20 Questions

Directors of Not-For-Profit Organizations Should Ask about Strategy and Planning

Hugh Lindsay, FCA, CIP

How to use this publication

Each "*20 Questions*" publication is designed to be a concise, easy-to-read introduction to an issue of importance to directors. The question format reflects the oversight role of directors which includes asking a lot of questions. For each question there is a brief explanatory background and some recommended practices.

The questions are intended to be relevant to most not-for-profit organizations. The "answers" or comments that accompany the questions summarize current thinking on the issues and practices of not-for-profit governance. There are many views on the best way to govern and manage not-for-profit organizations and a number of governance models. This document describes general principles that apply in most situations. If your organization has a different approach, you are encouraged to test it by asking if it provides a valid answer to the question.

After the comments there are lists of recommended practices that directors can use to assess their understanding of their organization and to prompt further questions if they are not fully satisfied with the answers. They represent aspirations, not absolute standards that must be met immediately.

Directors who come from a for-profit business may find that their experience, although helpful, will not always provide the best answers in the not-for-profit environment. Appendix 1 compares and contrasts corporate and not-for-profit governance.

Readers who want more details on specific topics may refer to the section on "Where to Find More Information." Most of the CICA *20 Questions* series of publications for directors were written for business boards but are relevant to not-for-profit boards.

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INSTITUTE OF CORPORATE DIRECTORS

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Preface

The Risk Management and Governance Board of the Canadian Institute of Chartered Accountants (RMGB) has developed this briefing to help members of not-for-profit boards of directors understand their responsibility for strategy, planning and budgeting. It is intended primarily to help not-for-profit directors understand:

- The role of the board in developing and approving strategy, plans and budgets
- The reasons for planning and budgeting
- The processes by which strategies, plans and budgets are typically developed and approved.

Not-for-profit organizations are very diverse and range from small all-volunteer groups to large, sophisticated enterprises. This document is primarily intended for organizations with an executive director and staff resources who can prepare the strategic and operational plans and budgets with strategic direction and approval from the board.

Strategic Planning is most likely to be effective when the organization has a carefully selected and well-balanced board that practices good governance as described in CICA's *20 Questions Directors of Not-For-Profit Organizations Should Ask about Governance.*

The Risk Management and Governance Board acknowledges and thanks the members of the Not-for-Profit Organizations Task Force for their invaluable advice, Hugh Lindsay, FCA, who wrote this briefing under their guidance and the CICA staff, who provided support to the project.

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Introduction

The sustainability of a not-for-profit organization – its ability to continue and fund its activities year after year – is a major responsibility of the board. Directors need to understand why the organization exists, the interests of its stakeholders and how it manages the risks it faces. They should also be actively involved in the development and approval of its strategy.

An organization's "strategy" involves:

(1) the determination of long term goals (i.e., mission, vision and values) and objectives which reflect
   (a) the relationship that the organization wishes to have with its different stakeholder groups and,
   (b) in particular, how the organization intends to address important stakeholder needs; and

(2) the identification of the scope of the activities or programs through which those goals and objectives are to be achieved.[1]

While other definitions of strategy exist, this approach is one that answers the essential questions of strategy with which every not-for-profit board member should be concerned.

The strategy should be approved by the board of directors and reviewed at least annually. Even where the strategy does not radically change, the process of revisiting it can help to reenergize, refocus and renew the organization.

Operational Planning and Budgeting are the processes for deciding what the organization's staff and volunteers will do to support the strategy in the next year or years, what this will cost and where the money will come from. The board should also approve the plans and budgets which are generally prepared by the organization's staff. Board members who are more familiar with business planning may find the comparison between corporate and not-for-profit governance in Appendix 1 to be helpful.

This document has three sections:

Strategic Planning
Operational and Capital Planning and Budgeting
Monitoring and Learning

1 Adapted from: "Lasting inspiration" by Christopher K. Bart, in CAMagazine, May, 2000, pp. 49-50

Strategic planning can be described as determining where the organization is now, where it would like to be in the future, and how it intends to get there.

Most not-for-profit organizations start off with a fairly clear idea of what they want to accomplish and what they stand for. The founding members spend time talking about these things and, if they incorporate, they write them down as the purpose of the organization.

Over time, the original passion and energy can get diluted by practicalities and problems, circumstances and needs may change and the organization risks losing its sense of purpose, relevance and commitment. Strategic planning is a way to invigorate and strengthen an organization by establishing longer range objectives and focusing on the important - not just the urgent. The results of planning provide information for members and funding sources.

Strategic planning also provides guidance to staff and volunteers for developing work plans, projects and budgets and for the effective management of resources.

A strategic plan describes how an organization intends to move from where it is now towards its vision in accordance with its **mission**, **values** and **tolerance for risk**. In so doing it plans to use its **strengths** to take advantage of **opportunities**, remedy its **weaknesses** and to avoid or mitigate **threats**. The plan also establishes how the organization will measure progress in meeting its objectives. This section explores these concepts and concludes with discussions of the responsibilities for planning and of how the planning elements described above can fit into a planning process. (Questions 11 and 12)

Appendix 2 is an example of how all the elements in the planning process can fit together.

Visions

"Creating a world where no Canadian fears cancer."
Canadian Cancer Society

"Queen's University will be recognized as an innovative, inclusive and rigorous community of learning and discovery that is committed to serving as a national resource for the betterment of our global society."
Queen's University

1. What is the organization's vision?

There are no formal rules for visions – what organizations want to accomplish. Organizations adopt visions that work for them and inspire their members, staff and supporters. For example: vision statements may describe:

- how things would be different as a result of the organization's activities
- how the organization wants to be seen by others

Good visions are aspirational. Some are hard-to-reach ideals as in Martin Luther King's memorable words "I have a dream…". Others are more modest or describe objectives that are achievable in the present or near future. In either case, the vision helps establish the unique contribution that the organization makes to society (the "value proposition" in business language) and provides justification for support from its community, members, donors, sponsors and government.

From a practical perspective a vision can be a quick, memorable way to describe the organization's reason for being. This can be valuable in times of difficulty or crisis when it helps to remember what is really important. For these and other reasons, the vision is often published in the organization's annual reports, brochures and fund-raising materials.

Recommended practices

- The vision clearly explains what the organization aspires to accomplish
- The board approves the vision
- The vision is communicated to staff, volunteers, members and other stakeholders

Vision and Mission

Active Healthy Kids Canada
Our Vision: A nation of active, healthy kids.
Our Mission: Active Healthy Kids Canada is committed to inspiring the nation to engage all children and youth in physical activity.

2. How does the organization's mission support its vision?

The mission typically describes, in general terms, what an organization does to achieve its vision. Most missions emphasize action using such words as: support, involve, assist, contribute, provide, promote, etc. Because the vision is often expressed as a dream or ideal, the mission helps clarify the practical aspects of what the organization will actually do.

A good way to begin the review of the mission is to refer to the organization's incorporation documents or equivalents. When an organization applies to be incorporated it must provide a description of its "purposes" - what it plans to do – which must meet prescribed eligibility requirements for not-for-profit and (if applicable) charitable status. Once approved, it may be that the purposes can only be changed by application to the government body responsible for such organizations.

The mission statement may be the same as the legal purposes or a restatement of the purposes in words that are more compatible with the organization's culture and style. It must not, however, go beyond the purposes to cover activities which the organization is not legally authorized to do. Most purposes are sufficiently broadly phrased and this is not usually a problem.

A good mission statement is concise and precise. By summarizing what the organization wants to do it answers the questions "Who are the stakeholders we want to help?" and "How will we do this?"

Recommended practices

- The mission is compatible with the organization's legal purposes and its vision
- The mission clearly identifies the organization's key stakeholders and how the organization will serve them
- The board approves the mission
- The mission is communicated to staff, volunteers, members and other stakeholders

Missions

Scouts Canada

To contribute to the education of young people, through a value system based on the Scout Promise and Law, to help build a better world where people are self-fulfilled as individuals and play a constructive role in society.

United Way of Halifax Region

Through development and investment of resources, United Way of Halifax Region will bring people and organizations together to strengthen neighbourhoods and build community capacity.

3. What are this organization's values?

Not-for-profit organizations usually expect their strategies to be compatible with their values – the members' beliefs about the right way to do things. Shared values influence everything the organization does, its relationships with its stakeholders, and its reputation. They include the standards of openness and honesty that are practiced by the board and followed by staff and volunteers throughout the organization. These generally include complying with laws and regulations[2] but often extend beyond. Values may be expressed as beliefs, as guidelines or as rules.

A code of conduct can be a valuable way to describe, clarify and communicate values. Organizations should adopt a code of conduct appropriate to their strategy, communicate and reinforce it, and review it regularly.

Many organizations find it appropriate to have a code of conduct that is comparable to those of other organizations in the same field of activity. The codes of professional and other associations – (e.g. accountancy, law, education, medicine, sports, museums, libraries, etc) can be helpful starting points for developing or adapting a code to fit the specific needs of an organization.

2 Some advocacy groups may contest or reject laws they consider wrong and in need of change.

Values are important when decisions must be made – even if the subject is not covered by laws or regulations. Some examples: some organizations will not accept grants or donations from sources with whose activities or positions they disagree, and groups that organize sports programs for young children may promote cooperation, learning and fun over competition and winning.

Recommended practices

- The organization has a statement of its values
- The organization's strategies are consistent with its values
- The board approves the values and (where appropriate) the code of conduct
- The values and code are communicated to staff, volunteers, members and other stakeholders

See CICA's *20 Questions Directors Should Ask about Codes of Conduct*

Values

Canadian Red Cross

Integrity and accountability
Ethical practices
Quality
Caring and compassion
Client-focused
Responsiveness

Manitoba Theatre Centre

Quality and Balance. Quality is reflected in the writing of each play and in the actors, directors and designers who create them. Balance is evident in the variety of our playbill.

4. Who are the organization's key stakeholders and what do they expect?[3]

Who are we trying to serve? Who provides our funding? Who works with us or for us?

Many people and organizations ("stakeholders") can be involved in not-for-profit organizations. These can include:

- The clients or customers who benefit from the activities
- The members – the "owners" or supporters of the organization
- The executive director, general manager or chief executive officer
- Employees
- Volunteers
- Partners
- Funding agencies – including government and private foundations
- Donors
- Business sponsors
- The community in which the organization operates

The success of a not-for-profit organization often depends on identifying and having good relationships with its key stakeholders and meeting their expectations. This can be challenging when the expectations vary among stakeholders or are not compatible with the interests of the organization. Boards must be sure that their organization understands and respects stakeholder expectations but does not let them override its values and strategy. For example: an organization may find it necessary to decline a generous offer of a donation from a long-time supporter if the money would come with conditions that are incompatible with the organization's values.

Recommended practices

- The organization has identified its key stakeholders
- The strategy addresses stakeholder needs

3 The material in this question is taken from CICA's *20 Questions Directors of Not-for-profit Organizations Should Ask about Governance* (Question 4).

- The organization operates in a way that respects stakeholders and seeks to meet their expectations - without letting them override the organization's values
- The organization monitors stakeholder satisfaction on a regular basis

5. How does the organization get the money to fund its activities and programs?

There are many ways to fund a not-for-profit organization. Each organization should aim to develop a funding strategy that is appropriate to its mode of operating, its mix of core program and project activities, and its funding priorities. These three types of activity each have different funding needs and opportunities – which can vary among organizations.

Core activities are those that are essential to the organization's sustainability – its capacity to exist and provide reliable delivery of its primary services. The activities typically include program delivery and the provision of resources to support them (buildings, equipment, supplies, information systems, etc). Core activities require the most predictable and secure funding which may come from such sources as endowment and investment income, membership dues, sustaining grants from governments, United Way grants, and well-established donor development programs.

Non-core program activities extend the organization's capacity to provide important services. If necessary the organization can contract or discontinue them and still be relevant. Non-core program activities can benefit from the same funding sources as core activities. They may also generate their own revenues (fees, ticket and retail sales, etc), be eligible for special-purpose government grants and secure sponsorship from businesses. In some cases, donors and sponsors may prefer to designate the support to programs rather than the organization itself because they do not want to fund what they see as administrative overhead.

Project activities typically address special, one-time needs that could be deferred or cancelled if funding is not available – even though they offer significant benefits. They include responding to emergencies and opportunities to improve the organization's effectiveness – new buildings, equipment, systems, etc. Project activities may be funded from the previous sources or through specific appeals and grant applications. These include capital fund-raising campaigns, short-term project (or start-up) grants from charitable foundations and government grants programs that match the amounts raised by organizations.

In the short term, most organizations may not be in a position to change their basic funding model. They should, however, regularly reassess their strategies for raising funds because no source can be taken for granted. Many organizations have found it necessary to find new sources of revenues as others have diminished. This may be done by adding programs designed to make profits, charging fees for traditionally free services or by increased fund raising from individual donors and businesses.

Core and non-core

The difference between "core" and "non-core" is a matter of judgement. One approach is to ask "If we stopped doing this, could we still meet our primary objectives?"

For example the core activity of a Women's Crisis Shelter society might be to provide emergency counseling and a safe shelter. The society may also offer related, "non-core", services such as counseling and assistance with legal, medical, substance abuse, housing and employment needs.

Fund raising

The competition for donations and sponsorships has become intense. Not-for-profit organizations are increasingly finding it necessary to engage professional fund raisers - either as employees or outside advisors or service providers.

Developing a steady flow of donations and sponsorships can be time-consuming and expensive. It may be several years before the receipts significantly cover start-up and ongoing costs.

Recommended practices

- The organization has stable, well-diversified sources of revenue
- The organization is not overly dependent on discretionary government grants
- The organization is prepared to deal with changes in funding levels from one or more of its sources

6. How do events in the organization and the world outside affect our ability to achieve the mission and vision?

Before an organization begins to develop its strategies it needs to understand where it is now. A commonly-used process for doing this is "SWOT analysis": Strengths, Weaknesses, Opportunities, Threats. This is a simple model, easy to understand and use and appropriate for most mid-sized and small not-for-profit organizations. SWOT analysis provides a "snapshot" of how well the organization is positioned to achieve its vision and mission.

Strengths and **weaknesses** are related to the internal factors and resources that support the organization's ability to get things done: staff, volunteers, membership, finances, donor support, buildings, equipment, etc. They describe the capacity of the organization to continue and extend its activities and the problems that need attention. The review of strengths and weaknesses should include the systems for providing the financial, statistical and other information needed to support the organization's ability to effectively manage its resources and deliver services.

An organization's strengths and weaknesses are usually in matters over which its board and management have some degree of control. Lists of strengths and weaknesses are often developed by group brainstorming by staff and, where appropriate, volunteers. In the process they draw on their experience and knowledge of the organization and consultation with stakeholders. The board may confirm or add to the list.

Adapting strategies to changing needs and opportunities

The War Amps was founded in 1920 as The Amputations Association of The Great War, a fraternal society that provided direction to help solve the problems of all "men and women who have lost a limb or limbs or complete eyesight whilst giving their service to Canada, the British Empire, and the Allies in the Great War." Counselling, self-help and practical assistance were emphasized.

The Civilian Liaison Program began in 1953 in order that war amputees could share their knowledge with others who are missing limbs from causes other than war.

Realizing that war amputees were being well served by existing programs and that in the future their needs would decrease, the organization turned its attention to child amputees. In 1975 it started the Child Amputee (CHAMP) Program which tries to reach all amputee children and their families as soon after an amputation as possible, providing artificial limbs, education and counselling to help the children cope with their amputations. War Amps has also introduced accident awareness programs to reduce the incidence of amputations.

The organization is now laying the groundwork for the time when war amputees will no longer be able to run the affairs of the Association.

Opportunities and **Threats** are external factors that can help or hinder the organization: the economy, demographics, government policy, stakeholder needs and preferences, etc. Opportunities include the unmet stakeholder needs and expectations that the organization could potentially serve. Threats include the potential for increased costs and reduced financial support.

Identifying external opportunities and threats requires a thorough understanding of the environment in which the organization operates, and the capacity to recognize events trends and other factors that could affect it. Board members who have knowledge and experience of issues that are relevant to the organization can be particularly valuable contributors to brainstorming sessions. Not-for-profit organizations typically have limited or no control over external factors. They may be able to influence government policy but, in most cases, they need to revise their strategies to meet changing circumstances. Boards have the potential to play a significant role in supporting and/or promoting new strategies or by participating in initiatives to influence government policy.

The results of SWOT analysis can be used to:

- Adjust or eliminate existing programs and projects
- Add new programs or projects
- Establish plans to resolve internal weaknesses

Recommended practices

- The organization considers its internal strengths and weaknesses in developing its strategic plan
- The organization considers its external opportunities and threats in developing its strategic plan

See CICA's *20 Questions Directors Should Ask about Risk*

7. What risks does the organization face?

SWOT analysis is closely related to risk management – the process that identifies and addresses the risks that affect day-to-day operations and sustainability. Risk management essentially asks:

- What could happen that would affect our ability to meet our objectives?
- How likely is it to occur?
- How serious might it be?
- What should we do to reduce the risk?
- How can we be prepared to respond to problems?

Boards of directors are responsible for monitoring the organization's processes for managing risk which should include:

- Promoting an awareness of the need to manage risk
- Identifying and assessing the risks that could affect the achievement of their strategy
- Developing and implementing methods and procedures for managing risk
- Learning from their experiences with risk.

Managing risk is an ongoing responsibility of management who must follow board-approved policy and keep the board informed. The board can ensure that it includes risk on its agenda by including a discussion of risk and opportunity in strategic planning sessions and by requiring the Executive Director to raise current risk issues at board meetings. Organizations with an Audit Committee can instruct the committee to review financial and other risk issues and report on them to the board.

Recommended practices

- The organization has identified the major risks that could affect its operations and provides reports on them to the board
- Management and the board consider risks when developing the strategic and operating plans
- The organization has policies and procedures for managing risk
- The board makes time in its agenda to discuss risk
- The organization takes risks seriously and manages them well

8. How much risk is appropriate?

Effective organizations recognize that they must take advantage of opportunities to improve service to stakeholders and they also understand their "risk tolerance" – the amount and types of risk they are comfortable in assuming. Boards of directors must make sure that their organizations "optimize" risk by balancing risk and opportunity in accordance with risk tolerance levels approved by the board.

The decision to adopt a strategy should include discussing:

- Is this the best use of our resources?
- Are we comfortable with the risks involved?

"Nothing ventured, nothing gained" and "playing it safe" are two approaches to risk that can divide boards of directors and lead to long debates. The "venturers" see taking risks as the best way to succeed. The "play-it-safers" fear that risky strategies could destroy an organization that knows its limitations and does a good job of meeting its modest objectives.

The board is responsible for approving the balance between the two approaches and providing strategic guidance and direction to staff. This may involve considering the spirit and attitudes of the members, stakeholders, board and staff and the values of the organization.

A related factor is the organization's "capacity for risk": the strength of its finances, donor support, reputation and credibility, and the experience and competence of volunteers and staff.

The board may choose to discuss and approve risk factors on an unstructured, case-by-case basis, or to approve a formal "risk tolerance" policy. In either case it is valuable to record the discussion and decision for future reference.

The main points to consider in risk-tolerance discussions and policies are:

- The amount of money that the organization is prepared and able to lose if a strategy or project is less successful than anticipated: e.g. What would happen if a fund raising project loses money?
- The potential risk to the organization's reputation and credibility if a strategy or project is poorly received or otherwise unsuccessful.
- The limits of the authority of the Executive Director or CEO – beyond which board approval is needed.
- The information the board should receive before making its decision to grant approvals.

Recommended practices

- The organization's risk tolerance policy provides a balance between too much and too little risk taking
- The risk tolerance policy is consistent with the organization's capacity for taking risk
- The board approves the risk tolerance policy and reviews it at least annually

Risky business

Fund raising projects such as lotteries, golf tournaments, cruises, etc don't always make money. Prizes, advertising and administration can be expensive. Public support is not automatic – particularly when there are popular competitors. The same can be true for "blockbuster" exhibits at museums and art galleries.

Major fund-raising events and ambitious building projects are examples of concentrating risk into one big initiative that can bring success and recognition but requires confidence, competence, sustained dedication and an appetite for risk.

Organizations with a lower tolerance for risk may have the capacity but not the appetite for big risky ventures.

9. How sound are the assumptions behind the strategy?

Behind every strategy and budget there are a number of assumptions. These may or may not be valid. Experienced boards and managers know the value of challenging assumptions and considering what could be done if things turn out differently – a variety of "scenarios".

For example: an organization might develop its strategies on the assumption that:

- It will continue to enjoy benefits it currently receives – government grants, the use of facilities at reasonable cost, etc.
- There will be no changes to the ground rules – legislation, rules and regulations - that affect the organization (new taxes or requirements related to health, safety, accessibility, environment, reporting, etc)
- New strategies will be attractive and successful
- Projects will come in on time and on budget
- Donors, sponsors and volunteers will continue their support
- Current programs will continue to be effective and affordable

This list is an example of one scenario – but there will be others. Each of the assumptions could vary, with consequences for the organization. The process of "scenario analysis" calls for projecting the potential effects of several different assumptions or scenarios. It begins by asking:

- What other assumptions might be appropriate?
- How might things turn out under different assumptions?
- How probable are the different assumptions?

From the answers it is possible to identify the most probable scenarios, develop strategies that could succeed in most cases, and consider alternative strategies for use if necessary.

It is impossible to anticipate and plan for every possible scenario. However, discussing the assumptions and the potential consequences of their changing can strengthen the planning process.

Recommended practices

- The strategic plan describes the assumptions on which the plan is based
- The strategic planning process includes identifying and testing strategies using some form of scenario analysis

10. How will accomplishments be measured?[4]

"What gets measured gets done" is an often-used phrase simply because it is true. Measures of success – objectives - often end up defining success, and the proper determination of a measure is vital to achieving the strategy.

Good strategic and operational planning includes measurable objectives that reflect and build on actual results and achievements. This is not always easy for not-for-profits whose legal purpose is often expressed in terms of meeting a social need.

Some organizations find it helpful to develop a sequence of targets that begins with the activities of their staff and volunteers (outputs), continues with the response of the community (intermediate outcomes) and builds towards the desired results (ultimate or end outcomes). Cause and effect are hard to measure and prove, particularly in the short run. For this reason, although outputs and intermediate outcomes can be usefully measured as short-term targets, ultimate outcomes and their trends are better evaluated over a longer term.

There are, essentially, two types of measurement: quantitative and qualitative.

Quantitative measures record activities and other things that can be counted such as the number of people who attended an event, the number of services provided, etc. They include financial results. As such they can be measures of the organization's efficiency in getting things done. Funding agencies often ask for quantitative information in their grant application forms.

Qualitative measures deal with opinions and feelings – very important considerations for not-for-profits – and thus with the organization's effectiveness

4 The material in this question is taken from CICA's *20 Questions Directors of Not-for-profit Organizations Should Ask about Governance* (Question 18).

in delivering the appropriate quality of service. Qualitative measures can be expressed in numbers by using such techniques as surveying people and recording the results. You can't count a smile, but you can ask people to rate their satisfaction on a scale of 1 to 5.

Expressing objectives as ratios and percentages can be a valuable technique for presenting and comparing results. To say that 90% of donations were used to provide services adds valuable information to the actual amount spent. Adding words and pictures to the numbers is also an effective way to convey information on achievements.

There's an old concept that a good thing carried to an extreme becomes a bad thing. This can be very true for performance measurements, particularly when an organization places undue emphasis on meeting targets and recognizing achievements. For example: if volume of results is overemphasized, quality may suffer, and vice-versa. Objectives must be clearly thought out and balanced to avoid unintended consequences.

Within this overall framework, it is useful to keep in mind that "less is more". A thorough focus on, and discussion of, two or three important measures can be far more effective than plowing through many pages of operational detail.

Recommended practices

- There are a manageable number of quantitative and qualitative measurements that indicate the organization's strategic progress
- The measurements are appropriate for monitoring the organization's performance
- The targets are realistic

Do we have the right measures?

"You get what you measure.
Measure the wrong thing and you get the wrong behaviors."
John T. Lingle

Outputs and outcomes

Outputs are the services and products produced by the activities of staff and volunteers. Outputs can range from answering a phone call or issuing a cheque to performing a surgical procedure or holding an event.
Intermediate outcomes are the immediate benefits and changes resulting from the outputs. For example: satisfied users, jobs found, better decisions made.
Ultimate (or end) outcomes are final or long-term consequences. For example: improved health, safe streets, reduced poverty.

Example of a sequence of targets

A program to save lives by reducing drinking and driving included a high-school program that recruited and trained students to organize events within their school with particular emphasis on graduation. The program measurements included:

Outputs

- The organization's success as measured by the number of schools signed up and students trained.

Intermediate outcomes

- Each school's success as measured by the number of events and participants.

Ultimate outcome

- The overall program results as measured by changes in the number of drinking-driving incidents.

Examples of measurable targets

- Increase membership by 10% this year
- Win 25 medals in the next Winter Olympic Games
- Stage five plays each year
- Cut waiting times for specific medical procedures to provincial standards
- Achieve a 90% satisfaction rating from the users of our services

11. How will the activities and programs support the Vision and Mission?

One of the final stages of strategic planning is to link the Vision and Mission to activities and programs. This helps:

- Confirm that the activities and programs support the organization's Vision and Mission with the minimum of gaps and duplications
- Confirm that the strategy uses the organization's strengths to take advantage of opportunities and overcome weaknesses and threats
- Confirm that strategies are compatible with the organization's values and risk tolerance
- Provide guidance to staff and volunteers on how they will contribute to the organization's effectiveness and what they need to consider as they develop their operational plans and budgets

One way to do this is to use the word "by" as the link. For example:

- We will serve our existing and prospective clients by continuing programs A and B.
- We will improve our service to clients by introducing a new program D in the year after next.[5]
- We will free up funds for program D by discontinuing program C at the end of next year.
- We will enhance our fund-raising capabilities by adding a development officer on July 1 of next year.

The result should be a concise but comprehensive description of what the organization will be doing over the coming years. The emphasis is on significant changes in what the organization does and how it does it, and how those changes affect service to stakeholders.

The level of detail will vary with the size and complexity of each organization.

Appendix 2 is an illustration of how one organization links the elements of its planning process.

Recommended practices

- The strategies use the organization's strengths to take advantage of opportunities and overcome weaknesses and threats
- The strategies are compatible with the organization's values and risk tolerance
- The strategic plan links the organization's Vision, Mission and Values to its activities and programs

5 There should be an indication of the timing of changes – usually as a calendar date.

12. What is the board's role in planning?

The directors of a not-for-profit organization are responsible for approving its strategy and budget. The degree of board involvement will generally depend on the size and complexity of the organization and the availability of staff and volunteers capable of planning.

- In smaller organizations the board may develop the plans and budgets or delegate the tasks to a committee of the board (Finance, Planning, etc).
- Organizations with active volunteer committee structures and a small number of staff may establish a joint staff-volunteer planning group.
- Organizations that are primarily run by a professional staff will generally ask staff to develop plans and budgets for approval by the board.

In cases where the board is not fully involved in developing the strategic plan and budgets, it may be appropriate for the board to meet with the planning group to discuss the planning assumptions and initial strategy proposals and to approve guidelines for the planners. The directors can be a valuable resource to the strategic planning process by providing a fresh perspective and asking questions to satisfy themselves that the plan is well thought out, realistic and compatible with the organization's values and strategy.

The board's responsibility for approving strategy requires directors to schedule enough time for proper review and discussion. The discussion usually takes place at a board strategy session with staff. The board subsequently approves the strategic plan at a board meeting.

Appendix 3 illustrates how a board might be involved in the planning process.

Recommended practices

- Responsibility for planning is clearly assigned to appropriate individuals and groups
- The board's role in planning includes approval of the strategic plan
- The board schedules sufficient time for effective review and discussion before approving the strategic plan

For a strategy to succeed it must be supported by the planned, coordinated activities of staff and volunteers. Responsibility for this is usually delegated to staff who develop plans and budgets and submit them for board approval. Before granting approval, boards should be satisfied that the plans appear sound and that there will be sufficient funding to support them.

The **operating plan** links the work of each staff department and volunteer committee for the coming year to the strategic plan.

Operating budgets are estimates of what it will cost to carry out the organization's plans and the revenues that will pay for them.

Some organizations will also have a **capital plan** and **budget** for acquiring the "capital assets" that people need to support them in their work over several (or many) years – land, buildings, tools, equipment, vehicles and information technology.

The board may review the plans and budgets before approving them or delegate the review to a committee of the board.

13. How will the organization achieve its objectives?

The operating plan describes what will be done in the coming year (or years) to implement the strategic plan and continue ongoing operations.

The format of the operating plan will vary by organization but will typically include, for each department and committee:

- A summary of the responsibilities or terms of reference
- How each activity or project supports the organization's strategy
- Plans for any new projects or initiatives – including continuation of those begun in prior periods
- Estimated volumes of activity
- Key targets and measurements
- The human resources (staff and volunteers) that will be needed
- The operating and (where appropriate) capital budgets

The operating plan is usually prepared by staff and approved by the board as part of its oversight responsibilities. In smaller organizations the board, or one of its committees, may review the entire plan. In larger or more complex organizations, the board may choose to limit its review to a summary of the operating plan.

Budgets are discussed in questions 15 through 17.

Recommended practices

- The operating plan provides clear direction to staff and volunteers on how strategies will be linked to their activities in the coming year
- The operating plan includes objectives and measurements
- The operating plan includes operating budgets
- The board approves the operating plan

14. How will changes in programs and activities be coordinated?

Changes to activities and programs need to be carefully coordinated across the organization to make sure they are supported with the appropriate resources. For example, setting up a new program may involve:

- Recruiting new staff
- Providing them with space for their work
- Equipping them with computers, telephones, vehicles, tools, etc
- Training staff and volunteers
- Promoting the program with information in print (e.g. brochures) and electronic (web sites) format
- Creating or adapting computer programs for recording participation, billing and payments

These steps are relatively simple in smaller organizations where the work involved can be shared and coordinated informally. In larger organizations, however, a number of departments may need to recognize the needs of the new program in their operating plans and budgets. For example: The Information Services department may be expected to provide computers, software, Internet service, telephones, software training and technical support; the Facilities department may need to add or change work space and provide furniture and equipment; the department responsible for public inquiries and program registration may need training and new staff.

Some organizations use staffing plans and budgets to coordinate and manage human resources.

Organizations with experienced, sophisticated staff recognize the need for coordination in operational planning and day-to-day activities. In some cases, however, staff may be inexperienced or lack the resources to provide essential support. Boards should be aware of the importance of coordination and, where appropriate, ask management to explain how they handle it, particularly in terms of budgeting and resource allocation.

Recommended practices

- The plans of staff departments and volunteer committees are coordinated
- The board considers the need for coordination in its review and approval of the operating plan.

15. What is the budget philosophy?

A budget philosophy provides guidance to the people who prepare the budget and to the Board that approves it on such issues as:

- The intended financial outcome – break-even, surplus or deficit
- The approach to budgeting – conservative or aspirational

Many not-for-profit organizations aim for at least a modest annual surplus (of revenues over expenditures) to maintain and increase their financial strength and capacity to sustain their programs. In some cases, they may plan for a more substantial surplus to build up funds for future expansion or special projects. More rarely it may be appropriate to run a deficit (by paying out more than they take in) for one or more years.

In approving budgets, the board must also be conscious of their fiduciary responsibility for the protection of the organization's assets, and be satisfied that the budget is realistic and consistent with the organization's tolerance for risk. A budget's approach to risk can be "conservative" or "aspirational" – or something in between.

Conservative budgeting emphasizes protection of the organization's financial position. This is often done by using lower estimates for revenues and higher estimates of costs – a common practice in government budgeting. This approach tends to be favoured by organizations with a low tolerance for risk. Signs of over-conservatism include favourable budget variances during the year and a rush to spend money at the end of the year.

Aspirational budgeting aims to inspire staff, volunteers and donors to achieve ambitious goals. This is done by setting high targets for revenues and lower cost estimates. The approach is attractive to organizations with a larger appetite for

risk and a "can do" spirit. As part of a bold strategy, executed with skill, competence and dedication it can support the achievement of extraordinary results. Poorly planned and managed it can be problematic or disastrous.

Recommended practices

- The budget philosophy is compatible with the organization's risk tolerance policy
- The board recognizes its fiduciary responsibility by approving a budget that is compatible with the organization's budget philosophy

16. What does the board need to know before approving the operating plan and budget?

Before the board approves the operating plan, it needs to review the budget for reasonableness. This includes comparing the numbers with the current and prior years, knowing the assumptions on which the budget was based and understanding how the numbers were developed.

The budget summary presented to the board should provide comparative information showing the percentage and dollar amounts of increases and decreases between years and explanations of significant changes. If the budget is approved before the current year has ended (which is the best practice) the current year numbers may be an "outlook" based on the most recent actual numbers plus an estimate for the balance of the year.

Budgeting should also include cash flow projections that show projected receipts, payments and bank balances. Any shortfalls may require borrowing and surpluses should be invested to earn interest. Managing cash flow and investing surpluses and endowments require the attention of the board which may appoint an investment committee to approve investment policy and to work with staff and (when appropriate) outside investment advisors.

A good budget reflects the risk that revenues can be more or less than anticipated, recognizes the need to fund core costs and has the flexibility to adjust program expenditures to available funding. It is important for the board to know how the budget for each item of revenue and expense was calculated and the assumptions on which the calculations were based. There are two main reasons for this. Firstly, it provides explanations that management and the board can use to decide if the budget items are reasonable and realistic before approving them. Secondly, it makes it easier to explain variances between actual and budgeted amounts as the year progresses – particularly if the budget is calendarized.

Recommended practices

- The budget report presented to the board provides comparative information
- The budget includes a cash flow summary
- The budget includes plans for investing and borrowing
- The assumptions and calculations behind budget items are documented
- Costs and revenues are calendarized

Budget report columns

- Last year – actual
- Current year – outlook
- Next year – budget
- Dollar change between current and next year
- Percentage change between current and next year

Calendarization

Although budgets are usually prepared for one-year periods, they can provide useful information over shorter periods if they are "calendarized". By estimating and recording the amount the organization expects to receive or pay in each month it is possible to produce reports comparing monthly and year-to-date actual amounts to budgets for the same periods. This also makes it easier to identify and deal with variances from budget as they occur rather than waiting to the end of the year.
Calendarization can also provide the basis for projecting monthly cash flow (receipts and payments) and end-of-month bank balances.

17. How much will be needed for buildings, furniture, vehicles and equipment?

Organizations that expect to spend considerable amounts on capital assets (land, buildings, tools, equipment, vehicles information technology, etc.) typically develop a capital plan and budget for board approval. Capital plans and budgets estimate the cost of funding and acquiring capital assets and match fundraising and/or borrowing to the timing of expenditures. The principal considerations for the board are the costs and benefits of the proposed expenditures and the management of the cash flow.

Organizations that regularly make substantial capital expenditures (e.g. hospitals, universities, school boards, etc) usually have capital planning and budgeting processes. For many organizations, however, major capital expenditures are relatively infrequent and they may not have processes in place to plan and manage them. Their boards need to understand and be prepared for the challenges involved.

Not-for-profit capital planning (like business planning) looks for long-term benefits, compares the relative merits of proposed capital projects and considers alternatives such as leasing. It usually looks for improved program delivery rather than a pay-back in profit. The costs of using and maintaining the assets should be included in the operating budget. These include the expertise needed to keep the information and accounting systems and other assets working properly without interruptions that could affect service delivery.

Smaller capital items can usually be purchased from an organization's own funds. Larger projects typically require additional funding from private or government sources.

A major challenge in capital budgeting is managing the cash flow. Once a capital project is started, the suppliers and contractors expect to be paid in accordance with their contracts. The funding for the project does not always arrive at the times when payments are due. For example: it is not unusual for organizations to raise part of the funds before the project contract begins and for government grants to be released only after the organization has paid the contractor. The result can be times when there is more cash than is immediately needed and times when the organization is short of cash. Capital budgeting includes projecting the cash flow and bank balances, and making plans to invest or borrow when there is too much or too little cash to meet upcoming payments. Budgets should recognize multi-year projects on a calendarized basis.

Recommended practices

- The organization has a capital plan and budget if these are needed
- The plan describes the costs and benefits of acquiring capital assets
- The plan includes consideration of alternatives to purchasing or building
- The plan includes the sources of funding for capital projects
- The budget includes a cash flow summary

Monitoring and Learning

Planning and budgeting are valuable ways to help an organization develop and achieve its objectives. Reality is usually different and things don't always work out as expected. Costs and revenues can be higher or lower than the budget estimates. Because of this it is advisable to monitor plans and budgets throughout the year and to reconsider and adjust spending and strategies as necessary.

18. How does the board monitor progress towards implementing the strategy?

Reviewing the organization's progress towards meeting its strategic and operating plans is a key responsibility of the board. It can also be very sensitive when goals are not met – particularly when volunteers are involved.

Boards should receive regular progress reports on measurable objectives including explanations of variances and plans to address them. When things are going well and it is clear that someone is working effectively to get delayed projects back on track or to improve performance, the board will usually be able to accept the report. If, however, there appear to be problems that are not being properly addressed, the board may find it necessary to get more involved. There are essentially two approaches which can be described as "getting back on track" and "moving the goal posts".

Getting back on track means getting the individuals and committees responsible for an activity or program to develop and implement a plan to meet the planned objectives and timetables. If they are unable or unwilling to do this, the board may need to provide additional support and resources, reassign responsibilities or replace key staff and volunteers.

Before taking extreme measures, however, the board may wish to reevaluate the importance and urgency of the program or activity, the reasonableness of the objectives and targets, and the consequences to the organization of setting new dates and targets – moving the goal posts. This can be a difficult process that balances the organization's credibility against the need to maintain the support of dedicated staff and volunteers.

Recommended practices

- The board receives regular reports that compare actual performance results to targets
- When actual performance varies from target, the board is provided with explanations and any proposed responses

19. How does the board monitor budgeted and actual results?

The Chief Financial Officer or Treasurer should regularly compare the actual financial results to the budgets and provide reports to the board. This is particularly important when things don't come in on budget and it is necessary to decide how to deal with any shortfall or surplus. The frequency of reporting will usually be monthly or quarterly – more often if funds are tight.

Budget/actual reports should ideally provide year-to-date amounts for the current and previous years, and the outlook for the current year. They should also show the variances (differences) between the amounts in dollars and as a percentage. Variances are of three basic types, each of which calls for a different response:

One-time variances occur when something doesn't turn out as expected. For example: a project costs more than budgeted because some costs were not included in the budget or were underestimated; revenues from an event exceeded or fell below expectations; the organization had to pay legal fees to defend against a legal action. One time variances may, if serious, require adjustment to other items in the current budget.

Ongoing variances occur when a regular expense or revenue source change and the change is likely to continue. For example: the rent goes up more than expected when a lease is renewed; a sustaining grant from government is cut or discontinued.

- Timing variances occur when planned events or activities that involve receipts or payments happen earlier or later than planned. The variance usually resolves itself within a few months and nothing need be done unless the events are delayed into the organization's next financial year. In such cases there will be a one-time variance in the current fiscal year and the item may need to be included in the following year's budget.
- In most cases the causes of variances will be apparent before they show up in the budget reporting. If they are significant the staff or Treasurer should take appropriate action as soon as possible and advise the board accordingly.

Recommended practices

- The board receives regular reports that compare actual year-to-date and outlook financial results to the budget and previous year
- When actual and outlook amounts vary from budget, the board is provided with explanations and any proposed responses

20. What did we learn from our experiences?

It has been said that this year's planning is the beginning of next year's. The lessons learned from successes, failures and unexpected outcomes can be used to confirm or revise strategies so that planning becomes a continuous process.

Strategic planning is most useful when the plan looks several years into the future - 3, 5 or more years. If things are going well, the board and planning group might hold an annual review of the strategic plan and consider revising it to reflect the lessons of the previous years. Strategies can, however, take time to settle down, and changes can be confusing and unhelpful.

If the organization is experiencing serious problems it may be necessary to review strategy more frequently than once a year. In such cases it is important, before changing strategy, to ask if the problems are the result of the strategy or of the way in which the organization is implementing it.

Recommended practices

- The board, staff and volunteers take time to learn from experience
- The board reviews the strategy at least once a year – more often if necessary
- Strategies are reviewed and revised on the basis of what has been learned

Conclusion

Approving the strategic and operating plans and the capital and operating budgets are key responsibilities of boards of directors. The board may be closely involved in developing plans and budgets, or it may delegate most of the detailed work to staff or committees. If the board does so, the directors should satisfy themselves that the planning and budgeting processes were properly organized, conducted and documented.

The strategic plan describes how an organization intends to move from where it is now towards its Vision in accordance with its Mission, values and tolerance for risk. In so doing it plans to use its strengths to take advantage of opportunities, remedy its weaknesses and to avoid or mitigate threats.

From the strategic plan, which typically takes a longer term view, the organization develops shorter term operating plans for staff and volunteers and budgets for the revenues and expenditures needed to move towards the Vision.

Finally, the organization monitors its progress against measurement targets and budgets and uses the lessons it learns from experience to enhance the next round of planning and budgeting.

A comparison of corporate and not-for-profit governance.[6]

Corporate directors and others with business experience who become members of not-for-profit boards often experience culture shock in their new roles. Some of this is due to basic differences between the corporate and not-for-profit sectors – particularly the profit motive – but there are other significant factors including the size, sophistication and maturity of the organization and the field in which it operates. It would be nice to have a simple comparative chart that compares and contrasts governance in the two sectors. Unfortunately things are not that straightforward. The following observations on governance and operations may help newcomers from the corporate world to adapt to their roles as members of not-for-profit boards.

Governance

Fundamentally governance is governance - there is no substantive difference in good governance between the corporate and not-for-profit sectors. This document is modeled after one written for corporate directors[7] and their scope is essentially identical. Many not-for-profit organizations have governance practices that equal the best in the corporate sector.

There is more variation in governance within a sector (business or not-for-profit) than there is between sectors. A director of a large public company would probably feel more at home on the board of a large not-for-profit than on the board of a small, start up business.

The directors of not-for-profit organizations, unlike their corporate counterparts, are not paid for their services and may be expected to cover out-of-pocket expenses and make donations. Experience shows that volunteer board members are no less seriously committed to the vision, mission and goals of their organizations than corporate directors. They work hard, believe in what they are doing and make a large contribution to its success - just like their business counterparts.

The underlying principles for nominating directors are essentially the same for both corporations and not-for-profits. In both cases the nomination process involves identifying the organization's needs – especially the strategic ones - and matching them to the skills and experience of prospective candidates. In practice, not-for-profits tend to be more open to diversity and to accept promising nominees with limited or no board experience.

Corporate boards have been shrinking in size and frequently have fewer than ten members. Boards of not-for-profits are often larger to accommodate representation from a range of stakeholders – but the value of this is being questioned.

Operations

Corporate directors are seldom expected to participate in operating activities – the "two hats" challenge for not-for-profit directors. They may, however, be expected to provide active assistance in their fields of expertise - particularly in raising capital – which could affect their governance objectivity.

Not-for-profit organizations, unlike for-profit businesses, frequently benefit from the contribution of time, ideas and expertise by volunteers. With no pay cheque or service contract, volunteers get much of their reward from a sense of achievement and contribution to the organization. These are important factors for paid workers but essential for volunteers who may quit if they do not feel valued or respected. Organizations that dedicate significant time and skilled effort to motivating and managing their volunteers, like those that have good human resource practices, are generally rewarded with dedicated and loyal service.

There is almost as much variation in the pay and working conditions of employees of the not-for-profit sector as there is in corporations. Some not-for-profits have highly-paid professional staff and incentive-based compensation; others provide minimal pay and benefits – just as in the business world.

6 This material is based on CICA's *20 Questions Directors of Not-for-profit Organizations Should Ask about Governance* (Appendix 3).

7 CICA's *Guidance for Directors: Governance Processes for Control*

Many not-for-profits are quite entrepreneurial – this is increasingly the case as government support is reduced or matched to funds raised or earned by the organizations. Like companies, they use business techniques to improve their marketing, service delivery and customer service. On the other hand, businesses are becoming aware of the importance of stakeholders other than shareholders and recognizing the value of practicing social responsibility.

The accounting rules for not-for-profits are, for the most part, similar to those for businesses. The differences are mostly related to the treatment of restricted and unrestricted funds which correspond to surplus in corporations. Any organization needs to have access to financially literate individuals who understand the specific accounting requirements of the field in which they operate.

Not-for-profit organizations generally have a little tolerance for deviations from budgets and low indebtedness on the balance sheet as compared to many corporations.

All organizations need ways to measure success. Although only corporations use measures related to shareholder value (earnings per share, return on investment, dividend yield, share price, etc.), both they and not-for-profits use many other measurements – both financial and non-financial.

Appendix 2

This chart illustrating how Vision, Mission and Values can be linked to success factors, priorities and performance measurements is reproduced with the kind permission of Toronto East General Hospital.

Vision

To be Ontario's leading Community Teaching Hospital

Mission

We are committed to achieving the highest standard of patient care, teaching, innovation, community partnership, and accountability: Above all, we care.

Values

Kindness | Excellence | Respect

Success Factors

Patient Focus	Encourage People	Ensure Value	Collaborative Spirit	Inspire Innovation

Priorities

Patient Satisfaction	Patient Safety & Outcomes	Workplace Satisfaction	Workplace Safety	Business Acumen & Accountability	Infrastructure	Access & Continuity of Care	External Collaboration & Partnership	Teaching	Research	Service Innovation & Quality Improvement

Performance Measures

Inpatient and Emergency Department Patient Satisfaction Scores	Hospital Standardized Mortality Ratio	Employee Commitment Composite Score	Lost Time Due to Injury	Total Margin	% Non-MOHLTC Revenue	% Electronic Patient Record Implemented	% Conservable Days	Community Involvement & Coordination of Care Score	POWER Teaching Effectiveness Score	Total Research Dollars	System Integration & Change: Use of Data for Decision Making Score

Appendix 3

The Board's Role in the Planning Process

An effective planning process typically has several phases:

- Preparation
- Discussion
- Approval
- Communication

Preparation

The planning process begins with staff preparing for the board session by assembling background information and recommendations. The agenda package for the planning session might include:

- Previous year's plans, budgets, financial and statistical information
- A summary of the current year's activities and progress, etc.
- Information from conferences of organizations in similar fields
- Directions from any national or international body
- Information on government policy and legislation that could affect the organization
- The key issues identified by SWOT analysis and risk management procedures
- Management's strategic recommendations

This material forms part of the planning records and should be retained for use in the plan and for future reference.

Discussion

The board meets with key staff and volunteers (where appropriate) to discuss and approve staff recommendations. This is frequently held at a facility that is away from distractions and equipped to facilitate discussion. The minutes and notes from the planning session also become part of the planning records. They provide guidance for staff in developing plans and a record for the board of discussions and decisions. They may include:

- Decisions to retain or amend the Vision, Mission and Values
- Decisions to continue or change the organization's strategy
- New projects and programs including timing and the names of the individuals or committees responsible for them
- The key measurements that will be used to monitor performance and progress

Approval

Using the guidance and approvals from the board strategy session, staff prepare the formal strategic plan and present it to the board for approval at a board meeting.

Communication

Once the board has approved the strategy and plan they can be communicated to staff and volunteers for use in developing the operational and capital plans and budgets.

The board should make sure that the strategy is communicated (usually in abbreviated form) to key stakeholders. This can contribute to building community interest, support and funding for the organization's programs and activities.

Where To Find More information

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