Notes from Duke's Casebook

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About this edition

Every so often the future's contours are seen so clearly the need to do strategic planning becomes self evident.

Now is one of those times. A noteworthy transformation in markets and client relationships is occurring. Without a strategic plan you are surely improvising in a very risky environment. In the next few years some will survive and prosper, others may not. Those with a plan to meet these new challenges are more likely to succeed.

Less you think this counsel is offered self-servingly, my concern that you start planning immediately is so great, I will find someone else to help you if that is your preference. You must plan now.

Duke Kuehn
January 19, 2009

The Facilitator's Toolbox
Planning 101: A Guidebook

Some of my readers may not understand what I mean when I refer to different types of planning. Here's a simple introduction to the topic.

Planning is a process for developing goals. A plan can be as short and immediate as a grocery list or as detailed and forecasted as an interplanetary expedition.

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Inside This Issue

You Have 4 Weeks to Plan for Success in the New Economy

President Obama's economic stimulus package is expected to achieve Congressional approval by mid-February. It heralds a change in the basics of the American economy on the order of FDR's first 100 days of 1933 and year one of Reagan's administration in 1981.

Political preferences aside, the rules of the game for the last 28 years will change. Who spends what and where and how markets work will resemble practices similar to 1932 to 1941 when government, as chief consumer, paid for recovery from a global depression.

At writing the details of the Obama stimulus plan are not public, but it's clear there will be huge investments in government-financed infrastructure development programs. We can also expect to feel the impact of billions of dollars poured into financial markets during the final months of the Bush administration

Because I believe planning causes success, I urge my readers to take steps today to adjust their plans and operations to address the circumstances of this new economy while the opportunity presents itself.

These moments have occurred before. The commercial real estate industry matured as a national force during the World War II, because the war effort demanded the ability to locate industrial facilities across the United States. Indeed, the premier affiliation, SIOR, started as the Society of *Industrial* Realtors in 1941 to meet the needs of the U.S. War Department in finding sites for factories and warehouses.

The same ingenuity will be required in the next few years as firms and associations seek prosperity by adjusting their plans to meet the needs of the new economy.

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A goal is simply a statement about an *improved future condition.* The goal to "improve marketshare" is just as much a goal as to "increase marketshare 12 percent next year." One may be more specific than the other, but both clearly state that something measurable, marketshare in this case, will be greater, therefore better, in the future.

If plans are about setting goals, plans vary in terms of the *kinds* of goals they promise. Most typical is the *business* plan, laying out goals and operations in the near term future… one year or less. Their straightforward and prosaic nature does not diminish their importance… these goals (and their associated objectives and actions) are the lifeblood of any organizations' daily activity. Continued achievement of business plan goals assures an organization's sustainability.

Long-term plans extend business goal-setting out over a longer time span than a single year, at minimum 18 months, 10 years at the very most.

A special type of long-term planning is *strategic,* my specialty. Unlike a business plan's focus on daily operational goals over an annual (or quarterly period), the strategic plan identifies goals intended to significantly improve an organization's performance in the long-term.

Strategic goals speak to *new achievements* for an organization or *significant improvements in performance* of existing business plan goals. A strategic plan augments the business plan. When they are finally accomplished strategic goals often become part of the business plan (they are no longer strategic; they are just part of doing business).

This is not definitional hair-splitting. Many people confuse the two types of goals and some make the error of substituting a strategic plan for a business plan or vice versa. The two types of goals are very different and both need to be attended to in an organization if it is to be both sustainable through its consistency and committed to growth through its adaptability.

Contingency planning is a special type of strategic planning in which goals are crafted based on certain "what-if" assumptions (contingencies) about the future. *Best/worst* case planning is a good example of contingency planning, in which different goals or outcomes are developed contingent upon some other variable or set of conditions. *Scenario* planning carries this logic a step further; identifying a particular set of contingencies, presenting a scenario and asking executives to plan goals for that circumstance. *Emergency* or disaster planning is just another version of contingency planning.

Tactical and *action* plans are the same thing. Both spell out the actions, tasks or tactics required to achieve any of the

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The Strategic Gourmand: Mixing the Ultimate Manhattan

The correctly mixed Manhattan is, by my estimation, the perfect cocktail… icy cold, tart with just a hint of sweetness. Its complexity and sophistication is really born out of its simplicity. Achieving the straightforward perfection of the Manhattan is a challenge worth pursuing. I've stood by many a bar and spied as they were mixed, this is the best recipe (hats of to Jason at Carmine's in the town that gave the drink its name). Follow these instructions EXACTLY. Failure to do so will miss the mark and put you in the middle of the East River.

Start with a chilled metal cocktail shaker. Add ½ cup crushed ice.

Pour in 3 ounces of top shelf bourbon (my preference is something smooth like Makers Mark).

Add 1 and 6/10 ounces of sweet vermouth (only Martini and Rossi please).

Splash a dash of maraschino cherry juice.

Shake vigorously, until the OUTSIDE of the frosted shaker is icy cold.

Pour gently into a chilled glass (add a cherry to the bottom of the glass before pouring).

Enjoy with good company with some classic Gerry Mulligan on the alto sax. You earned this… savor it.

Duke's Rule #12: *Keep Heading West!*

Stranded in Dulles one day I learned something that gets you out of a snowy airport and works as a pretty good metaphor for life. In snowstorms airlines cancel flights not because aircraft can't fly, but because they can't get full crews to the airport. It follows, flights with the smallest crews, commuters, have the best chance of getting out.

So rebook, fly anywhere out of there and *keep heading west.* I've gotten to Seattle by hopping through Cleveland, Chicago and Denver. It took awhile, but I still got home before the wide-bodies did.

The nice thing about this rule is it works headed east, north or south, too. Keep focused and moving in the right direction, even if you have to improvise along the way. That's the best way to achieve your goals.

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goal-focused plans described above. Business and strategic plans alike require actions to be specified as to how they are achieved.

Another way of thinking about this is to consider the business, strategic and actions plans as all part of the same thing, an overall approach to the way we manage organizations over the short and long term. I've tried to depict the inter-relationships in the diagram below.

Business Plan	*Strategic Plan*
Goals: 1 year or less, focused on daily, sustainable operations.	Goals: 18 months to 10 years, focused on improvements in current business goals or through new initiatives. Upon achievement are ended or transferred to the Business Plan as an on-going goal.
Objectives: Macro levels of action to achieve goals.	Objectives: Macro levels of action to achieve goals. Upon completion some become Business Plan objectives, others cease.
Actions: Micro levels of action to achieve objectives	Actions: Micro levels of action to achieve objectives.

I Really Wish I'd Said This:

My father-in-law, Captain Carl Larkin, an excellent seaman and leader in his own right, passed on this sagacious quote from Roald Amundsen, the Norwegian explorer of *both* poles. Of his crew of the *Gjoa* while exploring the Northwest Passage, he said:

… on board the Gjoa… we had no strict laws. Good work can be done without the fear of law. I had determined to apply the system of freedom on board… to let everyone feel that he was independent in his own sphere. This creates among sensible people a voluntary spirit of discipline, of far greater value than enforced rule. Everyone thus obtains the consciousness that he is a man who is depended upon as a thinking being and not a wound-up machine. The zeal for work is doubled, and so is the work itself. My comrades also seem to value [the system adopted on board the Gjoa] and the voyage was far more like a holiday trip of comrades than the prelude to a serious struggle lasting for years.

Roald Amundsen, *The North-West Passage: Being the Record of a Voyage of Exploration of the Ship Gjoa, 1903-1907: Volume* 1, Adamant Media Corporation, 2002, p. 17.

PROFILES IN LEADERSHIP: Michael Landreth

Don't let the black stetson or his cool high plains stare fool you, he has his eye on the future and his ability to cast a vision is incredibly useful leadership trait.

He is a commercial realtor® and his firm, Landreth Ranch and Land, Co. specializes in large transactions all over Colorado. Headquartered in Eagle, Michael would modestly describe himself as a "dirt broker," but his analytical skills and futuristic thinking is the hallmark of his highly professional client service.

Michael is past President of the REALTORS® Land Institute. I work with many volunteer leaders; few have his vision and energy. Under his leadership RLI made significant strides forward and its designation, the ALC (Accredited Land Consultant) is increasingly recognized as a mark of highest distinction in the field.

Less well recognized is the wonderful sense of humor he brings to his working relations. Hard work can be fun and Michael's enthusiasm and good cheer is a key component of his effective leadership style.

Check out his website: www.weknowranches.com

Looking for more? Check out my website www.pnwconsult.com or my blog www.pncs.blogspot.com.

Want to talk? You can reach me at 360.791.8450 or duke@pnwconsult.com

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Just which parts of the economy are being stimulated and how markets will be affected can be predicted. Based on Obama's comments since the election expect to see the government quickly begin spending upwards to a trillion dollars in order to:

- double the production of alternative energy over three years
- update most federal buildings to improve energy efficiency
- make medical records electronic
- revamp the nation's bridges, highways and electrical grid
- expand broadband networks
- update the technology of schools and universities.

In Obama's words, the aim is *"to build an economy that can lead this future, we will begin to rebuild America."*

These activities will merge with the Bush Administration's $750 billion Troubled Assets Relief Program designed to shore up the credit and housing markets. Altogether American businesses should see nearly $2 trillion flowing through the economy, not counting already released Fed dollars, interest cuts, bail-out funds and discounts.

The federal government is poised to become the primary consumer in our economy for the next few years. Even if government is not your client today, chances are it or its partners will soon be. And you can expect your clients to look to you for services to meet these ambitious federal initiatives.

It's a safe bet that engineering firms and the folks who pour concrete, run cable and remodel buildings will be very busy. If they have been your clients, get on the phone today and inquire how you can help them. If they are not your clients, start making a list and get known to everyone of them in your market.

This would be a good time to become a quick study in energy technology, healthcare operations and educational systems. Whether providing counsel as to how to rebuild these systems or providing day-to-day project management, your clients are going to need help.

Unfortunately it will take some time for spending on the massive infrastructure projects to reach all corners of this stressed economy, so we can expect more of the grim events of the last year to play out. We probably have yet to see the worst, witness the recent rise in commercial foreclosures and defaults. Some commercial real estate firms now specialize in handling these distressed properties.

Assessing growth in the labor market just before this latest recession hit offers additional hints about the new economy. In 2007 the Bureau of Labor Statistics found that 17 of the thirty fastest growing jobs were in health care. Most of the rest of the growing job opportunities are in technology and computing. It's not hard to see where the economy is going and its direction sends a clear message to anyone involved in providing client services.

Your strategic plan demands goals and objectives that speak to the changing shape of American markets, because the face of your clients is changing. Whether you sell toothbrushes, office buildings or counseling services it is strategically imperative to know the needs of your new clients.

A critical first strategic step in that regards may be to identify who those clients are, find where they are located, learn their primary media of communications and uncover the ways in which they make decisions. Whoever your clients may have been, you will discover public sector administrators approach decision-making in a different manner. Not worse or better, just different, and you need to equip your organization to deal with these changes.

Rarely are we given the opportunity to see so clearly into the future. A fundamental shift in our economy is occurring and we know what it will be. The reconfiguration of markets and client relationships present exciting opportunities for organizations wise enough to take the time RIGHT NOW to embark upon or update their strategic plans.

Carpe diem!

Breaking News!

As I was finishing this newsletter the House Democrats released their response to Obama's call for a stimulus package. According to the New York *Times,* highlights of the draft legislation include:

- *$90 billion in infrastructure spending, including highway construction and repair, water projects and environmental restoration, and public transportation investments like rail lines.*
- *$54 billion to encourage the production of energy from renewable sources and to upgrade the transmission grid, as well as to weatherize public buildings and homes and raise energy efficiency.*
- *$10 billion for science facilities and research, and $6 billion for broadband service in rural areas.*

These proposals will change as House D's interact with Republicans and their cohorts in the Senate. These items offer, however, a rough idea of what infrastructure spending is going to look like.

A Controversial Proposal Regarding Desk-Costs

Desk-costs are a common topic of complaint among firm owners/principals and brokers/sales agents alike: the former claim they're too high and produce a questionable return on investment; the latter argue they're never provided enough tools or talent to make deals.

Both are right, especially when that portion of desk costs associated with "support services" is closely inspected. These services boil down to the amount of marketing and research the firm offers in support of its brokerage activities. In reality support service costs represents the expense of a paying a staff and subscribing to data and analytic tools to help brokers find and close deals.

Despite the good intentions of ownership and dedicated, hard working staff, support services are usually the weak link in most brokerages and provide dubious value to the brokers.

The current system doesn't work because it causes support staff to be reactive and divorces them from the firm's business model. They wait for a broker to request a service then attempt to provide it within the budget they've been given. Their clients, the sales staff, are often unclear and usually too late in requesting support. When they finally ask for it brokers set unrealistic expectations for the speed and quality of service.

In the end, brokers complain about the service they receive, but grudgingly admit that the fault really lies with the firm's owners who are too cheap to pay for first rate support. The sales agents' complaints demoralize the support staff and infuriate the owners who see their profits eaten up by perceived high desk-costs. By the end of the day everyone is unhappy with everybody else… hardly the way to run a brokerage.

It's time for a new model and here is an admittedly controversial proposal. Make support divisions profit centers. Where do their revenues come from? Their clients, who are the brokers.

Instead of giving these services away, firms could require their brokers to pay for them, or at least manage costs by setting up broker accounts equivalent to some fair portion of the desk-costs (or they can increase splits) to provide funds for agents to buy what they need. The key is creating a market where brokers buy the service and the staff earns their salaries by providing useful support.

By creating an internal client relationship between broker and support staff real market pressure is put on the support division to deliver service. In this model, support staff members become account executives proactively selling services to brokers, mastering the tools to help brokers get and close deals with *their* clients. This allows staff/account execs become part of the sales team, participating in the transaction and earning the opportunity to get part of the action in the end.

Right now, brokers don't know what to ask for and staff doesn't know what to provide. It's astounding to watch the process in firms today as, truly, the wheel is re-invented, often under enormous time pressure and expensive inefficiency. It doesn't have to be that way and it shouldn't.

A support division that can't generate revenues by helping brokers acquire and close deals should be replaced. A brokerage division that fails to take full advantage of resources offered by its firm needs to be re-educated. The two parties are members of the same team and they are mutually dependent on each other for their success.

In my model, support staff need brokers to perform their functions and they want to do everything they can to provide the tools for the sales staff to close the deal. And their income and job security is totally dependent on the success of the brokers.

Likewise, the brokers want to support staff to treat them as clients, because they have the information and tools so they can serve their *own* clients, the firm's customers.

Can this be done? Of course, it can. To build an effective system, however, requires some rethinking of the culture of brokerages. The culture of sales and support staff are built around very different values. They come together in their desire to meet the needs of their clients. Forging the same client-centered relationship between support and sales staff that already exists between sales and their customers will deliver dividends on desk-cost expenditures.

Some Musings on Association Governance

Compared to businesses, non-profits and governmental bodies, associations may come closest to being true democracies. Nowhere in our daily lives, even legislatures, do individuals have the potential for achieving change with such immediate impact on themselves and their peers. When all works well, of course.

The problem is that sometimes it doesn't work all that well. For all their potential, associations often end up being less responsive, less active and, ultimately, less democratic than legislatures which are routinely criticized for accomplishing nothing except the glorification of some of its leaders.

How has this come to be? There are three fatal flaws in the governance models of many associations and until they are addressed the democratic potential of voluntary, member-driven organizations will go unmet.

Flaw #1: A lack of strategic vision. **Instead of following collectively developed plans, the annual goals and objectives for many associations are driven by the personalities of their executive leaders, the President or the Executive Officer. Since presidents change almost annually, this means many associations pursue new strategic direction every year. Less likely, but common enough, there are cases where volunteer leadership become so complacent that they cede their vision to the EO.**

Where presidential personalities prevail the association bounces from one strategic initiative to another, resulting in a grab-bag of unfinished projects as the years go by. EO dominated associations do gain the advantage of having sustained and completed programs, however disconnected they become from member needs.

Solution: develop a plan that is informed by the membership, reflects the *common* interests of the leadership and reflects the expert input of staff and STICK TO THE PLAN!

Flaw #2: An absence of trust. **The singular advantage of organizing socially is that it allows people to achieve collectively more than they ever could working as individuals. As a species, we learned that such things as delegation, the use of representation through devices like committees and rules of order create reliability and trust-worthy systems that make it possible to govern earth-spanning empires.**

Modern organizations can't work if every decision is reviewed in real-time by all of its members. Part of the "consent to be governed" is the recognition that we select leaders and trust them to do their job. Yet we've all attended membership meetings where any association proposal that didn't offer the potential for all members to be involved was seen as despotism.

The solution to this is to develop competent boards of governance sufficiently decisive and capable to hold accountable the association's officers, the EO, committee chairs and, in the end, members. Great organizations invariably come from great boards. They build trust by setting policies and strategic direction that represent the *collective* best interest of the membership.

Flaw #3: Too much communication about the wrong stuff. **Pick up any association strategic plan and I guarantee there will be a goal aimed at improving communication. What's interesting is that these organizations already invest major resources in newsletters, e-mails, magazines, websites and meetings.**

The problem stems, not from a lack of communication, but from communicating with the membership about the wrong things. What members really need to hear is leadership's interest in their opinions, ideas and needs. Today too much communication goes from the leadership to the members (usually trying to make the case as to value of what they are doing for the members); too little comes from the members to the leaders in the form of needs assessment, opinion about policy options and program evaluation.

What association leadership routinely overlooks is the greatest value of membership: their on-the-ground, day-in-day-out understanding of what they need and how their association can help them. We spend much too much time telling members what we are doing and much too little time asking what they think.

That's my point and that's the solution. Excellent associations communicate more by asking than by telling. The interesting thing is that when they do that flaws 1 and 2 disappear.

Address these flaws and make it possible for associations to live up to their democratic promise.

A New, Smarter Approach to Making Budget Cuts

In the face of enormous revenue deficits, governments struggle to keep their budgets balanced, some under constitutional mandates to do so. The outcome is never pretty and those budgets end up as a hodge-podge of decisions that try to assure funds for critical programs to support the most basic welfare of citizens while cutting back in discretionary spending for things like maintenance and prevention.

Lacking any other strategy, government cuts are made brutally, either as across the board reductions in spending or by setting spending priorities in relation to selected criteria, as case-by-case decision packages. The first approach treats all programs as equal and uses a cleaver to deduct the same percentage from each. The problem is that some programs can't survive any cuts. Prioritized decision-packages offer a better strategy, but succeed only to the degree that valid criteria can be generalized across a diverse set of programs.

There is a third strategy, relying upon the logic of performance measurement. It would require governing executives, legislators, bureaucrats and, ultimately taxpayers, to make clearer decisions. For nearly 20 years the federal government has adopted the idea of performance measurement and it is a common and best practice in agencies at every level across the nation. Less common is the adoption of performance measurement into budgeting. The idealistic conception agency budgets could be adjusted based on performance has yet to materialize as routine government practice, but the potential remains. It may be that a couple of years of very constrained state and local revenues will revive interest in what I propose here

Performance measurement, works like this: organizational missions are split into a list of things are that done (outputs) and the results expected to be gotten from those efforts (outcomes). Since public goals may involve more than a conventional business bottom-line, there may be multiple outcomes which, taken together, represent a "balanced scorecard."

The utility of performance based budgeting for cost reductions comes from the ability to look at outcomes as distinct "levels of service" and to adjust levels of funding accordingly. For example, if it can be established that incremental increases or decreases in funding are tied to distinct qualitative breaks in levels of service it is possible to "dial in" the exact amount and type of service outcome desired and fund it to that level. Looked at in this manner allocations become investment decisions with expected returns on those expenditures.

I saw this tried at a state Department of Transportation on a rather mundane policy issue: the appearance of landscaping in the median strips separating freeway lanes. These engineers identified five levels of appearance, ranging from the highest (rivaling the greens at Augusta) and lowest (a deserted inner-city lot). They figured the cost per mile to maintain the median strip to each possible level of service. Their message to the legislature was simple and clear: tell us what you want to provide taxpayers and we'll give it to you.

This example could be generalized to other public programs. Obviously some outputs lend themselves more easily to this analysis than others, but once a valid relationship is established between levels of output and outcomes, the hard (and interesting work) is determining what conditions justify an incremental step up or down in quality of service. By itself, the debate might be worth having in some policy areas.

In fairness the reason why this commonsensical approach hasn't been widely adopted stems from the failure of performance measurement to live up to its most ambitious claims. Establishing cause-effect relations between outputs and outcomes is a tricky proposition and even when it can be done, demonstrating an incremental and qualitative correlation tied to specific levels of expenditure may be impossible.

The data are there… in many jurisdictions there is a decade or more of datapoints of performance to be analyzed. It may be time to put these measurements to use as a way of making finer, discriminating decisions as to how public revenues are spent.

Not all programs can be financed in this manner, but some are well suited to performance based budgeting.

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TO:

Here is Duke Kuehn's Latest Newsletter…

- How to take advantage of the new economy.
- Build better governed associations.
- Improve support services for brokerages.
- A different approach to public budget cuts and
- A killer recipe for the Perfectly Mixed Manhattan