horizon.	Put up TP 1-11: Describe the Planning Horizon.
By this, I mean, "how long are we planning for? One year, two years, or three years?	

Content	Process
The answer to this question is an individual decision for the firm.	
Several factors will influence the decision: • How fast is the industry changing? • How much time does the small business owner have to put into the process? • How realistically can we predict the future?	
Regardless, we do not recommend that the planning horizon extend beyond three years.	Put up TP 1-12: Illustrate the Planning Horizon.
Another way of making this point is how long will it realistically take us to get from point A to point B?	
This question often arises when we confuse strategic planning with "long-range planning."	Put up TP 1-13: Contrast Strategic Planning with Long-Range Planning.
Review the differences	
For many years, it was thought that strategic planning only applied to larger organizations. Today, research has shown this concept to be equally valid in smaller businesses. Some of the advantages of strategic planning are as follows:	
Review advantages	Put up TP 1-14: Advantages of Strategic Planning.
However, in order for a small business to experience these advantages, the planning process **must have the support and involvement of the business owner(s) and key managers.** Without the commitment and active participation of top	

Content	Process
management in each phase of the process, the costs of planning will most certainly cutweighs the benefits.	
Below I have outlined some of the disadvantages of strategic planning also.	
Review disadvantages.	Put up TP 1-15: Disadvantages of Strategic Planning.
F. **How to develop a strategic plan?**	
Before developing a plan, the small business owner should keep a couple of things in mind. Discuss the following:	
• Develop a process that fits	Put up TP 1-16a: How to Develop a Strategic Plan - Suggestions.
• Rules of thumb	Put up TP 1-16b: How to Develop a Strategic Plan - Rules of Thumb.
Remember to address "life threatening situations" first.	Put up TP 1-17: Illustrate "Life-threatening Situations".
Discuss and give examples.	
To implement a strategic planning process is quite straight forward and involves five sequential steps. These steps are as follows:	
1. Get organized to plan	
2. Take stock of where you are	
3. Develop a strategy	
4. Draft the plan	
5. Implement, monitor and revise the plan	

Content	Process
To successfully undertake a strategic planning process, it is important to understand what questions to ask and what is involved in each step. This information is summarized below	
Step 1: Get Organized to Plan	Put up TP 1-18: Get Organized to Plan.
The first thing the small business must do is answer the following question: "Is now the time to develop a strategic plan?" If your firm is in the middle of a "life-threatening crisis," or it is not committed to developing a good plan, then don't proceed.	
Second, make sure you have **commitment from the top**. If top management is not 100 percent committed to the planning process, then the resulting plan will likely not succeed.	
Third, determine **if outside help will be needed**. Depending on your experience with strategic planning, you may want to consider using an outside resource person to facilitate the process.	
Fourth, outline **a planning process that fits**. Before initiating a planning process, as yourself the following question: How much time do I (we) have to put into planning on a weekly basis? If the answer is two hours per week, then make sure you don't design a process that takes give hours per week. also, as yourself about the "planning horizon." By this, I mean how long are you planning for? For example, are you planning for one year, w years, or three years?	
Finally, **form a planning team**. The importance of involving all key personnel	

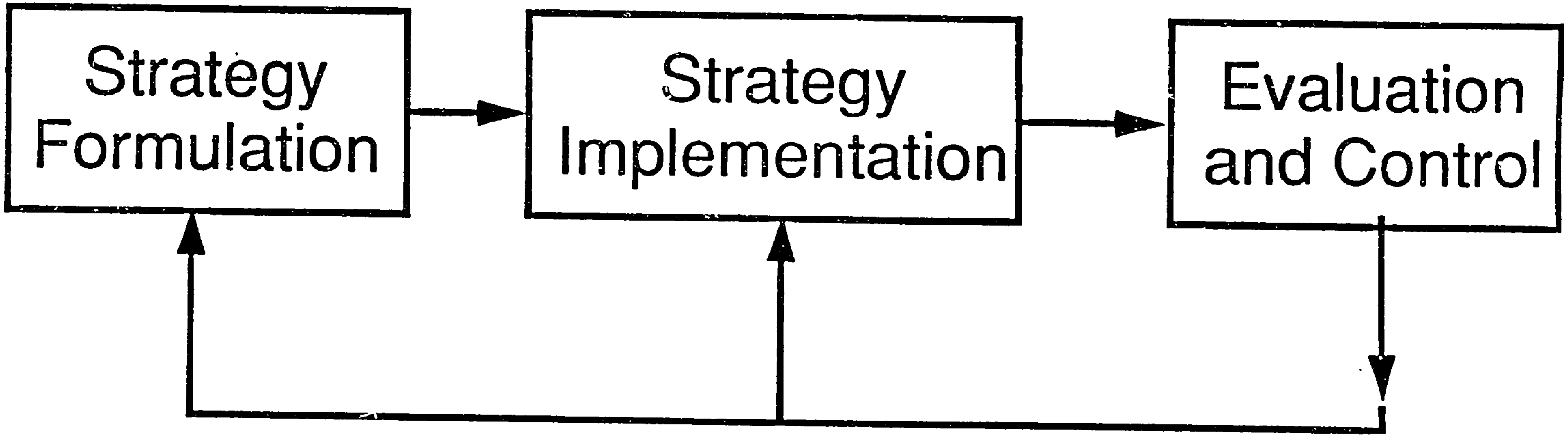
Content	Process
in the planning process is extremely important. My experience indicates that a team of five to seven people is ideal. At specific points in the process, it will be important to involve others also.	
Before we go forward, let's return to the idea of developing a planning process that fits your organization. Below I have outlined a step-by-step process you may want to consider as you develop your own planning process.	
Review each step.	Put up TP 1-19a — TP 1-19p in turn.
Point out and stress the need to form a planning team (if possible). Let them know that you understand that there will be resistance to this initiative.	
To help participants through this resistance, use the role play situation on how to introduce the planning process in their respective firms.	Do role play exercise. See Notes for Instructors at the end of the Unit.
Review Worksheet #1	Hand out HO 1-4: Worksheet #1 - Get Organized to Plan. Allow time for students to answer questions. Then review with the entire class.
Make a summary statement.	End of Unit 1. Provide copies of HO 1-8 to read after the this class. Provide copies of HO 2-4 to read before the next class.

Definition of Strategic Management

STRATEGIC MANAGEMENT

THE SET OF MANAGERIAL DECISIONS AND ACTIONS THAT DETERMINE THE LONG-RUN PERFORMANCE OF A BUSINESS OR ORGANIZATION

BASIC ELEMENTS IN THE STRATEGIC MANAGEMENT PROCESS



Definition of Strategy Formulation

STRATEGY FORMULATION:

The process of developing workable plans to deal effectively with environmental opportunities and threats in light of internal strengths and weaknesses.

Definition of Strategy Implementation

STRATEGY IMPLEMENTATION:

The process of putting strategies into action by delegating responsibility to Action Plan Coordinators.

Definition of Evaluation and Control

EVALUATION AND CONTROL:

The process of monitoring business or organization activities and performance results so that actual performance can be compared with desired performance

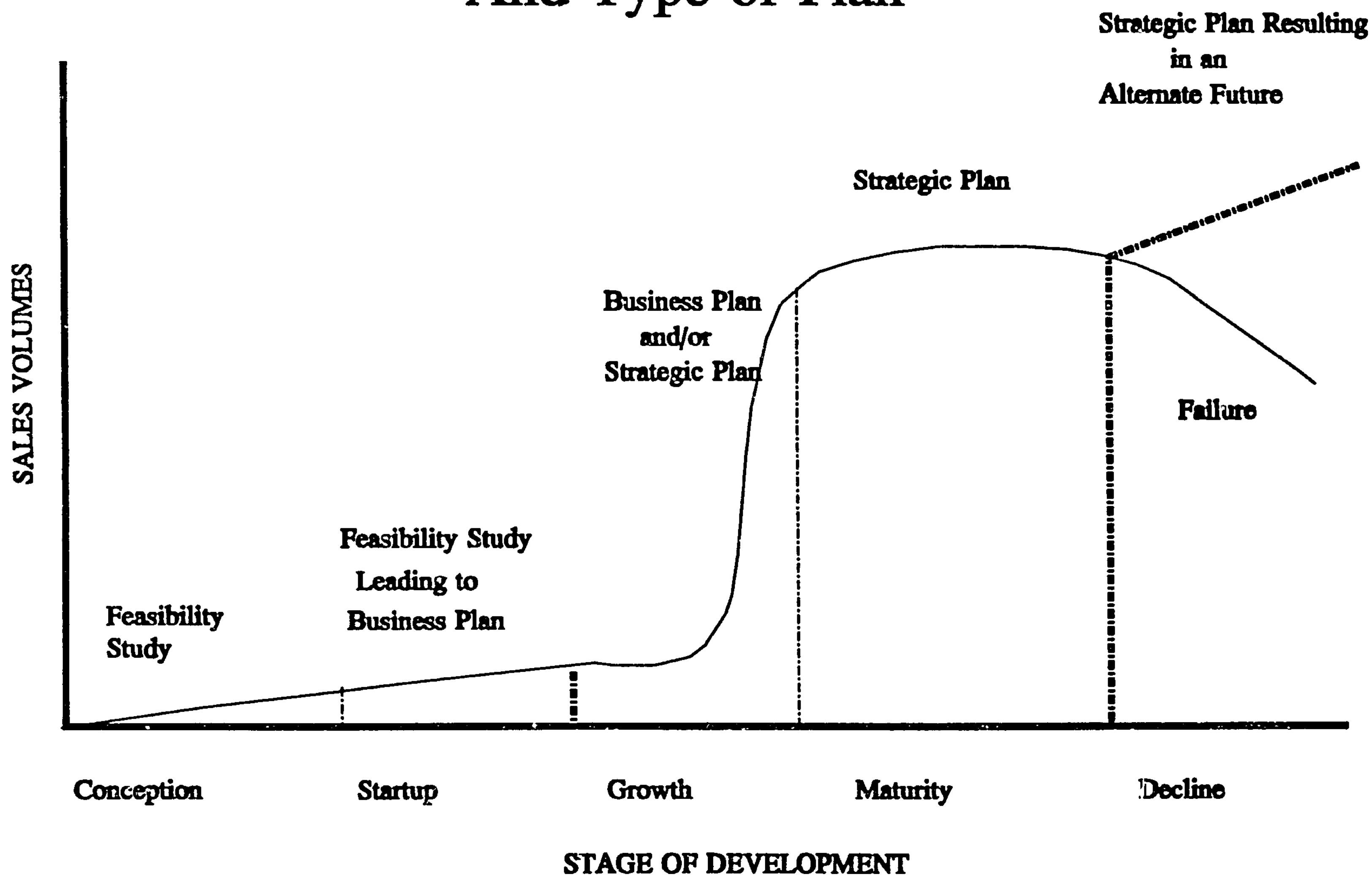
COMMUNIST VERSUS FREE MARKET PLANNING

Characteristic	Communist/Socialist	Free Market
Who does it?	Government - by levels	Business owner
Whose needs are met?	Government - the people (?)	Customer
Nature of goals?	Often unrealistic	Realistic
Planning horizon?	5-10 years	1-3 years
Rigidity of plan	Very rigid	Flexible - targets only
Who has input into the plan?	Government officials only	All levels of the firm
Who makes strategic decisions?	One person at each level	All owners
Plans based on?	Based on past performance with a few percent added	Future needs of customers
Culture for planning?	Conform to rules and regulations	Take risks and be flexible
Financial control?	Focus on meeting production goals - cost control and pricing decisions not critical	Cost control and pricing decisions are critical

PLANNING TOOLS FOR SMALL BUSINESS

Stage of Development	Feasibility Study	Business Plan	Strategic Plan
Conception Through Startup (0-12 months)	XXXXXXXXXXX	XX	
Early Stage Firm (1-3 years)		XXXXXXXXXXX	XX
Ongoing Firm (3+ years)		X	XXXXXXXXXXX
Ongoing Firm with a New Product for Development	XXXXXXXXXXX		
Ongoing Firm with a New Market for Development	XXXXXXXXXXX		

Business Life Cycle And Type of Plan



NEW

VENTURE

IDEA

→

TECHNICAL FEASIBILITY

MARKET FEASIBILITY

COMPETITION FEASIBILITY

ORGANIZATION FEASIBILITY

FINANCIAL FEASIBILITY

BREAKEVEN POINT

CASH FLOW

→

FEASIBLE IDEA

↓

NOW

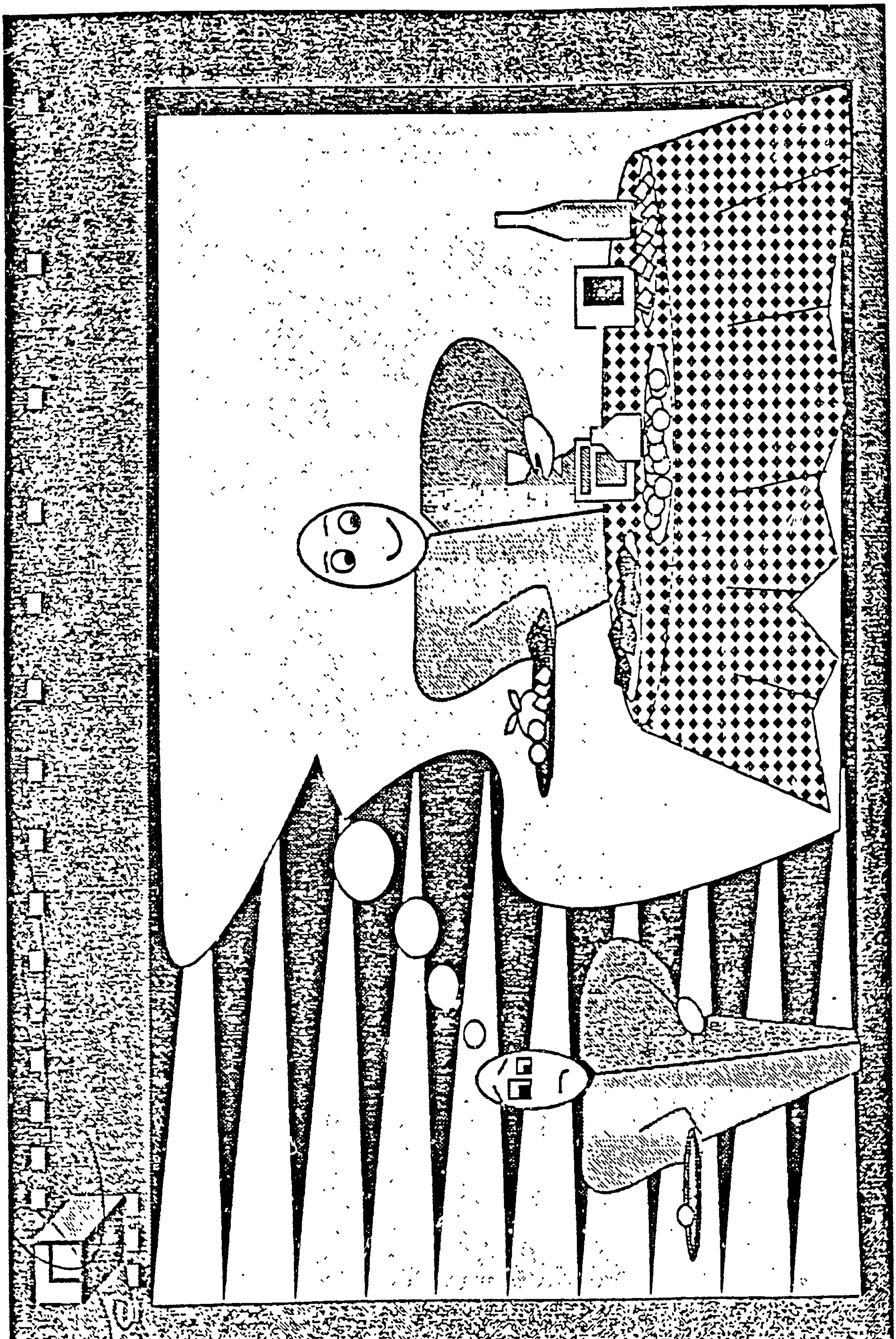
BUSINESS PLAN

FEASIBILITY STUDY PROCESS

STRATEGIC PLAN MODEL

1. Table of Contents
2. Executive Summary
   - Company background
   - Mission statement
   - Primary goals
   - Products/Services
   - Market segment(s) served
   - Distinctive competencies
3. Situation Analysis
4. Strategic Direction
   - Mission statement and philosophy
   - Primary goals
   - Key result areas for meeting each goal
   - Measurable and quantifiable objectives which address each KRA
   - Strategies for meeting each objective
   - Action plans for implementing each strategy
5. Implementation
   - Organizational structure
   - Major policies and procedures required to successfully implement your plan
   - Critical human and financial resource allocation decisions
6. Evaluation and Control
7. Contingency Plans
8. Financial Plan
   - A detailed sales forecast by quarter for the next two years
   - Actual income statements and balance sheets for the past three years
   - Proforma income statement for the next two years
   - Proforma balance sheet for the next two years
   - Proforma cash flow statement by month for the next 12 months and by quarter for the next 12 months
   - Break-even chart and calculation (if appropriate)
   - Appropriate ratios compared to the industry
9. Appendices


STRATEGIC PLANNING
FUTURE GOALS
(What/Where)
PLANNING HORIZON
(How)
PRESENT SITUATION



STRATEGIC PLANNING VS. LONG-RANGE PLANNING

1. SP relies more on identifying and resolving issues, while LRP focuses on specifying goals and objectives and translating them into budgets and work programs.
2. SP emphasizes assessment of the environment, where LRP assumes the current trends will continue into the future.
3. SP planners are more likely to pursue an idealized vision of the future and ask how best to achieve this "vision", where LRP planners typically make linear extrapolations of the present.
4. SP is more action-oriented. SP considers a range of possible futures and works to keep options open, where LRP assumes a most likely" scenario and then works backward to map out the sequence of decisions and actions necessary to achieve this plan.

ADVANTAGES OF STRATEGIC PLANNING

1. Improve performance
2. Stimulate forward thinking
3. Solve major organizational problems
4. Survive with less
5. Build teamwork and expertise
6. Establish priorities
7. Clarify future direction
8. Defensible basis for decision-making
9. Meet others' requirements
10. Influence rather than be influenced
11. Enhance internal and external image

DISADVANTAGES OF STRATEGIC PLANNING

1. Costs can outweigh benefits
2. Intuition or "muddling" may be preferable
3. When "life-threatening" problems should be addressed first
4. When implementation is unlikely
5. When poor plans are likely

HOW TO DEVELOP A STRATEGIC PLAN

A. Develop a process that fits your organization!!!!

Two suggestions:

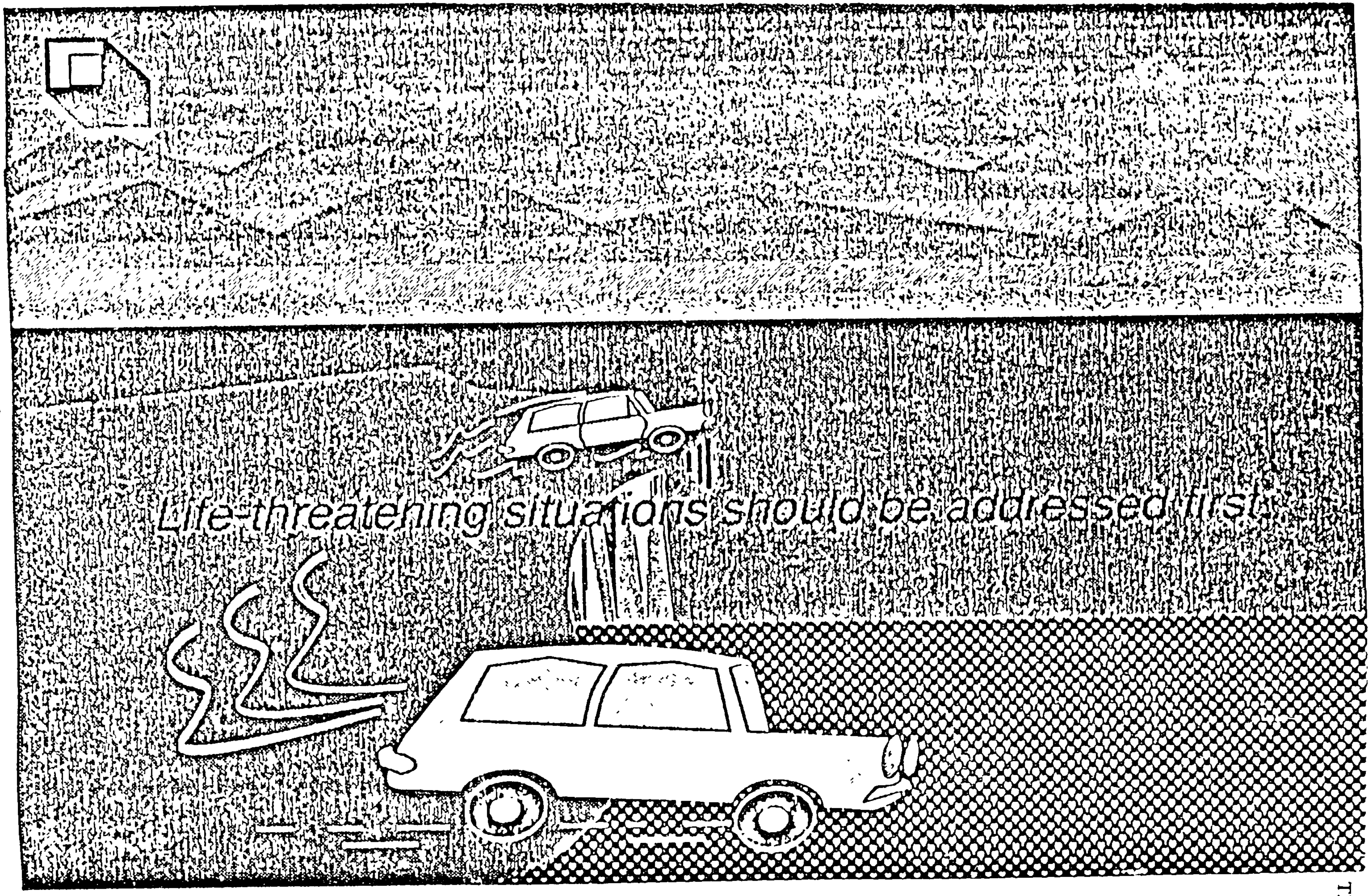
1. Focus on critical issues
2. Make sure the process is realistic. Take into account:
    - Your experience in planning
    - Your organization skills
    - Commitment of organizational leaders
    - Time available (2 hrs. per week or 5 hrs. per week)
    - Technical or political problems you may encounter

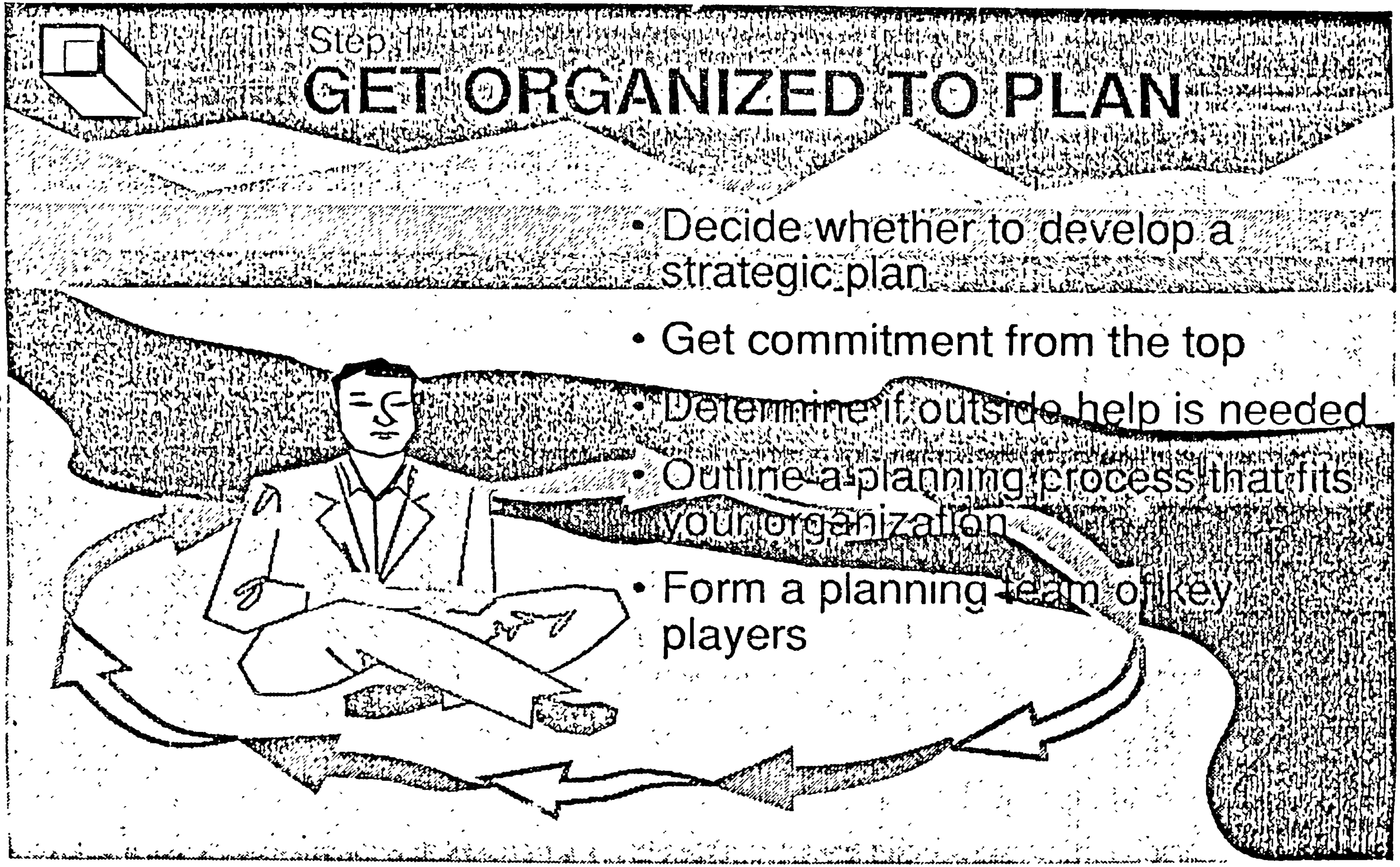
Stay focused on critical issues

HOW TO DEVELOP A STRATEGIC PLAN

B. Rules of Thumb

1. Strategic Planning is a way of thinking -- an ongoing process -- your plan is never perfect or complete.
2. Keep the planning simple and manageable.
3. Involve organizational leaders deeply.
4. Emphasize creativity, innovation, and imagination rather than following the steps.
5. Don't adopt strategies without careful consideration.
6. Strategic planning is not an end in itself. It is a tool to help your organization achieve its missions.
7. Utilize technology to assist in planning whenever possible.


Life-threatening situations should be addressed first.


Step 1
GET ORGANIZED TO PLAN
• Decide whether to develop a strategic plan
• Get commitment from the top
• Determine if outside help is needed
• Outline a planning process that fits your organization
• Form a planning team of key players

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

1. If possible form a planning team. ____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps	**Completion Date**
2. Hold first meeting of the planning team. Orient the team to the CBA planning model. Begin SWOT Analysis by focusing on the internal strengths and weaknesses of each major product line or service. If appropriate solicit input from all levels of the company.	____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

3. Hold second meeting of the planning team. Continue Analysis by focusing on the internal strengths and weaknesses of each support function. ________________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

4. Prepare a summary report. Distrubute to each team member and others within the company for review. ____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps	**Completion Date**
5. Hold third meeting of the planning team. Continue the Planning Process by focusing on the external opportunities and threats for business overall and each major product line or service.	______________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

6. Prepare a complete SWOT Analysis Report. Distribute to all appropriate parties for review and comment. __________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps **Completion Date**

7. Hold fourth meeting of the planning team. Carefully specify the **Mission Statement** of the company. Prioritize the primary goals of the company and the Key Result Areas (KRA's) you must focus on over the planning horizon to achieve each goal. ____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

8. Draft measurable and quantifiable objectives for each priority. Prepare a memo listing each objective and distribute to others as necessary for review and comment. ____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps	**Completion Date**
9. Hold fifth meeting of the planning team. Refine objectives and develop preliminary strategies for meeting each objective keeping the realistic financial situation of your company in mind. Assign tentative responsibility for each strategy.	____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps	**Completion Date**
10. Cost out strategies.	__________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps **Completion Date**

11. If necessary hold a sixth meeting of the planning team to finalize strategies and prepare Action Plans for each strategy. __________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps	**Completion Date**
12. Prepare the first draft of your Strategic Plan including the following:	________
• Mission Statement	________
• Primary Goals	________
• Key Result Areas	________
• Measurable and Quantifiable Objectives	________
• Strategies for meeting each Objective	________
• Action Plan for each Strategy	________
• Realistic Budget and Financial Projections	________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

13. Review the Plan with others as necessary. ____________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps	**Completion Date**
14. Modify and finalize Plan.	______________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

<u>**Steps**</u>	<u>**Completion Date**</u>
15. Design the necessary control documents.	________

CERTIFICATE IN BUSINESS ADMINISTRATION

Strategic Planning Process for Small Businesses

Steps | **Completion Date**

16. Implement, review and revise the Plan on a quarterly basis. ________

Competencies

- understand the essential elements of the strategic management model
- understand the difference between socialist and free-market planning
- understand the difference between feasibility studies, business planning and strategic planning
- be able to describe the steps involved in preparing an overall strategic plan for a small business
- appreciate the critical importance of getting organized to plan
- be able to initiate a systematic analysis of their firms internal strengths and weaknesses and external opportunities and threats

BUSINESS PLAN

FOR

(NAME OF BUSINESS)

NAME OF OWNER(S), TITLE(S)
STREET ADDRESS
CITY, STATE, ZIP CODE
TELEPHONE NUMBER

DATE PRESENTED

SUMMARY

Summarize Description of the Business

- Name, address of business
- Type of business
- Product/Service
- Name(s) of owner(s)
- Amount and purpose of financing

Summarize Marketing Plan

- Potential market
- How will business attract customers
- Competition
- Selling methods

Summarize Organization Plan

- Management personnel/Qualifications
- Legal structures

SECTION I: DESCRIPTION OF BUSINESS

PURPOSE

Identify Purposes of the Business Plan

- Who will use the business plan?
- What is the business plan to accomplish?

Define Overall Purposes of the Business

- What are the main personal purposes of the business?
- What are the main business purposes of this business?

List Specific Goals of the Business

- What are the goals for:

  Growth in sales volume?

  Profit before taxes?

  Personal compensation?

  Personal time commitment?

  Personal growth/Education?

  Other?

BACKGROUND

Describe Background of the Industry

- How has the industry developed?
- What has been the industry's growth?
- What is the industry's future?

Define Role of Small Business in the Industry

- How well do small businesses prosper in the industry?
- How well does the business fit in the industry?

Describe Background of the Existing Business

- When founded?
- Why started?
- Who started?
- Has the business been successful?
- What are the key points of business growth?
- What are the profitability patterns?
- How have the business goals changed over time?

PRODUCTS

Identify Products Offered for Sale

- What products does the business sell?
- Who are the key product suppliers?
- What makes the products offered unique?
- What will customers buy from the business?

Define Product Economics

- What prices will the business charge?
- What costs are associated with the product prices?

- How profitable and competitive are the product prices?
- What levels of inventory will the business require?

SERVICES

Identify Services Offered for Sale

- What services does the business provide?
- What problems do the services solve?
- What makes the services unique?

Define Service Economics

- What prices will the business charge?
- What costs are associated with service and prices?
- Will the services be profitable and competitively priced?

SUCCESS FACTORS

Identify Reasons for Potential Success

- What is new about your business?
- Why is your idea better than others?
- What are the expected benefits?

Risks

- What factors may keep you from starting the business?
- What unpredictable risks must you watch for?

SECTION II: MARKETING PLAN

CUSTOMERS

Define Customers

- If business:

  What industry?
  How many employees?
  What minimum purchase?
  What annual sales volume?
  What age of business?

- If general public:

  What marital status?
  What religion?
  What age range?
  What leisure activities?
  What income level?
  What sex?
  What race?

Determine Customer Location

- What distance customer willing to travel?
- What distance seller willing to travel?

Define Customer Buying Behavior

- How many customers are in the geographic target market?
- How many customers will purchase from the business and its competitors?
- What percentage of purchasers will buy from the business?
- How many purchasers will buy from the business?

Determine Customer Sales Per Year

- How many purchases will average customer make per year?
- How much will average customer spend for each purchase?
- How much will average customer spend per year?
- What is expected annual sales volume?

COMPETITION

<u>Describe Major Competitors</u>

- Name, Address, Telephone

<u>Compare the Business to Its Major Competition</u>

- <u>Image</u> – What are both the physical appearance and the reputation in community?
- <u>Location</u> – How convenient for customer access? (distance, traffic, parking, visibility)
- <u>Layout</u> – How well does floor space serve customers?
- <u>Atmosphere</u> – Are the feelings evoked in customers appropriate for type of business?
- <u>Products</u> – How complete are product lines and name brands in store?
- <u>Services</u> – What are the quantity and quality of services offered?
- <u>Pricing</u> – If all else is equal, how compare on prices?
- <u>Advertising</u> – Do advertising media used reach target market?
- <u>Sales Methods</u> – What selling techniques used once customer is on site?

<u>List Changes Planned to Improve Competitive Position</u>

- Image
- Location
- Layout
- Atmosphere
- Products
- Services
- Pricing
- Advertising
- Sales Methods

MARKETING STRATEGY

Describe Promotional Strategy

- What advertising media will be used?
- What days of week will various media be used?
- What media will be used during various seasons of the year?
- How will merchandise be displayed?

Define Pricing Strategy

- How are prices calculated for each product/service?
- What factors are included in setting prices?
- Which product/service sales are price sensitive?
- Which products/services attract customers at sale (reduced/discount) prices?
- How important is pricing to overall marketing strategy?
- What time of year will sales pricing be important?
- What discount policies will the business follow?
- What pricing policy will be used for "slow movers"?

Outline Customer Service

- What special services will be offered?
- What types of payment options will the business offer?
- How will the business handle "returns"?

Selling Methods

- What selling methods will be used?
- What selling methods will be used during various seasons of the year?
- Who will direct/coordinate the various selling methods?
- Will the business provide sales training for the sales force?

SECTION III: OPERATIONAL PLAN

LOCATION

Describe Location

- What is the address of the business?
- What features make the location attractive?
- What nearby business will help attract customers?

Determine Future Needs

- What renovations will be needed and at what cost?
- What are the prospects for business growth?

Identify Occupancy Costs of Location

- What are the terms of lease/purchase?
- What are the annual costs?
  - Rent or mortgage
  - Property taxes
  - Maintenance and repairs
  - Insurance
  - Utilities
  - Other costs
  - Total annual costs
  - Total annual cost per square food

Determine Layout

- What is the best layout for the business?
- How much space will you need?
- How will you organize the work flow?

SUPPLIERS

Equipment

- What equipment will you need?
- Where are the potential suppliers?
- Will you buy or lease?

Merchandise/Raw Materials

- What products will you sell?
- How will you find suppliers?
- How will you choose the best suppliers?

Supplies (not for sale)

- What operating supplies are needed?
- How will you find supplies?
- How will you choose the best supplies?

PRODUCTION PROCESS

Production

- How will you produce the product?
- What technology options do you have?
- How will you organize production?
- What different activities in the business operation must be planned?

Inventory

- How much inventory should be in stock? How does the cost affect this?
- How will you know when to order?
- How can you protect your inventory?

Shipping

- What delivery systems will you use?
- How will you package the shipment?

HUMAN RESOURCES

Identify Needed Employees

- How many employees does the business have?
- What are the job titles and skills needed by employees?
- Who will supervise employees?

Describe Sources of Employees

- How will needed employees be obtained?
- What problems will hinder finding competent employees?
- What training is available for employees?

List Costs of Employees

- What are the base wages/salaries?

- What will required benefits cost?
  - Social Security contributions
  - Federal and state unemployment taxes
  - Workers compensation insurance

- What will optional benefits cost?
  - Medical/dental insurance
  - Life/disability
  - Pension/profit sharing plan

<u>Determine When to Develop Needed Written Policies</u>

- When will written job description be completed?

- When will written personnel manual be completed?

SECTION IV: MANAGEMENT

ORGANIZATIONAL STRUCTURE

Identify Owners and Key Employees

- What form of business does the business have/
- Who are owners and what are their titles?
- Who are key employees and what are their titles?
- When have these persons previously worked together?

Outline Qualifications of Each Owner/Key Employee

- What are their most important duties?
- What is their previous business experience?
- What is their educational background?
- What are their personal interests?
- Who are used as their references?
- What will be their compensation (Year 1–30)

Organizational Chart

- Who is responsible for which activities in the business?
- Who reports to whom?

BUSINESS ADVISORS

Identify Outside Consultants/Advisors

- Who is the accountant?
- Who is the attorney?

- Who is the banker?
- Who are other key outsiders?

Describe Special Services/Assistance Provided

- Accountants/Taxes
- Planning
- Organizing
- Financial management
- People management
- Time management
- Personal selling
- Promotion
- Decision-making
- Cost control
- Personnel policies
- Pricing

RECORDS

Describe Accounting/Bookkeeping System

- Who will be responsible for maintaining all business records?
- What accounting procedures will apply?
  - Cash v. Accrual
  - Double entry v. "One-write"
- What 12-month period will serve as the fiscal year?
- Who will prepare the financial statements?

- How often will financial reports be prepared? Be received? Be audited?

LEGAL ISSUES

Identify the Form of Business

- What legal structure will the business use?
- What advantages does the selected legal form bring to the business? (versus other legal forms)
- Who are the officers (if any)?

Discuss Required Licenses, Permits or Regulations

- What licenses or permits are required for the business?
- How/when will needed licenses/permits be obtained?
- What regulations affect the business?
- Who/how will compliance be monitored?

RISK MANAGEMENT

Types of Risk

- What are your market centered risks?
- What are your property centered risks?
- What are your employee centered risks?
- What are customer centered risks?

Controlling Risks

- What policies can you make to control risks?
- What insurance will you buy to control risk?
- What other ways are there to control risks?
- What risks can't you control?

SECTION V: FINANCIAL PLAN

FINANCIAL PLAN

Prepare and Explain the "Sources and Applications of Financing" Report

- How much money is needed to operate the business successfully?
- For what uses will the needed financing be applied?
- What positive effect will the requested financing ensure?
- What terms and conditions are sought for the needed financing?
- What assets are available to secure outside financing?
- How and when will outside financing be liquidated?

SUPPORTING FINANCIAL DOCUMENTS

1. Personal balance sheet
2. Capital equipment list
3. Beginning balance sheet
4. Break-even analysis
5. Annual projected income statement plus explanatory notes
6. Monthly projected income statement plus explanatory notes
7. Monthly and quarterly cash flow projections plus explanatory notes

Recommended CBA Strategic Plan Outline

1. Table of Contents

2. Executive Summary

   This should be a brief statement which uses clear, simple, concise language. It should keep the reader's attention and develop interest. It should include the following:

   - Company background
   - Mission statement
   - Primary goals
   - Products/Services
   - Market segment(s) served
   - Distinctive competencies

3. Situation Analysis

   This section should enable the reader to understand the current internal and external situation faced by the firm. It answers the following question:

   - What are the firms <u>major</u> strengths, weaknesses, opportunities and threats?

     Remember, the answer to this question should be distilled from having systematically examined the (1) internal strengths and weaknesses of the business by SBU and by functional area, i.e. administration, business/finance, personnel, production, operations and marketing, and (2) external opportunities and threats facing the firm by SBU and overall.

   After completing the SWOT analysis, you should be able to answer the following types of questions:

   - In what industry does the firm operate, and what are the primary characteristics of the industry? (External)

- What is the size of the market, and what are the major trends impacting the market? (External)

- Who are the primary competitors in the market, and what are their competitive advantages? (External)

- What are the firms gross and operating margins? (Internal)

Clearly, the most important element of your detailed SWOT analysis should focus on the external market!

4. Strategic Direction

This section of the plan should spell out the general direction of the firm over the length of the planning horizon and provide a detailed description of how the firm will achieve its overall strategic goals. It should include the following:

- Mission statement and philosophy
- Primary goals
- Key result areas for meeting each goal
- Measurable and quantifiable objectives which address each KRA
- Strategies for meeting each objective
- Action plans for implementing each strategy

  Action plan forms should be included in the appendix.

5. Implementation

This section of the plan should spell out specific issues related to implementation of the plan. Issues which should be included in this section include the following:

- Organizational structure
- Major policies and procedures required to successfully implement your plan
- Critical human and financial resource allocation decisions

6. Evaluation and Control

This section of the plan describes the process for keeping the plan up-to-date. Also include control forms that will be used to monitor the plan.

Ideally, responsibilities per Action Plan Coordinator would be sorted and included in the appendix.

7. Contingency Plans

This section describes critical risks, problems and assumptions which are included in the plan. The author should spell out what actions will be taken if critical problems occur.

8. Financial Plan

This section of the plan is critical and should be prioritized by the business owner. Depending on the nature of the plan, it should include some or all of the following:

- A detailed sales forecast by quarter for the next two years
- Actual income statements and balance sheets for the past three years
- Proforma income statement for the next two years
- Proforma balance sheet for the next two years
- Proforma cash flow statement by month for the next 12 months and by quarter for the next 12 months
- Break-even chart and calculation (if appropriate)
- Appropriate ratios compared to the industry

9. Appendices

This section should include information which is too detailed to be included in the body of the report. Materials which might be included in the appendix include the following:

- Select industry information
- Detailed SWOT analysis
- Action plan forms
- Sorted responsibilities per action plan coordinator
- Resumes

Worksheet #1: Getting Organized

BENEFITS AND CONCERNS

1) List the benefits you expect from strategic planning.

2) List any concerns you expect from strategic planning.

3) Note possible ways to overcome each of your concerns.
Circle the best idea.

4) Decide how you will proceed.

_______ Full steam ahead

_______ With caution, addressing the concerns above

_______ Wait until a better time to begin

_______ Stop-don't proceed

ORGANIZE THE PLANNING EFFORT

5) You are developing a strategic plan for:

_______ Your total company

_______ Only one SBU of your company

_______ Other: (Explain) ______________________________

6) For what period of time are you planning?

_______ Next 6 months

_______ Next 12 months

_______ Next 18 months

_______ Next 2 years

_______ Next 3 years

7) What critical issues do you hope the planning will address over the next year?

8) Time devoted to planning: Which approach do you prefer?

_______ "What we can do in a limited time" approach: 8 hours of planning meeting

_______ A compact approach: 10-20 hours of planning meetings

_______ A more extended approach: 24-40 hours of planning meetings

_______ Over 40 hours of planning meetings

9) Are you going to use an outside resource person in developing the plan?

_______ Yes

_______ No

_______ Unsure

10) Will you use a planning team?

_______ Yes

_______ No

_______ Unsure

If so, who will be on it?

11) Are there other people you want to involve...

in the development of the plan?

in the review of the plan?

12) Who within your company will manage the overall planning effort?

13) Who will chair the actual planning meetings?

14) By what date do you want to have the plan approved?

15) Outline the steps you will use in developing your plan. After outlining the process, review it with the people involved, then make any changes needed.

Steps	Responsible	By When
1.		
2.		
3.		
4.		

5.

6.

7.

8.

CHAPTER

1 The Strategic Management Process

"Cheshire Puss," she [Alice] began . . . "would you please tell me which way I ought to go from here?"
"That depends on where you want to get to," said the cat.
Lewis Carroll

My job is to make sure the company has a strategy and that everybody follows it.
Kenneth H. Olsen
CEO, Digital Equipment Corp.

This book is about the managerial tasks of crafting and implementing strategy. *An organization's strategy is delineated in the pattern of moves and approaches devised by management to produce successful organization performance.* Strategy, in effect, is a managerial game plan for running the organization. Managers develop strategies to give order to how an organization goes about its business and to achieve target objectives. Without a strategy, there is no established course to follow, no roadmap to manage by, no coherent action plan for producing the intended results.

Strategy formulation and implementation are core management functions. Among all the things that managers do, few affect organizational performance more lastingly than how well the management team handles the tasks of charting the organization's long-term direction, developing strategic moves and approaches, and executing the strategy in ways that produce the intended results. Indeed, *good strategy and good strategy implementation are the most trustworthy signs of good management.*

 3

There is strong reason to associate "good management" with how well managers craft and execute strategy. It is hard to justify a top grade for managers who design shrewd strategies but fail to execute them well: weak implementation opens the door for organizational performance to fall short of full potential. Competent execution of a mediocre strategy scarcely qualifies managers for a gold-star award either. The standards for judging whether an organization is well managed, therefore, include good strategy-making *combined* with good strategy execution. The better conceived an organization's strategy and the more flawless its execution, the greater the chance that the organization will perform up to potential.

This is not to say that doing a good job of strategy-making and strategy-implementing will *guarantee* excellent organizational performance every year. Organizations can always go downhill for short periods because of adverse conditions beyond management's ability to foresee or react to. But the bad luck of adverse events never excuses weak performance year after year. It is always management's responsibility to adjust to adverse conditions by undertaking strategic defenses and managerial approaches that produce par performance despite a normal run of adversity.

THE FIVE TASKS OF STRATEGIC MANAGEMENT

The strategic management function has five interrelated components:

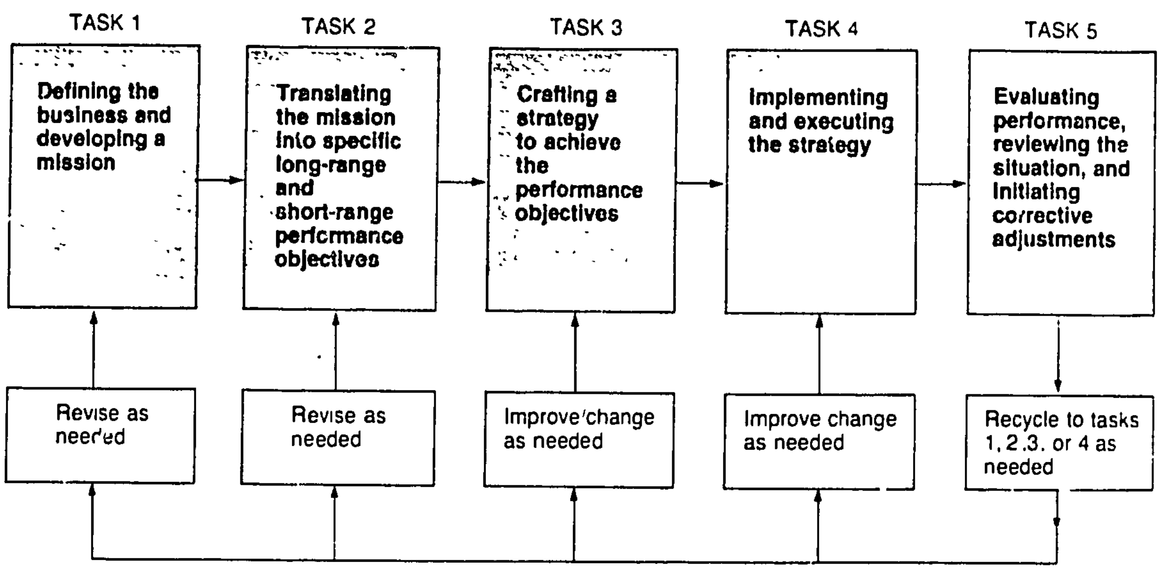
1. *Developing a concept of the business and forming a vision of where the organization needs to be headed*—in effect, infusing the organization with a sense of purpose, providing long-term direction, and establishing a *mission*.
2. *Translating the mission into specific long-range and short-range performance objectives.*
3. *Crafting a strategy* to achieve the targeted performance.
4. *Implementing and executing the chosen strategy* efficiently and effectively.
5. *Evaluating performance, reviewing the situation, and initiating corrective adjustments* in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

A model of the process is shown in Figure 1-1. Let's take a brief look at each one of these components to provide perspective for the chapters that follow.

Developing a Vision and a Mission

The foremost direction-setting question facing the senior managers of any enterprise is "What is our business and what will it be?" Developing a thoughtful answer to this question pushes managers to consider what the organization's business makeup should be and to develop a clearer vision of where the organization needs to be headed over the next 5 to 10 years. Management's answer to "What is our business and what will it be?" begins the process of carving out a meaningful direction for the organization to take and of establishing a strong organizational identity. Management's vision of what the organization seeks to do and to become is commonly termed the organization's *mission*. A mission state-

Figure 1-1 THE FIVE TASKS OF STRATEGIC MANAGEMENT



ment broadly outlines the organization's future course and serves to communicate "who we are, what we do, and where we're headed." Some examples of *company mission statements* are presented in Illustration Capsule 1.

ILLUSTRATION CAPSULE 1

EXAMPLES OF COMPANY MISSION STATEMENTS

Presented below are six actual company mission statements:

MCI Communications
MCI's mission is leadership in the global telecommunications services industry.

Public Service Company of New Mexico
Our mission is to work for the success of the people we serve by providing our CUSTOMERS reliable electric service, energy information, and energy options that best satisfy their needs.

(continued)

American Red Cross
The mission of the American Red Cross is to improve the quality of human life; to enhance self-reliance and concern for others; and to help people avoid, prepare for, and cope with emergencies.

Hewlett-Packard Company
Hewlett-Packard is a major designer and manufacturer of electronic products and systems for measurement and computation. HP's basic business purpose is to provide the capabilities and services needed to help customers worldwide improve their personal and business effectiveness.

Otis Elevator
Our mission is to provide any customer a means of moving people and things up, down, and sideways over short distances with higher reliability than any similar enterprise in the world.

Deluxe Checks
The mission of Deluxe Checks is to provide all banks, S&L's, and investment firms with error-free financial instruments delivered in a timely fashion.

Source: Company annual reports

Setting Objectives

The act of setting objectives serves the purpose of converting the mission and direction into something specific to shoot for, something specific to achieve. Setting challenging but achievable objectives helps guard against complacency, internal confusion over what to accomplish, and mediocre organizational performance. Both short-range and long-range objectives are needed. *Short-range objectives* spell out what management needs to work toward over the next year or two; *long-range objectives* direct managers to consider what they can do *now* to boost the organization's performance over the longer term.

Objective-setting ideally is something *all managers* do. Every organization unit needs concrete, measurable performance targets that specify what it will do to assist in meeting the overall or organizationwide objectives. When the set of overall organizationwide objectives is broken down into specific targets for each organization unit and when lower-echelon managers are held accountable for achieving the objectives in their area of responsibility, a results-oriented climate emerges, and the whole organization ends up pointed in the intended direction.

Examples of the kinds of objectives that companies set in pursuing their missions are shown in Illustration Capsule 2.

ILLUSTRATION CAPSULE 2

EXAMPLES OF CORPORATE OBJECTIVES: NIKE, LOTUS DEVELOPMENT, AND CITICORP

Nike's Objectives (as stated in 1987)

- Protect and improve NIKE's position as the number one athletic brand in America, with particular attention to the company's existing core businesses in running, basketball, tennis, football, baseball, and kid's shoes and newer businesses with good potential like golf and soccer.
- Build a strong momentum in the growing fitness market, beginning with walking, workout, and cycling.
- Intensify the company's effort to develop products that women need and want.
- Explore the market for products specifically designed for the requirements of maturing Americans.
- Direct and manage the company's international business as it continues to develop.
- Continue the drive for increased margins through proper inventory management and fewer, better products.

Lotus Development Corporation's Objectives (as stated in 1986)

- To provide customer-driven solutions to practical business and professional problems.
- To advance the standards which our anchor products have set.
- To introduce complementary and companion products which make our software more valuable to existing users and accessible to new users.
- To create and acquire new products which offer data pathways into our existing software and which create entirely new categories of software.
- To invest in new strategic initiatives which will improve long-term competitiveness.
- To continue to improve our financial performance by continuing to strengthen our organization and deepen both our management and development teams.

(continued)

Citicorp's Objectives (as stated in 1988)

- To build shareholder value through:
  Sustained growth (12–18%) in earnings per share.
  A continued commitment to building customer-oriented businesses worldwide.
  Superior rates of return on equity (18%).
  A strong balance sheet.
  A business balanced by customer, product, and geography.

Source: Company annual reports

Crafting a Strategy

Strategy-making brings into play the critical managerial issue of *how* to achieve the targeted results in light of the organization's situation and prospects. Objectives are the "ends," and *strategy* is the "means" of achieving them. The task of forming a strategy starts with hard analysis of the organization's internal and external situation. Armed with an understanding of the "big picture," managers can better devise a strategy of how to generate the targeted results.

Definitionally, *strategy is the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission.* The pattern of moves and approaches already taken indicates what the prevailing strategy is; the planned moves and approaches signal how the prevailing strategy is to be embellished or changed. Thus, while strategy represents the managerial game plan for running an organization, this plan does not consist of just good intentions and actions yet to be taken. An organization's strategy is nearly always a blend of prior moves, approaches already in place, and new actions being mapped out. Indeed, the biggest part of an organization's strategy usually consists of prior approaches and practices that are working well enough to continue. An organization's strategy that is mostly new most of the time signals erratic decision-making and weak "strategizing" on the part of managers. Major changes in strategy can be expected on occasion, especially in crisis situations, but they cannot be made often without creating internal chaos and confusion among customers.

Crafting a strategy has a *strongly entrepreneurial character* in the sense that managers have to choose among alternative business directions and pursue moves that entail at least some venturesomeness and risk-taking. How boldly/cautiously managers push out in new directions and whether they press for improved organizational performance are often good indicators of their enterprising spirit. The entrepreneurial risks inherent in managerial strategy-making are becoming complacent when the present strategy is working well and being overly analytical and hesitant when a strategy starts to grow stale. The entrepreneurial challenge is to keep the organization's strategy fresh, to maintain the organization's capacity for dealing with changing conditions, and to steer the organization into doing the right things at the right time.

The enterprising quality of strategy formation extends to all managers, not just senior executives. Entrepreneurship is involved when a sales manager crafts a *narrow* strategy to boost sales by equipping sales reps' cars with mobile telephones. And entrepreneurship is involved when senior executives devise a *broad* companywide strategy to become the low-cost producer in the industry and then use the cost advantage to undercut rivals' prices, grab some of their customers, and gain market share. Hence, entrepreneurial strategy-making falls on the shoulders of managers up and down the organizational hierarchy, in functional departments and in remote operating units (plants and district offices) as well as at the top of the organizational pyramid. Strategy-making is not something just top managers do; it is something all managers do—every manager needs an entrepreneurial game plan for the area he/she is in charge of.

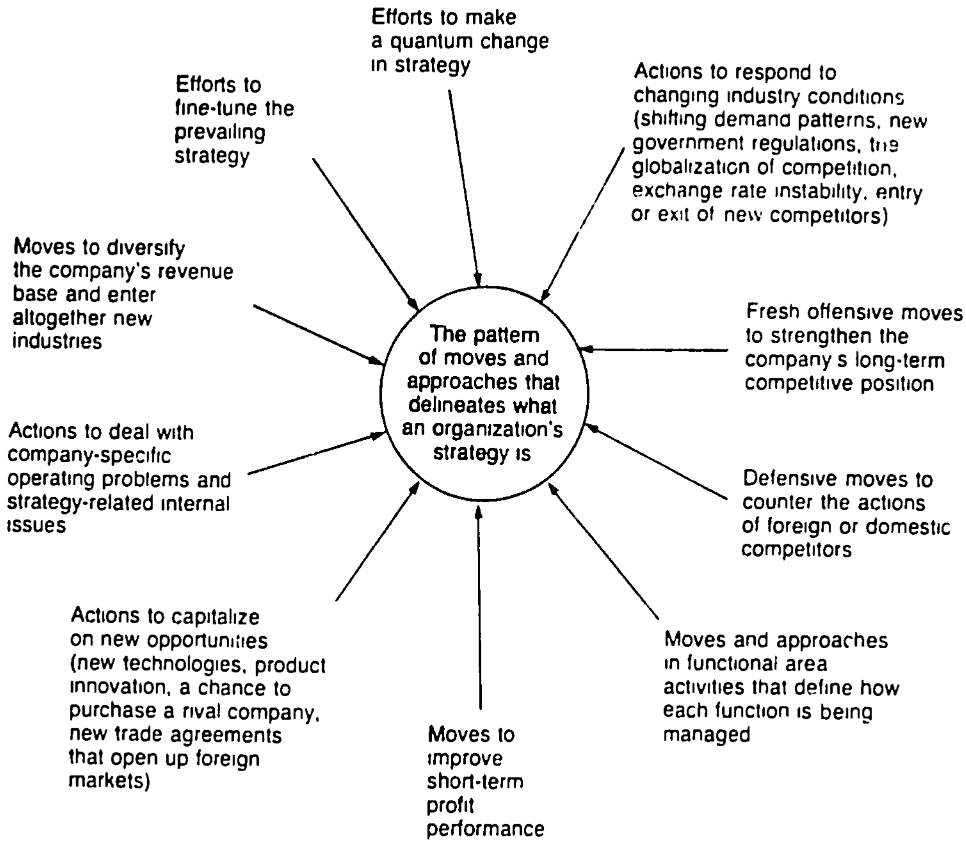
From the perspective of the whole organization, the task of "strategizing" is an ongoing exercise.[1] While "the whats" of an organization's mission and long-term objectives, once chosen, may remain unaltered for several years, "the hows" of strategy are always evolving, partly to respond to an ever-changing external environment, partly from the proactive efforts of managers to create new windows of opportunity, and partly from fresh ideas about how to make the strategy work better. On occasion, major changes emerge when a new strategic move is put to the test in the real world or when a crisis strikes and managers see that the organization's strategy needs radical reorientation. As a consequence, refinements and additions to the strategic plan, interspersed with periodic quantum leaps, are a normal part of managerial "strategizing."

The ongoing stream of strategic moves and approaches means that an organization's strategy forms over a period of time and then reforms, always consisting of some mix of holdover approaches and freshly planned moves. Aside from crisis situations (where many strategic moves may have to be made very quickly, producing a substantially new strategy almost overnight) and new company start-ups (where strategy exists more in the form of plans and intended actions), a company's strategy is formed in bits and pieces, as events unfold and as managerial experience with the situation accumulates. Everything cannot be planned out in advance, and even the best-laid plans must be responsive to changing conditions. Strategy-making thus proceeds on two fronts—one proactively thought through in advance, the other conceived in response to new developments, special opportunities, and experience with the successes and failures of prior strategic moves, approaches, and actions. Figure 1-2 indicates the different moves and approaches that delineate a company's strategy.

The three tasks of defining the business, setting objectives, and forming a strategy all involve direction-setting. Together, they specify where the organiza-

[1] Henry Mintzberg, "Crafting Strategy," *Harvard Business Review* 65, no. 4 (July-August 1987), pp. 66–75; and James B. Quinn, *Strategies for Change: Logical Incrementalism* (Homewood, Ill.: Richard D. Irwin, 1980), Chap. 2, especially pp. 58–59.

Figure 1-2 THE COMPONENTS OF COMPANY STRATEGY



tion is headed and how management intends to achieve the targeted results. Together, they constitute a *strategic plan*. In some companies, especially large corporations that are committed to regular strategy reviews and formal strategic planning, the strategic plan is explicit and written (although some parts of the plan may be omitted if they are too sensitive to reveal before they are actually undertaken). In other companies, the strategic plan is not put on paper but rather exists in the form of understandings among managers about what is to be carried over from the past and what new actions are to be taken. Organizational objectives are the part of the strategic plan most often put in writing and circulated widely among managers and employees.

Illustration Capsule 3 presents an outline of Sara Lee Corporation's mission, objectives, and strategies as an example of how the three direction-setting steps join together.

ILLUSTRATION CAPSULE 3

SARA LEE CORPORATION: MISSION, OBJECTIVES, AND STRATEGY

In a recent annual report, the management of Sara Lee Corporation set forth the company's mission, objectives, and strategy:

Mission

Sara Lee Corporation's mission is to be the leading brand-name food and consumer packaged goods company with major market share positions in key consumer markets worldwide.

We manufacture and market high-quality, marketing-sensitive products with growth potential. These products, which are sold through common distribution channels, include

- Packaged food products,
- Food products and services for the foodservice industry,
- Consumer personal products, and
- Household and personal care products.

Objectives

Size alone—that is, being the largest by some quantitative measure—does not define leadership. We aspire to be a larger company only to the extent that size and scale contribute to achieving more important measures of pre-eminence.

First, and above all, the leading company must be an outstanding financial performer for its stockholders. We must produce dependable and consistent financial returns which rank high in absolute terms as well as relative to our peer competitors.

Second, our product positions must be very high quality, compete in significant market segments, and command exceptionally strong market shares.

Third, our management people and processes must be of the highest caliber and appropriate to the times.

And fourth, we must be recognized as a corporation with an especially high sense of responsibility to our employees and public constituencies.

(*continued*)

Corporate Strategies

1. *Invest to accelerate internal growth.* Direct and focus investment spending on strategic opportunities to build share and to accelerate unit volume growth in key product positions.
2. *Develop the lowest cost position in all product categories.* Emphasize and measure operating efficiencies and cost structures in all areas of the corporation to reduce costs consistently and to increase return on sales without sacrificing quality.
3. *Make acquisitions.* Acquire businesses which fit Sara Lee Corporation's strategic focus and which provide increased opportunity for growth consistent with our mission.
4. *Leverage brand names and strategically link businesses for synergy.* Generate growth by building and extending brand positions, and improve returns by strategically combining divisions and developing synergies among businesses.
5. *Pursue cross-channel distribution for established products, brands and positions.* Increase unit volume and return on sales with cross-channel distribution.

Source 1987 Annual Report

Strategy Implementation and Execution

The strategy-implementing function consists of seeing what it will take to make the strategy work and then getting it done on schedule—*the skill comes in knowing how to achieve results.* The job of implementing strategy is primarily an action-driven *administrative task* that cuts across many internal matters. The specific administrative elements necessary to put the strategy into place include:

- Building an organization capable of carrying out the strategy successfully.
- Developing budgets that steer resources into those internal activities critical to strategic success.
- Motivating people in ways that induce them to pursue the target objectives energetically and, if need be, modifying their duties and job behavior to better fit the requirements of successful strategy execution.
- Tying the reward structure to the achievement of the targeted results.
- Creating a work environment that is conducive to successful strategy implementation.
- Installing strategy-supportive policies and procedures.
- Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

The administrative aim is to create "fits" between the way things are done and what it takes for effective strategy execution. The stronger the fits, the better the execution of strategy. The most important fits are between strategy and organizational capabilities, between strategy and the reward structure, between strategy and internal policies and procedures, and between strategy and the organization's culture (the latter emerges from the values and beliefs shared by organizational members and from management's human relations practices). Fitting the ways the organization does things internally to what it takes for effective strategy execution is what unites the organization firmly behind the accomplishment of strategy.

The strategy-implementing task is easily the most complicated and time-consuming part of strategic management. It cuts across virtually all facets of managing, and actions must be initiated from many points within the organization. The strategy-implementer's agenda emerges from careful assessment of what the organization must do differently and better to carry out the strategic plan proficiently. Each manager has to think through the answer to "What has to be done in my area of responsibility to carry out my piece of the strategic plan, and how can I best get it done?" The amount of internal change needed to put the strategy into place depends on how much strategic change is called for, how far out of alignment internal practices are with the requirements of strategy, and how well strategy and organizational culture are already matched. Once the needed changes and actions are identified, management must supervise all the details of implementation and apply enough pressure on the organization to convert objectives into results. Depending on the amount of internal change involved, full implementation can take several months to several years.

Evaluating Performance, Reviewing the Situation, and Initiating Corrective Adjustments

None of the previous four tasks are one-time exercises. Circumstances always crop up and make corrective adjustments desirable. Long-term direction may need to be altered, the business redefined, and management's vision of the organization's future course narrowed or broadened. Performance targets may need raising or lowering in light of past experience and future prospects. Strategy may need to be modified because of shifts in long-term direction, because new objectives have been set, or because changing conditions make fine-tuning or major overhaul necessary.

The search for even better strategy execution is also continuous. Sometimes an aspect of implementation does not go as well as intended and changes have to be made. Progress in putting strategy in place typically occurs unevenly—faster in some areas and slower in others. Some things get done easily; others prove nettlesome. Implementation comes through the pooling effect of many administrative decisions about how to do things and how to create stronger fits between strategy and internal operating practices. Budget revisions, policy changes, reorganization, personnel changes, culture-changing actions, and revised compensation practices are typical ways of trying to make strategy work better.

WHY STRATEGIC MANAGEMENT IS AN ONGOING PROCESS

Because each one of the five tasks of strategic management requires constant evaluation and a decision whether to continue with things as they are or to make changes, *the process of managing strategy is ongoing*—nothing is final and all prior actions are subject to modification. Strategic management is a process filled with constant motion. Changes in the organization's situation, either from the inside or outside or both, constantly drive strategic adjustments. This is why Figure 1-1 is explicit about recycling to any of the tasks as needed.

The task of evaluating performance and initiating corrective adjustments is both the end and the beginning of the strategic management cycle. The march of external and internal events guarantees that revisions in the four previous components will be needed sooner or later. It is always incumbent on management to push for better performance—to find ways to improve the existing strategy and how it is being executed. Changing external conditions add further impetus to the need for periodic revisions in a company's mission, performance objectives, strategy, and approaches to strategy execution. Most of the time, the adjustments involve fine-tuning, but occasions for a quantum strategic reorientation do arise—sometimes prompted by significant external developments and sometimes by sharply sliding financial performance. Strategy managers must stay close enough to the situation to detect when changing conditions require a strategic response and when they don't. It is their job to read the winds of change, recognize significant changes early, and capitalize on events as they unfold.[2]

Characteristics of the Process

While developing a mission, setting objectives, forming a strategy, implementing and executing the strategic plan, and evaluating performance form the elements of managing strategy, actually performing the tasks is not so cleanly divided and neatly sequenced. There is much interplay among the five tasks. For example, considering what strategic actions to take raises issues about whether and how the strategy can be satisfactorily implemented. Deciding on a company mission involves setting objectives for the organization to achieve (both involve directional priorities). Establishing challenging but achievable objectives must take into account both current performance and the strategy options available for improving performance. Deciding on a strategy is entangled with decisions about long-term direction and whether objectives have been set too high or too low.

Second, the five strategic management tasks are not done in isolation. They are carried out in the midst of all other managerial responsibilities—supervision of day-to-day operations, dealing with unexpected crises, going to meetings, preparing reports, handling people problems, and taking on special assignments and civic duties. Thus, while the job of managing strategy is the most important

[2] Mintzberg, "Crafting Strategy," p. 74.

making for the unit and carrying the burden of implementing whatever strategic choices are made. Obviously, though, managers who are farther down in the managerial hierarchy have a narrower, more specific strategy-making/strategy-implementing role than managers closer to the top of the pyramid.

Another reason why lower-echelon managers are strategy-makers and strategy-implementers is that the more geographically scattered and diversified an organization's operations are, the more impossible it becomes for a few senior executives to handle all the strategic planning that needs to be done. It is just too hard for managers in the corporate office to gain enough command of all the situational details out in the various geographical areas and operating units to be able to prescribe appropriate strategies. What usually happens is that some of the strategy-making responsibility is delegated to those lower-level managers who head the organizational subunits where specific strategic results must be achieved. Delegating a lead strategy-making role to those managers who will be deeply involved in carrying out the strategy in their areas fixes accountability for strategic success or failure. When the managers who implement the strategy are also its architects, it is hard for them to shift the blame or make excuses if they don't achieve the target results.

A company that has diversified into several different businesses has four distinct levels of strategy managers:

- *The chief executive officer and other senior corporate-level executives* who have primary responsibility and personal authority for big strategic decisions affecting the total enterprise and the collection of individual businesses the enterprise has diversified into.
- *Managers who have profit-and-loss responsibility for subsidiary business units* and who are expected to exercise a major leadership role in formulating and implementing strategy for the individual business they head.
- *Functional area managers within a given business unit* who have direct authority over a major piece of the business (manufacturing, marketing and sales, finance, R&D, personnel) and therefore must support the business unit's overall strategy with strategic actions in their own areas.
- *Managers of major operating departments and geographic field units* who have frontline responsibility for putting together the details of strategic efforts in their areas and for carrying out their pieces of the overall strategic plan at the grass roots level.

A single-business enterprise has no more than three of these levels—business-level strategy managers, functional area strategy managers, and operating-level strategy managers. Together, they form a management team responsible for directing the strategic efforts of the total enterprise in that one business. Proprietorships, partnerships, and small owner-managed enterprises, however, typically have only one or two strategy managers since the whole strategy-making/strategy-implementing function can be handled by just a few key people.

Managerial jobs involving strategy formulation and implementation abound in not-for-profit organizations as well. For example, a multicampus state university function management performs insofar as organizational success or failure is concerned, it isn't all managers must do or be concerned about.

Third, strategy management makes erratic demands on a manager's time. An organization's situation does not change in an orderly or predictable way. Hence strategic issues and decisions take up big chunks of management time in some weeks and months and little or none in others.

Last, the big day in, day out time-consuming aspect of strategic management is trying to get the best strategy-supportive performance out of every individual and trying to perfect the current strategy by refining its content and execution. Managing strategy is mostly managing the strategy in place, not developing and instituting strategic change. The really valuable strategic management skill lies less in actually formulating strategic change than in knowing *when* to do so.[3] Perpetual changes in strategy are not only dysfunctional but also are unnecessary—most of the time, there's more to be gained from improving execution of the present strategy.

WHO ARE THE STRATEGY MANAGERS?

An organization's chief executive officer (CEO) is the most visible and most important *strategy manager*. The CEO, as captain of the ship, bears full responsibility for leading the tasks of formulating and implementing the strategic plan for the organization as a whole, irrespective of the fact that others have a hand in the process. The CEO functions as chief direction-setter, chief objective-setter, chief strategy-maker and chief strategy-implementer for the total enterprise. What the CEO views as important usually moves to the top of the strategic priority list, and the CEO has the final word on key strategic decisions.

Vice presidents for production, marketing, finance, human resources, and other functional departments have important strategy-making and strategy-implementing responsibilities as well. Normally, the production v-p oversees production strategy; the marketing v-p heads up the marketing strategy effort; the financial v-p is in charge of financial strategy; and so on. Usually functional vice presidents are also involved in proposing and developing key elements of the overall strategy, working closely with the CEO to hammer out a consensus and make certain parts of the strategy more effective. Only rarely are all the key pieces of organization strategy personally fashioned by the CEO.

But managerial positions with strategy-making and strategy-implementing responsibility are by no means restricted to these few senior executives; in very real ways, *every manager is a strategy-maker and strategy-implementer for the area he/she has authority over and supervises*. This is because every part of a company—be it a business unit, division, operating department, plant, or district office—has a strategic role to carry out. And the manager in charge of that unit, with guidance from superiors, usually ends up doing some or most of the strategy-

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[3] Mintzberg, "Crafting Strategy," p. 73.

has four strategy-managing levels: (1) the president of the whole university system is a strategy manager with broad direction-setting responsibility and strategic decision-making authority over all the campuses; (2) the chancellor for each campus customarily has strategy-making/strategy-implementing authority over all academic, student, athletic, and alumni matters plus budgetary, programmatic and coordinative responsibilities for the whole campus; (3) the academic deans of various colleges or schools have lead responsibility for charting future direction at the college-level, steering resources into some programs and out of others, and otherwise devising a collegewide plan to fulfill the college's teaching-research-service mission; and (4) the heads of various academic departments within a college or school are strategy managers with first-line strategy-making/strategy-implementing responsibility for the department's undergraduate and graduate program offerings, faculty research efforts, and all other activities relating to the department's mission, objectives, and future direction. In federal and state government, heads of local, district, and regional offices function as strategy managers in their efforts to be responsive to the specific needs and situations of the geographical area their office serves (a district manager in Portland may need a slightly different strategy than does the district manager in Orlando). In municipal governments, heads of various departments (police, fire, water and sewer, parks and recreation, health and so on) are strategy managers because they have line authority for the operations of their department and thus can influence departmental objectives, the formation of a strategy to achieve these objectives, and how the strategy is implemented.

Managerial jobs with strategy-making/strategy-implementing roles are thus commonplace. The ins and outs of strategy formulation and implementation are a *basic* aspect of managing, *not* just something for top-level managers to deal with.[4]

The Role and Tasks of Strategic Planners

If senior and middle managers have lead roles in strategy-making and strategy-implementing in their areas of responsibility, what do strategic planners do? Is there a legitimate place in big companies for a strategic planning department staffed with specialists in planning and strategic analysis? The answer is yes. But the department's role and tasks should consist chiefly of helping to gather and organize information that strategy managers need, establishing and administering an annual strategy review cycle whereby all strategy managers reconsider and refine their strategic plans, and then coordinating the process of reviewing and

[4] Since the scope of a manager's strategy-making/strategy-implementing role varies according to the manager's position in the organizational hierarchy, our use of the word *organization* includes whatever kind of organizational unit the strategy manager is in charge of—an entire company or not-for-profit organization, a business unit within a diversified company, a major geographic division, an important functional unit within a business, or an operating department or field unit reporting to a specific functional area head. This way we can avoid using the awkward phrase "the organization or organizational subunit" to indicate the scope of a manager's strategy-making/strategy-implementing responsibilities. It should be clear from the context of the discussion whether the subject applies only to the total enterprise or to most or all management levels.

approving the strategic plans developed in various parts of the company. The value added by strategic planners comes in their facilitating and coordinating the strategic planning efforts of line managers, helping managers at all levels crystalize the strategic issues that ought to be addressed, providing information, helping with the analysis of industry and competitive conditions if asked, and generating information on the company's strategic performance. But strategic planners should not be charged with making strategic decisions, preparing detailed strategic plans (for someone else to implement), or making strategic action recommendations that usurp the strategy-making responsibilities of managers in charge of major operating units.

When strategic planners are asked to go beyond the function of providing specialized staff assistance and to prepare a comprehensive strategic plan for top management's consideration, either of two adverse consequences may occur. One is that some managers will gladly toss the tough strategic problems in their areas onto the desks of strategic planners to let the planners do their strategic thinking for them. The planners, not knowing as much about the situation as the managers, are in a weaker position to design a workable action plan, and in any event, they cannot be held responsible for implementing what they recommend. Putting responsibility for strategy-making into the hands of planners and responsibility for implementation into the hands of line managers makes it hard to fix accountability for unacceptably poor strategic results. It also deludes senior managers into thinking they don't have to be personally involved in leading the organization down a clear-cut path and crafting a strategy capable of generating above-average results. The hard truth is that strategy-making is simply not a staff function, nor is it something that can be handed off to an advisory committee of lower-ranking managers.

The second adverse consequence of having strategic planners take a lead strategy-making role is that line managers have no ownership stake in the plan. When senior and middle managers have no personal stake in, or real emotional commitment to, the strategic agenda proposed by the planners, they are prone to give lip service to the plan, make a few token implementation efforts, then quickly get back to "business as usual" knowing that the formal written plan concocted by the planners does not represent their own "real" managerial agenda. The written strategic plan, because it lacks credibility and true top-management commitment, soon becomes a paper document collecting dust on managers' shelves. The end result is that few managers take the work product of the strategic planning staff seriously enough to pursue wholehearted implementation—planning is viewed as just another bureaucratic exercise.

Either consequence renders formal strategic planning efforts ineffective and opens the door for a strategy-making vacuum conducive to organizational drift or to fragmented, uncoordinated strategic decisions. The odds are then heightened that the organization will have no strong strategic rudder and insufficient top-down direction. The flaws in having staffers or advisory committees formulate strategies for areas they do not manage are: (1) they cannot be held strictly accountable if their recommendations don't produce the desired results (since they don't have authority for directing implementation) and (2) what they recommend won't be well accepted or enthusiastically implemented by those who "have to sing the song the planners have written." But when managers are expected to be the chief strategy-makers and strategy-implementers for the areas they head, it is their own strategy and their own implementation approach that are being put to the test of workability. The "buy in" to their own strategy and implementation efforts is certainly stronger than it is for someone else's efforts. Hence they are likely to be more committed to making the plan work (their future careers with the organization are at more risk!), and they can be held strictly accountable for achieving the target results in their area.

The Strategic Role of the Board of Directors

With senior and middle managers having lead responsibility for crafting and implementing strategy, the chief strategic role of an organization's board of directors is to see that the overall task of managing strategy is adequately done.[5] Boards of directors normally review important strategic moves and approve strategic plans—a procedure that makes the board ultimately responsible for the strategic actions taken. But directors rarely can or should play a direct role in formulating the strategy they must approve. The immediate task of directors in ratifying strategy and new direction-setting moves is to ensure that the proposals presented to them have been adequately analyzed and thought through and that the proposed strategy is superior to available alternatives; flawed proposals are customarily withdrawn for revision by management.[6] The longer-range task of directors is to evaluate the caliber of senior managers' strategy-making and strategy-implementing skills. Here it is necessary to determine whether the current CEO is doing a good job of strategic management (as a basis for awarding salary increases and bonuses and deciding on retention or removal) and, also, to evaluate the strategic skills of other senior executives in line to succeed the current CEO.

THE BENEFITS OF A "STRATEGIC APPROACH" TO MANAGING

The message of this book is that doing a good job of managing inherently requires doing a good job of strategic management. Today's managers have to think strategically about their company's position and about the impact of changing conditions. They have to monitor the external situation closely enough to know *when* to institute strategy change. They have to know the business well enough to know *what kind* of strategic changes to initiate. Simply said, the fundamentals of strategic management need to drive the whole approach to managing organiza-

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[5] Kenneth R. Andrews, *The Concept of Corporate Strategy*, 3rd ed. (Homewood, Ill.: Richard D. Irwin, 1987), p. 123.

[6] Ibid.

tions.[7] The chief executive officer of one successful company put it well when he said:

> In the main, our competitors are acquainted with the same fundamental concepts and techniques and approaches that we follow, and they are as free to pursue them as we are. More often than not, the difference between their level of success and ours lies in the relative thoroughness and self-discipline with which we and they develop and execute our strategies for the future.

The advantages of first-rate strategic thinking and conscious strategy management (as opposed to freewheeling improvisation, gut feel, and drifting along) include (1) providing better guidance to the entire organization on the crucial point of "what it is we are trying to do and to achieve," (2) making management more alert to change, new opportunities, and threatening developments, (3) providing managers with a much-needed rationale to evaluate competing budget requests for investment capital and new staff—a rationale that argues strongly for steering resources into strategy-supportive, results-producing areas, (4) helping to unify the numerous strategy related decisions by managers across the organization, and (5) creating a more *proactive* management posture and counteracting tendencies for decisions to be reactive and defensive.[8]

The fifth advantage of being proactive rather than merely reactive frequently enhances long-term performance. Business history shows that high-performing enterprises often *initiate* and *lead*, not just *react* and *defend*. They see strategy as a tool for securing a sustainable competitive advantage and for pushing performance to superior levels. Ideally, devising and executing a powerful, opportunistic strategy will propel a firm to a leadership position above and apart from industry rivals, so its earnings will prosper and its products/services will become *the* standard for industry comparison.

A Recap of Important Terms

Let's conclude this introductory overview of the managerial tasks of formulating and implementing strategy by reiterating the meaning of key terms that will be used again in the chapters to come:

Organization mission—management's customized answer to the question "What is our business and what will it be?" A mission statement broadly outlines the organization's future direction and serves as a guiding concept for what the organization is to do and to become.

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[7] For a lucid discussion of the importance of the strategic management function, see V. Ramanujam and N. Venkatraman, "Planning and Performance: A New Look at an Old Question," *Business Horizons* 30, no. 3 (May-June 1987), pp. 19-25; and Henry Mintzberg, "The Strategy Concept: Another Look at Why Organizations Need Strategies," *California Management Review* 30, no. 1 (Fall 1987), pp. 25-32.

[8] Kenneth R. Andrews, *The Concept of Corporate Strategy*, rev. ed. (Homewood, Ill.: Richard D. Irwin, 1980), pp. 15-16, 46, 123-29, and Seymour Tilles, "How to Evaluate Corporate Strategy," *Harvard Business Review* 41, no. 4 (July-August 1963), p. 116.

Performance objectives—the organization's targets for achievement.
Long-range objectives—the achievement levels to be reached either within the next three to five years or else on an ongoing basis year after year.
Short-range objectives—the near-term performance targets; they establish the pace for achieving the long-range objectives.

Strategy—the managerial action plan for achieving organizational objectives; strategy is mirrored in the *pattern* of moves and approaches devised by management to produce the desired performance. Strategy is the *how* of pursuing the organization's mission and reaching target objectives.

Strategic plan—a statement outlining an organization's mission and future direction, near-term and long-term performance targets, and strategy in light of the organization's external and internal situation.

Strategy formulation—refers to the entire direction-setting management function of an organization's mission, setting specific performance objectives, and forming a strategy. The end product of strategy formulation is a strategic plan.

Strategy implementation—the full range of managerial activities associated with putting the chosen strategy into place, supervising its pursuit, and achieving the targeted results.

In the chapters to come, we will probe the strategy-related tasks of managers and the methods of strategic analysis more intensively. When you get to the end of the book we think you will see why the two things that usually separate the best-managed organization from the rest are (1) superior strategy-making and entrepreneurship and (2) competent implementation and execution of the chosen strategy. An organization's management team—whether it devises and implements new strategies, is preoccupied with implementing prior strategies better, or does nothing to change either strategy or the organization's basic method of operating—is still the organization's chief strategy-maker and chief strategy-implementer. The quality of managerial strategy-making and strategy-implementing has a significant impact on organization performance. A company that has no clear-cut direction, vague or undemanding objectives, or a muddled or flawed strategy is much more likely to drift, to tolerate subpar performance, and to lose its competitiveness.

SUGGESTED READINGS

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INTRODUCTION:
Strategic Planning In The Small Business

Objectives

In this introduction you should learn:

1. What strategic planning is, and why it is important for small businesses
2. Why small business owners often do not plan
3. How to overcome barriers to planning
4. The real benefits of planning
5. What is meant by the planning horizon
6. How the strategic planning model works

Perhaps no activity more fully symbolizes the American dream than being a small business owner. Taking charge, exercising personal creativity and independence, risking substantial personal funds, working long hours, and planning competitive business strategies are all part of the challenge and excitement that lures one into the world of small business. Yet, the dream of owning and operating a small business can quickly turn to a nightmare of devastating frustrations if the firm's performance lags behind original projections and expectations. Small firms comprise 97 percent of all United States businesses and employ over 60 percent of the private workforce in the United States; however, successful small business ventures are the exception rather than the rule. Of the new small businesses started each year, the majority will fail within the first five years. These casualties ignite deep and pervasive economic and social consequences. Perhaps more important, however, are the crushed hopes and ravaged fortunes of the strong-willed individuals who fought to build their fledgling operations into viable competitive entities—and lost!

Although small businesses encounter difficulties for numerous reasons, certain consistent themes persist. Some companies are victims of unfortunate and largely unpredictable environmental and competitive occurrences. However, the vast majority of small firms fall prey to their manager's own lack of foresight. These managers fail because they did not properly analyze and evaluate their relative competitive strengths. They fail because they did not perceive shifting consumer tastes and preferences and, as such, were out of touch with the market. They fail because they lacked a clear blueprint of necessary goals and support activities and thus encountered costly duplications, overlaps, and internal inefficiencies. In short, these businesses failed because their owners and managers were unable or unwilling to focus on one of the prime determinants of business success—planning!

Consider the following example. Bill Stern was an intelligent and industrious twenty-eight-year old high school physics teacher. However, Bill felt particularly restricted and unfulfilled as a teacher and yearned for greater freedom and independence. The logical move—start his own business. Bill was committed to work hard to make his career change a success. In exploring his entrepreneurial options, he was driven by a strong desire to do hands-on work and not be confined to the rigors and structure of an eight-to-five job. Largely because of his love and appreciation for motorcycles and motorcycle racing and because he was quite an accomplished motorcycle mechanic, Bill decided to open a motorcycle repair shop. Eighteen months later, after exhausting the family's savings and enduring a regular regimen of ninety-hour work weeks, Bill recognized that the business was doomed and filed for bankruptcy.

Essentially, Bill's business decisions were spontaneous and unplanned. In the beginning, he reacted to a strong internal need for independent activity. No meaningful analysis or evaluation of his business prospects was undertaken. Important questions regarding the actual demand for the proposed service were not fully addressed. Bill relied on personal opinion and feeling and, consequently, was overly optimistic in assessing market potential. Furthermore, no competitive analysis was performed. Although Bill knew the names of his major competitors, he had no feel for the size of their businesses, the market niches they attempted to attract, or the degree of success they experienced. His repair shop was geared to the "hard-core", serious motorcyclist. Unfortunately, this was the exact segment of the market that his two largest and best known competitors had targeted. Careful planning and analysis would have revealed that a large segment of the market—the weekend rider who lacked intensive or sophisticated motorcycle knowledge--may have been a more viable target for his firm. Here, his major competition would have been dealers who generally had reputations for poor service and high prices. Recognizing this niche and exploiting it through a well- planned advertising program could have, in all probability, attracted numerous customers. Incidentally, a careful analysis of the number of motorcycle riders in the geographic area in relation to the number of competing repair shops would have initially dissuaded him from moving into this high risk, low potential area.

This is only one of the many unfortunate stories of good intentions and hard work being undermined by a lack of solid, systematic planning. A number of research studies have demonstrated clear and positive associations between planning and organizational performance, and have reported that inadequate planning has regularly been one of the key causes or predictors of small business failure. Stated simply, thorough and systematic planning can significantly discriminate between successful and unsuccessful small businesses. Accordingly, the objective of this book is to help small business owners, managers, students, and consultants develop a viable, logical, and strategic approach to small business planning.

WHAT IS A SMALL BUSINESS?

A variety of definitions of a "small" business exist. The Small Business Administration (SBA) has different definitions depending upon the industry. Note in Table I–1 that, in some cases, a business can be quite large and still be within SBA's definition. A precise definition of "small" is stressed only when government programs are considered. For example, government procurement programs have requirements to insure that certain percentages of government contracts go to small businesses. Similarly, funding sources that include state or federal involvement are often reserved for "small" businesses. In these cases, it is important for one to know when a business is considered small and when it is not. Given the SBA definitions in Table I–1, over 95 percent of all businesses in the United States are formally designated as "small."

Longenecker and Moore utilize different definitions in their text as shown in Table I–2. Note that although they generally include all businesses with under 100 employees, there are

Table I–1

Sample SBA Definitions of Small Business

Industry	Size Standard (no. of employees or revenue) [millions]
Anthracite Mining	500
Mining & Queuing Service	$3.5
General Contractors	$17.0
Canned Fruits & Vegetables	500
Cereal Breakfast Foods	1000
Cigarettes	1000
Vihstd	500
Paperboard Mills	750
Folding Paperboard Boxes	500
Newspapers	500
Petroleum Refining	1500
Flat Glass	1000
Glass Containers	750
Table China	500
Aircraft	1500
Railroad Equipment	1000
Motorcycles	500
Taxicabs	$3.5
Trucking	$12.5
Lumber Dealers	$3.5
Motor Vehicle Dealers	$11.5
Motion Picture Production	$14.5

Table I–2

Non-SBA Definitions of Small Business

1. Financing of the business is supplied by one individual or a small group. Only in a rare case would the business have more than 15 or 20 owners.
2. Except for its marketing function, the firm's operations are geographically localized. Typically it operates in only one city or community.
3. Compared to the biggest firms in the industry, the business is small.

Source: Longenecker and Moore, *Small Business Management*, South-Western Publishing Co., 1987.

other qualitative requirements a firm must meet in order to be considered small.

In reality, most business owners never give explicit attention to any of these definitions. They simply see themselves as being small business persons. In short, if one thinks the business is small, it probably is!

BARRIERS TO PLANNING IN SMALL BUSINESSES

Many small business owners and managers openly resist planning. Even though the planning process is generally considered to be valuable, these individuals do not feel the need to involve themselves in the process. Although this resistance to planning may be attributed to numerous causes and sources, certain common arguments persist which are typically based on misconception rather than fact.

The first argument proposes that while planning may be important for owners or managers of large businesses, it is unnecessary for the owners or managers of small businesses. A proponent of this argument believes, "I don't need to plan. That's something the big boys do." This notion is an extremely dangerous form of denial. In fact, because of its size, planning may be more critical for small businesses than for large ones. For example, small businesses are likely to be seriously damaged by even minor market or competitive misreadings. Large firms, on the other hand, can more readily absorb the costs of such mistakes. Thus, small businesses are significantly more vulnerable to the consequences of poor planning.

The second argument held by small business persons suggests that since the small business is so short-run oriented, planning for the future is only a philosophical exercise. On the contrary, planning is necessary to take advantage of opportunities and defend against adverse changes, regardless of the length of the firm's planning horizon. The small business is no better able to isolate itself from these forces than is the large firm.

Third, many small business owners or managers feel that formalized planning confines, constrains, and limits their flexibility. Indeed, flexibility or the capacity to quickly respond and adapt to changing environmental conditions may be the key competitive edge that small businesses possess over large firms. However, the assertion that planning restricts this flexibility is based on a misunderstanding of the nature and dynamics of the strategic planning philosophy. Strategic plans are not unyielding parameters, cast in stone, never to be adjusted, modified or reviewed until the expiration of the operating period to which they apply. Rather, the planning process is a means of gathering information, analyzing the impact of this information on the firm, and refocusing efforts to meet new demands and conditions. As such, strategic planning offers the means to enhance rather than limit the small business owner's flexibility.

A fourth frequently held argument is that intuitive, unwritten plans are sufficient. Here, a typical small business owner or manager may respond, "I have a plan all worked out in my head, and that's good enough." Unfortunately, such an approach is rarely adequate. A meaningful plan must analyze the complex interaction of numerous forces and propose a guide for how the firm will deal with these forces. Given the pressures and demands of day-to-day operations, it is folly to believe that even the most insightful owner can track, monitor, analyze, and develop strategies for dealing with these forces on a timely basis without relying on some formal, written, and systematic process. In short, it is extremely difficult for entrepreneurs to transfer what is in their minds into sets of objective realities that guide their firms.

REAL BENEFITS OF STRATEGIC PLANNING

It may be intuitively clear that increases in the level and quality of planning is associated with better overall performance of the business. However, a more detailed explanation of some of the obvious benefits of strategic planning may be useful.

First, strategic planning helps focus on the competitive nature of the firm. Externally, the plan encourages the managers to look at the competition, the economy, the community, and other key environmental factors to determine where the firm fits. Internally, the plan forces the managers to assess the firm's strengths and weaknesses. Indeed, this analysis may reveal hidden vulnerabilities or unique strengths. As a result, necessary changes in strategy can be made. Hopefully, initial planning efforts will foster the habit of periodically reassessing the firm's competitive position. In fact, one may argue that the process of carefully assessing the business and gaining an awareness of its potential and capacity may be as significant as the eventual plan that is derived from such an analysis.

An example illustrates this point. A local businesswoman had been somewhat regularly hassled by a business consultant to develop a plan for her growing operation. She was, of course, quite busy and never got around to it. Then one day, the woman rather excitedly reported to her consultant that she had begun her plan. One night while developing it, she discovered a problem in the business which was immediately corrected the very next day. Because this businesswoman had begun to objectively prepare a plan, she uncovered a correctable weakness that she had not seen before.

A second benefit is that the strategic plan sets a formal direction for the business. It helps determine where the business is going. In addition, and perhaps as important, it helps determine where the business is not going. Thus, the plan helps owners or managers focus on specific objectives and stay there. This planning orientation allows the small business managers to work in a **proactive mode**—looking to the future, anticipating, and planning for change. As such, managers of proactive, planning firms anticipate opportunities and position themselves to benefit from them. Similarly, these managers recognize impending threats and pursue decisive action to deal with these before disaster strikes. Consequently *crisis management* is replaced by a more fluid, logical, and systematic approach. The firm's management understands and utilizes change as a competitive weapon rather than as an uncontrollable nuisance to be ignored as long as economically and competitively possible.

The following example highlights the importance and the benefits of the competitive awareness and focus. An extremely enterprising young man possessed classic entrepreneurial flair. He was involved in three different business ventures and personally headed a firm that operated in such diverse areas as insurance, real estate, and managerial consulting. Not surprisingly, he was experiencing problems in nearly all phases of his business endeavors. As one might logically guess, the underlying cause of his difficulties was that he was attempting to do too much—spreading himself too thin. In addition, his total disregard for formal planning added to his difficulties. He failed to provide a clear view and guide for each business. No attempt was made to prescribe what needed to be accomplished, when, and by whom. Rather, he simply reacted and allocated his time and his firm's resources toward the most pressing problem of the day. Consequently, most efforts were stop-gap, temporary fixes that added little to the development of his firm. This entrepreneur regularly missed important and potentially rewarding bids and contracts because his focus was on putting out yesterday's fires rather than looking toward tomorrow's opportunities.

Strategic planning helped this man to understand his total business better and to develop some concrete moves to enhance his competitive position. Because there was a clear direction for the business, the owner could now delegate decisions in a more meaningful manner. He was free to concentrate on making contacts, meeting potential customers, and engaging in the necessary public relations work that he was uniquely qualified to perform. Thus, important opportunities were realized and acted on, and internal operations ran more smoothly.

The above example suggests a third benefit of strategic planning. As the firm's direction became clearer, employees were allowed to make more crucial decisions and to utilize their skills more fully. They became more confident of their roles thereby enriching their jobs. Most workers possess a strong desire to know what's going on and how their efforts contribute towards attaining the overall business objectives. Strategic planning creates an environment where such a situation is possible. When employees are able to understand the owners business objectives, they become part of the organizational team. The employees will be more motivated, more willing to suggest ideas, and more willing to exert the extra effort needed to give the business an edge over competition, rather than being frustrated and dissatisfied. This is extremely important for the small business. Here, due to the firm's competitive vulnerability, employee input can often make the difference between success and failure. Indeed, as the business leaders clearly communicate direction, philosophy, and objectives to their workers, the returns are likely to be dramatic.

A fourth benefit of having a business plan is that outside members of the board of directors or advisory board find it useful. These outside people are not involved with the day-to-day operations of the firm; however, their job is to offer input and guidance to the owner and managers. The plan provides them a basis for their analysis, evaluation, and suggestions for the firm's overall operations.

Capsule I–1

Share the Plan

One of the things that's helped us succeed is that almost every employee understood where we were going. A lot of companies develop plans and lock them in a drawer. But we made a big chart out of ours and showed it to everybody in the company. We tell them about the challenges and the question marks.

James G. Treybig, Chief Executive Officer, Tandem Computers Inc.
(Quoted in Inc., Vol. 8, No. 3, March 1986)

Finally, the existence of a formal, overall, strategic plan makes the creation of special purpose plans—such as financial business plans—much easier. In fact, the strategic plan contains most of the information used in developing these more specialized plans. In short, although a manager may feel that planning is difficult and time consuming, the planning process is overwhelmingly positive in its impact.

DEFINING STRATEGIC PLANNING

Strategic planning is a powerful management tool—designed to help the small business competitively adapt to anticipated environmental changes. Specifically, the strategic planning process provides an overview and analysis of the business and its relevant environment—describing the firm's current condition and recognizing the key external factors affecting its success. Then, the process prescribes an outline or action plan of how the business will proceed to capitalize on its strengths and minimize or mitigate its weaknesses and threats.

Although business owners frequently face the task of writing "financial business plans" in order to secure financing, these should not be confused with strategic planning or strategic plans. Financial business plans are specialized plans designed for a single purpose. As such, they tend to be very specific, reasonably brief, somewhat optimistic overviews of the business, its product line and management, and the proposed use of the funds. By contrast, strategic plans require more depth and breadth of coverage Their focus is future oriented. They consider both internal strengths and weaknesses since both may affect the strategy selected. A strategic plan is regularly used and frequently revised to reflect new trends and developments. In short, the strategic plan is both an analytical tool and a working document that guides management action over a specified period of time.

DETERMINING THE PLANNING HORIZON

A noted economist once said, "In the long run we are all dead." We need to be more specific than that in determining the short, medium, and long-term goals for the firm. In general (but not always) long- run planning refers to anything over five years in the future. Three years is often the target for medium-term plans. Short-run plans are generally one year or less. Accountants, on the other hand, often refer to anything over one year as long range.

Actually, the determination of long-versus short-range goals is a function of the industry and the type of product or service produced. A utility company necessarily looks fifteen to twenty years out because of the length of time necessary to build a power plant. A small janitorial service may have no reason to look beyond one year. A small manufacturer will be somewhere in between.

In the above examples, a key factor in strategic planning that is being addressed is that of the firm's planning horizon. The **planning horizon** is the time required to fully implement a major strategic change. A manager need not give great emphasis beyond that time period other than casual monitoring. This is because the business can react to any change that might develop in the environment within that time period.

Suppose, for example, I own a restaurant. I could spend a considerable part of my time studying new housing developments and specific projected growth areas of the city. On the other hand, the total time required to build a new restaurant in the new area might be between six months and one year. Since migration is a relatively slow process, I will have ample time to study site locations once I determine that I do in fact need to expand.

Lest this discussion be seen as encouraging myopia, it should be underscored that the concern is *strategic reaction time.* The environment must *always* be monitored to determine developing trends. But serious study need only be done when either a strategic change is desired or when significant changes in the environment dictate it. Attempts to react to each minute change will lead to over-reaction and/or unnecessary concern with the long run when it cannot be adequately assessed.

The following example illustrates this. An Italian restaurant had an excellent reputation for good, moderately priced food, but it's location and facility could not serve the major portion of the city. The owner adroitly decided to add a new location in a growing section of the city, close to a large, new shopping mall. The move was well done and profits flourished because there were few other similar restaurants in the area. Less than three years later, the city was plunged into a major recession. In addition, two restaurant chains located on sites within two blocks each side of the restaurant. At first glance, this would appear to be a classic case of bad planning. Shouldn't the owner have been able to predict three to five years in advance? The answer is that, even though the restaurant is now in a highly competitive market, it was not a case of bad planning. There was no way that either the recession or the increased competition could have been projected. The changes were outside the manager's strategic reaction time. His planning horizon was not that far out and should not have been expected to be. The move was a wise move at the time and perhaps would not have been made if concern for what might happen had overridden the decision.

An additional point on determining the appropriate planning horizon is that if managers extend the horizon too far they may lock themselves into a strategy that might later be inappropriate, while if the horizon is too short opportunities may be missed. A major equipment manufacturer planned too far into the future, purchased several sites, and began construction on some of them in order to meet demand for the distant future. If they had done a better job of analyzing their *existing planning horizon* they would have determined that, even without an economic recession, their growth was tapering off. They not only did not build on all the sites, but they eventually sold some sites, stopped construction on others, and closed a half dozen existing facilities. They had been so intent on extending their planning horizon that they failed to adequately assess their existing horizon.

The opposite error of underestimating the planning horizon is more frequently the case. Most firms tend to be short-run oriented. Managers are so busy fighting fires that they do not take time to consider needed changes within their planning horizon. Instead of fighting fires, they must consider how long it will take to react to a change in the environment, and plan accordingly.

AN APPROACH TO STRATEGIC PLANNING IN SMALL BUSINESSES

Most large businesses accept the planning process and view it as a key tool in their competitive arsenal. However, as noted previously, small firm owners are often reluctant to engage in strategic planning activities. Typically, the small businessperson asks, "What is strategic planning and why is everyone so enthused with its potential?" "Is the approach applicable to the special needs of smaller firms?" "Where do I begin?" "How can I grasp and meaningfully utilize the dynamics of this approach to benefit my organization and my competitive situation?" We must be realists. Regardless of its ultimate importance and value, if the strategic planning process is perceived as being too complex, sophisticated, or time-consuming, it will not be utilized. A well orchestrated strategic planning approach recognizes these concerns. It is designed to be rigorous but not unwieldy, complete yet practical, comprehensive yet understandable.

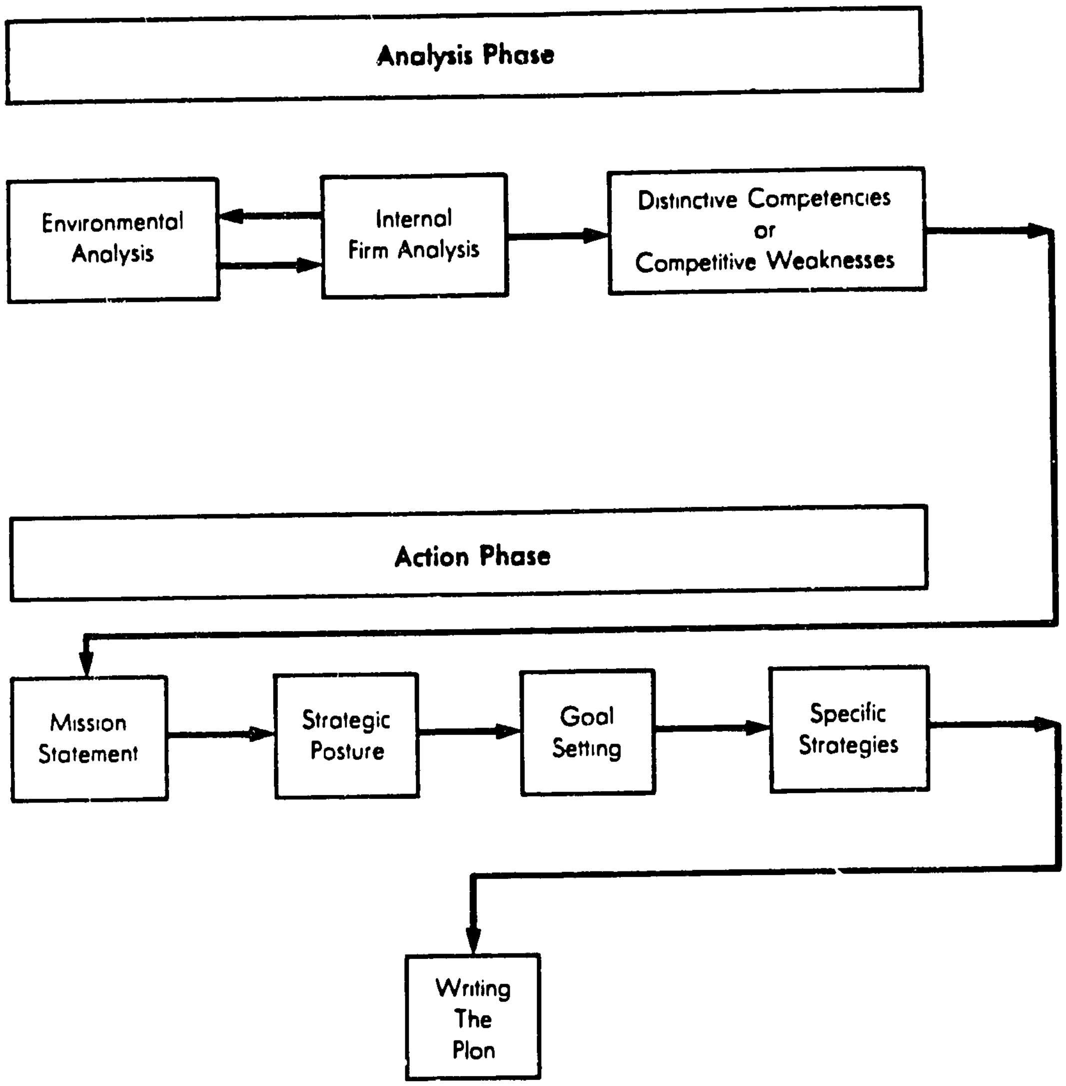
THE STRATEGIC PLANNING PROCESS

Figure I–1 highlights a small firm strategic planning approach. Two distinct phases comprise the process. First, during the *analysis phase,* the owner or manager develops a clear recognition of the key threats and opportunities in the firm's relevant external environment. This analysis requires concentration not only on present environmental forces, but also on projecting trends and anticipating changes. Furthermore, managers must not only identify and keep track of changes in key environmental factors, they must carefully assess or analyze the impact these forces and changes will have on the firm and its operations. Thus, environmental analysis is future-oriented—seeking to recognize the problems and potentials created for the firm by changes in its environment. Chapter 1 presents a thorough overview of the details of environmental analysis.

Whereas environmental analysis concentrates on forces external to the organization, internal firm analysis represents an evaluation of the firm's internal strengths and weaknesses. A number of important internal considerations must be explored. These will be discussed in Chapter 2.

Environmental and firm analysis enables the firm to carefully and objectively portray both its distinctive competencies and its relative competitive weaknesses. A **distinctive compe-**

Figure I–1 Small Business Strategic Planning Approach



tency is any area where the firm possesses a meaningful competitive edge over its competitors. Similarly, **competitive weaknesses** represent areas where the competitors' relative strengths are significant or overwhelming. Armed with this information, the manager can realize and capitalize on evolving competitive opportunities (competencies) and develop protective measures to minimize the harmful impact of materializing threats and obstacles (competitive weaknesses). Recognition of competencies and weaknesses enables the business to choose broad strategies for dealing with these forces. This process of recognition is exciting, as management considers, evaluates, and ultimately chooses an overall strategic direction for the firm. Distinctive competencies and competitive weaknesses will be covered in Chapter 3.

The second phase of the small business strategic planning approach is the *action phase*. After environmental and firm data have been analyzed and evaluated and a determination of the firm's special competencies and competitive weaknesses delineated, the manager is ready to embark on the action phase of strategic planning. Here, the manager processes the analysis information and assessments, contemplates their implications, and structures the results into a working plan to guide and direct the firm's activities.

In steps one and two of this action phase the owner determines the *mission statement* of the business and the firm's *strategic posture* of the business. This is a logical, functional, and integral process that can guide the firm along the path of success. A discussion of the mission statement and strategic postures is covered in Chapter 4.

Once a clear understanding of the firm's mission statement and overall strategic posture is in mind (and written on paper), the manager may then focus on *goal setting*. Setting achievable and measurable goals for the company as a whole and for functional areas or divisions is a critically important process. In Chapter 5, the topic of goal setting is covered in depth in order to illustrate both the importance and the method of doing it.

Strategies breathe life into goals. Essentially, a goal statement says, "This is what we want to do or what we want to achieve," while *specific strategies* say, "This is how we are going to do it." Decisions to segment the market, change pricing, alter sales policies, acquire additional funds, and change production methods are examples of specific strategies undertaken to move the firm toward the realization of its goals. Specific strategies are presented and discussed in Chapter 6.

The best strategies in the world are of limited value if they are not written. Chapter 7 presents a format to use when writing the plan. A keystone chapter (8) at the end of the text then shows an example of a completed strategic plan for an actual business. This plan can be used as a guideline in the development of a plan for any business.

DISCUSSION QUESTIONS

1. Why is strategic planning perhaps even more important for a small business than it is for a large business?
2. If planning has so many benefits, why don't small business owners do it?
3. Choose a firm that you are familiar with. What specific benefits could arise from doing formal planning in that particular firm?
4. Estimate the appropriate planning horizon for the following firms:
   a. a utility company
   b. a bowling alley
   c. an auto repair shop
   d. a small manufacturer that is a subcontractor to a large equipment manufacturer
   e. a dairy
   f. a university
5. How could the major parts of the planning model be used for
   a. national planning for a country?
   b. individual career planning?

Strategic Planning in the Small Business

by Randy Rollinson

Today managers, including small business owners, must deal with a broad range of business pressures. They include production deadlines, staff meetings, quality control improvements, and customer demands for better pricing. To succeed in this environment small businesses must utilize proven business management techniques or they will likely not survive.

One of these techniques is called "strategic planning". This paper examines the concept and discusses how small business owners can structure a strategic planning process within their business.

When I was first exposed to this concept in 1980 my first reaction was "What is strategic planning"? As I studied and applied this concept in a number of settings, I came to understand that it is simply a disciplined process for making decisions and taking actions that shape and guide what an organization is, what it wishes to do, and how it intends to do it.

For many years it was thought that strategic planning only applied to larger organizations. Today, research has shown this concept to be equally valid in smaller businesses. Some of the advantages of strategic planning are as follows:

Table 1: Advantages of Strategic Planning

- Improves business performance
- Stimulates forward thinking
- Solves major problems
- Enables the business to survive with less
- Builds teamwork and expertise
- Establishes business priorities
- Clarifies future direction
- Provides a defensible basis for decision-making
- Meets others' requirements, e.g., investors
- Enables the business to influence rather than be influenced
- Enhances the businesses internal and external image

However, in order for a small business to experience these advantages the planning process **must have the support and involvement of the business owner(s) and key managers.** Without the commitment and active participation of top management in each phase of the process the costs of planning will most certainly outweigh the benefits.

To implement a strategic planning process is quite straight forward and involves five sequential steps. These steps are as follows

Table 2: Strategic Planning Process Steps

1. Get Organized to Plan
2. Take Stock of Where You Are
3. Develop a Strategy
4. Draft the Plan
5. Implement, Monitor and Revise the Plan

To successfully undertake a strategic planning process it is important to understand what questions to ask and what is involved in each step. This information is summarized below.

Step 1: Get Organized to Plan

The first thing the small business must do is answer the following question **"Is now the time to develop a strategic plan?"** If your firm is in the middle of a "life threatening crisis" or it is not committed to developing a good plan then don't proceed.

Second, make sure you have **commitment from the top**. If top management is not 100 percent committed to the planning process then the resulting plan will likely not succeed.

Third, determine **if outside help will be needed**. Depending on your experience with strategic planning you may want to consider using an outside resource person to facilitate the process.

Fourth, outline **a planning process that fits**. Before initiating a planning process ask yourself the following question: How much time do I (we) have to put into planning on a weekly basis. If the answer is two hours per week, then make sure you don't design a process that takes five hours per week. Also ask yourself about the "planning horizon". By this I mean how long are you planning for? For example, are you planning for 1 year, 2 years, or 3 years?

Finally, **form a planning team**. The importance of involving all key personnel in the planning process is extremely important. My experience indicates that a team of 5 to 7 key people is ideal. At specific points in the process it will be important to involve others also.

Step 2: Take Stock — Do a Situation (SWOT) Analysis

At the first meeting of the planning team briefly review the history of the firm and the current situation. Ask one person to take good notes. This information will be helpful when it is time to draft the plan.

Second, review the firms existing mission statement. If your firm does not have a written mission statement this should be considered as an administrative weakness.

Third, systematically examine the **internal (S) strengths and (W) weaknesses** of your firm by functional area, i.e., administration, marketing, finance, personnel, manufacturing/ operations and by strategic business unit (SBU) of the firm.

Fourth, systematically examine the **external (O) opportunities and (T) threats** facing your firm. Here you should examine your competition, the needs in your market area, trends in the industry, the impact of the economy, changing demographic factors, technological developments, etc.

Finally, distill a list of **critical issues for the future**. After completing the SWOT analysis the planning team should go back over the list and prioritize major issues the firm should address in the plan. This is an important step, in that the firm must keep its eye on the most critical issues.

Step 3: Develop a Strategy

After carefully considering the SWOT analysis prepared in Step 2, the planning team has a realistic assessment of where the firm is in the "here and now". Based on this shared understand the planning team should **examine the firms existing mission statement, if one exists, or draft a mission statement**. This statement should be quite concise and should answer three questions. Who do we serve? What services do we provide? In what geographic area do we **primarily** provide service?

The mission statement is important for two reasons. First, it is a tool for communication both inside and outside the firm. Second, is that once the mission is printed and publicized the firm has made a strong statement of commitment.

Following completion of the mission statement the planning team should **prepare one to three goal statements**. These statements should be specific priorities the business has established over the course of its planning horizon. For example, the firm may have goals related to employee development, profitability, succession planning, expansion, diversification, etc.

For each goal statement the planning team will **identify the key result areas** (KRAs) that must be developed in order to accomplish each goal. In turn each KRA is **stated as a measurable and quantifiable objective**.

To achieve each objective the planning team must **spell out specific strategies** for achieving each objective. Finally, each strategy has an Action Plan Coordinator and **a number of tactics** which when completed result in the strategy being implemented.

Below I have illustrated this procedure utilizing DEC as an example.

Table 3: Mission, Goal, KRA, Objective, Strategy, and Action Plan

Mission Statement:

Data Enhancement Corporation provides information processing and data conversion services to retail department store chains, health providers, financial institutions, marketing research firms, and state and federal government as well as other businesses throughout the United States.

Our dedication to excellence is an uncompromising commitment. Through personalized customer service, speed, accuracy, and professionalism we pledge total customer satisfaction. **At every level of the organization our client comes first!**

Goal:

G1: To accomplish our mission, we believe people are the key to our success. Accordingly, DEC dedicates itself to the goal of creating a stable, growth-oriented, and positive work environment for its valued employees.

Key Result Area: (Sample)

Note: In reality there are several KRAs related to this goal.

KRA 1: Job Analysis

Objective:

G1-O1: Complete a thorough job analysis for each position by 12/31/91

Strategy:

Note: In reality there are several strategies related to this objective.

S1: Update current job descriptions

Action Plan:

Note: In each action plan there are a series of tactics. Each tactic has a start date and an end date.

Action Plan Coordinator: Andrea Otis

T1 Route copies to immediate supervisor and employee when appropriate
T2 Review job description and insure accuracy
T3 Add specific job specifications to job description when appropriate
T4 Route updated job description to personnel department
T5 Edit job descriptions
T6 Final review and approval by appropriate manager

__Step 4:__

After completing Step 3 the planning team is ready to draft the plan. Below I have outlined a sample table of contents for an ideal strategic plan.

Table 4: Model Strategic Plan Outline

1. **Executive Summary** — This is a brief statement which uses clear, simple, concise language. It should keep the reader's attention and develop interest. It should include the following"

   - Company background
   - Mission statement
   - Primary Goals
   - Products/Services
   - Distinctive Competencies
   - Market segment(s) served

2. **Situation Analysis** — Briefly describe the company's **major** strengths, weaknesses, opportunities, and threats. Remember these factors should be distilled from having systematically examined the (1) internal strengths and weaknesses of each functional area of the business, i.e., administration, business/finance, personnel, production, and marketing, and (2) external opportunities and threats facing the business overall and by business unit.

3. **Strategic Direction** — This section of the plan should spell out the general direction of the firm over the length of the planning horizon and provide a detailed description of how the firm will achieve its overall strategic goals. It should include the following:

   - Mission statement and philosophy
   - Primary goals
   - Key result areas for meeting each goal
   - Measurable and quantifiable objectives which address each KRA
   - Strategies for meeting each objective
   - Action plans for implementing each strategy

4. **Implementation** — This section of the plan should spell out specific issues related to implementation of the plan. Issues which should be included in this section include the following:

    - Organizational structure
    - Major policies and procedures required to successfully implement your plan
    - Human and financial resource allocation

5. **Evaluation and Control** — Here we describe the process for keeping the plan up-to-date. Also include in control forms that will be used to monitor the plan. Ideally responsibilities per Action Plan Coordinator are sorted and included in the appendix.

6. **Contingency Plans** — This section describes critical risks, problems, and assumptions which are included in the plan. The planning team should spell out what actions will be taken if critical problems occur.

7. **Financial Plans** — This section of the plan is critical and should be prioritized by the business owner. Depending on the nature of the plan it should include some or all of the following:

    - A detailed 2 year sales forecast by quarter
    - Actual income statements and balance sheets for the past 3 years
    - Proforma income statement for the next 2 years
    - Proforma balance sheet for the next 2 years
    - Proforma 24 month cash flow statement by month for the first 12 months and by quarter for the next 12 months
    - Breakeven chart and calculation
    - Appropriate ratios compared to the industry

8. **Appendices** — This section should include information which is too detailed to be included in the body of the report. Materials which might be included in the appendix include the following:

   - Select industry information
   - Detailed SWOT analysis
   - Action plan forms
   - Sorted responsibilities per Action Plan Coordinator
   - Resumes

<u>Step 5:</u> Implement, Monitor, and Revise the Plan

While changes will certainly occur as the plan is being prepared and implemented it is important to continually review and revise the plan as new information arises. A regularly scheduled process for modifying the plan is highly recommended. Below I have given a sample update schedule:

Table 5: Strategic Plan Update Schedule

Note: This schedule assumes a January to December fiscal year.

January - March

- Implement the plan from the previous year
- As factors change adapt the plan as needed
- Collect environmental data
- Monitor key indicators on a scheduled basis

April - June

- Continue to adjust the current year plan as necessary
- Review/revise the SWOT analysis from the previous year
- Define priority issues for the upcoming fiscal year

July - September

- Continue to adjust the current year plan as necessary
- Review, reaffirm or modify the companies mission statement
- Review, reaffirm or modify the companies goals
- Determine if the KRAs are still the same
- Draft measurable and quantifiable objective(s) to address each KRA

October - December

- Finalize objectives and draft strategies to meet each objective
- Ask each Action Plan Coordinator to prepare an action plan for each strategy
- Calculate and approve a proforma budget
- Specify evaluation measures and control forms

In summary, strategic planning is a powerful management tool that involves in depth organizational analysis, careful strategic choice, detailed specification of responsibility, and regular review and modification.

Probably, the most important endorsement I can make for this management tool is that strategic planning is helping many small businesses approach the 1990's with confidence and enthusiasm. Thank you.

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Trends Shaping the World

The nuclear threat that kept antagonists at bay for the last four decades has largely been removed. While much turmoil has resulted, trends toward new alliances and cooperation to solve global problems bode well for sustaining peace.

By Marvin Cetron and Owen Davies

The world will be a more peaceful and prosperous place in the 1990s than it has been in the decades since World War II, because the premise by which it operates has changed. In the coming years, it will no longer be influenced by the needs of ideological and military competition but instead by the need to promote international trade and the well-being of the trading nations.

Major military conflicts will be all but unthinkable, because they are contrary to the mutual interests of nations that are interdependent in the global economy. Wars will not suddenly disappear, but they will be primarily small and regional in nature. These conflicts will stem from local antagonisms and the ambitions of Third World rulers, and peace will be restored by the joint effort of the

Source: 50 Trends Shaping the World. *THE FUTURIST.* pp. 11-21.

entire world community. This fundamental change will be the guiding theme of the 1990s.

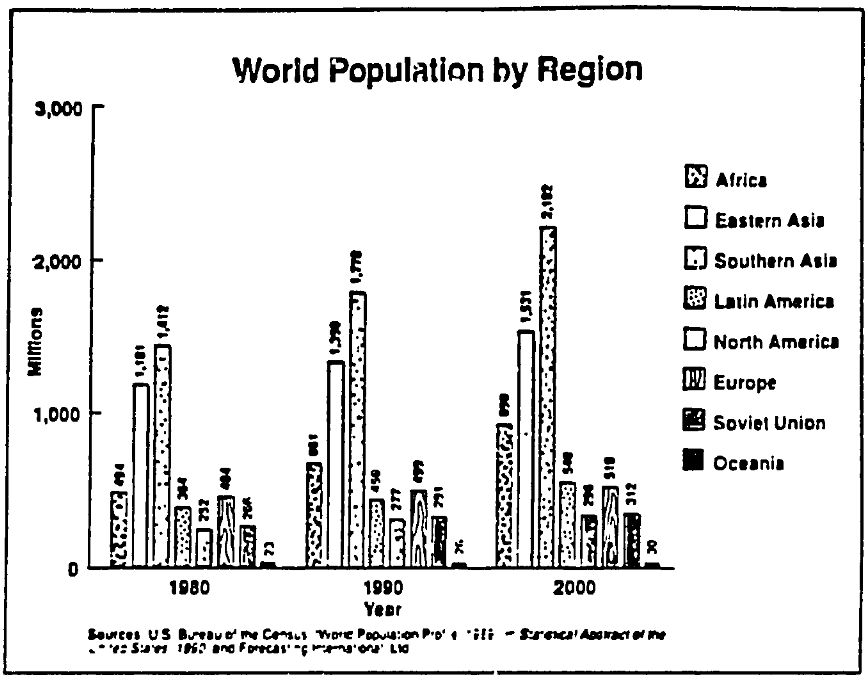
Politically, this will be an interesting era. Nations wil' increasingly band together, however briefly, with traditional enemies to further their short-term interests.

No single nation will have the power to dominate in this new global order. World leaders will be military powers as well as leaders from the three powerful regional economic blocs now coming to dominate international commerce: the European Community, the Pacific Rim, and the North American alliance. Each group will be heavily influenced by its largest members but will act primarily by consensus in all matters of common interest.

Vast regions of the world will be left out of this interlocking arrangement, save on the occasions when they can serve the interests of the major powers. The Middle East will retain much of its wealth and influence, thanks to the continued importance of oil. Africa, the Indian subcontinent, and Southeast Asia will remain much as they are now, doomed to poverty largely by their own leaders and used by the industrialized nations as little more than stockpiles of raw material.

Yet, even these nations should benefit from the new global structure. In a more peaceful and prosperous world, the developed nations will have a better opportunity to help their less-fortunate neighbors deal with economic and social problems, to whatever extent local politics allow it. Progress will come slowly in the Third World, but it will move more quickly under the new commercial priorities than it did under ideological and military domination.

In the pages that follow, we will outline many of the trends that are emerging from today's ferment to form tomorrow's new world order.



Population

1. In the industrialized countries, the "birth dearth" has cut growth almost to nothing, while in the developing world, the population bomb is still exploding.

• The rich get richer, the poor have children: Throughout the industrialized world, workers can look forward to national retirement programs or social security. In the developing lands, those too old for labor rely on their children to support them — so they have as many as they can.

• Thanks to better health care, children have a greater chance to survive into adulthood and produce children of their own. This will tend to accelerate population growth, but contraceptive use is increasing, with an opposite effect on growth.

• In the developed world, the vast Baby Boom generation is approaching middle age, threatening to overwhelm both medical and social-security programs. These costs will consume an increasing portion of national budgets until about 2020.

2. The AIDS epidemic will slaughter millions of people worldwide, especially in Africa.

• According to the World Health Organization, the AIDS-causing human immunodeficiency virus will have infected up to 40 million people by 2000.

• By 1990, some 5 million people in sub-Saharan Africa already carried the disease — twice as many as just three years earlier. In some cities, as much as 40% of the population may be infected.

3. A host of new medical technologies will make life longer and more comfortable in the industrialized world. It will be many years before these advances spread to the developing countries.

4. As the West grows ever more

conce. ned with physical culture and personal health, developing countries are adopting the unhealthy practices that wealthier nations are trying to cast off: smoking, high-fat diets, and sedentary lifestyles. To those emerging from poverty, these deadly luxuries are symbols of success.

• In the United States, smokers are kicking the habit. Only 35% of American men smoke, down from 52% twenty years ago; 29% of women smoke, down from a peak of 34%.

• However, the developing world continues to smoke more each year. Even Europe shows little sign of solving this problem.

5. Better nutrition and the "wellness" movement will raise life expectancies.

• In developed countries, children born in the 1980s will live to an average age of 70 for males, 77 for females. In developing countries, the average life expectancies will remain stalled at 59 years for males and 61 for females.

Food

6. Farmers will continue to harvest more food than the world really needs, but inefficient delivery systems will prevent it from reaching the hungry.

• According to the World Bank, some 800 million people are chronically malnourished by U.N. standards. As the world population grows, that number will rise.

7. The size and number of farms are changing.

• In the United States, the family farm is quickly disappearing. Yet, giant agribusinesses reap vast profits, while small, part-time "hobby" farms also survive. This trend will begin to affect other developed nations during the 1990s and will eventually spread to the rest of the world.

• Former Iron Curtain countries will find it difficult to turn their huge, inefficient collective farms back to private owners; progress in this effort will be uneven.

• Land reform in the Philippines and Latin America will move at a glacial pace, showing progress only when revolution threatens. Most of the vast holdings now owned by the rich and worked by the poor will survive well into the twenty-first century.

8. Science is increasing the world's supply of food.

• According to the U.S. Office of Technology Assessment, biotechnology and other yield-increasing developments will account for five-sixths of the growth in world harvests by 2000; the rest will come from newly cultivated croplands.

• Biotechnology is bringing new protein to developing countries. Bovine growth hormone can produce 20% more milk per pound of cattle feed, while genetic engineering is creating fish that grow faster in aquafarms.

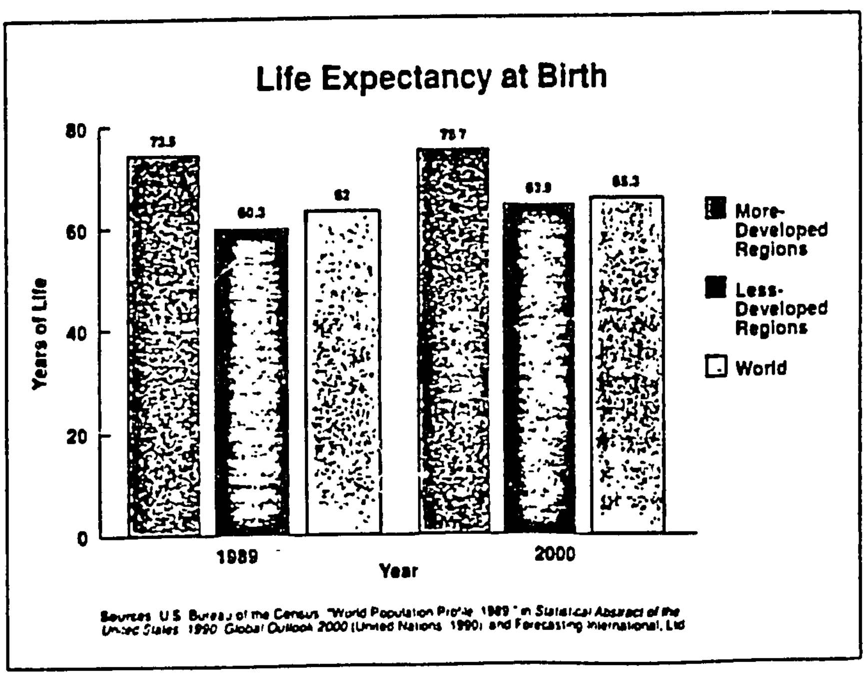
9. Food supplies will become healthier and more wholesome.

• Most nations will adopt higher and more-uniform standards of hygiene and quality, the better to market their food products internationally. Consumers the world over will benefit.

10. Water will be plentiful in most regions. Total use of water worldwide by 2000 will be less than half of the stable renewable supply. Yet, some parched, populous areas will run short.

• The amount of water needed in western Asia will double between 1980 and 2000. The Middle East and the American West are in for dry times by the turn of the century. Two decades later, as many as 25 African nations may face serious water shortages.

• We already know how to cut water use and waste-water flows by up to 90%. In the next decade, the industrialized countries will finally



Sources: U.S. Bureau of the Census, "World Population Profile 1989," in Statistical Abstract of the United States 1990; Global Outlook 2000 (United Nations 1990) and Forecasting International, Ltd.

adopt many of these water-saving techniques. Developing countries reuse little of their waste water, because they lack the sewage systems required to collect it. By 2000, building this needed infrastructure will become a high priority in many parched lands.

• Cheaper, more-effective desalination methods are on the horizon. In the next 20 years, they will make it easier to live in many desert areas.

Energy

11. Despite all the calls to develop alternative sources of energy, oil will provide more of the world's power in 2000 than it did in 1990.

• OPEC will supply most of the oil used in the 1990s. Demand for OPEC oil grew from 15 million barrels a day in 1986 to over 20 million just three years later. By 2000, it will easily top 25 million barrels daily.

12. Oil prices are not likely to rise; instead, by 2000 they will plummet to between $7 and $9 a barrel. A number of factors will undermine oil prices within the next 10 years:

• Oil is inherently cheap. It costs only $1.38 per barrel to lift Saudi oil out of the ground. Even Prudhoe Bay and North Sea oil cost only $5 per barrel.

• The 20 most-industrialized countries all have three-month supplies of oil in tankers and storage tanks. Most have another three months' worth in "strategic reserves." If OPEC raises its prices too high, their customers can afford to stop buying until the costs come down. This was not the case during the 1970s oil shocks.

• OPEC just is not very good at throttling back production to keep prices up when their market is glutted. They will not get any better at doing so in the 1990s.

13. Growing competition from other energy sources will also help to hold down the price of oil:

• Natural gas burns cleanly, and there is enough of it available to supply the world's entire energy need for the next 200 years.

• Solar, geothermal, wind-generated, and wave-generated energy sources will contribute where geographically and economically feasible, but their total contribution will be small.

• Nuclear plants will supply 12% of the energy in Eastern Europe and the Soviet Union by the end of the century.

Environment

14. Air pollution and other atmospheric issues will dominate eco-policy discussions for years to come.

• Soot and other particulates will be more carefully scrutinized in the near future. Recent evidence shows that they are far more dangerous than sulfur dioxide and other gaseous pollutants formerly believed to present major health risks. In the United States alone, medical researchers estimate that as many as 60,000 people may die each year as a direct result of breathing particulates. Most are elderly and already suffering from respiratory illness.

• By 1985, the concentration of carbon dioxide in the atmosphere had increased 25 times since preindustrial days. By 2050, the concentration is likely to increase 40% over today's levels if energy use continues to grow at its current pace. Burning fossil fuel will spew about 7 billion tons of carbon into the air each year by 2000, 10–14 billion in 2030, and 13–23 billion in 2050.

• Blame global warming for at least some of the spread of Africa's deserts. Before the process runs its course, two-fifths of Africa's remaining fertile land could become arid wasteland. Up to one-third of Asia's non-desert land and one-fifth of Latin America's may follow. Global warming will not only hurt agriculture, but will also raise sea levels, with consequent impacts on habitation patterns and industries.

• Brazil and other nations will soon halt the irrevocable destruction of the earth's rain forests for very temporary economic gain. Those countries will need economic help to make the transition. The World Bank and the International Monetary Fund (IMF) will help underwrite alternatives to rain-forest destruction.

• Acid rain such as that afflicting the United States and Canada will appear whenever designers of new power plants and factories neglect emission-control equipment. Watch for it in most developing countries.

15. Disposal of mankind's trash is a growing problem, especially in developed nations. Within the next decade, most of the industrialized world will all but run out of convenient space in its landfills.

• The U.S. Environmental Protection Agency estimates that existing technologies could reduce the total amount of hazardous waste generated in the United States by 15%–30% by 2000.

• For now, recycling is a necessary nuisance. By 2000, recyclables will become valuable resources, as research finds profitable new uses for materials currently being discarded. Recycling will save energy as well: Remanufacturing requires less energy than does the full iron-ore-to-Cadillac production process.

Science and Technology

16. High technological turnover rates are accelerating.

• All the technological knowledge we work with today will represent only 1% of the knowledge that will be available in 2050.

17. Technology has come to dominate the economy and society in the developed world. Its central role can only grow.

• For some economists, the numbers of cars, computers, telephones, facsimile machines, and copiers in a nation define how "developed" the country is.

• Personal robots will appear in homes in the developed world by 2000. Robots will perform mundane commercial and service jobs and environmentally dangerous jobs, such as repairing space-station components in orbit.

18. The technology gap between developed and developing countries will continue to widen.

• Developed countries have 10 times as many scientists and engineers per capita as the developing world. The gap between their spending on research and development grew threefold from 1970 to 1980.

• Technologically underdeveloped countries face antiquated or nonexistent production facilities, a dearth of useful knowledge, ineffective organization and management, and a lack of technical abilities and skills. Under these conditions, underdevelopment is often self-perpetuating, which weakens the country's ability to compete in international markets.

• The widening technology gap will aggravate the disparity in North-South trade, with the developed nations of the Northern Hemisphere supplying more and more high-tech goods. The less-developed countries of the South will be restricted to exporting natural resources and relatively unprofitable low-tech manufactured products.

19. Nations will exchange scientific information more freely, but will continue to hold back technological data.

• Basic research is done principally in universities, which have a tradition of communicating their findings.

• Fifty-three percent of Ph.D. candidates in U.S. science and engineering programs are from other countries. Anything they learn will return to their homelands when they do.

• The space-faring nations — soon to include Japan — will share their findings more freely.

• Technological discoveries, in contrast, often spring from corporate laboratories, whose sponsors have a keen interest in keeping them proprietary. More than half of the technology transferred between countries will move between giant corporations and their overseas branches or as part of joint ventures by multinationals and foreign partners.

20. Research and development (R&D) will play an ever-greater role in the world economy.

• R&D outlays in the United States have varied narrowly (between 2.1% and 2.8% of the GNP) since 1960 and have been rising generally since 1978.

• R&D spending is growing most rapidly in the electronics, aerospace, pharmaceuticals, and chemical industries.

Communications

21. Communications and information are the lifeblood of a world economy. Thus, the world's communications networks will grow ever more rapidly in the next decade.

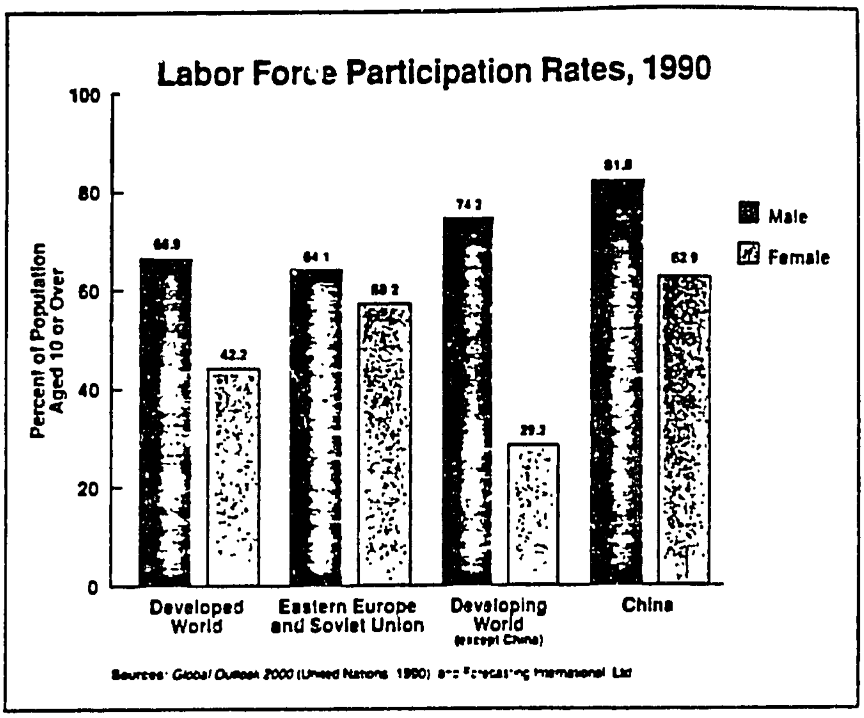
• A constellation of satellites providing position fixing and two-way communication on Earth, 24 hours a day, will be established in the 1990s. A person equipped with a mini-transceiver will be able to send a message anywhere in the world.

22. The growing power and versatility of computers will continue to change the way individuals, companies, and nations do their business.

• Processing power and operating speeds for computers are still increasing. By 2000, the average personal computer will have at least 50 times the power of the first IBM PCs and 100 or more times the power of the original Apple II.

• Computers and communications are quickly finding their way into information synthesis and decision making. "Automatic typewriters" will soon be able to transcribe dictation through voice recognition. Computers will also translate documents into various languages. Today's best translation programs can already handle a 30,000-word vocabulary in nine languages.

• The revolution in computers and communications technologies offers hope that developing countries can catch up with the developed world. However, few have yet been able to profit from the new age of information. In 1985, developing countries owned only 5.7% of the total number of computers in the world; most of these computers are used mainly for accounting, payroll processing, and similar low-payoff operations.



Labor

23. The world's labor force will grow by only 1.5% per year during the 1990s — much slower than in recent decades, but fast enough to provide most countries with the workers they need. In contrast, the United States faces shortages of labor in general, and especially of low-wage-rate workers.

• Multinational companies may find their operations handicapped by loss of employees and potential workers to the worldwide epidemic of AIDS, especially in Africa, since many firms rely on indigenous workers.

24. The shrinking supply of young workers in many countries means that the overall labor force is aging rapidly.

• Persons aged 25 to 59 accounted for 65% of the world labor force in 1985; almost all growth of the labor force over the next decade will occur in this age group.

25. Unions will continue to lose their hold on labor.

• Union membership is declining steadily in the United States. It reached 17.5% in 1986. According to the United Auto Workers, it will fall to 12% by 1995 and to less than 10% by 2000.

• Unionization in Latin America will be about the same as in the 1980s; unionization in the Pacific Rim will remain low; unionization in the developing world as a whole will remain extremely low.

• Increased use of robots, CAD/CAM, and flexible manufacturing complexes can cut a company's work force by up to one-third.

• Growing use of artificial intelligence, which improves productivity and quality, will make the companies adopting it more competitive, but will reduce the need for workers in the highly unionized manufacturing industries.

26. People will change residences, jobs, and even occupations more frequently, especially in industrialized countries.

• High-speed MAGLEV trains will allow daily commutes of up to 500 miles.

• The number of people who retrain for new careers, one measure of occupational mobility, has been increasing steadily.

• The new information-based organizational management methods — nonhierarchical, organic systems that can respond quickly to environmental changes — foster greater occupational flexibility and autonomy.

27. The wave of new entrepreneurs that appeared in the United States during the 1970s and 1980s is just the leading edge of a much-broader trend.

• In 1986, the number of new businesses started in the United States hit a record 700,000. In 1950, there were fewer than 100,000 new business incorporations. A similar trend has appeared in Western Europe, where would-be entrepreneurs were until recently viewed with suspicion. And a new generation of entrepreneurs is growing throughout Eastern Europe and even in Japan

• From 1970 to 1980, small businesses started by entrepreneurs accounted for most of the 20 million new jobs created in America. In 1987, small businesses accounted for 1 million new jobs, compared with 97,000 in larger companies.

28. More women will continue to enter the labor force.

• In both developed and developing regions, the percentage of working women has increased since 1950. Women represented 36.5% of the world's labor force in 1985. This growth is expected to continue at a moderate rate, with developed nations showing the fastest increases.

Industry

29. Multinational and international corporations will continue to grow, and many new ones will appear.

• Companies will expand their operations beyond national borders. For example, Marconi Space Systems (a British General Electric company) and Matra Espace (of France) got together to form Matra Marconi Space, "the first international space company."

> "Companies will increasingly be judged on how they treat the environment — and will be forced to clean up any damage resulting from their activities."

• Many other companies will go international by locating new facilities in countries that provide a labor force and benefits such as preferential tax treatment, but that do not otherwise participate in the operation. Ireland pioneered this practice with U.S. companies in the insurance, electronics, and automobile industries. It found that when companies leave, for whatever reason, the country loses revenue and gains an unemployed labor force.

30. Demands will grow for industries to increase their social responsibility.

• A wide variety of environmental disasters and public-health issues (e.g., the *Exxon Valdez* oil spill and Union Carbide's accident at Bhopal, India) have drawn public attention to the effects of corporate negligence and to situations in which business can help solve public problems not necessarily of their own making.

• In the future, companies will increasingly be judged on how they treat the environment — and will be forced to clean up any damage resulting from their activities.

• Deregulation will be a thing of the past. There will be increased government intervention: Airlines will be compelled to provide greater safety and services; the financial-service industry will be regulated to reduce economic instability and costs; electric utilities will be held responsible for nuclear problems; and chemical manufacturers will have to cope with their own toxic wastes.

31. The 1990s will be the decade of microsegmentation, as more and more highly specialized businesses and entrepreneurs search for narrower niches.

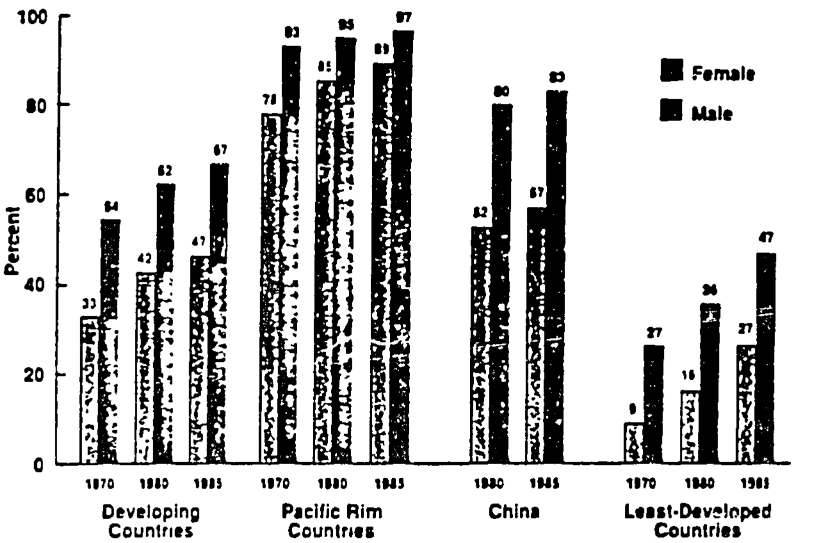
Education and Training

32. Literacy will become a fundamental goal in developing societies, and the developed world will take steps to guard against backsliding toward illiteracy. Throughout the world, education (especially primary school for literacy) remains a major goal for development as well as a means for meeting goals for health, higher labor productivity, stronger economic growth, and social integration. Countries with a high proportion of illiterates will not be able to cope with modern technology or use advanced agricultural techniques.

• Most developed countries have literacy rates of more than 95%. The increasing levels of technological "savvy" demanded by modern life, however, often are more than people are prepared to meet, even in the most modern societies.

• The proportion of illiterates among the world's adult population has steadily decreased, although the absolute number has grown. In developing countries, the proportion of illiterates will drop from 39% in 1985 to 28% by 2000, while the number of illiterate adults will have climbed by 10 million.

Adult Literacy Rates (For Population over Age 14)



Sources: *Global Outlook 2000* (United Nations 1990) and Forecasting International Ltd

• Worldwide, the proportion of children not enrolled in school will fall from 26% in 1985 to 18% by 2000. Primary-education enrollment has risen dramatically in most of the developing world except for Africa. In 31 sub-Saharan countries reporting their enrollment rates, the rates had fallen for boys in 13 countries and for girls in 15.

• Useful, job-oriented knowledge is becoming increasingly perishable. The half-life of an engineer's professional information today is five years.

33. Educational *perestroika* is changing American schools. In the long run, this will repair the nation's competitive position in the world economy.

• The information economy's need for skilled workers requires educational reform.

• Science and engineering schools will be actively recruiting more students.

• Foreign-exchange programs will grow markedly in an attempt to bolster the competence of American students in international affairs.

34. Higher education is changing as quickly as primary and secondary schools.

• The soaring cost of higher education may force program cuts. If so, developing countries face an ultimate loss of foreign exchange, as their industries fall further behind those of cheaper, more-efficient competitors.

• There are too few jobs for liberal arts college graduates in many developing countries. For instance, Egypt cannot keep its promise to give a job to every graduate; the civil service is grossly overstaffed already.

• The concept of "university" is changing. Increasingly, major corporations are collaborating with universities to establish degree-granting corporate schools and programs. Examples include the General Motors Institute, Pennsylvania State University's affiliation with a major electronics company, and Rutgers University's affiliation with a major pharmaceutical house.

• More private companies will market large electronic databases, eventually replacing university libraries.

World Economy

35. The world economy will grow at a rapid rate for the foreseeable future, but the gap between rich and poor countries will widen.

• World trade will grow at a brisk 4.5% annually in the next decade. As one result, international competition will continue to cost jobs and income in the developed market economies.

• The gross domestic products (GDPs) of the developed market economies will grow at 3.1% on average in the 1990s as investment demand increases and the economic integration in Europe introduces capital efficiency.

• The economies of Eastern Europe and the Soviet Union may recover with a GDP growth rate of 3.6%.

• The developing economies will fall further and further behind the industrialized nations, largely because their populations will continue to rise faster than their incomes. GDPs in the developing economies will grow by 4.3% a year (well below the 5.1% rate they enjoyed in the 1970s). In the 1970s, their per capita GDP was one-tenth that of the developed countries. By 1985, it had fallen to one-twelfth. By 2000, it will be one-thirteenth.

• By reducing military budgets, the fabled "new world order" will make more money available for business.

36. The world economy will become increasingly integrated.

• There is a "ripple effect" among closely linked national stock exchanges. The impact of a major event on one exchange perturbs all the others. Stock markets will become more fully connected and integrated.

• By 2000 or so, all national currencies will be convertible, following a model similar to the European Community's Exchange Rate Mechanism.

• It will become increasingly difficult to label a product by nation (e.g., "Japanese cars") since parts often come from several countries to be assembled in others and sold in yet others. Protective tariffs will become obsolete — for the good of the worldwide economy.

37. The world is quickly dividing itself into three major blocs: the European Community, the North American free-trade zone, and Japan's informal but very real Pacific development area. Other regions will ally themselves with these giants: Eastern Europe with the EC, Mexico with the United States and Canada. The nations of Latin America will slowly build ties with their neighbors to the North. The Australia–New Zealand bloc is still trying to make up its mind which of these units to join — the Pacific Rim, where its nearest markets are, or Europe and North America, where its emotional bonds are strongest.

• The economic structure of all these regions is changing rapidly. All but the least-developed nations are moving out of agriculture. Service sectors are growing rapidly in the mature economies, while manufacturing is being transferred to the world's developing economies.

• Within the new economic blocs, multinational corporations will *not* replace the nation-state, but they will become far more powerful, especially as governments relinquish aspects of social responsibility to employers.

38. The European Community will become a major player in the world economy.

• By 1992, the EC will represent a population of 325 million people with a $4-trillion GDP.

• By 1996, the European Free Trade Association countries will join with the EC to create a market of 400 million people with a $5-trillion GDP. Sweden, Norway, Finland, Austria, and Switzerland will join the founding 12.

• By 2000, most of the former East Bloc countries will be associate members of the EC.

39. The 25 most-industrialized countries will devote between 2% and 3% of their GDP to help their poorer neighbors.

• Much aid to poorer countries will be money that formerly would have gone to pay military budgets.

• The World Bank and IMF will help distribute funds.

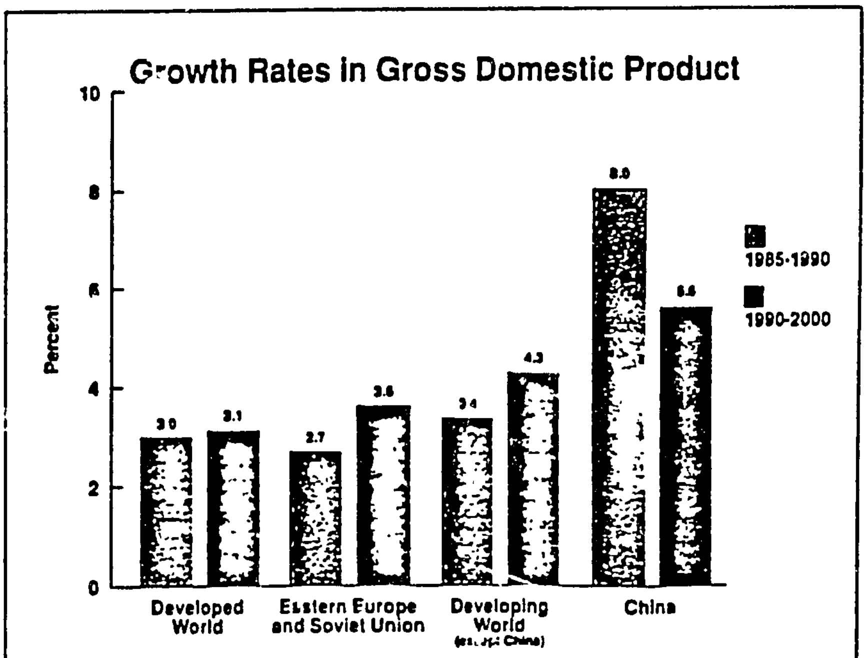
• Loans and grants may require developing nations to set up population-control programs.

40. Western bankers will at last accept the obvious truth: Many Third World debtors have no hope of ever paying back overdue loans. Creditors will thus forgive one-third of these debts. This will save some of the developing nations from bankruptcy and probable dictatorship.

41. Developing nations once nationalized plants and industries when they became desperate to pay their debts. In the future, the World Bank and the IMF will refuse to lend to nations that take this easy way out. (Debtors, such as Peru, are eager to make amends to these organizations.) Instead, indebted nations will promote private industry in the hope of raising needed income.

42. Washington, D.C., will supplant New York as the world financial capital. The stock exchanges and other financial institutions, especially those involved with international transactions, will move south to be near Congress, the World Bank, and key regulatory bodies.

• Among the key economic players already in Washington: the Federal Reserve Board, the embassies and



Sources: *Global Outlook 2000* (United Nations 1990) and Forecasting International, Ltd

"The world has been made 'safer' for local or regional conflicts.... With the nuclear threat effectively gone, would-be antagonists feel less inhibited."

commercial/cultural attachés of nearly every country in the world, and the headquarters of many multinational and international corporations.

• In addition, several agencies cooperating with the United Nations, including the International Monetary Fund and the General Agreement on Tariffs and Trade, have their headquarters or routinely conduct much of their business in Washington.

Warfare

43. The world has been made "safer" for local or regional conflicts. During the Cold War, the superpowers could restrain their aggressive junior allies from attacking their neighbors. With the nuclear threat effectively gone, would-be antagonists feel less inhibited. Iraqi President Saddam Hussein was only the first of many small despots who will try to win by conquest what cannot be achieved by negotiation.

• The United States and the Soviet Union will sign a long procession of arms treaties in the next decade. The two countries will make a virtue of necessity, but both will act primarily to cut expensive military programs from their budgets.

• The Warsaw Pact has already disintegrated. NATO, seeking a new purpose, will eventually become an emergency strike force for the United Nations. The number of guns, tanks, and military planes in Europe will fall to little more than half their peak levels.

• Terrorist states will continue to harbor chemical and biological weapons until the international community finally takes a firm stand.

44. Brushfire wars will grow more frequent and bloody. Among the most likely are:

• Israel vs. the Arab countries. We foresee one last conflict in this region before the peace that now seems near actuality becomes a reality. Israel will win this one, too.

• India vs. Pakistan. The two have feuded with each other since the British left in 1947; religious differences, separatism in Kashmir, and small stocks of nuclear weapons make this a hot spot to watch carefully.

• Northern Ireland vs. itself. This perpetually troubled land will remain its own worst enemy. In trying to keep Ireland under control, the British face an increasingly unpleasant task.

45. Tactical alliances formed by common interests to meet immediate needs will replace long-term commitments among nations.

• In the Middle East, "the enemy of your enemy is your friend." Iran and Iraq will tolerate each other in their stronger hatred for the West. The United States and Syria will never be friends, but both dislike Iraq.

• Turkey and Greece will be hard-pressed to overlook their differences about Cyprus, but may do so in an effort to counter terrorism.

International Alignments

46. The Information Revolution has enabled many people formerly insulated from outside influences to compare their lives with those of people in other countries. This knowledge has often raised their expectations, and citizens in many undeveloped and repressed lands have begun to demand change. This trend can only spread as world telecommunications networks become ever more tightly linked.

• East Germans learned of reforms elsewhere in Eastern Europe via West German television; Romanians learned through Hungarian media.

• International broadcasting entities such as Voice of America, the British Broadcasting Corporation, and Cable News Network disseminate information around the world, sometimes influencing and inspiring global events even as they report on them.

47. Politically, the world's most important trend is for nations to form loose confederations, either by breaking up the most-centralized nations along ethnic and religious lines or by uniting independent countries in international alliances.

• Yugoslavia will soon split into a loose confederation based on the region's three dominant religions: Greek Orthodoxy, Roman Catholicism, and Islam. Czechoslovakia is already loosening the ties between its Czech and Slovak regions. And, following a brief, unsuccessful attempt at new repression by the right wing of the Communist Party, the Soviet Union will reorganize itself as a confederation of 15 largely independent states.

• Quebec will secede from Canada, probably in 1996. The four eastern Canadian provinces will be absorbed into the United States by 2004, and the other Canadian provinces will follow suit by 2010.

• Hong Kong and Macao will rejoin China, through previously made agreements, by 1997. Taiwan will seek to join Mainland China shortly thereafter. The two Koreas will reunite before 2000.

48. The role of major international organizations will become extremely important in the new world order.

• The United Nations will finally be able to carry out its mission. The World Court will enjoy increased prestige. UNESCO's food, literacy, and children's health funds will be bolstered. The World Health Organization will make progress in disease eradication and in training programs. The Food and Agriculture Organization will receive more funding for starvation relief and programs to help teach farming methods.

• More countries will be willing to reform internally to meet requirements for International Monetary Fund loans and World Bank programs that provide development and education funds and grants.

• More medical aid from developed countries will be provided, frequently under the auspices or coordination of the United Nations or Red Cross/Red Crescent, to countries devastated by plagues, famine, or other natural disasters. Red Cross and Red Crescent will step up activities in such areas as natural-disaster relief and blood programs.

• Cooperation will develop among intelligence agencies from different countries (e.g., Interpol, the CIA, and the KGB) in order to monitor terrorism and control antiterrorism programs and to coordinate crime fighting worldwide.

49. International bodies will take over much of the peacekeeping role now being abandoned by the superpowers. The Conference on Security and Cooperation in Europe (CSCE) — a group of 35 nations (including the United States and the Soviet Union) — will pick up where NATO and the Warsaw Pact left off by creating a pan-European security structure.

• CSCE will transform the diplomatic process into an institution.

• The methods of operation for voting on CSCE matters will likely be revised (currently, each of the member nations holds veto power).

50. The field of public diplomacy will grow, spurred by advances in communication and by the increased importance and power of international organizations. ☐

About the Authors

Marvin Cetron is president of Forecasting International, Ltd., 1001 North Highland Street, Arlington, Virginia 22210. He is co-author (with Owen Davies) of *American Renaissance: Our Life at the Turn of the 21st Century* (St. Martin's Press, 1989) and co-author (with Margaret Gayle) of *Educational Renaissance: Our Schools at the Turn of the Twenty-First Century* (St. Martin's Press, 1991).

Owen Davies is co-author of *American Renaissance* and former senior editor of *Omni* magazine. His address is P.O. Box 355, Hancock, New Hampshire 03449.

This article is adapted from their forthcoming book, *Crystal Globe: The Haves and Have-Nots of the New World Order* (St. Martin's Press, 1991). For ordering details, see inside front cover.

Class Exercise Unit 1

Class Exercise:

Role play exercise #1

How to introduce planning process in the firm.

Step 1: Select a group of two or three students from the class. Their job (role) is to play the part of staff members from a fictitious firm called "Candy Cane Manufacturing" (CCM).

Step 2: Assign each student a specific role. For example, one person would be the accountant, one the production manager and one the salesperson. The instructor will take the role of president of the company.

Step 3: Set the stage as follows:

It's 9:00 am on Monday morning. The president has called the group into his office for a brief staff meeting. He tells the group that he has just completed his first weekend in the entrepreneurship training program. He goes on to say that over the next three months he has decided to develop a strategic plan for CCM. The teams job will be to work with him to prepare the plan.

Step 4: The group then begins to ask questions and raise concerns.

Marketing manager -"How much time will this take? We don't have the time now to get our work done. How do you think we can find time to plan?"

Accountant - "What will this plan cost? We can't afford to take time away from production and sales. I think this is not a good idea."

Salesperson - "Planning! Isn't that what the Soviets did? Look where they landed up."

Step 5: The president of the company then begins to answer their questions and concerns one by one.

After three to five minutes the president makes it clear that he wants to develop a plan. He asks for the groups support and commits that while he understands (and possibly shares) their concerns he wants to give it a try.

Step 6: The president then asks each team member to read a brief summary of what is meant by the term "strategic planning." He also asks each team member to prepare and turn in a list of the strengths and weaknesses of their own department no later than Friday. He tells the group that their second meeting will be held next Monday morning at 8:00 am.

CONDUCT A SWOT ANALYSIS AND PRIORITIZE CRITICAL PLANNING ISSUES

UNIT 2

Title: **CONDUCT A SWOT ANALYSIS AND PRIORITIZE CRITICAL PLANNING ISSUES**

Purpose: This unit is designed to help participants understand the internal and external situation faced by their firm.

Objectives: Upon completion of this unit, participants will . . .

- be able to complete a systematic analysis of their firms internal strengths and weaknesses and external opportunities and threats.
- be able to prioritize the critical issues the firm should focus its planning efforts on.
- be able to recognize their firms distinctive competencies

Materials:

Transparency 1-2	Reuse	Basic Elements in the Strategic Management Process
Transparency 1-12	Reuse	Describe the Planning Horizon
Transparency 1-13	Reuse	Illustrate the Planning Horizon
Transparency 1-17	Reuse	Illustrate "Life-threatening Situations"
Transparency 1-18	Reuse	Get Organized to Plan
Transparency 2-1		Take Stock of Where You Are
Transparency 2-2		Internal Analysis Grid
Transparency 2-3		Key Environmental Variables
Transparency 2-4		Scanning the External Environment
Transparency 1-19b	Reuse	Strategic Planning Process - Step 2
Transparency 1-19c	Reuse	Strategic Planning - Step 3
Transparency 1-19d	Reuse	Strategic Planning - Step 4
Transparency 1-19e	Reuse	Strategic Planning - Step 5
Transparency 1-19f	Reuse	Strategic Planning Process - Step 6

Handouts:

Handout 2-1	Imaginary Corporation SWOT analysis
Handout 2-2	Management Audit
Handout 2-3	Worksheet #2 - Situation Analysis
Handout 2-4	Environmental Analysis

Handout 2-4	Environmental Analysis
Handout 2-5	Internal Analysis
Handout 2-6	Recognizing Distinctive Competencies and Competitive Weaknesses

Class Exercise:

Complete and discuss management audit in class.

Assignment:

Complete Worksheet #2

Notes to Instructor:

Whenever possible encourage each participant to express their feelings and to ask questions.

Stress the importance of taking the time necessary to complete the SWOT analysis.

Stress the importance of soliciting input into the SWOT analysis from all levels of the firm.

Stress the importance of narrowing the issues raised in the SWOT analysis to the **most important issues.** Stress the importance of preparing a separate list which includes the critical issues.

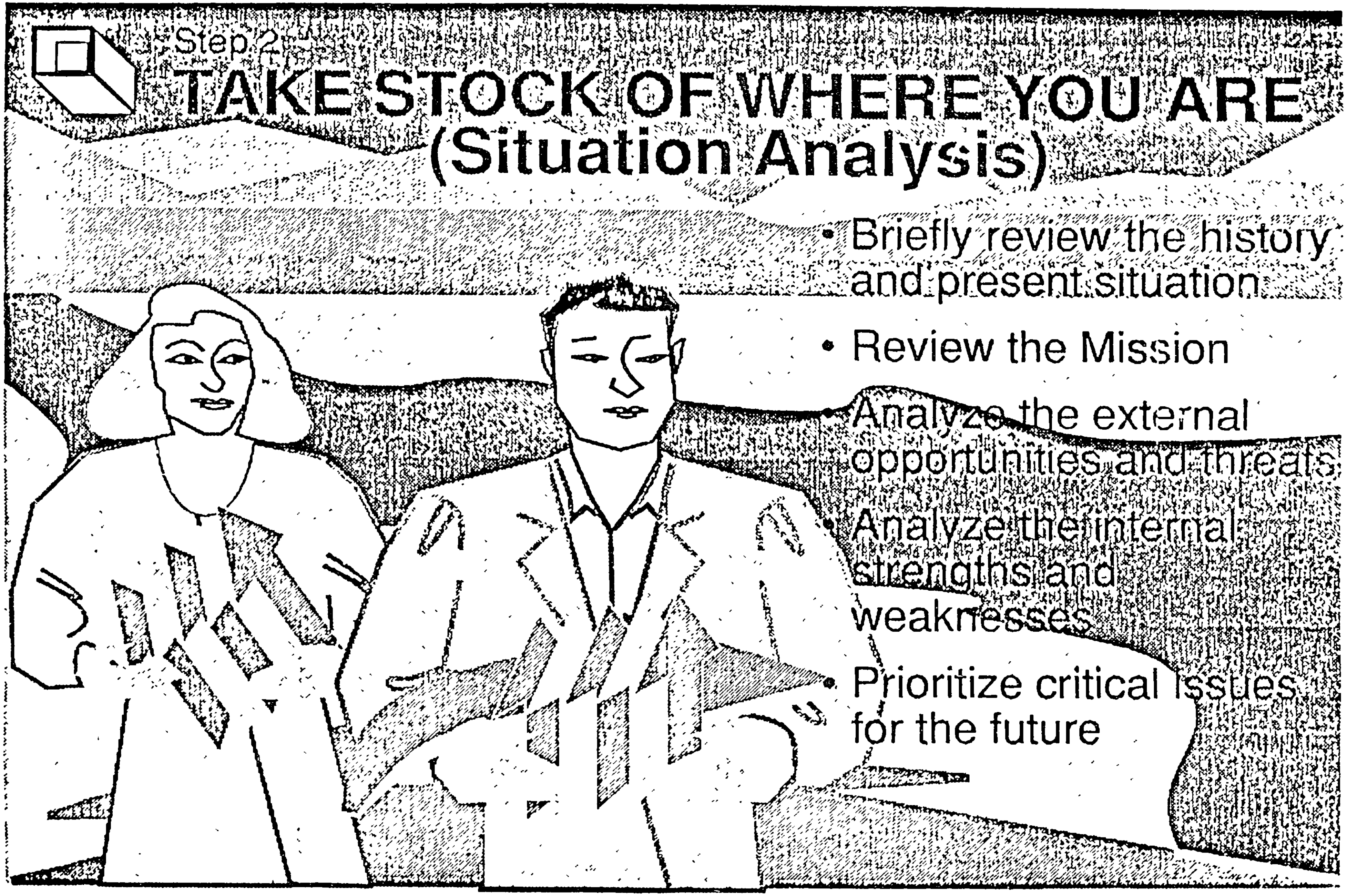
Estimated Time:

Introduction to SWOT analysis	45 minutes
Completion of management audit	20 minutes
Prioritization of critical issues	15 minutes
Discussion of distinctive competency	20 minutes

Content	Process
A. **Overview of the class**	
This unit is designed to help participants understand the internal and external situation faced by their firm.	
Upon completion of this unit, participants will be able to:	
• complete a systematic analysis of their firms internal strengths and weaknesses and external opportunities and threats.	
• prioritize the critical issues the firm should focus on.	
• recognize their firms distinctive competencies.	
B. **Review Unit 1**	
In the last session I made several important points. Before we continue let's review:	
• The strategic management process includes three fundamental components.	Put up TP 1-2: Basic Elements in the Strategic Management Process
• I stressed the need to define the planning horizon.	Put up TP 1-11: Describe the Planning Horizon
• I strongly recommended that the business owner focus the planning effort on life threatening situations if they exist.	Put up TP 1-17: Illustrate "Life-threatening Situations"
• I outlined the steps involved in getting organized to plan.	Put up TP 1-18: Get Organized to Plan

Content	Process
C. **How to develop a strategic plan? (cont.)**	
Step 2: Take Stock - Do a Situation Analysis	Put up TP 2-1: Take Stock of Where You Are
At the first meeting of the planning team briefly review the history of the firm and the current situation. Ask one person to take good notes. This information will be helpful when it's time to draft the plan.	
Second, review the firms existing mission statement. If your firm does not have a written mission statement, this should be considered as an administrative weakness.	
Third, systematically examine the **internal (S) strengths and (W) weaknesses** of your firm by functional area, i.e., administration, marketing, finance, personnel, manufacturing/operations and by strategic business unit (SBU) of the firm.	Put up TP 1-19b: Strategic Planning Process - Step 2 Put up TP 1-19c: Strategic Planning Process - Step 3 Put up TP 2.2: Internal Analysis Grid
Discuss the need for preparing a summary report.	Put up TP 1-19d: Strategic Planning Process - Step 4
Fourth, systematically examine the **external (O) opportunities and (T) threats** facing your firm. Here you should examine your competition, the needs in your market area, trends in the industry, the impact of the economy, changing demographic factors, technological developments, etc.	Put up TP 1-19e: Strategic Planning Process - Step 5 Put up TP 2-3: Key Environmental Variables Put up TP 2-4: Scanning the External Environment Imaginary SWOT Analysis — Provide the participants with HO 2-1 which presents an example of SWOT ANALYSIS based on Imaginary Corporation

Content	Process
Finally, distill a list of **critical issues for the future.**	
After completing the SWOT analysis, the planning team should go back over the list and prioritize major issues the firm should address in the plan. This is an important step, in that the firm must keep its eye on the most critical issues.	
Note the need to prepare a summary report.	Put up TP 1-19f: Strategic Planning Process - Step 6
	Run Exercise — Complete and discuss management audit in class.
Note: In order for participants to better understand and be able to do the SWOT analysis, it is advisable to have them complete and discuss the management audit in class.	Step 1: Handout the management audit (HO 2-2). Briefly describe how the instrument works. Step 2: Give each student 10 minutes to complete the instrument. Step 3: After completing the document, get their reaction to what they have learned as a result of this exercise. Systematically ask each participant to respond. Step 4: Give them a clean copy of the instrument to take back to their firm. Remind them that they may want to ask other planning team members to complete the instrument also.
Review Worksheet #2	Handout Worksheet #2: Situation Analysis (HO 2-3)
	Provide the participants with readings on internal analysis (HO 2-5) and on recognizing distinctive competencies and competitive weaknesses (HO 2-6).

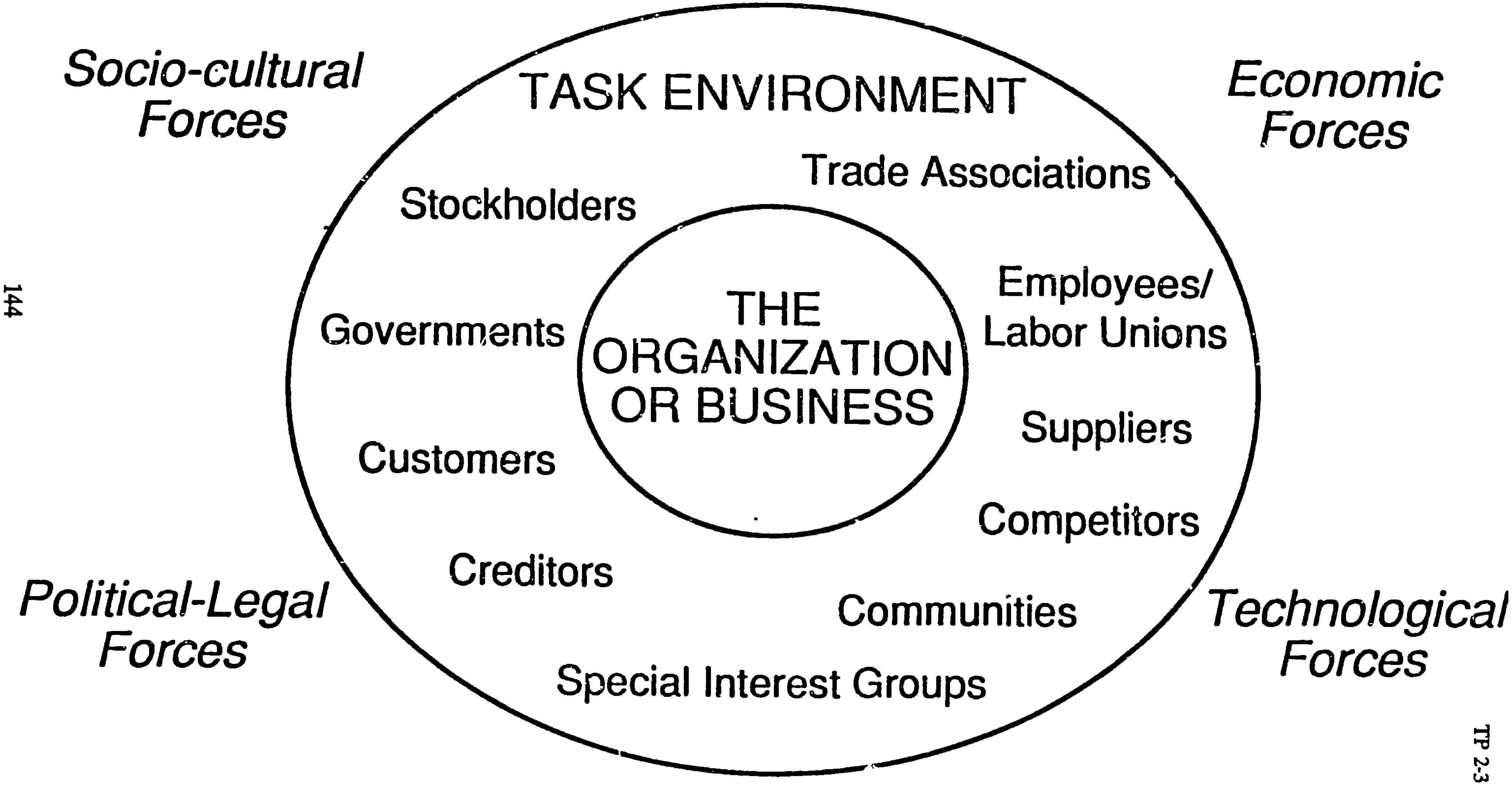

Step 2
TAKE STOCK OF WHERE YOU ARE
(Situation Analysis)
• Briefly review the history and present situation
• Review the Mission
• Analyze the external opportunities and threats
• Analyze the internal strengths and weaknesses
• Prioritize critical issues for the future

INTERNAL ANALYSIS GRID

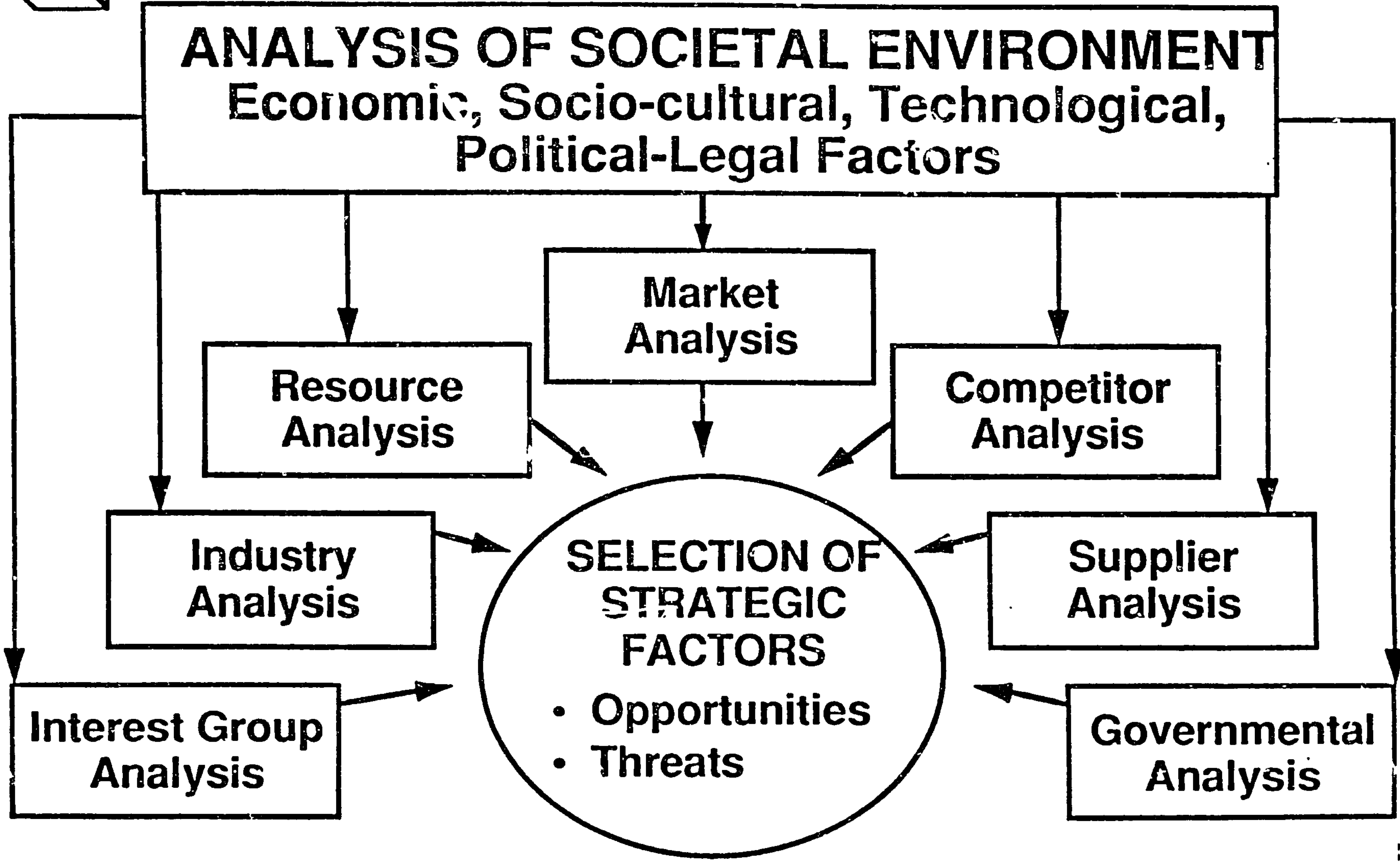
Internal Source	Strong Weakness	Slight Weakness	Neutral	Slight Strength	Strong Strength
FINANCIAL					
Overall Performance					
Ability to Raise Capital					
Working Capital Position					
MARKETING					
Market Performance					
Knowledge					
Product					
Advertising/Promotion					
Price					
Distribution					
ORGANIZATION AND TECHNOLOGY					
Location					
Production Facilities					
Access to Suppliers					
Inventory Control					
Quality Control					
Organization Structure					
Rules, Policies, and Procedures					
Company Image					
HUMAN					
Number of Employees					
Relevancy of Skills					
Morale					
Compensation Package					

Key Environmental Variables

SOCIETAL ENVIRONMENT



Scanning the External Environment



IMAGINARY CORPORATION
DRAFT MISSION AND BACKGROUND STATEMENT

Background Statement

Imaginary is the exclusive public sector manufacturers representative for Interpak, Ltd. in Camden, New Jersey.

Interpakmanufacturers high quality, biodegradable liquid soap products and a state-of-the-art dispensing system called PressPak.

Imaginary has linked Interpak with rehabilitation facilities and/or correctional industries programs in eight different states, i.e., Illinois, Ohio, New York, New Jersey, West Virginia, Florida, Maryland, and Oregon. In 6 of the 7 states an "exclusive" public sector contract has been approved by the respective states.

Mission Statement

The mission of Imaginary Corporation is to create economic benefits for its stockholders, and employment opportunities for people with disabilities throughout the United States.

In order to achieve its mission Imaginary serves as a manufacturers representative for manufacturers in the janitorial and chemical supply industries.

Imaginary links manufacturers with local rehabilitation facilities and when necessary state correctional industry programs who provide . . .

. . . value added production services to "work in process";

. . . and, more importantly long-term access to state and local government markets through state use set-aside contracts.

Imaginary Corporation
SWOT Analysis

INTERNAL ANALYSIS

Administration

Strengths

1. Solid management team
2. Good office space
3. Good working relationship between shareholders
4. Contractual relationship in place with Interpak
5. Complete file system in place with each state
6. Excellent use of technology

Weaknesses

1. No buy/sell agreement between shareholders
2. Management team spread to thin
3. Inadequate record keeping system
4. Inadequate strategic plan

Business/Finance

Strengths

1. Solid accounting and budgeting system
2. Solid accounting staff person
3. Good understanding of cost structure
4. Adequate insurance
5. Good banking relationship
6. No debt
7. Low bad debt ratio

Weaknesses

1. Poor cash flow
2. No established loan record with the bank
3. Undercapitalized
4. Low profitability
5. Accounting staff spread to thin
6. Accounting software not being utilized

INTERNAL ANALYSIS

Personnel

Strengths

1. Staff have good understanding of industry dynamics
2. One excellent sales rep.
3. One staff person with established relationships with leadership of the "set aside" industry
4. One part time support staff with excellent office support skills

Weaknesses

1. Dramatically understaffed in the sales area
2. Limited support staff
3. No job descriptions
4. Limited fringe benefits
5. Inadequate compensation plan
6. Accounting staff unable to generate reports on a timely basis

Marketing

Strengths

1. Good understanding of the handsoap market and the rehabilitation industry
2. Competitive pricing
3. Generally solid back up from the manufacturer
4. Focus on one product
5. Central location
6. Support materials are in place
7. Target market is well defined
8. Product is proprietary in nature (with patents)
9. Program well known in the rehab. industry

Weaknesses

1. Poor coordination between public and private sector sales representatives
2. Inadequate public sector sales force
3. Lack of understanding by the manufacturer of the real opportunity
4. No national publicity has been generated for the program
5. Limited travel budget
6. Manufacturer is "wishy washy" on public vs. private sectors
7. Historic problems with former sales rep.

INTERNAL ANALYSIS

Marketing (continued)

Strengths

10. Truly a public/private partnership
11. Takes on characteristics of a monopoly

Weaknesses

8. No promotions budget
9. Deteriorating relationship in Illinois
10. No national newsletter

Product

Strengths

1. State of the art product-razor/razor blade
2. Key lock positions
3. High quality biodegradable soaps and concentrate
4. Well received in the health care industry

Weaknesses

1. Concentrate has separated when shipped across country
2. Soap dispenser will fall off the wall when not properly installed
3. Soap formulations keep changing
4. Quality control problems with the manufacturer

EXTERNAL ANALYSIS

Opportunities

1. Expanded relationship with State Use Division of NARF

2. Expanded relationship with Prison industries

3. Expanded relationship with Blind Industries

4. Market penetration in existing states

   Illinois, Florida, Ohio, Maryland, Oregon, New York, New Jersey, West & Virginia

5. Large number of targeted trade shows in set-aside industry

6. Growing number of set-aside laws being passed

7. Opportunities at county and local government levels

8. Market development in new states

   Pennsylvania, Washington, virginia, Indiana, California, Oklahoma, New Mexico, Wisconsin, Michigan & Georgia

Threats

1. Correctional Industries has a stronger law than handicapped or blind

2. Recession is impacting state economies and budgets

3. Unfair competition of nonprofit with small businesses

4. Negative perceptions of set-aside programs

5. Rising travel costs

6. Poor management team at Interpak

7. Lack of a clear strategic focus on the part of Interpak

8. Poor working relationship between the President of interpak and head of the CNA in New Jersey

9. Poor working relationship between 2 Interpak sales representatives in the private sector

10. Interpak law suit

EXTERNAL ANALYSIS

Opportunities

9. National publicity for a model public/private partnership

10. Opportunity for Interpak to be perceived as a model corporate citizen

11. Integrated marketing efforts between the public and private sectors

12. Interpak being purchased by a competitor

PRIORITY STRATEGIC ISSUES

Internal Analysis

Administration

No buy/sell agreement between shareholders (W)
Management team spread to thin (W)

Business/Finance

Poor cash flow (W)
No loan record with the bank (W)
Undercapitalized (W)
Low profitability (W)
Accounting Software not being utilized (W)

Personnel

One excellent sales representative (S)
One staff member with established relationships with state-use leadership (S)

Sales function is dramatically understaffed (W)

Marketing

Target market is well defined (S)
Program is well known within the rehabilitation industry (S)

Poor coordination between public and private sector sales representatives (W)
Inadequate sales force (W)
Manufacturer lacks understanding of the **real** opportunity (W)
No national publicity has been generated (W)
No promotional budget (W)
Deteriorating relationship in Illinois (W)
No national newsletter (W)

External Analysis

Expanded relationship with Blind Industries (O)

Market penetration (O)

Market development (O)

National Publicity for Interpak (O)

Integrated marketing public/private marketing strategy (O)

Poor management team at Interpak (T)

No clear strategic focus at Interpak (T)

Poor relationship between 2 Interpak sales representatives (T)

Figure 6.1
Management Audit

By: ______________________ Date: ______________

Based upon my analysis of the business, I believe that the operation is being run satisfactorily in the area of:

	Yes	No
I. Sales and Marketing		
A. Pricing		
Are prices in line with current industry practice?	____	____
Is your pricing policy based on your cost structure?	____	____
Have you conducted price sensitivity studies?	____	____
B. Market research		
Have you identified target markets?	____	____
Do you segment your markets?	____	____
Have you identified customer wants/needs?	____	____
Do you know how your markets perceive your products/services?	____	____
Has your business taken advantage of market potential?	____	____
Has the competition been analyzed?	____	____
C. Personal selling		
Are your sales practices satisfactory?	____	____
D. Customer service		
Is customer service a priority?	____	____
Is there a rational balance between serving your customers' needs and good business practice?	____	____
E. Advertising and public relations		
Do you select media for measurable results?	____	____
Is your advertising consistent?	____	____
Does your advertising budget make sense in terms of the level of business and its anticipated, planned growth?	____	____
F. Sales management		
Are salespersons and outside agents properly directed in their duties?	____	____
Do you establish individual sales goals?	____	____
Do you provide adequate sales support?	____	____
Are your salespersons trained?	____	____
G. Market planning		
Do you have a marketing budget?	____	____
Do you have a market plan?	____	____
Has your business taken advantage of market opportunities?	____	____
II. Business Operations		
A. Purchasing		
Are reputable, competitive vendors used?	____	____
Do you have a purchasing program?	____	____

continued on next page

Figure 6.1
Management Audit *continued from previous page*

	Yes	No
B. Inventory control		
Do you know what your inventory turnover is?	______	______
Is slow-moving stock managed?	______	______
Have you established rational reordering policies?	______	______
C. Scheduling		
Do goods and materials move through the business without tie-ups and problems?	______	______
Do you know how long each job should take?	______	______
D. Quality control		
Are inferior incoming materials returned to vendors?	______	______
Are reject rates minimized?	______	______
Do you have a "do-it-right-the-first-time" policy?	______	______
E. Business growth		
Has your business grown at least above the rate of inflation?	______	______
Have you met your asset growth, sales, and profit goals?	______	______
F. Site location		
Do you have the right business location?	______	______
G. Insurance		
Do you have an annual insurance review?	______	______
Are the proper risks to your business (and to yourself) covered?	______	______
Do you put your insurance package out to bid every year?	______	______
III. Financial		
A. Bookkeeping and accounting		
Are your books adequate?	______	______
Are records easy to come by?	______	______
Can you get information when you need it?	______	______
Do you have monthly Profit and Loss (Income) Statements?	______	______
Do you have annual financial statements?	______	______
B. Budgeting		
Do you use a cash flow budget?	______	______
Do you use deviation analysis monthly?	______	______
Are capital equipment purchases budgeted?	______	______
C. Cost control		
Are cost items managed?	______	______
Are high cost items treated separately?	______	______
Is the budget used as the primary cost control tool?	______	______
D. Raising money		
Have you been successful in raising capital when it was needed?	______	______

continued on next page

Figure 6.1
Management Audit *continued from previous page*

	Yes	No
E. Credit and collection		
Do you know your C&C costs?	______	______
Is your current policy successful?	______	______
Do you review C&C policies regularly?	______	______
Do you have a receivables management policy?	______	______
F. Dealing with banks		
Is your relationship with your lead banker open and friendly?	______	______
Do you have access to more than one source of financing?	______	______
G. Cost of money		
Do you compare the cost of money (interest, points) with your profit ratios?	______	______
Are interest rates and loan conditions appropriate?	______	______
H. Specific tools		
Do you know and use:		
1) Break-even analysis?	______	______
2) Cash flow projections and analysis?	______	______
3) Monthly Profit and Loss (Income) Statements?	______	______
4) Balance sheets?	______	______
5) Ratio analysis?	______	______
6) Industry operating ratios?	______	______
7) Tax planning?	______	______
IV. Personnel		
A. Hiring		
Has the right mix of people been hired?	______	______
Do you hire from a pool of qualified applicants?	______	______
Do you maintain a file of qualified applicants?	______	______
B. Training		
Are your employees suitably trained for their jobs?	______	______
C. Motivating		
Do your employees appear to enjoy what they are doing?	______	______
D. Enforcing policies		
Does there seem to be logic and order to what goes on in the business?	______	______
Are reviews and evaluations performed on schedule?	______	______
E. Communicating		
Are people informed and brought in on decisions?	______	______
Do you create opportunities for employees to set their own goals?	______	______

continued on next page

Figure 6.1
Management Audit *continued from previous page*

	Yes	No
V. Administrative Management		
A. Record keeping		
Are records of past transactions and events easy to find?	________	________
Are records retained for at least the minimum legal time period?	________	________
Is access to personnel files limited?	________	________
B. Problem solving		
Are there few unresolved problems?	________	________
C. Decision making		
Are you decisive?	________	________
Is there a chain of command?	________	________
D. Government regulations		
Are you aware of local, state, and federal regulations that affect your business?	________	________
E. Leadership		
Do you actually take charge of the business and its employees?	________	________
F. Developing subordinates		
If you were to die or suddenly become disabled, is there a ready successor?	________	________
G. Business law		
Do you have a working knowledge of applicable business law regarding contracts, agency, Uniform Commercial Code, and so on?	________	________
Do you know how current contracts and other legal obligations affect your business?	________	________
H. Dealing with professionals		
Do you have and use an accountant, attorney, and business consultant?	________	________
Do you use outside advisors?	________	________

Figure 6.2
Good Management Scorecard

	Yes	No
I. We operate with a complete and up-to-date business plan which includes:		
A. One-year and three-year projections	______	______
B. A capital budget	______	______
II. We operate with an annual marketing plan which includes:		
A. Specific sales and profit goals, and timetables	______	______
B. Strategies and tactics for the next three years	______	______
C. Budgets, forecasts, and benchmarks	______	______
D. A sales plan	______	______
Our marketing plan also includes:		
E. The demographics of our target markets	______	______
F. A thoughtful definition of the markets we serve	______	______
G. A definition of the needs/wants our products and services fill	______	______
H. An analysis of the growth potential of our markets	______	______
I. A competitive analysis	______	______
J. A definition of our "Unique Selling Proposition"	______	______
K. Projections for other products or services that could be developed	______	______
L. Timetables for research and development	______	______
III. We use monthly budgets and statements which include:		
A. Thorough and up-to-date records	______	______
B. Cash flow budget	______	______
C. Profit and Loss (Income) Statement	______	______
D. Balance sheet	______	______
E. Deviation analysis	______	______
F. Ratio analysis	______	______
G. Standard cost comparisons	______	______
H. Cash reconciliation	______	______
IV. We have developed an information base that allows us to:		
A. Keep track of new developments in the industry	______	______
B. Obtain and study key trade information	______	______
C. Understand what "state of the art" means in this business	______	______
D. Provide customers with the best available information pertaining to our products and services	______	______
E. Keep all our employees adequately informed	______	______
V. I'm certain that the business is properly capitalized since I:		
A. Base capitalization on worst-case planning	______	______
B. Have emergency funds (or access to them)	______	______
C. Have discussed this with my banker	______	______
VI. I understand the value of the business because I've made use of:		
A. Professional appraisers	______	______
B. Present-value methods to evaluate terms	______	______
C. Professional tax planning counsel	______	______
D. Accurate, timely financial information	______	______

Figure 6.2
Good Management Scorecard *continued from previous page*

	Yes	No
VII. We strive to improve production, quality, and operations by:		
A. Keeping the plant in top condition	________	________
B. Maintaining safe conditions	________	________
C. Establishing high standards	________	________
D. Standing behind our products/services	________	________
E. Not tolerating shoddy performance	________	________
F. Working for consistency	________	________
G. Using our company's "look" as a statement to our markets	________	________
VIII. Our personnel decisions are based on humane, carefully considered policies which include:		
A. Checklists to make sure objectives are clear	________	________
B. Communication to make sure objectives are understood	________	________
C. Written job descriptions	________	________
D. Regular progress and performance evaluations	________	________
E. Fair hiring practices	________	________
F. Fair wage scales	________	________
IX As for my own managerial skills, I work hard to:		
A. Develop my problem-solving abilities	________	________
B. Always stay calm	________	________
C. Be objective	________	________
D. Avoid investments in my own ego	________	________
E. Listen to my employees	________	________
F. Plan changes in our course to minimize negative effects	________	________
G. Make decisions promptly	________	________
H. Always get the facts behind problems	________	________
I. Accept my own limitations	________	________
J. Delegate tasks that can be done more efficiently by someone else	________	________
K. Analyze all available options	________	________
L. Develop my reading/study habits	________	________
M. Improve my skills	________	________
N. Consider and evaluate risks	________	________
O. Be positive with customers, employees, and associates	________	________

Worksheet #2: Situation Analysis

HISTORY AND PRESENT SITUATION

A. Utilize this worksheet as the beginning point for writing the "Executive Summary" component of your strategic plan. Please refer to the "Recommended CBA Strategic Plan Outline".

1) Briefly review your company's background.

2) Briefly describe the products or services that you currently offer.

3) Briefly describe the market segments served.

4) Briefly describe your distinctive competencies.

B. Use the next portion of Worksheet #2 to help complete the "Situation Analysis" section of your plan. Please refer to the "Recommended CBA Strategic Plan Outline".

5) Briefly review your company's current situation.

6) List any historical issues or trends that will need your attention as you plan for the future.

7) List the major strengths and weaknesses of your company by functional area and by SBU of the business.

   Note: Photocopy this worksheet and complete for each function/SBU.

Check the appropriate box:

- ☐ Administration
- ☐ Business/Finance
- ☐ Personnel or HRM
- ☐ Operations or Manufacturing
- ☐ Marketing & Sales
- ☐ Product Line/Services (SBU) (Specify) ____________________

INTERNAL ANALYSIS

Strengths	Weaknesses
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
6.	6.
7.	7.
8.	8.
9.	9.
10.	10.

8) List the primary opportunities and threats facing your company overall and by SBU.

   Note: Photocopy this worksheet and complete for the entire company and by SBU.

Check the appropriate box:

☐ Overall Business
☐ Product Line/Service (SBU) (Specify) ______________________

INTERNAL ANALYSIS

Opportunities	**Threats**
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
6.	6.
7.	7.
8.	8.
9.	9.
10.	10.

1
Environmental Analysis

Objectives

After reading this chapter you should understand:

1. What is meant by envi onmental analysis
2. The major types of external information available
3. How to determine which factors should be monitored carefully and which should be only casually assessed
4. What an ETOP is
5. How to collect and analyze data
6. Sources of external information

THE VALUE OF ENVIRONMENTAL ANALYSIS

"Coping with the constantly changing environment is probably the most important determinant of a company's success or failure in a free-enterprise system."[1] Although most businesses—large and small—will agree with this statement, small businesses must be particularly sensitive to environmental influences. There are two important reasons why this is so.

First, the small firm's responsiveness to environmental issues may be a source of considerable competitive strength. The small business can stay closer to the consumer, holding a monitoring thumb on the pulse of its target consumers. By virtue of its size, the small firm can move with speed, flexibility, and sensitivity when shifts in customer desire and preference arise. Larger, more structured, and hierarchically-bound organizations may be unable to alter quickly their direction or focus. Consequently, the small business may be able to etch out a competitive edge against the large firms.

Second, size also renders small businesses particularly vulnerable to environmental influences. They can ill-afford to misread the environment. Although one mistake, one misreading of a critical environmental trend may adversely affect a large firm, such errors can be readily absorbed into the breadth of its total operations. However, a mistake of similar magnitude may destroy a small business. Rare is the small business whose resources are sufficient to withstand such mistakes. In short, the small company may be significantly impacted by environmental upheavals that larger firms can easily navigate and weather.

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1. Alan J. Rowe, Richard O. Mason, and Karl E. Dickel, *Strategic Management and Business Policy: A Methodological Approach.* (Reading, Massachusetts: Addison-Wesley Publishing Company, 1982), 57.

Certainly, managers of small businesses wish to realize and capitalize on the opportunities and benefits of size and to protect themselves from the critical influence of rapidly materializing environmental threats and obstacles. Therefore, a careful and accurate determination of key environmental influences and changes is essential. A thorough environmental analysis creates the difference between a proactive and reactive business.

THE PROACTIVE BUSINESS

One of the themes noted and built upon throughout this book is that planning is a proactive activity. Simply stated, a **proactive business** looks to the future, anticipating and planning for changes. One reason for emphasizing environmental analysis so strongly is that it helps the business develop a proactive rather than reactive basis or style of management. The proactive manager sees opportunities on the horizon and positions the business to benefit from them. Proactive managers also recognize impending threats and take decisive actions to overcome or mitigate these before disaster strikes. A reactive business, however, is driven by day-to-day demands. Here, events occur and the firm responds. This reactive business is always undergoing an unanticipated trauma. As such, crisis management is the evolving style of operation, and putting out the largest fire is the focus of activities. In all likelihood, the business that fails to continually recognize and analyze its environment will become the victim of changes and forces within that environment. The literature on small business failures is wrought with these examples.

To recognize the impact of environmental analysis and the importance of proactivity, consider the case of Minnetonka, Inc. in Capsule 1-1. One can see that Taylor's success, at least in part, is derived from carefully assessing his environment, analyzing unmet consumer needs, capitalizing on these opportunities, and constantly being poised to modify and change direction in light of environmental (competitive) influences. Taylor is proacting and, as such, is succeeding in industries dominated by giant international firms.

Capsule 1-1 **Minnetonka, Inc.**

Minnetonka, Inc. is a classic story of entrepreneurial zeal and astute environmental awareness. Robert Taylor, an enterprising young entrepreneur sought to enter the highly lucrative, yet competively saturated, soap manufacturing business. Successful, new products seemed highly unlikely given the size, experience, and public awareness of his competitors companies like Proctor & Gamble, Armour-Dial, Lever Brothers, and Colgate-Palmolive. Yet, Taylor recognized an untapped niche within the industry and felt that liquid soap dispensed from a plastic container with a pump possessed significant advantages over traditional bar soap. Thus, Minnetonka's Softsoap was born. The success of Softsoap was nothing short of fantastic. In its introductory year (1980), Softsoap sales soared to thirty-five million dollars. Major competitors, who initially dismissed Softsoap as a short-lived fad, soon recognized the potential to be gleaned from this innovation. To his credit, Taylor was not blinded by success. In fact, his foresight was as strong as ever. Rather then rest on his laurels, Taylor reasoned that his success placed him in a most precarious position. His business had grown by carefully positioning Softsoap to appeal to consumer needs and to avoid head-on, direct competition with the soap industry giants. Yet, he knew that eventually his admirable profit picture would lure larger firms into the softsoap market, thereby establishing a direct competitive base. He reasoned that Minnetonka could not withstand such competition. So, before this competitive threat eventuated, Taylor was planning his next move—the Showermate—a new product aimed at a new niche. He realized that if this proved successful, he again would be inundated by competition so back to the drawing board. The result was a new product—a placque-fighting toothpaste in a pump called Check-Up. Minnetonka was again positioning itself in a major industry, but avoiding direct competitive threats.

WHAT IS ENVIRONMENTAL ANALYSIS?

The business' environment establishes the context within which the firm functions. A business' environment isis comprised of a set of factors (conditions and forces) that affect the business and impact its performance, but are external to and largely beyond its control. When managers perform an external or

environmental analysis, they are engaging in a process of identifying and examining key external factors and assessing and evaluating the impact those factors will likely have on the firm's operations and success. Typically, in environmental analysis, managers concentrate not only on present forces, but attempt to project trends and anticipate changes. As such, environmental analysis is future-oriented. The business seeks to determine what problems and opportunities will likely be created by changes in its external environment.

Environmental analysis zeroes in on a series of environmental variables that are pertinent to the business and its competitive situation. These variables, emphasized to varying degrees, represent influences that most businesses face. There are certain general environmental variables which are typically necessary for analysis regardless of the business or its particular situation. These variables are presented in the following discussion on the nature of the macro environment.

NATURE OF THE MACRO ENVIRONMENT

The **macro environment** refers to environmental variables that are not company specific. These apply to and affect all firms, although their impacts may be felt differently by each firm. Four areas of macro environmental variables need to be considered. These are technological changes, political and legal changes, social and demographic changes, and economic changes.

Technological Changes

First, consider technological changes. Clearly, we live in the midst of a technical revolution. The presence and continued prolifertion of computerized information sources and automation is revolutionizing organizational procedures, activities, and communication. New technical processes are rapidly emerging and changing the nature and focus of organizational action. Key technological changes affecting the business should always be tracked. By following developments reported in trade literature and following reports of advances noted by suppliers or sales representatives the business person may well be aware of these key changes. Failure to monitor and address major technological innovations may adversely affect the firm's competitive position—particularly if competing firms avail themselves of the technical improvements. This does not, of course, mean that every fad or innovation must be accepted. Rather, it does require a careful analysis and systematic consideration of each advance to determine its potential effect on the firm. By doing so, the best and most relevant changes may be exploited. Further, the manager avoids being caught in a position where the customer perceives that the business is technologically backward or inferior in comparison to its competitors. If this occurs, extensive goodwill is lost, as well as a significant number of customers, and the business may be forced to incur substantial expense to bring its technology up-to-date and online.

For example, an insightful, middle-aged man recently started his own graphics design business. He possessed extensive experience in the industry, having been employed by his largest competitor for fourteen years. Through his experience and exposure to the industry and his careful analysis of evolving trends, he concluded that all six firms in his selected target market were using equipment and approaches that were outdated. He felt that his business, by availing itself of the latest technological advances, could offer customers better quality at lower prices—thus, attaining a competitive edge.

Political and Legal Changes

Relevant political and legal changes must be considered. Here, factors such as changes in government policy and regulations, legal developments, and changes in political philosophy may all impact the business. Examples are numerous. Many small businesses were aware of the Export Trading Company Act and recognized its potential effects. Even before passage of the act, these businesses were contemplating and planning the development and restructuring of their firms to avail themselves of the exporting advantages and opportunities that this act offered. Tax laws change, affecting the structure and reporting practices of small business. Political pressures within a particular community or trade area may affect not only the general business climate, but philosophies toward the promotion of small business. These and any number of other political or legal concerns must be addressed.

Local newspapers, Chamber of Commerce reports, trade publications, and general business publications (such as *Business Week* and *The Wall Street Journal*), are important informational sources. By reading about and remaining current on impending developments, the small business person can maintain a reasonably accurate appraisal of political and legal trends, and possess enough information to seek out appropriate professionals who can offer more specific guidance when necessary.

Social and Demographic Changes

Social and demographic factors (such as age and sex distribution), are important, particularly, if they indicate developing trends. Consider the following example. A local restaurant has been experiencing a marked decline in their business and is quite uncertain as to the underlying reasons for this condition. They provide a friendly atmosphere, a fairly broad and diverse menu, and personalized service by friendly waiters and waitresses. They stress and have built their business for years on the home-cooking theme; as an order is placed, the cooks (who are the owners), prepare each entre with that special touch. The business has existed on the same corner for over twenty years and yet recently (over the past five years) the owners have experienced a major decline in clientel. Although many factors may help explain the plight of this firm, demographics and social factors should be emphasized.

The United States is experiencing some critical shifts in the dining-out experience. Much of this shift can be explained by social and demographic changes. First, there are more two-career families which explains the increased need or desire for eating out. However, the attitude and function of dining out has changed. Time is also critical because families seem to want to eat more quickly. They desire less of a dining experience and more of a functional orientation from restaurants. Quick orders are seen as reasonable tradeoffs for limited menus with few or no frills. Apparently, the restaurant has not responded to these needs and therefore, is losing ground to more in-touch competitors.

As another example, consider a running store. Ten years ago the business carried only running shoes and appealed to a target of serious runners. However, changing social values have forced the store to change as more people are running for exercise. It has become an activity that refuses to be bound by sex or age. Further, as running has gained in popularity, so has the consumer demand for running gear, and how-to books. These accessories have become bigger sellers—on a more regular and higher turnover basis—than shoes. By tracking these changes and anticipating their effects, the store was able to expand its original business concept to include these extra and quite profitable items.

One may argue that logically any store concentrating only on running shoes would be forced to change because of consumer demand. That may be true, but it is not the key point. If the shoe store was blind to evolving changes in the industry, and relied solely on running shoes, other entrepreneurs would soon become aware of the gap and enter the market to fill the consumer demand for running accessories. On the other hand, if the shoe store monitors its environment, it can anticipate these changes and modify and expand its offerings. Here, the business mitigates the threat of potential competition and capitalizes on an opportunity for expanding its product line and increasing sales volume.

Economic Changes

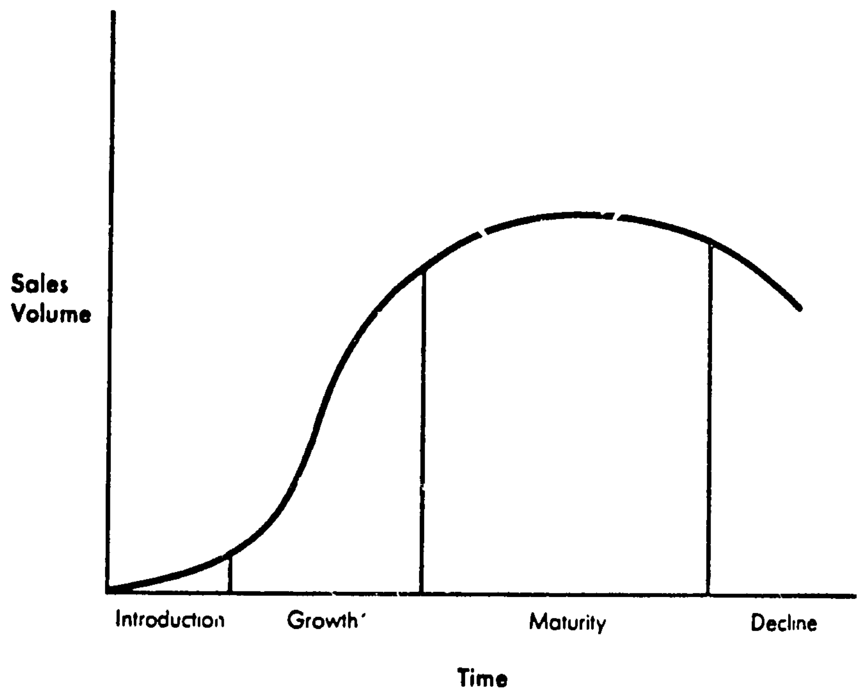
Finally, economic changes must be considered. Economic projections or forecasts are important because of the lag-effects economic factors have on business forces and consumer decisions. Generally, macro economic information (perhaps at the national or state level) is readily available. However, this data may be of little real value to the small business dealing in more isolated and unique markets. Therefore, awareness of economic factors within the relevant target market becomes critical. For example, small businesses are concerned about factors such as movements of or trends in local interest rates, unemployment levels, total sales within the community, tax rates, and availability of capital. Of course, the influence of these factors will vary considerably across firms and industries.

NATURE OF THE INDUSTRY

After the broad economic factors have been considered, the industry should be studied. In order to formulate a reasonably comprehensive yet workable glimpse of the industry and its movements and impact, the small businessperson should focus on two fundamental areas of concern. First, one must gain an appreciation of the nature of the demand for industry products or services. Is industry demand growing, stabilizing, or diminishing? Many factors, including changes in the technological, social and demographic, political, and economic variables of the general environment, may affect this outlook. The relative strength of the industry's demand can be drawn by studying volume and profit trends for the industry. Secondly, a more difficult, but perhaps more relevant concern deals with the stability of demand. The industry may be booming, but is it a fad? Will it continue?

Here, the concept of *product life cycle* may be a useful analytical tool. Typically, as noted in Figure 1-1, products are seen as passing through four specific developmental stages. Awareness of where a product seems to fall on this continuum may critically affect the business since each stage is accompanied by a unique series of opportunities and difficulties. For example, if a company has products which are in the latter stages of the cycle (late maturity or decline), significant future problems may arise. This is particularly true if attractive alternative products

Figure 1-1 **Stages in Product Life Cycle**



are being offered by competitors and the business does not possess a strong market share position. Managers may need to search for new products or reposition the business to deal with this threat.

In addition to knowing the product's position on the life cycle, one must also understand how long it will take the product to move through each stage of the cycle. Products may be approaching maturity, but if this stage is seen as lasting for a lengthy period, the impetus for immediate action is lessened. Similarly, relying too heavily on a product caught in the introduction stage for a long period of time may adversely affect sales. Many factors, most notably the availability of substitutes, will affect the rapidity of movement through the product stages. Misreading of the level and extent of demand can produce harsh consequences, as noted in the Gabler Corporation situation in Capsule 1-2.

Capsule 1–2

Gabler Corporation

Gabler Corporation is one of many air-conditioning and heating companies located in Moline, Illinois. The company has distinguished itself over the last seventeen years as a dependable installer of furnaces and air conditioners.

Lee Gabler, owner of Gabler Corporation, recently developed a strong interest in selling a relatively new energy saving product—an electric vent damper—for furnaces. Although Gabler was attempting to identify a product that would capitalize on the growing popularity of energy conservation, a number of associates questioned whether vent dampers were the answer.

Lee felt vent dampers were a natural since they were add-ons that would complement the furnace business. Furthermore, he argued that vent dampers would result in energy savings of at least twenty percent for buyers. Thus, given their cost, this would make them an attractive option for energy conscious consumers. Lee's associates didn't doubt the energy saving potential of vent dampers. However, they were concerned that customers would have a difficult time understanding the operation and function of these dampers. Product awareness was further confused by the fact that customers couldn't see the damper in operation. The unit geared to the thermostat to open and close, prevents heated air from escaping up the chimney when the furnace is shut off. Critics argued that given its complexity, energy-conscious consumers would opt for more traditional techniques (insulation, storm windows, and wood burning stoves), over the vent damper. Consequently they believed that the dampers would never really catch on, that a definite growing market would be a long time coming, if it arrived at all. Even industry experts agreed, noting that dampers would be in the introductory stage of the life cycle for a number of years. They too were somewhat pessimistic about any meaningful growth ever occurring.

Undaunted, Lee moved aggressively into the vent dampers area. He established a damper division of the corporation, and moved many of the business' resources away from traditional product lines and into the damper division. He committed his personal energies almost exclusively to the sale of vent dampers. Through phone-call introductions and follow-up, in-home demonstrations Lee moved aggressively to educate and convince the public of the tremendous potential that dampers offered. Over a three-month period, Lee made over 400 telephone contacts and handled nearly 250 in-home demonstrations (lasting twenty to thirty minutes each). These demonstrations were followed by phone calls if no sale was made.

> Despite such bold efforts, only six damper units had been sold and installed. Furthermore, there was no indication that the vent damper business would become stronger. At the same time, Lee had clearly neglected the furnace and air-conditioning phases of his business. Installation dates were being missed and orders were behind schedule. Some customers had become upset and had cancelled their orders. The furnace and air-conditioning lines were experiencing their worse financial quarter in the company's seventeen-year history.

In addition to these industry demand considerations, the nature of industry supply must also be addressed. If demand is strong and supply is limited, businesses can take risks and exercise considerable flexibility. However, as supply increases relative to demand, efficiency of operations and control of costs become critical. Small firms are then likely to be adversely affected or driven out of markets. From a supply side, management must consider the entry and resultant impact of new competition in the industry. Who are these competitors? How will they affect or modify the existing structure and balance of the industry? Most notable from the supply perspective is the condition where an industry, dominated by small independents, is modified by the entry of large, national chains or franchises. Here, the independents must recognize that the entire nature of industry composition has been radically affected and make necessary adjustments.

NATURE OF THE TASK ENVIRONMENT

The task environment is comprised of those external areas with which the business has the most direct and regular contact. For the small business, four components of the task environment, customers, suppliers, sources of funds, and competition, should be addressed.

Trade Area and Target Markets

A starting point in understanding the customer is to carefully recognize the **trade area**. The trade area represents the geo-

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graphic area or boundaries from which customers are drawn. It is based on the size of the business and its management's capabilities. A business owner should regularly assess it's scope and nature of the trade area. For example, changes in population size and composition, the distribution of wealth, shifts in competition within the area, and changes (either increases or decreases) in the business' capacity may necessitate a restructuring of the trade area.

Within the trade area, the key focus of concern is on the **target market.** The target market is that specific set of individuals within the trade area that the business chooses to attract as its primary consumers. A clear recognition of the needs, concerns, and make-up of this group is critical, as marketing, promotion, and general sales efforts are designed to appeal to and address the special concerns of this group. It must be remembered that products and services are not ends in and of themselves. Many small business owners forget this, and become so enamored with their products or services that they fail to understand or to see the customer's perspective. Products or services regardless of how brilliantly conceived or developed will only be successful if they provide satisfaction or meet some consumer need. Shifts in consumer tastes and preferences must be constantly monitored. Understanding the demographic and social make-up of the target market, specifically the sex, age, marital status, income, occupation, and lifestyle of consumers aids the owner in identification of their needs and concerns. Shifts in target markets, often offer new opportunities for the business.

Suppliers

It is important to keep abreast of suppliers and the factors affecting their success. A manager must consider the firm's relationship to the suppliers in light of two factors—*dependency* and *vulnerability*. Each business will differ, often considerably, in terms of these two factors. Dependency refers to the extent to which a business depends on or requires extensive raw materials or pre-assembly inputs provided by suppliers. Some businesses are fairly self-contained and self-supporting, thereby exhibiting little dependency for raw materials whereas others are almost totally dependent on their suppliers. Vulnerability refers to the extent to which the business would be affected by breakdowns in the supply network. The vulnerability of a business is determined by the number of competing suppliers who could provide input items for the business, and the track record of these suppliers. In general, if fewer sources of supply exist, the business is more vulnerable to the arbitrary actions of the suppliers.

Sometimes the dependency and vulnerability issues surface over key customers rather then key suppliers. If, for example, a small business is a captive supplier of a larger firm—that is, it sells nearly all of its product to one customer—then it is extremely vulnerable when the larger firm encounters a strike or significant downturn. In most cases the larger firm survives the trauma, but the smaller, dependent firm cannot.

In considering high dependency and/or vulnerability, it is critical to be aware of forces that may affect the availability of raw materials as well as their price and delivery schedule. For example, a small company sold fine chocolate candies. Through astute marketing to local businesses, restaurants, and hotels they had established an extensive demand for the candies.

The profitability of the firm, and indeed its survival, was threatened by the fact that the firm had entered into an exclusive contract with a single supplier. This supplier was a small, fledgling operation located nearly 500 miles from the store. It was one of the few suppliers that took an interest in the company. Unfortunately, as the candy store's reputation grew and demand expanded, its supplier was unable to provide the needed candies. Extensive backlogs existed and customers, quite understandably, became frustrated. Before the candy store was able to sever its relationship with its supplier and search out larger, more consistent sources, customer confidence had eroded to the point that the business was doomed. Again, careful analysis of the supplier, its capacity and ability to deliver, coupled with the firm's own projections of demand, should have enabled the candy store to recognize this threat early enough to circumvent and prevent this disastrous outcome. Again, proacting is the key rather then reacting.

Sources and Cost of Capital

One of the key issues every small business faces is financing. Questions of where and how the business will secure the funds necessary for its operations are often perplexing. Yet, the answers may spell the difference between success and failure. Rare is the small businessperson who possesses sufficient financial resources to personally fund the range of needs the business will encounter. Therefore, outside sources must be used. Two fundamental concerns should be addressed.

First, it is important to identify the *sources of capital* available to the business. These may come from fairly informal contacts such as loans from friends or family or from more formally established institutional bases such as commercial banks, the Small Business Administration, venture capitalists, or suppliers' credit. This, of course, is by no means an exhaustive list. Table 1–1 offers some additional sources that may be considered.

Recognizing sources of capital is only the first step. Next, it is necessary to identify and clearly understand the *cost of capital.* The small business owner has to decide whether the financial cost of securing the capital is worth the gains that will accrue from the application of the capital. Cost of capital is not limited to purely financial terms. Some of the sources of capital, noted in Table 1–1, impose definite restrictions on the business, affect the business' flexibility, and alter the owner's degree of control. These costs must be realized and balanced as one considers each source of funds.

Competition

One of the most critical parts of the environmental analysis deals with competitive assessment. In many regards, the competition is the most visible, commonly perceived threat the firm

Table 1–1 **Sources of Capital**

1. Personal Savings
2. Friends and Family
3. Manufacturers or Suppliers
4. Commercial Banks
5. Small Business Administration
6. Leasing Companies
7. Finance Companies
8. Small Business Investment Companies
9. Business Development Corporations
10. Partnership
11. Venture Capital
12. Stock Offering

faces. Initially, managers should determine the number and market share of competing firms in the trade area. Although precise determinations of market share may not be possible, some general understanding of market share is likely. It is important to assess the strengths, weaknesses, and unique competencies of competitors, in addition to strategies they seem likely to utilize in the future. One of the best ways to assess competitors and relate their strengths and weaknesses to one's own firm is to use a *competitive profile analysis*. This analysis indicates the key factors that affect the firm's success and provides a comparison of the competing firms to one's own on each of the factors. The factors chosen for consideration may vary, yet the fifteen factors listed in Table 1–2 typically need to be considered. The comparison or rating does not need to be extensive or particularly sophisticated, but it is important to provide a relative assessment. This profile analysis provides a

Table 1–2 Competitive Profile Analysis

Business / Competitive Factor	Company A	Company B	Company C	Your Company
Product Uniqueness				
Relative Product Quality				
Price				
Service				
Availability/ Convenience				
Reputation/Image				
Location				
Advertising & Promotional Policies/Effectiveness				
Product Design				
Caliber of Personnel				
Raw Material Cost				
Financial Condition				
Production Capabilities				
R & D Position				
Variety/Selection				

clear snapshot of where each firm stands in terms of the fifteen factors. Such an awareness allows managers to recognize threats and opportunities and thereby, pursue actions to deal with them.

PERFORMING THE ENVIRONMENTAL ANALYSIS

Previous sections have discussed factors that should be included in a firms external analysis. Attention now turns to the actual analysis itself.

Environmental Threats and Opportunities Profile

The *environmental threats* and *opportunities profile* (ETOP) can be an easily used and a very beneficial tool for the small business owner. Here, one looks at the firm's environment for the purpose of identifying significant threats and opportunities. As used here, a *threat* is any factor that may limit, restrict, or impede the business in the pursuit of its goals. A range of factors may need to be considered. The presence of strong competition, changing public attitude toward the firm's products, an adverse economic climate, or the bankruptcy of a key supplier are all examples of environmental factors that may pose threats for the business.

On the other hand, an *opportunity* is any factor that offers promise or potential for moving closer or more quickly toward the firm's goals. New high growth markets, unmet or changing customer demands, the development of new products to complement existing lines, or a general upsurge in the local economy may all produce genuine opportunities for the business. More will be added on the use of ETOP in a subsequent portion of this section.

Deciding What to Consider

First, one must decide which environmental factors to track. For most small businesses, it is totally unrealistic to believe that all the external factors that may have some influence on the firm can be studied constantly. There is neither the time nor the resources to do so. Moreover, much environmental information is extraneous to a particular situation and therefore, has negligible effects on the business. Managers must select the specific environmental factors that have the most critical impact on their firms. These become the factors to track, study, and analyze. Although certain general matters may be commonly felt by all firms, each company's managers will concentrate on the key environmental factors peculiar to its situation.

Consider the following example. All small firms are affected by the economic situation of their particular community or trade area. However, the *need* to track and monitor specific economic changes differs greatly from business to business. A local variety store owner may see that the store's success is affected by interest rates and unemployment. However, because the bulk of the store's sales come from low-price, high-turnover items, shifts in interest rates and unemployment do not visibly impact the store's sales. In comparison, a small woodworking business that specializes in building kitchen cabinets encounters a different situation. It's sales represent investments by consumers in their homes. Kitchen cabinets are expensive, and may be considered a luxury that consumers might postpone if economic times are tough. Historically, the firm's management knows that as interest and unemployment rates climb, consumers are less likely to consider purchasing new kitchen cabinets. Therefore, in developing their environmental analysis, these managers closely monitor interest rates and unemployment shifts as indicators of their level of business activity.

Historical Approach

The question remains, how does one know which environmental factors to track? How can one be sure which external factors are most important to the business both today and in the near-term future? One way to make this determination is to rely on historical trends. A careful examination of the past may signify the external environmental factors that have most critically affected the business and that are relevant for future consideration. There is considerable merit and value to this approach.

However, two problems exist with the use of and dependence on historical evidence. First, this historical data may not be available because variables may not have been monitored carefully in the past. Secondly, historical evidence may not be relevant to the firm's future needs, because contemporary business exists in a rapidly changing, volatile environment.

It may be unrealistic and even dangerous to assume that past trends are indicative of future business conditions. Therefore, forwarding-looking, insightful, proactive thinking may be lost if one adheres totally to historical trends. This does not imply that past records and trends don't provide meaningful and interesting input that should be considered. It does imply that the firm needs to consider more than just historical records. To the extent that it is available and relevant historical information is valuable, but it is the beginning rather than the end of the analysis.

Environmental Brainstorming

In order to identify the key environmental concerns most relevant to a business, managers may periodically engage in a creative exercise of *environmental brainstorming*. Environmental brainstorming is an open, free-wheeling discussion session that zeroes in on the dynamics of a firm's particular environment. These sessions not only provide rich input from employees, but are also an excellent vehicle for communication. Moreover, because the needs and direction of the business often are discussed during these sessions they are positive motivators for employees. They foster understanding and commitment from key personnel in the business.

Questions about how often such meetings should be held, who should attend, and how long they should last are most difficult to define. However, some guidelines may be suggested. The timing of these brainstorming sessions is largely dictated by the rate of change presently taking place in the industry.

Managers of businesses that exist in a fairly stable industry with few contemplated changes can afford to meet less often than managers of businesses in a growing or evolving industry. At the least, these sessions should occur annually with managers in industries subject to changing demands, technology and competition meeting more often. Three to four hours should be allotted for such sessions. Once the program is in place, personnel can do the necessary meeting preparation on their own time, thereby minimizing group meeting time. It is important to allow sufficient time for good, creative ideas to surface. In selecting participants for this session, personnel should be included who have key contacts with the environment. For example, top salespeople or marketing people, financial people, those who deal with customers or suppliers, and the board of directors (if there is one), should attend.

Environmental brainstorming can follow a number of directions. However, a fairly structured format is preferred, at least for the initial meeting. It may be started by asking participants to prepare an ETOP. As noted earlier, this approach to ETOP is slightly modified from traditional parlance to make it more relevant to the needs of small businesses. First, each participant lists the key environmental threats and opportunities that they see for the business both currently and for the next year. Reaching conclusions is not important at this stage. The object is to generate ideas and points for thought—wait until later to reflect, analyze, and pare-down the list. Next, everyone should rate the threats and opportunities on their list in terms of each factor's impact or significance to the firm. A detailed rating scheme is not necessary. Asking participants to rate each factor on their list as extremely significant, somewhat significant, or mildly significant will allow the breaking of environmental opportunities and threats into three categories. Similarities among participants' lists should be studied. If everyone lists new competition as a key threat and assigns it the highest priority, then this factor most clearly becomes an area of needed focus. Again, this process takes time, but it forces key personnel to become involved in planning and to generate concepts not found through historical analysis.

After rating each factor, participants should explain their reasoning for the particular rating designation. They need not discuss the similarities in reasoning, but should discuss the differences. For example, it would be necessary to understand why one participant recognizes suppliers as being a critical threat when no one else even lists this factor. Perhaps, this person knows something no one else does or perhaps, they are off base.

Table 1–3 **Steps in Environmental Brainstorming**

Area of Consideration	Explanation
- How often to meet?	- Depends largely on industry - At least annually - More often for rapidly changing, more dynamic industries
- Who should attend?	- Top salespeople - Top marketing people - Top finance people - Those in direct contact with customers - Those in direct contact with suppliers - Board of directors
- Pre-planning?	- All participants bring to the session any data relevant to their areas of expertise
- Meeting dynamics?	- Each participant shares information - Participants prepare and rate ETOP's - ETOP's and rating are shared and discussed - Similarities are noted - Closure on ETOP factors and priorities

This input and ensuing discussion is critical and the process of reporting and discussion may take some time. The final list of threats and opportunities and their ratings, in conjunction with insights gained from historical data, provide the environmental factors the firm will attempt to track. Information on these factors is constantly gathered and monitored. It is important that the business owner realize that environmental analysis is a continuous on-going task. Table 1–3 provides an overview of the steps in the environmental brainstorming process.

Sources of External Information

The small businessperson may secure information necessary for environmental analysis from a number of sources. These may be formal, externally prepared reports as presented in Table 1–4, or informal determinations. Whichever type of source is used, constant awareness, monitoring, and openness to environmental shifts and fluctuations is critical.

Table 1–4 Sources of External Information

Census Data

The Bureau of the Census provides statistics on population, housing, and various industries for a variety of geographical sites ranging from the U.S. overall to cities to census tracts and neighborhoods.

County and City Data Book

Issued annually by the Bureau of the Census, this offers a variety of state and local information.

(Continued)

Statistical Abstract of the United States

General summary of a number of factors, issued annually.

Survey of Buying Power (Sales and Marketing Management Magazine)

Provides more specifics relating to the local area.

Chamber of Commerce

Often have quite valuable information and insights into local situations.

Trade Association Reports (Encyclopedia of Associations) and Trade Magazines

Most associations prepare regular reports that can be useful for external analysis.

General Purpose Business Publications

Publications such as *Business Week* and *Wall Street Journal* provide important insights into general environmental and industry movements.

Magazines for Small Business (e.g., *Venture Magazine, Inc., In Business*)

These are often useful as sources for new ideas/approaches. Helps one keep abreast of new developments.

SUMMARY

Environmental analysis must be an on-going process. Just as a firm's environment is continually in a state of flux and evolution, the firm's analysis efforts must be similarly dynamic. When times get tough and the business is troubled, many small business owners turn their backs on environmental analysis. They argue that they are confronted by too many pressing problems to spend the time and energy necessary to deal with environmental concerns. Such reasoning is dangerous and may serve to exacerbate an already difficult situation. How can the business make the necessary decisions to re-orient its business and adjust its strategic outlook without a keen awareness of its key environmental concerns? Environmental assessment and analysis forms the basis for overcoming the firm's problems. Rather than being a time-consuming barrier, environmental analysis is a tool for corrective action.

We must recognize and caution the reader that organizational success may foster an attitude of invincibility and again, prompt the small businessperson to refrain from devoting the necessary energy to environmental analysis. McNichols notes that "one of the greatest barriers to change and adjustment is past success".[2] An often heard argument is: "We've done it this way for 20 years and we've been successful. Why should we change now?" Often, businesses with such an outlook are forced to change when suddenly the bottom line starts showing declining results. This does not mean that the business has to constantly be in a state of flux. Indeed, one may determine that there is no need for change. But, the decision must be based on careful analysis and evaluation and should not be, simply, the result of complacency. If a manager continually assesses, analyzes, and interprets key environmental cues, the basis for decisions are grounded in thoughtful reason.

An appendix at the end of this chapter contains an actual environmental analysis done for a local hardware store. It illustrates the information that is available for this type of analysis, as well as the results of the analysis.

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2. Thomas J. McNichols, *Policy-Making and Executive Action*, 6th ed., (New York: McGraw-Hill, 1983), 97.

APPENDIX TO CHAPTER 1
External Analysis For Haberkorn Ace Hardware

INTRODUCTION

Haberkorn Ace Hardware (HAH) was founded by Paul Haberkorn in 1955. It is a full service hardware with fifteen employees in nine departments and is known for its friendliness. In exploring its external situation, consultants for Haberkorn Ace Hardware relied heavily on existing data sources. For example, recent secondary data from the U.S. Census Bureau, Survey of Buying Power, Standard and Poor's Industry Surveys, Hardware Age Magazine, and the National Retail Hardware Association provided a wealth of information pertinent to Haberkorn Ace Hardware. Locally, each key competitor was specified, analyzed, and compared on a series of competitive factors.

ENVIRONMENTAL ANALYSIS REPORT
—HABERKORN ACE HARDWARE

NATURE OF THE MACRO ENVIRONMENT

The elements of the macro environment that are most relevant in the retail hardware industry segment include the economic outlook and trends in social and demographic data. Political and technological trends do not seriously impact the retail hardware business.

Economic Outlook

The economy as a whole will continue to remain encouraging for the next few quarters. Growth in real GNP is expected to rise in both the first and second quarters (5.6%, up from 4.8% for fourth quarter of last year). Consumer spending has been strong and is expected to rise at an annual rate of 9.2% in the current quarter.

Retail sales were up solidly in January and are expected to remain solid even though some slow down will occur as consumers reach the peak of the recent buying trend. Consumer confidence in the economy reached a record high recently, strengthening the outlook for continued economic expansion.

The home improvement and do-it-yourself markets look strong as reports of housing starts rose to a five-year high. Retail sales in the local SMSA also look strong and are projected to increase through the next five years. Residential investment will expand with real growth of 14.2% over the next five years.

The local economy in which HAH operates has not grown as quickly and strongly as the national economy. Fortunately, the trend now seems to be reversing, economic conditions are improving, and are projected to grow stronger.

Social and Demographic Trends

The market area in which HAH operates covers parts of five census tracts. The boundaries of these tracts were derived by the Census Bureau in 1980. Each tract has its own unique characteristics. The census data provides a breakdown of each tract by sex, age, home ownership, age of home, and household income.

Additional demographic information on the average do-it-yourselfer—who is the type of person most likely to purchase goods at HAH—was obtained from a recent *Hardware Age* magazine survey. Analyzing this data and comparing it with population and income projections for the county is most revealing. Importantly, eighty-four percent of all year-round housing units are eleven years old or older. An increasingly older area housing stock will contribute to the growth of do-it-yourself sales. (Note that neither policital nor technological forces were deemed directly relevant to the HAH situation.)

INDUSTRY FORECAST

Recent problems in the building industry have had a positive effect on the do-it-yourself, home improvement industry which directly affects HAH. The retail chains and hardware stores have experienced dramatic gains this year.

The growth has occurred for many reasons. The continued high cost of professional repair and remodeling has encouraged many home owners to attempt home improvement projects by themselves. Retailers have also increased traffic in their stores by expanding in-store education, simplifying projects, and improving instructions. In 1970, do-it-yourself projects accounted for 36.5% of home improvement spending. By 1982, this figure rose to 53.5% and is projected to rise to 59% by the end of the decade.

The retailing end of the industry has experienced dramatic changes in recent years. Many store owners have developed modern store layouts that aid selling packaged products, rather than selling nuts, bolts, and nails by the pound from bins. The evolution of this industry will see the national chains taking the place of the traditional local hardware store. This change is not unlike the growth of supermarket chains at the expense of Mom-and-Pop grocery stores.

The do-it-yourself segment is growing faster than the home improvement market as a whole. There are several reasons in addition to cost which can be cited for this growth. An additional indicator is the projected population growth in the critical

25-44-year-old age group. This group is important because they are more likely to take on remodeling projects than other age groups.

The segment of home improvement outlays will increase as the age of the stock of single-family homes increases because the older the houses the more repairs are necessary. The high cost of new construction will discourage consumers from buying new homes so the aging of the housing stock will continue. Home improvement expenditures also rise during periods of high housing turnover. People tend to make changes in their newly-purchased home to conform with their tastes soon after they move in. However, since a majority of home improvement projects represent large expenditures, consumers will commit themselves to such outlays when the economy is perceived to be improving.

HAH is also considering moving into the automotive parts and equipment segment of the do-it-yourself market. The average sales for suppliers of motor vehicle parts and accessories have been forty billion annually in recent years. This annual sum points to attractive profit opportunities available to innovative and efficient suppliers.

There are a number of factors which will affect demand prospects for replacement parts this year and in the coming years. These factors include:

- A more prosperous national economy
- A greater number of vehicle miles traveled per car
- Changing fuel costs
- Deferral of repairs on cars by some owners during the recession while others choose to repair rather than replace their cars
- A growing number of vehicles while the population of the area is stabilizing
- More rapid parts deterioration

There is indication that modest long-term growth trends in unit demand for auto replacement parts will continue, reflecting the steadily mounting number of motor vehicles in use and other factors already cited above.

The replacement parts business should maintain its moderate, long-range demand growth trend, and its stronger stability relative to the automotive original-equipment field is almost assured. The sales in this market will be aided by the expanding car and truck population. Most do-it-yourselfers will be limited to items such as plugs and points, oil and filters, and other easy-to-install parts because of the complexity of the new car engines.

COMPETITIVE ENVIRONMENT

Target Market

Twenty-nine percent of the residents within the market area are renters. Despite some concern, the research indicates that renters do complete small do-it-yourself projects. The age distribution of the market area is also crucial for predicting future behavior towards the do-it-yourself trend. Today's average do-it-yourselfer is relatively young (25-34-year-age group). For our market area, sixteen percent of the population falls into this age bracket and thirty-four percent of the market population is under twenty-five-years old. These figures suggest a reasonable and growing market within the prime age groups.

Competition

There are many competitors in HAH's trade area. However, seven of these competitors are most dominant—posing the strongest competitive threat to HAH. A detailed competitive profile is offered for each of these competitors, and their strengths and weaknesses are shown graphically in Table 1–5. The table shows each competitor with an overall performance index which is a measure of how strong each competitor is perceived to be and is based on a total point index of 125. The characteristics chosen by HAH were specific to their particular competitive situation.

50 Part One The Analysis Phase

Table 1–5

Competitive Profile Analysis
[Scale from 1-5; 1 (very poor), 2 (below average), 3 (average), 4 (above average), 5 (outstanding)]

Competitive Factor	Firm: Helper's World	Lesters	Donners	Build Rite	Pilgram Pride	Garrods	Kennelly
			General Characteristics				
- Reputation	3	5	2	3	5	4	4
- Store Hours	5	3	4	4	3	3	3
- Speed of Checkout	4	3	3	4	3	3	3
			Merchandise Offering				
- Variety/Selection	4	4	3	3	3	2	4
- Quality of Mdse	4	4	4	3	3	3	3
			Environment				
- Store Layout	4	5	4	3	3	3	2
- Displays	4	4	4	3	3	4	2
- Merchandising	5	5	5	4	3	3	2
- Clutter	4	4	4	4	2	4	2
- Cleanliness	5	4	5	4	3	4	2
- Lighting	4	4	5	2	3	4	1
- Inside Decor	5	5	3	3	2	4	1
- Exterior	4	3	3	4	2	3	2
			Prices				
- Values	4	3	3	3	3	3	2
- Specials	4	4	4	3	3	3	3
			Personnel				
-Friendly/Courteous	3	3	4	2	5	3	4
- Knowledgeable	3	3	4	3	4	4	3
- Service Level	3	4	4	3	4	3	3
			Site				
- Accessibility	4	4	4	5	5	3	3
- Parking Facilities	4	4	4	5	3	2	3
- Visibility	5	4	3	4	4	2	2
- Shopping Pull	4	3	2	4	4	3	2
- Walk-In Traffic	4	2	2	4	3	2	2
			Advertising				
- Expenditure	5	4	3	3	2	2	2
- In-Store/P.O.P.	4	3	3	3	1	2	2
			Overall Performance				
Index	102	94	87	85	79	76	62

DISCUSSION QUESTIONS

1. Why is an ETOP important?
2. How do you determine if a piece of information is *relevant* information or just information?
3. Which general environment information is most relevant for a
   a. shoe repair store
   b. car dealer
   c. liquor store
   d. computer software company
   e. manufacturer of tool and die equipment
4. For a retail store, what are the best sources of information on the local economy and general conditions?
5. How can I find information about my competitors regarding their prices, services, profits, strategy if
   a. they are a publicly held company
   b. they are a privately held company

2
Internal Analysis

Objectives

After reading this chapter you should be able to

1. Determine which areas of a business should be analyzed
2. Design a survey to assess the people aspects of a business
3. Measure strengths and weaknesses in a business
4. Understand the complexities of an internal analysis
5. Create a company profile for a business

The environmental analysis has provided a series of important insights into the firm's external situation. It has helped the business owner view the business more clearly in its competitive environment and has prompted awareness of and focus on key environmental threats and opportunities. This chapter extends the analysis phase of the strategic planning model by examining the firm's internal condition. The internal analysis offers a profile of the company's internal operations and is geared towards pinpointing and assessing the key internal strengths and weaknesses of the firm.

VALUE OF INTERNAL ANALYSIS

Objective internal analysis is essential for at least two reasons. First, many managers of small businesses have totally inaccurate conceptions of the firm's internal state of affairs. Often, they rely on personal opinion or feel to assess their firm's internal condition. This biased view may result in an unrealistic perspective of the company's capacity, potential, and areas of concern. Only through a careful and systematic internal analysis can a reasonable and meaningful profile be attained.

The significance of developing an accurate business profile becomes more relevant as one considers a second reason or rationale for internal analysis. Essentially, internal analysis indicates whether the business has available the means for handling the previously realized environmental opportunities and threats. This realization is critical. It can change the focus of a company's activities and strategies and, in many situations, save the business from disaster. Yet, for many companies and managers, it is a forgotten step in the logical planning sequence.

Consider the example of Tannert Video in Capsule 2–1. Here, environmental analysis was performed successfully and

Capsule 2–1

Tannert Video

Tannert Video, a small television shop specializing in quality merchandise, personal sales efforts, and superior product service, had been operating successfully for fourteen years. However, in recent years, sales and revenues had gradually but steadily declined. The owners were concerned and sought means to stimulate growth. A look at the nature of the competitive external environment revealed a particularly promising trend—the developing popularity of the videocassette recorder market. The owners reasoned that this market possessed outstanding potential and identified movement into this market as a key environmental opportunity.

Enthusiastically, the business launched its foray into the VCR market. Due largely to Tannert's excellent past reputation, consumer response was excellent and the shop experienced large numbers of potential customers interested in VCRs. Although events and responses appeared encouraging, a troubling series of factors loomed over this situation. In their enthusiasm to capitalize on the emerging VCR trend, the owners forgot to consider an objective look at its internal condition so two critical difficulties or barriers were undetected. First, the shop did not have a sales force adequately versed in the intricacies of VCR features and operations. Customers approached the shop seeking the kind of reliable, personal information that they had come to expect from this business. They were sorely disappointed to learn that the sales force simply was uninformed and unable to provide many basic answers.

Secondly, the business did not have a service staff with in-depth knowledge in the repair, cleaning, and maintenance of VCRs. The firm recognized this deficiency but was unwilling to hire additional, trained staff members or to pull existing repair staff off their regular repair schedules. They decided to contract their repair work to a local shop who promised quick service. Although this service was fast, its quality was below par and customers registered numerous complaints.

One of the shop's dominant competitive strengths—quality service—was being undermined by the approach taken with the new VCR venture. As one might expect, word of these transgressions traveled, affecting not only the firm's VCR business, but their traditional strength in the TV market. Today, the firm has decided to discontinue its VCR efforts and embark on a campaign to regain customer confidence in its TV sales and service.

effectively. The process revealed a significant market opportunity. The owners were excited about this new-found avenue for business growth. However, the shop lacked the internal capacity (trained sales and repair personnel) to effectively capitalize on the opportunity and present business was adversely affected. A careful, objective internal analysis would have revealed the personnel problems before a commitment to action was made. Such an effort would have enabled the business to do one of two things: (1) correct the personnel problems and thus, strengthen the probability of realizing the noted environmental opportunity and (2) clearly recognize that the internal personnel weaknesses threatened the success of the proposed venture, therefore, realizing that it must seek other avenues for growth. In either case, the lesson is clear. Internal analysis is an extremely important activity. It seeks to determine if the firm is *able* to effectively pursue a particular strategic or competitive thrust.

The business must combine its environmental awareness and insight with a corresponding understanding of internal demands. Moving aggressively in the external environment without commensurate internal support will, in most cases, lead to serious difficulties. These points are reinforced quite dramatically in the example of Osborne Computers in Capsule 2–2.

Capsule 2–2

Osborne Computer Corporation

In the early 1980's, Adam Osborne revolutionized the personal computer industry. Through careful assessment of consumer needs and astute marketing, Osborne built his empire to one that by 1983 was selling 10,000 machines a month and earning annual revenue of more than $100 million.

His approach was basic. He delivered a technologically sound machine (Osborne I), sold it at two-thirds the price of its closest competitor, offered over $1500 worth of brand-name software at no additional cost, and packaged it in a portable, twenty-six-pound easy-to-carry unit.

As the Osborne I proved successful, competitors recognized the viability of this new segment of the computer business and aggressively entered with their products. To counter, Osborne developed a new portable computer, the Osborne Executive. This machine improved on the original Osborne I by providing more memory storage and a larger screen, yet still sold for a relatively attractive $2495. Further, the Executive was to be IBM compatible.

Osborne began publicizing the machine through electronic journals and publications well in advance of its expected delivery date. Because of the notable improvements over the Osborne I, dealers were impressed. In fact, they were so impressed that they stopped orders of the Osborne I to wait for the arrival of the Executive.

Production delays plagued the Executive. Publicity was out, dealers were ready to order, but the machine was not yet available. At the same time, sales of Osborne I were falling Osborne had so effectively convinced dealers of the power of his new machine that they abandoned the original one. Unfortunately, the Executive couldn't be delivered. Thus, a two and one-half-month period of dwindling sales occurred and a debilitating cash squeeze ensued.

This was one of the key factors that pushed Osborne Computer Corp. into bankruptcy.

ELEMENTS OF INTERNAL ANALYSIS

Internal analysis is somewhat time consuming and requires meaningful effort. The rewards for conducting the analysis, however, are many. The task of completing internal analysis is made easier by first considering the various elements of the analysis.

Internal Strengths and Weaknesses

One of the most basic, yet insightful, approaches to internal analysis focuses on the identification of internal strengths and weaknesses. As used here, a strength is any resource or occurrence that *helps* the business in realizing its objectives and strategies, capitalizing on its opportunities, or defending against its threats. Conversely, a weakness is any factor that *hinders* the business in realizing its objectives and strategies, capitalizing on its opportunities, or defending against its threats.

All small businesses possess both strengths and weakness. Tannert Video, for example, had fostered a favorable company image over its fourteen years of operation—a specific and important strength. However, the number of employees and the range of their skills were inappropriate for the VCR market—a powerful weakness. Given their dual presence, it is important that elements of strength and weakness be identified so that strengths can be developed and used, and weaknesses can be recognized and changed.

In order to make the analysis of internal strengths and weaknesses more workable for the small businessperson, four resource categories for examination are suggested. These categories (financial, marketing, organizational, technical, and human), along with their relevant subcomponents, are noted in Table 2–1.

Rating Internal Strengths and Weaknesses

In developing a meaningful internal analysis or profile, some sort of evaluation or rating scheme must be utilized to identify strengths and weaknesses. Such a scheme should be easy-to-use and assessable, yet comprehensive and complete. The Internal Profile Analysis (Table 2–1) fulfills these objectives. Each internal factor or resource examined is given one of five ratings—slight weakness, strong weakness, slight strength, strong strength, or neutral. Clearly, degrees of strength and weakness exist. A given factor or resource must be assessed and weighted as either being slight, neutral, or strong. Further, some factors may not be relevant at this time, but may still be noted in the analysis if it is anticipated that they may become relevant in the near future.

Evidence such as financial ratios, defective product rates or labor turnover data may provide an objective basis for choosing a particular rating category. However, such evidence often is unavailable. For example, a store owner may want to know the rate of advertising effectiveness, but no figures relating sales

Table 2–1 Internal Profile Analysis

Internal Resource	Strong Weakness	Slight Weakness	Neutral	Slight Strength	Strong Strength
FINANCIAL					
Overall Performance					
Ability to Raise Capital					
Working Capital Position					
MARKETING					
Market Performance					
Knowledge of Markets					
Product					
Advertising and Promotion					
Price					
Distribution					
ORGANIZATIONAL AND TECHNICAL					
Location					
Production Facilities					
Access to Suppliers					
Inventory Control					
Quality Control					
Organization Structure					
Rules, Policies, and Procedures					
Company Image					
HUMAN					
Number of Employees					
Relevancy of Skills					
Morale					
Compensation Package					

to advertising efforts have been gathered. Therefore, judgmental approaches are often utilized. Of course, steps can be taken to build confidence and objectivity into these judgments. As mentioned in the section on environmental brainstorming, one way to gain insights and to balance biases may be to have a number of key people in the business involved in the rating process.

ANALYSIS OF THE FOUR KEY INTERNAL RESOURCE CATEGORIES

Many variables may need to be analyzed, depending on the firm and industry. For example,[1] Pearce and Robinson list over fifty variables. The following discussion suggests four categories of variables, but owners may wish to devise their own.

Evaluating Financial Resources

The internal factor that most visibly affects the smaller firm's efforts is the adequacy of its financial resources. Excellent environmental opportunities may be identified and reasonable strategies for attaining these may be noted. Yet, without adequate financial resources, these plans may lay dormant for years or never be implemented at all. Even more disturbing, a business may be forced to halt a viable project or program in midstream because its financial capacity is exhausted. Analysis of financial resources can help identify the problems and prevent such disappointing occurrences.

As one begins to examine and rate the relative strength of the firm's financial resources, certain caveats should be recognized. First, existing financial statements are used as tools in

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1. John A. Pearce II and Richard B. Robinson, Jr., *Strategic Management: Strategy Formulation and Implementation*, 2nd ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1985).

the evaluation process. These statements rely on historical data and thus, are pictures of past behavior. One must presume that past behavior is a reasonable predictor of present capacity and future expectations. To some extent, such assumptions are reasonable. However, for smaller businesses, these figures may not capture the firm's vitality or future prospects. For example, the business may have endured some extremely lean years, but be poised to capitalize on new market opportunities. The financial statements may be quite weak and questionable, but the business quite progressive and healthy. Therefore, one must always remember that financial analysis is only one of many tools employed to determine the state of the business' internal condition. Financial analysis is only as powerful as the extent and quality of the information on which it is based. If the firm has neglected gathering meaningful data or has prepared scant and limited statements, it becomes much more difficult to draw worthwhile objective financial conclusions. In these cases, the statements are supplemented with personal opinion and interpretation. Although possibly misleading, such interpretations may produce more logical conclusions than relying only on limited numerical data

Many businesses find it useful to compare their financial picture against some general standard. They desire to know how they stack-up against industry performance norms. Such comparisons can be useful barometers or check points for the business, but must be approached with some degree of caution. Financial ratios, for example, may be significantly higher or lower than comparative standards yet be perfectly plausible and reasonably explained.

Although comparative information may come from a number of sources, here are two popular, primary sources. Dun and Bradstreet publishes *Industry Norms* and *Key Business Ratios*, containing balance sheets, income statements, and selected ratios that can be used to relate the business to the typical or average firm secured from Dun and Bradstreet's extensive database. Trade associations and trade magazines regularly provide useful comparative statistics, often more specific to and relevant for the small business.

Tools to Aid the Analysis of Financial Resources

The information contained on the firm's income statements and balance sheets can be helpful data for evaluating the relative strength of the financial resources.

Table 2–2

Waverly Custom Jewlers
Comparative Balance Sheet

	Year 4	Year 3	Year 2	Year 1
Current assets:				
Cash	$ 41,300	$ 41,906	$ 17,800	$ 16,200
Accounts receivable (net)	98,400	83,300	64,000	48,600
Inventory	73,800	77,000	96,500	70,200
Prepaid expenses	8,000	7,000	8,000	9,000
Total current assets	$221,500	$209,200	$186,300	$144,000
Long-term assets:				
Equipment, furniture & fixtures	96,400	76,400	46,400	46,400
Less accumulated depreciation	(57,400)	(37,800)	(23,200)	(11,600)
TOTAL ASSETS	$260,500	$247,800	$209,500	$178,800
Current liabilities:				
Merchandise payable	$ 20,000	$ 19,000	$ 31,000	$ 21,600
Operating expenses payable	15,000	14,400	18,800	16,200
Interest payable	1,000	1,600	1,000	900
Income tax payable	3,000	12,000	2,000	3,000
Short-term notes payable	10,000	20,000	32,000	52,000
Total current liabilities:	$ 49,000	$ 67,000	$ 84,800	$ 93,700
Long-term liabilities:				
Notes payable	40,000	47,000	27,000	---
Total liabilities:	$ 89,000	$114,000	$111,800	$ 93,700
Owner's equity:				
Common stock	70,100	70,100	70,100	70,100
Retained earnings	101,400	63,700	27,600	15,000
TOTAL LIABILITIES AND OWNER'S EQUITY	$260,500	$247,800	$209,500	$178,800

Comparative Financial Summaries First, consider the balance sheets (Table 2–2) and income statements (Table 2–3) for Waverly Custom Jewelers—a corporation that has been in business for only four years. Here, Waverly presents its financial summaries for each of the last four years. Since past years' records are present, one can note key changes or trends. Table 2–2 shows considerable growth in total assets for this firm over its four-year history. Cash grew slowly in year two, substantially in year three and remained almost constant in year four. As shown in Table 2–3, sales increased, decreased and then increased again. Net income fell when sales increased, rose when sales decreased, and then increased as sales peaked in year four.

Identifying the causes of the reported changes can be quite difficult. Generally, one must know the business and the various conditions and occurrences that may account for the pattern of changes.Analyzing these changes can provide more reasonable explanations and evaluations.

Comparative Percentage Summaries It may be useful to present the items on the balance sheet as *percentages of total assets* (Table 2–4). Similarly, income statement items can be presented

Table 2–3

Waverly Custom Jewlers
Comparative Income Statements

	Year 4	Year 3	Year 2	Year 1
Net Sales	$493,000	$464,000	$489,000	$421,200
Cost of goods sold	295,200	278,400	342,300	280,800
Gross profit on sales	$196,800	$185,600	$146,700	$140,400
Expenses:				
Operating expense	19,600	14,600	11,600	11,600
Depreciation expense	97,800	92,100	104,000	93,600
Net income from operations	$ 79,400	$ 78,900	$ 31,100	$ 35,200
Less interest expense	5,000	6,700	5,900	5,200
Net income before tax	$ 74,400	$ 72,200	$ 25,200	$ 30,000
Less income tax expense	37,700	36,100	12,600	15,000
NET INCOME	$ 37,700	$ 36,100	$ 12,600	$ 15,000

Table 2–4 **Comparative Balance Sheet Percentages (Vertical Analysis)**

	Year 4 %	Year 3 %	Year 2 %	Year 1 %
Current assets:				
Cash	16	17	8	9
Accounts receivable (net)	38	34	31	27
Inventory	28	31	46	39
Prepaid expenses	3	3	4	5
Total current assets	85	85	89	80
Long-term assets:				
Equipment, furniture & fixtures	15	15	11	20
Less accumulated depreciation	—	—	—	—
TOTAL ASSETS	100	100	100	100
Current liabilities:				
Merchandise payable	8	8	15	12
Operating expenses payable	6	6	9	9
Interest payable	1	1	1	1
Income tax payable	1	5	1	2
Short-term notes payable	4	8	15	29
Total current liabilities	20	28	41	53
Long-term liabilities:				
Notes payable	15	19	13	0
Owner's equity:				
Common stock	26	28	33	39
Retained earnings	39	25	13	8
TOTAL LIABILITIES AND OWNER'S EQUITY	100	100	100	100

as *percentages of total sales* (Table 2–5). This procedure provides a clearer basis for year-to-year comparisons and enables fluctuations and deviations to be readily noticed. Operating results (Table 2–5) suffered in year two as compared to year one when cost of goods sold increased as a percentage of sales revenue.

Table 2–5 **Comparative Income Statement Percentages (Vertical Analysis)**

	Year 4 %	Year 3 %	Year 2 %	Year 1 %
Net sales	100	100	100	100
Cost of goods sold	60	60	70	67
Gross profit on sales	40	40	30	33
Expenses:				
Operating expenses	20	20	22	22
Depreciation expense	4	3	2	3
Net income from operations	16	17	6	8
Less interest expense	1	1	1	1
Net income before tax	15	16	5	7
Less income tax expense	7.5	8	2.5	3.5
NET INCOME	7.5	8	2.5	3.5

The picture changes in year three. It appears the firm reduced volume of sales and increased sales prices. This gave a much better gross profit percentage in year three. With the lower level of activity, operating expense decreased (Table 2–3) as a percentage of sales revenue (Table 2–5). Growth in Sales in year four led to a small increase in net income dollars after tax (Table 2–3), with almost no changes in percentages (Table 2–5).

Table 2–2 and 2–4 indicate the firm is far less dependent on borrowed funds at the end of year four than it was at any previous year-end. Although long-term notes payable are higher than in years one and two, the $40,000 balance represents less of the balance sheet total than in year three. Retained earnin's have provided most of the growth for the business over the four years. Short-term payables seem to be well-controlled by the end of year four. More detailed analysis may indicate that this was not true in earlier years. Although these financial comparisons are quite revealing, additional insight may be attained by examining a series of financial ratios.

Liquidity Ratios

Financial ratios are computed to provide a more specific picture of the business. Initially, a series of liquidity ratios may be explored. These ratios indicate the firm's capacity for meeting its short-run or near-term obligations. In other words, these ratios help in determining whether the business has enough working capital to get by, pay its bills, invest in the future, take advantage of immediate opportunities, and fight off unforseen short-run crises.

Current Ratio The current ratio is derived by dividing current assets by current liabilities. This is shown for Waverly Custom Jewelers in Table 2–6. Obviously, the interpretation of this figure is more important than its computation. Many experts feel that a current ratio of two-to-one should be present. Yet, this is only a rough rule of thumb and varies considerably from industry to industry. It is important, though, for some benchmark to be established. For example, if the industry is one where the bulk of sales are on credit, a larger current ratio may be needed to feel comfortable. As noted earlier, industry expectations, as well as selected financial ratios of industry leaders, can be attained from readily available outside reference sources. For our sample company, it may be useful to comment on the changes that have occurred in the current ratio over the years. At the end of year one the ratio was below the rough rule of thumb of two to one. It improved in year two largely because long-term debt was substituted for short-term debt which was substituted for short-term payables. By year four, the ratio is

Table 2–6 Comparative Current Ratios

$\frac{\text{Current Assets}}{\text{Current Liabilities}}$:

Year 4	Year 3	Year 2	Year 1
$\frac{221,500}{49,000}$	$\frac{202,200}{67,000}$	$\frac{186,300}{84,800}$	$\frac{144,000}{93,700}$
4.5 to 1	3.1 to 1	2.2 to 1	1.54 to 1

very strong. In fact, the firm should now consider some more productive use of cash and/or some distribution of cash as dividends to stockholders.

Acid Test Ratio The acid test ratio is computed by dividing the sum of cash, receivables and marketable securities by current liabilities. (In our example, cash plus receivables are divided by current liabilities.) Since inventories may not be easily converted to cash, this ratio gives a more accurate picture of the firms' capacity for short-run response to opportunities and crises by subtracting out the value of these inventories. Although considerable variability is present, an acid test of one-to-one is typically sought. Table 2–7 shows the Acid Test Ratios for Waverly Custom Jewelers.

Table 2–7 Comparative Acid Test Ratios

$\frac{\textit{Cash \& Receivables}}{\textit{Current Liabilities}}$:

Year 4	Year 3	Year 2	Year 1
$\frac{(41{,}300 + 98{,}400)}{49{,}000}$	$\frac{(41{,}906 + 83{,}300)}{67{,}000}$	$\frac{(17{,}800 + 64{,}000)}{84{,}800}$	$\frac{(16{,}200 + 48{,}600)}{93{,}700}$
2.9 to 1	1.9 to 1	1 to 1	.7 to 1

Activity Ratios

Once liquidity ratios have been considered, a series of activity ratios may be examined. These ratios offer insight into how effectively the firm is using its resources.

Inventory Turnover Inventory turnover is computed by dividing cost of goods sold by average inventory. Again, because rules of thumb vary depending on industry, it is valuable to compare the figures to the industry, as well as past historical trends. The historical trend for the sample company (Table 2–8) presents some difficulty in interpretation. Higher inventory turnover rates are desirable, yet lower ratios appear in the

Table 2–8 **Inventory (Finished Goods) Turnover Rates**

*Cost of Goods Sold ÷ Average Inventory**:

Year 4	Year 3	Year 2	Year 1
$\frac{295{,}200}{\left(\frac{77{,}000 + 73{,}800}{2}\right)}$	$\frac{278{,}400}{\left(\frac{96{,}500 + 77{,}000}{2}\right)}$	$\frac{342{,}300}{\left(\frac{70{,}200 + 96{,}500}{2}\right)}$	$\frac{280{,}800}{70{,}200}$
3.9 times	3.2 times	4.1 times	4 times

**Ending Inventory in Year 1*

profitable years three and four. This is a good example of the danger of generalizations with respect to ratios.

Total Asset Turnover Total asset turnover is computed by dividing sales by total assets. Table 2–9 shows this for Waverly Custom Jewelers. This contrasts the change in sales to the change in assets. The fall reflects the faster growth rate for assets than for sales—usually not a good pattern.

Table 2–9 **Asset Turnover Rates**

Net Sales ÷ Total Assets:

Year 4	Year 3	Year 2	Year 1
$\frac{493{,}000}{260{,}500}$	$\frac{464{,}000}{247{,}800}$	$\frac{489{,}000}{209{,}500}$	$\frac{421{,}200}{178{,}800}$
1.9 times	1.9 times	2.3 times	2.4 times

Accounts Receivable Turnover Accounts receivable turnover is computed by dividing annual credit sales by average accounts receivable. Accounts receivable turnover indicates the time it takes to collect from credit sales. This figure should be monitored carefully and compared to industry standards. This ratio is most frequently used to check on rate of collection of receivables. The results for Waverly Custom Jewelers in Table 2–10 assume that all sales are on credit.

Average Collection Period The average collection period is calculated by dividing 365 by the accounts receivable turnover. This is very meaningful because it indicates the average length of time the business must wait to receive payment on its credit sales. When added to average inventory holding period (365 days divided by the inventory turnover), the total conversion period is measured in days. Subtracting the normal time for payment of credit purchases gives the time span over which the business must wait for cash. If this figure is beyond industry expectations, it may signify that the business is either too liberal with its credit policy or has unusual difficulty in collections. Again, if internal comparisons are done across years and key differences were noted, the owner should try to understand whether this occurs because of the business policies or changing

Table 2–10 Accounts Receivable Turnover and Average Collection Period

$\frac{\textit{Net Credit Sales}}{\textit{Average Accounts Receivable}^*}$:

Year 4	Year 3	Year 2	Year 1
$\frac{493{,}000}{\left(\frac{83{,}300 + 83{,}300}{2}\right)}$	$\frac{464{,}000}{\left(\frac{64{,}000 + 83{,}300}{2}\right)}$	$\frac{489{,}000}{\left(\frac{486{,}00 + 64{,}000}{2}\right)}$	$\frac{421{,}200}{48{,}600}$
5.4 times	6.3 times	8.7 times	8.7 times

* *End Balance Used for Year 1*

$\frac{\textit{365 days}}{\textit{Accounts Receivable Turnover}}$:

Year 4	Year 3	Year 2	Year 1
$\frac{365}{5.4}$	$\frac{365}{6.3}$	$\frac{365}{8.7}$	$\frac{365}{8.7}$
58 days	48 days	42 days	42 days

behaviors of customers. Since cash flow is being affected, careful monitoring and understanding of this ratio can be quite important. Waverly Custom Jewelers has experienced considerable lengthening of collection period. Despite their good liquidity ratios, this may be a danger signal.

Leverage Ratios

These ratios indicate the extent to which the firm's capital is secured through internal (owners or stockholders) or external (lenders) means. These figures become quite critical when undergoing growth or expansion. Here, the ability to raise further capital may be affected by the present leverage position.

Debt to Assets Ratio

The debt to assets ratio is a measure of the percentage of assets that are funded through debt. A ratio that is too high may be risky while one that is too low may indicate inefficient use of capital. Using total liabilities divided by total assets, the sample company shows a healthy sign of decreasing percentage (Table 2–11). As noted earlier, this firm may be in a position to pay out cash or to enlarge their investment in non-current assets. A similar conclusion may be reached by using the next ratio.

Debt to Equity Ratio The debt to equity ratio is computed by dividing total debt by total owners equity. This ratio indicates the extent to which operating funds have been generated by the owners. For Waverly Custom Jewelers, this is also shown in Table 2–11.

Profitability Ratios

A final set of ratios are concerned with measuring the firm's financial performance and financial returns. These ratios are important, both from an industry comparison and an internal trend perspective. Particularly significant deviations from standard or strong negative movements in the internal trend may signal that the economic viability of the business is in serious

Table 2–11

Debt to Assets Ratio

Total Liabilities / Total Assets:

Year 4	Year 3	Year 2	Year 1
89,000 / 260,500	114,000 / 247,800	111,800 / 209,500	93,700 / 178,800
34%	46%	53%	52%

Debt to Equity Ratio

Total Liabilities / Total Stockholders Equity:

Year 4	Year 3	Year 2	Year 1
89,000 / 171,500	114,000 / 133,800	111,800 / 97,700	93,700 / 85,100
52%	85%	114%	110%

question. In short, these ratios give a quick, bottom line picture of the firm's current financial results.

Gross Profit Margin The gross profit margin is comnuted by subtracting cost of goods sold from sales and dividing the result by sales. This ratio indicates how the selling activity provides the margin to cover operating costs and leave a balance of profit. This is reported on the comparative percentage statements. (Table 2–5)

Return on Total Assets The return on total assets ratio is calculated by dividing net income from operations by average total assets. This ratio measures the firm's operating performance. In other words, this figure notes the rate of return received for the total investment made by creditors and owners. Waverly Custom Jewelers, as seen in Table 2–12, shows improvement in years three and four as compared to years one and two. While total assets have grown, net income has increased at a faster rate. Additional funds from incurring long-term debt

Table 2–12 **Return on Total Assets**

Net Income from Operations / *Average Total Assets*:

Year 4	Year 3	Year 2	Year 1
79,400 / (247,800 + 260,500) ÷ 2	78,900 / (209,500 + 247,800) ÷ 2	31,100 / (178,800 + 209,500) ÷ 2	35,200 / 178,800
31.2%	34.5%	16%	19.6%

seemed to do much to improve ratios and performance for this company.

Drawing Strategic Conclusions

As noted frequently above, conclusions are more difficult to draw than financial ratios are to compute. In assessing the firm's financial state, ratios and statement comparisons must be used as tools to guide planners in their decisions. However, the owner's knowledge and awareness of the business may be necessary to either temper or augment what the measures project. Good sense and perspective must be used in conjunction with the objective figures and computations.

A strategic orientation should pervade the entire financial analysis. For example, a low current ratio suggests that the firm has trouble paying its bills. The significance is that any substantial change in strategy that will be a net use of funds may cause the firm's liquidity position to become ever worse. It might dictate that long term capital must be secured to underwrite the strategy as well as clean up the current liquidity problem. Similarly, the leverage ratios may suggest strong or weak positions in regard to debt versus capital, but they also may dictate which financial strategy may be necessary if expansion is to occur.

In summary, then, three financial resource evaluations must be made. First, an evaluation of the *overall financial performance* of the business should be determined. As noted above, a number of items will need to be considered in reaching this conclusion. Next, an evaluation of the firm's *ability to raise needed capital* should be completed. Here, degree of leverage, availability of internal funds, as well as the cost of capital to the business, may all be important considerations in reaching this evaluation. Finally, the *working capital* position of the firm should be evaluated. One may feel that it is unreasonably simplistic to reduce the evaluation of financial resources to these three items. Indeed, it is a simplified approach. Yet, these are the three most critical questions that the business owner must ask before committing to the pursuit of any objective, strategy, or environmental opportunity.

EVALUATING MARKETING RESOURCES

Most small business owners and analysts readily agree that marketing is a critical concern, and can have a powerful influence on the overall success of the business. Despite this realization, marketing resources are rarely subjected to close analysis or scrutiny. Often, the business has no valid measure of the relative effectiveness of its marketing efforts. Likewise, the owner often fails to understand the capacity and limitations of the existing marketing system. A careful evaluation of the market function is warranted. In analyzing the internal strengths and weaknesses of the marketing system, six general categories of marketing resources should be considered.

Market Performance

A logical starting point in analyzing the company's marketing resources is to evaluate or rate actual *market performance.* Here, the most reasonable and tangible factor to be considered is the firm's relative market share One may have enough information about the industry, market area, and competitors that an objective and relatively accurate statement of market share can be noted. More often, some data—in a sketchy or piece-meal fashion—is available or can be developed to derive a reasonably accurate surrogate indicator of relative market share. For example, a small hardware store may know that they face competition from six other stores in the basic market area. Furthermore, they know that three of the stores command the bulk of the business. Thus, without any specific data, a business may clearly understand that its market share rating is relatively weak. Rarely will there be a total lack of available information. Typically, objective information is complemented by sound subjective judgments to arrive at a more accurate picture of relative market share.

One must recognize that market share is a rather limited indicator of market performance because it addresses only past performance and says nothing of future potential. However, quite useful inferences may be drawn from this assessment. For example, if the market is competitively saturated and industry growth prospects are limited, the strength or weakness of the present market share may be a key indicator of whether or not the business will be able to withstand and survive the industry shakeout that is likely to occur.

Knowledge of Markets

Here, one is evaluating the firm's awareness and knowledge of the markets it serves or is likely to serve in the near future. At least two areas should be considered when determining this rating of market knowledge. First, owners must determine their knowledge of *target markets.* For example, who are the firm's customers? What is the demographic makeup of the target market and how is it changing? And, perhaps most importantly, what are the customer preferences and needs and how will these be changing in the future?

Owners must also evaluate the level of understanding of their market area. What changes or developments are occurring here that may reflect on or affect the business? For example, is the demographic composition of the market area changing? Are important new competitors entering the market area? In short, is the owner aware of important market area changes and directions. Of course, knowledge and awareness are somewhat intangible elements and susceptible to a wide range of interpretations. Yet, this knowledge may be most critical in helping position the business to deal with future obstacles and opportunities.

Product

The firm's owner or manager must evaluate the strength of the products sold. Products can be evaluated in absolute terms. However, the rating should also reflect the relative strength of products from a competitive perspective. Here, three aspects of the product should be considered.

First, the firm's *product line* should be evaluated. Product line refers to the variety of products that the firm offers. Here, one should consider both the breadth and depth of the product line. A broad or complete line enables the business to meet a wider range of consumer needs. Similarly, depth refers to the choices available. For example, one shoe store may offer a very narrow and specialized product line—limiting its business exclusively to shoes. A competing store, presenting a much broader line, offers not only shoes but an array of complementary or supportive products—such as polishes, socks, purses, and leather goods. Frequently, the store with a narrow line can compete because of the depth built into the line. For example, a wider range of shoe styles and sizes is available. Consequently, the evaluation of product line must consider not only competitive influences, but the strategic approach the business is trying to promote. If the owner visualizes the business as a specialty shop, its product line should reflect this strategy.

A second product rating decision relates to the *attractiveness* of the firm's products. Both product image and product quality are important determinants. Largely, they both must be viewed from a consumer or market perspective. Purchases are made on the basis of perceived image and quality even though the perceptions may be inconsistent with reality. If the owner or manager realizes these perceptions are inaccurate, remedial action, perhaps in the form of advertising or promotions, should be directed at this area. The planner should strive to obtain an objective and unbiased evaluation of these factors. Often, outsiders should be consulted since, small business owners sometimes are too close to their products to make an objective assessment.

Finally, *product service* should be considered. Product service relates to the business' assurances that consumer and product concerns will be effectively and fully addressed once sales have occurred. Here, product warranties and guarantees are important, as is the number, availability, and quality of the service representatives and service technicians.

Advertising and Promotion

Next, the strength of the company's *advertising and promotion* efforts should be evaluated. In some situations, objective evidence of the effectiveness of these efforts may exist. For example, a business may note sales growth following certain advertising or certain promotional campaigns. Frequently, such information is not present making advertising and promotion one of the most difficult areas to assess.

Although most small business owners realize the significance of reaching consumers, informing them of the company's products, and encouraging them to make purchases, the overall advertising and promotional emphasis is rarely analyzed from an objective and competitive perspective. This may be one reason that managers often feel that advertising and promotion is one of the most expendable resources at their disposal. Consequently, when the business encounters financial strains, the advertising and promotion budget is one of the first to be eliminated.

In order, to evaluate advertising and promotion, one must have a feel for how important these factors are to the industry in which the business operates. For example, if competitors in the industry rely heavily on these factors for generating sales, then meager and ineffective advertising and promotion may be a significant and meaningful weakness. However, if the industry sales are driven by a few established and regular contract sales, strong investments in advertising and promotion may be unnecessary. In this regard, it may be useful to compare advertising and promotion expenditures to those typical of the industry. Of course, the actions of immediate competitors must be considered. If they are investing heavily in advertising, similar response may be necessary to ensure market share.

Price

The business should carefully evaluate its *pricing* strategy. Price can be a difficult and complex factor to rate and thus, must be approached carefully. First, price should reflect the strategy or image the business desires to project. A discount store will make a statement about its image through its pricing structure. A business stressing quality, service, or exclusivity will price differently to reflect its image. The strength or weakness of a pricing strategy is strongly affected by that of the competition. A business may set its prices based on its costs for raw materials, assembly, and sales. Given these factors, it may be unable to lower price and still receive an acceptable return. When a key competitor lowers price, the firm's inability to respond accordingly may be viewed as a price weakness. Size of operations, economies of scale, and production efficiency may enable a business to offer products at consistently lower prices than the competition. Here, price may be rated as a definite strength.

Distribution

The final area of marketing resources to be evaluated is that of *distribution*. Here, one must consider the channel of distribution. Are these channels accessible and acceptable? Does the product flow from the business to consumers in a reasonable and cost effective manner? In many cases, the business' product reaches the individual consumer only after passing through a set of intermediaries. For example, the small manufacturer may distribute directly to retailers or to a wholesaler, who in turn, sells to a number of retailers. Each stage of the distribution process may need to be evaluated to gain a clear notion of the relative strength of the entire system.

For many small businesses, no intermediaries are involved. The business sells directly to the consumer. Although simpler to evaluate, the effectiveness of the sales and delivery activities must still be considered.

In summary, we have suggested that the evaluation or rating of the business' marketing resources cover the six areas of: *market performance, knowledge of markets, product, advertising and promotion, price, and distribution.* Within these categories several ideas that may prompt or facilitate the assessment have been discussed. One should remember that objectivity and realism are the keys to effectively performing an internal marketing analysis.

TECHNICAL AND ORGANIZATIONAL RESOURCES

Technical resources refer to the physical elements of the job with which the personnel interact to produce the products of the business. **Organizational resources** refer to the design and internal culture of the business. Clearly, resources relevant to these categories are numerous. However, seven key areas will be noted for this analysis.

Location

The first evaluation deals with the *location of the business.* Although established and often unalterable, location dynamics can exert significant impacts on the business. In fact, poor location is generaly listed as one of the primary causes of small business failure. Rating the relative strength of a location involves the examination of some rather obvious issues. Location may be a source of considerable strength if it provides the business accessibility to its target market or clientele. On the other hand, a superb product or service may never be accepted if the business suffers from a bad location.

Location involves more than visibility though. Ease of access, availability of parking, and the image of the business location should be noted. Location image can often be a strong determinant of reactions to and perceptions of the business. For example, an upscale boutique, located in a deteriorated section of the community may fail to attract the desired clientele, or a family restaurant will be seriously and negatively affected if it is located in a high crime setting and buffered by bars on either side. The image of the location should support the desired image of the business. Traffic patterns, demographics of the location, and the complementary nature of neighboring businesses are all factors that can provide evidence suggesting the relative strength of the firm's location.

Facilities

Next, the *facilities* should be evaluated. Facilities should be viewed rather broadly. A number of issues should be considered when developing this rating. First, the firm's existing *plant and equipment* should be examined, and a range of questions asked. Is the physical plant large enough to handle the desired quantity of business operations? Has the business been able to avail itself of the technical advances in plant and equipment necessary to remain competitive? Is the equipment utilized by the business technically and operationally sound and efficient? Part of this analysis should address the issue of *capacity*—Is the business operating near capacity or does significant excess capacity exist? Either condition could be viewed as a potential weakness, depending on the growth projections of the business. Further, the actual *physical layout and work flow* should be explored. For example, do the facilities permit work to be arranged in the most efficient and productive manner?

Access to Suppliers

The firm's *access to suppliers* should be evaluated. Here, two basic questions emerge. The first concerns basic availability. Does the business have ready access to the necessary raw materials and suppliers? Availability must be tempered by cost considerations, therefore, the business must ask what will these materials and supplies cost? Indeed, a promising opportunity may be negated by either costly or inconsistent sources of supply.

Consider this example. A most creative entrepreneur desired to sell sports buttons and pins to area schools. Through a personal sales approach the entrepreneur was able to convince school personnel that having these items available for students would enhance school spirit and pride. His marketing efforts were successful and orders were far above initial expectations. Unfortunately, the entrepreneur had lined up only one very small supplier located many miles from the target geographical area. Not only was the supplier unable to meet the required demand, but he refused any shipments until the price was renegotiated. Glumly, the entrepreneur was forced to cancel orders and, in the process, see his credibility and image shattered.

Inventory Control

In examining *inventory*, the manager is evaluating the strength of the system for ordering, stocking, and reordering materials (raw or finished products). Success in this area may be the key to meeting the customer's needs in a timely manner. Does the owner know what materials are on hand? Can they be located and accessed? Are there clear, established procedures for initiating reorders? Is there typically an acceptable level of material stocked, or is the business regularly plagued with inventory backlogs for some materials and outages of others? The inventory control system need not be computerized nor highly sophisticated. Yet, it should provide the necessary information to prompt action to ensure steady, desired inventory flow.

Structure

The *structure* of the organization depicts the formal flow of information and authority within the organization. It indicates both the jobs that people do and their accompanying areas of responsibility. The organizational structure should be consistent with and support the strategies and objectives of the business. If the business desires flexibility of operations, then an informal or open structural system may be preferable. The key to evaluating the structure is to note if the business and its personnel are restricted by the demands of the structure, or if the structure logically fits and aids the fulfillment of their responsibilities.

Image

Evaluating the *image* of the business is clearly a difficult and subjective task. Image has both internal and external ramifications. That is, the image of the business is reflected through its internal culture or climate and thus, impacts the personnel. In addition, the image is perceived by those outside the business and affects their attitudes toward the business. As with structure, the image should be consistent with the strategies of the business. If this condition is present, image emerges as an important strength. If not, image can be a restrictive weakness. For example, if a business wishes to stress personal service as a competitive factor, then it should present an image reflecting openness, concern for workers, communication, and trust. If quality is being stressed, then an image reflecting skillful employees, training and attention to detail is valuable.

Image evolves as the firm operates. The public's perception of image is based on their historical exposure to the business. Past mistakes, missed deadlines, and arrogant prior owners may all be to blame. Clearly these perceptions may not be the fault of present owners, and present conditions may suggest an image drastically differing from the common public view. If this is the case, image must be recognized as a problem area and efforts undertaken to create changes in the public's perception of image. Changes tend to be incremental in nature, but can occur. One should remember that image definitely affects customer attitudes toward the business and, in turn, their buying patterns.

HUMAN RESOURCES

A final category of internal factors to be analyzed relate to the firm's personnel or human resources. Although one may often overlook this component, the firm's personnel are its most critical assets. Here, human resources are viewed broadly to include all personnel of the firm along with their unique skills and abilities.

Key initial concern should be examining the *number of employees* and the *relevancy of their skills*. Particularly, if the business is considering a strategic realignment or expansion, an analysis of human resource needs must be performed to determine how many employees are needed and what specific skills are required. This needs assessment should then be compared to the existing human resource supply. If discrepancies appear, corrective action must be taken before the strategy is enacted. For example, if the required skills are missing, the firm must either train existing employees or hire additional workers who possess the necessary skills. Such human resource planning efforts need not be excessively complex. Yet, small business planners must commit the necessary time to objectively consider the issues raised above.

A second human resource consideration is the assessment of the employee's *morale* and *labor relations*. Morale is a key factor, yet fairly difficult to accurately measure. In most situations, the small firm need not take the time and effort necessary to conduct a formal morale survey. Rather, a set of more informal, surrogate indicators should be utilized. Levels of turnover, absenteeism, tardiness, and a general assessment of the climate may enable one to structure a notion of morale. Frequent grumblings, complaints, arguments, and conflicts may indicate a weakened state of morale. Again, our attempt here is not to be able to designate a precise level of morale, but to provide a general feeling that can relate to business action. If the business is considering a new expansion program and is anticipating some additional turmoil and stress as a result, morale becomes critical. A business with weak morale may expect a series of problems (perhaps even significant enough to undermine the expansion efforts) that a firm with stronger employee commitment and morale can avoid. Similarly, for unionized firms, the quality of labor relations should be noted. Again, a history of adversarial relationships with bitter disagreement and an underlying tone of mistrust may be considered a key obstacle in achieving the expansion goals noted above.

A third factor that needs to be examined is the *compensation system* of the organization. Compensation refers to wages and salary plus any fringe benefits. Compensation is a topic worthy of detailed and lengthy consideration. However, for our purposes, one essentially must determine whether the present compensation system is (1) adequate and (2) consistent with the strategic direction of the firm.

The *adequacy* of the firm's compensation is determined by both internal and external comparisons. Internally, most workers will feel compensation is adequate if it is equitably distributed. That is, better performers earn more than lesser performers. Workers must be able to perceive not only distinctions, but meaningful distinctions between performance levels. Internal equity is a key force to future motivation of employees and credibility of the compensation system. Externally, adequacy is largely a function of competition. Are workers receiving compensation that is reasonably consistent with that of workers in similar firms and industries?

In some cases workers may be willing to accept some degree of compensation deficiency if other factors make up for it. For example, two businesses may be competing in the same market area. One provides a slightly higher compensation package for its workers. The second, however, offers a more challenging, interesting, and pleasant work environment. Some workers may feel that the opportunities available at the second business outweigh the compensation losses. Yet, managers should not deceive themselves. In general, workers expect a compensation package that is similar to or better than that of competitors.

The adequacy of the firm's compensation system affects many areas. Employee motivation is affected at least in part by perceptions of the adequacy of the compensation system.

Moreover, the firm's ability to attract and keep quality workers is affected, in part, by the worker's feelings about the adequacy of compensation.

In addition to the question of adequacy, one must be sure that the compensation system is *consistent with the strategic thrust* of the firm. If the firm is moving aggressively into new markets and is depending on the efforts of its sales force to attract new customers, the compensation system must reflect this. Perhaps quotas, bonuses, or a commission system is needed to entice workers to excel in attracting new contacts and businesses. The firm's hourly wage rate may have worked fine in the past, but the new demands require new motivational efforts. It is important to realize that a compensation system may need little or no revision. The system properly designed can work to aid the manager in achieving desired results.

FOCUS ON STRATEGY

The discussion of this chapter should be good reading for any student or manager interested in assessing the current position of firm. The interest in this book, however, is on strategic planning. Thus, whenever, one assesses a firm's position, that assessment must consider the firm's current position. But more importantly, it must consider the firm's position *as related to its future ability to compete* and *its ability to achieve long term goals.* Simply assessing current position is insufficient. The future orientation must be kept in mind.

In the financial area, we are interested in the firm's current financial position, but we are *more* interested in the capability to embark on a new strategy, *given the current position.* In the marketing area, we may determine that the distribution system is adequate. But when we consider that we may be expanding next year, then the distribution system may *not* be adequate. The morale in the manufacturing plant may be acceptable, but will it still be adequate after we make major changes in the manufacturing process? The focus must be on the future.

SUMMARY

In this chapter we have divided internal analysis into four resource categories. Within each category, a number of focus areas have been designated. The list of focus areas or factors is by no means all-inclusive. Rather it is intended to provide a general framework for those beginning the process of internal analysis. Small business managers must reflect on their own business and select those items that are most relevant to their particular situation. As strategic planning becomes more habitual, the internal analysis will become more focused and specific to the needs and demands of the business. Business planners will soon learn which factors are key indicators for their businesses and analyze these factors in greater depth.

In the following chapter we will combine the analysis of the strengths and weaknesses from this chapter with the analysis of the external environment of the preceding chapter. The result of this combination is the determination of distinctive competencies of the business.

DISCUSSION QUESTIONS

1. Should the external analysis be done before the internal analysis? Why or why not?
2. Why is collecting accurate data about the people part of the business difficult?
3. How should priorities be set in determining which areas to analyze first and how much depth should be used in the analysis?
4. Complete an internal analysis for a company familiar to you.
5. What would likely be key internal factors for the following businesses? Will your answer be the same for each of them?
   a. A motorcycle dealer
   b. A producer of computer printers
   c. A food wholesaler
   d. A grocery store
   e. A manufacturer of equipment for the space program

Recognizing Distinctive Competencies and Competitive Weaknesses

Objectives

When you have absorbed the material of this chapter you should know:

1. What is meant by distinctive competencies
2. How to exploit distinctive competencies
3. How to develop a strength into a distinctive competency
4. The importance of a sustainable competency
5. The difference between a weakness and a significant competitive weakness

The last two chapters detailed the process of external, environmental analysis and internal, firm analysis. These chapters discussed the importance and relevance of careful analysis efforts. Specifically, environmental analysis enabled the small business owner to pinpoint key opportunities and threats. Likewise, internal analysis allows the business to assess its own capacity for responding to these factors. This chapter progresses through the strategic planning process by considering the final step in the analysis phase of our model—recognizing distinctive competencies and competitive weaknesses.

ENVIRONMENTAL OPPORTUNITIES VERSUS RELEVANT BUSINESS OPPORTUNITIES

As a business owner or manager analyzes the relevant external environment, a number of possible areas of opportunity will likely be revealed. Perhaps larger competitors have grown to the point where they no longer provide the personal touch that consumers have come to desire and expect. Perhaps new segments or niches in the market are appearing but, as yet, have not been fully addressed. Perhaps consumer needs and preferences are shifting so that adding additional, complementary products or services will lead to significant increases in sales and profits.

Of course, merely identifying opportunities does not indicate that the firm is either willing or able to react to these opportunities. This determination is made after carefully considering the internal analysis. For example, changing demographic and social factors within a given community may indicate that a restaurant and dinner theater combination is an attractive opportunity. Suppose no dinner theater exists in the community and the increasing population base of young, upscale consumers seems likely to support such an operation. A particular restaurant in the community may accurately recognize this as an *environmental opportunity.* Yet, internal analysis clearly reveals that the restaurant has neither the personnel nor financial resources to commit to such a project. Therefore, to this restaurant an environmental opportunity cannot be translated into a *relevant business opportunity.* Environmental opportunities only become relevant business opportunities when the internal analysis reveals that the business possesses the capacity to avail itself of these environmental potentials.

A business may be able to specify a number of environmental opportunities. In general, the more dynamic and growth-oriented the industry, the greater the number of environmental opportunities. Similarly, the more open, responsive, flexible, and sound the business, the greater the number of relevant business opportunities it is likely to face.

The distinction between environmental opportunities and relevant business opportunities may be somewhat arbitrary or judgmental. Yet, this recognition is critical to the strategic planning process. The business is concerned with acting on and dealing with those opportunities that have survived the scrutiny of internal analysis to be placed in the restricted domain of relevant business opportunities.

THE ROLE OF DISTINCTIVE COMPETENCY

A **distinctive competency** is any area, factor, or consideration that provides a business a meaningful, competitive edge over its business rivals. Distinctive competencies represent those sets of factors that positively distinguish a firm from its competitors. Courtland Clubs, presented in Capsule 3–1, offers an example of a firm's distinctive competency.

Capsule 3–1

Courtland Clubs

Courtland Clubs was an established tennis club in a medium-sized metropolitan location. Courtland had been in business for over twenty-five years and had prided itself on the quality and aesthetics of both its indoor and outdoor courts. Although their prices were competitively high, they had attracted a prosperous, young, upscale clientele and had experienced steady growth. Courtland Clubs had developed a reputation as the "in" club among young, professional movers In the early 1980's, Courtland's management team realized that physical fitness was becoming more significant to its Yuppie market than the socialization factor. They feared that membership might start to dip, since it appealed to members who viewed the club from a social perspective.

In analyzing its environment, Courtland recognized numerous growth opportunities—movement into health clubs, complete with weight machines and general workout equipment; movement into racquetball facilities; and the installation of an indoor running track to capitalize on the running boom. Courtland possessed the staff, land, physical, and financial resources to capitalize on any or all of these areas. However, other clubs were providing these features and, indeed, it appeared that the last thing the community needed or could support was another health and exercise club. Distraught, the firm felt it had responded too slowly to environmental shifts and new consumer needs and thus, was stuck in a losing situation.

As Courtland's management team assembled to discuss the problem, one individual asked, "Is there any way that we can compete in the health club, racquetball, and running club areas given the present level of competitive saturation? The answer was perhaps, if the Courtland design is unique or special enough to attract users from existing clubs to its facilities. But, how does one build such a club?

The answer lay in the distinctive competency that Courtland had so carefully nutured over its twenty-five-year existence—namely, quality facilities, extra luxuries, and a competent and helpful staff that appeals to the wishes of its unique (and growing) target market. With this competency in mind, the business now had clear direction or focus for growth and was able to proceed and enlarge its offerings.

IDENTIFYING AND DEVELOPING AREAS OF DISTINCTIVE COMPETENCE

Distinctive competencies may appear in either of two ways. First, the competency may be present as part of the firm's operations. The business operates in such a manner that clear and important areas of competence are recognized and stressed. These competencies may have initially arisen out of the firm's perceived mission or managerial orientation and over time, have become an integral part of the existence of the business. Courtland Clubs provides an example of this approach. In its competitive situation, Courtland needed to recognize its areas of competence, determine whether they were still viable, and then proceed to use them as the focus for evaluating environmental opportunities and strategic direction.

In some situations, distinctive competetences may need to be developed or nurtured—particularly if none currently exist. Here, the business analyzes its competitive environment, scrutinizes its internal resources, and carefully and objectively decides which areas have the best chance for development. In this approach, the business is attempting to build areas of competence. Such a building or development process can be quite trying for the small business. Essentially, the business should investigate areas where it can create a meaningful competence, realizing that competencies are dictated by the competitive environment, the firm's internal capacities, and the firm's reactions within its competitive environment.

It is difficult to list an exhaustive set of competencies. However, some typical areas of distinctive competence can be recognized. Table 3–1 notes nine of the more common areas of distinctive competence likely to be recognized by small business.

Quality is a key area of competence. Here, the business offers the consumer a product or service that is of discernably

Table 3–1

Areas of Distinctive Competence
Commonly Recognized by Small Businesses

Quality	Flexibility and Adaptability
Service	Strong Consumer Orientation
Location	Reputation and Image
Filling a Special Niche	Personnel
Price	

higher quality then can be secured from the competition. Accordingly, consumers come to associate a quality image with the business.

Service often moves hand-in-hand with quality. The business is concerned with aiding the consumer in their dealings with the business and its products. This may occur as service prior to the sale or as repairs and follow-up after the sale.

Location is a factor that often dictates the firm's success. It can be an area of considerable competence when recognized and exploited. Location may affect the firm's visibility, likeliness of attracting individuals within the target market, and its competitive edge over businesses offering similar products or services.

Filling a special niche is a particularly important competence and one that can be developed after careful analysis of the competitive situation. The business may choose to enter an untapped market, provide unique or different services or products (and thus limit direct competition), or attempt to develop aspects of novelty or originality into existing products. Such extentions and variations must be focused on real needs of some segment of the market. Providing a unique product that no one cares about or wishes to purchase is, of course, counterproductive.

Flexibility and adaptability may be particular strengths a small business can focus on that offer it a competitive edge over larger, often more formalized and rigid operations. For example, a small business may do work on a custom basis and thereby attract customers from larger firms who refuse such actions.

Strong consumer orientation is often promoted by the smaller business. Here smaller firms, perhaps because of a less formalized, bureaucratic process, are able to stay in closer touch with shifting consumer needs and demands and respond more quickly to these preferences. Thus, consumers are likely to feel that the company personnel know them and are willing to adapt and modify their methods and operations to accommodate the individuality of their customers.

Reputation and Image are important. These may be a function of a number of other areas, yet its cumulative effect is often seen in a general or encompassing way by consumers. A strong reputation and image may lead consumers to identify particular products or services with a particular business and, accordingly, seek out the business to purchase the desired items.

Personnel can be an area of competence if management and employees have extensive experience or knowledge, and know how to help the customer. When customers recognize these strengths and believe it is superior to the strengths of other businesses, a distinctive competency exists. For example, two hardware stores both have experienced, knowledgeable workers. One store, however, is primarily self-service. The second emphasizes personal interaction and help. Therefore, both possess personnel strengths, but only the second has a distinctive competence.

Finally, *price* is often stressed. Price is a tenuous competency—potentially powerful, yet remarkably fragile. Its basis for competency may be significant if competitors are established and new entries are unlikely. Here, consumers may respond to a business because of its pricing policies. However, if a competitor is willing or able to alter its existing pricing structure, this competency can be stripped quickly. Thus, price is often viewed as a rather short-run competency.

One must remember that these nine areas are competencies only if they have been developed and are perceived by the firm's customers. Here, perception is often more important than reality. For example, a business owner may know from experience and research that its customer service is superior to that of its immediate competition. However, if customers are unaware of this service and how it is different from and better than that of competitors, then no distinctive competence exists. At best, in this situation, the firm may possess an unexploited strength. A strength must be built or developed into a true area of distinctive competence. Effective marketing of the strength may be the bridge between a mere strength and a distinctive competence.

RELATING DISTINCTIVE COMPETENCIES TO RELEVANT BUSINESS OPPORTUNITIES

At this point, an important strategic question emerges. As noted earlier, not all environmental opportunities are relevant business opportunities. Further, not all business opportunities should be exploited. Given a series of relevant business opportunities, which of these will the business choose to pursue? In general, managers will select those business opportunities where they possess some unique or special advantage over competitors. In other words, the business should focus on those opportunities for which its strengths are distinctive competencies.

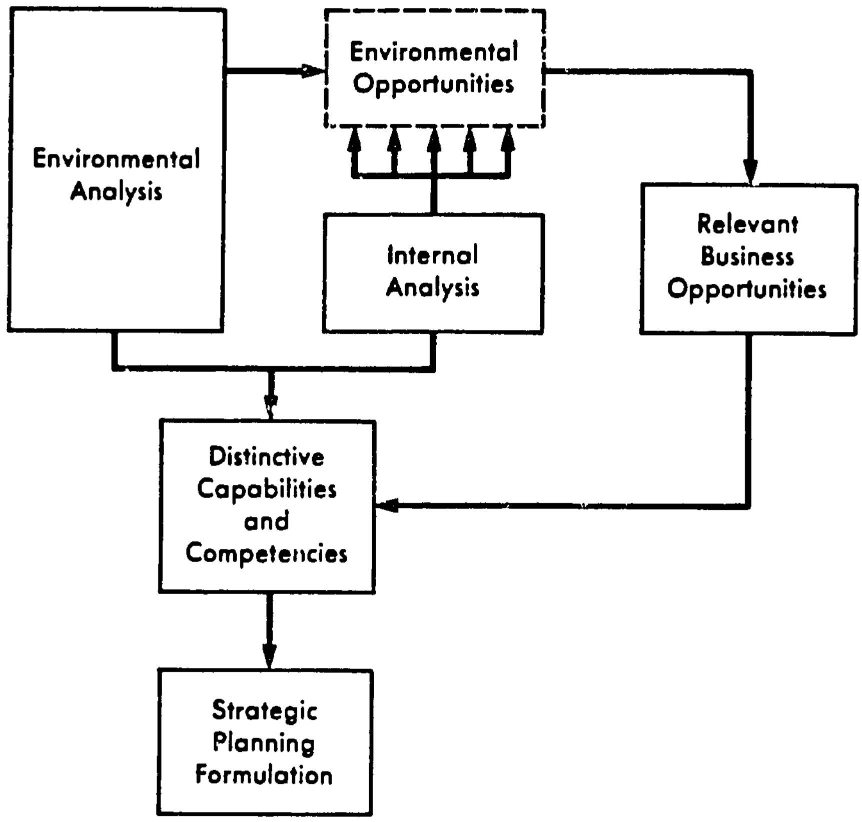
The significance of this point is often overlooked or misunderstood by small business owners. Often, these individuals believe that if a relevant business opportunity is present, a prudent manager will respond and seek to capitalize on its potential. This view may result in poor utilization of the firm's resources. For example, a number of competitors may be set to respond to the same opportunity. In fact, some competitors may be better able to service these opportunities than others. Thus, a business may commit to an area where it is, from the outset, at a definite competitive disadvantage. A business should pursue those areas where it performs well. This concept of performance must be viewed from a competitive perspective so that those areas where the business possesses a meaningful competitive edge are emphasized.

DISTINCTIVE COMPETENCE AND STRATEGIC PLANNING

The determination or recognition of a firm's distinctive competency is one of the critical, culminating events of the analysis phase of strategic planning. The distinctive competency of the business becomes the focus or driving force around which relevant business opportunities are chosen, mission and goal statements arranged, and strategic actions structured.

It may be useful, as noted in Figure 3–1, to refine the steps or processes that comprise the analysis phase of the strategic planning model.

Figure 3–1 Refined Analysis Stage of Strategic Planning



First, environmental analysis yields a series of environmental opportunities. These are then subjected to the scrutiny of internal analysis to determine if, in fact, they are relevant business opportunities. As a simultaneous process, environmental and internal analysis permit the firm to clearly recognize its distinctive competencies and capabilities (or pinpoint those factors most fruitful for competency development). Then, the range of relevant business opportunities are evaluated from the perspective of the recognized distinctive capabilities and competencies. Those opportunities most consistent with the firm's competencies and capabilities are the ones that are actively pursued and become the focus for subsequent planning efforts.

As a caveat, one must recognize that a business may exist without any specific distinctive competence. In particular, this may occur if consumer demand is strong in relation to industry supply. Here, simply presenting the product or service to a desirous market is sufficient to assure at least short-term success. However, if business returns are attractive and industry entry barriers are not prohibitive, new businesses will enter and an eventual competitive shakeout will occur. Under these conditions, the businesses with firmly established competencies possess the greatest likelihood of surviving.

COMPETITIVE WEAKNESSES

Just as careful environmental and internal analysis enables the identification of areas of distinctive competency, they also suggest areas of **competitive weakness.** A competitive weakness represents an area of vulnerability—an area where competitors recognize a meaningful competitive edge. Thus, in a highly competitive situation, one firm's competency is often another firm's competitive weakness. Just as competencies are developed gradually, competitive weaknesses also typically evolve over a period of time.

Through its business life, the things the company has done and the things it has failed to do have all impacted this determination of competitive weaknesses. Once recognized, competitive weaknesses have motivational effects on the strategy process. Managers may wish to respond strategically, not only to capitalize on areas of distinctive competency, but to minimize, mitigate, or overcome areas of competitive weakness. Areas where competitive weaknesses may be realized are similar to those previously noted for distinctive competence.

Small businesspersons are a proud group. Often, they are enthusiastically enamored with their products and businesses. They may have great difficulty in recognizing competitive weaknesses. Generally, this results from an unrealistic environmental analysis of the competition and an unrealistic internal analysis. This is why it is so important to provide sound and objective analysis, and why the owner must be open and aware and ready to accept and respond to the outcomes of the analysis. Indeed, one or two key areas of competitive weakness can, if unrealized and unattended to, destroy the base of strength derived from a series of distinctive competencies. Since few businesses are the best at everything, the identification of competitive weaknesses is not a sign of failure. Instead, the identification signals the firm that there are factors to be dealt with in its development of goals and strategy for competitive action.

DISCUSSION QUESTIONS

1. How can distinctive competencies be identified?
2. Can distinctive competencies really be developed as part of a strategy or are they simply something a firm has or doesn't have?
3. How necessary is it for a firm to develop a particular distinctive competence?
4. Pick a company about which you are familiar. Does it have distinctive competencies? How does or should the firm exploit them?
5. What kinds of competencies might we expect in the following firms:
   a. a shoe store
   b. a grocery store
   c. a pet shop
   d. a heating and air conditioning firm
   e. a computer repair business

UNDERSTAND THE CONCEPT OF DISTINCTIVE COMPETENCY, CONCEPTUALIZE AND DRAFT A MISSION STATEMENT AND DEFINE A STRATEGIC POSTURE

UNIT 3

Title: **UNDERSTAND THE CONCEPT OF DISTINCTIVE COMPETENCY, CONCEPTUALIZE AND DRAFT A MISSION STATEMENT AND DEFINE A STRATEGIC POSTURE**

Purpose: This unit is designed to help participants understand what separates them from their competitors, articulate a vision, define a clear sense of purpose and overall strategic posture for their firm.

Objectives: Upon completion of this unit, participants will be able to . . .

- define their firm's distinctive competency
- write a vision statement for their firm
- define their products and/or services
- define their target markets
- define the geographic boundaries they will **primarily** serve
- define their strategic posture.

Materials:

Transparency 3-0a:	Areas of Distinctive Competence Commonly Recognized by Small Businesses
Transparency 3-0b:	Refined Analysis Stage of Strategic Planning
Transparency 3-1:	Strategic Management Model
Transparency 3-2:	Develop a Strategy
Transparency 3-3:	Definition of Mission
Transparency 3-4:	Example: Mission Statement
Transparency 3-5:	Strategic Fit
Transparency 3-6:	Strategic Fit Illustration
Transparency 3-7:	General Strategic Postures Commonly Used by Small Businesses
Transparency 3-8:	The Process of Choosing A Strategic Posture
Transparency 3-9:	Factors to Consider When Choosing A Strategic Posture
Transparency 3-10:	Stages of Small Business Development

Handouts:

Handout 3-1:	Distincitive Competence: A Marketing Strategy for Survival
Handout 3-2:	Establishing a Vision for the Future
Handout 3-3:	Determining the Firm's Mission and Strategic Posture
Handout 3-4:	Worksheet #3 — Distinctive Competency, Vision, Mission Statement and Strategic Posture

Class Exercise:

Ask each student to take two minutes to describe (and defend) their distinctive competencies to the rest of the class.

Assignment:

Complete Worksheet #3

Notes to Instructor:

Whenever possible, encourage each participant to express their feelings and to ask questions.

Stress the fact that a distinctive competency **only** exists if it is recognized by the firms customer.

Stress the fact that a mission statement should not be a lengthy document. It should be short and concise.

Make sure participants know they can adopt multiple strategic postures. However, the instructor should stress the fact that business owners should not spread themselves too thin.

Note the fact that strategic posture is very similar to the concept of "positioning" covered in Units 1 and 2 of the marketing module and to some extent will be addressed in the international marketing module.

Estimated time:

Distinctive Competency Exercise	30 minutes
Vision Statement	20 minutes
Mission Statement	30 minutes
Strategic Posture	30 minutes

Content	Process
A. Overview of the Class.	
This units is designed to help participants define a clear sense of purpose for their firm. Upon completion of this unit, participants will . . .	
• define their firms distinctive competency • write a vision statement • define their products and/or services • define their target markets • define the geographic boundaries they will **primarily** serve • define their firms strategic posture	
B. Environmental opportunities versus relevant business opportunities	
As the business owner analyzes the relevant external environment, a number of possible areas of opportunity will likely be revealed. Merely identifying opportunities does not indicate that the firm is either willing or able to react to these opportunities.	
Environmental opportunities only become **relevant business opportunities** when the internal analysis reveals that the business possesses the capacity (or internal strengths) to avail itself of these environmental potentials.	Write these two terms on the black board.
It is critically important for the business owner to only act on opportunities that have survived the scrutiny of internal analysis.	Give an example of this concept.

Content	Process
Items which survive this analysis should be placed in the restricted domain of **relevant business opportunities.**	Make sure everyone understands this distinction.
C. The role of distinctive competency	
A **distinctive competency** is any area, factor, or consideration that provides a business a meaningful, competitive edge over its business rivals.	Write this term on the black board.
Distinctive competencies represent those sets of factors that positively distinguish a firm from its competitors.	
Distinctive competencies may appear in either of two ways.	
First, the competency may be present as part of the firm's operations.	
Second, in some situations, the competency may need to be developed or nurtured. In this situation the business analyzes its competitive environment, scrutinizes its internal resources, and carefully and objectively decides which areas have the best chance for development.	
It is difficult to list an exhaustive set of competencies. However, some typical areas of distinctive competence can be recognized. They include the following:	Put up TP 3.0a: Areas of Distinctive Competence Commonly Recognized by Small Businesses.
• Quality • Service • Location • Filling a Special Niche • Price	Give examples of each item.

Content	Process
• Flexibility and Adaptability • Strong Consumer Orientation • Reputation and Image • Personnel	Hand out a reading on distinctive competence (HO3-1).
Remember, a firm can only recognize one of these nine areas as a competency if the customer perceives it as a competency.	
D. Relating distinctive competencies to relevant business opportunities	
The determination or recognition of a firm's distinctive competency is one of the critical, culminating events of the analysis phase of strategic planning.	
The distinctive competency of the business becomes the focus or driving force around which relevant business opportunities are chosen, mission and goal statements arranged, and strategic actions structured.	
The rationale for this statement can best be understood by reviewing the situation analysis phase of the strategic planning process.	Put up TP 3.0b: Refined Analysis Stage of Strategic Planning.
First, **environmental analysis** yields a series of environmental opportunities. These are then subjected the scrutiny of internal analysis to determine if, in fact, they are relevant business opportunities.	Review each stage of the process.
As a simultaneous process, **environmental and internal analysis** permit the firm to clearly recognize its distinctive competencies and capabilities.	
Then, the range of **relevant business opportunities** are evaluated from the per-	

Content	Process
spective of the recognized distinctive capabilities and competencies.	
Those opportunities most consistent with the **firm's competencies and capabilities** are the ones that are actively pursued and become the focus for subsequent planning efforts.	
E. Step 3: Develop a strategy	
THE VISION STATEMENT	
An important step in the strategic management process is to develop a clear and distinct description of what the business can become. This is called a **vision statement.**	Hand out a reading on vision statement (HO 3-2: Establishing a Vision for the Future.)
According to John Bryson, University of Minnesota in order to construct a compelling vision statement . . . "key decision makers must be courageous. They must listen to their best selves in order to envision success for the organization as a whole. And they must be disciplined enough to affirm the vision in the present, to work hard to make the vision real in the here and now."	
A vision statement should be widely circulated among employees and other key stakeholders, and it should be used as a benchmark when making major and minor organizational decisions.	
A number of benefits flow from a clear, succinct, inspiring and widely shared vision of success.	
• Employees understand how they fit into the big picture and what is expected of them.	

Content	Process
• Owners and employees Have some conception of what success looks like wit success therefore made more likely. • If there is Agreement on the vision, and if clear decision rules can be derived from it, the business can gain an added increment of power and efficiency. • If we believe that the future is what we make it, then a vision outlines the future we want to have and forces us to live it, create it, and realize it in the present. • It creates a useful tension between the world as it is, and the world as we would like it. • An inspiring vision of success can supply another source of motivation: a calling. If a vision of success becomes a calling, an enormous amount of individual energy and dedication can be released in pursuit of a forceful vision. • Helps everyone recognize the barriers to realization of the vision and thereby assists in overcoming them. The following guidelines are intended to help a strategic planning team formulate a vision statement. • Should not be prepared until the firm has been through at least one cycle of strategic planning. • Should include the following: mission, basic philosophy and core values, long-term goals, basic strategies, performance criteria, important decision rules, and ethical standards expected of all employees.	

Content	Process
• Should be inspirational.	
• Begin constructing a vision statement by having the planning team members as individuals prepare draft visions, then share and discuss their responses. After the discussion, the task of drafting a vision of success should be turned over to an individual.	
• Consensus on a vision statement among key decision makers is highly desirable, but may not be absolutely necessary.	
• While constructing a vision statement may be difficult, the task of formulating a vision can contribute to a reduction of organizational conflict.	
THE MISSION STATEMENT	
After carefully considering the SWOT analysis prepared in Step 2, the planning team has a realistic assessment of where the firm is in the "here and now."	Put up TP 3-1: Strategic Management Model and hand out a reading on mission statement (HO 3-3). Point to funnel and explain where we are in the process. Put up TP 3-2: Develop a Strategy.
Based on this shared understanding the planning team is ready to begin formulating "the overall strategy" for the firm.	
This step begins by **drafting a mission statement**.	
This statement should be quite concise and should answer three questions. Who do we serve? What services do we provide? In what geographic area do we **primarily** provide service?	Put up TP 3-3: Definition of Mission. Discuss components. Put up TP 3-4: Example Mission Statement.

Content	Process
Differentiate mission from philosophy.	
The mission statement is important for three reasons. First, it is a tool for communication both inside and outside the firm. Second, is that once the mission is printed and publicized the firm has made a strong statement of commitment.	
Finally, the mission statement is important because it enables the firm to focus on its' "strategic fit".	Put up TP 3-5: Strategic Fit.
Strategic fit refers to the intersection of "What we intend to do?"; with "What is needed in our geographic area?"; with "What we are capable of doing?"	
Another way of making this point is as follows:	Put up TP 3-6: Strategic Fit Illustration.
No matter how hard this guy tries he won't fit through this door.	
STRATEGIC POSTURE	
The mission statement, if developed properly, gives a guideline and general direction for the business and an indication of its management philosophy.	
Before goals and objectives can be defined more specifically or strategies developed to achieve those objectives, it is necessary to determine the firm's strategic posture.	
Strategic postures provide a general indication of how the business will achieve its overall mission and secure a competitive advantage.	
The strategic posture is management's overall plan of action for running the busi-	

Content	Process
ness in response to external opportunities and threats. It is based on external awareness, assessment of internal strengths and weaknesses, and the set of distinctive competencies the business has developed.	
Often, small businesses fail to give specific planning attention to strategic postures, and instead, emphasize short-run objectives and operational decisions. As such, the firm's strategic posture evolves as a reflection of past actions. If that happens, the strategic posture describes what the firm has done rather than prescribe what the business will do. Thus, the strategic posture fails to reinforce the sense of direction generated by the mission statement.	Put up TP 3-7: General Strategic Postures Commonly Used by Small Businesses.
Some of the more common strategic postures include the following:	
• **The Single Product/Market Posture**	
The most prevalent strategic posture utilized by small businesses is that of concentrating on a single product or a single market. The appeal of this posture is in the competitive advantage that this type of small business may possess. This posture allows the small business to emphasize what it knows and does best.	
Small business success—at least initially—is greatly enhanced by limiting involvement to those areas where owners and managers possess business experience and a clear understanding of the dynamics of the competitive market situation.	
This is especially true in the small business where managerial staff is limited. Focusing on the single product/market	

Content	Process
allows the firm to concentrate on the nuances of that particular situation without having to meet a variety of demands simultaneously.	

This posture allows the business to develop a number of potential competitive advantages over larger firms. Small business are often characterized by their general flexibility and adaptability. These factors may enable the small firm to meet the special needs of their target market in a more timely and responsive manner than can the large business. Thus, meaningful opportunities that are normally overlooked or bypassed by a large firm can be exploited by the small business.

This posture is not without its risks. The firm has placed all its eggs in one basket. If the product or market loses its vitality, the business is placed in a tenuous position.

- **The niche posture**

A specialized version of the single product/market posture is the niche posture.

Through careful environmental analysis, an important gap or niche in a market is identified. If a business has the capacity and competency to enter these areas, it can capitalize on these previously unfulfilled opportunities.
Recognizing and gearing the business toward a promising niche may lead to substantial short-run profits and possibly may be viable over many years. In some cases, competitors may not realize that the niche exists. Other may see the gap but still not have any interest in moving into it due to

Content	Process
either perceived costs, limited demand relative to their other products, or an inability to fil! the niche at an acceptable price.	
As in the single product/market posture, this posture can be high reward strategy, but always possesses the risk of a more able competitor suddenly moving into the niche.	
• **The expansive growth posture**	
A business that assumes an expansive growth posture builds on one or more of the previously discussed postures.	
Due past success and a promising outlook, management realizes there are opportunities to expand the company's scope of operations. An expansive growth posture will generally take one of two forms.	
First, the business may undergo an expansion of its primary location. This may entail enlarging the present faciiity or relocating to a larger facility. There is no attempt to alter current products or markets. In fact, it is the overall strength of the market and acceptance of the products that necessitates expansion.	
The business will do the same things it has always done, but additional capacity will enable it to reach larger numbers and hopefully realize greater returns.	
A second form of expansive growth is when a business establishes additional facilities in promising new market areas.	
A multi-location approach is orien'ed to-	

Content	Process
ward new market areas, but not new or different target markets. Further the product remains unchanged. The customer and product characteristics of the target market that have provided past success are still emphasized. Careful environmental and internal analysis is critical to the success of this posture. A misreading of competitive forces or target market demands and characteristics could result in significant losses. Difficulties may arise if unnecessary expansion occurs, most notable are questions of leadership and control. Small business owners often have difficulty delegating authority. Another problem area may be providing standard quality. In short, the management structure, personnel and operating policy areas must be reexamined regularly if this posture is adopted. • **The developmental growth posture** A business that utilizes a developmental growth posture decides to grow by either developing new target markets for its current products or by offering product variations to existing markets. The two forms of developmental posture are market development and product development. In market development, the business attempts to appeal to new and varied market segments who characteristics or demographics differ from those of estab-	

Content	Process

lished primary markets.

Product development stresses variations of improvements in the firms primary products. In this case, current customers are introduced to the new and different products in the hope that the positive image customers have of existing products can be transferred to the new products.

Note that existing products are not changed, rather, growth comes from the same customers purchasing both the existing products and the new products.

A key advantage of developmental postures is that the business maintains a high degree of consistency and stability while undergoing change and development for growth.
Care must be used when making such a strategic change. The business must be sure that in addressing new markets, the needs of older established markets are not neglected.

A developmental posture does add a fair amount of additional planning complexity.

- **The product innovation posture**

Initially, one may question the distinction between product development and innovation.
Product development seeks product variations and improvements, but involves no overriding change in the fundamental product.

Product innovation seeks a novel alteration of the existing product so as to create a basic and significant change in the product.

Content	Process
From the consumers perspective, innovation creates a new or different product, while product development presents the original product with some changes.	
Here the hope is that innovation creates a product so significantly novel that consumers shift preferences away from existing products and toward the newer ones.	
A reason for the attractiveness of a product innovation strategic posture is the hope for high returns.	
Introducing new products can result in large returns until competitors recognize and respond to the new changes.	
However, significant risks are also present. For example, being on the cutting edge demands a careful and accurate reading of environmental trends and necessitates a timely and cost-effective response.	
• **The diversification posture**	
A diversification posture occurs when the business decides to grow by expanding operations into related, but essentially different products or services. Thus, the business is no longer limited to a single product/market posture. Although a core area of concentration may still command the bulk of the business energies, the total business is broadened to include supporting or complementary products or services.	
The determination of where to expand is a function of two factors—competitive opportunity and strategic fit.	
Competitive opportunity refers to the firms determination that realistic gains	

Content	Process
may be achieved by moving toward unexploited or untapped areas of consumer demand. The business swill only consider growth toward areas where real and meaningful prospects for success are present.	
The concept of strategic fit means that the firm will only grow into areas that are consistent with or complement existing operations. Although diversifying, the small firm must be assured that some logical relationship exists between existing operations and the desired areas of diversification.	
Extremely high risks occur when expansion extends beyond the entrepreneur's realm of experience or demonstrated competence. **For this reason, unrelated diversification is, typically, not a reasonable option for the small firm.**	
THE CHOICE OF STRATEGIC POSTURE	
Given these six general strategic postures available to small firms, managers must decide which postures are most appropriate for their situation.	Put up TP 3-8: The Process of Choosing a Strategic Posture.
It is not unusual for a firm to simultaneously embrace more than one posture.	
The appropriate posture(s) may be a function of at least four significant influences.	Put up TP 3-9: Factors to Consider When Choosing a Strategic Posture.
• The stage of business development	
• The attractiveness of the firms products and industry	
• The firms relative competitive strength	
• The personal desires and aspirations of the business owner.	

Content	Process
STAGES OF SMALL BUSINESS DEVELOPMENT	
Three stages of small business development will be considered.	Put up TP 3-10: Stages of Small Business Development.
As the business moves from one stage to another, its emphasis shifts. As such, different strategic postures seem appropriate for different stages and conditions within stages.	
Startup Stage	
Objective—survival Proper posture—	
• Single product/market posture.	
If either product and industry attractiveness or relative competitive strength are low, the firm should consider . . .	
• A niche posture	
Simultaneously it may want to search for and develop new areas of concentration.	
Stabilization Stage	
Once the business becomes established and survival seems probable, a critical decision stage is reached.	
A primary consideration is the personal goals of the business owner.	
Growth Stage	
In the growth stage, the business has weathered the storms of early business life and has gained a level of consumer acceptance and establishment.	

Content	Process
Here the firms original market approaches are tested and refined, as steady, controlled growth prevails. As the business develops, it encounters problems resulting from growth. For example, new employees are added, need to delegate operating decisions, standards and controls need to be formalized, and job responsibilities must be delineated as a workable organizational structure evolves. As noted previously, the choice of proper strategic posture is strongly influenced by the firm's relative competitive position and the product and industry attractiveness. Two cautions must be stressed! **First**, attempts at securing growth are risky if the business is experiencing a relatively weak competitive position in its original product or market areas. **Second**, if product or industry attractiveness is becoming or is projected to be less favorable, one should be cautious about further growth in that industry. These cautions are not meant to suggest that a business is precluded from growth opportunities if either relative competitive position or product/industry attractiveness are unfavorable, but the additional risk involved must be noted. Given competitive strength and product/industry attractiveness a number of growth-oriented strategic postures are possible. Depending on the nature of the industry and the specifics of the business, any of the six strategic postures may foster effective growth.	

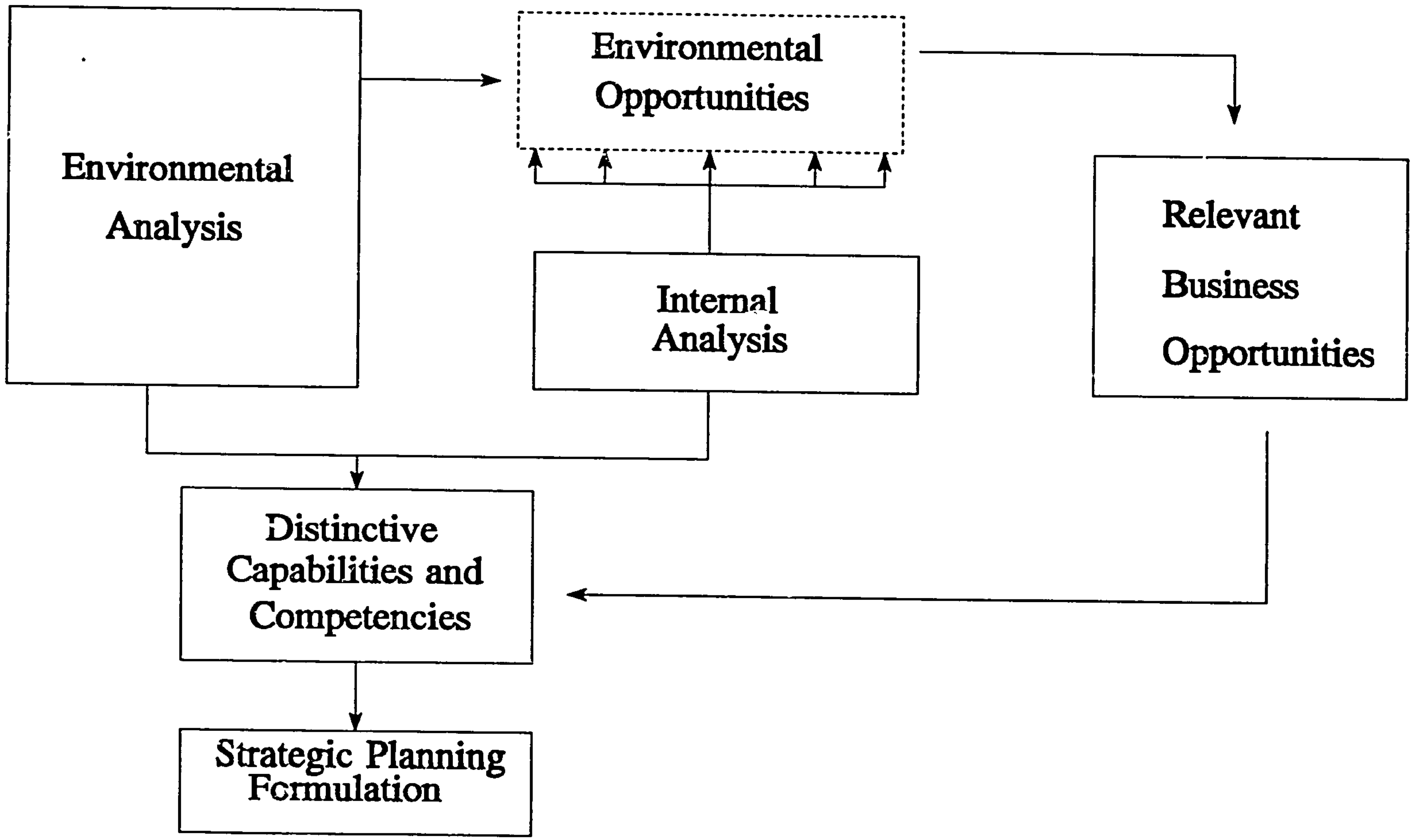
Content	Process
Rather then prescribe specific postures, it is best simply to encourage small business owners to choose new postures that complement the existing business postures and mission. Ask each student to take 2 minutes to describe (and defend) their distinctive competencies to the rest of the class.	Step 1: At the conclusion of Unit 2 reinforce the need to review the material in Stoner and Fry on distinctive competency. Tell them that they will be asked to present their distinctive competencies in class during Unit 3. Step 2: Conduct the lecture on the distinctive competency before conducting the exercise.
	Step 3: Tell each student they have 1 minute to describe and defend their distinctive competencies. Systematically call on each participant.
	Step 4: At the end of each presentation, allow 1 minute for comments and suggestions from other participants.
	Step 5: Remind each participant that their strategy should build on their distinctive competencies.
Summarize Unit 3.	Handout Worksheet #3 (HO 3-4: Vision Statement, Mission Statement & Strategic Posture.)

Areas of Distinctive Competence Commonly Recognized by Small Businesses

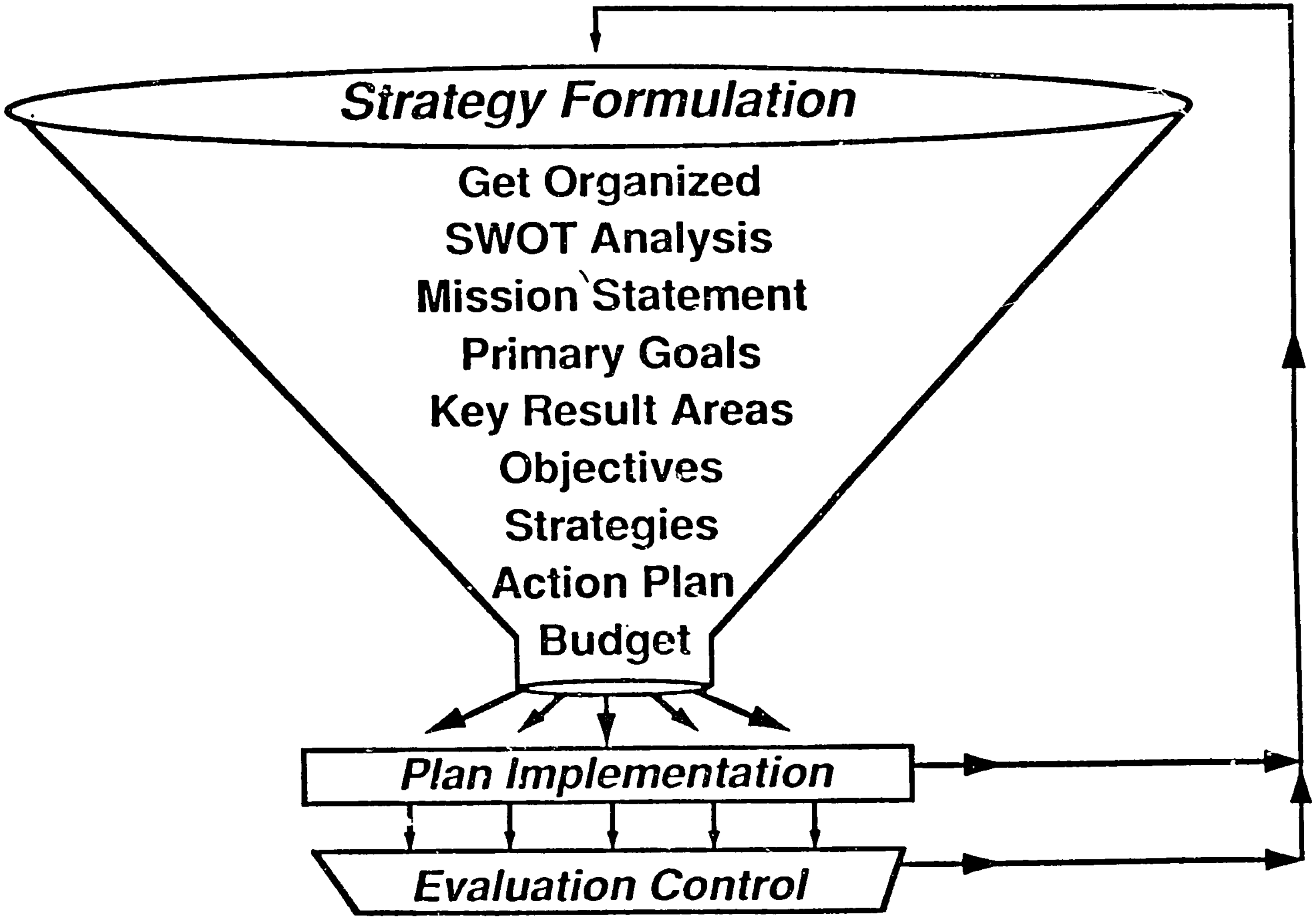
Quality	**Flexibility and Adaptability**
Service	**Strong Consumer Orientation**
Location	**Reputation and Image**
Filling a Special Niche	**Personnel**

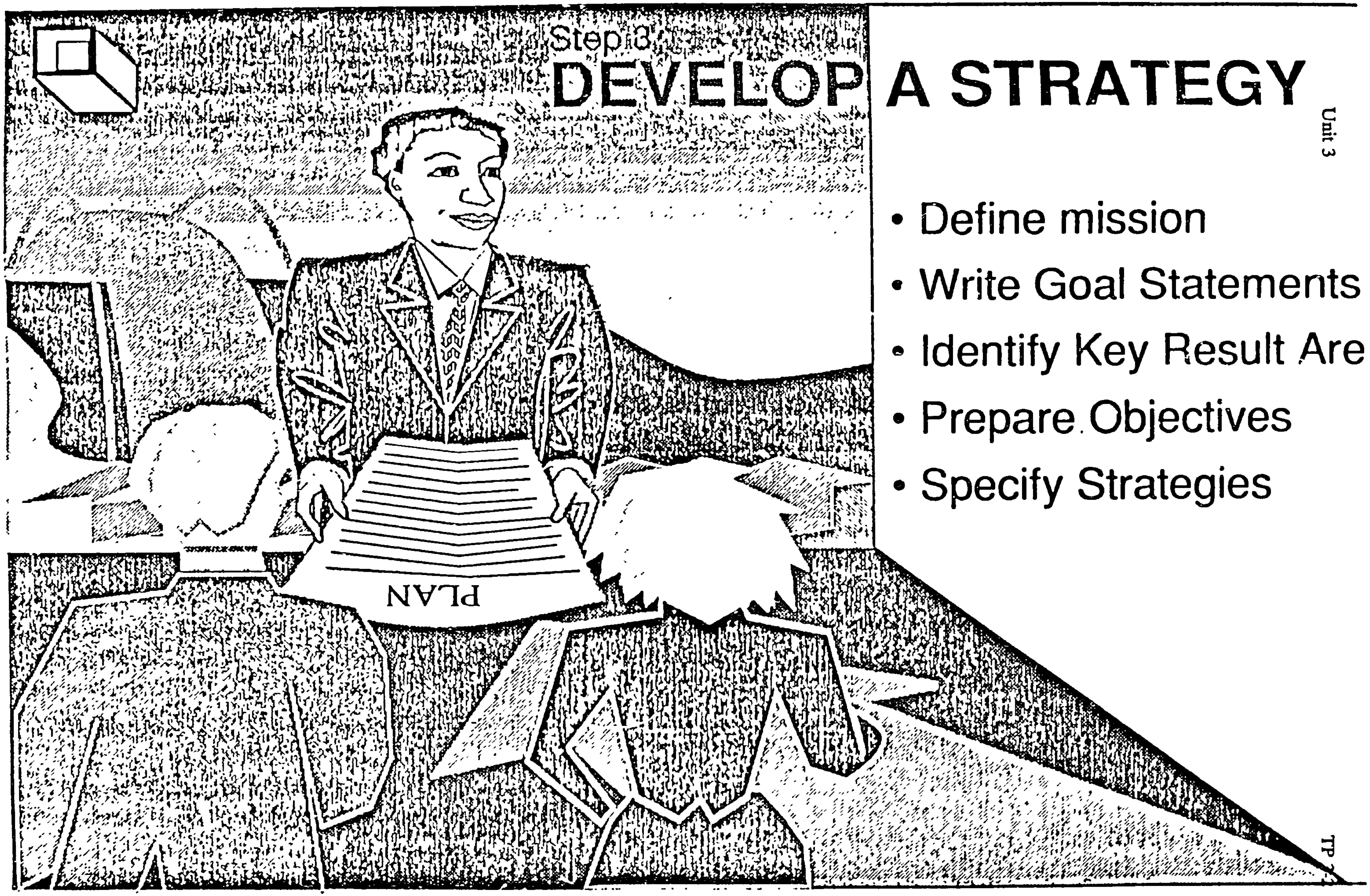
Price

REFINED ANALYSIS STAGE OF STRATEGIC PLANNING



STRATEGIC MANAGEMENT MODEL




Step 3
DEVELOP A STRATEGY
• Define mission
• Write Goal Statements
• Identify Key Result Are
• Prepare Objectives
• Specify Strategies
PLAN

DEFINITION OF MISSION

MISSION

The purpose or reason for the organization or business's existence include:

1) Target population served
2) Product or services provided (general)
3) Primary geographic boundaries served

Example: Mission Statement

DATA ENHANCEMENT CORPORATION

Mission Statement

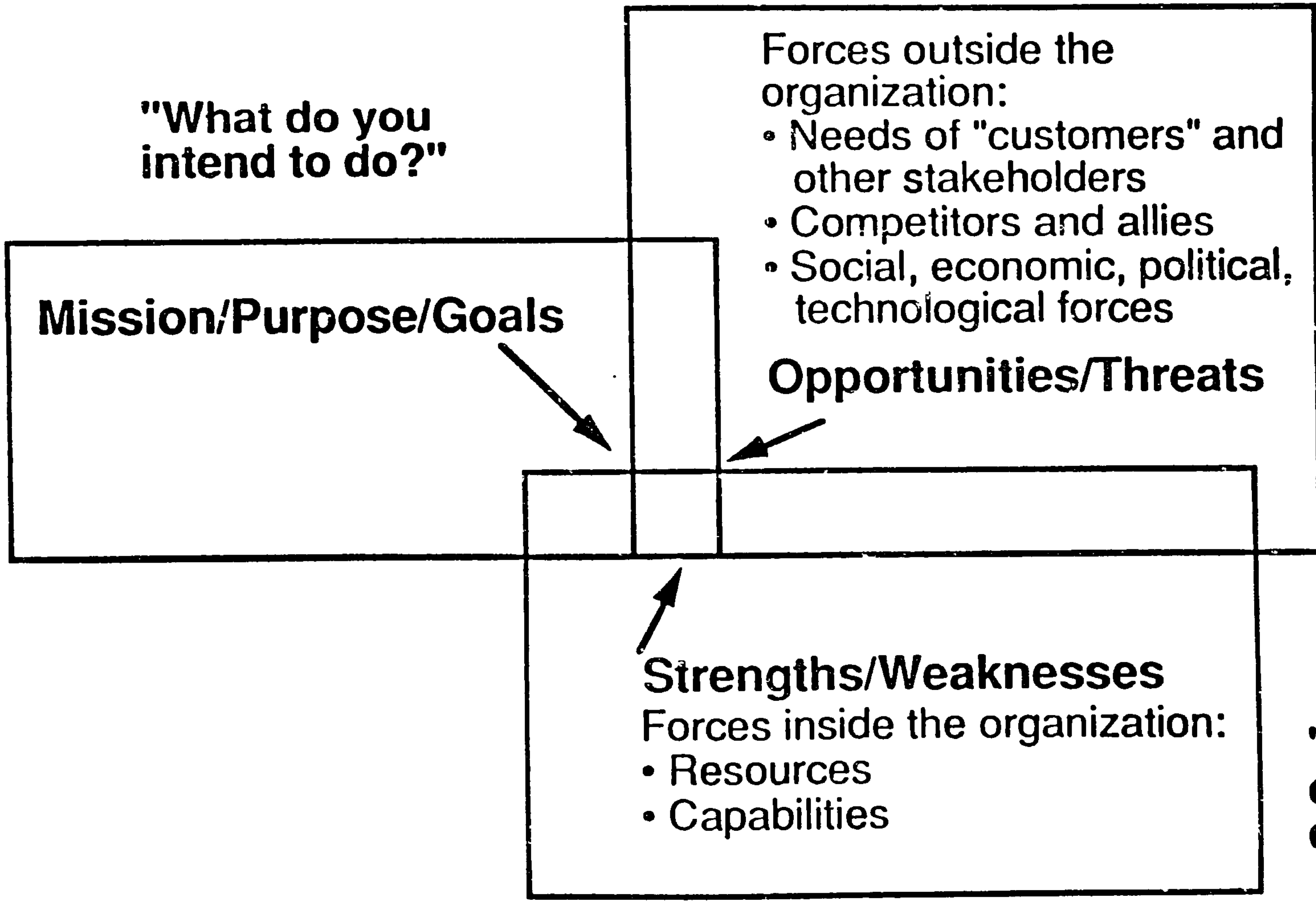
Data Enhancement Corporation provides information processing and data conversion services to retail department store chains, health providers, financial institutions, marketing research firms, and state and federal government as well as other businesses throughout the United States.

Our dedication to excellence is an uncompromising commitment. Through personalized customer service, speed, accuracy, and professionalism we pledge total customer satisfaction. **At every level of the organization our client comes first!**

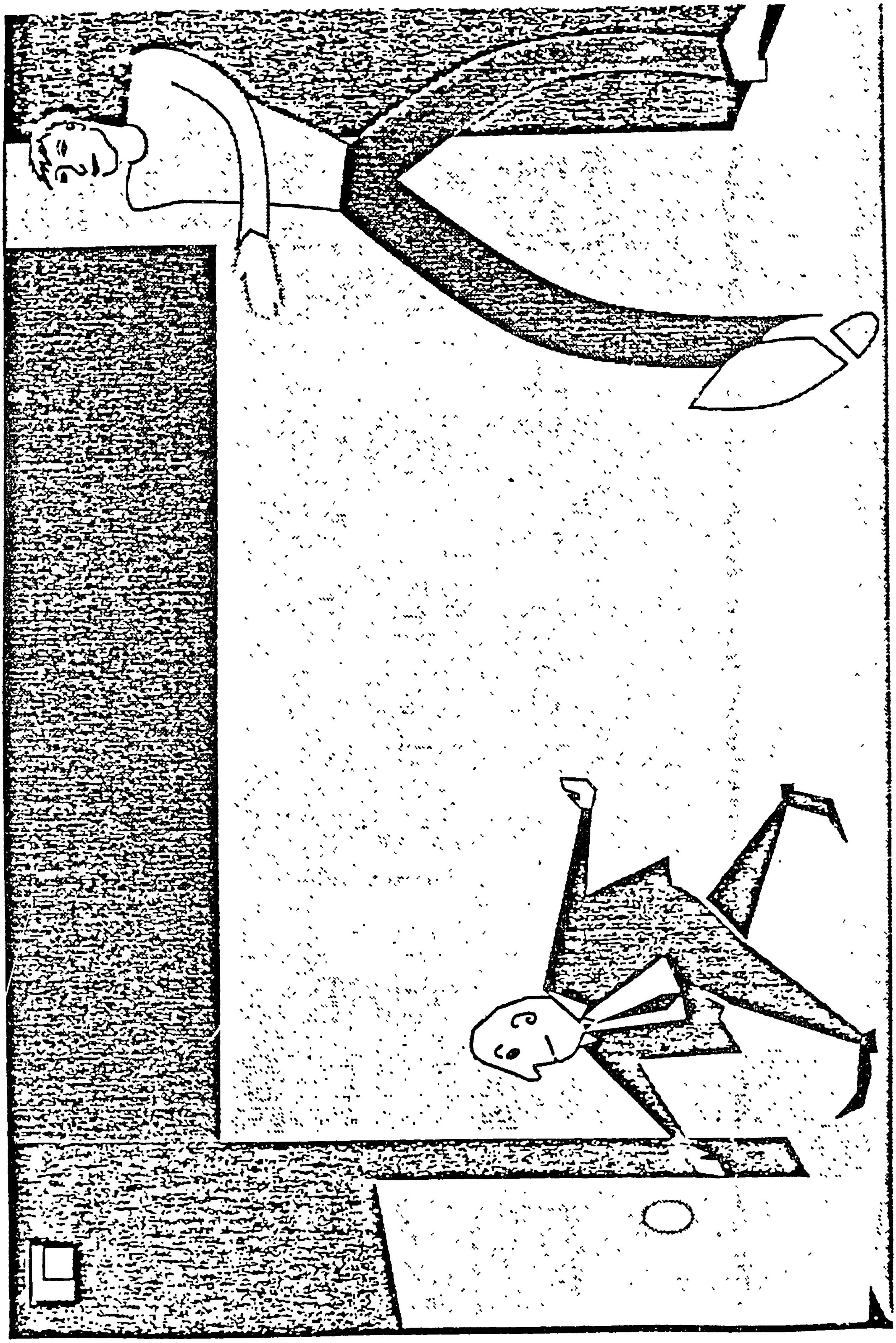
STRATEGIC FIT

"What do you intend to do?"

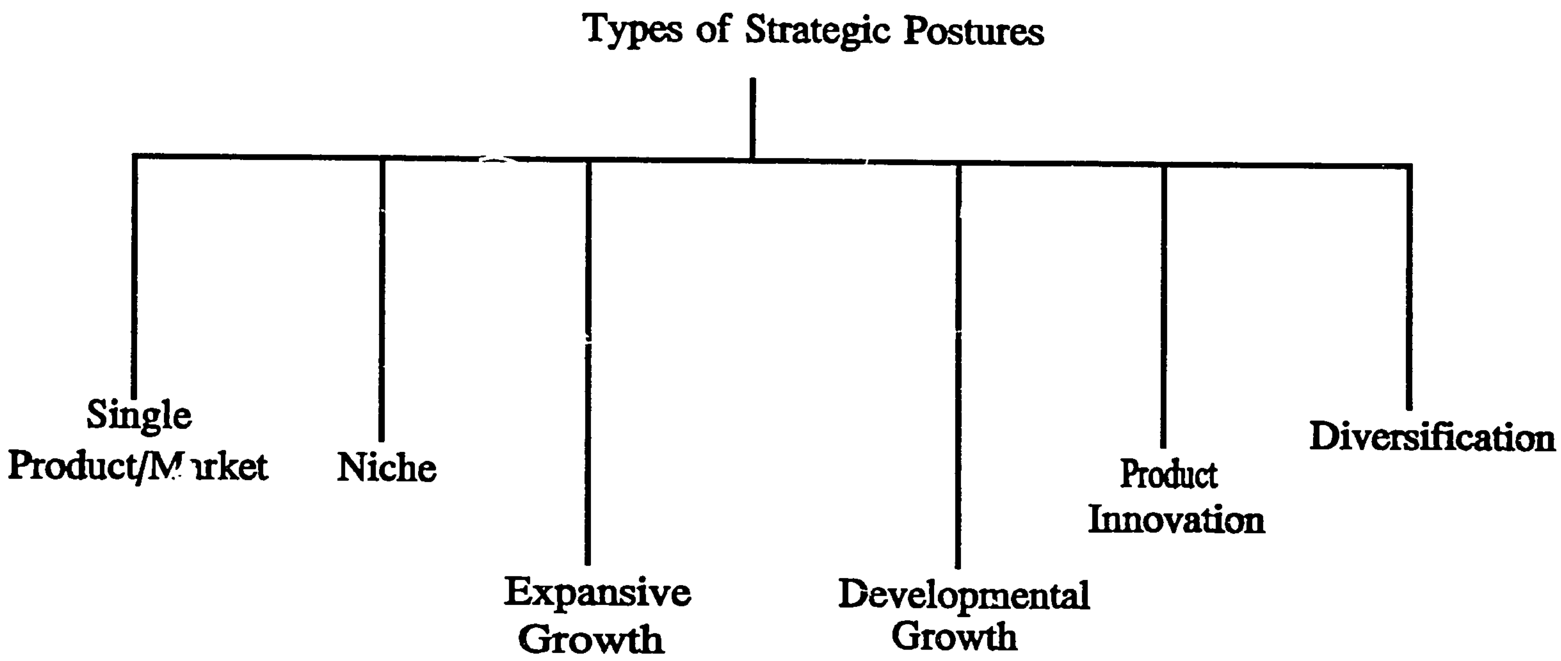
"What is needed and feasible in yo[u]
geographical area?"



"What are you capable of doing?"



General Strategic Postures Commonly Used by Small Businesses



The Process of Choosing A Strategic Posture

Types of Strategic Postures

- Single Product
- Niche
- Expansive Growth
- Developmental Growth
- Product Innovation
- Diversification

→

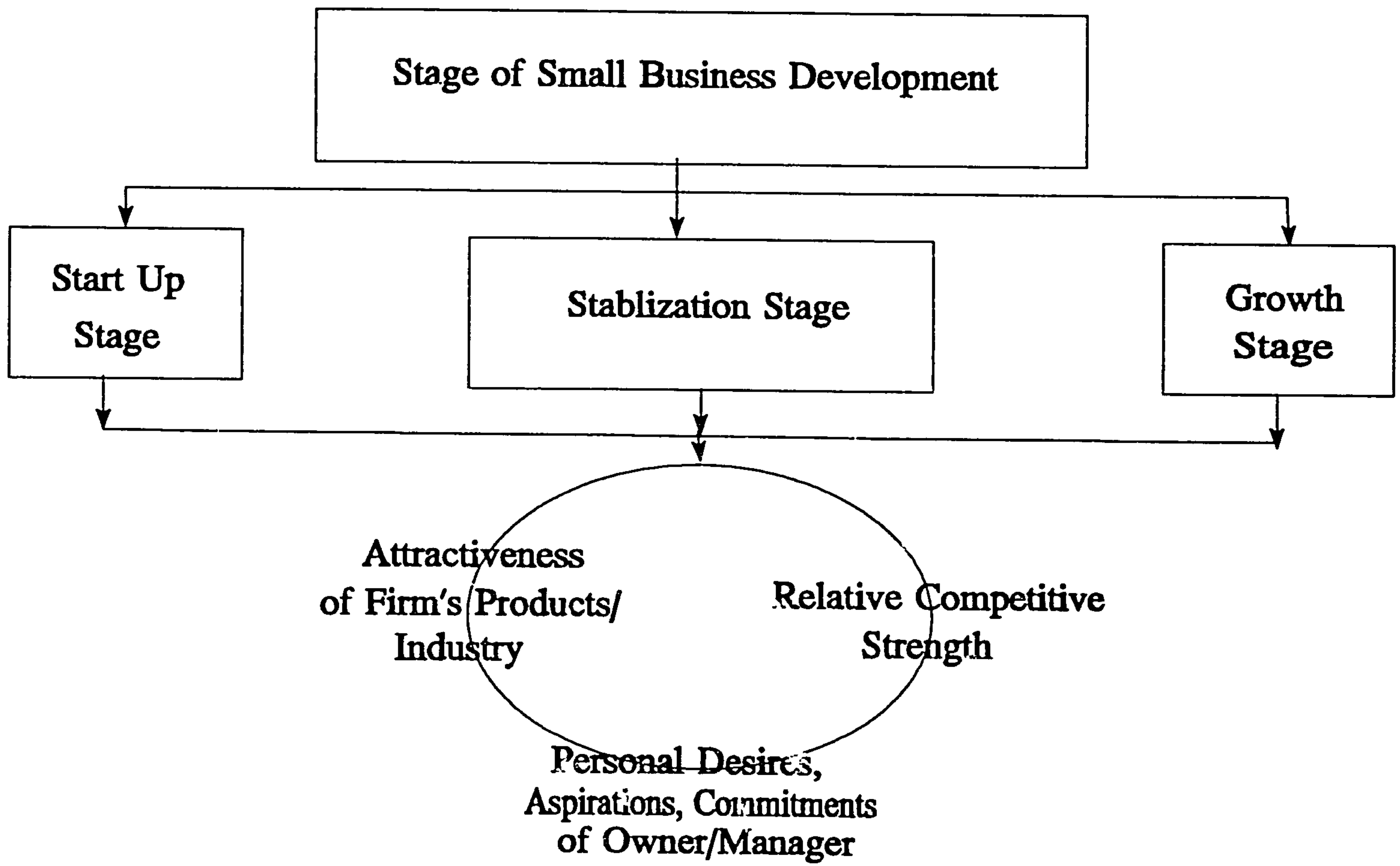
Choice Factors

- Stage of Small Business Development
- Attractiveness of the Firm's Products and Industry
- Relative Competitive Strength
- Owner/Manager Desires, Aspirations, and Commitments

→

Choice of Appropriate Strategic Posture

Factors to Consider When Choosing A Strategic Posture



STAGES OF SMALL BUSINESS DEVELOPMENT

- Start-up stage
- Stabilization stage
- Growth stage

*Distinctive Competence: A Marketing Strategy for Survival**

by Thomas Neil[1]

ABSTRACT: DIFFERENTIATION: UNE STRATEGIE DE VENTE POUR LA SURVIE

De plus en plus, la petite entreprise fait face a une forte competition des compagnies nationales et des franchises, et ce, quelque soit l'industrie. Il a ete suggere dans plusieurs articles que la petite entreprise a besoin de se developper un caractere particulier, ou de se specialiser. Une etude a ete faite sur un echantillon de 15 petites entreprises immobilieres. En general, les petites entreprise immobilieres n'apparaissent pas entre en mesure de se trouver une niche pour concurrencer dans un marche qui change rapidement. Les entreprises optent pour les memes publicites, medias, recherches de part de marche, et mecanismes de controle qu'elles avaient utilises en des temps ou la competition etait moins rude.

On fait des suggestions pour aider les petites entreprises a se differencier afin de concurrencer avec plus de succes les autres PME et grandes entreprises.

The concept of distinctive competence has been discussed as a strategy to be considered by businesses in increasingly competitive markets. Distinctive competence is the development of a specific ability related to production of a good or service which is highly visible to the consumer. For example, Maytag washers are identified with reliability, while McDonald's has become associated with consistency and cleanliness.

Peters and Waterman, authors of *In Search of Excellence*, found the commitment to being "the best at one thing" to be a guiding principle for the highly successful company.[2] Barker and Gimpl cite the need for small businesses, especially service businesses, to create a unique personality.[3] They saw the ability to differentiate one's service as essential in competitive markets where identical services are offered through identical channels. However, few studies have addressed the development and use of distinctive competence by small firms.

The purpose of this article is twofold: to present the results of a study that assessed the extent to which distinctive competence was used by a specific category of small service businesses, and the discuss the concept of distinctive competence and the ways in which small firms can benefit from applying it.

A service industry experiencing a significant rise in competitiveness is real estate. The development of franchising and national brokerage firms is placing the small real estate firm in a precarious position.[4] The advantage in economy of scale enjoyed by the national firms and the image of professionalism and consistency generated by franchises tend to put many small firms at a disadvantage.[5]

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* Neil, Thomas. *Distinctive Competence: A Marketing Strategy for Survival.* "Journal of Small Business Management", vol. 24, no. 1 January 1986, pp. 16-21. Reprinted with permission of Journal of Small Business Management.

This heightened competition is especially meaningful in an industry where the service rendered and the channels used for its transmission are the same regardless of the size of the business. Additional difficulties arise because real estate service is ill-defined in the eyes of the service consumer, who tends to be confused about what services to expect from a real estate broker.[6] When consumers are unsure as to what constitutes a service, firms that do not have a distinctive competence, but blend into the pack, may fall behind.

THE SURVEY

Preliminary interviews were held with six brokers in order to develop questions focusing on distinctive competence. Questions were developed in the following areas: future of the small firm, perception of competition, goal of advertising, use of media, activities designed to obtain market share, criteria used to determine effectiveness, and strategic planning.

For this study, the small real estate firm was defined as one having fifteen or fewer licensed agents. One firm was selected from each of the 142 Georgia counties from the list maintained by the Georgia Real Estate Commission. An additional 65 firms were selected from those counties that contained ten or more brokerages. Thirty-seven percent, or 77 of the 207 brokers, returned usable questionnaires.

The Sample

Fifty percent of the brokers had been in business in the same county for between six and ten years. Another 33 percent has been in business for over ten years. This indicates a high degree of stability in an industry that can experience wide swings in market conditions. Seventy percent of the firms focused on residential sales, with the next highest area, farms, accounting for 12 percent. Furthermore, 63 percent of the firms provided only real estate services. Eighteen percent of the brokerages offered insurance services.

Results

The first questions focused on the broker's perceptions of the economic and competitive environment within which they performed. The way in which a person perceives the environment influences that way in which he or she will act. A broker who perceives the market as being very competitive, for example, is likely to behave differently from the broker who perceives a noncompetitive market.

When asked, "In your opinion, what does the future look like for the small real estate firm?" Thirty-nine percent of the brokers saw the future as tough and not very good. However, 36 percent of the brokers saw the future as being good to excellent. In regard to the competitiveness of the market in their area, 39 percent of the brokers saw it as extremely competitive. Another 28 percent of the brokers saw the market as being very competitive. There was no difference in the perceptions of competition between the brokers who saw a bleak future and those who saw a positive one.

The next set of four questions focused on what the broker was doing in order to compete. The first pair of questions asked about the goals of advertising and the use of media sources. The advertising goals cited most often were name identification, image building, public awareness, and generation of inquiries. The media sources listed by all the brokers were newspapers and yellow pages. Other media sources were signs, radio, billboards, and home magazines, which include photos of listings and are usually distributed free. Half of the brokers used two or fewer media sources.

The second pair of questions asked the broker what he or she was doing to obtain a share of the market. The first question asked them to identify the activities used to obtain a market share. The brokers listed such activities as direct mailings, open houses, neighborhood letters, special promotions, and public talks. Only one firm mentioned that it targeted a special type of customer (those interested in second homes).

The second question asked the brokers to indicate what made their firm different from their competitors'. Thirty-two percent of the brokers listed "doing a professional job" as their distinctive competence, while only 16 percent listed the provision of a special service. Doing a professional job hardly qualifies as a distinctive trait, since all firms are supposed to be professional. Moreover, it is difficult to portray a vague concept like "professionalism" to prospective consumers.

The third set of questions focused on the management control used to maintain performance. Control of performance occurs through evaluation and strategic planning. The criteria used to determine performance guide a firm's activities in the market place. Five criteria were identified by the brokers: (1) sales, e.g., percentage completed, growth; (2) listings, e.g., percentage held by firm versus competition; (3) image, e.g., repeat business, customer opinions obtained via questionnaire; (4) agents, e.g., experience, turnover; and (5) miscellaneous, e.g., charting of inquiries pertaining to advertised property.

The brokers were asked the number of criteria they used and the frequency of performance evaluation. Sixty-one percent of the firms used two or fewer criteria. These criteria were most likely to be the number of sales and the number of listings. Forth percent of the firms kept track of performance on a monthly basis. The next most frequent evaluation was annual. Only one firm indicated that it evaluated every three months as well as annually.

Finally, brokers were asked questions related to strategic planning. Seventy-four percent of the firms set short-term goals of a year or less. However, only 56 percent of those who set short-term goals had them in writing. Thirty-eight percent of the brokers had established long-term goals of more than one year, with two-thirds of these having written goals.

DISCUSSION

Small real estate firms do not appear to be positioning themselves to compete in a rapidly changing, increasingly competitive market. Even though the brokers saw the real estate industry as being extremely competitive, with over one-third seeing the future as not very good, there was little evidence to indicate that the brokers were changing their behavior. The brokers seem to be doing the things they have ben doing for years, operating as if changes had not occurred in the market place.

Although the brokers understand what advertising can do, they continue relying primarily on newspapers and yellow pages. Alternative vehicles, such as market-targeted flyers, are used by only a small number of firms.

Few of the firms engaged in activities that would separate them from the pack. Even among the firms that did use different activities, the number of activities was limited to one or two. The brokers did not seem to be aware of what distinctive competence means. "Doing a professional job" was cited as a distinctive competence by most firms. This should be a goal for all firms and, therefore, cannot be considered distinctive. A small percentage of the firms had developed special services to attract customers, e.g., property appraisal. However, the vast majority of the firms appear indistinguishable from one another.

In part, the capacity to perform well in a competitive market is based on the feedback a firm receives on its performance. If a firm uses a limited number of criteria to determine its performance, it may not have a complete, realistic picture of how it is doing against its competition. Furthermore, too frequent evaluation, especially if it is limited to a single criterion such as sales, may not accurately reflect the market position.

The majority of firms were engaged in developing and, to a lesser degree, writing plans for the future. The goals of this strategic planning focused on end products such as number of closings per listing and were not oriented toward developing procedures that would generate a distinctive competence.

DEVELOPING A DISTINCTIVE COMPETENCE

The small service firm that finds itself in a rapidly changing highly competitive market can no longer use business practices that succeeded in the "good old days." The small firm must develop an attribute that makes it distinctive.

Examples

Three small brokerages have succeeded in setting themselves apart. Brokerage A focused on the financing of property. With the advent of high interest rates and scarce mortgage funds, buyers were faced with a complex situation about which they knew little. Brokerage A developed the "Financing Fact Sheet" which defined in lay terms the different financing options and gave examples of how each would work in a given situation. In addition, the "Fact Sheet" was updated on a regular basis to reflect the loan status of lenders within Brokerage A's market area.

Brokerage B developed competence in property pricing. Working in a market area where the turnover of residential property was above average, the brokerage had experienced difficulty in helping sellers price their property realistically. Having just purchased a microcomputer, the decision was made to spend some time and develop a data record of property sold in the market area. The selling price of each property was identified and updated each time it was sold. With this information, Brokerage B provided sellers with a means for comparison pricing.

Brokerage C focused on understanding the potential buyer. After analyzing their interaction with buyers, it was recognized that the same questions were being asked of each potential buyer in an attempt to assess needs, values and perceptions related to property. The decision was made to put together a profile sheet that the potential buyer would fill out. Based on the buyer's answers, a profile was developed that could be used to match buyers with property. The broker goes over the profile with the buyer to identify houses worth a physical inspection. The profile provides the buyer with a tangible service that can be carried away from the brokerage.

Differentiating a small service firm is a complex, difficult task, as will be seen based on the steps described below. The decision to change has potential consequences for all areas of the firm. Two need to be highlighted. First, emphasizing one service attribute could result in the ignoring of others which would reduce performance level. It does little good to produce a standardized hamburger with little taste. Second, the evaluation process could become too narrow by responding only to information about the distinctive competence. If the only performance criterion is number of sales generated during the month, then how the sale is made may become unimportant. This could result in few repeat customers and no referrals.

Four Steps Toward Differentiation

A small firm can follow four basic steps in order to identify and develop a distinctive competence. The first step involves conducting three analyses. The first analysis focuses on the firm—its financial condition, physical assets, technological expertise, and human assets. The human assets may be the most important, especially if there is a high degree of one-to-one service, as in real estate.

The second analysis looks at conditions in the firm's desired market area. Service demand is determined by three elements: level, or the number of potential customers; trend, indicated by a declining, stable, fluctuating, or growing market; and location, i.e., identification of customer concentration.

The third analysis involves a careful study of the competition, those at the front of the pack. It does little good to analyze other "middle-of-the-packers." The focus must be on how the leaders got to be leaders, keeping three elements in mind: how the leaders respond to demand, how they create demand for their services, and how consumers perceive the leaders.

These three analyses provide the information required to take the second step: to identify a distinctive competence that the firm could develop. The distinctive competence could be one of the following: introducing a new service that appeals to a specific consumer group; redesigning an existing service that had been allowed to deteriorate; and or eliminating services that no longer satisfy needs. It is important to make the distinctive service as tangible as possible to aid in recognition.

The third step involves designing and implementing an action plan for positioning the firm's distinctive competence. Beyond specifying who should do what and when, three other elements must be considered. First, the communication strategies to be used to convey the distinctive trait must be identified. What message does the firm want to transmit? What media channels are the most efficient and effective? Determining cost and price is extremely difficult for service businesses. Careful attention must be paid to identifying all of the costs of the service, especially time, including both transaction of the service and waiting for consumer inquiries. The price should reflect an understanding of what the consumer believes to be fair. Since it is often difficult for the consumer to comparison shop for a service, the more tangible the service, the easier the comparison.

The fourth and final step is to develop distribution strategies which are efficient for different customers. In real estate, customers are either sellers or buyers. For sellers, the service is typically delivered at their property. For buyers, service delivery can occur at three sites: in the firm's office, in a licensee's car, and at the seller's property. Each of these distribution points can influence service delivery.

CONCLUSION

Although the demise of the small service firm has been predicted in many sources, the small firm need not succumb to competitive pressures from large national chains and franchises. Small firms must, however, adapt to the changes taking place with new strategies rather than conducting business as usual. Working smart means staying on top of one's own business as well as what is occurring in the marketplace. If this information is used to adjust and "fine-tune" the small service business to differentiate it from others in the same field, small firms can remain viable and prosper.

[1] Dr. Neil is associate professor of management in the Graduate School of Business at Atlanta University. He is particularly interested in human resource management in service businesses and in conducting research on the impact of technology on job design and management.

[2] T. J. Peters and R. H. Waterman, Jr. *In Search of Excellence*. Harper and Row, 1983.

[3] T. Barker and M. L. Gimpl. "Differentiating a Service Business: Why and How." *Journal of Small Business Management* (April 1982), pp. 1-7.

[4] Thomas Ervin. *Real Estate Revolution: Who Will Survive?* Chicago, IL: Real Estate Education Co., 1980.

[5] T. W. Dooley. *Real Estate Brokerage in the 80s: Survival Among the Giants*. Chicago, IL: Real Estate Education Co., 1980.

[6] J. D. Vernon, J. Robionski, and G. P. Moschis. "Consumer Expectations for Broker Service". *Real Estate Perspective* (March-April 1981), pp. 6-7.

Establishing A Vision for the Future

paraphrased by: Randy Rollinson

Note: This material was distilled from a book written by John M. Bryson entitled *Strategic Planning for Public and Nonprofit Organizations.* While it was written for nonprofit organizations is equally as valid for small businesses.

An important step in the strategic management process is to develop a clear and distinct description of what the business can become. This is called a <u>vision statement</u>.

According to John Bryson, University of Minnesota, in order to construct a compelling vision statement . . . "key decision makers must be courageous. They must listen to their best selves in order to envision success for the organization as a whole. And they must be disciplined enough to affirm the vision in the present, to work hard to make the vision real in the here and now."

A vision statement should be widely circulated among employees and other key stakeholders, and it should be used as a benchmark when making major and minor organizational decisions.

A number of benefits flow from a clear, succinct, inspiring and widely shared vision of success.

- Employees understand how they fit into the big picture and what is expected of them.
- Owners and employees have some conception of what success looks like with success therefore made more likely.
- If there is agreement on the vision, and if clear decision rules can be derived from it, the business can gain an added increment of power and efficiency.
- If we believe that the future is what we make it, then a vision outlines the future we want to have and forces us to live it, create it, and realize it in the present.
- It creates a useful tension between the world as it is, and the world as we would like it.
- An inspiring vision of success can supply another source of motivation: a calling. If a vision of success becomes a calling, an enormous amount of individual energy and dedication can be released in pursuit of a forceful vision.
- Helps everyone recognize the barriers to realization of the vision and thereby assists in overcoming them.

The following guidelines are intended to help a strategic planning team formulate a vision statement.

- Should not be prepared until the firm has been through at least one cycle of strategic planning.

- Should include the following: mission, basic philosophy and core values, long-term goals, basic strategies, performance criteria, important decision rules, and ethical standards expected of all employees.

- Should be inspiritional.

- Begin constructing a vision statement by having the planning team members as individuals prepare draft visions, then share and discuss their responses. After the discussion, the task of drafting a vision of success should be turned over to an individual.

- Consensus on a vision statement among key decision makers is highly desirable, but may not be absolutely necessary.

- While constructing a vision statement may be difficult, the task of formulating a vision can contribute to a reduction of organizational conflict.

*Determining The Firm's Mission and Strategic Posture**

Objectives

Among the many facts and skills you should learn in this chapter are

1. The two parts of a mission statement
2. How to define the nature of the business
3. What is meant by a strategic posture
4. The types of strategic postures common to small businesses
5. How management philosophy and strategic postures are related

* Stoner, C. R., and Fry, F. L. *Strategic Planning in the Small Business*. "Determining the Firm's Mission and Strategic Posture." Chapter 4. South Western Publishing Co., 1987. Reprinted with permission of South Western Publishing Co.

Some readers may tend to write off or de-emphasize this portion of the planning process by telling themselves that they already know where the firm is headed. The two steps discussed in this chapter are among the most important in he strategic planning process. The basic mission and its accompanying strategic postures provide focus for the firm. Without a mission statement, the company may flounder about, headed in no particular direction. Without a formalized strategic posture, the firm may attempt to build a strategy which is not well grounded and has little basis for specific actions.

This chapter begins with the importance of a written mission statement. A discussion of the specific parts and uses of the mission statement follows. Once the mission is determined, the next action needed is to develop the strategic posture which is the vital link between the mission of the business and the strategy it pursues.

THE MISSION STATEMENT

This **mission statement** is a concise statement of the general nature and direction of the company. By carefully delineating the underlying aim, scope, and direction of the business, the mission statement becomes an outline of what the company will do and what it will be. Although the mission statement is purposely broad, it must offer a clear word-picture of the firm. Often, an elaborate sounding, sweeping compilation of platitudes is offered as a mission statement. Such efforts fail to provide the necessary precision and scope to be used as meaningful planning tools. The owner or manager should ask the question, "What separates us from other similar companies?" The answer, in the form of a mission statement, stresses the uniqueness that is the basis for a definitive corporate strategy.

THE VALUE OF THE MISSION STATEMENT

A written mission statement is valuable for two reasons. The first is that it is a tool for communication both inside and outside the firm. The financial community, key customers, and suppliers will be interested in the direction the company is moving. But perhaps more important is the internal communication. Often, employees complain that they never know what is happening; they don't know what management's plans are nor how they, the employees, fit within those plans. Consequently, it is difficult for them to be committed and motivated. The mission statement gives them those motivational plans.

The second major reason is that once the mission is printed and publicized the owner or manager of the firm has made a strong statement of commitment. If one believes in a concept or philosophy strong enough to put it in writing, then everyone affected can expect adherence to the concept by that person. This is somewhat analogous to New Year's resolutions except with higher stakes. If a person makes resolutions but tells no one, then no particular incentive for keeping them exists. However, if they are written down, pondered, and then typed up, posted on the refrigerator, communicated to friends, and maybe even wagered upon, then the public commitment to these New Year's resolutions means that they cannot be broken without losing face. In the same way, the written mission statement commits the manager to the stated strategy and philosophy, and it may result in equal commitment by others involved with the business.

THE PARTS OF A MISSION STATEMENT

The mission statement contains two major elements. Each is important and should be given careful consideration.

The Nature of the Business

The first element of the mission statement defines and clearly specifies the nature of the firm's basic business. Four different areas of concern must be considered when describing the nature of the business. The first area highlights the *industry* and *product line* the company deals with, and *the type of services* that are provided. The second area considers where the firm is in the total *distribution channel*. For example, the company may be a wholesaler, a manufacturer, a retailer, or a mail order store. The third area of concern suggests whether the *prime goals* of the firm are quality, breadth of product line, price, or service. The fourth area identifies the *target market*. Who are the customers that the firm presently serves and who do we intend to serve in the relevant planning horizon? Here, the planners should identify all distinct customer groups that will be served.

Although the mission statement tells rather explicitly what the firm *is*, it is equally important that the mission implicitly tells what the firm *is not*. This limiting statement controls the general direction of the firm. The mission statement serves more or less as the fences on each side of a highway.

Consider the following example. A woman decides to start a bicycle shop that sells and services bicycles. After a few months, she is offered the opportunity to add a line of mopeds. Reasoning that mopeds are simply bicycles with a small motor, she adds the line. Later, the regional manager of Honda motorcycles stops by. It seems that the local dealer for Honda is retiring, and this would be a once in a lifetime opportunity to land a coveted Honda dealership. Now, she has a bicycle, moped, motorcycle business. Somewhat later, the entrepreneur is presented the opportunity to take on a line of snowmobiles. Reasoning that snowmobiles really have much in common with motorcycles, except that they run primarily on skis instead of wheels, she adds them too. The story could be continued indefinitely, adding garden tractors, lawnmowers, snow blowers, etc. But the point is that the one-time bicycle shop has now become a highly diversified dealership for a number of slightly related products. In the process, the owner has overextended herself, not being able to do any of it well; has likely incurred substantial debt; and has, in general, lost control of her operation.

A well written and observed mission statement would allow the owner to specialize in bicycles until *she* decided it was time to expand. At that time she could carefully evaluate the market and her financial capabilities to take on an added line. Any lines that were added could be done so at a controlled rate and with adequate financing.

Many businesses, large and small, fail because of rapid, uncontrolled growth. For example, large businesses often acquire other unrelated firms with the stated goal of broadening their earnings base, gaining a counter cyclical business, or moving into new growth businesses. Later many of these same subsidiaries are divested as the parent firm's executives state that they are, "returning to the things we do best." Often the corporation's management strayed from their basic mission and later realized their error.

The Firm's Basic Philosophy

The second major element of the mission statement is an expression of the firm's management philosophy. The mission statement helps to define the *culture* of the organization. Recently, much has been written about corporate culture and its impact, power, and influence on behaviors and corporate actions of large organizations. The concept of culture is equally important for the small firm. The mission statement should capture the owner or manager's basic philosophy of how they will conduct the business. The result is a value orientation that becomes an important guide for subsequent management action. Will the firm be a risk taker? Will it be employee oriented? How will employees be treated, trained, and promoted? Will the firm be run on highest ethical standards? Will it be an aggressive competitor? Will it be a pioneer or a follower, me—too firm? The key to this element is to include those items about which management feels strongly, and omit those items for which they do not. For example, the mission statement may not mention anything about a promote-from-within policy and may instead discuss the strategy of hiring young managers with new ideas.

Capsule 4-1 illustrates a mission statement for a small toy manufacturing company. Note that the statement clearly lays out the nature of the firm as well as the tone or philosophy of the company. At the same time it does not give away any proprietary secrets.

Capsule 4-1 *Joy's Toy Company—Company Mission*

Joy's Toy Company produces a wide line of moderately priced educational toys for pre-school and early school age children. We service Missouri and the surrounding six states, and we sell directly to schools or school district buying centers.

We care about children and view their education as the critical part of our task. Our toys are designed to enrich the child's educational experience. All design work is done in-house to assure responsive, innovative products.

Our first product priority is quality. We would rather lose a sale by being high-priced than sell low quality merchandise for low prices. We offer quick and accessible service and repair on all merchandise we sell.

In hiring sales representatives, we seek to attract former primary school teachers who are in tune with the needs and wants of children, and who can identify with the concerns of parents. We exclusively promote from within.

In summary, the mission statement must do only two things, but it must do them well. It must set forth the direction of the business, thereby specifying what the business is and what it is not; and it must note the tone or culture of the business set forth by the owner's philosophy of how the business should be run.

DEVELOPING THE FIRM'S STRATEGIC POSTURE

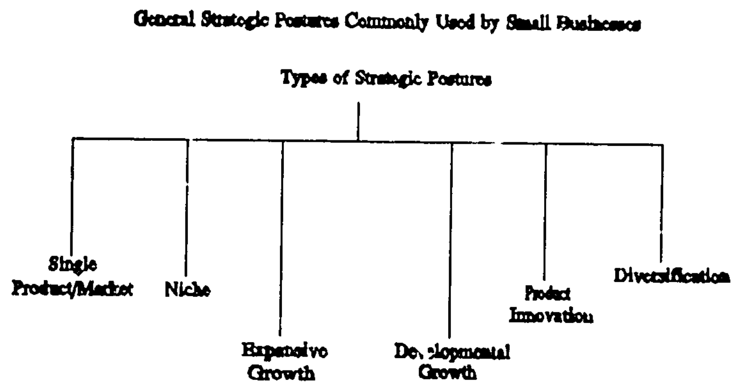
In the preceding section, the importance of an identifiable mission was stressed. The mission, if developed well, gives a guideline and general direction for the business and an indication of its management philosophy. Before goals can be defined more specifically or strategies developed to achieve those goals, it is necessary to determine the firm's strategic posture.

Strategic postures provide a general indication of how the business will achieve its overall mission and secure a competitive advantage. The strategic posture is management's overall plan of action for running the business in response to external opportunities and threats. It is based on external awareness, assessment of internal strengths and weaknesses, and the set of distinctive competencies the business has developed.

Often, small businesses fail to give specific planning attention to strategic postures, and instead, emphasize short-run goals and operational decisions. As such, the firm's strategic posture evolves as a reflection of past actions. If that happens, the strategic posture *describes* what the firm has done rather than *prescribe* what the business will do. Thus, the strategic posture fails to reinforce the sense of direction generated by the mission statement.

The purpose of this section is to address the issue of strategic postures by describing some of the more common ones a small business may assume and to suggest considerations for determining when each of the postures may be most appropriate (see Figure 4-1 below).

Figure 4-1



The Single Product/Market Posture

The most prevalent strategic posture utilized by the small business is that of concentrating on a single product or a single market. Businesses such as one that produces aluminum garage doors, or an automotive repair shop or a family-style restaurant are examples of companies with the single product or market focus.

The appeal of the single product/market posture is in the competitive advantage that this type of small business may possess. This posture allows the small business to emphasize what it knows and does best. Small business success—at least initially—is greatly enhanced by limiting involvement to those areas where owners and managers possess business experience and a clear understanding of the dynamics of the competitive market situation. This is especially true in the small business where managerial staff is limited. Focusing on the single product/market allows the busy owner or manager to concentrate on the nuances of that particular situation without having to meet a variety of demands simultaneously. The manager can orient and target energies in a unique and focused direction, thereby standing a better chance of staying on top of relevant issues and competitive factors.

A single product/market posture also allows the business to develop a number of potential competitive advantages over larger firms. Small businesses are often characterized by their general flexibility and adaptability. These factors may enable the small firm to meet the special needs of their target market in a more timely and responsive manner than can the large business. Thus, meaningful opportunities that are normally overlooked or bypassed by a large firm can be exploited by the small business.

Of course, the single product/market posture is not without its risks. The firm has placed all its eggs in one basket. If the present products or markets remain attractive, this posture can lead to significant growth. However, if either the product or the market loses its vitality, the business is placed in a tenuous position. In this case, a repositioning may be required.

The Niche Posture

A specialized version of the single product/market posture—one of the most promising strategic postures for a small business—is the niche posture. Through careful environmental analysis, an important gap or niche in a market is identified. If a business has the capacity and competency to enter these areas, it can capitalize on these previously unfulfilled opportunities. Recognizing and gearing business toward a promising niche may lead to substantial short-run profits and possibly may be viable over many years. In some cases, competitors may not realize that the niche exists. Others may see the gap, but still not have any interest in moving into it due to either perceived costs, limited demand relative to their other products, or an inability to fill the niche at an acceptable price. As in the single product/market posture above, the niche posture can be a high reward strategy, but always possesses the risk of a more able competitor suddenly moving into the niche.

Illustration Capsule 4-2 provides a unique example of a creative niche posture.

Capsule 4-2 *The Blue Ribbon Car Wash*

Sue and Jim Acres operate the Blue Ribbon Car Wash in an affluent part of the city. They do not market their car wash to the general public, and the general public would not typically frequent it anyway. This is because of both the cost and the nature of the service provided. Charging more than thirty dollars for a wash job and fifty for a wash and wax, Blue Ribbon caters only to those who drive expensive cars such as Mercedes, BMW's, Audi's, Cadillacs, and Lincolns. Cars are accepted by appointment only and must be left for at least four hours. The car is washed by hand using only top quality cleaners and waxes and it is cleaned and vacuumed inside. A fabric protector is applied if desired. Wheels are scrubbed and wire wheels are carefully attended to—if necessary with a toothbrush. For an additional charge, the engine compartment can be cleaned, the trunk can be vacuumed, and the oil can be changed. Sue reports that business is brisk—six cars a day. Some owners wait as long as two weeks for an appointment.

The Expansive Growth Posture

A business that assumes an expansive growth posture builds on one or more of the previously discussed postures. Due to past success and promising outlook, management realizes that there are opportunities to expand the company's scope of operations. An expansive growth posture will generally take one of two forms.

First, the business may undergo an expansion of its primary location. This may entail enlarging the present facility or relocating to a larger facility. There is no attempt to alter current products or markets. In fact, it is the overall strength of the market and acceptance of the products that necessitates expansion. The business will do the same things it has always done, but additional capacity will enable it to reach larger numbers and hopefully realize greater returns.

A second form of expansive growth is when a business establishes additional facilities in promising *new market areas*. One must realize that this multilocation approach is oriented toward new market areas, but not new or different target markets. Further, the product remains unchanged. The customer and product characteristics of the target market that have provided past success are still emphasized. However, new geographical markets that are consistent with these characteristics, and that possess the potential for developing existing product lines are identified and tapped.

The Crystal Rug Cleaners example in Capsule 4-3 shows the adoption of the expansive growth posture after successful utilization of the single product/market posture. As the example illustrates, an expansive growth posture allows the business to reach the capacity necessary to garner returns from additional business. Of course, careful environmental and internal analysis is critical to the success of this posture. A misreading of competitive forces or target market demands and characteristics could result in expensive capital expenditures and underutilized facilities. Difficulties may arise if unnecessary expansion occurs, most notable are questions of leadership and control. Often, small business owners have difficulty delegating authority, even when the level of business growth clearly extends beyond their means. The owner must also consider issues of standard quality and production when expanding facilities. In short, the management structure, personnel, and operating policy areas must be re-examined as the expansive growth posture evolves.

Capsule 4-3 ***Crystal Rug Cleaners***

Crystal Rug Cleaners was started in an exclusive section of Florida's gulf Coast in the mid-sixties by Michael Richards—an insightful and enterprising young entrepreneur. Initially, Richards' environmental analysis revealed a promising opportunity. The market boasted extremely high income levels and the homes were quite large and expensive. Of course, quality carpeting and rugs were common in such homes. Although a number of cleaning firms existed, none had established themselves as quality businesses specializing in carpeting. As a result, the upper income market was reluctant to entrust their cleaning needs to most of these operations—particularly when incorrect cleaning methods could damage or ruin their carpets. Richards, realizing these concerns, trained extensively in cleaning methods and techniques particularly those unique to high-grade and oriental carpets. Because of this training Crystal Rug Cleaners received approval and license status from the National Institute of Rug Cleaners, the first and only cleaner in the market area to earn such a distinction. Richards further reasoned that in order to fully convey his competence and expertise, he would limit his firm's activities solely to carpet and rug cleaning. Thus, by distinguishing himself from his competitors and focusing on this single product/market posture, the business prospered and grew.

Within a period of three years, the demand for services out-stripped the firm's internal capacity, warranting expansion of the physical plant and eventually the establishment of satellite operations in adjacent market areas. Importantly, this expansion did not occur in a piece-meal fashion. Clear projections of growth were determined, growth issues (costs and returns) were budgeted, and clear assessments of growth needs were developed. Thus, expansive growth became the focus for modeling business decisions as the business continued its growth.

The Developmental Growth Posture

A business that utilizes a developmental growth posture decides to grow by either developing new target markets for its current products or by offering product variations to existing markets. The two forms of developmental posture are market development and product development.

In *market development*, the business attempts to appeal to new and varied market segments whose characteristics or demographics differ from those of established primary markets.

Product development stresses variations or improvements in the firm's primary products. In this case, current customers are introduced to the new and different products in the hope that the positive image customers have of existing products can be transferred to the new products. Note that existing products are not changed, rather, growth comes from the same customers purchasing both the existing products and the new products.

One of the key advantages of developmental postures is that the business maintains a high degree of consistency and stability while undergoing change and development for growth. For example, in product development, present customers (with assumed loyalty) are maintained and targeted while product variations are introduced. In market development, product variations are introduced. In market development, products remain unchanged, but new market segments are tapped. Therefore, the business remains somewhat secure as proven products are emphasized.

The previous example of Crystal Rug Cleaners also illustrates the implementation of a developmental posture. Once Crystal Rug Cleaner's single product or market strategy proved effective, a developmental growth posture—that of market development—was considered. The middle-income market was targeted. Crystal's basic strengths of service, professionalism, and knowledge of and attention to proper cleaning procedures were maintained and stressed in advertising messages geared to this new market segment. Of course, care must be used when making such a strategic change. The business must be sure that in addressing new markets, the needs of older established markets are not neglected. A developmental posture does add a fair amount of additional planning complexity, however, it is a logical means of fostering continued growth.

The Product Innovation Posture

Initially, one may question the distinction between product development and innovation, as the two do bear certain common elements. Product development seeks product variations and improvements, but involves no overriding change in the fundamental product. **Product innovation**, on the other hand, seeks a novel alteration of the existing product so as to create a basic and significant change in the product. From the consumer's perspective, innovation creates a new or different product, while product development presents the original product with some changes. Pearce and Robinson (1985) note that innovation creates a product so significantly novel that consumers shift preferences away from existing products and toward the newer ones.[2]

Although one may presume that product innovations are outgrowths of larger firms with well-supported research and development staffs, many contemporary product advances have come from small, entrepreneurial operations. Advances in microcomputer hardware and software are

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[2] John A. Pearce II and Richard B. Robinson, Jr. *Formulation and Implementation of Competitive Strategy*, 2nd ed. Homewood, IL: Richard D. Irwin, Inc., 1985, 221.

common examples. Often, small businesses, working intensively with a particular product on a daily, hands-on basis, may generate meaningful product innovations.

A reason for the attractiveness of a product innovation strategic posture is the hope for high returns. Introducing new products can result in large returns until competitors recognize and respond to the new changes. However, significant risks are also present. For example, being on the *cutting edge* demands a careful and accurate reading of environmental trends and necessitates a timely and cost-effective response.

The Diversification Posture

A diversification posture occurs when the business decides to grow by expanding operations into related, but essentially different products or services. Thus, the business is no longer limited to a single product/market posture. Although a core area of concentration may still command the bulk of the business energies, the total business is broadened to include supporting or complementary products or services.

The determination of where to expand is a function of two factors—competitive opportunity and strategic fit. Competitive opportunity refers to the firm's determination that realistic gains may be achieved by moving toward unexploited or untapped areas of consumer demand. The business will only consider growth toward areas where real and meaningful prospects for success are present.

The concept of strategic fit means that the firm will only grow into areas that are consistent with or complement existing operations. Although diversifying, the small firm must be assured that some logical relationship exists between primary, existing operations and the desired areas of diversification. Often, this determination is based on the owner's or manager's capacity to understand and control the new diversified business. Extremely high risks occur when expansion extends beyond the entrepreneur's realm of experience or demonstrated competence. For this reason, unrelated diversification is, typically, not a reasonable option for the small firm.

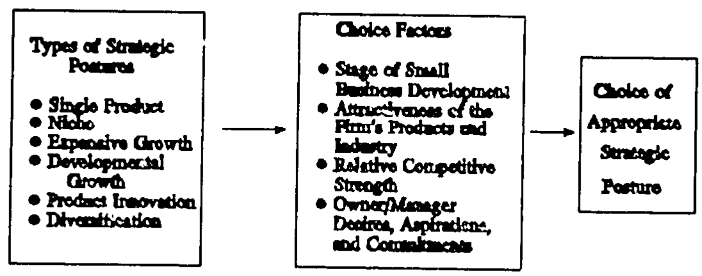
Again, Crystal Rug Cleaners is a meaningful example, showing continued growth through complementary diversification. Crystal grew and prospered by selecting meaningful niches and appropriate strategic postures. Soon, they realized that their levels of professionalism and quality prompted many consumers to trust Crystal for total carpeting needs. Thus repairs of rugs and carpets emerged as a new service. Initially, the repair service was targeted toward the upper income market, and provided delicate repairs for expensive oriental carpets. These were done, on a part-time, as-needed basis, by a retired master repair person. Soon, repairs were expanded to include other carpet groups and a range of repair needs. Within a year, a repair division, with a full-time expert, was added to the operation. Thus, a logical area of complementary growth was realized.

THE CHOICE OF STRATEGIC POSTURE

Given these six general strategic postures available to small firms, managers must decide which postures are most appropriate for their situation. It is not unusual for a firm to simultaneously embrace more than one posture if, for example, the industry is changing rapidly. The appropriate posture(s) may be a function of at least four significant influences (see Figure 4-2). These are (1) the stage of business development, (2) the attractiveness of the firm's products and industry, (3) the firm's relative competitive strength, and (4) the personal desires and aspirations of the business owner. Because of the magnitude of its impact, the discussion of stages of development will be delayed until a separate section of this chapter.

Figure 4-2

The Process of Choosing A Strategic Posture



When choosing a strategic posture, the present and future *attractiveness of the firm's products and industry* must be considered. Assessing the attractiveness of the product is difficult. At the most basic level, the business must decide whether demand is stable or growing and whether products (in terms of life cycle) are developing or have reached later maturity or decline stages. Careful and thorough environmental analysis should provide the manager with enough information to decide if product and industry attractiveness is relatively strong or relatively weak. Of course, attractiveness must be assessed not only in the present, but projected over the firm's planning horizon.

The appropriate posture depends heavily on the firm's *relative competitive strength*. Through internal analysis, managers must understand the firm's strengths and potential in relation to its key competitors. This is especially important if one or more large firms dominate the industry.

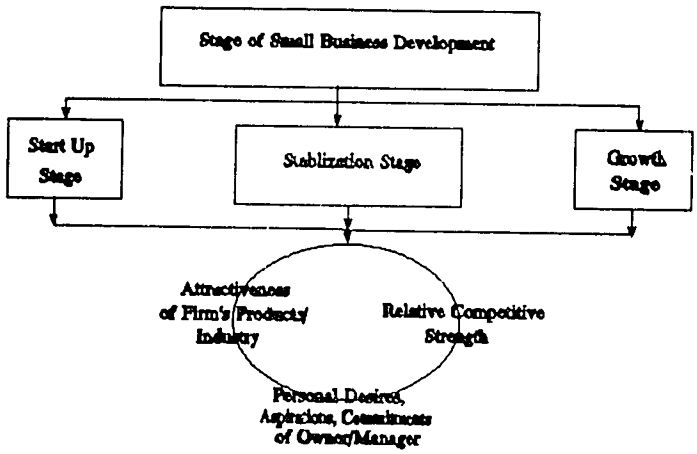
The *personal desires, aspirations, and commitments* of the owner or manager highlight the fact that entrepreneurs are different and, as such, possess differing views of their businesses and what they would like them to become. Some desire rapid growth with accompanying risks and potential returns. Others feel quite content to remain small and possess no strong growth aspirations. This variable of entrepreneurial attitude frequently defines and limits the choices of strategic posture (see Figure 4-3).

STAGES OF SMALL BUSINESS DEVELOPMENT

Three stages of small business development—the start-up stage, stabilization stage, and growth stage—will be considered. As the business moves from one stage to another, its emphasis shifts. As such, different strategic postures seem appropriate for different stages and conditions within stages. The discussion of stages of growth is adapted from the work of Arnold C. Cooper.[3]

Figure 4-3

Factors to Consider When Choosing A Strategic Posture



Start-Up Stage

The first stage in Cooper's typology is the start-up stage. This stage encompasses the decision to start a new business and the initial period when the business attempts to become established and get on its feet. During the start-up stage, the underlying concern is typically one of survival. Often, the firm's products or services are adequate and properly conceived, but owners or managers possess limited understanding of how to make the consumer aware of these products and services. The manager struggles with the decision of where and how to position the business within the chosen industry.

Typically, a business in this stage will limit its scope to one or two products; thus a *single product/market posture* is emphasized. Given the limited financial and personnel resources available to businesses during the start-up stage, a single product/market posture is the most realistic.

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[3] Arnold C. Cooper. "Strategic Management: New Ventures and Small Business." In *Strategic Management*, ed. by Dan E. Schendel and Charles W. F. Hofer. Boston: Little, Brown, and Company, 1979, 316-327.

The variables of relative competitive strength and product and industry attractiveness must be considered even at this initial stage. In this early phase, relative competitive strength and firm competencies may be difficult to ascertain. The basis for internal analysis is limited because on-going business operations are new and difficult to observe. Instead, the owner or manager's experience, background, philosophy, knowledge, and skills forms the basis of these assessments.

The business should be started in an area that the owner knows and understands. This in no way assures that either the product and industry characteristics or relative competitive position will be attractive. Therefore, the business owner must be open to signals that may indicate that the product/market or competitive position appears risky or is rapidly becoming unattractive. Generally, the business can change directions at this initial stage more easily and more quickly than during subsequent stages. The owner must be willing to read the signals, appraise them accurately, and respond objectively. The entrepreneur must fight the urge to become enamored with a pet product and thus, refuse to perceive and react to important, critical feedback.

If either product and industry attractiveness or relative competitive strength are low, the firm should consider a *niche* posture and search for and develop new areas of concentration. It is quite common for businesses to change products or services during the start-up stage. Of course, in choosing new niches and areas of concentration, selection should be limited to areas that are in demand and where true entrepreneurial skill and knowledge exists. If such a venture can not be identified, one should realistically consider leaving the business arena.

Stabilization Stage

Once the business becomes established and survival seems probable, a critical decision stage is reached. Here, the owner or manager must decide whether or not to aggressively pursue further business growth. Although one often assumes that growth is a natural and underlying assumption held by all businesspersons, such a view is inaccurate. Often, the owner or manager is content with the present level of business activity and, even though growth opportunities are possible, decides to remain at that current level of activity. The business has entered the stabilization stage.

There is nothing wrong with such a decision. Often, it reflects a personal choice of lifestyles. If growth is not desired, the firm may continue on with the established product/market posture that has provided past successes. This decision does not mean that the firm's managers are lulled into passive complacency. To concentrate on the existing posture and still be responsive to changing customer needs and competitive demands and threats requires an open and aware management. Environmental analysis, internal analysis, and creatively planned responses are as important here as ever. Such concentration on the single product/market posture can continue as long as the firm's relative competitive position and product and industry attractiveness remain positive.

Growth Stage

Although Cooper distinguishes between early growth and later growth, his model has been modified and simplified here to suggest a single, more encompassing growth stage. As in the stabilization stage, a business in the growth stage has weathered the storms of early business life and has gained a level of consumer acceptance and establishment. However, rather than maintain current business levels (as is the case in stabilization), the owners desire to grow. Here, the firm's original market approaches are tested and refined, as steady, controlled growth prevails. As the business develops, it encounters, for the first time, some of the problems and demands caused by growth. For example, new employees are added, and owners are faced with the need to delegate some operating decisions; standards and controls need to be formalized, and job responsibilities must be delineated as a workable organizational structure evolves.

As noted previously, the choice of the proper strategic posture is strongly influenced by the firm's relative competitive position and the product and industry attractiveness. Two cautions must be stressed. First, attempts at securing growth are risky if the business is experiencing a relatively weak competitive position in its original product or market areas. Second, if product or industry attractiveness is becoming or is projected to be less favorable, one should be cautious about further growth in that industry.

These cautions are not meant to suggest that a business is precluded from growth opportunities if either relative competitive position or product and industry attractiveness are unfavorable, but the additional risk involved must be noted. Unfavorable readings signal a need for change. Should this change be oriented toward further growth or rectifying the areas of difficulty? It is difficult to cope with the additional pressures and demands of growth without a strong primary base of operations. The business may need to firm-up its current situation, perhaps by exploring new competitive niches or searching out new, more promising product/market areas, before moving to the challenges of growth. Growth efforts are best and most safely pursued when relative competitive position and product and industry attractiveness are positive.

Given relative competitive strength and product and industry attractiveness, a number of growth-oriented strategic postures are possible. Depending on the nature of the industry and the specifics of the business, any of the six strategic postures—single product/market, niche, expansive growth, developmental growth, product innovation, or diversification—may foster effective growth. Rather than attempt to prescribe specific postures, it is best simply to encourage planners to choose new postures that complement the existing business postures and mission statement. If, at any time during growth, the business realizes that its relative internal or competitive strength is being diminished, a stabilization of growth is necessary until the internal condition is rectified.

SUMMARY

In this chapter we have presented two very important facets of the action phase of the strategic planning process for small businesses. At the outset, the mission must be carefully determined. This gives the general direction that the business will take, state the management philosophy to be followed, and, implicitly, indicate where the business is *not* headed.

Once the mission statement has been determined and written, the next step is to determine the strategic posture that the firm will assume. This may be the single product or market posture, the niche posture, the expansive growth posture, the developmental posture, the innovation posture, or the diversification posture. The particular posture assumed will depend heavily on the strengths and weaknesses of the firm, the nature of the firm's environment, and the particular desires of the owner or manager. There is, however, some relationship between the stage of development that the business is in and the most appropriate posture to take.

In developing a strategic plan and selecting appropriate strategic postures, it is important for the small business to clearly recognize its present stage of development. Then the owner or manager is ready to assess future growth potential and growth-related objectives. Realistically, one should not expect a detailed or specific response. Rather, a broad indication of the extent of growth commitment is likely.

Remember that growth potential is a function of environmental factors, internal strengths and weaknesses, and owner or manager attitudes toward growth. After carefully examining these considerations, the business may wish to proceed with or reevaluate its growth projections.

We now turn our attention to the development of goals and objectives. In particular, we will focus on the types of goals and the dynamics of the goal segmentation process. The key functional areas to be covered are the marketing strategy, the human resource or personnel strategy, the production strategy, and the financial strategy.

DISCUSSION QUESTIONS

1. Why is the mission statement so important for small firms?

2. Is it necessary to have a written mission statement? Why or why not?

3. Is it easy to identify a company's management philosophy? Can an argument be made that significant information about a firm's philosophy can be determined by a thirty-minute interview with a key manager?

4. Relate appropriate strategic postures to the discussion of stages of business development?

5. Which strategic posture might be most appropriate for the following businesses?

   a. A new computer chip manufacturer
   b. A real estate firm dealing with commercial property
   c. An older grocery store located in a growing community
   d. A business that is seeing sales decline steadily

Certificate in Business Administration

WORKSHEET #3: DISTINCTIVE COMPETENCY, VISION, MISSION STATEMENT AND STRATEGIC POSTURE

DISTINCTIVE COMPETENCY

Utilize this worksheet as the next step in writing the "Executive Summary" component of your strategic plan. Please refer to the "Recommended CBA Strategic Plan Outline."

1. Write a narrative statement which describes your firms distinctive competencies. Use the list of competencies you identified in Worksheet #2 as a starting point.

PRESENT A VISION STATEMENT

2. Write a 5 or 10 year vision statement for your firm.

PRESENT MISSION OR PURPOSE

3. Write your firm's existing mission statement.

4. What questions or concerns do you have about your mission statement?

POSSIBLE CHANGES IN MISSION FOR FUTURE

5. What products/services do we want to provide?

Note: In Worksheet #2 I asked you to briefly describe the products or services that you currently offer. Now after completing the SWOT analysis, do you want to make changes in your product or service mix?

Remember this information will be used in a narrative fashion in the Executive Summary portion of your plan.

6. Who will we target?

Note: In Worksheet #2 I asked you to "Briefly describe the market segments (currently) served." Now after completing the SWOT analysis do you want to make changes in the market segments served?

Remember this information will be used in a narrative fashion in the Executive Summary portion of your plan.

7. What geographic area will we focus our efforts on?

DRAFT A REVISED MISSION STATEMENT WHICH ADDRESSES EACH OF THE QUESTIONS NOTED ABOVE

Remember this information will be included in the Executive Summary and Strategic Direction portions of your plan.

Which Strategic Posture(s) fits your firm best?

1. Single Product/Market ____
2. Niche ____
3. Expansive Growth ____
4. Developmental Growth ____
5. Product Innovation ____
6. Diversification ____

Explain why you have chosen this posture(s).

WRITE GOAL STATEMENTS, KEY RESULT AREAS AND OBJECTIVES

UNIT 4

Title: **WRITE GOAL STATEMENTS, KEY RESULT AREAS AND OBJECTIVES**

Purpose: This unit is designed to help participants define their primary goals over the course of the planning horizon.

Objectives: Upon completion of this unit, participants will...

- be able to write goal statements,
- be able to define Key Result Areas (KRAs) for each goal statement,
- be able to write measurable and quantifiable objectives for each KRA.

Materials:

Transparency 1-2 (Reuse)	Basic Elements in the Strategic Management Process
Transparency 1-3 (Reuse)	Definition of Strategy Formulation
Transparency 1-6 (Reuse)	Describe the Planning Horizon
Transparency 1-14g (Reuse)	Strategic Planning Process - Step 7
Transparency 1-14h (Reuse)	Strategic Planning Process - Step 8
Transparency 4-1	Definition of Goals
Transparency 4-2	Definition of KRAs
Transparency 4-3	Sample Marketing KRAs
Transparency 4-4	Definition of Objectives
Transparency 4-5	Characteristics of Good Goals
Transparency 4-6	Example: Goal
Transparency 4-7	Example: KRAs
Transparency 4-8	Example: Objective

Handouts:

Handout 4-1	Benefits of Specific Goals
Handout 4-2	Sample Mission Statement, Goals, KRAs, and Objectives for a US Small Business
Handout 4-3	Hierarchy of Planning Components
Handout 4-4	Worksheet #4 - Goals, KRAs and Objectives

Class Exercise:

Ask each participant to write down his or her **primary** goal and the critical issues (KRAs) that must be addressed in order to achieve his or her goal. Give the participant 10 minutes to do this exercise, and then ask them to present their goal statement (read Notes for Instructors in the end of this unit).

Assignment:

Complete Worksheet #4.

Notes to Instructor:

Whenever possible, encourage each participant to express their feelings and to ask questions.

Make sure everyone understands the difference between the terms goals and objectives. This often time can be quite confusing to business owners.

Note the fact that this concept was introduced in the management module. Participants should review this material.

Estimated Time:

Goals	15 minutes
Key Result Areas	15 minutes
Objectives	20 minutes
Hierarchy of planning components	10 minutes
Exercise	45 minutes

Content	Process
A. Overview of the class	
This unit is designed to help participants define their primary goals over the course of the planning horizon.	
Upon completion of this unit, participants will . . .	
• be able to write goal statements.	
• be able to define Key Result Areas (KRAs) for each goal statement.	
• be able to write measurable and quantifiable objectives for each KRA.	
B. Goal, KRAs and Objective Statements	
Before we continue let's review:	
• The strategic management process includes three components.	Put up TP 1-2: Basic Elements in the Strategic Management Process.
• At this stage of the process we are for formulating the strategy.	Put up TP 1-3: Definition of Strategy Formulation.
• Remember we are developing a strategy for the term of the planning horizon.	Put up TP 1-11: Describe the Planning Horizon.
Following completion of the mission statement the planning team should **prepare one to three goal statements.**	Put up TP 1-19g: Strategic Planning Process — Step 7.
These statements should be specific priorities the business has established over the course of its planning horizon. For example, the firm may have goals related to employee development, profitability, succession planning, expansion, diversi-fication, etc.	Put up TP 4-1: Definition of Goals.

Content	Process
For each goal statement the planning team will **identify the key result areas** (KRAs) that must be developed in order to accomplish each goal.	Put up TP 4-2: Definition of KRAs.
In turn each KRA is **stated as a measurable and quantifiable objective.**	Put up TP 4-3: Sample Marketing KRAs.
	Put up TP 1-19h: Strategic Planning Process — Step 8.
Note: Stress the need for making measurable and quantifiable.	Put up TP 4-4: Definition of Objectives.
Below I have illustrated this procedure utilizing DEC as an example.	Hand out a reading on benefits of specific goals (HO 4-1) and point out Table 1 "Characteristics of Good Goals" (TP 4-5). Note: They are called goals but really objectives.
(Review Mission Statement)	
DEC Mission Statement:	
<u>Data Enhancement Corporation</u> provides information processing and data conversion services to retail department store chains, health providers, financial institutions, marketing research firms, and state and federal government as well as other businesses throughout the United States.	Read statement aloud for class review.
<u>Goal</u>:	
G1: To accomplish our mission, we believe people are the key to our success. Accordingly, DEC dedicates itself to the goal of creating a stable, growth-oriented, and positive work environment for its valued employees.	Put up TP 4-5: Example Goal.

Content	Process
Key Result Area:	
(Sample)	
Note: In reality there are several KRAs related to this goal.	
KRA 1: Job Analysis	
Objective:	
G1-01 Complete a thorough job analysis for each position by 12/31/91	Put up TP 4-6: Example KRAs.
Give another example, i.e. Imaginary Corporation.	
Review hierarchy of planning components	Put up 4-7: Example Objective.
Ask each participant to write down his or her **primary** goal and the critical issues (KRAs) that must be addressed in order to achieve the goal.	Handout Imaginary - Sample mission statement, goals, KRAs, and objectives (HO 4-2). Handout and review hierarchy of planning components (HO 4-3). Step 1: At the conclusion of Unit 3 indicate each participant will be asked to describe his or her primary goal during Unit 4. Encourage them to think about their goals prior to class. Step 2: Do the lecture on goals and KRAs prior to conducting the exercise. Stress the fact that the KRAs will often come from the issues that were prioritized in the SWOT analysis.

Content	Process
	Step 3: Tell the class they have 10 minutes to write down their most important goal and to identify the key issues that must be addressed in order to achieve the goal.
	Step 4: The instructor should be available to answer questions that come up during this period.
	Step 5: Ask each student to read their goal statement and list the KRAs.
Review Worksheet #4.	Step 6: The instructor should collect these statements. After collecting the statement make a copy for your review and comment and return the original to the student.
	Hand out Worksheet 4-4: Goals, KRAs and Objectives.

DEFINITION OF GOALS

GOALS:

Specific priorities the organization or business has established over the course of its planning horizon.

Definition of KRAs

KEY RESULT AREAS:

Specific issues the business or organization must address in order to achieve each goal.

SAMPLE MARKETING KRAs

	Present Services	New Services
Present Markets	Market Penetration	Service Development
New Markets	Market Development	Diversification

Definition of Objectives

OBJECTIVES:

An end result of planned activity. They state WHAT is to be accomplished by WHEN. They should be measurable and quantified.

Characteristics of Good Goals

1. Goals should be phrased in terms of outcomes rather than actions.

2. Goals should be measurable.

3. Goals should be challenging, yet realistic.

4. Goals should be communicated.

EXAMPLE: GOAL

DATA ENHANCEMENT CORPORATION

Goal

G2 - To accomplish our mission, we believe people are the key to our success. Accordingly, DEC dedicates itself to the goal of creating a stable, growth-oriented, and positive work environment for its valued employees.

EXAMPLE: KEY RESULT AREAS

DATA ENHANCEMENT CORPORATION

KRA 1: Job Analysis

KRA 2: Education and Training

KRA 3: Compensation and Recognition

EXAMPLE: OBJECTIVE

DATA ENHANCEMENT CORPORATION

G2-01 Complete a thorough job analysis for each position by 12/31/91

Benefits of Specific Goals

Suppose a couple is leisurely driving around the city some Sunday afternoon and they discover that they have no idea where they are. Are they lost? The answer—no. Now suppose one of them suddenly says, "It's 4:00 o'clock! We should have picked the kids up at the YWCA fifteen minutes ago!" **Now** they are lost.

The leisurely Sunday afternoon drive was fine as long as the only goal was to have a good time. But once the couple needed to be somewhere in particular, they concluded that there was a problem. Then, they looked around for landmarks and asked directions in order to find the YWCA. Only when they had a specific goal to strive for did they take the actions necessary to achieve it. The Sunday afternoon driver was lost until a destination became evident. The destination became the specific goal.

Once a goal is set, performance can be measured in terms of that goal. Therefore, a goal is simultaneously a planning tool and a control device. It is a planning tool because it must precede the actual development of a plan. It is a control device because one can measure performance compared to preset standards. If the goals have not been achieved, corrective steps may be taken to improve performance.

A second major value of logical business goals is that they can serve as a motivating force for employees. If goals are carefully set to be achievable with effort, and are communicated to the employees, they can become the rallying point for the entire company. For example, in March of 1984 Sam Walton, the head of Wal-Mart discount stores, danced the hula in a grass skirt at high noon on Wall Street. He had set some rather hefty goals for his discount chain and promised the above bizarre behavior if the goals were achieved. His 65,000 employees obliged, and so did he. Walton's leadership, strategic planning, and goal-setting have apparently paid off handsomely as he topped the list of the *Forbes* 400 richest persons in the United States in late 1986.

If goals are to have meaning and be effective, certain basic guidelines must be noted. In general, these guidelines apply to all types of goals. **Goal statements** should be written for each desired goal. They should be phrased in terms of outcomes or results rather than actions. We must focus on desired accomplishments, not the series of activities undertaken to achieve these accomplishments. There is a world of difference between saying, "this week we'll work on the budget" and, "by the end of this week, the budget will be completed." The second statement tends to enhance both motivation and commitment because a final accomplishment or result is expected. It suggests that merely going through the process or activity of work is not sufficient because work must be oriented toward the attainment of pre-stated goals. Thus, the second statement indicates a means of evaluating the work that is done.

Goal statements should be clear, specific and, to the extent possible, quantifiable or measurable. The clearer and more precise the goal, the greater the likelihood that it will be pursued and attained.

Stoner, C. R. and Fry, F. L. *Strategic Planning in the Small Business*. South Western Publishing Co., 1987, pp. 124-128. Translated and published with permission.

Effective goal statements are challenging, yet realistic. Challenging goals are essential for growth-oriented businesses and growth-oriented people. Goals are too simplistic or too easily reached cheat the business of its full potential. Further, they often cause employees to feel under utilized in their jobs, contributing to declines in worker morale and job satisfaction. On the other hand, goals that are too lofty may quickly be perceived as being unreasonable or unrealistic, thus minimizing motivation and stifling output potential.

Finally, goals must be communicated throughout the organization. Regardless of how impressive a goal statement may be in meeting the first three criteria noted above, its potential to influence behavior is lost without proper communication to employees. Many managers find that this concept of communication can be even more broadly interpreted to include employees in the goal-setting process. Such employee involvement not only meaningfully enhances the goals, it also offers employees a key motivational perspective. The characteristics of good goals are presented in Table 1.

Table 1 Characteristics of Good Goals

1. Goals should be phrased in terms of outcomes rather than actions.
2. Goals should be measurable.
3. Goals should be challenging, yet realistic.
4. Goals should be communicated.

HOW GOALS ARE CREATED

Although setting viable goals is largely a process based on individual judgement, it is not a seat-of-the-pants process. In part, it is based on historical data. To a greater extend, however, it is based on the analysis discussed in Part 1.

The focus of goals may change from time to time. Suppose, for example, that sales have increased as planned over the past several years, but costs have risen dramatically. The goal for the next period may have cost containment as the major focus. Sales increases may still be encouraged, but the prime emphasis will be on reduction of expenses per sales dollar.

The actual numerical goal will often be a compromise by key management personnel. The marketing manager may suggest a target increase in sales of, say, ten percent. The controller may be more pessimistic and feel that six percent is the most that could be expected. The production manager may submit that seven to eight percent is the maximum increase that could be obtainable without a substantial outlay of capital. The president must then take the input of the managers, coupled with each person's economic forecast for the coming year, and determine the final goal for the year. Incidentally, it is useful to have each department manager make an independent forecast of next year's sales. This gives several different perspectives which can then be meshed into a single goal.

CONFLICT AMONG GOALS

No business will have a single overriding goal. All groups, all businesses, all individuals have multiple goals. Many of the goals are congruous, but some are not. Some goals will always be in conflict. For example, goals to be successful business owners sometimes conflict with goals of being successful parents.

Within a business, the conflicts among goals can affect the strategy of the firm. The conflicts may be of two types:

Mutually Exclusive Goals

Managers of a business may have **mutually exclusive goals**. On occasion, a manager may have a goal in conflict with another manager, or a manager may have two goals that conflict with each other. In either case the exclusivity means that we can not achieve one without serious damage to the other. Here the owner or manager must resolve the conflict which has arisen.

If the owner has complete power over subordinates, it may entail only announcing a final decision. But even in this case, the decision may alienate one or more workers; so, it makes sense for the owner to attempt to resolve differences amicably if possible. The manager should strive to negotiate and accommodate rather than alienate.

Goal Priorities

Psychologists and those in the medical profession suggest that individuals must establish priorities for themselves. People can never attain all that they want to attain nor do all that they want to do. Somehow they have to learn to prioritize their lives and determine which of life's objectives are most important.

The same holds for businesses. Businesses will have multiple opportunities and multiple goals, and, it will be difficult, if not impossible, to adequately achieve all goals. It is necessary, then, to prioritize the company's goals. Planners may decide that the major emphasis **this** year is on hiring new employees because the major emphasis last year was on expanding into a new area. Sales increased dramatically, making it necessary to address the personnel needs. Thus, although growth and expansion received first priority last year, it now must take second place to personnel considerations.

Prioritizing goals is of particular importance in the product development area. If our firm has a number of products that could be marketed, we may decide that produce A and B will receive attention next year, with products C, D, and E being funded the following year. Similarly, we may budget to replace some of our old equipment this year while the remainder is scheduled for replacement two years in the future. These are examples of prioritizing goals and then insuring that the goals are planned into the budget.

Imaginary Corporation
Goals, KRAs and Objectives
3/11/91

Goals, KRAs and Objectives

In order to accomplish its mission, Imaginary has adopted the following goals:

G1: Develop a national "public sector" production and distribution network which maximizes profitability of Imaginary while growing at a controlled and manageable rate. Imaginary seeks a 15 percent ROI in 1991, 20 percent ROI in 1992 and a 25 percent ROI in 1993.

G2: Create 250 full-time jobs for people with disabilities or who are incarcerated by December 31, 1993.

G3: Ensure the long term administrative and financial stability of Imaginary.

For each goal, Imaginary has identified the following Key Result Areas (KRAs) which are the focus of the plan.

G1: Develop a national "public sector" production and distribution network which maximizes profitability of Imaginary while growing at a controlled and manageable rate. Imaginary seeks a 15 percent ROI in 1991, 20 percent ROI in 1992, and a 25 percent ROI in 1993.

KRA 1: Availability of growth capital

KRA 2: Adequate sales force

KRA 3: Market penetration

KRA 4: Market development

KRA 5: Timely payment of commissions by Inopak

KRA 6: Timely payment to Inopak of commissions by the rehabilitation facility or correctional industry program.

G2: Create 250 full-time jobs for people with disabilities or who are incarcerated by December 31, 1993.

KRA 1: National recognition for this unique public/private partnership

KRA 2: Promote established relationships

G3: Ensure the long-term administrative and financial stability of Imaginary.

KRA 1: Buy/sell agreement between shareholders

KRA 2: Adequate management team

KRA 3: Timely financial reporting

In order to address each KRA, Imaginary has established the following measurable and quantifiable objectives.

G1: Develop a national "public sector" production and distribution network which maximizes profitability of Imaginary while growing at a controlled and manageable rate. Imaginary seeks a 15 percent ROI in 1991, 20 percent ROI in 1992, and a 25 percent ROI in 1993.

KRA 1: Availability of growth capital

G1-01 Obtain a $50,000 line of credit to enhance availability of working capital by April 15, 1991.

KRA 2: Adequate sales force

G1-2: Hire a full time sales manager and recruit a sales agent in at least four states by July 1, 1991 with a total of eight states by December 31, 1991.

KRA 3: Market penetration

G1-03: Increase total sales in existing states by 15 percent in 1991, 17 percent in 1992, and 20 percent in 1993.

KRA 4: Market development

G1-04 Recruit two new states to the program each year from 1991-1993.

KRA 5: Timely payment of commissions by Inopak

G1-05: Receive all commission payments within 60 days of the purchase order being received by October 1, 1991.

KRA 6: Timely payment to Inopak of commissions by the rehabilitation facility or correctional industry program.

G1-06: Inopak receive all payments within 45 days of orders being shipped by September 1, 1991.

G2: Create 250 full time jobs for people with disabilities or who are incarcerated by December 31, 1993.

KRA 1: National recognition for this unique public/private partnership

G2-01: Obtain one national award or special recognition by December 1, 1992.

KRA 2: Promote established relationships

G2-02: Obtain at least one newspaper article or some other type of publicity in Illinois, Florida, New York, New Jersey, Ohio, Maryland, and Oregon by June 1, 1991.

G3: Ensure the long term administrative and financial stability of Imaginary Corporation.

KRA 1: Buy/sell agreement between shareholders

G3-01: Negotiate a buy/sell agreement by July 1, 1991.

KRA 2: Adequate management team

G3-02: Recruit one other principal by October 1, 1991.

KRA 3: Timely financial reporting

G3-03: Generate monthly financial statements by June 1, 1991.

Hierarchy of Planning Components

1. **Distinctive Competency** — What are the special attributes of the firm that provide a meaningful, competitive edge over its business rivals.

2. **Vision** — Based on a clear understanding of the firms internal and external situation, and an accurate appraisal of its distinctive competencies the planning team is ready to prepare a vision statement for the firm.

   A vision statement is a fairly detailed description of what the planning team believes the firm can become and/or the type of organization that would like their firm to become.

3. **Mission Statement** — A brief statement which describes the purpose or reason for the firms existence. It addresses four fundamental concepts, i.e. The target population served, the products and/or services provided, the primary geographic boundary served, and the basic philosophy of the firm.

4. **Strategic Posture** — Based on a thorough understanding and appreciation of the firms mission the team is ready to put together a statement on how the business will achieve its overall mission and gain a competitive advantage. Some of the more common postures include the following: Single Product/Market, Niche, Expansive Growth, Developmental Growth, Product Innovation and Diversification.

5. **Goals** — Once the strategic posture is understood the team is ready to prepare goal(s) statements. A goal statement is a specific priority the firm has established over the course of its planning horizon.

   For example . . .

   G1 (Goal 1) — To increase the overall profitability of the firm by 20 percent by 12/31/94.

6. **Key Result Areas** — For each goal statement the team must identify specific issues the firm must address in order to achieve the goal. These issues are called Key Result Areas (KRA).

   For example . . .

   G1 (Goal 1) — To increase the overall profitability of the firm by 20 percent by 12/31/94.

   KRA 1: Sales to current customers (market penetration)

7. **Objectives** — For each KRA the team should develop one or more objectives to address the KRA. An objective is an end result of planned activity. They state <u>what</u> is to be accomplished by <u>when</u>. They should be measurable and quantifiable.

For example . . .

G1 (Goal 1) — To increase the overall profitability of the firm by 20 percent by 12/31/94.

KRA 1: Sales to current customers (market penetration)

G1-O1 (Goal 1, Objective 1) — To increase sales to current customers by 12 percent by 12/31/93 and 15 percent by 12/31/94.

8. **Strategy** — For each objective the planning team should prepare a series of strategies, i.e. a comprehensive master plan stating <u>how</u> the firm will achieve its objectives.

For example . . .

G1 (Goal 1) — To increase the overall profitability of the firm by 20 percent by 12/31/94.

KRA 1: Sales to current customers (market penetration)

G1-O1 (Goal 1, Objective 1) — To increase sales to current customers by 12 percent by 12/31/93 and 15 percent by 12/31/94.

S1 (Strategy 1) — Invite customers who have purchased more than $500 of products to a Cubs baseball game.

S2 — Offer a 10 percent discount to current customers on all purchases over $100.

9. **Action Plan** — For the most important objectives the planning team should identify an action plan coordinator. This person should develop a detailed action plans for each strategy. An action plan is a specific listing of tasks need to be accomplished to implement a strategy. It includes an action plan coordinator as well as other information needed to assign responsibility, project costs and estimate time frames.

For example . . .

G1 (Goal 1) — To increase the overall profitability of the firm by 20 percent by 12/31/94.

KRA 1: Sales to current customers (market penetration)

G1-O1 (Goal 1, Objective 1) — To increase sales to current customers by 12 percent by 12/31/93 and 15 percent by 12/31/94.

S1 (Strategy 1) – Invite customers who have purchased more than $500 of products to a Cubs baseball game.

Note: See Action Plan for a detailed look at an action plan. Below is a sample listing of tasks that would be included in the action plan to implement S1.

T1 (Task 1) — Prepare a list of customers who have purchased more than $500 of products.

T2 — Prepare and send a letter from the president that can be mailed to each customer identified in T1.

T3 — After one week call each customer to determine if they will be attending the game.

T4 — Based on the response to T3 order tickets.

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Worksheet #4: Goals, Key Result Areas and Objectives

Describe the most critical issues facing your company.

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

11.

12.

List 1-3 Goals your company must focus on over the next 18 months.

G1.

G2.

G3.

What are the Key Result Areas (KRAs) you must address for each goal?

G1.

G2.

G3.

Draft a measurable and quantifiable objective for each KRA.

G1 — 01

02

03

04

05

G2 -- 01

02

03

04

05

G3 — 01

02

03

04

05

Class Exercise

Ask each participant to write down his or her **primary** goal and the critical issues (KRAs) that must be addressed in order to achieve the goal.

Step 1: At the conclusion of Unit 3 indicate each participant will be asked to describe his or her primary goal during Unit 4. Encourage them to think about their goals prior to class.

Step 2: Do the lecture on goals and KRAs prior to conducting the exercise. Stress the fact that the KRAs will often come from the issues that were prioritized in the SWOT analysis.

Step 3: Tell the class they have 10 minutes to write down their most important goal and to identify the key issues that must be addressed in order to achieve the goal.

Step 4: The instructor should be available to answer questions that come up during this period.

Step 5: Ask each student to read their goal statement and list the KRAs.

Step 6: The instructor should collect these statements. After collecting the statement, make a copy for your review and comment and return the original to the student.

DETERMINE STRATEGIES AND ACTION PLANS

UNIT 5

Title: DETERMINE STRATEGIES AND ACTION PLANS

Purpose: This unit is designed to help participants prepare specific strategies and action plans for achieving each objective prepared in Unit 4.

Objectives: Upon completion of this unit, participants will . . .

- understand how to prepare strategy statements.
- be able to apply criteria for evaluating strategies.
- be able to prepare action plans for each strategy.

Materials:

Transparency 1-14i Reuse	Strategic Planning Process — Step 9
Transparency 1-14j Reuse	Strategic Planning Process — Step 10
Transparency 1-14k Reuse	Strategic Planning Process — Step 11
Transparency 3-4 Reuse	Strategic Management Model
Transparency 5-1	Definition of Strategy
Transparency 5-2	Definition of an Action Plan
Transparency 5-3	Example Strategy
Transparency 5-4	Example Action Plan
Transparency 5-5	Action Plan Form

Handouts:

Handout 5-1	Action Plan Form
Handout 5-2	Worksheet #5 — Preparing Strategies and Action Plans

Class Exercise:

Handout Action Plan form and ask participants to complete this form for one strategy.

Assignment:

Complete Worksheet #5

Notes to Instructor:

Whenever possible encourage each participant to express their feelings and to ask questions.

Make sure they understand the importance of prioritizing their objectives.

For the most important objectives **complete** action plan forms should be completed for each strategy.

Stress the fact that action plans should be completed by the person who has responsibility for implementing the strategy.

Estimated Time:

Strategies	30 minutes
Action Plans	30 minutes
Action Pan Exercise	30 minutes

Content	Process
A. Overview of the class	
This unit is designed to help participants prepare specific strategies and action plans for achieving each objective prepared in Unit 4.	
Upon completion of this unit, participants will . . .	
• understand how to prepare strategy statements.	
• be able to apply criteria for evaluating strategies.	
• be able to prepare action plans for each strategy.	
B. Strategies and Action Plans	
Before we continue, let's review:	
• Emphasize three parts of the strategic management model.	Put up TP 3-4: Strategic Management Model.
• In module 4 we developed goals, KRAs and objectives.	
The next step in the strategy formulation process is to develop strategies.	Put up TP 1-14j: Strategic Planning Process — Step 9.
To achieve each objective the planning team must **spell out specific strategies** for achieving each objective.	Put up TP 5-1: Definition of Strategy.
Discuss strategy criteria	Handout criteria.
Finally, each strategy has an Action Plan Coordinator and **a number of tactics** which	Put up TP 5-2: Definition of an Action Plan.

Content	Process
when completed result in the strategy being implemented.	
Below I have illustrated this procedure:	
Objective:	
G1-01 Complete a thorough job analysis for each position by 12/31	
Strategy:	
Note: In reality there are several strategies related to this objective.	
S1 Update current job descriptions	
Action Plan:	
Note: In each action plan there are a series of tactics. Each tactic has a start date and an end date.	Put up TP 5-3: Example Strategy.
Action Plan Coordinator: Andrea Otis	
T1 Route copies to immediate supervisor and employee when appropriate	
T2 Review job description and insure accuracy	
T3 Add specific job specifications to job description when appropriate	Put up TP 5-4: Example Action Plan.
T4 Route updated job description to personnel department	
T5 Edit job descriptions	
T6 Final review and approval by appropriate manager	

Content	Process
As the first step in the implementation process it is important to complete an Action Plan form **for the most** important strategies.	
Review the Action Plan form in detail. Emphasize the need to cost out each strategy.	
Stress the need to spell out specific responsibilities.	Put up TP 5-5: Action Plan Form and distribute to participant HO 5-1.
	Do action plan exercise using Action Plan Form.
	Put up TP 1-14j: Strategic Planning Process — Step 10.
	Put up TP 1-14k: Strategic Planning Process — Step 11.
	Note for Instructors: Action Plan Exercise.
	Step 1: At the conclusion of Unit 4 indicate each participant will be asked to prepare an action plan form for their most important strategy during Unit 5. Encourage them to work on their objectives and strategies prior to class.
	Step 2: Do the lecture on strategies and action plans prior to conducting the exercise. Stress the fact that they should prioritize their objectives and develop strategies for the most important objectives first.
	Step 3: Tell the class they have 15 minutes to prepare a complete action plan for their most important strategy.

Content	Process
	Step 4: The instructor should be available to answer questions that come up during this period.
	Step 5: Ask **several** students to present their action plan to the class.
	Step 6: The instructor should collect the 2 or 3 best action plans and make copies for other class members.
Review Worksheet #5	Handout Worksheet #5: Preparing Strategies and Action Plans, HO 5-1.
	Preparing Strategies and Action Plans

DEFINITION OF STRATEGY

STRATEGY:

A comprehensive master plan stating HOW the organization or business will achieve its objectives.

DEFINITION OF ACTION PLAN

ACTION PLAN:

A specific listing of tasks needed to be accomplished to implement a strategy.

Also included are the action plan coordinator as well as other information needed to assign responsibility, project costs and estimate time frames.

EXAMPLE: STRATEGY

DATA ENHANCEMENT CORPORATION

S1 Update current job descriptions

EXAMPLE: ACTION PLAN

DATA ENHANCEMENT CORPORATION

Action Plan Coordinator: Andrea Mather

T1 Route copies to immediate supervisor and employee when appropriate

T2 Review job description and insure accuracy

T3 Add specific job specifications to job description when appropriate

T4 Route updated job description to personnel department

T5 Edit job descriptions

T6 Final review and approval by appropriate manager

ACTION PLAN

Date:___/___/___
Page #: ___ of ___

Goal#: ______
Objective #: ______
Priority: ______(1-3=vital; 4-6=serious; 7-9=useful)
Strategy: ________________
Coordinator: ________________

Tactic #	Priority	Tactic	Rspnsbl. Party (intls.)	People invlvd. (intls.)	Cost $$	Cost Time	Start Date	End Date	Current Status

ACTION PLAN

Date: ___/___/___
Page #: ___ of ___

Goal#: ______
Objective #: ______
Priority: ______(1-3=vital; 4-6=serious; 7-9=useful)
Strategy: ____________________
Coordinator: ____________________

Tactic #	Priority	Tactic	Rspnsbl. Party (intls.)	People invlvd. (intls.)	Cost $$	Cost Time	Start Date	End Date	Current Status

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Worksheet #5: Strategies and Action Plans

Specify strategy statements for meeting each objective listed on Worksheet #4.

G1-01:

S1-

T1-

T2-

T3-

T4-

T5-

S2-

T1-

T2-

T3-

T4-

T5-

S3-

T1-

T2-

T3-

T4-

T5-

G1-02:

S1-

T1-

T2-

T3-

T4-

T5-

S2-

T1-

T2-

T3-

T4-

T5-

S3-

T1-

T2-

T3-

T4-

T5-

G1-03:

S1-

T1-

T2-

T3-

T4-

T5-

S2-

T1-

T2-

T3-

T4-

T5-

S3-

T1-

T2-

T3-

T4-

T5-

G2-01:

S1-

T1-

T2-

T3-

T4-

T5-

S2-

T1-

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S3-

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G2-02:

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G2-03:

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S3-

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T4-

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G3-01:

S1-

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T3-

T4-

T5-

S2-

T1-

T2-

T3-

T4-

T5-

S3-

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T3-

T4-

T5-

G3-02:

S1-

T1-

T2-

T3-

T4-

T5-

S2-

T1-

T2-

T3-

T4-

T5-

S3-

T1-

T2-

T3-

T4-

T5-

G3-03:

S1-

T1-

T2-

T3-

T4-

T5-

S2-

T1-

T2-

T3-

T4-

T5-

S3-

T1-

T2-

T3-

T4-

T5-

Class Exercise

Action Plan Exercise

Step 1: At the conclusion of Unit 4 indicate each participant will be asked to prepare an action plan form for their most important strategy during Unit 5. Encourage them to work on their objectives and strategies prior to class.

Step 2: Do the lecture on strategies and action plans prior to conducting the exercise. Stress the fact that they should prioritize their objectives and develop strategies for the most important objectives first.

Step 3: Tell the class they have 15 minutes to prepare a complete action plan for their most important strategy.

Step 4: The instructor should be available to answer questions that come up during this period.

Step 5: Ask **several** students to present their action plan to the class.

Step 6: The instructor should collect the two or three best action plans and make copies for other class members.

DRAFT AND IMPLEMENT THE PLAN AND DEVELOP A MANAGEMENT CONTROL SYSTEM

UNIT 6

Title: **DRAFT AND IMPLEMENT THE PLAN AND DEVELOP A MANAGEMENT CONTROL SYSTEM**

Purpose: This unit is designed to help participants avoid important pitfalls in implementing their strategic plan, and develop a system for controlling the firms strategic direction.

Also introduced in this module is the idea of developing a policy or advisory board of directors. Under the right circumstances a board of directors can be an important tool in helping the firm in its ongoing strategic planning process.

Objectives: Upon completion of this unit participants will . . .

- be able to prepare a first draft of their firms strategic plan.
- be able to structure the firm and delegate responsibility for implementing sections of the plan.
- be able to design a basic management control system for their firm.
- be able to draft a process for keeping the plan up-to-date.
- understand the basic elements involved in developing a board of directors

Materials:

Transparency 1-1 Reuse	Definition of Strategic Management
Transparency 1-2 Reuse	Basic Elements in the Strategic Management Process
Transparency 1-4 Reuse	Definition of Strategy Implementation
Transparency 1-5 Reuse	Definition of Evaluation and Control
Transparency 5-5 Reuse	Action Plan Form
Transparency 1-14l Reuse	Strategic Planning Process — Step 12
Transparency 1-14m Reuse	Strategic Planning Process — Step 13
Transparency 1-14n Reuse	Strategic Planning Process — Step 14
Transparency 1-14o Reuse	Strategic Planning Process — Step 15
Transparency 1-14p Reuse	Strategic Planning Process — Step 16
Transparency 6-1	Draft and Refine the Plan
Transparency 6-2	Strategic Plan Outline
Transparency 6-3	Implement the Plan
Transparency 6-4	Steps in delegation
Transparency 6-5	Outside Board Members' Characteristics

Transparency 6-6	Inside Board Members' Characteristics
Transparency 6-7	Common Objectives for the Board of Directors
Transparency 6-8	Stages of Firm Life Cycle
Transparency 6-9	Generic Board Types
Transparency 6-10	Characteristics CEOs Seek in new Board Members

Handouts:

Handout 6-1	CBA Strategic Plan Outline
Handout 6-2	Delegation Guidelines
Handout 6-3	Keep the Plan Up-to-Date
Handout 6-4	Stages of Firm Life Cycle
Handout 6-5	Do Boards of Directors Really Help Small Businesses?

Class Exercise:

1. Role play situation on delegation

2. Ask each participant to give a 5-10 minute presentation on their plan. Ask them to focus on the one or two most important objectives. Following the presentation ask the class to critique the presentation.

Assignment:

Prepare a written strategic plan. Suggest they follow the outline which was given out in Unit 1. Tell them to turn in the plan within one month to the Institute for an in depth review of the document. Following review of the plan by the faculty meet with the participant to give them individualized feedback on what they can do to strengthen the plan.

Notes to Instructor:

Whenever possible encourage each participant to express their feelings and to ask questions.

Estimated Time:

Draft and refine the plan	20 minutes
Implementation/delegation	30 minutes
Role play situation on delegation	15 minutes
Keep the plan up-to-date	15 minutes
Board of directors	20 minutes
Business plan presentations	90-180 minutes

Content	Process
A. Overview of the class	
This unit is designed to help participants avoid important pitfalls in implementing their strategic plan, and develop a system for controlling the firms strategic direction.	
Upon completion of this unit, participants will . . .	
• be able to prepare a first draft of their firm's strategic plan.	
• be able to structure the firm and delegate responsibility for implementing sections of the plan.	
• be able to design a basic management control system for their firm.	
• be able to draft a process for keeping the plan up-to-date.	
• understand the basic elements involved in developing a board of directors.	
B. Draft the Plan	
Before continuing, let's review:	
• Strategic Management reviews to decisions that impact that long run performance of the firm.	Put up TP 1-1: Definition of Strategic Management.
• Three elements in the process	Put up TP 1-2: Basic Elements in the Strategic Management Process.
• Phase II = Strategy Implementation	Put up TP 1-4: Definition of Strategy Implementation.
• Phase III = Strategy Evaluation and Control	Put up TP 1-5: Definition of Evaluation and Control.

Content	Process
After defining the firms strategy, the planning team is ready to draft the plan.	Put up TP 6-1: Draft and Refine the Plan.
Let's take a look at a table of contents for an ideal strategic plan.	
Model Strategic Plan Outline	
1. Executive Summary	Put up TP 6-2 and provide the participants with CBA Strategic Plan Outline (HO 6-1).
This is a brief statement which uses clear, simple, concise language. It should keep the reader's attention and develop interest. It should include the following:	Put up TP 1-141: Strategic Planning Process — Step 12.
• Company background • Mission statement • Primary goals • Products/Services • Distinctive Competencies • Market segment(s) served	Review each component of the outline. Make sure your audience understands what goes in each section. While no outline is ideal, this is a good place to start when preparing their own strategic plan table of contents.
2. Situation Analysis	
Briefly describe the company's **major** strengths, weaknesses, opportunities and threats. Remember, these factors should be distilled from having systematically examined the (1) international strengths and weaknesses of each functional area of the business, i.e. administration, business/finance, personnel, production, and marketing, and (2) external opportunities and threats facing the business overall and by business unit.	
Your detailed SWOT analysis should be included in the appendix.	

Content	Process

3. Strategic Direction

This section of the plan should spell out the general direction of the firm over the length of the planning horizon and provide a detailed description of how the firm will achieve its overall strategic goals. It should include the following:

- Mission statement and philosophy
- Primary goals
- Key result areas for meeting each goal
- Measurable and quantifiable objectives which address each KRA
- Strategies for meeting each objective
- Action plans for implementing each strategy

4. Implementation

This section of the plan should spell out specific issues related to implementation of the plan. Issues which should be included in this section include the following:

- Organizational structure
- Major policies and procedures required to successfully implement your plan
- Human and financial resource allocation

5. Evaluation and Control

Here we describe the process for keeping the plan up-to-date. Also include the control forms that will be used to monitor the plan. Ideally, responsibilities per Action Plan Coordinator are sorted and included in the appendix.

Content	Process

6. Contingency Plans

This section describes critical risks, problems and assumptions which are included in the plan.

The planning team should spell out what actions will be taken if critical problems occur.

7. Financial Plans

This section of the plan is critical and should be prioritized by the business owner. Depending on the nature of the plan, it should include some or all of the following:

- A detailed two year sales forecast by quarter.
- Actual income statements and balance sheets for the past three years.
- Proforma income statement for the next two years.
- Proforma balance sheet for the next two years.
- Proforma 24 month cash flow statement by month for the first 12 months and by quarter for the next 12 months.
- Breakeven chart and calculation.
- Appropriate ratios compared to the industry.

8. Appendices

This section should include information which is too detailed to be included in the body of the report. Materials which might be included in the appendix include the following:

- Select industry information
- Detailed SWOT analysis

Content	Process
• Action plan forms • Sorted responsibilities per Action Plan Coordinator • Resumes	Put up TP 1-14m: Step 13 — Review plan with others.
Note: Make sure you solicit input into the working draft from most important stakeholder.	
Make changes as necessary.	Put up TP 1-14n: Step 14 — Modify and finalize the plan.
Implement the plan.	
C. Implement, monitor and revise the plan	Put up TP 6-3: Implement the Plan.
A crucial component of any managers role is delegation. This skill becomes particularly important in the implementation process.	
There are several important points to consider when delegating **authority and responsibility to Action Plan Coordinators.**	
• Delegation guidelines:	Put up TP 6-4: Steps in delegation.
• Select the people who have the ability to do the job.	Provide participants with HO 6-2: Delegation Guidelines.
• See that they clearly understand what you expect.	Run exercise 1 and 2. See Notes for Instructors in the end of this Unit.
• Let them know you sincerely believe in their ability to carry out the task.	As necessary, focus the discussion on the action plan form.
• Secure commitment that they will follow through.	Put up TP 5-5: Action Plan Form.
• Negotiate a deadline.	

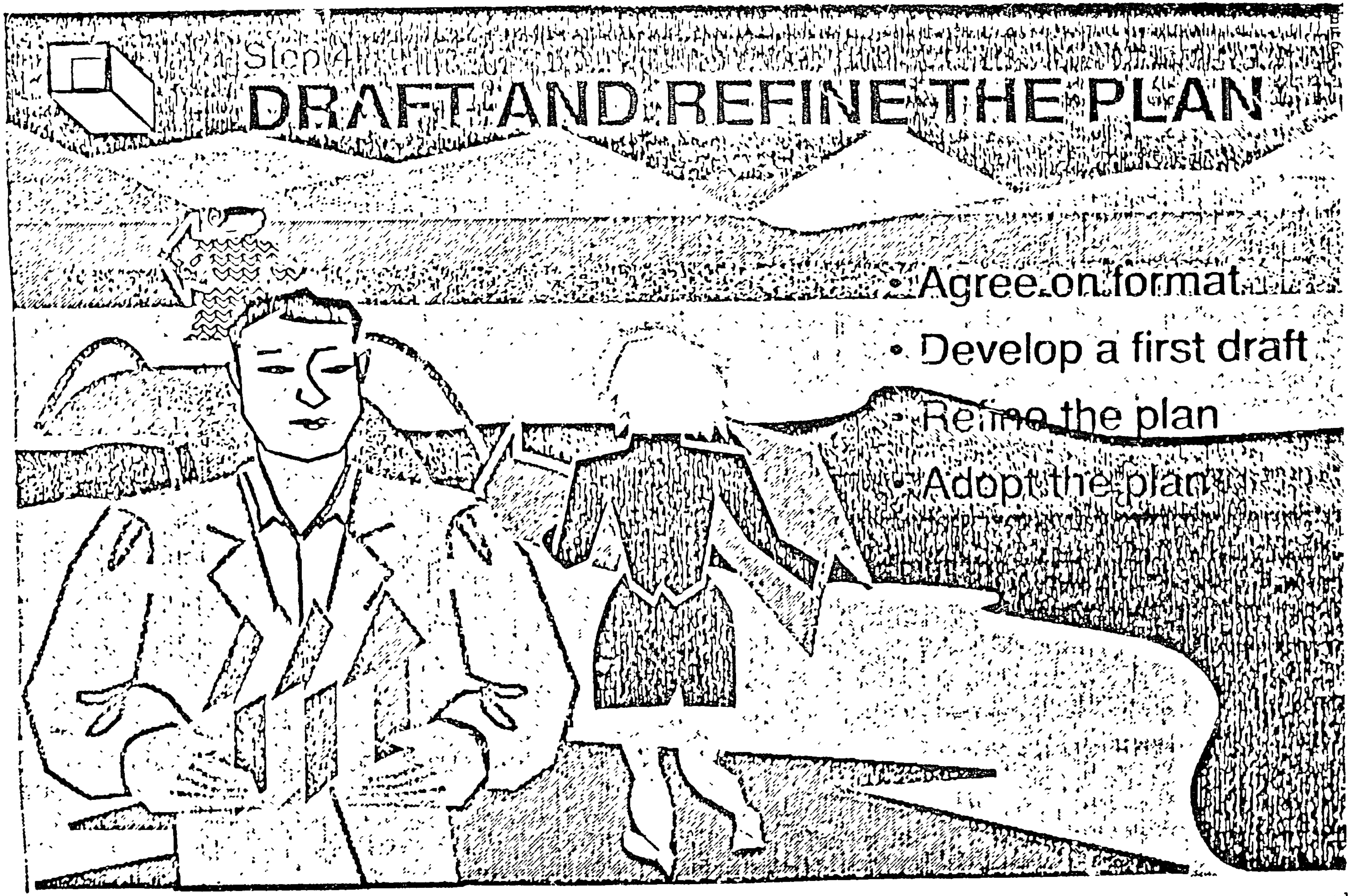
Content	Process
• Provide latitude for them to use their own imagination and initiative.	
• Let them know in the beginning that you're going to follow up and do it.	
• Don't do the job for them.	
• Reward them commensurately with the results that they produce.	
Management Control System	
When designing a management control system, it is important to keep in mind what we first "evaluate" then control.	
• Objectives!!!!	Emphasize the need to keep the focus on the measurable and quantifiable objectives.
How do we evaluate and control objectives?	Make the point that we can always adjust the strategy to meet the objective; or we can change the objective if it is not realistic.
• By developing a Management Control System	
What are the steps involved in developing a management control system?	
• Determine what information is needed to monitor performance by objective.	
Two main areas data must be collected.	
Financial factors —	
Tax info	
Financial ratios	
Accounting Information, e.g., COGS, Sales, etc.	

Content	Process
Operating Factors	
Output of machines or people	
Productivity per hour	
Number of inquiries	
Source of referral	
Examples of control factors	
2. Design data collection instruments	
Prepare forms and procedures	
To work a MCS must meet two criteria:	Handout CBA control document.
1. Only capture data you need	Put up TP 1-14o: Design necessary control documents.
2. Simple and easy to work with (KISS)	
Collect data as it comes in	
1. Database	
2. Accounting system	
3. Specify planning check points or keeping the plan up-to-date	
4. Implement and control the plan	
a. Budget to actual	
b. Ratios	
5. The Management Control Meeting	
a. Who should attend?	
b. How are they handled?	

Content	Process
6. Controlling the manager	
a. Daytimer	
Update the plan	
While changes will certainly occur as the plan is being prepared and implemented, it is important to continually review and revise the plan as new information arises. A regularly scheduled process for modifying the plan is highly recommended. Below I have given a sample update schedule:	Put up TP 1-14p: Revise plan on a quarterly basis.
Strategic Plan Update Schedule	
NOTE: This schedule assumes a January to December fiscal year.	Handout quarterly update schedule (HO 6-3).
January - March	
• Implement the plan from the previous year. • As factors change, adapt the plan as needed. • Collect environmental data. • Monitor key indicators on a scheduled basis.	
April - June	
• Continue to adjust the current year plan as necessary. • Review/revise the SWOT analysis from the previous year. • Define priority issues for the upcoming fiscal year.	
July - September	
• Continue to adjust the current year plan as necessary	

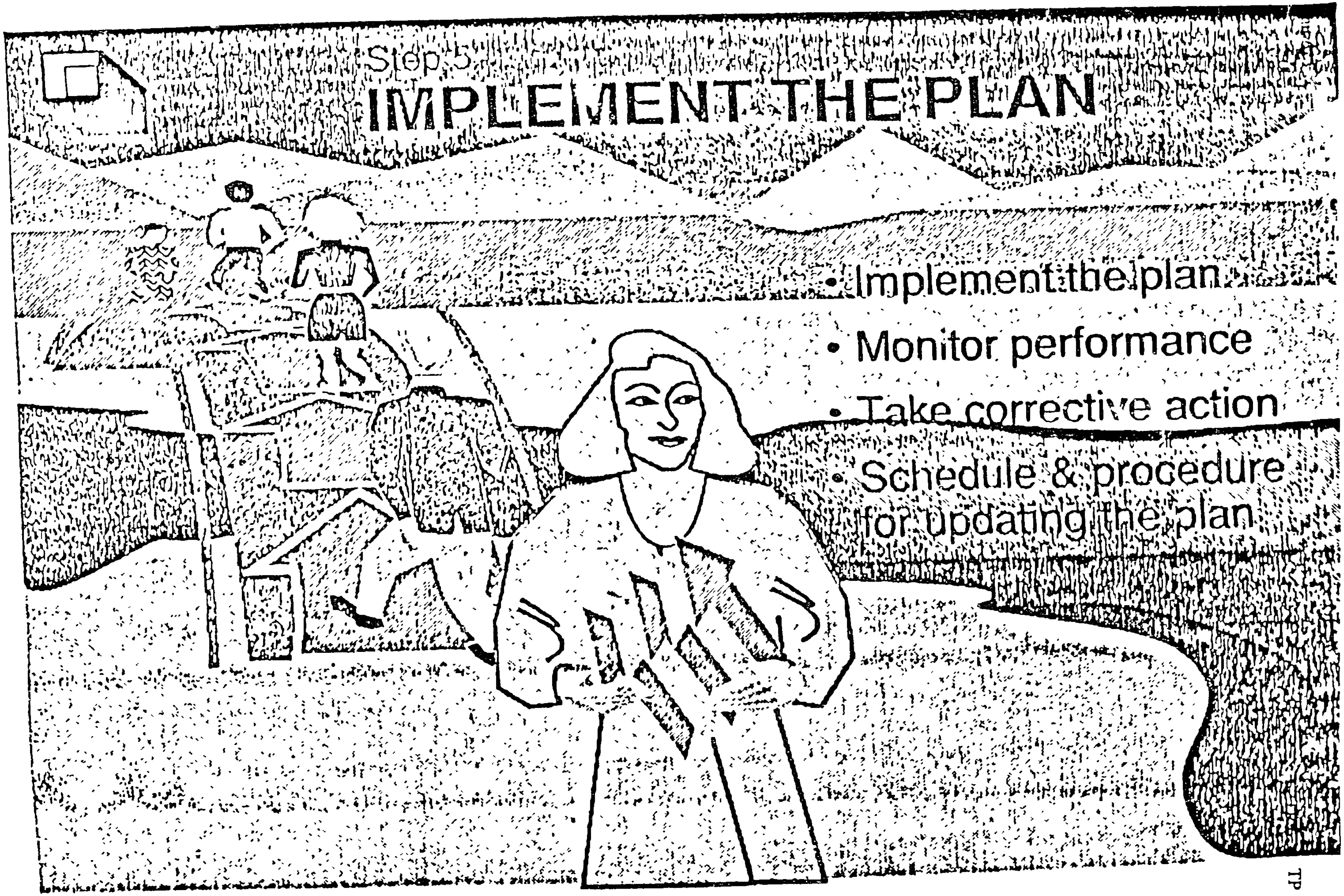
Content	Process
• Review, reaffirm or modify the companies mission statement	
• Review, reaffirm or modify the companies goals • Determine if the KRAs are still the same • Draft measurable and quantifiable objective(s) to address each KRA	
<u>October - December</u>	
• Finalize objectives and draft strategies to meet each objective • As each Action Plan Coordinator to prepare an action plan for each strategy • Calculate and approve a proforma budget • Specify evaluation measures and control forms	
D. The Board of Directors	
A great deal of information exists which suggests if used properly a formal board of directors or advisory board can be of tremendous benefit to a small business owner.	
This is particularly true for well established firms as they prepare, implement and evaluate and control their strategic plan.	
Such a board may or may not include outside directors.	
Explain the advantages and disadvantages of outside directors.	Put up TP 6-5: Outside board member characteristics.
Explain the advantages and disadvantages of inside directors.	Put up TP 6-6: Inside board member characteristics.

Content	Process
Explain the common objectives for the Board of Directors.	Put up TP 6-7: Common objectives for board of directors.
How a small business owner chooses to use a board often depends on where they are in the product life cycle.	Put up TP 6-8: Stages of firm life cycle. Provide the participants with HO 6-4.
Explain how a board can help at each stage.	
Explain the different types of boards of directors.	Put up TP 6-8: Generic board types.
Explain the characteristics small business owners seek in new board members.	Put up TP 6-9: Characteristics to seek in new board members. Hand out a reading related to the topic (HO 6-5: Do Board of Directors Really Help Small Businesses").
In summary, strategic planning is a powerful management tool that involves in-depth organizational analysis, careful strategic choice, detailed specification or responsibility, and regular review and modification.	
A board of directors **can** be a valuable tool in this process.	Thank you! The end.


Step 4
DRAFT AND REFINE THE PLAN
• Agree on format
• Develop a first draft
• Refine the plan
• Adopt the plan

Strategic Plan Outline

1. Executive Summary
2. Situation Analysis
3. Strategic Direction
4. Implementation
5. Evaluation and Control
6. Contingency Plan
7. Financial Plans
8. Appendices


Step 5
IMPLEMENT THE PLAN
• Implement the plan
• Monitor performance
• Take corrective action
• Schedule & procedure for updating the plan

STEPS IN DELEGATION

1. Select the people who have the ability to do the job.

2. See that they clearly understand what you expect.

3. Let them know you sincerely believe in their ability to carry out the task.

4. Secure commitment that they will follow through.

5. Negotiate a deadline.

6. Provide latitude for them to use their own imagination and initiative.

7. Let them know in the beginning you're going to follow up and do it.

8. Don't do the job for them.

9. Reward them commensurately with the results they produce.

OUTSIDE BOARD MEMBERS' CHARACTERISTICS

ADVANTAGES:

- Objectivity
- Provide independent assessments.
- Greater stockholder/stakeholder and society representation.
- Provide checks and balances.
- Independence from management.
- Arbitrate differences among family members.
- Assist with management succession planning/ recruiting.
- Bring board experience to the firm.
- Serve as a bridge to new customers, suppliers, and financing.
- Strengthen the board's independence.

Ford, Roger H. *Boards of Directors and the Privately Owned Firm — A Guide for Owners, Officers, and Directors.* Tab. 2.1 p. 23.

OUTSIDE BOARD MEMBERS' CHARACTERISTICS

DISADVANTAGES:

- Supplement the skills and information of management team.
- May frequently skip meetings due to more pressing demands.
- Limited availability beyond regular board meetings.
- Limited knowledge about firm's internal affairs.
- Limited knowledge about the industry and technology.
- Possible conflict-of-interest problems.
- May have a lower degree of dedication to the success of the firm.
- Expensive
- Some studies suggest that the number of outside directors is inversely proportional to the success of the firm.

INSIDE BOARD MEMBERS' CHARACTERISTICS

ADVANTAGES:

- Superior, pertinent technical backgrounds
- Demonstrated leadership ability
- Immediate availability
- Dedication to the firm's success
- Comprehension of needs and attitudes of company's stakeholders
- Meets legal requirements
- Knowledgeable of firm's affairs, technology and industry

DISADVANTAGES:

- Must report to CEO — may be intimated to question him
- May not be able to be objective on some matters
- More narrow backgrounds (generally)
- Weakens the board's independence
- Lesser degree of stakeholder and society representation
- Does not provide checks and balances

COMMON OBJECTIVES FOR THE BOARD OF DIRECTORS

- Legal requirements (organization)
- Window dressing (public relations)
- Stockholder/stakeholder involvement
- Networking (access to capital/markets/agencies/people)
- Strategy/policy formulation
- Independent assessment/review/audit
- Management continuity and succession
- Specialized expertise (financial/international/technical)
- Innovation (new venture/product development and expansion)
- Arbitration (family members/multiple owners)
- Crisis management
- Committee assignments

Ford, Roger H. *Boards of Directors and the Privately Owned Firm — A Guide for Owners, Officers, and Directors*. Tab. 3.1 p. 36.

STAGES OF FIRM LIFE CYCLE

STAGE 1 **EMBRYONIC/SEED STAGE**

STAGE 2 **START-UP**

STAGE 3 **EARLY GROWTH**

STAGE 4 **RAPID GROWTH**

STAGE 5 **MATURITY**

STAGE 6 **INSTABILITY**

Ford, Roger H. *Boards of Directors and the Privately Owned Firm — A Guide for Owners, Officers, and Directors.* Fig. 3.1 p. 38.

GENERIC BOARD TYPES

• WINDOW DRESSING	Exists primarily to enhance image and prestige of the firm. Duties are largely ceremonial.
• STRATEGIC	Deals with a variety of long-term and policy-related functions of the firm. Role may be either advisory or decision-making.
• OPERATIONAL	These boards are involved in a wide variety of routine and day-to-day activities of the firm. Typically composed of mostly inside directors.
• NETWORKING	Established to create and enhance the firm's external linkages to the outside world through the personal contacts of the outside directors.
• ALL PURPOSE	A hybrid of all the other types. Involved in all levels of the firm's activities. Difficult to create from scratch; requires much time and commitment to achieve.

Characteristics CEOs Seek in New Board Members

Characteristics	*Frequency*
Specific technical or specialized expertise, including tax, legal, medical, computers, etc.	31
Experience in same industry/field	21
Financial Expertise	21
Successful track record (entrepreneur, CEO, mgr.)	21
General business knowledge/experience	20
Personal contacts	16
Complementary experience background	15
Compatibility, personality, chemistry	11
Judgment, maturity, common sense	10
Dedicated interest in serving on board	10
Nepotism (must be related)	9
Successful manager, employee with "the" firm	9
Honesty, integrity	8
Intelligence, brilliance	8
Action oriented, problem solver	7
Objectivity, broad perspective	6
Outspoken, opinionated	6
Advanced degree (M.B.A., Ph.D., M.D.)	4
Prestige, reputation	3
Creative	3
Availability	2
Communication skills	2
Vested interest (own stock)	2
Willingness to serve without insurance	1
Humor	1
Christian value system	1
Gambler, risk taker	1
Women, or minority group	1

Ford, Roger H. *Boards of Directors and the Privately Owned Firm — A Guide for Owners, Officers, and Directors.* Tab. 5.1.

Recommended CBA Strategic Plan Outline

1. Table of Contents

2. Executive Summary

   This should be a brief statement which uses clear, simple, concise language. It should keep the reader's attention and develop interest. It should include the following:

   - Company background
   - Mission statement
   - Primary goals
   - Products/Services
   - Market segment(s) served
   - Distinctive competencies

3. Situation Analysis

   This section should enable the reader to understand the current internal and external situation faced by the firm. It answers the following question:

   - What are the firms **major** strengths, weaknesses, opportunities and threats?

     Remember, the answer to this question should be distilled from having systematically examined the (1) internal strengths and weaknesses of the business by SBU and by functional area, i.e. administration, business/finance, personnel, production, operations and marketing, and (2) external opportunities and threats facing the firm by SBU and overall.

   After completing the SWOT analysis, you should be able to answer the following types of questions:

   - In what industry does the firm operate, and what are the primary characteristics of the industry? (External)

   - What is the size of the market, and what are the major trends impacting the market? (External)

   - Who are the primary competitors in the market, and what are their competitive advantages? (External)

   - What are the firms gross and operating margins? (Internal)

   Clearly, the most important element of your detailed SWOT analysis should focus on the external market!

4. Strategic Direction

This section of the plan should spell out the general direction of the firm over the length of the planning horizon and provide a detailed description of how the firm will achieve its overall strategic goals. It should include the following:

- Mission statement and philosophy
- Primary goals
- Key result areas for meeting each goal
- Measurable and quantifiable objectives which address each KRA
- Strategies for meeting each objective
- Action plans for implementing each strategy

Action plan forms should be included in the appendix.

5. Implementation

This section of the plan should spell out specific issues related to implementation of the plan. Issues which should be included in this section include the following:

- Organizational structure
- Major policies and procedures required to successfully implement your plan
- Critical human and financial resource allocation decisions

6. Evaluation and Control

This section of the plan describes the process for keeping the plan up-to-date. Also include control forms that will be used to monitor the plan.

Ideally, responsibilities per Action Plan Coordinator would be sorted and included in the appendix.

7. Contingency Plans

This section describes critical risks, problems and assumptions which are included in the plan. The author should spell out what actions will be taken if critical problems occur.

8. Financial Plan

This section of the plan is critical and should be prioritized by the business owner. Depending on the nature of the plan, it should include some or all of the following:

- A detailed sales forecast by quarter for the next two years
- Actual income statements and balance sheets for the past three years
- Proforma income statement for the next two years
- Proforma balance sheet for the next two years

- Proforma cash flow statement by month for the next 12 months and by quarter for the next 12 months
- Break-even chart and calculation (if appropriate)
- Appropriate ratios compared to the industry

9. Appendices

This section should include information which is too detailed to be included in the body of the report. Materials which might be included in the appendix include the following:

- Select industry information
- Detailed SWOT analysis
- Action plan forms
- Sorted responsibilities per action plan coordinator
- Resumes

Delegation Guidelines

- Select the people who have the ability to do the job.
- See that they clearly understand what you expect.
- Let them know you sincerely believe in their ability to carry out the task.
- Secure commitment that they will follow through.
- Negotiate a deadline.
- Provide latitude for them to use their own imagination and initiative.
- Let them know in the beginning you're going to follow up and do it.
- Don't do the job for them.
- Reward them commensurately with the results they produce.

Keeping the Plan Up-to-Date

NOTE: This schedule is based on a January to December fiscal year. If your fiscal year is different adjust the schedule as necessary.

January - March

- Implement the plan from the previous year
- Collect evaluation and control data on a regularly scheduled basis
- Adapt the plan as necessary
- Collect environmental data a systematic basis

April - June

- Continue to collect/analyze evaluation and control data
- Adapt the plan as necessary
- Review and revise the SWOT analysis
- Define priority issues which plan must address

July - September

- Continue to collect/analyze evaluation and control data
- Adapt the plan as necessary
- Review reaffirm or modify the companies mission statement
- Review, reaffirm or modify the companies primary goals
- Specify KRAs for meeting each goal and draft measurable and quantifiable objectives

October - December

- Finalize objectives and draft strategies for meeting each objective
- Ask each Action Plan Coordinator to prepare an action plan for each strategy
- Calculate and approve a one year operating budget
- Specify the necessary control measures and prepare the necessary control forms

STAGES OF FIRM LIFE CYCLE

STAGE 1 EMBRYONIC/SEED STAGE

This stage is the conceptual phase of the business's development. Emphasis is on the idea generation, learning, research, interest and support building. The major task during this phase is proving the feasibility or viability of a proposed new venture.

STAGE 2 STARTUP

At this stage, the business begins to move from concept to reality. Management is concerned with gathering together all the resources necessary to begin operations. A strong and dynamic entrepreneur (or entrepreneurial team) is essential to survival at this phase in the cycle.

STAGE 3 EARLY GROWTH

Once the doors are open, the major emphasis turns toward increasing sales and improving operational systems to support growth. Capital requirements beyond that raised for startup becomes an issue.

STAGE 4 RAPID GROWTH

This stage is not achieved by all firms. Millions of small, family-run businesses start small and never achieve sales growth beyond that needed to support one or a few families. Rapid growth firms are typified by the *Inc.* 500 rated companies with annual sales growth rates often exceeding 100-200 percent. Capital infusion is critical to maintain sales growth.

STAGE 5 MATURITY

Once a firm reached maturity, sales growth slows and eventually stagnates. Markets are usually saturated and highly competitive. It is critical that firms innovate in order to reverse a nearly inevitable decline.

STAGE 6 INSTABILITY

A firm in this stage may be undergoing a leadership transition, or could be facing other serious problems. Typical concerns would be an entrepreneurial manager attempting to bring on a more professional management structure, or a solo entrepreneur (or his estate) trying to find a successor to the throne.

Ford, Roger H. *Boards of Directors and the Privately Owned Firm — A Guide for Owners, Officers, and Directors.* Fig. 3.1 p. 38.

OPINION

PRO CON

Do Board of Directors Really Help Small Businesses?

Sooner or later, every business owner needs real, honest, concerned objective input from people who are not self-serving. And the body that is best designed to deliver this help is the board of directors.

Outside Boards Can - and Do - Help By Giving Direction, Review, and Support. Leon A. Danco, Ph. D.

PRO

Author of *Outside Directors in the Family Owned Business* and three other books, Dr. Danco is the founder and CEO of the Center for Family Business in Cleveland. Founded in 1962, the Center was the first organization that was designed exclusively to assist business owners and their families. Over the last 25 years, he has helped hundreds of businesses establish outside Boards of Directors.

One simple fact is becoming increasingly clear: No business will survive if it does not (1) learn to open itself up to the many changes occurring in our world, (2) come to understand those changes, and (3) learn how to use those changes to its advantage.

Under the right circumstances, outside boards of directors can play a crucial role in helping private businesses manage these changes. Sooner or later, every business owner needs real, honest, concerned, objective input from people who are not self-serving. And the body that is best designed to deliver this help is the board of directors.

I qualify my statement with the term "under the right circumstances" because the board is not a panacea. Boards can't solve every problem for every business. Over the years, however,

Danco, L.A. and Ford, R.H. Do Boards of Directors Really help Small Businesses?. *pp. 88-93 Reprinted with permission of Small Business Forum, Winter 1991/1992*

I've found that less than one out of every 20 businesses have any truly competent outside directors. And of that small percentage, only a few (one out of ten) will have a majority of competent objective outsiders.

The fact that boards are not widely — or effectively — used is due more to a lack of information, than to inherent problems with the nature of outside boards of directors or to the special circumstances so often raised to deny their usefulness.

I would like to do my part to add to your share of information by addressing these five questions:

- What are effective outside boards like?
- How do they help?
- When are they most likely to help?
- What about a director's liability?
- Should you trade your consultant in for a board?

So, let's begin.

What are effective outside boards like?

Members of effective outside boards are non-self-interested, mutually respecting risk-taking peers who are not indebted to the owner/manager in any way. They must be able to sit across the table from the owner/manager and tell the truth as they see it, no matter how rough that truth is.

An ideal board might consist of: A person with experience in financial management and control; A person who is strong in the owner/manager's area of weakness in a comparable (not identical) industry; A person who runs a business that has successfully grown the way that the owner/manager's company might grow; A person who is successful in an area into which the business plans to expand; A generalist with the energy and personality to spark everybody's best efforts, someone who can bring in the offbeat and unexpected.

Board members should have proven ability, self-confidence and enthusiasm. They should be respected by their peers, and they should demonstrate respect for the owner/manager.

Does this sound too ideal? I can assure you that I have seen it happen. But you may need help - from the outside - to make it happen.

How do outside boards help?

They help by giving technical, financial, organizational and managerial direction, review and support. They help address questions like these: What are the true needs for the future? How much growth/change is necessary/helpful/indispensable? What effects will this have on the organization? The minority shareholders? The owners? How can we balance the response to personal and corporate needs?

As a company grows in size and complexity, the need for strategic attention becomes even more important. Typically, working boards help establish long-range policies.

Owner/managers too often confuse long-term strategy with short-term tactics - and the loser, almost automatically, is strategy. The board's job is to make sure that strategy gets the attention it deserves.

The traditional responsibilities of boards are usually broken down into five broad categories:

- Review and authorize corporate and financial strategy,
- Establish policies and plans to implement strategies,
- Form and maintain the management team,
- Create good corporate controls,
- Review and approve employee and community relations.

What does a private business need an outside board?

Not every business needs an outside board.

In the early years, most owner/managers get along just fine without outside directors. In fact, most business founders would probably agree that in those "interesting" early days, outsiders would have just gummed up the works, tripped up decision-making, and generally slowed things down.

Few start-up entrepreneurs have a need for anything other than cash, customers, energy, and more cash. The owner/manager supplies the brains.

But if the functions that a board normally provides are needed by a company and its shareholders, then a board is probably needed.

I think that a business needs to meet the following conditions before it is ready for a board:

The company should be successful. This doesn't mean that the company must be vastly profitable, nor even that it must be currently profitable. What it does mean is that a company is only ready for an outside board once it is an established, going concern with reasonable expectations of making it in the future.

The start-up business has one primary objective - survival. There is usually no time, no energy, nor even any willingness to listen to the suggestions and ideas of outsiders. Survival problems are immediate problems, problems of tactics rather than strategy, and a board of directors is not generally designed to deal with tactics.

Survival is not a problem confined only to start-up businesses, however. Sometimes going concerns find themselves in serious trouble due to changes in management, markets, competition, productivity, and so forth. This, too, is a survival problem: "successful" should also be interpreted to mean a reasonable probability that any unfortunate present situation is only temporary, and that there are sound long-term prospects for survival and profitable growth.

Boards should not be created to perform crisis surgery.

There should be a reasonably stable management structure. This means defined duties and divided responsibilities. Without such a structure, there is really no business entity which can experience "continuity," and a working board would be superfluous. What this kind of company needs is management, not directors.

Another way to state this requirement would be to say that every company reaches a point at which it becomes important to separate owning from managing. This separation doesn't have to be done in fact. I'm certainly not recommending that owners avoid involvement with the management of their own companies. However, it does mean that every successful business owner has to be able, somehow, to separate the responsibilities, benefits and authority that accrue to the owner(s), from the responsibilities, benefits and authority that accrue to the manager(s).

When a company is reaching the point where the unspoken and undefined structure everybody has taken for granted can no longer be taken for granted, it is reaching the point where it needs a formal working board. *An outside board is needed to help define the management needs and how they differ from the ownership needs - as well as to establish a priority of opinion and action.*

The managers and advisors should be as competent and well-chosen as possible. There is a little a board can do to help management with its planning if there is nobody capable of having good ideas - or of making good suggestions - in the first place. *Directors are neither replacements for incompetent legal or financial advisors, not substitutes for irresponsible, undeveloped or unqualified managers.*

A working board is the final polish on a well-designed and functioning structure. The business must have the required talent and ability among its managers and advisors to be able to provide needed information to the board in an organized and intelligent way. These managers and advisors must be able to explain or defend decisions and actions to the board, and then they must also be able to translate the policy decisions made by the board into action.

Without such a management team, a working board is as ineffective as a conductor without an orchestra.

There must be a genuine desire on the part of the owner(s) to create a working board and (b) to take the steps necessary to make sure such a board can carry out its functions.

This is the most important condition to be met. Realize that outside directors have to have real power on an owner/manager. True legal power in a corporation always rests with its ownership, and in direct proportion to the relative size of that ownership. *Directors can only be effective with an authority that is drawn from that ownership's respect for the board, and from its expressed desire to accept and act upon the board's suggestions and advice.*

What about a director's liability?

Liability is often listed as a major excuse for not having a board of outside directors. It's a lousy excuse in most cases. A director's potential liability (assuming he or she is not associating with people intent on committing fraud) is only to one group of people: the shareholders. When the owner/operator is the shareholder, clearly the chairman can't sue the other directors for negligence. Most problems, if they arise, will come from inactive shareholders - and a little prudence can eliminate most of these potential problems.

There are many types of liability insurance for directors and officers. It comes in all shapes and forms, with deductibles and with umbrellas. Still, given the generally limited nature of the liability problem, insurance may often be an unwarranted and unnecessary expense. Good corporate legal counsel could answer this question.

What about hiring consultants instead of boards?

Sometimes - as in the case when a business is not yet ready for a board - a consultant can serve the business well.

I have been a consultant now for nearly thirty years. Usually, after solving the crisis that precipitated our first meeting, I urge the business to create a board of mutually respecting, risk-taking peers without self-interest.

I hope that I will be remembered as one who left a living institution - the concept of the outside board of directors - forever to serve the continuing needs of successful business owners and their companies.

There will probably always be a need for consultants in highly specialized fields. But, I think that the role of generalist consultants will increasingly be replaced by the outside boards. Strong boards have more to offer than generalists.

Outside directors represent a commitment to an ideal. They symbolize the acceptance of a significant truth: that the truly closed corporation cannot survive long in today's world. Boards can help by opening private owner-managed businesses to the inevitable: the changes that loom on the horizon.

The Sad Truth is - for the Most Part - Boards Do Not Help. Roger H. Ford, Ph.D.

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Author of *Boards of Directors and the Privately-Owned Firm: A Guide for Owners, Officers, and Directors* which will be published in February, 1992, Dr. Ford is the Zane D. Showker Professor of Entrepreneurship and the Director of the Center for Entrepreneurship at James Madison University in Harrisonburg, Virginia. He currently serves on four boards and has assisted dozens of others.

Do boards of directors really help small businesses? This is an important question, and I am looking forward to addressing it. But, my answer will not be complete until I also address another important question: **Can** boards of directors really help small businesses?"

To the first question, "**Do** boards really help small businesses?" the sad truth is, for the most part, no, they do not. I am speaking here in descriptive terms, which means that the simple fact is the vast majority of the nation's approximately 20 million small businesses are not being helped by boards of directors. There are two arguments which I offer in support of this fact. First, the empirical evidence indicates that most small businesses do not have a working board of directors. Second, of those firms which do have working boards, the empirical evidence does not suggest that these boards improve the performance of the firms. Let's look at each of these arguments in turn.

Many firms do not have a board beyond that minimally required by law, which in most states is a single director (i.e., the owner is the sole director). Others, while perhaps having more than one director on paper, do not meet regularly or perform any duties normally associated with a board of directors. My study of several hundred *Inc. 500* firms indicated that 34 percent of these successful businesses had no board, and of the remaining 66 percent that indicated they had a board, over half of them had no outside directors (Ford, 1989, 1988). A study by Ward and Handy roughly confirmed these findings by discovering that more than half of the small businesses in their sample did not have an outside board (1988). According to these authors, it is conventional wisdom that only 5 to 10 percent of all private companies have outsiders on their boards, and I believe this is true (Ward, Handy, 1988).

The first argument for my statement that boards are not helping small businesses, then, is the simple fact that they cannot be helping if they do not exist. Most of America's small businesses are not receiving help from boards of directors because they (for the most part) do not h ave boards of directors!

The second argument that boards are not helping small businesses addresses those firms which do have boards of directors. Even if they are in a minority relative to the total universe of businesses, there are probably a million or more small firms which have boards, including a good percentage that have outside directors. How about these firms, are they being helped by their boards? The answer, again, is no. For the most, these firms are not receiving much help from their boards. The literature overwhelmingly supports this position.

Empirical studies attempting to measure the contributions of outside boards and directors have been performed by many researchers under many different conditions since the mid-1950s (Vance, 1955, 1964, 1983; Lanser, 1969; Cochran, Wood, and Jones, 1985: Kesner, Victor, and Lamont, 1986; Ford, 1988, 1989; Fuchsburg, 1991). The typical result has been to correlate outside directors with a reduction in some measure of firm performance. I have also published results of extensive case studies which have shown many detailed examples of ineffective outside boards and board members (Ford, 1989, 1992). None of these studies offer any significant empirical evidence to support the notion that, in general, boards of directors (at least outside boards) help small businesses.

There have been many reasons postulated for the dismal picture that research paints of boards and outside directors. I have previously suggested that there are two primary weaknesses of outside directors: (1) their lack of knowledge about the firm and its environment, and (2) their lack of availability to the firm (Ford, 1988). This simply suggests that outsiders cannot walk into the board room of a business and automatically become a contributing asset by the mere granting of the title of director. Building a viable, effective board of directors takes a lot of work, and this is not usually recognized by small firm owners, or, if they do recognize it, they do not know how, or have the time and other resources necessary to complete the task.

I referred earlier to case research I had published concerning ineffective boards and directors. While these examples are plentiful, I have also found many examples of highly effective boards. However, they offer encouragement that give time, sufficient resources, and, most importantly, a proper attitude by owners and managers, boards can be developed which become powerful tools to help small businesses. Some of the examples I have detailed elsewhere include outside directors and boards that have secured desperately needed bank loans, found private placement investors for company stock, opened doors to significant new customers and suppliers, helped management make decisions about new strategic initiatives, and simply served as all around sounding boards and mentors (Ford, 1989, 1992).

These board success stories do not occur by accident, not do they occur quickly in terms of the board's development life cycle. Building an effective board is a major undertaking that many company owners are not willing, or perhaps ready to make. It can be done, however, by any firm owner/manager who believes it worthwhile, and is willing to make the appropriate investment.

Can boards of directors help?

This leads us to the second question: "*Can* boards of directors really help small businesses?" The answer to this question is a resounding yes! A well developed board can be a very valuable tool for many small businesses.

How can it happen? Developing a board must begin with top-level commitment. A board cannot be initiated by a junior officer or employee. If the one at the top does not want the forum, than it will not happen. Also, this commitment needs to be based on a realistic set of board objectives. A board of directors is a tool - and only a potential one during the formative months and years. A board is not a panacea waiting to solve some major crisis or deal with one-time problem. Consultants, turn-around artist, and leveraged buy-out experts are better equipped to handle emergencies than a proposed start-up board.

A few of the more common board objectives include assisting with policy and long-term strategies, provid' g an independent audit, and developing succession plans and maintaining management continuity. Others include providing some specialized expertise, or even arbitrating feuding family members. I have personally assisted one or more boards with each of the above goals, but there are, of course, endless possibilities for other goals that a board could address.

Other factors which need to be addressed early on include the size of the board as well as the mix of inside and outside directors. Board size should be kept very small at first, both for manageability as well as to allow for future flexibility should other directors be desired later. As few as five and no more than seven is a good start-up number. Regarding insiders and outsiders, some consultants, including Leon Danco (Danco and Jonovic, 1981), have advocated the use of strictly outsiders. I do not subscribe to this view, and believe strongly that a mix of inside and outside directors is usually best. Outsiders bring many strengths to the board, including (but not limited to) objectivity, independent assessments, broad experience, and their own networks of information and contacts. Insiders, however, also can bring much to the board, including (but not limited to) superior knowledge of the firm's affairs, technology, and industry, immediate availability, comprehension of the needs and attitudes of the firm's various stakeholders, and dedication to the firm's success. Together, this mix of insider knowledge and sensitivity combined with outsider objectivity and experience creates a synergistic atmosphere needed for a strong board.

Once board objectives and directors are chosen, however, there remains much work to be done before a board could be expected to help a small business. Time and effort must be done before a board could be expected to help a small business. Time and effort must be invested to recruit, education, and train the directors. Insiders need to learn how to become generalists, rather than specialists. Outsiders need to become familiar with the basic affairs, products, people, and philosophy of the firm. Together, the board members need time to become a team, rather than a group of talented individuals.

Of course, the owner/manager also has much to learn about his new role as board founder and leader. Issues such as board organization and structure, running effective meetings, record keeping, indemnification, and board communication all will need to be learned and become part of his regular routine.

The last, but not the least important step, is assessment. Simply put, after all the time, energy and money have been invested, is the board worth it? Were the objectives accomplished? If not, why?

All of this is, of course, easier said than done. We should not underestimate the difficulties and complexities involved with creating an effective board. The rewards over the long term, however, can be great, if the management makes a commitment and implements the board process with logic, tenacity, and follow through.

Class Exercise Unit 6

Class Exercise 1:

Role play exercise #2

1. How to delegate responsibility

Step 1: Select on student from the class. Their job (role) is to play the part of staff member from a fictitious firm called, "Candy Cane Manufacturing" (CCM).

Step 2: Assign the student a specific role, e.g. the production assistant. The instructor will take the role of production manager of the company.

Step 3: Set the stage as follows:

It's 2:00 pm on Friday afternoon. The production manager has called the production assistant into his office for a brief meeting. He tells the production assistant that the planning team is getting to the final stages of developing the firm's **first** strategic plan.

Step 4: The production manager tells the production assistant that he would like for her to take responsibility for several strategies in the plan. During this step, the production manager makes it clear that he truly believes the production assistant has the skills necessary to successfully implement the strategy.

Step 5: The production manager makes sure his assistant understand what is expected and secures her commitment to follow through.

Step 6: They negotiate a deadline for implementing the strategy. The production manager makes it clear that she was the latitude to determine the action plan, but he would like to review the plan before she moves forward with implementation.

Step 7: As the meeting is ending the production, manager says I'll follow up in a week to see how things are going.

Step 8: After the role play, review the important steps involved regarding delegation. (See overhead.)

Class Exercise 2:

2. Ask each participant to give a 5-10 minute presentation on their plan.

Step 1: At the conclusion of Unit 5, the instructor should tell the participants that at the conclusion of Unit 6 they will be asked to make a brief presentation (10 minute) of their firm's strategic plan. Tell them to do the following:

- Briefly review the firm's mission and goal statement(s).
- Select only one goal. Within the goal, ask them to target no more than two objectives.
- Present the strategies for each objective.

NOTE: It might be a good idea to video tape these presentations so the student can review their presentation style at a later date.

Step 2: Following the presentation, ask the class to orally critique the plan and presentation.

Step 3: Encourage the class to offer suggestions on how the plan might be strengthened.

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