FIRM FOUNDATIONS

Creating a business plan that puts your company on solid ground

by Peter M. Cleveland

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WITH THE RECESSION LINGERING, BUSINESS SHOULD require little prodding to realize the importance of detailed business planning as "the hair of the dog." The art of early detection of financial hangovers demands knowledge beyond financial statements, historical profit-and-loss performance and financial ratios. Although they're essential measurements for progress, they alone do not ensure success. Staff performance, the company's marketplace position, the acceptability of its products, and its capacity to develop future products or services should also be assessed.

Information, however, is of little use if not translated into strategic decisions before a crisis occurs. When a manager is pressed for time, nonfinancial information is often the first casualty. Shortsighted planners frequently focus entirely on financial forecasts at the expense of other management information.

Since strong management skills must exist from the top down, effective planning will not ignore a close look at the board of directors – its size, composition and involvement in major corporate decision-making. All but the smallest of companies should include independent or "outside" directors. Even though many organizations with only "inside" directors are well managed, most benefit from the impartial scrutiny independent directors bring to the corporate management team. Inside directors are more likely to be biased when considering pet projects or defending inadequate performance and planning. So a typical question for management to ask itself is – how involved is the board in major decisions? Senior management should be aware if the board is only a decorative function – that is, a rubber stamp for major corporate decisions already effected. Management should be worried if major decisions are not subject to complete and objective board analysis – the result could impair the company's long-term success and financial stability.

Of course, a strong board of directors alone will not ensure success. Experience and competence in the operating officers are necessary to control the day-to-day operations. These are the people whose performance impacts directly upon the company's profit and loss statement and, hence, the long-term future of the company. If management is not strong enough to detect mediocrity, it becomes questionable whether a business plan can be not only properly developed, but effectively implemented. Here is where a strong board would be a necessary complement to operating officers. A realistic business plan, however, must ensure the existence of strong operating officers in every area of the company's day-to-day operations. Otherwise, it will not be possible to identify and eliminate the occurrence of such danger signals as:

- Poor personnel performance resulting in deteriorating corporate financial health.
- Marginal employees attempting to meet new challenges without adequate guidance when they are clearly beyond their level of competence.
- "Creeping seniority" becoming the key career planning criterion as opposed to demonstrated ability and merit.
- A distorted organization size overcompensating for the inefficiency and ineffectiveness of its people.

The existence of such danger signals results in a general decline in the quality of management. Key people will leave the organization for new opportunities if they don't see prospects for career advancement.

A close look at business plans from recent years is also necessary to finalize an effective current plan. Have past plans been both realistic and attainable? There is no room for wishful sales and expense levels – they must be first planned, then marshalled into reality. Management must be able to answer such questions as:

- How aggressive is the competition? Has the business plan included a realistic recognition of the potential impact of competitors?
- Is the company anticipating technological change? Is the impact of changing technology sufficiently recognized when considering new projects, product costing and market entry policies?
- Is the company aggressive enough in its pricing policy?
- How effective is the company's market research within the industry?

When senior management has satisfactory answers to these questions, it then proceeds to assess its people and financial resources for the purpose of developing functional objectives and action plans. This phase of planning usually reveals whether there is:

- A tendency to blame company problems on outside influences such as the recession or high interest rates. Conversely, in periods of economic recovery, explanations may rest, unjustifiably, on declining interest rates. In reality, however, the reasons for difficulties often relate to an inability or unwillingness to face internal management problems.
- Insufficient detail to support realistic or attainable action plans.
- A specific task clearly assigned to individual employees to achieve each goal.
- A lack of ability to solve corporate problems together as a management team. This is frequently the case when officers are totally preoccupied with immediate tasks, and consequently don't have a corporate vision. Often, the result is inadequate or no communication among the officers. While each area may appear to be operating according to plan, they may actually be working against the achievement of the goal.
- An entrepreneur in management, lacking the skill and depth to solve day-to-day problems. By their nature, entrepreneurs often are conceptual people with little aptitude to administer funds or organizations effectively.

Just as business plans are meant to identify problems, they must also offer solid solutions to be meaningful. In every case, there must be follow-up procedures firmly in place to ensure action plans generate progress. ■

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