STRATEGIC PLANNING: A PRACTICAL PRIMER FOR NOT-FOR-PROFIT ORGANIZATIONS

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ABSTRACT

Strategic planning's acceptance is generally accepted at For Profit (FP) organizations while the Not for Profit (NFP) organizations are overlooked. However, the two types of organizations are not that different when it comes to the strategic planning process; oftentimes it's simply a matter of semantics or different labels. For instance, FP organizations have customers, NFP organizations have donors.

Regardless of an organization's type, FP or NFP, each can benefit from the strategic planning process. This article illustrates the strategic process at a NFP organization. It walks leadership through the strategic management planning process using a fictional chamber of commerce.

The various tasks in the strategic process (mission, vision, internal analysis, external analysis) are illustrated with examples from a typical chamber of commerce. The examples show how the strategic management tasks are interrelated and ultimately lead to a philosophical approach to managing a NFP organization.

INTRODUCTION

Entrepreneurs are primarily concerned with recognizing opportunities and seizing the initiative (Baron & Ensley, 2006). However, once seized, the organization needs to be able to survive in a competitive environment. For this follow-on survival, one needs strategic management skills in addition to the entrepreneurial skills already held (Ireland, 2007). In this article we intend to provide NFP management a practical primer to strategic management in a very easy to understand format by following the process using a fictional chamber of commerce in an urban environment.

THE CHAMBER OF COMMERCE

Since the beginning of commerce, traders cooperated to regulate the conduct of trade, provide common protection against enemies and promote their businesses (Morro Bay, n.d.). As guilds grew, these groups formed an important part of medieval city and town life (Guilds in the Middle Age, n.d.). Over time, these groups evolved into modern day trade associations and chambers of commerce. Today, there are 2,800 state and local chamber chapters in the United States (U.S. Chamber of Commerce, n.d.).

A chamber of commerce is defined as an organization of businesses seeking to further their collective interests while advancing their community, region, state or the nation (Association of ...). Chamber missions may vary, but they all concentrate to some degree on the following goals: building communities, promoting these communities, representing the united voice of business to the community and government, and reducing friction through local networks (Association of ...).

Chambers are supported by member dues. U.S. chambers today fare fast-moving trends. These include technology, government regulation, and economic development.

PURPOSE

Differences between FP and NFP organizations aren't really that different. First is the obvious focus on profits. That's just an accounting determination. FP pay taxes and NFP don't.

Second is identification of customers. This determination rests upon what the organizations are "selling". The FP organizations normally have a readily identifiable good or service. The NFP's service may not be as readily identifiable. However, both need to be clear what they are offering and to whom the service is being offered (i.e., the target market).

Third is the identification of competitors. Their determination is symbiotic with the identification of customers. What are you trying to get from your customers in exchange for what you're offering? And, who else is trying to get the same thing? For example, a lawyer seeks clients who need legal service; he's competing with other lawyers offering the same service in that market. On the other hand, a NFP seeks members do pay dues or other organizations to provide donations and grants as the source of operating funds; a NFP is competing with other organizations also seeking members, donations or grants.

As illustrated above, the differences between FP and NFP organizations do not preclude the use of the traditional strategic management tools. However, the NFP label may be biasing management of NFP organizations away from the performance benefits available through the strategic management approach. Therefore, our purpose in this paper is to help mangers of NFP organizations recognize how the strategic management approach can help improve the performance of NFP organizations much in the same way as the same tools help FP organizations (Porter, 1980).

In the following sections, we'll provide a summary of the strategic planning approach in general so that everyone has a common understand. Concurrently, we'll apply to tools to a NFP; specifically to a Chamber of Commerce for a large metropolitan city.

THE STRATEGIC MANAGEMENT PROCESS

Your first step in learning the strategic management process should be to put yourself at ease. Although, the name itself invokes a grandiose scheme that may seem bigger than life, strategic management is, in fact, little more than an exercise in time management. It's all about how to achieve what's important when faced with conflicting demands and limited resources.

Second, don't get caught up in the hype of strategic management. Too many organizations go through the motions but lose sight of the intent. These companies are ridiculed in mainstream culture such as in the Dilbert comic strip. Remember the intent of strategic management is to set your company up for future success.

The following discussion includes descriptive steps in the strategic planning process. The first phase of strategic management is planning followed by implementation. We concentrate on the planning process here by showing how things *should* progress while giving some practical examples.

We start off with the direction setting strategies. In setting the direction for an organization, we need to answer some basic questions. Where are we today? Where do we want to go? How are we going to measure our progress?

Mission

Where we are today is addressed in the Mission statement. Equally important as knowing where you are going, you need to know where you are starting from—where you are today (Ireland & Hitt, 1992). Finding examples of BAD Mission statement is as easy. A good mission statement is simple, to the point. It should include your organization's name, its purpose, its major product/service offering, its major customer(s), and its source of competitive advantage. Basically, it needs to answer the question of "Why are we in business?"

For illustration, assume a fictitious chamber of commerce, Metro City. Metro City's members include businesses from the Metro City metropolitan area. A good mission statement would be:

"The Metro City Chamber is the premier business organization in the greater Metro City area. We work on behalf of our members to help their businesses grow, implement relevant and informative programming and provide opportunities to build relationships with other businesses in the community. We offer training courses, marketing assistance, networking events, advocacy support and liaison between our members and the city, state, and national political leaders, while also trying to remove some of the stress with social events. Our operations rely on funds from dues paid by our members who come from the business owners in the Metro City area. We consider the Kiwanis Club, Downtown Development District, and Tourist Commission to be our competitors for these members and their dues. However, we stand apart from our competitors by offering a much more comprehensive breadth of business services to our members."

After reading this mission, one can easily picture what the chamber does. It would be difficult to develop a similar understanding if the mission was simply "To promote business". In fact, the statement could include some more detail on the services offered to members. However, one needs to balance content with understanding. Therefore, avoid the hype and concentrate on the facts. You can use other tools to expand on the message at some future point. For strategic management tools, we should remain with the critical few factors, not the trivial many.

Vision

Now that we know where we are, we turn to address where we want to go. This issue is addressed in our Vision statement. We can all remember President John F. Kennedy's vision of "A man on the moon by the end of the decade" and Martin Luther King's vision of "I have a Dream". Both are simple yet extremely powerful.

A good vision need not be as powerful as those above; but, it should be useful. The organization's vision should paint a clear picture of the company in the distant future—one that can easily be seen in the mind.

In general a vision is often less defined than the mission and more goal-oriented. Visions provide a unifying motivation. While flexible, three to five years is a reasonable time frame. A good vision should inspire and motivate the entire organization.

Building on Metro's example, a decent vision could be, "Metro City Chamber of Commerce is recognized as an integral part of pursuing business in Metro City. When a business owner decides to open a business in Metro, the decision to join the Metro City Chamber of Commerce is an automatic part of the opening process." This vision provides sufficient direction for the leaders of the Chamber to use when setting priorities.

Now that we know where we are (e.g., the mission) and where we want to go (e.g., the vision), it's time for a reality check. The leadership needs to evaluate the organization relative to competitors to see what he needs to do in order to make sure that he can reach his desired future. This issue is addressed in the next part of the process and has two steps. We start by looking inside the organization with an internal evaluation of what the organization has and then look outside at the external environment to see how the organization compares to competitors.

Internal Evaluation

Internal evaluation involves some serious soul-searching. You need to look around your organization and take inventory of everything that you have at your disposal. Put yourself in Metro's shoes and the inventory should contain everything: people, buildings, desks, chairs, membership rosters, telephones, web pages, grants, etc.—these are resources. Now look at what's being done with those resources: training members, recruiting new members, lobbying for the membership, applying for grants—these are activities.

The internal evaluation process should provide a very detailed description of the business, what it has and what it does. The more detail the better. In fact, the soul-searching session will be more effective if you can remain objective and refrain from assigning adjectives during the identification phase. To illustrate by building on Metro's example, one resource could be the chambers' membership roster. While the roster may be a reason for success, avoid any claims of 'comprehensive' or 'talented' list of members for the moment. Simply list everything; the list will be pared down and prioritized later.

Metro's resources would include: a Board of Directors with credentials from particularly well known businesses in the area; two web design technicians; 1,000 square feet training facility; three projectors; three laptop computers; a lease on the property; etc. Metro's activities would include: three training classes per day, five days a week; sending weekly newsletters to all members electronically; coordinating annual meet and greet sessions during legislative sessions; daily updates to the community web page; tracking new business licenses; sending invitations to all new business owners to join the chamber; paying the employees; etc.

More detail in describing the activities is better because we have to evaluate each of the activities to see where Metro ranks relative to its competitors. We want to find out what Metro does better than its competitors. Furthermore, why should potential members choose Metro over its competitors: Kiwanis Club, Downtown Development District, and Tourist Commission? This is the question we want to answer next, and the more activities we have in our description, the more options we have in our next step—external evaluation.

External Evaluation—the Competitors

You now need to identify your Industry; this is you and all the competitors fighting for the same group of customers (Porter, 1980). Your company's intent should be to attract those customers instead of allowing them to freely seek out your competitors; this is critical to your company's success. Simply, you need to determine what the customers want. You then need to perform those internal activities which are the bases for what the customers want; and, you need to do so better than the competitors. You can now see why it was so important to identify all of these players clearly—so that you can now analyze the situation.

A side note here: strategic management should be an on-going process and not a one-time event. Likewise, nothing is case in stone; you can change your definition of the players as necessary to ensure you're not overlooking potential changes in the future. Now, back to the analysis.

Of course, identifying customers and what they want are much easier said than done. You'll have to rely on marketing research to identify what your target customers want and how they decide among various competitors. In Metro's target market, the potential members come from owners of businesses in the metropolitan area; this is consistent with the earlier mission statement. Similar to FP businesses, Metro can hire a consultant to survey the potential members to see what criteria they use when deciding how best to spend their limited resources on improving the chances of business success. And, since Metro also has the benefit of regional and national level chambers, it can draw on their expertise.

For our example, let's assume the consultant identified three factors that are strategically viable (i.e., can be used to attract customers): good track record at helping businesses grow; well established; and, breadth of services to a business owner. Metro, being a NFP organization, identified three other organization's that may be able to satisfy the above criteria: Kiwanis Club, Downtown Development District, and Tourist Commission.

The task at hand is to make sure that Metro is better able to provide the above three factors better than the other three organizations can. In other words, Metro wants to make sure it has a competitive advantage. Therefore, we need to evaluate each of Metro's activities relative to the corresponding activities of the other three competitors. The initial intent is to see which activities Metro performs better (i.e., the strengths) AND where Metro doesn't perform as well (i.e., the weaknesses) relative to the competitors' performance of corresponding activities.

We can now revisit Metro's activities and see if, and where, it has a competitive advantage. Recall, the customers' first decision criterion was convenience. After evaluating her location relative to those of the three competitors, we can see if more potential customers are within a three block radius or not. The second criterion was good record of helping businesses grow. After hiring an objective evaluator to examine members of all four organizations, Metro found that its roster contained more successful businesses than the rosters of the other three organizations. This evaluation demands further measure since it is so critical. Metro really needs to come up with objective measures for defining a 'business growth'. The second criterion was well established. Again, an objective measure of this criterion could be the age of the organization or the average tenure of the current board of directors.

Due to space constraints, we'll limit our coverage here. To be really useful, you should evaluate ALL of your activities against VERY specific measurement criteria in order to see where you rank relative to your competitors or industry standards (Barney, 1997). You may find other sources of competitive advantage as well as areas, not necessarily linked to the competitive advantage but where you need to improve your business such as reducing costs.

We'll now shift our focus to the longer term implications. What else is going on around your organization that you haven't considered yet? How will those events change the way you're conducting business in the long term?

Other, Broader External Considerations

Strategic management considers those changes in the external environment that affect me and my competitors to be the most applicable. Normally, these changes will affect the overall demand for the good or service being offered. In our situation, Metro and its competitors are offering a service to businesses in general. Therefore, whatever can change those potential member business's will also affect Metro and the competitors.

For instance, when the availability of capital increases, we normally see an increase in the number of business openings. These new businesses increase the market for services offered by Metro and the competitors (e.g., the 'pie' gets bigger).

In general, we refer to external factors that can have a positive impact on businesses as opportunities and the negative ones as threats. Since these opportunities and threats affect all businesses, your organization's specific competitive advantage will allow you to benefit more than your competitors when all are faced with the same opportunity.

For instance, the increase in the number of business openings increased the number of potential members. On the positive side (from Metro's perspective), these new business owners are going to be looking for ways to increase their business. In our scenario, they will look to Metro, Kiwanis Club, Downtown Development District, and Tourist Commission. They will then look at the three factors we considered strategic viability. Since Metro has an advantage in success, it should enjoy higher demand than the other three.

On the negative side, an economic downturn would most likely decrease the number of businesses. At the very least, such a downturn will reduce the ability of businesses to pay membership dues. However, since Metro enjoys a competitive advantage in success rates, it should lose few customers than the other three.

The evaluation of the general environment is the least well-defined analysis in strategic management. One must be very creative and insightful in order to notice changes. In fact, it would really help if you could predict the future. However, since that's impossible, your next best bet is to stay alert to what's going on around you by scanning the environment. By paying close attention to as much media as you can afford, you become more sensitive to changes. Although you won't be able to actually predict a change, you may be able to notice subtle changes before your competitors. You can then take action before anyone else and give yourself a competitive edge.

Putting it all together in a Plan

It's now time to put these pieces together into a coherent and comprehensive strategic plan. The theme in any strategic plan is to FIT all the pieces together. Ask yourself the following questions and then develop a to-do list of objectives that will set your company up for future success:

Do I have sufficient resources to accomplish my current mission and achieve my future vision?
Do I have sufficient strengths to ensure that I remain competitive?
Do I have too many weaknesses such that they will overwhelm any advantages I may have?
Are there enough opportunities and not too many threats such that I can achieve my future vision?

If you can answer all questions, yes, then your priority is to simply monitor the situation and note if anything changes. If you answer no to any of the questions, then you need to establish a detailed action list to correct the situation. Based on your understanding of where each of the pieces fit into the bigger picture, you can develop an action plan to correct the situation.

Actually accomplishing the necessary tasks is the basis for the second phase of strategic management, the implementation phase. But, until the actions are identified, the plan can't be carried out. The entire process strategic management process becomes iterative and enduring. It's easy to see that strategic management is a philosophy or way of thinking.

SUMMARY

Strategic management is all about positioning your company relative to your competitors so that your performance will be better than theirs. This process is accomplished through discrete but interconnected steps where you identify resources and activities. You then compare your activities against your competitors' activities to see whose are better; these become strengths for the owner. Your strengths that correspond to what the customers want become your competitive advantage. You then use your competitive advantage, in the face of changing environmental conditions, to out-perform your competitors.

But, it's not just a one-time deal. Strategic management is more of a philosophy than a step-by-step process to fix something. It's all about being proactive. And, since we're talking about the future, we know that we can't be exact. Therefore, things change and you have to be able to adjust to that change. Nothing about your strategic plan is cast in stone. The environment changes, the customers change, the competitors change. You just have to make sure that you're best situated to change too.

All too often we hear about: putting out the fires; crises management; and, reactive vs. proactive. We 'know' that we should plan; it's just too easy NOT to plan. Through the use of this primer, we hope that you how have a better understanding of the practical application of strategic management tools. Even more so, we hope that you recognize how naturally strategic management fits with a common sense perspective of running an on-going business. Finally, combining an understanding that one should plan with the planning structure that strategic management provides, we hope that many will embrace the strategic management philosophy and enjoy a positive influences on their bottom lines.

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