There are three categories of people—the person who goes into his office, puts his feet up on his desk, and dreams for twelve hours; the person who arrives at 5:00 am and works for sixteen hours, never once stopping to dream; and the one who puts his feet up, dreams for one hour, then does something about those dreams.

—Steven J. Ross

In the past 20 years, researchers have begun to pay more attention to the study of strategic leadership, which has come to be viewed by many as a critical aspect of firm success (Daft, 2005). Broadly speaking, strategic leadership refers to the study of executives who have overall responsibility for the firm and how their decisions affect organizational outcomes (Finkelstein & Hambrick, 1996). The focus is on top managers because they usually have decision-making responsibilities that affect the whole organization—including the other organizational members—and its overall performance (Daft, 2005).

Strategic leaders create a sense of purpose and direction, which guides strategy formulation and implementation within the firm (Daft, 2005; Hosmer, 1982; Shrivastava & Nachman, 1989). They also interact with key stakeholders, such as customers, government agencies, and unions, especially when these relationships are critical to firm performance (House & Aditya, 1997). Organizations and the environments in which they operate are increasingly complex and ambiguous. Therefore, strategic leaders must navigate through these complexities and develop strategies that will allow their organizations to be successful, whether they are for-profit or nonprofit.

Another perspective of strategic leadership focuses on the specific activities and behaviors of strategic leaders that can improve the success of the firm (Ireland & Hitt, 1999; Rowe, 2001). This perspective argues that in an ever-changing complex business environment,
strategic leaders may be a source of competitive advantage. Ireland and Hitt (1999) define strategic leadership as the “ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization” (p. 43). Given the challenges that firms face in an often turbulent and unpredictable global environment, Ireland and Hitt have identified six components of strategic leadership that will lead to enhanced organizational performance: determining the firm’s purpose or vision, exploiting and maintaining core competencies, developing human capital, sustaining an effective organizational culture, emphasizing ethical practices, and establishing balanced organizational controls.

DETERMINING THE FIRM’S PURPOSE OR VISION

The first component of strategic leadership consists of determining the firm’s purpose or vision. This means that strategic leaders must articulate a clear and realistic statement about why the firm exists and what is distinctive about it. This statement will then empower members of the organization to develop and execute strategies that are in line with the vision of the firm.

EXPLOITING AND MAINTAINING CORE COMPETENCIES

Strategic leaders exploit and maintain core competencies. Core competencies are resources and capabilities that give firms an edge over their rivals. Strategic leaders need to understand which combinations of resources and capabilities are valuable, rare, costly to imitate, and difficult to substitute for, as these will allow the firm to gain a competitive advantage.

DEVELOPING HUMAN CAPITAL

Strategic leaders are effective at developing human capital. Human capital refers to the knowledge, skills, and abilities of the firm’s employees. Because these employees are critical to the success of the organization, strategic leaders invest in them through training and mentoring.

SUSTAINING AN EFFECTIVE ORGANIZATIONAL CULTURE

Strategic leaders sustain an effective organizational culture. An organization’s culture is a complex combination of ideologies, symbols, and values that are shared by employees of the firm. Strategic leaders learn how to shape a firm’s shared values and symbols in ways that allow the firm to be more competitive.

EMPHASIZING ETHICAL PRACTICES

Strategic leadership involves the emphasis of ethical practices. Top managers who use honesty, trust, and integrity in their decision making are able to inspire their employees and create an organizational culture that encourages the use of ethical practices in day-to-day organizational activities.
ESTABLISHING BALANCED ORGANIZATIONAL CONTROLS

Organizational controls refer to the formal procedures that are used in organizations to influence and guide work. These controls act as limits on what employees can and cannot do. There are two types of internal controls: strategic and financial. Strategic controls are accomplished through information exchanges that help to develop strategies, whereas financial controls are accomplished through setting objective criteria such as performance targets. Strategic controls emphasize actions, whereas financial controls emphasize outcomes. Financial controls can be especially constraining and can stifle creativity in organizations. Strategic leaders must establish balanced organizational controls by incorporating the two types in order to allow employees to remain flexible and innovative.

In addition to accomplishing the above activities, strategic leaders must balance the short-term needs of their organizations while ensuring a future competitive position. Rowe (2001) defines strategic leadership as “the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization, while at the same time maintaining its short-term financial stability” (pp. 82–83). This type of leadership is a synergistic combination of visionary leadership, which emphasizes investing in the future, and managerial leadership, which emphasizes preserving the existing order. Strategic leaders focus on both the day-to-day operations and the long-term strategic orientation of the firm, recognizing that neither can be ignored if a firm is to be successful.

Importantly, strategic leaders have strong positive expectations of the performance they expect from their superiors, peers, subordinates, and themselves (Rowe, 2001). These expectations encourage organizational members to voluntarily make decisions that contribute to short-term stability and long-term viability of the organization. As such, strategic leaders do not have to expend as much effort on monitoring and controlling employees. It is also important that those leaders who already exhibit strategic leadership abilities encourage their development in other organizational members. In this way, strategic leadership can exist at all levels of the organization. Strategic leaders also select the next generation of leaders to ensure that the organization will continue to have strategic leadership in the long term (Boal & Hooijberg, 2000).

STRATEGIC LEADERSHIP VERSUS LEADERSHIP

In Chapter 1 of this casebook, leadership was defined as the process of influencing others in order to accomplish a goal. The focus was on the relationship between the leader and follower in a group context and on the process of leading in order to achieve a goal. So how is strategic leadership different from leadership? The main difference is that leadership can be accomplished at any level of the organization and can have an impact on different types of organizational goals, such as increasing the sales of a particular product line or reducing the turnover of employees.

Strategic leadership, on the other hand, is mainly concerned with, but not necessarily restricted to, the higher levels of the organization, given that executives are in a unique position to influence the direction and vision of the organization (Finkelstein & Hambrick, 1996). Strategic leadership has an impact on organization-wide outcomes, such as the financial performance of a small manufacturing company or the strategic change of a large
The difference can also be thought of as leadership “in” organizations versus leadership “of” organizations (Boal & Hooijberg, 2001). The leadership approaches discussed throughout this book are mainly concerned with how leaders affect followers “in” the organization, whereas strategic leadership is primarily concerned with the leadership “of” organization by top managers. But as we saw earlier, leaders at all levels of the organization can have an impact on organizational performance. The focus of strategic leadership is often on top-level executives such as CEOs because they tend to have more power and are given responsibility for the overall performance of the firm. They are also held accountable by shareholders for the success of the firm, and poor performance can lead to their dismissal.

**POSITIONAL VERSUS BEHAVIORAL**

In contrast to some of the other theories within the realm of leadership, such as the trait approach and the skills approach, the strategic leadership perspective is not as well developed. Furthermore, there is a lack of agreement regarding what strategic leadership is. As we have seen, strategic leadership has come to have several different, but often complementary, meanings. Some (e.g., Finkerstein & Hambrick, 1996) view it as having to do with one’s position in a company, while others (e.g., Ireland & Hitt, 1999) view it as a set of behaviors that lead to superior performance.

The positional view argues that anyone holding the position of CEO or another top executive position is a strategic leader because of his or her decision-making power and level of responsibility. This perspective looks at the differences in psychological characteristics of strategic leaders to examine how these differences affect their organizations (Finkelstein & Hambrick, 1996). Others view strategic leadership as a set of activities that leaders must perform if they are to enhance organizational performance. For example, strategic leaders are those who sustain an effective corporate culture (Ireland & Hitt, 1999). A related perspective (Rowe, 2001) on strategic leadership views it as a leadership style that individuals may possess at any level of the organization. Rowe (2001) argues that organizations that have CEOs who are strategic leaders will create more value than those who have visionary or managerial leaders.

As we saw in the definitions above, there is no consensus on exactly what strategic leadership is, but certain themes do emerge. For instance, most of the definitions or conceptualizations of strategic leadership mention the importance of studying CEOs and other top managers to better understand why some firms outperform others. Whether it is viewed as a style of leadership, a set of activities, or a broad area of study, strategic leadership is viewed by many as critical to firm success, especially given our complex, global business environment.

Several themes emerge in the literature concerning what strategic leaders do to increase firm performance. They look after both the short-term operational side of their organization and the long-term directional aspects, such as defining the firm’s purpose (Phillips & Hunt, 1992; Rowe, 2001). Strategic leaders select and develop other organizational members to ensure that these successful strategic leader abilities will exist throughout the organization, not just at the top. They influence others by behaving ethically and transparently. Strategic leaders who have overall responsibility for the firm (such as a CEO) articulate a vision that will provide the organization’s members with meaning and guidance. They are also in a position to influence external constituents, such as suppliers, unions,
and government agencies. Strategic leaders who incorporate these important activities can help ensure the future competitiveness of the firm.

**NOTE**

1. Steven J. Ross is the former chairman and co-CEO of Time Warner.

**REFERENCES**


**THE CASES**

**Vic Young and Fishery Products International (A)**

Fishery Products International Ltd. is one of the largest seafood companies in North America. In January 2000, Vic Young marked his 15th anniversary as the only chief executive officer of the company. Under his leadership, the company overcame the collapse of the North Atlantic fishery to become an international seafood company and an important contributor to the Newfoundland and Labrador economy. However, its share price has languished, and the company was recently the target of a hostile takeover bid. The bid was unsuccessful, due partly to government regulation on the company’s stock ownership, but Young realizes another attempt is possible and wonders how to maintain shareholder confidence in Fishery Products’ current board and management team.

**Compassion Canada**

Compassion Canada is a nonprofit ministry focusing on the holistic development of poor children in developing countries. Over the past 10 years, the organization has only doubled its sponsorships. The chief executive officer must analyze the organization’s
performance and develop a strategic plan that will enable Compassion Canada to reach its goal of fivefold growth over the next 10 years.

**THE READING**

**You’re an Entrepreneur: But Do You Exercise Strategic Leadership?**

This brief article describes the differences among the concepts of strategic leadership, visionary leadership, and managerial leadership. In addition, it defines strategic leadership. It describes two entrepreneurs who developed large organizations that created wealth for their owners.

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**VIC YOUNG AND FISHERY PRODUCTS INTERNATIONAL (A)**

*Prepared by John Melnyk, Tami L. Hynes and W. Glenn Rowe*

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In January 2000, Vic Young marked his 15th anniversary as the chief executive officer (CEO) of Fishery Products International Ltd. (FPI).

As the only CEO of FPI since its inception in December 1984, Young had led the company through a host of challenges—labor unrest, the loss of a crucial source of supply, international expansion, economic recession and a recent hostile takeover bid by competitors.

In the process, FPI had grown to become one of the largest seafood companies in North America, producing and selling a wide range of seafood products around the world. Its important role in its home province’s economy was recognized with a Newfoundland and Labrador Export Award in 1998. Young was named Financial Times CEO of the Year in 1994, and made an Officer of the Order of Canada in 1996 as “a model of corporate responsibility for industry leaders.”

FPI’s earnings per share (EPS) from operations for 1999 were $0.72, up from $0.55 in 1998, a fourth consecutive annual increase. Despite this, the company’s stock had languished in thin trading on the Toronto Stock Exchange (TSE), and the company had been the target of an unsolicited takeover bid in November 1999. Although that bid had been unsuccessful, Young realized that another attempt was very possible and wondered how he could convince shareholders to remain confident in FPI’s current board of directors and management team.

**HISTORY**

The North Atlantic fishery had a long history. Early explorers returned from voyages to the New World with stories of fish so numerous “they impeded the progress of the ships” and “could be scooped up from the side of the boat in a basket.”

This seemingly inexhaustible resource drew European settlers to the region as early as the 1500s. They built a fishery based on hard work and simple technology—small wooden boats, nets handled by hand and family operations—that continued almost unchanged for hundreds of years, becoming the basis for a regional economy and way of life. However fish stocks
migrated away from the coastline during winter, so it was a seasonal industry, and thus supported only a meager living for most.

The advent of large steam-powered fishing vessels in the mid-1900s held promise to break the cycle of seasonal employment and government support that had become prevalent in the region that by then had become “Atlantic Canada.” These large trawlers could follow the fish out to sea in winter and use huge mechanized nets to harvest year-round, storing catches at sea for up to 10 days at a time. This mass-production fishery carried on by company-owned trawlers far out at sea became known as the “offshore” fishery, and the smaller closer-to-shore operations of independent fishermen as the “inshore” fishery.

The prospect of large catches on a year-round basis led to significant investment in new processing capacity throughout the region, often generously encouraged by government in the hope of generating permanent employment; the number of fish processing plants jumped from 89 in 1971 to 249 in 1982. These developments led to widespread economic optimism that drowned out concerns of some fishermen and scientists who had begun to notice that the fish were not as plentiful as in the past.

By the early 1980s, declining catches, high interest rates and changing consumer tastes towards higher quality products caused several fishing companies to fail, despite escalating government loan guarantees and direct subsidies intended to preserve employment in the region.

In response to this situation, the government of Canada and the affected provincial governments stepped in to restructure the Atlantic fishery. Two of the largest independent companies, National Sea Products (based in Nova Scotia) and Fishery Products Ltd. (based in Newfoundland), were chosen as the vehicles to create an economically viable and competitive industry.

Fishery Products International—A Fresh Start

In December 1984, Fishery Products Ltd., two other corporate entities and assets from several other seafood companies were amalgamated to form Fishery Products International Ltd. Through a $150-million package of cash and conversion of debt to equity, the federal government ended up holding 63 percent of the new company; the Newfoundland and Labrador government, 26 percent and the Bank of Nova Scotia, 11 percent.

Vic Young, then chairman and CEO of Newfoundland Hydro Group, a provincial Crown corporation, was jointly appointed by the provincial and federal governments to lead the newly formed company. Young had started his career with the provincial government in 1968 and had risen to deputy minister of the Treasury Board at age 27, from which position he later served as special advisor to the Premier of Newfoundland and Labrador.

At the time of Young’s appointment, FPI was still operating under bankruptcy protection and embroiled in a major strike. Young was able to resolve these issues and under his leadership, the company quickly embarked on a modernization program, closing or selling marginal assets and investing in the 19 processing plants, 58 fishing vessels and eight port facilities it continued to operate.

FPI operated as a Crown corporation for its first three years, suffering losses in 1984 and 1985, but achieving profitability by 1986. As had been planned at the time of the government intervention, FPI was then returned to the private sector, albeit with some conditions.

An Act Respecting the Return of the Business of Fishery Products International Limited to Private Investors (the FPI Act), passed by the Newfoundland government to privatize FPI, stipulated that no single shareholder could own more than 15 percent of FPI’s common voting shares; that shareholders could not act in concert to circumvent this provision; that a majority of the members of the board of directors be residents of Newfoundland; that the company could not apply to continue under another jurisdiction; that the company could not exit the business of harvesting, processing and marketing seafood; and that only one member of management could be a member of the board of directors. The limit of
### Exhibit 1: Selected Operating Statistics

*Source: FPI Annual Reports. Where figures have been restated in later reports, the most recent figure has been used.*

1. Landings were harvested by FPI itself or purchased from independent Newfoundland fishermen.
2. Procurement quantities were obtained other than by “landing,” primarily from international sources.
3. Some of the vessels, plants and employees shown as active during the year may not necessarily have been active by year end.

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<tr>
<td>Groundfish</td>
<td>21,400</td>
<td>16,400</td>
<td>7,800</td>
<td>9,900</td>
<td>5,200</td>
<td>10,800</td>
<td>45,000</td>
<td>69,000</td>
<td>111,100</td>
<td>123,400</td>
<td>139,300</td>
<td>164,000</td>
<td>172,700</td>
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<td>10,200</td>
<td>8,500</td>
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<td>5,400</td>
<td>3,600</td>
<td>4,000</td>
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<tr>
<td>Shrimp</td>
<td>16,100</td>
<td>16,300</td>
<td>9,400</td>
<td>6,400</td>
<td>6,400</td>
<td>5,100</td>
<td></td>
<td></td>
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<tr>
<td>Other</td>
<td>1,500</td>
<td>2,800</td>
<td>3,300</td>
<td>3,300</td>
<td>300</td>
<td>300</td>
<td>11,400</td>
<td>9,800</td>
<td>11,800</td>
<td>12,400</td>
<td>12,000</td>
<td>13,600</td>
<td>8,900</td>
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<tr>
<td>Total</td>
<td>49,200</td>
<td>44,000</td>
<td>27,100</td>
<td>25,000</td>
<td>15,500</td>
<td>20,200</td>
<td>56,400</td>
<td>78,800</td>
<td>122,900</td>
<td>135,800</td>
<td>151,300</td>
<td>177,600</td>
<td>181,600</td>
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<td><strong>Procurement</strong></td>
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<tr>
<td>Groundfish fillets</td>
<td>15,500</td>
<td>15,300</td>
<td>15,700</td>
<td>14,500</td>
<td>16,100</td>
<td>14,900</td>
<td>11,900</td>
<td>8,200</td>
<td>4,500</td>
<td>4,200</td>
<td>4,100</td>
<td>2,100</td>
<td>1,900</td>
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<tr>
<td>Semi-processed groundfish</td>
<td>3,000</td>
<td>6,300</td>
<td>8,900</td>
<td>7,400</td>
<td>7,900</td>
<td>10,500</td>
<td>4,900</td>
<td>2,300</td>
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<td>Raw shrimp</td>
<td>2,300</td>
<td>2,700</td>
<td>2,800</td>
<td>1,800</td>
<td>1,600</td>
<td>1,400</td>
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<td>Total</td>
<td>20,800</td>
<td>24,300</td>
<td>27,400</td>
<td>23,700</td>
<td>25,600</td>
<td>26,800</td>
<td>16,800</td>
<td>10,500</td>
<td>4,500</td>
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<tr>
<td><strong>Value-added production</strong></td>
<td>29,300</td>
<td>28,700</td>
<td>29,300</td>
<td>25,100</td>
<td>24,400</td>
<td>25,700</td>
<td>21,500</td>
<td>18,900</td>
<td>19,300</td>
<td>20,800</td>
<td>16,300</td>
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<tbody>
<tr>
<td><strong>Active vessels</strong></td>
<td>18</td>
<td>15</td>
<td>13</td>
<td>14</td>
<td>12</td>
<td>13</td>
<td>31</td>
<td>47</td>
<td>51</td>
<td>51</td>
<td>61</td>
<td>66</td>
<td>66</td>
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<tr>
<td><strong>Active plants</strong></td>
<td>11</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>17</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total employees</strong></td>
<td>3,400</td>
<td>3,400</td>
<td>3,200</td>
<td>3,000</td>
<td>2,600</td>
<td>2,600</td>
<td>3,900</td>
<td>7,200</td>
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15 percent ownership per shareholder was also enshrined in the FPI bylaws. Despite these conditions, FPI’s initial public offering (IPO), April 15, 1987, was successful, raising $177 million that was used to buy out the governments’ positions. Pension funds and financial institutions took the bulk of the stock, but 560,000 shares were granted to eligible employees, not including executives.

On its first trading day FPI stock closed up $3 from its issue price of $12.50, and within a few months had risen to $21.25. The shares paid dividends at an annual rate of $0.48, raised to $0.56 in December 1987. That year FPI also distributed $6.6 million in profit-sharing to its employees, plus a special $1 million “Award for Excellence” for their contribution to the company’s turnaround; it also paid a bonus to its inshore fishery suppliers for their “demonstration of loyalty.” The company’s achievements were recognized with a Gold Medal for Productivity at the 1987 Canada Awards for Business Excellence, and a Canada Export Award.

Even before privatization, Young had set about to make the company more market-driven and diversified, investing heavily in technology and its workforce, in order to be able to meet consumer demands for higher quality products. In June 1987, FPI completed the conversion of an old primary-processing plant in Burin, Newfoundland, into a world-class secondary-processing facility, tripling its capacity to 7,000 tonnes per year, well above demand at the time. That same month, FPI entered into a joint-venture agreement to market FPI secondary-processed products in Japan with with Nichiro Gyogyo Kaisha (Nichiro), the third largest Japanese seafood trading company.

FPI had been exporting raw materials to Japan for years, but the Japanese consumer market posed very different challenges, including a maze of government regulations, culturally specific business customs and exacting demands for unusual quality and packaging standards.

Nevertheless, FPI persisted, and with the help of three quality control specialists from Nichiro working in the Burin plant alongside FPI employees for a time, eventually achieved the capability to produce to rigorous Japanese specifications. A successful launch in February 1988, made FPI the first North American seafood company to have its value-added products on Japanese retail shelves.

Crises and Changes

In January 1989, the Government of Canada announced the first of what was to become a series of reductions in fishing quotas for the Atlantic Canada fishery, in response to mounting concerns about the state of the fish stock. Each of these reductions was a hotly debated compromise between environmental pressure to protect the dwindling fish stocks and political pressure to maintain employment in Atlantic Canada by keeping the fishery open. Before long, the room for compromise, like the fish stock itself, was exhausted, and a complete moratorium on harvesting several groundfish species, including cod, was imposed on September 6, 1993.

Groundfish, of which cod was the most common and valuable, had been the basis for 85 percent of FPI sales in the late 1980s— in 1987, FP had “landed” (either harvested itself or purchased from independent Newfoundland fishermen) 172,700 metric tonnes of groundfish, primarily cod; in 1995, it would land just 5,200 tonnes, none of which was cod. As a result, 6,000 FPI employees eventually lost their jobs, as trawlers were deactivated and plants were closed (see Exhibit 1); even then, capacity utilization in the remaining plants was only 65 percent. Surplus assets were sold or leased to the extent possible, but often for only nominal amounts. Newfoundland-based assets had to be written down by $85 million, and the company suffered losses in the early 1990s (see Exhibits 2 and 3).

During this period, the company did its best to cushion the blow for its employees and their communities by spreading what work there was among its plants to allow as many workers as possible to qualify for Employment Insurance payments from the federal government. Nevertheless, labor unrest and angry public demonstrations were widespread.
### Exhibit 2

Consolidated Balance Sheets for Years Ending December 31

* Accumulated Deficit cancelled by a transfer from Contributed Surplus in 1993.

Source: FPI Annual Reports. Where figures have been restated in later reports, the most recent figure has been used.
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<tr>
<td>Sales</td>
<td>$ 708,911</td>
<td>681,563</td>
<td>675,945</td>
<td>664,598</td>
<td>643,009</td>
<td>665,596</td>
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<td>Cost of Goods Sold</td>
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<td>614,467</td>
<td>613,617</td>
<td>606,473</td>
<td>593,096</td>
<td>598,250</td>
<td>549,844</td>
<td>536,373</td>
<td>483,046</td>
<td>468,924</td>
<td>314,347</td>
<td>302,808</td>
<td>285,671</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>75,787</td>
<td>67,096</td>
<td>62,328</td>
<td>58,125</td>
<td>49,913</td>
<td>67,346</td>
<td>51,335</td>
<td>53,978</td>
<td>59,891</td>
<td>66,120</td>
<td>35,444</td>
<td>63,803</td>
<td>110,034</td>
</tr>
<tr>
<td>Commission Income</td>
<td>3,327</td>
<td>2,382</td>
<td>2,968</td>
<td>3,665</td>
<td>3,94</td>
<td>4,645</td>
<td>2,789</td>
<td>6,502</td>
<td>7,281</td>
<td>8,437</td>
<td>1,156</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration and Marketing</td>
<td>45,456</td>
<td>42,152</td>
<td>39,963</td>
<td>39,865</td>
<td>39,711</td>
<td>40,718</td>
<td>32,975</td>
<td>44,945</td>
<td>44,988</td>
<td>47,335</td>
<td>29,444</td>
<td>27,966</td>
<td></td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>9,883</td>
<td>8,967</td>
<td>8,656</td>
<td>8,584</td>
<td>8,380</td>
<td>10,040</td>
<td>12,441</td>
<td>15,005</td>
<td>16,694</td>
<td>14,849</td>
<td>13,360</td>
<td>13,763</td>
<td></td>
</tr>
<tr>
<td>Profit Sharing</td>
<td>1,541</td>
<td>1,088</td>
<td>1,063</td>
<td>840</td>
<td>1,684</td>
<td>1,110</td>
<td>586</td>
<td>1,837</td>
<td>7,599</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Interest</td>
<td>7,146</td>
<td>7,467</td>
<td>5,890</td>
<td>5,669</td>
<td>8,242</td>
<td>6,786</td>
<td>6,667</td>
<td>6,210</td>
<td>5,074</td>
<td>4,566</td>
<td>665</td>
<td>159</td>
<td>46</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>64,026</td>
<td>59,674</td>
<td>55,572</td>
<td>54,246</td>
<td>56,437</td>
<td>57,568</td>
<td>49,682</td>
<td>63,596</td>
<td>65,177</td>
<td>69,181</td>
<td>49,201</td>
<td>44,800</td>
<td>49,374</td>
</tr>
<tr>
<td>Operating Income</td>
<td>15,088</td>
<td>9,804</td>
<td>9,724</td>
<td>7,544</td>
<td>(3,130)</td>
<td>14,423</td>
<td>4,442</td>
<td>(3,116)</td>
<td>1,995</td>
<td>12,576</td>
<td>19,003</td>
<td>60,660</td>
<td></td>
</tr>
<tr>
<td>Gain (loss) on Foreign Exchange</td>
<td>715</td>
<td>1,005</td>
<td>3,202</td>
<td>(998)</td>
<td>(104)</td>
<td>(1,334)</td>
<td>(1,808)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain (loss) on Disposal of PP&amp;E</td>
<td>21</td>
<td>438</td>
<td>182</td>
<td>959</td>
<td>203</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in gain (loss) of joint venture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1,027)</td>
<td>(1,675)</td>
<td></td>
</tr>
<tr>
<td>Extraordinary Item(s)</td>
<td>(965)</td>
<td>(20,000)</td>
<td>(65,000)</td>
<td>(185)</td>
<td>7,962</td>
<td>(7,500)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before Income Taxes</td>
<td>14,123</td>
<td>9,804</td>
<td>9,724</td>
<td>7,565</td>
<td>(2,692)</td>
<td>15,320</td>
<td>(14,621)</td>
<td>(66,836)</td>
<td>812</td>
<td>13,234</td>
<td>21,435</td>
<td>17,195</td>
<td>85,349</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>4,097</td>
<td>1,378</td>
<td>1,531</td>
<td>1,455</td>
<td>587</td>
<td>1,439</td>
<td>746</td>
<td>913</td>
<td>1,100</td>
<td>1,463</td>
<td>767</td>
<td>440</td>
<td>27,386</td>
</tr>
<tr>
<td>Net Income</td>
<td>10,026</td>
<td>8,426</td>
<td>8,193</td>
<td>6,110</td>
<td>(3,279)</td>
<td>13,881</td>
<td>(15,367)</td>
<td>(67,299)</td>
<td>(288)</td>
<td>11,771</td>
<td>(22,202)</td>
<td>16,755</td>
<td>57,963</td>
</tr>
<tr>
<td>Net Income per share</td>
<td>$ 0.66</td>
<td>0.55</td>
<td>0.51</td>
<td>0.37</td>
<td>(0.20)</td>
<td>0.85</td>
<td>(0.94)</td>
<td>(4.10)</td>
<td>(0.02)</td>
<td>0.72</td>
<td>(1.38)</td>
<td>1.05</td>
<td>3.62</td>
</tr>
</tbody>
</table>

**Exhibit 3** Consolidated Statements of Income for Years Ending December 31

*Source: FPI Annual Reports. Where figures have been restated in later reports, the most recent figure has been used.*
Over time, FPI was able to compensate somewhat by developing an international procurement network to source cod and other groundfish (from Alaska, Iceland, Norway and Russia) for processing in Newfoundland and by developing uses for other groundfish species for which the stock in Canadian waters was more plentiful. However, even by 1999, the company’s groundfish processing was still limited to three plants operating on a seasonal basis.

The effect on FPI’s revenue was mitigated by the October 1989 acquisition—FPI’s first—of Clouston Foods of Montreal, an international seafood trading, marketing and brokerage operation with a substantial presence in the Canadian market. The acquisition operated as a separate division for a time, buying and selling seafood, primarily shrimp, throughout the world. These new activities added $202 million to FPI 1990 sales (see Exhibit 4), albeit at a lower margin than the production activities. The Clouston division also came to act as FPI’s marketing arm in Canada and Europe, as FPI placed new emphasis on producing and marketing secondary-processed products.

In September 1992, FPI acquired the U.S. foodservice business of National Sea Products. This strengthened the company’s position in the American market and brought the established value-added shrimp brand “Treasure Isle” to its product portfolio. At first, FPI had to contract out production for this new line, but soon brought it in-house at its Boston plant, as shrimp and other shellfish became an important new product category for the company.

Shrimp was the largest species component of per capita seafood consumption in North America on a dollar basis, and demand was growing. In 1990, FPI commissioned a new shrimp freezer trawler to take fuller advantage of the cold-water shrimp resources off Newfoundland and Labrador that were still in a healthy state. In the following years, it twice upgraded its shrimp processing facility in Port au Choix and also converted an idle groundfish plant at Port Union to shrimp. By the late 1990s, the company had become dominant in the Newfoundland cold-water shrimp industry, even introducing a new branding strategy, “FPI Ice Shrimp, from the Icy Cold Waters of Newfoundland.”

By 1995, these adjustments in progress had stabilized the company’s situation, but there was a significant downturn in the seafood market that year. In response, FPI consolidated its two U.S. processing plants into one (realizing $5 million from sale of the redundant plant), and subsequently consolidated U.S. warehousing operations around the remaining plant in Danvers, Massachusetts. These changes resulted in annual operating savings of $2.5 million and superior distribution capabilities for the U.S. market.

Seafood trading continued to make up a significant portion of FPI sales. However, towards the end of the decade, the company chose to focus on core product lines and eliminate any categories in which FPI could not differentiate.

**The Seafood Industry**

Seafood was a global commodity, sourced, processed, sold and consumed worldwide. The Food and Agriculture Organization of the United Nations (FAO) estimated that 30 million people worldwide derived a living from the fishing industry in 1997, and that 95 percent of fishers were from developing countries.

After increasing steadily for more than 30 years, annual world harvest of fish from natural habitat had dropped sharply in 1990, stabilizing between 90 million and 95 million tonnes through the mid-1990s. The FAO estimated that 70 percent of marine species were then being harvested at, or beyond, sustainable levels. As a result, aquaculture (fish farming) was becoming more important, producing 28 million tonnes worldwide in 1997, more than double the 1990 quantity.

Human consumption of seafood grew steadily throughout the 1990s, but growth was slowing due to supply constraints. Seafood was generally well regarded as a healthy and nutritious food, but had to compete with other protein sources.
### Exhibit 4  Selected Results by Business Segment and by Subsidiary

*Source:* FPI Annual Reports. Where figures have been restated in later reports, the most recent figure has been used.

1. Years 1992 and 1993 exclude the effect of major writedowns of Newfoundland-based assets.
2. A small portion of sales by Canadian subsidiary is international, primary to Asia. Otherwise, sales by subsidiary are a valid proxy for sales by geographic region.
such as poultry, pork and beef, as well as pasta, all of which were very cost-competitive.

Japan and the United States were traditionally the top seafood importers by a wide margin. Canada ranked 11th in seafood imports and sixth in seafood exports in 1997. Most of Canada’s fish products were exported to the United States (see Exhibit 5) where American consumers spent almost $50 billion per year on seafood products. Japan and the United Kingdom were Canada’s second and third most important export markets respectively.

In most countries, raw material was purchased through free market, auction and/or direct sales mechanisms. Prices were thus driven by global supply and demand, reflecting a variety of factors: seasonal variations in yields, supply interruptions due to natural disasters, changes in the cost of fishing inputs such as fuel oil, trade restrictions such as tariffs and foreign exchange rate fluctuations.

The market for seafood products was highly competitive, with buyers at all levels demanding high-quality product and service at competitive prices. Processors purchased raw material (fish) from seafood harvesters and developed basic or value-added packaged seafood products to be marketed through wholesale and/or retail channels around the world. Generally, margins were highest for the fish harvesters at the beginning of the supply chain, and for retailers and restaurants selling to end-consumers.

### Fishery Management

The sustainability of global fish stocks was a critical issue for the industry. Significant overfishing in many parts of the world had seriously depleted stocks of certain species, threatening the viability of both harvesters and fish processors.

Industry and government had joined efforts in many countries to try to ensure a sustainable resource base, and the Northwest Atlantic Fishing Organization (NAFO) attempted to promote international consultation and co-operation for “the optimum utilization, rational management and conservation of the northwest Atlantic fishery resources.” In Canada, the federal Department of Fisheries and Oceans (DFO) worked with provinces and territories to manage fishery resources and balance quotas with processing capacity.

Under the Law of the Sea, Canada had economic jurisdiction over the 200-mile zone off the coast of Atlantic Canada. This area was divided into three divisions and 16 zones. The DFO established “total allowable catch” (TAC) quotas for each of these zones to limit how many fish could be harvested each year; this allocation also, in effect, divided the resource among the four Atlantic Canada provinces.

The TAC for each zone was split between the inshore and offshore fisheries, and the offshore

<table>
<thead>
<tr>
<th>Origin/Destination</th>
<th>Jan-98</th>
<th>Jan-99</th>
<th>Jan-00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada to United States</td>
<td>649</td>
<td>807</td>
<td>1,106</td>
</tr>
<tr>
<td>Canada to All Countries</td>
<td>1,480</td>
<td>1,603</td>
<td>2,052</td>
</tr>
<tr>
<td>Canada to All Countries — shrimp, scallops, crab, groundfish only</td>
<td>909</td>
<td>964</td>
<td>1,215</td>
</tr>
</tbody>
</table>

**Exhibit 5** Canadian Fish Exports (Cdn$ millions)

*Source: Industry Canada (2000).*
quotas were then allocated to individual companies by means of licences, giving them the right to harvest certain amounts of specific fish. FPI regularly received the largest TAC allocation of any company.

Fish processors also required licences for each species; these were issued by provincial and territorial governments. Only Canadian-controlled companies were eligible for these licences.

These regulations strictly limited foreign access to fish stocks off the Canadian coast, and as a consequence, many European nations imposed high tariffs on Canadian seafood imports. However, neither Canadian regulations nor the voluntary NAFO guidelines could prevent foreign vessels from fishing just outside the edge of Canada’s 200-mile economic zone. This was a source of constant concern to the Canadian fishing industry.

**Competition**

Besides FPI, major publicly held competitors in the international seafood industry included Sanford Limited, Icelandic Freezing Plants Corporation Plc. and High Liner Foods Inc. (see Exhibit 6). There were also a number of significant privately held competitors. These included Clearwater Fine Foods Inc. and The Barry Group of Companies.

Icelandic Freezing Plants Corporation Plc. (IFPC) employed nearly 1,400 people of whom 1,300 were based outside of Iceland in subsidiaries.

<table>
<thead>
<tr>
<th>Firm Title</th>
<th>FPI Ltd.</th>
<th>High Liner Foods Inc.</th>
<th>Sanford Limited</th>
<th>IFPC Plc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquartered (Canada)</td>
<td>Canada</td>
<td>Canada</td>
<td>New Zealand</td>
<td>Iceland</td>
</tr>
<tr>
<td>Revenue</td>
<td>$ 708,911</td>
<td>$ 302,392</td>
<td>$ 265,555</td>
<td>$ 760,125</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 10,026</td>
<td>$(4,067)</td>
<td>$ 40,740</td>
<td>$(3,731)</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$ 314,412</td>
<td>$ 219,901</td>
<td>$ 297,979</td>
<td>$ 381,425</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>3.32</td>
<td>1.68</td>
<td>1.25</td>
<td>1.14</td>
</tr>
<tr>
<td>Cost of Goods Sold %</td>
<td>89%</td>
<td>74%</td>
<td>Not Published</td>
<td>87%</td>
</tr>
<tr>
<td>ROE (After Taxes)</td>
<td>6.14%</td>
<td>−0.06%</td>
<td>18.40%</td>
<td>−6.28%</td>
</tr>
<tr>
<td>ROE (Before Taxes)</td>
<td>9.00%</td>
<td>−0.05%</td>
<td>22.00%</td>
<td>N/A</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>$ 0.66</td>
<td>$(0.56)</td>
<td>$ 0.41</td>
<td>$(0.12)</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>3,000</td>
<td>1,500</td>
<td>13,005</td>
<td>1,300</td>
</tr>
<tr>
<td>Subsidiaries &amp; Associates</td>
<td>4</td>
<td>3</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Ownership/ Shareholders</td>
<td>Maximum 15% per shareholder</td>
<td>No Restrictions; (two shareholders own in aggregate over 50%)</td>
<td>2,547 shareholders; one shareholder holds 37%; no maximum evident</td>
<td>Information not available</td>
</tr>
</tbody>
</table>

**Exhibit 6** Significant Publicly Held Competitors in the Seafood Industry

*Note:* All figures on consolidated basis for 1999, converted if necessary to Canadian dollars using nominal rate of January 1, 2000.

*Source:* Corporate Web sites and Annual Reports.
located in Europe, Russia, Norway, the United Kingdom and the United States. IFPC offered over 40 species, primarily harvested near Iceland, and sold in over 30 countries including the Far East. Its customers included large supermarkets, distributers, wholesalers, as well as restaurants and food processors for its product line of whole frozen fish, fillets and fillet portions, shellfish and a wide variety of convenience products.

Sanford Limited (Sanford) was New Zealand's largest seafood company with 18 subsidiaries, associate companies in four countries and 1,500 employees. Sanford produced a wide range of seafood products, primarily for export to Europe (31 percent of sales) and to North and South America (23 percent). Sanford was one of the oldest publicly listed companies in New Zealand. One shareholder owned 37 percent of the company.

There were approximately 1,000 seafood companies operating in the United States, and 150 in Canada. These varied widely in size and product line. Like IFPC and Sanford, many of these firms (including FPI) were vertically integrated, fishing from company-owned vessels, processing in company-owned plants, and distributing and marketing through in-house representatives.

Canadian-based High Liner Foods Ltd. (High Liner), formerly National Sea Products, was the largest Atlantic Canada-based supplier of fresh groundfish to the U.S. market. It processed and marketed seafood under High Liner and other brands and had a strong position in the retail frozen seafood market. The company operated in Nova Scotia, Ontario and the United States and employed 1,500 people. High Liner procured most of its raw material internationally, although it also harvested approximately 11,000 tonnes of seafood each year from Nova Scotia to Labrador. Even so, the company's advanced processing facilities operated at just over 40 percent capacity. High Liner had recently diversified into non-seafood products by acquiring Italian Village, a pasta products operation. Two corporate investors owned more than 50 percent of High Liner's shares.

The Barry Group of Companies (The Barry Group), based in Corner Brook, Newfoundland, was a fourth-generation family business established in 1910. It owned and operated 17 plants in Atlantic Canada employing more than 3,000 people, and marketed its products under the Ocean Leader and Seafreeze brands.

Clearwater Fine Foods Inc., (Clearwater) based in Halifax, Nova Scotia, specialized in lobster, sea scallops, surf clams and shrimp. The company owned and operated eight shore-based processing plants in Atlantic Canada as well as 23 vessels with capacity to harvest more than 20,000 tonnes of fish per year. Clearwater employed more than 2,000 people, 1,100 of whom had been added since the cod moratorium had been announced.

Fishery Products International Ltd., in 2000

FPI was headquartered in St. John's, Newfoundland and Labrador, Canada, and had subsidiaries in the United States and Europe.

Company advertisements proclaimed "the FPI flag flies proudly in 42 countries." FPI maintained sales offices in Canada (St. John's, Montreal, Toronto, Calgary and Vancouver), the United States (Danvers, Massachusetts and Seattle, Washington), Reading, England, and Cuxhavin, Germany, as well as a brokerage and distribution network throughout North America and Europe. The Canadian operation handled exports to Asia.

The company also had co-packing arrangements in shrimp-processing plants in Thailand, Ecuador, Indonesia and Mexico; at fish-processing facilities in Norway and Chile; and at aquaculture farms and secondary-processing plants in China. Integrated information systems kept employees around the world connected to suppliers, customers and each other in real time.

Products and Marketing

FPI produced and marketed primary- and secondary-processed seafood products including
cold-water shrimp, snow crab, sea scallops, cod, flounder, sole, redfish, pollock, Greenland halibut, haddock and capelin.

FPI was a leading marketer of primary-processed cold-water shrimp and snow crab in Europe, North America and Asia. Three-quarters of FPI’s value-added sales were to the foodservice market (restaurant and hotel chains, airline caterers, hospitals, etc.) and wholesale club stores in the United States. Most of the remaining 25 percent went to restaurant and retail markets in Canada, where FPI was the leading supplier to the private label market. Some went to overseas markets, primarily Switzerland, which was the only tariff-free European country for Canadian seafood exports in 2000.

The company conducted product development through a full-time staff of food scientists and food technologists. FPI’s development staff often worked closely with customer menu-development departments, to generate new process concepts and value-added products. New product launches annually generated more than 15 percent of FPI sales.

FPI had developed a strong brand and a reputation for quality. Buyers frequently requested FPI products by brand name, and the company was regularly recognized for its sales and marketing excellence by industry associations and independent trade organizations. In 1999, FPI received “outstanding supplier” awards from North America’s largest independent foodservice distributor, largest retail chain, and several national restaurant chains.

These customers tended to be somewhat flexible regarding price if they were assured of a stable and high-quality supply. However, large customers such as McDonald’s, Price Club and Red Lobster posed a special challenge for FPI and all seafood companies because of their price sensitivity. These customers demanded top quality and excellent service, but were quite prepared to switch suppliers or even change to substitute foodstuffs at a certain price point.

The company’s seafood trading business earned commission income by brokering internationally sourced seafood products such as black tiger and warm water shrimp (which made up 60 percent of trading sales), king crab, farmed scallops, North Atlantic lobster, salmon and sea bass. These products, many originating from aquaculture, were sourced from other producers in North America, Southeast Asia, South America and Europe.

**Operations**

FPI reported its operations in three categories: primary processing, secondary processing and seafood trading (see Exhibit 4).

Primary processing turned fresh-caught fish into ready-to-market basic products (such as loose fillets or shrimp) or into inputs for further value-added processing. All primary processing was done in Atlantic Canada through nine processing plants, many of which had been upgraded to state-of-the-art technology.

Secondary processing increased the value of primary-processed products by adding non-seafood ingredients such as batter, stuffings and sauces to create finished products ready for consumers’ plates. FPI’s two secondary processing plants (Burin, Newfoundland, for the Canadian market and Danvers, Massachusetts, for the U.S. market) had recently been upgraded with new technologies such as automated weighing, packaging and freezing capabilities and now had a combined annual capacity of 43,000 tonnes of value-added products.

All FPI plants were treated as cost centres. As a result, plant management tended to be very cost-conscious and operated relatively independently of the marketing side of the company.

Raw material for the plants was partially sourced by FPI’s own fleet of 18 fishing vessels—12 outfitted for catching groundfish, five for sea scallops and one for shrimp—that operated off Newfoundland and Nova Scotia and were serviced from the company’s refit centre in Burin. This backward integration reduced volatility in raw material costs and secured a certain volume of supply. However, natural conditions and government quotas limited its total catch, so FPI also purchased raw material from
more than 3,000 independent Newfoundland fishers, and sourced 25 seafood species from over 30 countries. FPI technical personnel worked with suppliers at source around the world to ensure quality and to build long-term supplier relationships.

Quality Assurance and Environmental Awareness

All seafood companies were required to adhere to strict quality assurance standards. FPI’s quality assurance practices and processing facilities continually met or exceeded the Canadian Food Inspection Agency’s (CFIA) regulatory requirements. FPI was periodically audited by the CFIA, the U.S. Food and Drug Administration, the U.S. Department of Commerce and customers.

FPI’s quality management programs were based on the principles of Hazard Analysis Critical Control Point (HACCP), originally developed by the Pillsbury Company to provide safe food for American astronauts. An HACCP system involved inspection at different points of the production process, rather than simply inspecting the end product. Many importers, including all U.S. companies, accepted seafood products only from foreign suppliers using an HACCP system.

FPI was committed to maintaining a sustainable fishery and regularly stated its support for the DFO’s conservation measures, difficult as those had been for the company. Management structure included a standing committee that monitored operations to ensure regulatory compliance and sound environmental policies. The company continually improved its fishing practices to avoid catching undersized fish or restricted species and fully supported independent-observer monitoring of its harvesting operations.

FPI vessels and crew had participated in 25 directed research surveys in cooperation with the DFO to gather scientific data on which TAC quotas were based. FPI also supported two research chairs in oceanography and fish conservation at Memorial University in St. John’s with more than $800,000 in grants.

Human Resources

Teamwork and innovation have been the heart and soul of our success... While seafood is our business, people are our strength.

—Vic Young, FPI 1999 Annual Report

Of FPI’s 3,400 employees worldwide, 3,000 worked in Atlantic Canada. The company’s annual reports consistently attributed its success to the commitment of its employees. Turnover was low among staff and executive management.

Trawler workers, plant workers and fishers were unionized through the Fish, Food and Allied Workers (FFAW) affiliated with the Canadian Auto Workers (CAW). The company’s relationships with its employees and their unions, as well as with the communities in which it operated, were positive. Many people attributed this to Young, whose negotiating abilities were recognized beyond the company; as a special mediator for a 1994 labor dispute between Newfoundland and Labrador teachers and the provincial government, Young was credited with preventing a bitter strike.

Collective agreements had provided for wage increases for FPI’s Newfoundland-based employees in eight of the last nine years, and the company considered the wages it paid to be “industry-leading.” As well, the company had a defined benefit pension plan and a profit-sharing plan that distributed 10 percent of pre-tax profit before extraordinary items to employees. FPI also reserved over 200,000 shares issuable at market value for its employee share purchase plan.

In 1997, FPI appointed its first female plant manager, Angela Bugden, at its Riverport, Nova Scotia, scallop-harvesting operation. Bugden was also responsible for the five scallop trawlers and the refit yard for those vessels.

As part of its long-standing commitment to the professional development of its employees, FPI had invested in teamwork training for the management teams at its two shrimp plants. Team building posed some special challenges in the small, closely knit Newfoundland communities, in which a single extended family might
include a member of plant management, a union representative, as well as independent fishermen and plant employees. As a result, information about cost structure was closely held.

**Leadership and Governance**

CEO Young had led FPI for all of its 15-year existence to date, becoming a prominent figure in the process. During that period, he was named *Financial Times*’ 1994 CEO of the Year, inducted into the Order of Canada in 1996 and, that same year, awarded an honorary doctorate by his alma mater, Memorial University.

Young was very active in the business community, as a director of four other prominent Canadian corporations and a member of a number of fishing industry associations and advisory committees. He also regularly lent his support and stature to a variety of worthy causes.

As chairman, CEO and president, Young was the only member of management on FPI’s 12-member board of directors (see Exhibit 7). The 11 other members were all unrelated, as defined by TSE guidelines. Seven members were from the province of Newfoundland and Labrador, three from Ontario and one from New Brunswick. One position on the Board was reserved for FFAW, a legacy of the agreement ending the 1984 strike at FPI. In 1999, the board of directors, as a group, owned less than one percent of FPI’s outstanding stock.

The chairperson of the board’s human resources committee was designated the role of dealing with matters of governance, including overseeing the relationship between the board and senior management. It was not unusual for senior management other than Young to attend board meetings to present business information. However, at each meeting the board held some discussions without the CEO or other management in attendance.

**Finance**

In the early 1990s, the company struggled with severe industry supply shortages, and recorded losses from 1991 through 1993 (see Exhibit 3). Since then, with the exception of a loss in 1995, due to lower quotas and poor market conditions in the United States and Mexico, EPS had improved every year. In 1999, FPI paid a dividend ($0.12 per share) on its common stock for the first time in 11 years.

FPI practised conservative fiscal management, maintaining high liquidity and low debt, because “Fish and debt don’t mix,” as Young was fond of saying. Like other local seafood companies, FPI financed some independent harvesters through mortgages secured against their vessels; it had helped some inshore fishers convert their boats to shrimp fishing in this way. Accounts receivable credit risk was minimal as FPI’s 10 largest customers made up less than 30 percent of sales and no single customer represented more than six percent.

FPI stock traded on the TSE. Since 1987, its share price had declined to a range between $5 to $7 on comparatively low trading volume (see Exhibits 8 and 9). FPI had taken advantage of this situation to buy back one million common shares at an average price of $6.75 during 1997, and continued to buy back shares in 1998 (250,300) and 1999 (164,400). Nevertheless, a $100 investment in FPI’s IPO, including reinvestment of all dividends, was worth only $59.50 at the beginning of November 1999. The same investment over that period in the TSE index would have been worth $192. However, if placed in High Liner Foods (the successor company to National Sea Products), $100 would have declined to less than $6!

During the summer of 1999, FPI initiated discussions with the government of Newfoundland and Labrador about dropping the 15 percent ownership limit per shareholder on FPI stock, arguing that it restricted the company in its ability to raise capital and enter into mergers or strategic alliances. These discussions resulted in the understanding that if FPI were to propose a major initiative requiring large amounts of capital, the government would consider removing the share ownership restriction, although the onus would be on FPI to convince shareholders, employees and the communities affected of the wisdom of doing so.
The Takeover Bid

We want FPI to become leaders in the global fishing industry. . . . We intend to accomplish this by bringing knowledgeable and experienced fishing-industry investors into the ownership group and by making a substantial infusion of new capital and management support into FPI's operations.

—Bill Barry, speaking for NEOS Seafoods Inc.

On November 5, 1999, FPI announced that it was the target of an unsolicited takeover bid.
Exhibit 8  Common Share History

Note: FPI shares were first issued to the public at $12.50 on April 15, 1987. The stock closed at $15.50 that day, on volume of 200,350 shares traded between $15.75 and $15.38.


Exhibit 9  Comparative Total Return Indices


NEOS Seafoods Inc., a newly formed consortium (40 percent owned by Clearwater, 40 percent by The Barry Group and 20 percent by IFPC) offered $9 per share to acquire 100 percent of FPI’s outstanding stock. FPI shares closed up $1.35 to $8.50 that day, on volume of 113,730.
Young promptly responded that the offer was below book value per share of $10.75 and “extremely low.” He further pointed out that any successful bid on FPI would have to persuade both the shareholders and the Newfoundland and Labrador government to lift the 15 percent ownership cap in FPI bylaws and provincial legislation respectively, although he also stated that, “We’re not going to hide behind that restriction in respect to this bid.”

Newfoundland and Labrador Premier Brian Tobin described FPI as a “vital institution” but indicated that the government would consider lifting the ownership restriction, given a “deal specific” acquisition or merger opportunity that was deemed to be in the best interest of the province. The Telegram (the St. John’s daily newspaper) quoted Tobin as saying:

Our interest is not a commercial one and our interest is not a shareholder interest. Our interest is a public policy interest. Our analysis will have nothing to do with shareholder value. . . . our analysis will have to do with how many jobs in how many locations, how many species, how much technology, how much technology transfer and what new opportunities.

Both FPI and NEOS moved quickly to make their respective cases to shareholders, the public and other stakeholders. NEOS took out full-page ads in newspapers throughout the province, explaining its intentions for the company, highlighting its principals’ track records and claiming that FPI needed more entrepreneurial management to capitalize on “An Ocean of Opportunity.” Bill Barry, who acted as its primary spokesperson, promised NEOS would invest in new and existing processing plants, leading to more jobs and longer periods of work, as well as guarantee a fixed percentage share of FPI’s TAC to existing plants and their communities.

FPI ran its own full-page ads highlighting its achievements over the past decade and praising its 3,000 Newfoundland-based employees as the “heart and soul” of the company. Over the next few weeks, Young also issued 10 internal bulletins to keep employees informed and invited them to contact him directly with any questions or concerns, even providing his residence phone number.

Both parties also met with representatives of the communities in which FPI operated and of the unions that represented the majority of FPI employees.

Critics of the deal, including FFAW, argued that The Barry Group, which already had partnerships with other fish companies in the province, would control the entire shrimp fishery and much of the crab and cod fisheries if the bid went through. Concerns were also raised about NEOS’s ability to live up to its promises, especially given its announced intention to replace $150 million of FPI equity with debt. FFAW also cited the positive labor relations climate at FPI and noted that only five of the 17 plants in The Barry Group were unionized.

By mid-November, FFAW’s 30,000 membership had voted “resoundingly” against the deal, and all but two of the municipalities in which FPI operated plants had stated their opposition to the takeover and urged the government to leave the ownership cap in place. Buzz Hargrove, president of the CAW, with which FFAW was affiliated, called on the provincial government to make a quick decision to keep the legislative restrictions in place, and thus end the uncertainty for the communities involved.

By contrast, the Fisheries Association of Newfoundland and Labrador, which represented producers, was in favor of removing the ownership cap. And NEOS contended that shareholders together holding over 50 percent of FPI’s shares had formally asked FPI to hold a shareholder meeting on or before December 28 to evaluate NEOS’s proposal. (FPI later acknowledged such a request from shareholders holding more than five percent.) It was rumored that some of these investors were also lobbying the government to remove ownership restrictions on FPI.

On November 28, Young and the special committee of the FPI board of directors struck to deal with this matter issued a circular formally recommending that shareholders reject the NEOS offer and calling a special meeting of shareholders for January 17, 2000, to consider removal of the ownership cap from the company bylaws. It was considered inappropriate to hold such a
meeting during the Christmas season, because some shareholders might have to travel a long distance to attend.

The provincial Progressive Conservative party, then in opposition, publicly came out against the deal on November 29 and suggested that there should be further restrictions on FPI, such as requiring legislative approval to transfer harvesting, processing or marketing units within the company or to make any changes in the operating status of FPI plants.

The special committee of the FPI board of directors subsequently met with NEOS principals on December 6 to discuss their proposal. According to FPI, this meeting resulted in no new information and no change of opinion on the offer.

Shortly thereafter, the provincial government announced it would not consider the issue of removing the ownership restriction before the NEOS offer was due to expire at the end of the month, and NEOS withdrew its offer on December 8. That same day, Young announced that FPI would be reactivating three of its south coast processing plants for more than 20 weeks each in the coming year—something that had not happened for the last seven years.

FPI shares closed down $1.20 to $7.55 on December 9 on volume of 35,000. When all was said and done, contesting the NEOS bid had cost FPI close to $1 million, lowering overall earnings per share to $0.66 for the year.

OTHER DEVELOPMENTS

FPI stock had traded much more actively than usual during the final quarter of 1999, and among the transactions were significant purchases by Sanford, the New Zealand fishing company. Sanford CEO Eric Barratt indicated that this position in FPI was a long-term investment, not a short-term play due to the takeover bid.

By January 2000, Sanford had accumulated a 15 percent ownership position in FPI, making it equal to FPI's other two other major shareholders, MacKenzie Financial Corporation (a Canadian mutual fund company) and Hamblin Watsa Investment Counsel (a Toronto investment management firm). The next two largest shareholders were another family of Canadian mutual funds and a municipal employees' pension fund, each owning 11 percent.

In this context, Vic Young pondered the upcoming special meeting of shareholders and the many challenges that no doubt lay ahead for him and for FPI in the year 2000 and beyond.

NOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Fishery Products International Ltd. or any of its employees.


3. All currency figures in Canadian dollars, unless otherwise noted.

4. Atlantic Canada is a collective name for the four Canadian provinces located on the east coast of Canada bordering the Atlantic Ocean: Newfoundland and Labrador, Nova Scotia, New Brunswick and Prince Edward Island. The province of Newfoundland and Labrador comprises the island of Newfoundland and the mainland region of Labrador.

5. “Crown corporation” is a Canadian term for a business entity owned by government.

6. A limit on ownership per shareholder was not unprecedented in Canada. Similar conditions had been or were still in place for Air Canada (10%), Petro-Canada (15%), Canadian National (15%) and Canadian banks (10%).

7. Primary processing turned fresh-caught fish into ready-to-market basic products such as loose fillets or into inputs for further processing. Secondary processing, also known as value-added processing, increased the value of fresh-caught fish or primary-processed inputs by adding non-seafood ingredients such as batter, stuffings and sauces to create finished products ready for consumers’ plates.

8. Groundfish, so named as a category because they swim close to the ocean bottom, include cod, flounder, pollock, flounder, redfish, turbot, sole, perch, haddock, greysole, sea bass and yellowtail.
9. Employment Insurance was a program operated by the Government of Canada as a financial safety net to protect Canadians from hardship when they lost their jobs and while they were looking for work. Workers in the fishing industry could qualify for payments under special terms—in some cases, as little as 10-weeks’ work.

10. Shellfish, so named as a category because they have shells, include shrimp, lobster, crab and scampi.


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**COMPASSION CANADA**

*Prepared by Hari Bapuji under the supervision of Professor Glenn Rowe*

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Barry Slauenwhite, chief executive officer (CEO) of Compassion Canada, had reason to be happy when he reviewed the figures of sponsorship growth in 2002. Compassion Canada had grown from 18,684 sponsorships in 2001 to over 21,886 in 2002, a growth of 17 percent against the 11 percent projected for the year. However, Slauenwhite needed to turn his attention to the target of reaching 100,000 sponsorships by 2013. In the last 10 years, Compassion Canada had only doubled its sponsorships. Now, the goal was to achieve a five fold growth in the same amount of time. He needed a strategic plan that was based on a comprehensive analysis of the competitive landscape and resources and capabilities of Compassion Canada.

**COMPASSION INTERNATIONAL INCORPORATED**

Compassion Canada was associated with Compassion International Incorporated, a Christian non-profit ministry dedicated to the long-term holistic development of poor children, particularly those in developing nations. Everett Swanson, an American evangelist established the ministry in 1952 in the basement of his house in Chicago. During the early 1950s, Swanson went to South Korea to preach to soldiers. In Korea, he witnessed the conditions in which many orphaned and abandoned children lived. He was moved by their condition and established the Everett Swanson Evangelist Association (ESEA). He appealed to American sponsors to help the needy Korean children with their schooling, clothing, food and health care. In his words:

> Christians have a responsibility to share with those in need. Surely our homes are the finest in the world, and our children are well clothed and happy. Our tables are spread with good things, and we enjoy many luxuries. Our babies do not need to cry for food or milk. We ought to thank God for His great goodness to America. But while God is good to us, in Korea there are thousands of boys who walk the street carrying a little tin can or pail, begging for a little morsel of bread. More Americans put more in their garbage can every day than Koreans have to eat.

Soon ESEA grew and attracted a large number of supporters who were willing to sponsor the costs of providing food, education and health care to the needy children. In 1963, ESEA changed its name to Compassion International Incorporated. It worked solely in South Korea until it expanded its operations to Indonesia and India in 1968. As of June 2002, its operations spanned over 22 countries in Africa, Asia, the Caribbean, Central America and South America, helping a total of 350,484 children in these countries with food, shelter, health care and education. ESEA consisted of eight entities:
Compassion International Incorporated, the founding entity in the Compassion International Incorporated (United States), Compassion Canada; TEAR Fund Great Britain (Compassion United Kingdom); Compassion Australia; TEAR Fund New Zealand; SEL France; Compassion Netherlands; and Compassion Italia. A brief sketch of Compassion organization is presented in Exhibit 1.

COMPASSION CANADA

Compassion Canada was established in 1963. It began its operations in the basement of a home in Blenheim, Ontario, and moved to its own office suite in London, Ontario, in 1972, shifting to a bigger office space in 1986. Compassion Canada’s activities, as reflected in its mission and purpose, revolved around helping needy children in developing countries in the areas of education, food, health care and overall development.

Mission

In response to the Great Commission, Compassion Canada exists as an advocate for children, to release them from their spiritual, economic, social and physical poverty and enable them to become responsible and fulfilled Christian adults.

Purpose

Assisting children to be:

- Christian in faith and deed
- Responsible members of their family, church and community
- Self-supporting
- Able to maintain their health

In pursuit of its mission and purpose, Compassion Canada found individuals who were willing to sponsor the expenses for children, linked individual sponsors with individual children and helped them maintain that link. Compassion Canada believed that most people cared enough to help needy children, if they could find a dependable and reliable mechanism through which to do so. Compassion Canada aimed to provide that mechanism in an efficient manner so that most of the money collected from the sponsors was spent on the children. In addition, it implemented projects aimed at child development through partnerships with local churches and community members who approached Compassion Canada and were approved through a stringent screening process.

“The child is the absolute key to whatever we do,” said Slauenwhite. The activities of Compassion Canada aptly reflected that. As mentioned, it found sponsors who would support one or more children by giving Cdn$31 per child per month as a tax deductible donation. In addition, Compassion Canada found donors who would support larger projects aimed at developing the communities in which the sponsored children lived. A list of current community projects of Compassion Canada is presented in Exhibit 2.

CHILD SPONSORSHIP

An individual willing to sponsor a child was required to make a tax-deductible donation of Cdn$31 per month to Compassion Canada. Sponsors could choose the child of their choice or request Compassion Canada to randomly select one. The child so sponsored would be enrolled in the project of Compassion Canada and provided education, food and health care. When Compassion Canada enrolled a child in any of its projects, the funds were committed to help the child through to graduation from school (usually until attaining the age of about 16 or 17 years, depending on the education system of the country in which the child lived). However, it was not binding on the sponsor to continue to sponsor a child until this age. Sponsorship could be discontinued anytime.

Compassion Canada facilitated the interaction between sponsor and child. The sponsor was encouraged to write to the child regularly and was allowed to send monetary gifts two times in
Co-ordination with Sponsors and Donors

- Compassion Italia
- Compassion Nederlands
- SEL France
- TEAR Fund New Zealand
- Compassion Australia
- TEAR Fund Great Britain (Compassion United Kingdom)
- Compassion Canada
- Compassion International Incorporated (U.S.)

Examples of Project Co-ordination & Administration

- Compassion Project Office – Dominican Republic
- Compassion Project Office – Ethiopia
- Compassion Project Office – Guatemala
- Compassion Project Office – Mozambique
- Compassion Project Office – Tanzania
- Compassion Project Office – Uganda

Project Implementation

- Local Implementing Partners
- Local Implementing Partners
- Local Implementing Partners
- Local Implementing Partners

Exhibit 1  Schematic Diagram of Compassion Activities
EDUCATION

Vocational and Primary Education

These projects focus on skills development for young people. Compassion Canada's primary education efforts are presently related to programs with children that fall outside of standard child development work (e.g., street children). Vocational training involves essential life trade skills for teens in areas such as carpentry, metal-work, hairdressing, tailoring and other clothing pattern work.

Current Projects

- Bujora Children's Home Vocational Training Centre—Tanzania
- Casa de Plastilina Children's Education—Mexico
- Community Leaders Educated AIDS Response (CLEAR) Phase II—Kenya
- Kumi Staff Training—Uganda
- Mukura Technical School Expansion—Uganda
- Ukuru Community Development—Uganda

HEALTH

Primary Health Care

Compassion Canada’s primary health-care partnerships focus on important preventative measures—like immunization, personal hygiene, nutrition, and health training for mothers with children under five years of age.

Current Projects

- Children's Medical Program: House of Hope—Haiti
- Children's Medical Program: Kiwoko Hospital Community Health Care—Uganda
- Community Leaders Educated AIDS Response (CLEAR) Phase II—Kenya
- Dessalines Community Health Program—Haiti
- Rubirizi Gravity Flow Water Project—Uganda
- Ukuru Community Development—Uganda

CLEAN WATER

Clean-Water Supply

Compassion Canada supports initiatives aimed at supplying clean water to families. This may take the form of gravity-fed water systems in mountainous areas, well drilling or spring capping. Often the projects also include a sanitation component, such as the building of pit latrines, as uncontaminated water and effective waste management measures need to be in harmony.

Current Projects

- Agwata Water and Sanitation—Uganda
- Rubirizi Gravity Flow Water Project—Uganda

Exhibit 2

Community Project Types

(Continued)
a year. Compassion Canada suggested that such gifts be in the range of $15 to $40. Implementation agencies helped the child in writing to his/her sponsor three times in a year. Compassion Canada sent the sponsor periodic updates on the progress of the child. In addition, it sent a biannual publication (Compassion Today) that featured Compassion Canada’s work worldwide and a newsletter about Compassion Canada’s work in the country where the child lived. If a sponsor decided to visit his/her child, Compassion Canada provided translators and gave out necessary information to the sponsor. The customer service centre of Compassion Canada handled the interaction with all sponsors.

Compassion Canada was very particular about emphasizing its belief in Christianity and its philosophy of using the Christian message to help develop each child and that child’s family. It believed that church was a reliable and dependable infrastructure in most parts of the world. Therefore, it partnered only with churches and Christian agencies to support each child and to implement community projects. It focused on obtaining sponsorships from Christians, particularly the Evangelical Christians because Christians have a “biblical obligation” to help the poor. Of Compassion Canada’s over 20,000 sponsor-base, 60 percent were Evangelical Christians while 37 percent were other Christians. The remaining three percent were non-Christians who shared the philosophy of Compassion Canada in its entirety.

It is not simply child sponsorship that we are interested in but child development in a Christian way. If we have a large number of non-Christian sponsors, it
would be difficult for them as well as for us. There were occasions when we turned down offers of huge money from some donors because they did not share our philosophy. They would either ask us to work on areas that we were not interested in or ask us to be secular. In fact, we even stopped actively approaching the Canadian government for financial support because it expected agencies that received government aid to maintain a secular nature in their activities. In addition, government aid had the potential of diverting a large part of our energies towards interfacing with them.

—Barry Slauenwhite, CEO

In the past, Compassion Canada targeted all segments of the population, including young and high school-age sponsors who were more ready to lend a helping hand. However, over time, the focus has been refined to target young married couples and post high school sponsors who tended to remain sponsors for a longer time. Compassion Canada enlisted the support of sponsors largely through promotion and advertising. It adopted a multipronged approach to promotional campaigning. First, it deployed Christian speakers and artists who supported Compassion Canada and were willing to promote its cause as part of their speaking or singing engagement. These artists became the ambassadors of Compassion Canada’s cause. Second, it advertised on a growing network of 15 Christian radio stations throughout Canada. Third, it requested sponsors to promote its cause, in what was termed “Awareness to Advocacy.” Sponsors were encouraged to approach pastors to promote Compassion Canada one Sunday each year; the Sunday selected was the last Sunday in May. Further, sponsors were encouraged to enrol new sponsors and volunteer their own time and effort to promote the cause of Compassion Canada.

Compassion Canada acquired sponsors through many ways. It participated in Christian events such as Kingdom Bound, Creation West, Teen Mania, Missions Fest Edmonton, and YC Edmonton. It helped sponsor these events and used them to promote the concept of child sponsorship and enrol new sponsors. It received sponsorships as a result of the Compassion Sunday that was held in churches. Speakers and artists who promoted the cause of Compassion Canada often persuaded their audience members to sponsor children. Compassion Canada’s own staff, volunteers, existing sponsors, Internet and the Compassion Today magazine were other sources through which new sponsors were acquired. Acquisition of sponsorships through each of these sources is presented in Exhibit 3.

Acquiring sponsors was not an easy task and required investment of resources in advertising and marketing. Compassion Canada believed that it was important to be cost-effective, not only in sponsor management but in the sponsor acquisition as well. Accordingly, the ministry strived to bring down these costs continuously each year. In 2001, Compassion Canada spent an average of $103 to acquire a sponsor, whereas in the years 1999 and 2000, the costs were $121 and $130, respectively.

Compassion Canada strived to ensure that overhead costs (cost of raising funds and administration costs) were less than 20 percent and program costs (costs towards child support, grants and services, field services, sponsor ministry and gifts in kind) were over 80 percent. A breakdown of the costs over the last five years is presented along with a pictorial representation of how sponsorship money was spent in Exhibit 4.

Compassion Canada consisted of 27 full-time employees. Besides the full-time employees, many individuals who shared its cause volunteered their services. These volunteers attended the office as per a prearranged work schedule and performed activities such as mailing, reading letters, sending letters, etc. About 40 volunteers performed the work of three full-time staff members in 2002. Availability of staff was reviewed every quarter to ensure that an appropriate number of employees were available to smoothly manage the operations. An additional employee was hired for every 1,000 new sponsorships expected. When a new employee was
hired, besides the qualifications, their sense of commitment to Compassion Canada’s cause and philosophy was evaluated. Typically, Compassion Canada employees were over-qualified for their jobs but joined because they had “a sense of calling” and decided to do something that was intrinsically satisfying. Each employee was trained in Compassion Canada’s systems department for a period of six months before being given a formal responsibility. Compassion Canada had not laid off any employee in its 40-year history although some were asked to leave for reasons of under-performance.

When an employee had served Compassion Canada for a period of five years, that person was sent to visit one of the overseas projects to meet with sponsored children and to witness in person the real impact of their work. Major events and achievements were celebrated within Compassion Canada. For example, when Compassion Canada crossed the 20,000 sponsorships mark, Slauenwhite organized a huge dinner for the employees because crossing that mark meant that Compassion Canada had “changed the lives of 20,000 children.”

Compassion International Incorporated, with which Compassion Canada was associated, relied heavily on planning and co-ordination. Consequently, Compassion Canada was required to send monthly projections of its growth to Compassion International Incorporated. These projections were made one year in advance and were based on sound planning. Each of the projections was supported by the campaign events planned, number of people expected to attend and the number of people likely to become sponsors. When an individual became a sponsor, their profile was prepared and added to the sponsor database. These profiles were periodically analysed to understand the characteristics so that persons with similar profiles could be targeted in the future for child sponsorships. Although the growth in Compassion Canada was high, it was controlled growth.

**CHILD DEVELOPMENT STRATEGY**

Compassion Canada’s approach to child development was different from the approach of other...
similar organizations. The organization believed that to develop a child, one must help the child directly by providing food, education, health care, shelter and spiritual development in a Christian way. Accordingly, Compassion Canada focused most of its energies on child sponsorship. Other agencies followed a somewhat different strategy. They focused their energies on helping the communities and families to become self-sufficient. Focus on children was, therefore, not as visible in their projects and activities, although their mission was “child development.”

Most of the child sponsorship agencies followed a community-based approach to child development, while Compassion Canada employed a direct approach in which the child sponsorship money was spent exclusively on child development by linking the sponsor and the child on a one-to-one basis.

### Typical distribution of sponsorship income

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<tr>
<td>Raising funds</td>
<td>838,367</td>
<td>722,639</td>
<td>676,558</td>
<td>660,881</td>
<td>646,761</td>
<td>601,032</td>
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<tr>
<td>Administration</td>
<td>522,267</td>
<td>495,512</td>
<td>430,420</td>
<td>438,813</td>
<td>335,638</td>
<td>328,519</td>
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<tr>
<td>Child support</td>
<td>6,311,438</td>
<td>5,407,600</td>
<td>4,842,005</td>
<td>4,498,724</td>
<td>3,482,028</td>
<td>3,215,897</td>
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<tr>
<td>Sponsor ministry</td>
<td>431,236</td>
<td>442,808</td>
<td>315,630</td>
<td>266,564</td>
<td>294,198</td>
<td>273,411</td>
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**Notes:**
- *Child support* component reflects the money used to provide learning opportunities for registered and sponsored children.
- *Sponsor ministry* supports letter translation, pays cost of child photographs and other incidental expenses related to strengthening the relationship of child and sponsor.

**Exhibit 4**  Usage of Sponsorship Income (1997 to 2002)

*Source: Company files.*
basis. Compassion Canada's other programs ran parallel to child sponsorship and supported child development in an indirect manner. The organization raised money for community projects through a separate stream, and utilized them and accounted for them under a separate heading. On the other hand, the money raised by the organizations that followed the community-based approach was pooled together and centrally allocated for various projects aimed at child development, including direct benefits to children in the form of education, food and health care. Among the child sponsorship agencies in Canada, World Vision Canada, Foster Parents Plan and Christian Children's Fund of Canada were prominent competitors for the sponsorship revenue that Compassion Canada needed to fulfil its mission. Financial and other details of these organizations and Compassion Canada are presented in Exhibit 5.

**World Vision Canada**

World Vision Canada (WVC) was “a Christian humanitarian organization that reached out to the World’s poor.” It was established in 1950 to care for orphans in Asia. WVC worked to “create a positive and permanent change in the lives of people suffering under the oppression of poverty and justice through long-term sustainable development.” WVC’s approach to child development was based on its community-based strategy, i.e., to initiate projects that were aimed at community development so that the community itself became self-sufficient over time and took care of its children. It developed an area development program (ADP) model to help communities achieve sustainable development. Activities included emergency relief (in cases of natural calamities such as drought, floods, earthquake, etc.), health related projects (such as tuberculosis, AIDS and nutritional health projects), and long-term development projects (such as sanitation, irrigation, vocational training and farming).

Almost 80 percent of WVC’s funding came from private sources, including individuals, corporations and foundations. The remainder came from governments and multilateral agencies. Besides the cash contributions, WVC accepted “gifts in kind,” typically food commodities, medicine and clothing donated through corporations or government agencies.

Approximately half of WVC’s programs were funded through child sponsorship. In 2001, more than 207,000 Canadians supported its child sponsorship program. The money so received from Canada and other countries across the world was pooled together and centrally allocated to projects that were designed to support 1.6 million children in 40 countries.

**Foster Parents Plan**

Foster Parents Plan (FPP) of Canada was a member of Plan International, which was founded in 1937, as “Foster Parents Plan for Children in Spain” to help children whose lives were disrupted by the Spanish Civil War. With the outbreak of the Second World War, Plan International extended its work to include displaced children within war-torn Europe in the 1940s. Gradually, its operations expanded to other countries and as of 2001, it was organized into 16 national organizations, of which Canada was one (also known as donor countries), an international headquarters and over 40 program countries.

FPP implemented projects in health, education, water, sanitation, income-generation and cross-cultural communication. Most of the funds for its community projects came from individual sponsors. FPP actively involved local communities in setting up and implementing projects, including families and children. Its motto was “sustainable development: a better world for children now and in the long-term future.” FPP believed that to help a child in a lasting way, the organization must also help that child's family and the local community to become self-sufficient.

FPP identified the countries in need of development work with the help of a number of criteria, such as infant mortality rates (more than 25 deaths per 1,000 live births), per capita gross national product (less than US$1,700), and
physical quality of life index (less than 80). As of 2001, about 111,000 children were sponsored by Canadians, and more than 1.3 million children were sponsored throughout Plan International worldwide.

After identifying the need, FPP worked in partnership with local non-government organizations and communities to effectively reach its goals. It aimed to work with them as long as was necessary to strengthen their capacity to provide their children with stability, protection and security in a sustainable way. Each community project took at least 10 to 12 years to achieve sustainable development.

<table>
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<tr>
<th>Item</th>
<th>Compassion Canada</th>
<th>Foster Parents Plan</th>
<th>World Vision Canada</th>
<th>Christian Children's Fund of Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child Sponsorship Income</td>
<td>7,065,231</td>
<td>36,892,048</td>
<td>131,082,000</td>
<td>9,960,794</td>
</tr>
<tr>
<td>Government Grants</td>
<td>185,391</td>
<td>2,507,319</td>
<td>21,292,000</td>
<td>317,568</td>
</tr>
<tr>
<td>Investment Income</td>
<td>161,160</td>
<td>577,698</td>
<td>274,000</td>
<td>n.a.</td>
</tr>
<tr>
<td>Other Income¹</td>
<td>890,045</td>
<td>2,294,478</td>
<td>43,074,000</td>
<td>16,962,304</td>
</tr>
<tr>
<td>Total Income</td>
<td>8,301,827</td>
<td>42,271,543</td>
<td>195,722,000</td>
<td>27,240,666</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Expenses²</td>
<td>6,690,790</td>
<td>33,575,328</td>
<td>157,002,000</td>
<td>22,633,973</td>
</tr>
<tr>
<td>Fundraising³</td>
<td>1,026,443</td>
<td>5,233,845</td>
<td>27,675,000</td>
<td>2,296,944</td>
</tr>
<tr>
<td>Administration</td>
<td>559,143</td>
<td>3,463,798</td>
<td>8,463,000</td>
<td>1,610,020</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>8,276,376</td>
<td>42,272,971</td>
<td>193,240,000</td>
<td>26,540,937</td>
</tr>
<tr>
<td>Surplus</td>
<td>25,451</td>
<td>(1,428)</td>
<td>2,482,000</td>
<td>699,729</td>
</tr>
<tr>
<td>Number of Children Sponsored⁴</td>
<td>18,684</td>
<td>110,000</td>
<td>272,186</td>
<td>n.a.</td>
</tr>
<tr>
<td>Number of Sponsors</td>
<td>15,945</td>
<td>n.a.</td>
<td>223,995</td>
<td>n.a.</td>
</tr>
<tr>
<td>Sponsorship Cost in Cdn$</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>(per month per child)</td>
<td></td>
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</tbody>
</table>

Exhibit 5  Financial and Operational Details of Compassion Canada and Other Organizations (as of 2001)

Notes:
1. Other income includes income in the form of bequests, value of goods donated, and grants and donations for one or more specified or non-specified causes.
2. Expenses on all programs except in the case of Compassion Canada (where they pertain only to the expenses on child sponsorship).
3. Compassion Canada costs mentioned under two heads: marketing and community development
4. Foster Parents Plan figure based on the information on the Web whereas figures of other agencies are taken from their annual reports.

Source: Company files.
In 2001, when Canadian contributions were combined with those of other supporters around the world, over $365 million went to program implementation. Of this amount, over 24 percent was spent on habitat projects, roughly 20 percent on education, over 11 percent on health, 12 percent on building relationships and six percent on livelihood.

**Christian Children’s Fund of Canada**

Christian Children’s Fund was founded in 1938 by Dr. J. Calvitt Clarke, a Virginia missionary, to care for Chinese-Japanese war orphans. He called it the China Children’s Fund. It expanded into Europe during the Second World War and became Christian Children’s Fund. CCF Canada (CCFC) was formed in 1960. As of 2001, more than 600,000 children were supported by CCFC and its International Co-operative of Christian Children’s Fund around the world.

CCFC believed in making the communities self-sufficient so that children were taken care of by the community in the long run. The sponsorship amount received each month was spent on “providing food, clothing, shelter, medical care, education, school supplies and love to the sponsored” child. It was also spent to provide food, health care, vocational training, and agricultural expertise to the sponsored child’s family and to the child’s community. CCFC’s projects included clean water wells, immunization programs and micro-enterprise training.

The organization derived its revenue mainly from monthly sponsorship support for children, families and communities. Other sources of support were: donated goods and contributions, general contributions and bequests from public, and restricted or specific contributions that were donated for a particular purpose or project.

**Compassion Canada’s Target of 100,000 by 2013**

Barry Slauenwhite, the chief executive officer of Compassion Canada, believed in taking a professional approach to the management of non-profit organizations. With experience in industry and pastoral service and the sense of God’s calling in his heart, he was in a perfect position to professionalize and grow the activities of Compassion Canada.

Compassion Canada had set itself a target of 100,000 child sponsorships by 2013. To achieve that target, the organization needed to reach its projected figure of 26,150 for 2003 and then grow at the rate of 15 percent per year. Projections and growth in child sponsorships over the past few years are presented in Exhibit 6. Reaching the figure of 100,000 in 2013 would be a great achievement for Compassion Canada for it would mark two milestones: 50 years of operations and 100,000 children.

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<tbody>
<tr>
<td>Projected</td>
<td>20,775</td>
<td>17,800</td>
<td>16,473</td>
<td>15,732</td>
<td>14,898</td>
<td>14,196</td>
<td>13,330</td>
<td>12,310</td>
</tr>
<tr>
<td>Actual</td>
<td>21,886</td>
<td>18,684</td>
<td>16,659</td>
<td>15,377</td>
<td>14,505</td>
<td>13,556</td>
<td>12,818</td>
<td>12,088</td>
</tr>
</tbody>
</table>

Source: Company files.
If you are an entrepreneur, you are already in a leadership position. An important question you need to ask is: what type of leadership do I exercise? Answering this question may determine how your business will perform in the future. This article describes three types of leadership (Managerial Leadership, Visionary Leadership and Strategic Leadership) and the expected consequences of each on future business performance.

**MANAGERIAL LEADERSHIP**

Some entrepreneurs exercise managerial leadership. As managerial leaders they influence only the actions/decisions of those with whom they work and are involved in situations and contexts characteristic of day-to-day activities.

They may make decisions that are not subject to value-based constraints. This does not mean that they are not moral or ethical people, but that as entrepreneurs they may not include values in their decision-making because of certain pressures such as enhancing profitability.

These leaders are driven by bottom-line agendas that affect financial performance in the short-term. They want to maintain stability and to preserve the existing order. They are more comfortable handling the day-to-day activities, and are short-term oriented.

Managers will, at best, maintain wealth that has already been created and may even be a source for future wealth destruction as they are generally unwilling to invest in long-term investments such as, human resource training and development, promotion, marketing, capital investment, and capital renewal.

Table 1 summarizes characteristics of managerial leaders, visionary leaders and strategic leaders.

**VISIONARY LEADERSHIP**

Most entrepreneurs are visionary leaders who influence the opinions and attitudes of others within the organization. They are concerned with insuring the future of an organization through the development and management of people.

Their task is multi-functional, more complex and integrative. Visionaries are more likely to make value-based decisions and are more willing to invest in innovation, human capital, and creating/maintaining an effective culture to ensure an organization’s long-term viability.

Not only is visionary leadership future-oriented, but it is concerned with risk-taking. Furthermore, visionary leaders are not dependent on their organizations for their sense of who they are. Under these leaders, organizational control is maintained through socialization and the sharing of, and compliance with, a commonly held set of norms, values, and beliefs.

It is imperative that entrepreneurs exercise visionary leadership to ensure the long-term viability of the organizations they lead. However, organizations that are led by visionaries without the constraining influence of managerial leaders are probably more in danger of failing in the short-term than those led by managerial leaders. Since visionary leaders are willing to risk all, they may inadvertently destroy the organization and destroy wealth.

**STRATEGIC LEADERSHIP**

"Strategic leadership presumes that entrepreneurs and their employees have a shared vision of what your organization is to be."
Strategic leadership is defined as the ability to influence your employees to voluntarily make decisions on a day-to-day basis that enhance the long-term viability of the organization while at the same time maintaining the short-term financial stability of the organization.

Entrepreneurs and employees make decisions every day as they interact with their firm’s stakeholders, customers, suppliers, the communities in which they operate, and each other. What needs to be addressed is: are these decisions in accordance with the strategic direction of the organization?
organization? Will these decisions enhance the future viability of the organization, as well as the short-term financial stability? The answer is ABSOLUTELY.

It makes sense to suggest that if you can count on employees to voluntarily make decisions that benefit the organization, entrepreneurs will not have to expend as much effort on monitoring and controlling their employees. Further, entrepreneurs will have more capacity to examine what the organization needs to do, both in the short and long term.

On the other hand, if employees do not know the strategic direction of the organization they may inadvertently make decisions that damage it. Influencing subordinates to voluntarily make decisions that enhance the organization is the most important part of strategic leadership.

Noel Tichy argues that, “When you can’t control, dictate or monitor, the only thing you can do is trust. And that means leaders have to be sure that the people they are trusting have values that are going to elicit the decisions and actions they want.”

As presented above, the definition of strategic leadership presumes an ability to influence one’s employees. It further presumes that the entrepreneur understands the emergent strategy process given that it has a greater impact on performance than the intended strategic planning process. This is related to understanding the importance of voluntary decision-making.

The decisions voluntarily made and the actions voluntarily taken by employees on a day-to-day basis eventually determine what strategy will emerge. Entrepreneurs who are strategic leaders understand and utilize this emergent process to ensure the future viability of their organizations.

Strategic leadership presumes that entrepreneurs and their employees have a shared vision of what the organization is to be so that day-to-day decision-making, or emergent strategy process is consistent with this vision. It presumes agreement between entrepreneurs and their employees on the opportunities that can be taken advantage of, and the threats that can be neutralized, given the resources and capabilities of their organization.

Entrepreneurs need to develop the skills and abilities that are required to exercise strategic leadership. Those few that are managerial in nature need to develop their visionary side and those who are visionary need to develop their managerial side. To demonstrate that entrepreneurs need to exercise strategic leadership two entrepreneurs who made a difference to their firms and to their industries will be discussed next.

"Without effective strategic leadership, the probability that a firm can achieve superior or even satisfactory performance when confronting the challenges of the global economy will be greatly reduced."

—R. Duane Ireland and Michael A. Hitt

TWO ENTREPRENEURS WHO WERE STRATEGIC LEADERS

Konosuke Matsushita is the founder and former CEO of Matsushita Electric. At $49.5 billion, his revenue growth was the highest of any 20th century entrepreneur. The next closest were Soichiro Honda at $35.5 billion and Sam Walton at $35.0 billion. Matsushita was an incredible visionary who demanded revenue growth but with even more dramatic profit growth. One story describes how he told his senior managers that within five years he wanted revenue growth to quadruple and profit to more than quadruple. This goal was achieved in four years. How did he do this? Matsushita concentrated on creating products for his customers that created value in their minds that was greater than what they expected. However, he always wanted it done at a profit for his company. Matsushita’s long-term vision was for the products his companies sold to create worldwide prosperity in such a way that in several hundred years there would be world peace.

The second entrepreneur is Bob Kierlin. Kierlin is the CEO of Fastenal, a company that sells nuts and bolts. His leadership style is characterized by employee empowerment,
participation, wage compression (he pays himself $120,000 US per year) and promotion from within. However, he strongly encourages profitable revenue growth. This has been very beneficial for his employees, customers, and shareholders. In 1998, Fastenal’s market value added was $0.077B—it was $1.609B in 1996—an increase of $1.53 billion. Kierlin started Fastenal in 1967 because he was unhappy with the bureaucracy at IBM.

These strategic leaders believed that their decisions would affect their companies’ environments. They put great emphasis on achieving their visions by influencing the attitudes as well as behaviours of their employees. Moreover, they also ensured that their visions were achieved in a manner that was best for their employees, customers, and shareholders. In essence, these leaders were able to manage the paradox of investing strategically in their employees, in promotion through advertising, in research and development, and in capital equipment while still ensuring that their organizations were financially stable in the short term.

THE PARADOX OF LEADING AND MANAGING

A recent Statistics Canada study found that the two most important reasons for the bankruptcies of small-to-medium-size firms were (1) poor overall management skills, such as lack of knowledge, lack of vision, and poor use of outside advisers, and (2) imperfect capital structures due to either institutional constraints or managerial inexperience.

The authors argue that managers in small firms need to be trained in general management and financial management skills. It is interesting that this study found a need for visionary and managerial leadership in small-to-medium-size firms just as it is needed in large firms such as General Motors and IBM.

Being a strategic leader is exciting as you create chaos, make mistakes, get occasionally rapped on the knuckles by your employees, and even occasionally have to apologize to your employees for creating too much disorder before they were ready for it. But the rewards are worth it as those with whom you work become energized and more productive—they accomplish more in less time and do not have to work dreadfully long days away from their families. Employees come to enjoy work more, as they become more creative and innovative, and more prone to taking risks because they know this enhances long-term viability.

Working through the paradox of leading and managing is an exciting challenge. One that is demanding and difficult, but one that is achievable for entrepreneurs. Entrepreneurs should start thinking of themselves as strategic leaders who have to accept and merge the visionaries and managerial leaders in their organizations. Fight against the constraining influence of financial controls and fight for the exercise of strategic and financial controls with the emphasis on strategic controls. The reward will be wealth creation and the achievement of above normal performance.