
Financial Implications of Strategic Planning

Gary D. Byrd

Financial management requires, almost by definition, a planning perspective on the part of library managers. Planning is, after all, one of the primary responsibilities of all managers, including those responsible for financial resources. To secure money and other resources for effective operations, library managers need more than the technical and political tools of economics, cost analysis, accounting, fundraising, and budgeting. They also need a clear perspective on where the library is headed and how it will get there. The library must have a plan—that is, a clear statement of its mission, goals, and objectives—as well as the specific strategies and resources needed to reach those goals and objectives. This article will explore the ways that planning and financial management support and complement each other and the ways specific aspects of financial management fit into a formal strategic planning process.

Strategic Planning

A growing number of libraries and library associations have come to recognize the value and importance of formal long-range or strategic planning. A combination of factors are responsible for this growing interest. First, new information technologies, especially the computer, are helping to reshape and redefine the basic mission of the library. The traditional library archive designed to protect books, journals, and other physical containers of our society's cultural and intellectual heritage is changing to an organization concerned primarily with information and knowledge storage, dissemination, and education services. Second, the escalating costs of traditional printed resources, as well as the high cost of new technologies needed to provide effective library services, require the reallocation of existing financial resources and effective strategies to secure new resources. Finally, libraries face increasing competition from commercial database developers and information brokers. It is no longer sufficient

for most libraries to rely solely on continued good will support from taxpayers and parent organizations. In an environment where commercial competitors market their information services as fast, comprehensive, and cost-effective, library managers need to be able to demonstrate the economic value of library services and resources to the institutions and communities they serve. Strategic planning is a process specifically designed to help organizations cope with these external and internal pressures of technological change, escalating costs, and intense competition.

What then is strategic planning? The following working definition captures the essential features of the process. Strategic planning is the systematic analysis of an organization's basic mission as well as its long and short term goals and objectives in light of external threats and opportunities and internal strengths and limitations. This analysis provides the framework for strategies and action plans designed to capitalize on opportunities and strengths and to deal appropriately with threats and limitations. The planning process usually involves a substantial commitment of time and management energy to complete, and often results in a substantial reallocation of existing financial resources and strategies to secure new resources.

The following summary of the six essential steps in strategic planning provides a framework for looking at the financial implications of this process.

1. *Situation Analysis* This is the essential first step of all strategic planning. It answers the question, "Where are we now?" Managers start by looking at the threats and opportunities outside the library (that is the social, economic, technological, and other trends affecting the library and/or its users), as well as the strengths and limitations of the library's internal resources (staff, collections, technology, facilities, etc.).

2. *Mission and Goals* This step answers the question, "What is our basic purpose?" At this stage managers look critically at the library's basic purpose in light of the situation analysis and then agree on a new mission statement for the

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future. The mission statement usually incorporates long-term goals which define the scope of the library's services or resources in broad general terms.

3. *Objectives* This step answers the question, "Where do we want to go?" Here managers describe for each goal the changes the library has some reasonable expectation of bringing about. To be most useful, these objectives should be stated in measurable terms such as percentage changes or target numbers to reach by a certain date.

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4. *Strategies* This step is the core of strategic planning and answers the question, "How can we get there?" With strategies, managers outline a general course of action and indicate how resources, strengths, and opportunities will be used to reach the objectives. Strategies are broad in scope and show the basic route to be followed in attaining the objectives.

5. *Action Plans* This is the final step before the library begins to implement the plan. Action plans answer the question, "Exactly who will do what, where, when, and at what cost?" This stage of the planning process commits the library to specific amounts of time, staff, facilities, and money to reach the agreed upon objectives.

6. *Feedback and Change* This final step in strategic planning recognizes the fact that planning cannot be a one-time activity. As external or internal circumstances change, the library needs to be able to modify its plans. Feedback occurs at regular intervals after the plans are being implemented and answers the question, "Are we on track?"

Many organizations add another step to strategic planning before or concurrently with action planning. This step looks separately at the strategies to obtain and allocate the "generic" resources needed to reach all objectives and keep the organization running. These generic resources for a library would include such things as staff development and recruitment, a management information and communications system, the library's organization or governance structure, and, most importantly in this context, the financial resources available to the library. Because the question this planning step answers is how to obtain or manage resources, it is often called "generic strategies." In this sense financial management is a

generic strategy in the library's planning process.

Financial Management

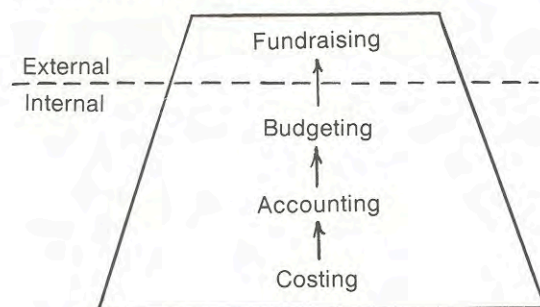
Financial resources and their effective management clearly underlie all good planning, whether short-term and operational or long-term and strategic. Financial resources are the key generic resource needed to implement a library's objectives. Without money staff cannot be hired, collections cannot be acquired, facilities cannot be constructed or maintained, technology cannot be used, and certainly services cannot be provided.

Finance has been defined very simply as "the provision of money when and where required."¹ Thus, financial management is the professional expertise needed to provide money when and where needed for effective operations. In most organizations financial management has both external and internal aspects. Managers must find external sources of long-term funding and capital needed to start the organization and to insure its continuing existence. Within the organization, managers must also find and control the resources needed for day-to-day operations.

Because libraries usually exist as departments or divisions within a host institution or government, their long-term funding depends on external resources secured by that parent institution. Although a library manager must be concerned with the overall financial health of the government or institution which supports the library, this rarely means the librarian goes directly to the financial marketplace (such as the banking system, the bond markets, or the stock market) to raise long-term capital as corporate managers must do. This is not to say that librarians cannot play a significant part in securing external financial support for their operations and services. Seeking grant support, negotiating contracts with other agencies, or marketing library services to non-primary users are all legitimate ways that library managers can be fundraisers. But this is "fundraiser" in a more limited sense than the business manager, who must raise capital from stock sales or bank loans.

Although the external fundraising aspects of financial management are relatively limited in most libraries, the internal aspects of finance are central to successful library management. The librarian must prepare and justify a budget for a fair share of the host institution's or the government's resources, maintain an accounting system to analyze and control revenues and expenditures, and also constantly measure the costs (in time and money) of providing collections and serv-

ices with various resources. Together with external fundraising, financial management is a sort of interrelated hierarchical system:



Working up from the bottom of this system, costing measures the monetary value of the processes, services, and other goods the library requires. Accounting categorizes and presents these costs for analysis and control. These two activities, in turn, support the budgeting system used to monitor and justify the resources needed and used. Finally, effective fundraising depends on the three parts of internal financial management to present the resource needs of the library convincingly to potential funding agencies.

The techniques and procedures of financial management overlap and reinforce those used in strategic planning to a great degree. Budgeting, in particular, also deals with the future and the ways resources will be deployed to support library objectives. However, budgets, accounting systems, and costing normally deal with the immediate future (that is the upcoming fiscal year or two) while strategic planning is more concerned with the medium or long-term future. This means that the library's annual or semiannual budget cycle must feed into the action planning part of strategic planning, or appropriate resources will not be available to implement the plans.

Strategic Budgeting

The budget process is central to effective financial management in libraries. If a library undertakes strategic planning, the budget must become the key planning document for justifying, in quantitative terms, the immediate high priority programs identified by the planning process. Koenig and Stam point out the ramification of this relationship between strategic planning and budgeting: "at least as a planning procedure, budgeting must be thought of as a program based procedure."² This, in turn, means that traditional budgeting techniques such as line item, lump sum, performance, and formula budgets will make strategic plans more difficult to implement.

Line item or object of expenditure budgets allocate resources into rather fixed "lines" which reduce managers' flexibility to make program changes. Designed for maximum control, this kind of budget gives little indication of goals or objectives, but shows only how much money will be spent in various categories. Lump sum budgets provide a specific amount of money to the library for a single fiscal period. Although this allows the library manager maximum flexibility in allocating these resources for program objectives, it does not give much opportunity to relate the budget to goals and objectives, since the librarian usually has little input in deciding the size of the lump.

Performance budgets focus on the unit costs of goods and services to be provided by the library. The emphasis is on efficiency of operations without particular attention to long or short range objectives. Finally, formula budgets attempt to relate (at least indirectly) library resource needs to indicators of growth or change in the parent institution. The formulas used range from fixed percentages of the total institution budget to complex formulas resulting from elaborate cost analysis. This budget system has the combined problems of all the others; it tends to be inflexible, reduces librarian input after the initial formula is set, and has almost no relationship to library objectives.³

With program budgeting, in contrast to the above traditional systems, the library analyzes and delineates its proposed expenditures according to the functions or "programs" it plans to undertake. An easy way to present a program budget is in the form of a matrix (see Figure 1). The columns can represent different programs or objectives, and the rows can continue to show the traditional line item categories. The important difference is that a program budget shows what the library plans to do and what each resulting service, function, or program will cost.

Strategic planning provides a framework for libraries to invent their futures and to demonstrate effectively the value of their resources and services.

The program budget has important advantages for strategic planning. By explicitly showing planned expenditures for each program or service, management is forced to consider and analyze the cost and value of library objectives. In addition, by clearly showing the cost of what the library plans to do, a program budget provides

FIGURE 1.
Sample Library Program Budget Matrix

	Collection Development	Cataloging	Reference	User Education	Circulation/ Photocopy	Interlibrary Loan	TOTAL
1. Personnel							
1.1 Professional salaries	\$16,000	\$10,000	\$23,000	\$14,000	\$0	\$0	\$63,000
1.2 Support staff salaries	\$5,000	\$10,000	\$5,000	\$1,200	\$25,000	\$21,000	\$67,200
1.3 Professional fringe benefits	\$3,353	\$2,933	\$3,981	\$2,933	\$0	\$0	\$13,200
1.4 Support staff fringe benefits	\$894	\$1,789	\$894	\$215	\$4,472	\$3,756	\$12,020
1.5 Temporary staff wages	\$0	\$1,000	\$0	\$0	\$5,000	\$0	\$6,000
TOTAL PERSONNEL	\$25,247	\$25,722	\$32,875	\$18,348	\$34,472	\$24,756	\$161,420
2. Acquisitions							
2.1 Journal subscriptions	\$57,500	\$0	\$0	\$0	\$0	\$0	\$57,500
2.2 Standing orders	\$12,000	\$0	\$4,500	\$0	\$0	\$0	\$16,500
2.3 Monographs	\$16,500	\$0	\$3,000	\$500	\$0	\$0	\$20,000
2.4 Audiovisual programs	\$6,000	\$0	\$0	\$1,000	\$0	\$0	\$7,000
2.5 Computer software	\$2,000	\$0	\$0	\$2,000	\$0	\$0	\$4,000
TOTAL ACQUISITIONS	\$94,000	\$0	\$7,500	\$3,500	\$0	\$0	\$105,000
3. Operating Expenses							
3.1 Supplies	\$5,000	\$6,000	\$4,000	\$1,000	\$3,000	\$1,000	\$20,000
3.2 Telephone & E-mail	\$500	\$1,500	\$3,000	\$1,000	\$500	\$1,500	\$8,000
3.3 Repairs & maintenance	\$200	\$500	\$1,500	\$500	\$2,000	\$800	\$5,500
3.4 Furniture & equipment	\$1,500	\$1,500	\$2,500	\$1,500	\$1,000	\$1,000	\$9,000
3.5 Binding	\$3,500	\$0	\$0	\$0	\$0	\$0	\$3,500
3.6 Professional development, travel	\$400	\$500	\$1,000	\$500	\$500	\$300	\$3,200
3.7 Data processing, database access	\$1,000	\$3,000	\$6,500	\$1,000	\$500	\$1,000	\$13,000
TOTAL OPERATING EXPENSES	\$12,100	\$13,000	\$18,500	\$5,500	\$7,500	\$5,600	\$62,200
4. Capital Improvements							
TOTAL	\$0	\$0	\$5,000	\$3,000	\$0	\$0	\$8,000
Percent of TOTAL	\$131,347 39.0%	\$38,722 11.5%	\$63,875 19.0%	\$30,348 9.0%	\$41,972 12.5%	\$30,356 9.0%	\$336,620 100.0%

the information needed for open political dialogue between all levels of management within the library and its parent institution or government.

This budget system's disadvantages, on the other hand, tend to be the same as the disadvantages of all formal planning processes, including strategic planning. A program budget requires substantial time and effort to prepare, though the calculations are not nearly as complex as those in performance budgets. Also, because this kind of budget is inherently value laden and political, it increases the potential for conflict as the proponents of different objectives compete for limited resources.

Implications and Conclusion

What then are the key financial implications of strategic planning? By systematically reviewing the library's mission, goals, and objectives in light of opportunities and constraints in the external and internal environment, strategic planning encourages innovation, change, and the redeployment of financial resources. The library which engages in strategic planning will no longer be content to defend or add increments to its base budget year after year.

Financial management in this planning environment changes from budget defense to a positive discussion of the cost and value of the library's goals and objectives. A strategic plan and its supporting program budget will give the library's host institution or governing board a priority menu of programs, services, and objectives from which to select, rather than a target line item list of projected expenditures to pare or cut. Russell Ackoff has described the objective of planning to be the "design [of] a desirable future" and the "invent[ion of] ways to bring it about."⁴ Strategic planning provides a framework for libraries to invent their futures and to demonstrate effectively the value of their resources and services.

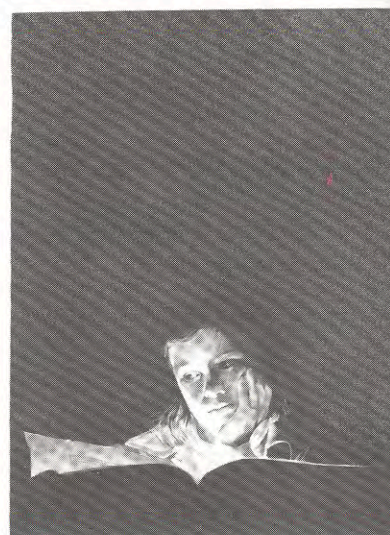
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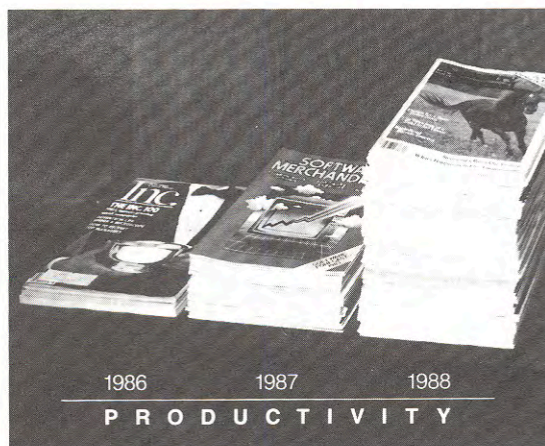
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