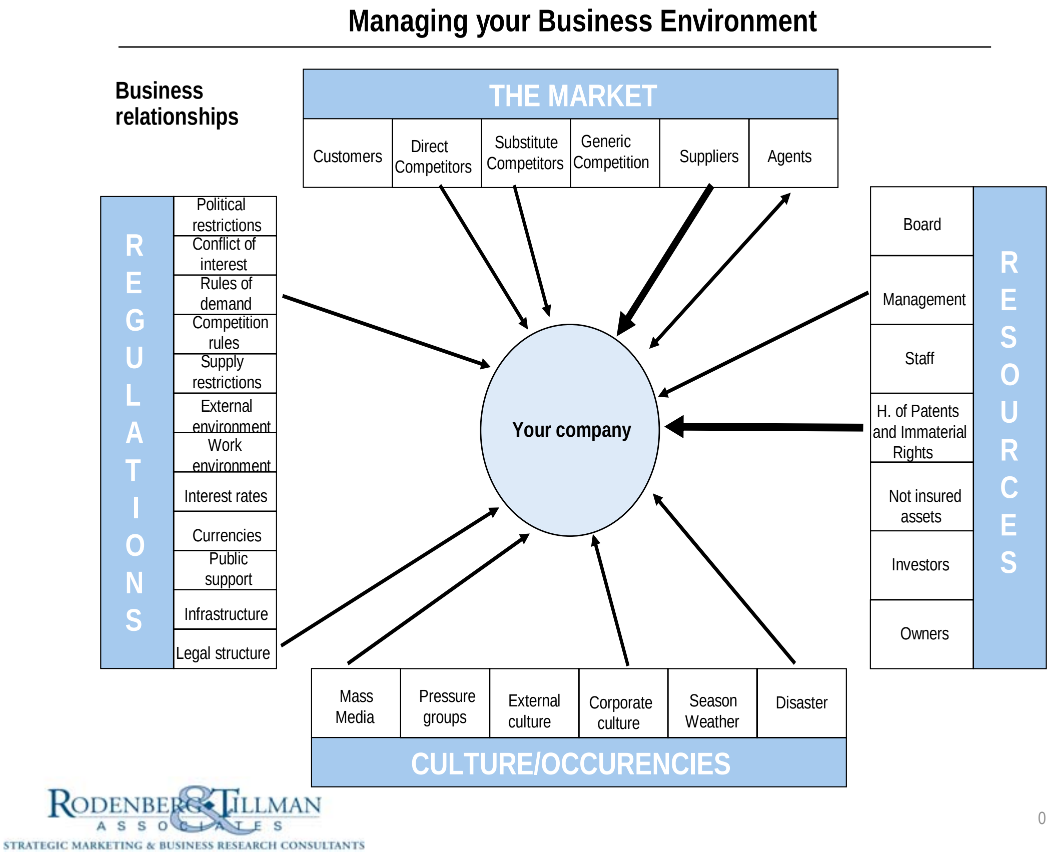
BUSINESS IN THE 21st CENTURY CALLED THE FOURTH ECONOMY AND THE URGENCY FOR NEW STRATEGIC MANAGEMENT TOOLS FOR REALTIME COMPANY PERFORMANCE



“ The most important decisions are not taken inside your company but outside your company “

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I. Introduction

We have just started in the 21st Economy, which is seen as a period of broad and deep change, in some regards more dramatic than many of us would like. Just as war and diplomacy will never be the same again, neither will business and our national and global economy.
The changes originate in the simultaneous onset of a wide range of technological, economic and social sources and forces with far-reaching consequences. They affect almost all aspects of human life, almost everywhere on earth including our business and our economy. Many of the most engrained patterns from earlier times will have to be considered, among them some of the holiest cows of the business and economic community.

> ***" To be able to exploit these changes as opportunities for our companies, executives will have to understand the realities of the Next Society and will have to base their policies and strategies on them ".***
>
> ***Peter Drucker***

There are many who try to lull the business community into a denial of the dramatic changes. They try to make us see what happens as just another phase of " **business as usual ".** Others, who recognize that we are in a time of fast and dramatic change still believe that we can muddle along with the same old management tools.
The " **new economy "**was seen as a temporary phenomenon, a mania. It were the years 1999-2003 known as the internet bubble. It also quickly turned into a cliché. Those are two good reasons why we will not use the term again. Another important reason to avoid the term new economy is that it implies a conflict between a new and an old economy.
We are at the beginning of an era that will change much of what we have taken for granted in society, in the economy and in the way we run countries and companies. Peter Drucker calls it "The Next Society". We respectfully submit that this different society is already well on its way. In a wider context, it could be called "**the fourth world order".** Since we will limit our focus to the new aspects for business and the economy, we will modestly call this new era "**The Fourth Economy".**

Despite its significantly different character, the fourth economy does not conflict with previous economies. It builds on the industrial third economy, just as the industrial economy developed from the earth-based second economy, in turn preceded by the first economy of hunters and gatherers. Each new economy has made significant contributions to mankind.
The **first economy** still exists in some areas of the world, not to mention all those in the developed countries who love hunting and fishing as a serious spare time activity. In some economic pursuits we are still in the hunter-gatherer economy. Fishing has been, and still largely is one of them, although fish farming is now a fast growing business, moving fishing from the first into the second economy. The **second economy** was an improvement over the first economy in that it provided a certain degree of stability and reliability in basic supplies such as food, clothing and materials. Wealth in the second economy was created by earth-based processes. To be rich was to own land.
The **third economy** added machinery, mainly for manufacturing and transportation. It gave man new physical strength and power and added speed and productivity to physical processes,

including second economy processes, such as new kind of equipment and processes for mining and agriculture. Wealth in the third economy was created largely through manufacturing processes. To be rich was to own factories, machinery and capital.
The **fourth economy** takes mind-based processes to previously not imaginable levels of strength, power and speed. This adds up to a tremendous potential for productivity increases in mind-based processes, increasingly significant in pure fourth economy companies, but also in companies rooted in the second and third economies. Wealth is created in the fourth economy through mind-based processes, exchange of ideas and above all information and knowledge. However, the fourth economy is more than an IT-based “new economy”.
A perfect example of the coexistence between the four economies is the country of India with a world leading software development practice and yet farming by oxes goes on next door.

II. Management in the Fourth Economy

The fourth economy presents great threats and opportunities, immediate and indirect risks and benefits, and new and far-reaching challenges for management, business and the economy. Let us list the most important drivers of the fourth economy:

1. **New sciences and technologies**; the fourth economy is a high-tech economy with a very broad technology base including but certainly not limited to information technology. Biotechnology, astronomy, nano-physics, new energy(amongst them wind, hydrogen, fuel cells), new materials, composites, new thinking including complexity and chaos theories and new priorities of time are only a few examples of science and technology forces that impact society at large, broad segments of the economy and ultimately individual companies.
2. **A cross national awareness**; the fourth economy builds on a previously unknown combination of advances in transportation and communications, which in some cases, has all but eliminated distance as a decision factor. Apart from the business sphere, but certainly affecting it, it has encouraged intense ideological, political and religious contacts. A results is a broad and strong cross national awareness, working in a WWW environment, **a world without walls.**
3. **A new base for wealth creation;** in the fourth economy economic growth is fuelled primarily by minds in interaction, not as it traditionally was by physical resources or capital. One significant feature of the new wealth creation processes is that, contrary to physical assets, the human mind is not a fix, limited resource. The fourth economy has potential for unlimited growth, provided the mind-based resources are supported and developed through education and free exchange, and given the preference they deserve. This affects many old political and business priorities, practices and metrics.
4. **Multiculturalism;** the fourth economy favours variety, diversity, multiculturalism since interaction between different minds is a stronger force in generating new solutions than interaction between identical or similar minds. Diversity, linked to the concept of minds in interaction, is a distinctive potential source of wealth creation and productivity enhancement, a kind of mental entropy function.
5. **A search for common protocols;** the fourth economy calls for common protocols, along with a high level of tolerance for trial-and-error development. A good example of this is the international development of wireless communications in the 1990s.Staying too long in an analog system, rather than digital and in a technology standard not embraced by the rest of the world, the US has seen the 1990s as largely a lost decade for wireless communications. While the rest of the world, especially Europe and Asia, has made extremely fast progress.

6. **New concepts of time;** new concepts of time have influenced thinking and practice since Einstein. In the fourth economy the time factor has been eliminated from many processes, undertaken in "real time". Paradoxically time is often a more critical resource than capital, resulting in management approaches like time to market and the need to stay ahead of competition. For companies being a step ahead of competition is more important than it has ever been.
7. **New waves of creativity;** the fourth economy, through new and rapid forms of interaction, has the potential to develop into a global win-win economy of practically unlimited human creativity.
8. **New forces of conservatism;** in the fourth economy conservative forces, sometimes with religious fundamentalism as a strong element, will oppose the dynamic power of minds in interaction, idea exchange, transparency and openness. In the long run, however, the **world without walls** is strongly positioned to win over isolation.
9. **New roles in government;** the role of governments is not disappearing in the fourth economy, but much of the priorities will be refocused toward investments in human development, education, health care and mind-based infrastructure.

> ***" The fourth economy has consequences on the macro level and at company company level. The success or failure of countries, systems and companies will be decided to a larger extent by their ability to encourage, adapt to and benefit from the new conditions.***
>
> ***A clear focus on threats and opportunities inherent in the new situation will be required by executives and managers at all levels. This will call for bold approaches in business, including new diagnostic systems and new metrics to support success and protect against unnecessary failures ".***

III. From the Broad View to a New Management Focus

Business life is about making choices. It is also about taking responsibility. We need the broad view for a full perspective, but then, for a sharper focus we must boil down confusing trends and influences to a few major factors or characteristics. The sources and forces that drive the fourth economy are largely found outside the economy in a narrow sense, while some of their impact is visible in economic terms. Business executives and managers must widen their scope to include social and political changes as it affects business in a multitude of different ways, including the **usefulness of accounting.**

"Action without thinking is dangerous. Thinking without action is useless". In business practices we see the two, thinking and action, as complementary. You can't have one without the other. We need new thinking to grasp what is going on in the dramatic paradigm shift to the fourth economy. Then to put thinking into practice, we need well considered action. Finally, appropriate action will call for new management tools.

Management will face three specific challenges:
1. **The Age of discontinuity**. Unprecedented pace of fast, unpredictable change, replacing the step-by-step or "business as usual" patterns of previous economies. Fast and unpredictable change and the impact it has on society, the economy, business and human minds, was dramatically called to the world's attention by Alvin Toffler in

1970 with the publication of his book “Future Shock”. Peter Drucker, in the same vein, called our time “The Age of Discontinuity”.

2. **The Age of Mind-Based Wealth Creation.** In previous economies natural resources and physical assets were the driving forces in wealth creation. Today, wealth is created primarily through the interaction of mind-based factors. The changing emphasis from earth-based and capital-based assets to **non-financial, mind-based value drivers** as the main agents of wealth creation was first signalled by management writers like Peter Drucker. In the early 1990s this gave rise to many new initiatives.
3. **The Network Economy.** Strong and intricate networks of relationships, interdependence between people, companies and countries, and their environment are the keys to company survival, growth and earnings. The traditional “autistic” view of the company as an independent legal unit is increasingly replaced by views of the company as a living organism. The crucial dimension the constant exchange between the company and its environment. **The practical consequence is that every company has to be seen and evaluated in its context, not on its own.**

> “ ***Recent management trends such as just-in-time, daily deliveries, outsourcing, offshore, time-to-market, alliances, mergers & acquisitions and others tend to reduce or eliminate balance sheet assets as the carriers of company value.***
> ***Traditional balance sheet assets are replaced with relationships with suppliers, customers and business partners. Fast and un-predictable change, one of the three features, is in itself fed by the other two, mind-based factors accelerated by communications and relationships “.***

Three features are suggested as highly significant in the fourth economy more than ever before. The society in general, the economy and most businesses today

- are exposed to fast and often unpredictable change
- depend on mind-based, non-financial performance factors as opposed to physical assets as drivers of wealth creation
- are closely interrelated and interdependent

The three characteristics interact to reinforce each other. The new conditions are powerful enough to dramatically challenge old concepts in business management and analysis. Beyond the economy they are also the strong driving forces in international politics, diplomacy and warfare of the 21st century. The attacks of September 11 2001 and the ensuing war, were totally unpredicted and unpredictable. They are fought about ideas, not about land neither resources and alliances and relationships play an outstanding role.

IV. Beyond Accounting to New Real Time Solutions for Valuation of Companies

We cannot claim the authorship of the headline “The Failure of Accounting”, no matter how much we would have liked to. We quote it from a source that has much more authority in these matters than we do. It was first used as the headline of an editorial of no less a publication than CFO Magazine, as early as December 1994. The consequences of the failing accounting system have been dramatic. Decision based on or influenced by accounting data have created losses in money of hundreds of billions Euros, if they can be counted at all. Disastrous mergers and acquisitions that never should have taken place, bank lending mistakes that forced enormous write-offs, venture capitalists that destroyed shareholder value, analysts advice that led to huge investor and retirement fund losses and auditing processes and risk assessments that looked in the wrong direction, lured by the “good old accounting system”. As an example we just list some of the accounting scandals at Adecco, Global Crossing, Xerox, Parmalat, WorldCom, Enron and Ahold. Hundred thousands of people lost their investments by failing auditors, amongst them the top five in the world.

Accounting started out as a specialized tool. It had one main function: to register business transactions. This was Luca di Pacioli’s only intention when he laid down the guidelines for accounting in 1494. This role of keeping the ongoing records of the transactions of a business is also one that accounting continues to perform reasonable well.

> “***Accounting has been over-stretched into serving as guidelines in strategic management, decision-making and valuation of companies. It has been forced to serve as a misleading basis for valuation in due diligence processes. it has been deformed into meaningless ratios and twisted to fake support for decision-making in the stock markets, in investments, in financing and in bank lending processes. Accounting data have been misused as platforms for prognoses, predictions, trend extrapolation, unsustainable forecasting models and other oracle methods. It has been transformed from a specialized precision instrument to an all-purpose tool”.***

After more than 500 years, accounting should be led back to its room, its only legimate function, direct registration of business transactions. Our economic needs deserves other systems for other applications such as business reporting, decision-making and valuation. We need systems that focus on relevance above apparent precision and that gives us useful and reliable information about “**the fundamentals that move companies today”.**

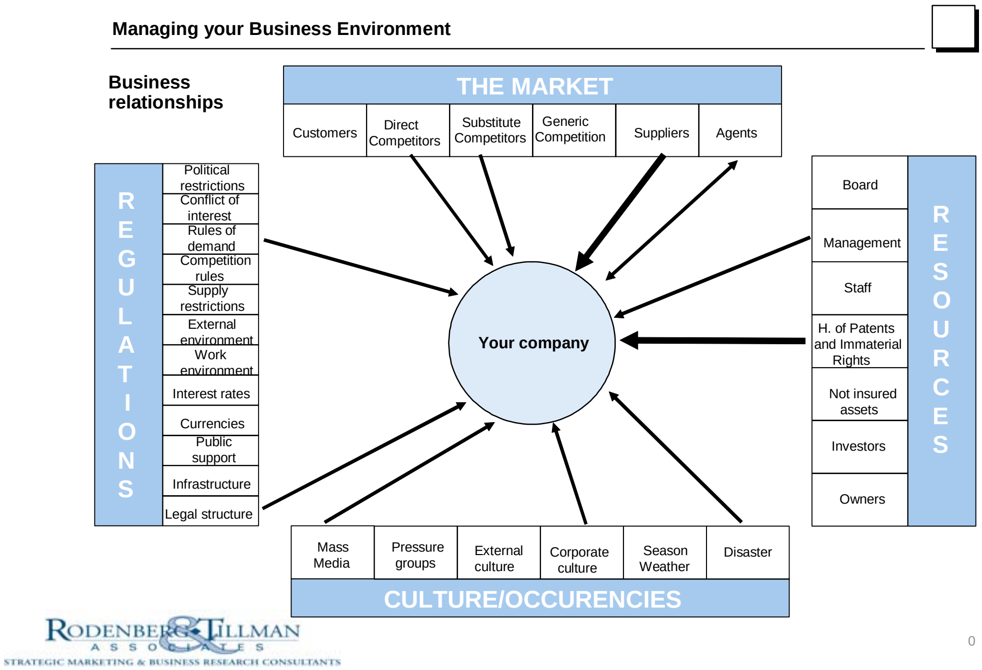
However, it seems to be a general experience from practically all fields that radically new approaches seldom, if ever, originate without an established profession. When they advocate change, they tend to come up with small steps of evolutionary change. If there is a need for revolutionary change, outside input seems to be a necessary part of the process. Accounting has clearly come to a dead end in meeting many of the needs of our times.

In this paper our aim is not to explain all of what is questionable in the current accounting system. We just like to end how wrong it is sustain with one of the strong buzzwords in the business community : shareholder value. Creating or increasing shareholder value has been widely trumpeted as the ultimate strategic objective for boards and managements. It has been presented as a reason for hundreds of thousands of mergers and acquisitions, although the objective has rarely been achieved.

Rather than measuring the wrong factors, down to decimals, we will address the issue of measuring the significant factors. This can not be done with price tags based on an old purchase price or on a possible resale price, but through their impact on the **company fundamentals survival, earnings and growth.** Will this take us to precise numbers with several decimals? No, it will not. “It’s better to do something approximately right than to do it 100 percent wrong”.

V. What is the Perspective of the New Management Solution?

> ***"Not even the US despite its position as the only remaining superpower can handle war on its own. They need more than ever to develop support, alliances, networks and relationships". And so also companies have to.***



In the 21st century companies must learn to handle the challenges of fast and unpredictable change. Traditional management solutions such as forecasting, trends analysis, extrapolation, planning based on past performance, discounted cash flow analysis, Net Present Value, Real Options, SWOTI analysis and traditional strategic management processes and last but not least business as usual" are no longer helpful as they used to be. Instead of this, flexibility, agility and freedom to act will be the new important conditions for success in what we have described in the Fourth Economy (chapter II). Diagnoses of threats and opportunities in the present situation will be more important than prognoses.

Turbulence is nothing new in our business community and so is speed and the fast pace of change not the only dimension to consider. It adds the drama of our time that change comes in so many shapes and from so many unforeseeable corners; technology change, change in marketing methodologies and approaches, new competitive actors coming in from unexpected corners, new constellations of stakeholders and companies, and government action in the form of deregulation and changing public opinions, trends and fashions.

> "***Earlier we could use the metaphor of sailing when we discussed management. Today, management is more like white water kayak-rafting in class E rivers".*** ***source: Percy Barnevik***

So how does management handle one of the big dilemmas or paradoxes of top executives, the need to make decisions about a future that is not only uncertain, but in reality unpredictable? How can one establish a platform for decisions that are going to shape your company's future,

one way or the other? It is no wonder that business executives, just like all other human beings over the years have tried desperately to find ways to deal with the paradox, ways to look into the future, using anything from crystal-gazing to discounted cash flow, trying to escape from the futility of forecasting. The fact that it is not only difficult but downright impossible, has not prevented a lot of people in various roles and with widely different tools and techniques, from offering their forecasting services to frustrated executives. It's obvious that past performance is no indication of future results neither is looking forward through the rear view mirror.
In management we have to carefully examine the present, especially the quality and strengths of the company's business position and its relationships to have any chance at all to deal with the future. All one can do is to analyse the present, especially those parts that do not fit what everybody knows and takes for granted usually go beyond traditional accounting. Strategic decision models that rely on accounting-based data, on trend extrapolation and forecasting-back casting have never been reliable. Today they are increasingly unreliable and irrelevant.

The need to understand and manage the company in its living environment, in a connected economy, will call for a new focus on what is good for a company. First, moving from a balance sheet focus to a relationship focus. Second, distinguishing between good and bad relationships. Basically we need to redefine the company as a network of relationship. Treating the company as an isolated unit, as accounting does, comes out as a major factor in management and other applications. We like to make this clear with following case example.

> " ***Truefresh, The Virtual Salmon Company***
> ***Truefresh is based in New England USA. It has delivery contracts, but not employment contracts with salmon fishermen along the coasts of Maine and Massachusetts. The fishermen deliver their catch to a freezing facility. Truefresh doesn't own this facility, but it has a contract with it, including a license for a flash-freeze process that creates high quality frozen salmon. Each fish is individually packaged at the freezing facility, wrapped in a Truefresh-marked plastic wrapping. The fish are then delivered across the US through a network of freeze trucks, none of them owned by Truefresh but working for Truefresh on a contract basis. At the end of the network are resellers. Again these resellers are not owned or employed by Truefresh but working for them on a commission basis.***
>
> ***Truefresh has a very limited number of employees. What about its balance sheet? May be a couple of desk and laptops. Not much to show a traditional banker.***
> ***The whole "value" of Truefresh is in its network, its relationships.***

This example illustrated the role of interaction for value creation and growth in the Fourth Economy:

- Company survival, earnings and growth are built by minds in interaction, inside and between companies
- Intellectual "brain-based" exchange is not enough. Motivation and other emotional drivers are needed to create action. We call this passion".
- Homogeneity is not the best driver of value. Diversity, well managed, is more productive between individuals as well as between cooperating companies.

A company with a heavy balance sheet including big investments in fixed assets, real estate, factories, machinery and more, loses its freedom to act. It tends to be locked in the business it has chosen. In a world of no change that position can have its benefits. But few companies, if any, today live in a world without change. The demands of change and flexibility are at the top of the list for most companies. Only companies that prioritize relationships over fixed assets have a chance to adapt to new situations. But how to measure the dependencies the company has in its relations with other stakeholders and parties? A new reporting system will have to provide us with methods and metrics to report and measure dependencies.
This new reporting system exist, however not in our traditional accounting system. It is all about the ultimate strategic asset called “Freedom of Action”.

The Strategic Road to “Freedom of Action” follows a step-by-step process, which starts with relationships.

1. A company that has good relations with its stakeholders tends to get in return at the very least acceptance, very often more than that: active support from forces in its environment.
2. A company that gets acceptance and support from its environment meets with few restrictions or hurdles
3. Reduced restrictions and hurdles lead to a strong position in any negotiations
4. A strong negotiating position leads to higher value added and a bigger share of retained value added
5. Increased value added and a bigger retained share of the value added means better earnings, better chances of survival and opportunities for growth

We believe strongly in the victory of common sense over theories and bureaucracy, so we think it is worth the effort to get the heavy stone to start rolling. A reporting system in business in the 21st century must be capable of revealing or at least indicating why companies fail or prosper in the first economy. This is why any new system would aim to be:

- relevant as a platform for strategic management and board of management decisions
- informative in providing meaningful information about the company for investors, analysts and all other stakeholders
- objective, meaning that norms and priorities of the person who makes the report should not influence the outcome
- measurable, to allow for comparisons with other businesses, irrespective of company size, type of business or geographic location as well as for comparisons over time
- consistent in order to minimize any possibilities of manipulating the results

The solution we propose provides a coherent model. It meets the needs of a reporting system that monitors important determents of company progress, success or failure, a solution that helps management and other stakeholders to make better choices. It suggests appropriate metrics but not built on just financial data. Instead it helps companies to create internal and external reports that provide relevant and meaningful information.

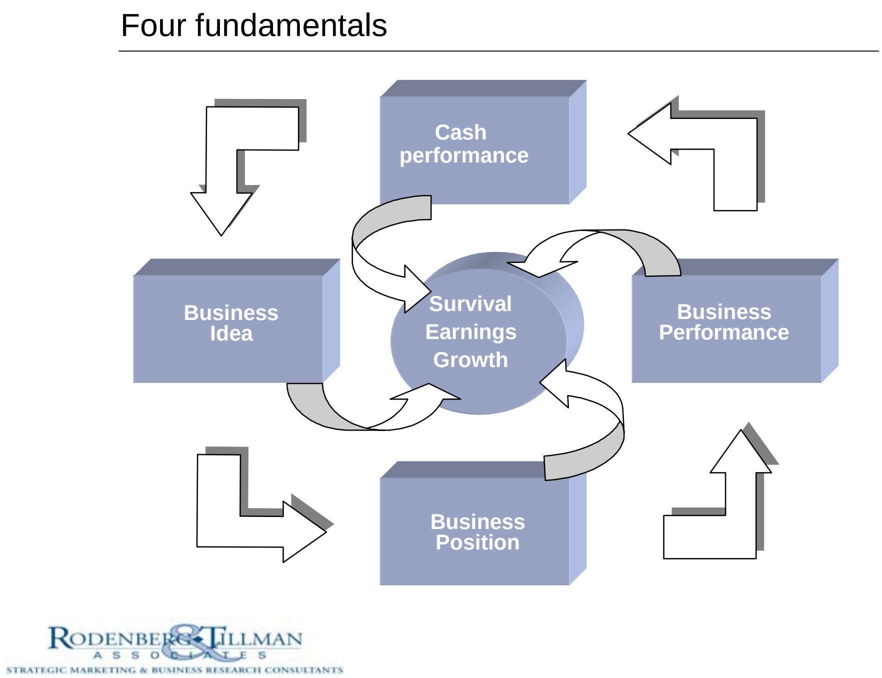
> ***“We must begin to organize information from the outside, where the true profit centres exist. We will have to build a system that gives information to those who make the decisions”*** ***source: Peter Drucker***

Our aim is to encourage companies to experiment with this new management report system and to show traditionalists that an out-of-the-box solution is feasible also in this traditions-laden field. We hope that this experimentation process will create awareness that viable alternatives to accounting can be devised. That may help ease the feelings of uncertainty and

fear that many will experience when it comes more and more obvious that the old models are inevitably breaking down.
Our new management solution looks at the company in the living context of its environment, not in isolation as traditional accounting does. The most important feature of the new solution is that is offers several ways for management as well as other stakeholders, to monitor company progress towards this objective.

VI. The New Management Solution towards Four New Fundamentals

Four new fundamentals and statements form the new management solution. It has been designed to show the company's performance, its strengths and weaknesses in terms that are relevant to our time. This management solution has the potential to considerably improve fair disclosure, transparency and accountability in management, reporting, analysis, auditing, investing and financing. Each of the statements reflects factors that are crucial to company success of failure in the fourth economy. Linked together they are more reliable and considerable more relevant in decision making processes than traditional accounting data.



The **Business Idea** aims to answer the classical question "Which business are we in?". It is selected to ensure that the company has and keeps her clear focus that if you don't know where you are going, you are likely to end up somewhere else. It is also the most explicit way to express the management vision of where it wants to take the company. This new management solution suggests a carefully structured way to identify and present the business idea, mission and vision, of the company.

The **Business Position** aims to answer the crucial question "Who pulls the strings?" Surprisingly often, unexpected outside relationships exercise a high degree of influence and even control over a company. This new management solution offers a computer-supported way to thoroughly scan and access the company's relationships, to monitor and measure the dependencies and threats that limit or affect the company's most important strategic asset, its freedom of action.

The **Business performance** aims to answer the questions “What’s on their minds?”. In any free market economy, perceptions among stakeholders play a deciding role in making or letting a company grow and develop. It identifies and monitors a number of the most significant drivers of wealth creation decisions influencing in five relevant areas outside the company, indicators of company performance and success.

The **Cash Performance** starts with the traditional cash flow question “Where does the money come from and where does it go?”. This management solution selects cash flow rather than other financial tools, partly because it is more relevant than profit but also since it is less subject to manipulation and consequently more reliable than income statements and balance sheets. World’s most important and respected management consultant expresses this preference in no uncertain terms “Profit is secondary, cash flow matters most”.

The four factors are strongly indicative of a company’s success or failure, consequently important to define, measure, monitor and report. The four factors are **leading indicators** that should be considered and evaluated in most decision-making situations that boards and management groups face today. These factors are also what analysts, investors, lenders, bankers, venture capitalists, risk managers, auditors and other stakeholders should monitor in a consistent and systematic way for the simple reason that they will offer more transparency, a more relevant and timely picture of the company than the lagging indicators of traditional reporting. They go beyond the catchwords of full or even fair disclosure to build a platform for relevant disclosure.
The four factors together represent a new overall perspective on what drives a company today. They meet a balanced all-inclusiveness test, are highly indicative of a company’s chances of survival, earnings and growth. Practically all functions in a company today can be outsourced ,however these factors are so essential and so close to the core of the company that can never be outsourced. They can be monitored regularly and measured to the desired precision level. They have been tested and shown to work in over 700 companies of any size, in many different businesses and in many different countries across the world. This management solution comes with suggestions for reporting and suitable metrics. Parts of it are computer-supported for speed, reliability and consistency. Contrary to accounting, reflecting past performance, this new management solution points to crucial pro-active features. It offers to assess present threats and possibilities and finds ways to strengthen the company’s strategic and operational position. To our knowledge no other reporting system can do this.

VII. The Four Fundamentals – a more Detailed View

VII.I The Business Idea

The starting point of the Business Idea process is the identification of a perceived need in a defined group of customers, a group that is big enough to provide a satisfactory base for the company’s business. The company can survive and prosper if it satisfies this need, usually in competition with others. The other side, contradictory if you will, is the fact that the Business Idea expresses the willpower of the original entrepreneur in a new company and of the owners and executives in more established companies. The official story is that businesses exist to satisfy customer needs. However, in reality it is equally true that they exist to provide an outlet for the ambitions, priorities and drive of those in charge, the owners, the board members or the top executives. The two sides, customer needs and owner ambitions come together in the Business Idea.

The only value that any asset, hard, soft or liquid create in an ongoing business, is based on how they are perceived by customers, investors and others to work towards the company's expressed and developed mission, its Business Idea. This is why the company's Business Idea, or the business ideas of each separate subsidiary, division, segment or business unit are such essential benchmarks against which to check every resource the company applies and every step the company takes.

> ***"Defining the business idea is often the most difficult part of an analysis. The difficulties emphasize the importance of the process. Very often in this process the management finds that the company holds more separate business ideas than they were ware of, or that the organisation of the company is well not aligned with the structure of the business ideas as it could be".***
>
> ***"When we talk about the business idea in this context we are not talking about a "fluffy"general statement that is just hype or a nice buzzwords. We are talking about a truly well worked out platform for the company or the business unit".***

For a formalized approach to the definition of a company's business idea, it is possible to get additional support by answering a number of questions and checkpoints. Based on those answers a management group can develop a specific and detailed description of what constitutes the "heart of the business" and what criteria should be sifted out as the essentials to monitor and prioritize. We have found that a process that considers the following 21 questions is well worth the time it takes.
It will be helpful in phrasing and structuring your company's business idea and making it relevant to all stakeholders involved.

1. List all products/services the company sells, regardless of whom they are sold to.
2. List all types of customers/clients to whom the company sells, by business group, size or other.
3. Make appropriate combinations between products/services and types of customers/clients.
4. Check for each combination the crucial question "Why does the customer/client buys this product/service?". Give the answer preferably in the format "in order to be able to……".
5. Proceed by asking "Why does this customer group want to be able to…….?" If the answer is still specific to the products/services sold, repeat the question until the answer is no longer specific to the products/services sold.
6. Take the second last answer (the last answer specific to the products/services sold) and use it as a definition of "customer need".
7. Verify that the definition does not contain comparatives such as "better, stronger, wider" or similar. If it does, change to plain positives, "good, strong, wide" etc.
8. Group the combinations above in the order a) customer need, b) customer, c) product. You now have a skeleton of business areas.
9. Check if the products/services exposed to direct competition (the customer can buy the same or a very similar product/service from someone else).
10. Check if the need can be satisfied by substitute competition (the customer can satisfy the need by a different method/product/service).
11. Check if the need is exposed to competition for the discretionary buying power of the customers (the customer can refrain from satisfying the need in question).

12. Are all customers end customers or not end customers? They should be in the same situation.
13. Is there a geographical limitation for which customers we focus on?
14. What is the customer's typical situation when making the purchasing decision? (acute need-planned need-routine need-unplanned need-spontaneous buying-need based on feelings).
15. Who makes the final decision to buy or not to buy and to choose one supplier over another?
16. In case of direct competition: "What are the most important factors that the customer assesses when he/she decides from whom to buy?".
17. In case of substitute competition: "What method constitutes the most severe competition in satisfying the need of the customers?".
18. In case of substitute competition: What are the most important factors that the customer assesses when he/she decides how to satisfy the need?".
19. In case of competition for the discretionary buying power of the customers: "What are the best answers to customer questions like "why should I spend my money to satisfy this need?".
20. Check that the answers to the last three questions do not overlap(two answers with the same meaning).
21. What are the most important competencies and resources we need to develop to respond to what is important to customers?

Working from the answers to the 21 questions it should be easier to arrive at a clear definition of business ideas. In the process it is likely that several issues come up that call for difficult decisions and choices. Making these choices now helps avoid confusion later and supports intelligent decisions on the organisation, structure and other policy issues.

This starting point is a thorough penetration of the business idea(s) of the company. The business idea is the benchmark and the most important checkpoint for all subsequent decisions and evaluations. It is also an expression of the central willpower without no business can exist. The result serves as a platform for the management and the board as well as for the outside analysts and investors.

VII.II The Business Position

The business position is the second factor of the four fundamentals, described below.
The purpose is to clearly show any strategically significant limitations to the company's "**freedom of action**". Here the crucial question is "Who pulls the strings?".
Companies do not live in a vacuum, as traditional accounting appears to assume. The network economy is reality. Companies like all other living organisms exists and thrive in a constant exchange with their environment. The more we get into the fourth economy, the more we realize that the old concept of fixed boundaries between a company and its environment is getting outdated. The links between the company and its environment are the relationships. Many important management issues now, including outsourcing, contract manufacturing, R&D contracts, supplier contracts, franchising and other forms of dealer and reseller relationships, partnerships and other alliances tend to make to borderline less and less distinct. The variety and multitude of relationships and the impact they can have on company survival, growth and earnings, make it increasingly important to identify, monitor and measure them.

To successfully manage a company and to evaluate its **strategic potential and threats** it faces, no instrument is more important than a diagnosis of its relationships, alliances, competitors and network counterparts. Companies who have thoroughly diagnosed their position in relation to other players in their market, who know the strength of their most important relationships and how they support or counteract company priorities, have the upper hand compared with companies who don't.
Evaluating a company's **crucial relationships** is an important part of strategic management, especially in today's network economy. This is why a systematic diagnosis of such factors is indispensable as a fundament element of a relevant reporting system. It is a necessary step in getting and keeping a company focused on its "**freedom of action".**

A company's **"freedom of action",** its number one strategy priority, is largely controlled by conditions in the company's environment. A business position diagnosis shows the strategic links between the company and its environment and the strengths and weaknesses that those links provide to the company. Positive links between the company and its stakeholders are strong indicators of business success. Negative links show potential threats to the company's future.
The management solution to measure the strategic relationships is marketed as the RealBiz strategy assessment tool. It is not a theoretical consultancy-generated model. The built-in knowledge in the RealBiz solution is derived from 1500 of performed diagnoses of businesses of all sizes, from all industries, from different countries and legal environments. Building the long diagnosis and analysis experience into a knowledge database, a software program, makes the RealBiz solution the opposite of traditional strategic management tools. It is inexpensive, easy to transfer and easy to use anywhere in the world.

The perspective of the RealBiz strategy assessment tool
Unlike most of the existing systems for valuation, the Realbiz strategy assessment tool does not make lofty predictions based on guesses of future revenues or cash flows. However, it makes a thorough diagnosis of the present state of the company. Actually, of the thousands of analyses made by RealBiz, no one has so far been as giving a wrong picture of a company when checked against later development. This does not mean that RealBiz claims to be able to predict the future. What it can do is to help to find and highlight the really critical factors at the time of the analysis that prove to have a decisive influence on the company.

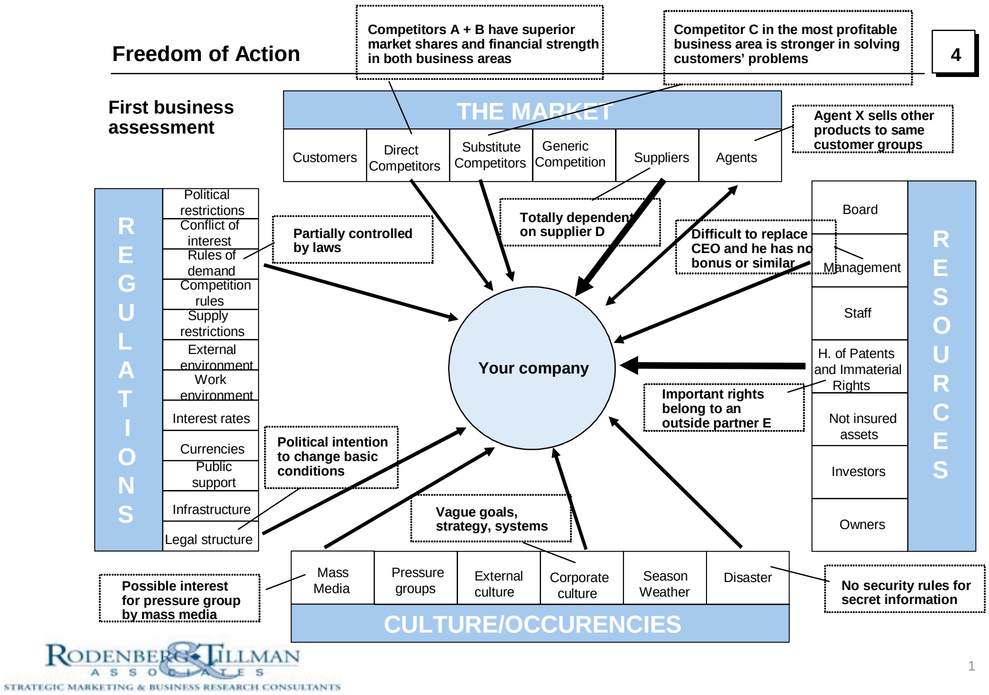
> "***The Business Position is defined through a systematic review of the relationships that the company depends on for its survival, earnings, and growth. This is the single most decisive group of factors in assessing a company's strategic potential and risks, yet is nonexistent in traditional autistic accounting, which does not recognize any assets or reliabilities outside the closed company box".***

The Methodology of the RealBiz strategy assessment tool
The RealBiz analysis uses the best source of knowledge available about the company, its management team or board of management. The computer-supported interview can be completed in one day for a company with one business area, plus another half day for each additional business area. The process generates consistent results, a clear and easy to read report and it can not be manipulated. In fact, if answers to questions asked during the interview are inconsistent with previous answers, the program calls it to the interviewees' attention for reconsideration. The result of the process is a very specific unique computer-

generated diagnosis of the company in a report that can cover up to 140 aspects per business area, complete with graphs, tables and text, with logic and conclusions explained in detail.

The RealBiz diagnosis becomes the platform of the Position Statement. The purpose of the suggested Position Statement, linked with the Business Idea, is to show the strengths and weaknesses of a company's links with stakeholders.

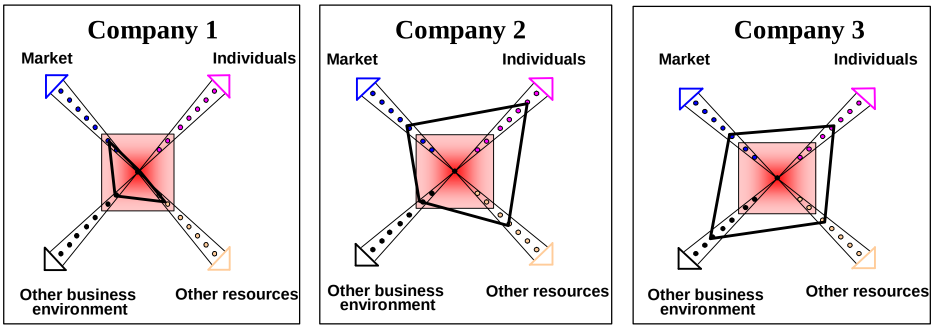
The clue to the process is a clear structure of all important relationships. To establish this, all relevant relationships are defined and classified by kind and strength. The relationships will be defined and classified, they will be measured and finally combined with following result.



Additional Presentation in "Kites"
Four important aspects of company strengths or weaknesses form a "Kite", another graphic illustration of the company's situation. The "Kite" illustrates the company's performance in four areas of strategic importance: the business environment, the market, the key individuals and other resources. The three "Kites" below feature three examples of companies.

Company 1 would require more or less total strategic reworking. It would be exposed to so many serious threats that it would be practically unable to generate any support, financial or otherwise. In fact, it is likely to be heading toward bankruptcy.
Company 2 would also call for serious reconsideration of some of its strategic parameters, especially at the market and resource segments. The details will appear in the complete material.
Company 3 seems to be looking towards a good future. Investors, lenders and financiers would not hesitate too much to put money in.
The illustrations are visually clear and simple which makes it easy for the board of management to stay focused on strategic issues without getting lost in details.

The three Kites



Additional List of Emerging Events

As an additional instrument the system provides a list of emerging events that clearly shows the potential threats that the company is exposed to and that have been summarized in the Position Graph and Kite. The threats shown in the list of emerging events are crucial in assessing the strategic situation of the company under analysis and are consequently highly relevant.

- to the board and management of the company in choosing strategies and evaluating alternative courses that the company can take;
- to a consultant firm considering a merger or acquisition in a due diligence process;
- to an auditing firm or risk manager during a risk assessment process;
- to any stakeholder in assessing his/her ongoing involvement with the company;
- to investors or venture capitalists in planning to invest in the company;
- to a bank or other lender in consideration for a loan to the company.

VII.III The Business Performance

Business performance, the third factor of the four fundamentals, in our definition is not the numbers that come out of the accounting process. Business performance is a range of factors that influence company survival, earnings and growth. To find those conditions, one must leave the company compound. Many of the decisions that influence company success or failure are made outside the closed circuit of board and management.

> ***"When customers love you, they tend to buy from you, when employees like the company they work for, they do a good job, when investors trust you, they stay with you"*** ***source: Jack Welch***

> ***"Sex appeal is 50 percent what you have and 50 percent what others think you have"*** ***source: Sophia Loren***

> ***"The assets that really count are the ones accountants can't count yet"*** ***source: Thomas A.Stewart***

Jack Welch, Sophia Loren and Thomas Stewart seem to agree that there is more success than what you can touch. Many of the conditions for company performance, success or failure, are ultimately set by an ongoing flow of individual decisions by customers, employees, investors, opinion makers and other stakeholders. The fact is that in any democratic market economy most of the decisions affecting a company's survival, earnings and growth **are not made in the boardroom at the top floor.** The most important decisions are made:

- by customers deciding to buy or not to buy, or to buy from your company or from yhe competition;
- by employees, deciding to work for you or somebody else, and if they work for you to put in that extra value-adding effort or not;
- by investors, banks and lenders, deciding to put money in your company or not and on what conditions;
- by public opinion makers taking a stand on issues that affect your company's business or political environment;
- and by many others…….

What they know, think or feel about your company affects what they do, their buying, work and investing behaviour. Close monitoring of those perceptions and preferences give stronger clues to present and future company success and failure than ever so detailed accounting data. A company that wants to be a step ahead needs to monitor these data as part of its reporting system.

The RealBiz management solution offers a practical way of addressing this issue. In the business performance segment, just as described before in the segments of business idea and business position it helps to eliminate the fuzziness that some accounting and business people still seem to connect with the "soft" value drivers. A natural approach is to define important influence centres and then find a way to monitor them.

We will suggest five broad areas that most companies are more or less concerned with. In each of them a number of specific performance and perception factors can be identified, structured and assessed.

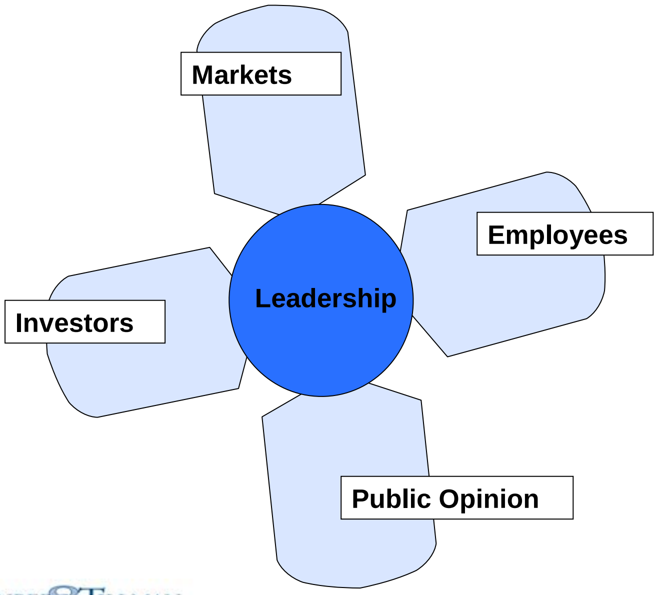
"Five Value Added Axioms":

A Company

- ***that is known, liked and preferred by its customers and potential customers gets more business at better price levels than a company that isn't***
- ***that attracts, motivates and keeps good people tends to increase productivity and innovation rates and reduce staff turnover cost***
- ***that maintains good and open relations with the investment and financial community gains confidence, a basic condition for investor appreciation***
- ***that is known and respected by those who create and influence its public framework finds more support and meets less obstacles than a company isn't***
- ***whose management has defined and communicated clear and understandable visions and strategies finds it easier to gain cooperation and support from employees and other stakeholders***

How do we catch that process and integrate it into a new reporting system? Let's look into this by one segment at the time. The four blades of the propeller below drive company performance. The shaft that holds them together and makes them turn is leadership.

The propeller drives company performance



1. The market

The market segments identifies, reports and measures crucial factors that affect success or failure in the market place, ultimately in terms of market share and price tolerance. The road to market share and price tolerance goes through awareness of the company amongst customers and potential customers, their perceptions, the brand position in their minds, their satisfaction with the company and its products/services, their loyalty expressed as repurchase and other factors. Building and measuring such factors is a crucial part of company survival, growth and earnings and should consequently be an integrated part in any company reporting system.

2. The employees

Employees are a major cost and value building factor in most companies. As companies move towards service, rather than products, employees are an increasingly immediate source of sales, revenues and earnings. A company's ability to attract, keep and develop good employees are a distinct success factor. The employees segment defines and measures non-financial factors that ultimately affect value added per employee e.g. in terms of productivity and innovation.
Their competence and professional skills, their enthusiasm, motivation and loyalty, the spirit with which they interact between themselves and with clients and customers, their willingness to endorse and work by corporate mission and standards, the empowerment they get from management, the corporate culture are all crucial to productivity, innovation and other company growth and earning factors.
Measuring non-financial performance and perception factors in the employee segment, offers essential support to company management and provides important data to stakeholders.

3. The investors/financials

The investors and financial world reports critical factors that affect the cost of capital and ultimately the performance and share price of the company. It is the source of much of the working capital in the company.

Investor satisfaction with the company, obviously its overall return, but also such non-financial performance factors as long term growth, reputation, market position, the quality and reliability of information it provides, company leadership are all factors that ultimately affect the share price and the cost of capital, whether borrowed or invested.

4. The public opinion makers

The public opinion segment recognizes that in all democracies companies operate by formal or informal approval of the public opinion. In this public opinion segment, the company reports and measures factors that lead up to an essential strategic objective of most companies, “license to operate”. The factors basically stake out a company’s way to deserve its relative independence, in its turn critical to company survival, earnings and growth.
The public opinion segment includes public policy makers in the company’s sphere of interest, local, national and international politicians and administrators, industry leaders, regulators, the media and opinion maker groups.
Acceptance of the company as a good member of all communities where it works, a good “corporate citizen”, is a frequent phrase to cover what needs to be done and measured in the public opinion segment. Successful work helps remove hurdles and paves the way for smooth and mutually beneficial relations between the company and its political and semi political environment.

5. The leadership

The leadership of the company is perhaps the single most important segment pointing to success or failure. The visions and strategies of the leadership, the corporate culture and behaviour the leadership encourages, the broad acceptance and endorsement of basic concepts that the leadership generates, are all critical to company performance and results.
Successful work in the leadership segment leads to supportive behaviour from the company’s constituents. Monitoring the recognition and respect the company leaders enjoy, gives a measure of the support they are able to generate from all stakeholders, within and outside of the company. Such support is powerful and helps to create “freedom of action”, the difference between the company’s working in a headwind or tailwind climate, which in turn, affects the reactions the company can expect from the other four segments as described before: the market, the employees, the investment community and the public sector. Together they make a great contribution towards company survival, earnings and growth.

Measuring the Business Performance

All the factors described before suggested to have the potential to support or destroy company survival, earnings and growth. However, it does not call these factors “assets” or “capital” and it doesn’t simplistically aim to assign a “value” in dollars or euros. Strategy is seldom a matter of decimals. A practical approach and to avoid getting stuck in endless discussions on fine-tuning measurements into decimals or fractions, is to boil down all performance and perception measurements into a seven level scale such as:

+3 (superior)	green light
+2 (much better than)	
+1 (somewhat better than)	
0 (approximately the same)	
-1 (not quite good as)	
-2 (worse than)	
-3 (significantly worse than)	red flag

This parallels the seven levels in the “kite” part of the business position measurement and has three comparison options:

- The Benchmark option – better than/not as good as competition
- The Progress option - better than/not as good as last year, last quarter or last month
- The Target option - better than/does not meet management objectives

Measurements should be made in a consistent way and using accepted techniques and methods, preferably approved by the company auditors. Ideally, the Business Performance Statement includes previous data for comparability over time.

Business Performance Summary Measurement (scale +3 +2 +1 0 -1 -2 -3)

	Against Competition	Over Time year/quarter	Against Company Objectives
Markets			
Awareness			
Brand Position			
Customer Satisfaction			
Customer Loyalty			
Zero Neglect			
Balance Total			
Employees			
Awareness			
Expertise			
Motivation			
Empowerment			
Quality/Innovation/Productivity			
Balanced Total			
Investors/Finance			
Awareness			
Ranking/Ratings			
Investor Satisfaction			
Board Performance			
Balance Total			
Public Opinion			
Awareness			
Knowledge			
Issue Management			
Support			
Confidence			
Balance Total			
Leadership			
Awareness			
Support for Values/Ambitions/Objectives			
Support for Strategies			
Confidence			
Balanced Total			

The list we have suggested above is not necessarily complete, but can serve as a starting point for a company that wants to include non-financial performance factors in its reporting process. On the other hand, each company should feel free to define the factors that are essential and relevant to its situation.

VII.IV Cash Performance – a step beyond cash flow

The purpose of this fourth factor of the fourth fundamentals is a bold but feasible way to show not only where the cash comes from and where it goes, but also how the cash support company strategies. The crucial question is here *“**How does our money help us to achieve our strategic objectives?”.***

Even a traditional cash flow statement provides a better view of the company’s strategic and operation situation than an income statement, especially if it comes with enough details, comments from management and with a sensitivity analysis for each important line. The main reason is that cash flow tends to be more reliable and have higher credibility. Is it totally reliable? No. No accounting statement is. But many experts agree that it is less subjected to “creative accounting” practices than income statements and balance sheets. Cash flow provides relatively fair disclosure in a more intelligent and reliable way than income statements.

In a traditional cash flow calculation the purpose is usually to arrive at the free cash flow, the cash flow available to the owners. Operational cost are deducted to arrive at generated cash flow and investments are deducted to arrive at the final cash flow.

However, our new strategy assessment solution RealBiz prioritizes an advanced version of cash flow statement, a Cash Performance Statement. This advanced statement has a triple focus. **First** to show how the cash is generated, where it comes from, to show how it is used and to relate it to the strategic and operational objectives of the company. It is an improvement not only over traditional income statements and balance sheets but also over traditional cash flow statements. It is less susceptible to fraud or misrepresentation, intended or not, and it provides unmatched clues both to the process of cash generation and even more important to management’s strategic use of cash resources.

A Cash Performance Statement with accompanying “sensitivity analysis” links important items in the cash flow with key indicators in the **Business Idea** and in the **Position Statement.** The sensitivity analysis gives management an opportunity to add qualitative comments to the company and its stakeholders. Ideally, statements include last year’s data for comparability. Companies with several business units make one Cash performance Statement for each business unit and then consolidate them. Each relevant line is analyzed and commented by management. How do you monitor Cash Performance?

First we will start with the Cash Flow Statement.

Cash Flow	**Amount**		**Management Comments**
	last year	this year	
Cash flow from operations			
- revenues (broken down if relevant)			
- Changes in operational assets/liabilities			
- Other changes in receivables (broken down if relevant)			
- Other changes in liabilities (broken down if relevant)			
- Taxes paid			
Net cash from operations			
Cash flow from investing			
- Changes in financial receivables			
- Investment changes (broken down if relevant)			
Net Cash from investing			
Cash flows from financing			
- dividends paid			
- Options program (broken down if relevant)			
- Changes in other liabilities			
Net Cash from financing			
Net Change in cash and equivalent			
- Starting Cash and equivalent			
End Cash and equivalent			

Further improvement to be made concern:

1. Estimate cash flow used to improve unfavourable conditions that limit the company's strategic goal: freedom of action
2. Estimate cash flow used to protect favourable conditions that support the company's strategic goal: freedom of action
3. Add these two cash flows and calculate them as a share of total cash flows generated by the company
4. Calculate the share of total cash flows, including financial transactions, which have been spent but not used for the strategic purpose of improving "freedom of action"

This part how cash is strategically used is the new part. The information we seek has nothing to do with whether a payment is seen as a cost or as an investment in traditional accounting.

Cash flow starts with payments to the company from customers who have bought products or services. The funds are used by the company to pay suppliers, employees, investors and other stakeholders. Already at this level, management can allocate resources or buy services to deal with strategic issues. They are then included in company operational cash use. Management can also use the cash flow for special efforts of an investment nature to protect the company's

freedom of action. Paying off a loan to reduce an unfavourable dependence of a banker or lender can be a strategic act within the scope of the recommended program.
For each payment the company has to define whether it aims at improving any of the relationships indicated, and if so to what extent. This question has to be explored further to avoid arbitrary comments as much as possible.

The guiding principle has to be that management, as a minimum, must keep cash flow, defined as inflow minus outflow, at a level required to keep business at its present level. We call the remaining cash flow “Cash Flow To be Managed” (TBM). Company auditors should be involved in establishing this level. Checking the way management handles TBM gives an indication of the direction management moves. Problem areas prioritized by management show the future focus. Information at this level can be described as “direction oriented”.
A term for the portion of TMB used for strategic action is “Cash Flow For Strategic Action”(FSA).

FOCUS and CHARGE, two Cash Flow Ratios to Monitor
Dividing FSA by TBM generates an interesting measure, showing how focus management is towards company strategic development. The resulting quotient is named the FOCUS ratio. A management team that uses TBM for other purposes than strategic purposes will get a low FOCUS measure. A management team using the whole TBM for strategic purposes gets a FOCUS measure of 100. Using more than 100 percent for strategic measures means either a reduction of liquidity or external financing. Measuring the increase of liquidity, including any externally provided means, during the selected period, gives a measure of how much cash management has saved for future needs. This is measured in Cash Available(CA) divided by TBM and the resulting ratio is called CHARGE.

Of all financial data that the board, the owners, lenders, bankers, investors and other stakeholders should monitor, these ratios may well be seen as the most important ones. With access to these measurements for a given period of time, you are able to compare thes with the real development. Has the business idea developed over time? Has the strategic business position improved? How successful has management been from an operational perspective? Getting this information from conventional accounting is hard, not to say impossible.

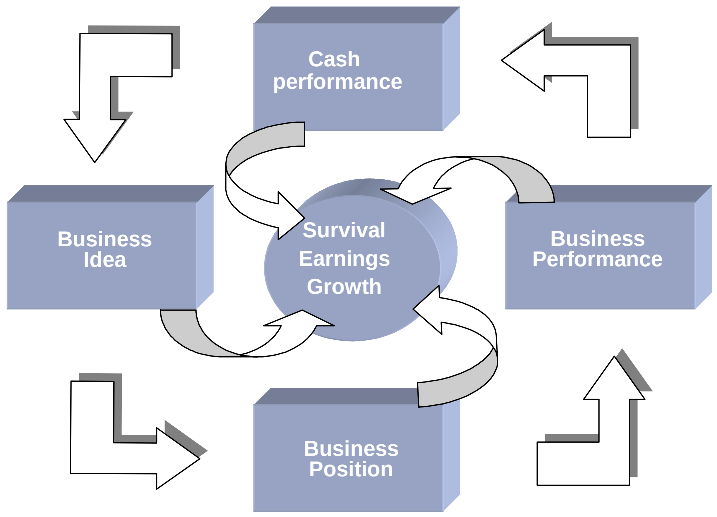
The process and the key numbers apply irrespective of business, company size or geographic location. The process offers significant improvements in transparency.

Without doubt : A New and Practical Reporting Tool for Corporate Governance

The new management reporting tool RealBiz enables the way to support not only strategic management and crossroads decisions but also the key corporate governance issues. It identifies the four areas where serious threats and potential problems often originate. It helps the board and management to focus their attention on critical issues rather than on meaningless columns of more or less irrelevant numbers.

A first step toward a renaissance in corporate governance, in the sense of a higher sensitivity to strategic priorities, might be that most of all board meeting agendas, and at least one meeting per year, started with four recurring business priority items:

Four fundamentals



RODENBERG & TILLMAN ASSOCIATES
STRATEGIC MARKETING & BUSINESS RESEARCH CONSULTANTS

1. A review and updating of the company's Vision and Mission Statements, its Business Idea(s), the process by which the Business Ideas have been established, and its level of endorsement by various stakeholders.
2. A review and updating of the company's Business Position, changes since the previous meeting, and action taken by the management to eliminate or reduce the strategic threats which are seriously applicable to the company
3. A review and updating of the company's Business Performance Statement, with a special focus on the "red flag" items, the items where the company either has not made adequate measurements or has received low scores or where the scores have deteriorated since the previous measurement.
4. A review of the detailed Cash Performance Statement, with management comments and feedback on strategic application of funds and where the CHARGE or FOCUS measures have revealed that not enough funds have been allocated to strategic priority areas.

After a strategic process of this kind the Board knows that its has given attention and time to important conditions for growth, earnings and survival, the factors and forces that are really the board's primary responsibility. They are, incidentally, also the primary responsibility of management and the key cornerstones of relevant reporting and disclosure.
Then the board and management can always proceed with traditional items such as management reports on operations and financials.
Major strategic crossroads decisions would benefit from a review of the two or three major alternatives that are being considered, from the perspectives of these four fundamentals:

1. How are the Business Ideas affected if we choose one or the other of the alternatives?
2. How will the Business Positions come out, under one or the other of the alternatives?
3. How will our selected Business Performance factors be affected by various alternatives?
4. How will our Cash Performance be affected by either of the alternatives?

Chances are that a board discussion along these lines will help the board make a considerably more enlightened decision than if they are not considered.
One more thing is obvious and proves the point that these issues are not selected arbitrarily. If none of these four factors are affected, then the choice is not really a strategic issue!

Without doubt: A New and Practical Analysis Tool for successful Mergers&Acquisitions

> ***"Virtually every serious study done shows that it is very difficult to bring off a successful merger"***
>
> ***Business Week, October 1997***

Many studies in the recent past have shown that about two-third of all mergers and acquisitions in the world fail. Most dramatic example is of course the merger, which has been mentioned acquisition one year later, of Daimler Benz and Chrysler into DaimlerChrysler. Ten thousands of people have been layoff and the value of the new company has been decreased with US$ 40-60 billion over the period 1998-2004. At time of the merger Chrysler had the highest profit per car of any auto maker in the world. Its reported earnings were a considerable part, in fact half, of the combined company's profit. Chrysler's Grand Cherokee was the strongest brand in the fast-growing Sport Utility Vehicle segment. All of it has vanished.

In general the conclusion of the less than perfect track record of acquisitions, even in the financial arena, is that mergers and acquisitions require more than financial skills. When things go wrong, its for business reasons more often than financial reasons.
The whole attitude to mergers and acquisitions must change. Too much of the "due diligence" practiced in preparing mergers and acquisitions is steeped in the molds of legal, financial and accounting practices and procedures. Methods of a different kind need to be developed and applied. M&A processes based on accounting have had their time., Their records speaks for themselves. A "simple" improvement would be to treat M&A more as business transactions, not primarily as financial transactions. If they were seen with a business focus before, during and after the event, there would have been much higher chances for success.

A business perspective with a focus on people and relationships, rather than a financial perspective focused on numbers, would reveal what accounting can never achieve. Some of the conditions and qualities, as well as risk and threats, of any two companies involved in a merger are simple not visible through traditional accounting-based glasses.

Mergers and Acquisitions basic facts:

1. **are forward looking operations -- accounting is not**
2. **are business transactions -- not primarily financial**
3. **succeed or fail, just like most other business ventures, because of people and relationships -- accounting has no way to include such factors**

There are better ways to run an "**all-inclusive due diligence"** process than to rely on financial and legal procedures. But that requires a new approach, covering important business fundamentals, not accounting.
The four fundamentals in the new management report solution provide clues to a successful merger, or warns the boards when conditions are precarious. The key is a check-up of the Business Idea of the two companies, their Business Position before and after the merger, the

Business Performance situation and the Cash performance. The RealBiz management reporting solution is able to do this.
It would have been not applicable to come up with a post-merger-analysis on the dramatic DaimlerChrysler case. What we know is then when the RealBiz new management report tool has been used in preparing and executing mergers and acquisitions, one of two things have happened:

1. Quite frequently the analysis has resulted in a recommendation not to pursue the merger plans
2. When the analysis has ended in a "green light", it has not only provided a guide for the merger deal. It has also supported a due process for the execution and follow-up of the merger.

What is the differentiating factor for success?
The main reason for its success is that the RealBiz management report solution goes beyond accounting data and penetrates deep into the basics of company life, into the fundamentals or the baselines of the business in the two companies in question.
Stage one in the process compares and analyses each one of the companies concerned towards the four fundamentals, Business Idea, Business Position, Business Performance and Cash Performance.
Stage two in the process is repeated for an estimated view of the potential combined company.

Having finished that process and when the three reports are place next to each other, they usually reveal clearly and in great detail important similarities and differences between the companies. Risks and potential threats, as well as factors and opportunities. In a positive case where a merger appears to be justified, the process will show that the combination events out certain weaknesses, in those regards, comes out stronger than the two companies separately.

In other cases, the weak points of the two companies pull in the same direction, so that the combined company come out more sensitive to some threats than the two companies would be, one by one. The combined company should have a higher degree of "freedom of action" than the individual companies should have been. The report becomes a very clear platform for the strategic pre-merger discussion and decision-making process of the two boards and management teams.

Summing up our New Management Solution

Compared to accounting-based reporting this new management solution reporting tool provides a more reliable basis for fair and relevant disclosure. It meet new managements requirements of looking **at the company from the outside.** It offers a platform for decision-making in strategic choice situations, in mergers & acquisitions including due diligence, in investment and lending decisions, in auditing and in risk management.

It defines the company success as **survival, earnings and growth**. The primary strategic goal is "**freedom of action".** This new management reporting solution provides methods to monitor and measure the company's freedom of action.

- It advocates a systematic and consistent review of the company's business idea, its visions and mission statements.

- It assesses the company in its networks, in business position terms showing its dependencies on relationships that can make or brake it.
- It keeps track of selected performance and perception factors which the company does not own, not even control but which the company is dependent on for its success.
- It tracks the cash flow, both in sources and its uses, and relates the cash flow to company strategies.

This new management reporting tool does not lean on a traditional numbers analysis of financial details in company accounting. It does not force all information into just an income statement or balance sheet. Rather, the system reports what is essential in and around the company, presents it and allows conclusions from it. The conclusions are presented in data and information with a focus on relevance rather than precision.

This new management reporting tool is a coherent system designed to show company performance in terms that are relevant to our time. It presents four fundamental statements: Business Idea, Business Position, Business Performance and Cash Performance.
Each statement reflects an important group of fundamentals, factors and forces that are crucial for company success or failure in the fourth economy.
The tool has the potential to considerably improve transparency and accountability, to support management, reporting, valuation, auditing and investing / financing decisions.

"The most important decisions are not taken inside your company but outside"

This Whitepaper has been based on the publication "The Baseline Revolution", a 21st Century approach to management and reporting by the authors Hans V.A.Johnsson and Per Erik Kihlstedt. This whitepaper has been written by Joseph H.A.M.Rodenberg RM of the consultancy firm Rodenberg Tillman & Associates, based in Houten, The Netherlands.

Rodenberg Tillman & Associates is the Strategic Alliance Partner of the REALBIZ Management Tool in the Benelux and Europe and as such represents the REALBIZ Company of Sweden, in the Benelux.

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