

## Strategy

This fact sheet is intended primarily for business membership organisations (BMOs) that are proposing to put in place plans to become more sustainable – though the principles are relevant to any organisation. There is a slight complication in the sense that BMOs are voluntary, not for profit, associations bringing together businesses, usually though not always, from a specific business sector to pursue common objectives. Sometimes businesses in a specific geographic area come together to form an association, usually known as a Chamber.

The major objective for most associations is to give their members a voice – indeed that is often the single biggest reason why new associations are formed. However, associations quickly discover that all businesses in their sector receive the benefit from whatever they achieve, irrespective of whether they join and pay a subscription. So, in addition to providing representation on wider policy and practice, associations also need to provide services to members which are sufficiently attractive to encourage them to pay a subscription.

BMOs are usually able to provide these services more effectively than the members could provide them individually. Typically this will include representing the sector and influencing opinion formers (including politicians, journalists, research bodies, NGOs, other trade associations and consumer bodies). Services are likely to include information, statistics, market information and benchmarking information; seminars, conferences and training; and perhaps technical services such as legal, technical improvement, environmental consultancy, and training and development.

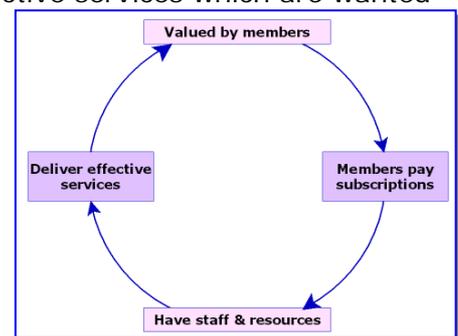
### The big challenge

Many BMOs provide a range of services for, and are valued by, their members. As a result members pay their subscriptions, and often the services provided generate additional income. So the BMO can afford to pay professional staff and give them the resources to be able to keep on delivering effective services which are wanted and valued by the membership. Whilst many BMOs originally form in response to the need to advocate on a particular issue, it is the services that they deliver that retains the membership.

Advocacy, inevitably, becomes an 'add-on', because businesses do not have to be members to gain the benefit. However, they do have to be members to gain the benefit of other services.

The received wisdom is that organisations should have values, vision and a mission. Peter Senge, for example, argues the importance of building shared vision: if the leaders of an organisation share a vision, reinforced by a common purpose and by shared values and behaviour, then 'people excel and learn'.<sup>1</sup>

There is no doubt that trade associations, too, need a clear purpose; but, having a vision can be difficult in member driven organisations – a chairman may have a vision but may only be in post for a year or two so never see it through. However,



<sup>1</sup> Peter Senge, "The Fifth Discipline", Century Business, 1990

trade associations can make up for this lack of vision by ensuring that they have an appropriate strategy.

The most successful businesses are often those that engage in 'creative swiping' or 'enthusiastic borrowing'. Do not be afraid of looking at what others are doing. You might glean ideas for new services. Or you might simply be able to use what you learn to become more efficient. Ensuring that everyone – all the board and all the staff – work together to develop and build the organisation will be far more effective than simply relying on one or two people. At the same time, you may want to develop as a 'learning organisation'. Learning organisations are good at five key activities:<sup>2</sup>

- systematic problem solving;
- experimentation with new approaches;
- learning from their own experience;
- learning from the experience and practice of others; and,
- transferring new knowledge quickly and efficiently throughout the organisation.

### **Change, uncertainty and opportunity**

Those organisations which have a clear vision and a clear sense of purpose will be the ones who can spot the opportunities which they can exploit to most advantage. Vision and purpose set the direction. The organisations which are most effective match their competences and their resources to the opportunities.

There are many external pressures on any organisation. These include competitors' activities, requirements of both clients and sponsors, legislation, inflation, rapidly changing technology, staff needs, spotting opportunities, recognising threats etc. Organisations have little or no control over the environment in which they operate. But they can watch it carefully and respond to the signals. The Swiss watch industry, for example, originally ignored the activities of Japanese electronics companies and nearly disappeared as a result. Ideally, therefore, organisations will want to take a view over what might happen to the external factors and make a stab at defining the environment in which the organisation will operate in the future.

There are just as many internal constraints imposed on an organisation. How much money can be raised? Does the Board have appropriate skills? Are skilled staff available? What are the aspirations and ambitions of the board and staff? These factors will all constrain the organisation's activities and growth.

The board and senior staff of any organisation have to cut through all this, defining a purpose and a vision, keeping track so that they can run the organisation with the resources available and ensure that the external pressures are managed in such a way that they do not overwhelm the organisation.

Planning can help with:

- Focusing ideas - the process of planning forces boards and staff to think through and refine their organisations, goals and objectives.
- Assessing viability - regularly ensuring that there will be sufficient income to cover all the costs.
- Maintaining control - the best weapon for control is knowledge - knowing where the organisation is now, how it is performing and where it is going.
- Developing foresight - planning as a continuous activity encourages the identification of opportunities; a plan can then be formulated to take advantage of these. In addition, planning helps in the identification of threats, so that these can be avoided or prepared for.

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<sup>2</sup> David Garvin, "Building a Learning Organisation", HBR, Jul-Aug 1993

## Values, style and behaviour

The most successful organisations are those where the staff share similar values and moral principles since these guide individual and corporate behaviour, and where those values reinforce the organisation's purpose.

When properly harnessed, shared values create "a sense of purpose beyond making money that guides and inspires people throughout the organisation".<sup>3</sup> All organisations have some sort of culture and philosophy but, too often, it remains implicit. Increasingly, however, private sector companies are becoming more explicit about their corporate values, often summarising them into a statement of beliefs. An organisation's values should provide an essential and enduring set of general guiding principles. They are something for which to strive in spite of changes to the environment. Values might include the need to achieve, the desire to help others, the belief that an organisation must behave ethically, the desire to develop one's own abilities and expertise, the importance of service etc.

The behaviour of an organisation will be embodied in its management style and will be manifested in the way it relates to staff and customers. In turn, stakeholders' perceptions of the business will depend on how they see the business behave. Do they see a helpful organisation? A caring organisation? A ruthless organisation?

Belief in these values must really be shared by staff if the desired effect on behaviour is to be achieved. This relationship between values and behaviour is particularly important when organisations want to change their culture. For example, many businesses encourage their staff to think about quality and to build into their culture behaviours which reinforce the quality of their product or service.

Christopher Bartlett and Sumantra Ghoshal believe that being clear about your beliefs and values will help organisations to "attract and retain employees who identify with their values and become deeply committed to the organisation that embodies them".<sup>4</sup> They go on to suggest that individuals "extract the most basic sense of purpose from the personal fulfilment they derive from being part of any organisation". It is, therefore, essential that you, as you employ staff, rise to that challenge by creating "an energising corporate purpose".

## Purpose

It is fashionable these days to have a *mission statement*. At its simplest, a mission statement is a statement of purpose that guides the activities of a business. It is what 'you do'. Defining a purpose is a pre-requisite for effective planning. Ideally, it should be easily understood by all the stakeholders that is, the owners, the customers, the staff and anyone else with a stake in the business.

Peter Drucker<sup>5</sup> argues that the purpose of business must be to create a customer. What the customer buys and considers to be of value determines what a business is, what it produces and whether it will prosper. In other words, businesses should be market driven. Drucker goes on to argue, therefore, that the two basic functions of any business are marketing and innovation. Businesses which are market driven respond to the needs of their customers. Businesses which are product driven start with a product and then try to persuade customers to buy it. Customers buy benefits – if the features of the product or service do not confer the benefits sought by customers, then customers will not buy. It is perhaps worth noting, however, that customers cannot always articulate the benefits they would like – as Sony demonstrated with their original Walkman.

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3 John Collins & Jerry Porras, "Built to Last: Successful Habits of Visionary Companies", Harper Business, 1994

4 Christopher Bartlett & Sumantra Ghoshal, "Changing the role of top management: beyond strategy to purpose", HBR, Nov-Dec 1994

5 Peter Drucker, "The Theory of Business", HBR, Sept-Oct 1994.

The purpose (or mission) statement should be the over-riding factor in guiding an organisation. Ideally, it should not only define the business it is in, but also differentiate it from its competitors. Some businesses have very long mission statements which set out all the organisation's objectives. I believe, however, that a short mission statement is more likely to excite and inspire the stakeholders and is more likely to be remembered by the staff.

## Vision

Three men working on a building site were asked what they were doing. "Breaking rocks" said the first; "Earning a living" said the second; "Building a cathedral" said the third - who had a vision as well as a purpose.

Purpose may express what the business does, but it is vision which drives the business forward. It is vision which sets a direction for the business. Vision is about having challenging, but achievable, goals with defined time scales. You may choose to pull these goals together into a single vision: a statement of your desired position within your best guess of the future environment. This requires you to think about the environment in which you are currently operating and the likely environment in the future. Keep to a reasonable timescale, say up to five years.

Despite the earlier comment about business associations and vision, it will almost certainly be helpful to have a vision – to become financially sustainable through self-generated income within five years, say – and essential for any service that you plan to introduce.

Once you have defined your vision, then you can think about what you have to do to achieve it. This involves setting strategic and operational objectives.

## Developing a strategy

Your purpose defines what you do and your vision defines where you want to be. Broadly speaking, strategy 'gets you from here to there'. Gary Hamal & C.K. Prahalad believe that organisations need to formulate a "strategic intent" which provides a framework with three elements: a sense of direction, a sense of discovery and a sense of destiny.<sup>6</sup> They argue that "it is impossible to have a stake in the future if one cannot imagine that future". Or, in the words of the song, "If you can dream it, you can do it".

The next step involves the setting of strategic objectives which will enable you to achieve your vision. Everywhere that organisations turn, there are people talking about 'strategy' and 'strategic planning'. But what is strategy? Why is strategic planning different to any other planning? And, most importantly, how relevant is strategic planning to your organisation?

The Oxford English Dictionary defines strategy firstly as "the planning and directing of the whole operation of a campaign or war" and, only secondly, as "a plan or policy of this kind or to achieve something". This, of course, demonstrates the origins of the word: strategy originally applied to the conduct of war.

If it helps, using a travel analogy, think of the vision as the destination and the strategic objectives as the overall direction and means of travel. There is a need to manage the direction in which you are travelling. The Japanese call it *hoshin kanri* – direction management. Of course the strategy must be flexible, but without some long term objectives you will not be able to manage your direction any more than a rudderless boat.

Many small organisations think of strategic or long term planning as something that is only undertaken by large businesses. However, the organisations that survive

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<sup>6</sup> Gary Hamal & C.K. Prahalad, "Competing for the Future", Harvard Business School Press, 1994.

and prosper are those that meet their customers' needs by providing benefits to them at prices which cover the cost of providing them<sup>7</sup> and so provide a profit. To do this effectively, Peter Drucker argues that organisations need to focus on the external environment. Similarly, Michael Porter argues<sup>8</sup> that the way a business positions itself in the market place is of paramount importance.

The strategy must support the mission: in Drucker's words, strategy "converts what you want to do into accomplishment". It must, therefore, be action focused. But strategy will also be constrained by the availability of resources. For the non-profit organisation, your task is to match effectively the organisation's competences (i.e. its knowledge, expertise and experience) and resources with the opportunities and threats created by the environment in which the organisation operates.

### **Factors which influence strategy**

As you might expect, there are many factors both inside the organisation and outside which will affect ability to achieve your vision and which will therefore influence the strategy you choose to adopt.

Michael Porter argues that there are two key factors: the attractiveness of a particular industry defined by the scope for long-term profitability and your competitive position within the industry. Both, of course, change constantly.

Most importantly, your values, purpose and mission will all affect your strategy, but so will your - and your staff's - strengths and weaknesses. Internal factors are largely under your control.

External factors also affect the strategy and your ability both to fulfil your purpose and to achieve your vision. The environment clearly presents a series of opportunities and threats - opportunities to identify new customer groups and different customer needs but threats from competitors and changes in the way your customers' needs can be addressed.

Before you can formulate your strategy you will need to look in detail at the external environment and at your specific market place within that environment. You can do this using SWOT and PEST analysis.<sup>9</sup>

You need to consider your own strengths and weaknesses – what are your competitive advantages?

You will need also to look at the current environment in which your organisation is operating and the likely environment in which it might be operating in, say, five years time. What are the opportunities? And the threats?

### **Setting strategic objectives**

Once you have defined your organisation's purpose and vision, and understand the strengths and weaknesses, and the opportunities and threats, you are in a position to define the strategic objectives required to achieve the vision and also to define short term, or operational, objectives.

Setting overall objectives is more difficult than simply stating that the objective is to operate without making a loss or to increase sponsorship by 100%.

Johnson and Scholes<sup>10</sup> have identified a number of characteristics associated with strategy which are helpful:

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7 Hofer & Schendel, "Strategy Formulation: Analytical Concepts", West 1978

8 Michael Porter, "Competitive Advantage", Free Press, 1985

9 Both covered in the BAF fact sheet on SWOT

10 Johnson & Scholes, op.cit.

- strategy matches the organisation's activities to the environment in which it operates
- strategy matches the organisation's activities to its resources or its ability to attract extra resources
- strategy reflects the values of the organisation's stakeholders

Strategic objectives for your organisation might include the introduction of new services, diversification, geographic expansion and market penetration. These will then need to be broken down into short-term objectives. Defining objectives and targets accurately will also assist in monitoring overall performance and in measuring progress. In general, there are five key areas to consider setting strategic objectives:

- Services (activities)
- Marketing
- Quality
- Finance
- Staff development

In setting objectives you should ensure that they are SMART:

- Specific
- Measurable
- Achievable
- Realistic
- Timed

Ideally you will require a minimum of one and a maximum of around three long term objectives under each heading - except perhaps under activities where you may feel a need for more.

## **Services**

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BMOs need to think carefully about the range of services that they may be able to provide – and, importantly, which services are likely to attract businesses to want to join and to be willing to pay their subscriptions. Which services might perhaps be provided at no cost (other than the cost of membership) and which services might incur an extra charge? For those extra, paid-for, services, BMOs need additionally to consider whether they should only be available to members or whether they would also provide them to non-members, albeit at a higher cost.<sup>11</sup>

## **Marketing objectives**

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A key part of the marketing strategy of a for-profit business is defined by the 4Ps - product, position, price and promotion. Product and position tend to have strategic implications; price and promotion are more likely to be covered by operational objectives.<sup>12</sup>

## **Financial objectives**

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Setting financial objectives is always difficult for NPOs. Clearly, your organisation will have to work within defined financial constraints. Specifically, you will not be able to make a loss otherwise, like any for-profit business, you will quickly become insolvent. Like a for-profit, too, you can use financial ratios to monitor performance.

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<sup>11</sup> For ideas on possible services, see the BAF fact sheet on Member Services

<sup>12</sup> See BAF fact sheet on Marketing

Two ratios which may particularly assist are asset turnover and liquidity.<sup>13</sup> The asset turnover ratio is the ratio of income to total assets. It shows how hard the assets of the organisation are working but, indirectly, provides a measure of the organisation's effectiveness in service delivery. Organisations with a high asset turnover are providing a greater level of service activity than organisations with a low one.

The liquidity ratio is the ratio of current assets to current liabilities. An organisation which is highly liquid probably has too much money in the bank and modest goals; conversely, an organisation with very low liquidity is probably overstretching itself.

In setting financial objectives, you are committing yourself to perform to a certain standard.

### Quality objectives

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Deciding that quality is of particular importance is a key decision. You may want to introduce total quality management, or ISO9000, or adopt a customer service standard such as Customer First.<sup>14</sup>

### Staff objectives

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Non-profit organisations are highly dependent on people – particularly on the skills, experience, motivation and morale of their staff. It is essential, therefore, to consider strategic objectives related to the development of the staff and to the way in which the staff ensure the continuing success of the organisation.

### Strategy mapping

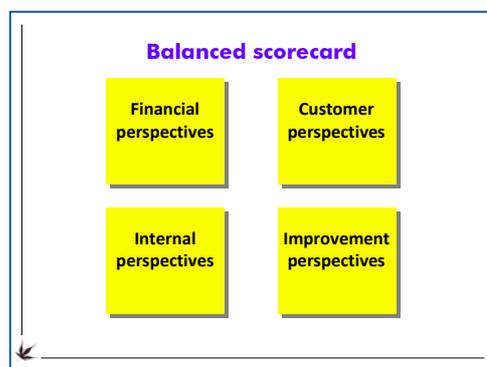
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There are a number of techniques that can assist in preparing a strategy. One that is particularly good, not least because the output is a coherent summary of the organisation's strategy on a single sheet of paper is 'strategy mapping'.

American academics, Kaplan and Norton developed the concept of the balanced scorecard to argue that businesses needed to think about more than just the bottom line, though not for profits had always recognised this. The balanced scorecard links strategic objectives and performance measures across a number of perspectives. Initially it was used simply as a measurement tool, though some for-profit businesses started using it to set objectives as well. Kaplan and Norton then went further, developing the idea of strategy mapping. The aim is simple – to show how an organisation's objectives all link together coherently and consistently to enable the organisation to deliver on its purpose. For non profit organisations, it makes sense to put the customer, or client, perspective at the top.

They suggest that businesses adopt goals and performance measures in four areas as illustrated:

- finance (with particular thoughts about shareholders' views)
- marketing (how is the business seen by customers)
- continuous improvement (how can the business continue to improve and innovate) and,
- an internal view looking at excellence (including staff development).

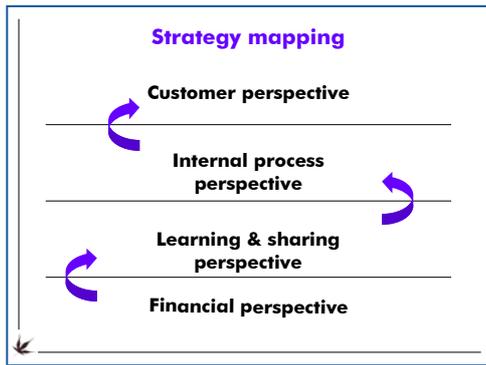


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<sup>13</sup> Regina Herzlinger, "Effective Oversight: A Guide for Non Profit Directors", HBR, July-Aug 1994.

<sup>14</sup> See BAF fact sheet on Putting Customers First

They argue that the scorecard puts vision and strategy, rather than control, at the centre. It can be used to help businesses focus and agree on the strategic objectives necessary across all the areas.



Effectively, Kaplan and Norton have taken the four elements of the balanced scorecard and set them out in a hierarchy. A typical for profit business would first define its vision and then consider the financial objectives required to achieve that vision and ensure happy investors. It would then determine what it must do for customers to achieve its financial objectives. It would consider what processes it needs internally to deliver that service to its customers. And lastly, it would need to think about its own continuous improvement and development requirements.

The aim of the strategy map is simple – to show how a range of potentially disparate activities link together to enable an organisation to achieve its vision. Typically, for profit businesses will want to put the financial perspective at the top, since their ultimate objective is to satisfy shareholders by generating a decent return. Not for profit businesses, whilst having clear financial objectives, are more likely to start with satisfying customer needs and so are more likely to want to put the customer perspective at the top of the strategy map.

The customer perspective will express the organisation's objectives in terms of fulfilling customer needs. The internal process perspective will cover the activities that the organisation needs to undertake to deliver the benefits described in the customer perspective, including understanding customer needs, innovation, customer management processes, logistics etc. The learning & growth perspective covers all elements of improvement including staff competence and development, corporate culture, leadership skills, adoption of new technology etc. The financial perspective will include efficient and effective use of resources, but may also include objectives for revenue growth, cost reduction, increased dividends etc.