STRATEGY AND FINANCIAL STRUCTURE

April 14 - 15, 2011

Keeping your eye on the horizon…

Two Sides of One Coin: Mission/Money

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Are you in the *Ready* Position?

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Ready – Are you in a Ready Position?

- On your toes?
- Alert?
- Ready to move – in any direction?

So…. where are you?

Lifecyles or Life Stages

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- Lifecycles/stages can help you understand where you are, and to
- Anticipate the **predictable** challenges ahead of you.

- Where are you?

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Lifecycles and Stages of Organizations

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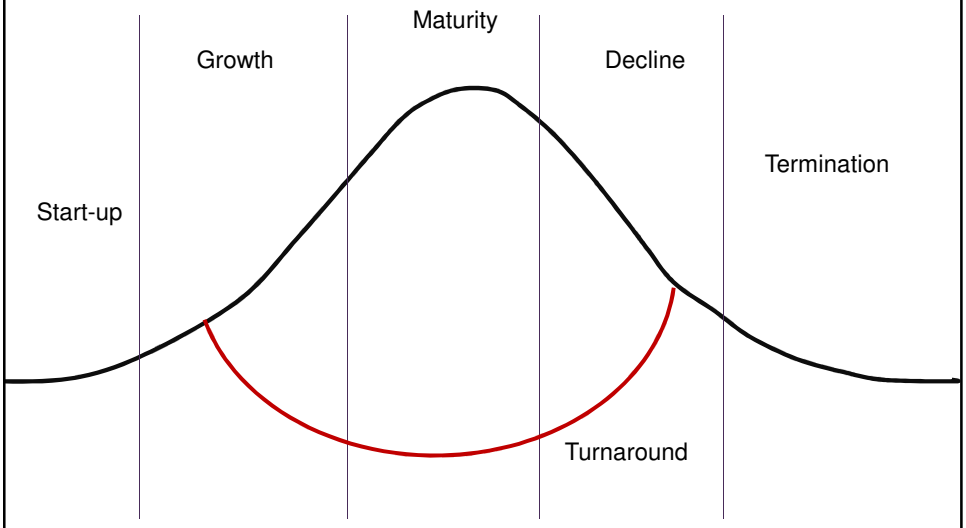
References:

Simon, Judith Sharken with J. Terence Donovan. *The Five Life Stages of Nonprofit Organizations.* Amherst H. Wilder Foundation. 2001. Available from Wilder Foundation.

Stevens, Susan Kenny. *Nonprofit Lifecycles: Stage-based wisdom for nonprofit capacity*. 2001. Available from Fieldstone Alliance.

Life Stages of Organizations



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Classic Life Stage Challenges

Start-Up

- Sharing vision and organizational responsibility with staff, board and constituents
- Knowing when to say "no"
- Hiring versatile staff
- Leveraging sweat equity into outside support
- Living within financial means

Growth

- Too much to do, too little time
- Developing board ownership
- Creating a strategic focus that does not trap creativity and vision
- Beginning to formalize organizational structure
- Becoming comfortable with change
- Diversifying revenues and managing cash flow

Classic Life Stage Challenges

Maturity

- Remaining client centered rather than policy bound
- Keeping staff motivated around mission
- Building financial footings of endowments or reserves
- Maintaining a program "edge" of relevance and vibrancy
- Becoming position rather than person dependent

Decline

- Reconnecting with community need, discarding duplicative programs that add no value
- Remembering that policies, procedures, systems and structure are no substitute for creativity and risk taking
- Keeping board informed/ engaged
- Raising enough operating income so reserves are not drawn down for everyday use
- Examining budget for top-heavy administrative expenses

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Classic Life Stage Challenges

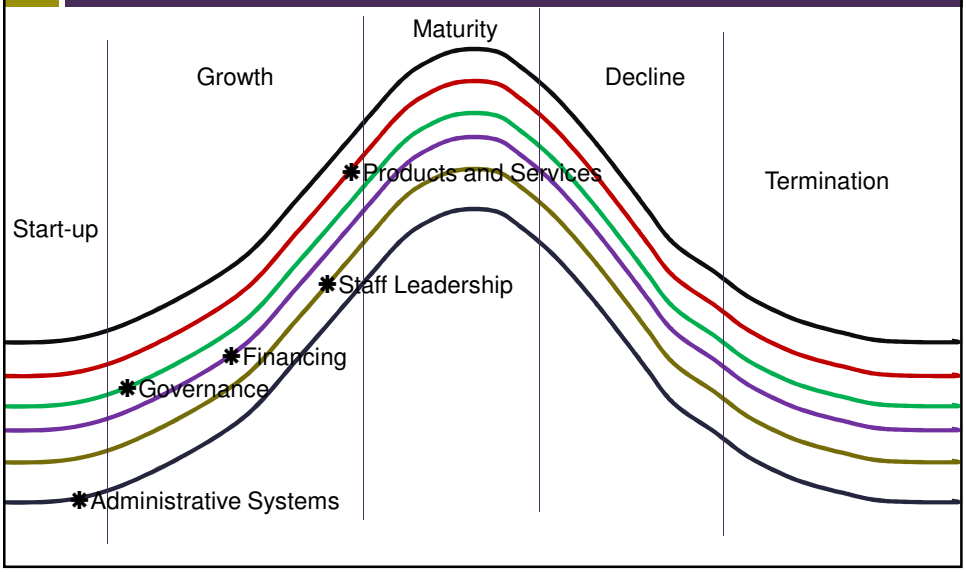
Turnaround

- Finding a turnaround champion and letting them lead
- Establishing a turnaround culture and mindset
- Committing to a consistently frank and open dialogue with funders, constituents, and the community
- Cutting expenditures to reflect realistic income
- Restoring eroded community credibility through consistency, honesty and program results

Termination

- Accepting responsibility for organizational closure
- Resisting the urge to blame others for terminal situation
- Communicating termination plans to clients and making appropriate referrals
- Closing up shop in an honorable manner, worth of the care in which the nonprofit was founded
- Appropriately managing assets.

Life Stages of Organizations



What's your Strategy?

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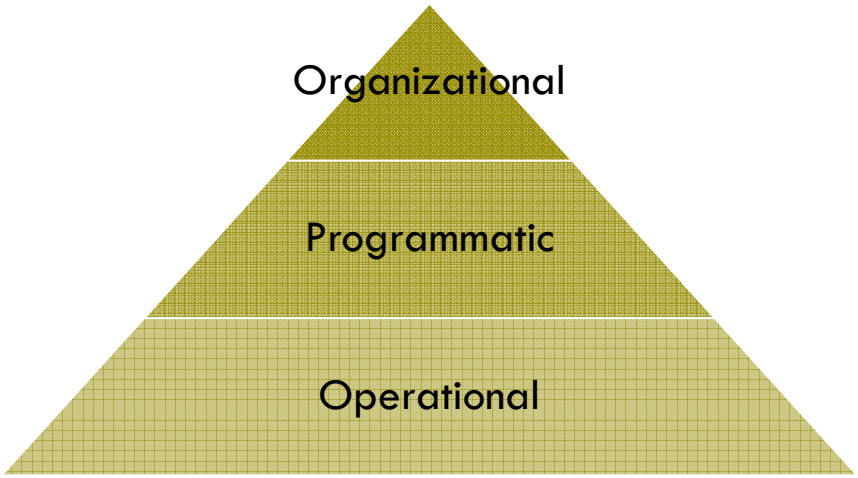

--David LaPiana, *The Nonprofit Strategy Revolution.* *www.NonprofitStrategyRevolution.org*

What is your current business model?

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- What geography do you serve?
- Who are your customers?
- What do you offer – programs/services/products?
- What generates your income?
  - Revenue?
  - Support?
- What do you NOT do?

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What's your Strategy?

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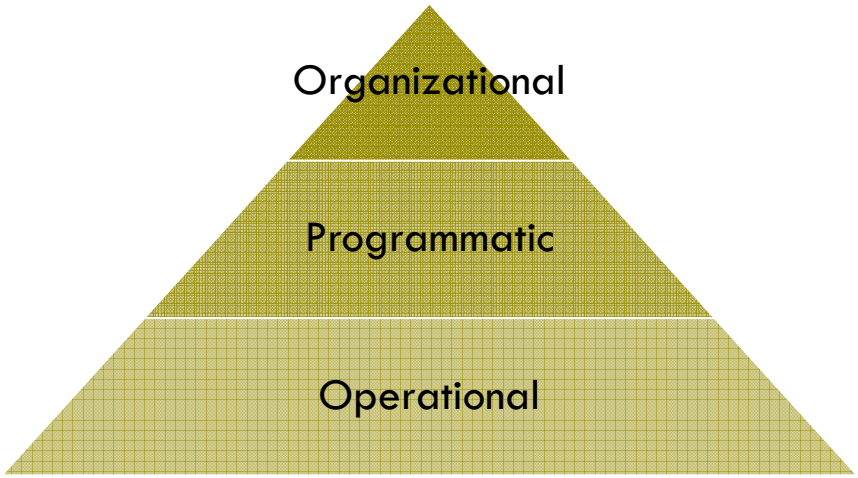

--David LaPiana, *The Nonprofit Strategy Revolution.* *www.NonprofitStrategyRevolution.org*

Financial snapshot

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Year:		
		%
Audience (tickets, admission)		
Education (class, tuition)		
Retail (products, shop, café)		
Contributions		
Government grants		
Foundation/Corp grants		
Other:		
Other misc types of income		
Total Income		
Three largest expenses		
1. _____		
2. _____		
3.		
All Other expenses		
Total Expenses		
Change in Net Assets (Surplus/Deficit)		

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Financial Operations

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Includes your

- Financial Condition/Position

and

- Financial Systems

TRUE COST OF PROGRAMS – Annual Basis

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Cost Fee Program/Direct		
Salary	$5,000.00	$5,000.00
FICA/Taxes	$ 365.00	$ 365.00
Benefits	$ 960.00	$ 960.00
Program Supplies	$ 500.00	$ 500.00
Subtotal	$6,825.00	$6,826.25
Allocated		
Overhead/Indirect		
Rent	$ 350.00	$ 200.00
Salary/Benefits/Taxes	$ 575.00	$ 400.00
Utilities	$ 125.00	$ 60.00
Audit/Insurance	$ 150.00	$ 20.00
Marketing	$ 60.00	$ 0.00
Reserves	$ 100.00	$ 0.00
Subtotal	$1,360.00	$ 680.00
Total True Cost of Program	$8,185.00	$7,506.25

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Stay in the Driver's Seat

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Convergence

5 Trends that are reshaping the social sector

How will you deal with the change?

If you want to drive,
you must stay in the driver's seat.

Strategy & Structure

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- Strategy: a *focused course* of action that *outlines the basic path* along which a new reality might unfold.
- Structure: the way in which we organize ourselves to accomplish our strategy, our vision, our goals.

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The Strategy Planning Cycle

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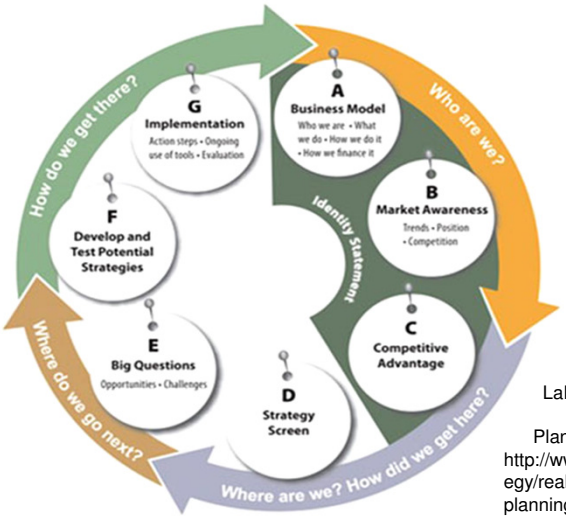

LaPiana, David (2010). Real Time Strategic Planning. Retrieve from http://www.lapiana.org/strategy/real-time-strategic-planning

Strategy Screen

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What criteria might you use to evaluate opportunities to carry out your strategy?

- Align with mission
- Integrate with other activities
- Enhance core strategy
- Responsive to community/market
- Leverage competitive advantage
- Financially sustainable

What are YOUR criteria? _____

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What are your criteria?

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What's your strategy screen?

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STRATEGY SCREEN	Strategic Option A	Strategic Option B	Strategic Option C

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The BIG Question

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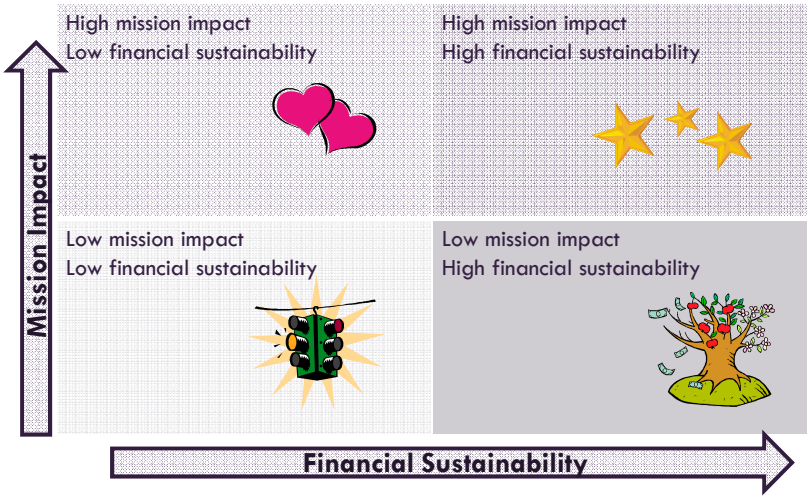
- Major opportunity?
- Major challenge?
- Major shift?

What is the BIG QUESTION confronting your organization today that requires **strategic** action?

Mission-money matrix



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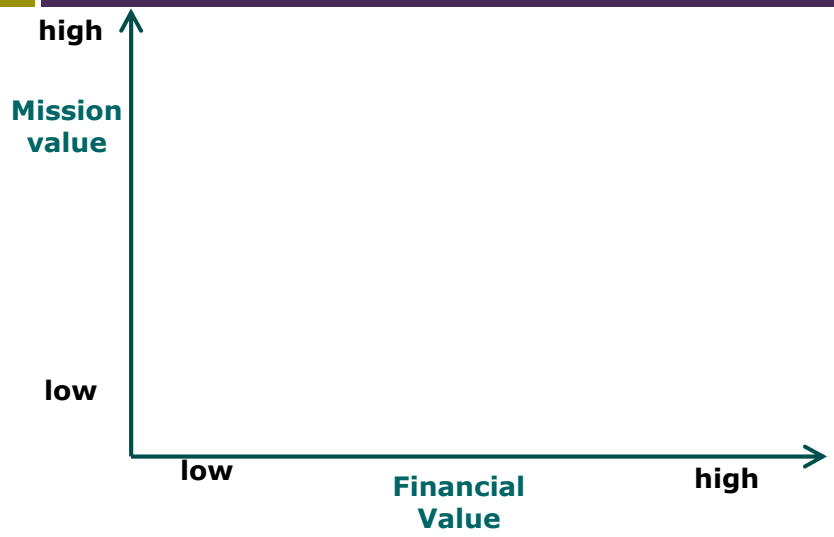
Mission-Money Analysis

Activity:				
Mission impact				
Related revenue type(s)				
Financial sustainability				
Matrix position				

Mission-Money Matrix



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Measure Your Progress

Benchmarks and

Key indicators

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Think Differently. Act Strategically.

Nonprofit Lifecycles: An Overview

A fundamental step in approaching capacity building, no matter whether the focus is individuals or organizations, is to meet the individual/organization where they are and move ahead from there. The banner across the blackboard in my first classroom said "We'll start from where **you are** and move ahead to where **you** want to go." Years later when I went to work for Susan Stevens at The Stevens Group I was encouraged to apply that same methodology to the nonprofits with whom we worked.

Susan used her experience in working with adolescents to help her better understand nonprofit organizations and their capacity - Lifecycles was the result. Those of us fortunate enough to be working with her in those early years learned the model and its wisdom as we applied it to our work in the nonprofit sector. Many of us continue to use the model because we know that that if we don't start from where they are, we'll never get to where they want to be!

Here is a brief overview - from my knowledge, experience, and practice, Lifecycles

- Is practical, makes sense and works – it's a diagnostic tool that is judgment neutral.
- Helps boards and staff self-assess the organization, and appreciate when they need to:
    - ✓ focus resources,
    - ✓ build capacity,
    - ✓ grow staff,
    - ✓ enhance technology, and/or
    - ✓ draft volunteers.
- Reflects the complexity of organizations, but remains simple and transparent in its approach as it:
    - ✓ Identifies multiple paths: program, management, governance, resources, and systems.
    - ✓ Distinguishes abnormal patterns of development from typical growth pains.
    - ✓ Spots critical junctures that can lead to a stall in development: founder transition, second stage management, developing board ownership, and effecting turnaround.
- Enables "fit" – of individuals to the organization and visa versa – volunteer with board, consultant with client, individual to staff opening.

Fit is key, and the self-assessment that comes when an organization places itself on the Lifecycle provides the organization and the individual with a measure of fit. Both organization and consultant (board member and/or the staff person) can better choose if they know what skills, abilities, experience, interests, energy, and values fit the organization's stage of development.

The second page attached to this overview lists the seven Lifecycle stages and their characteristics. As you take a look at it, remember that you may only have one perspective or view of your organization. It will help to gather a couple of perspectives who bring various levels of knowledge and appreciation for the work and history of the organization. Lifecycles is a method of analysis that produces the best results when it merges multiple perspectives with various levels of knowledge, understanding, and appreciation for the work and mission of the organization.

Consider your organization, review the indicators, involve others in your analysis - remember that different tracks (program, management, governance, resources, systems, and governance) can be at different stages of development at the same time.

Kathleen Corley/February 2011. Based on Stevens, Susan Kenny Ph.D., *Nonprofit Lifecycles: Stage-based Wisdom for Nonprofit Capacity,* 2ndEdition Stagewise Enterprises, Inc., Wayzata, MN www.stagewiseenterprises.com

CHARACTERISTICS OF STAGES

IDEA – There is no organization, only an idea to form one.

- ✓ Lots of talk with no action.
- ✓ Commitment.
- ✓ No resources.
- ✓ A strong vision of the future.

START UP – An organization that is in the beginning phase of operation.

- ✓ Resources are limited.
- ✓ Uncertainty about how to accomplish tasks.
- ✓ Much enthusiasm
- ✓ Action oriented – no long term goals.
- ✓ No hierarchy or managerial depth.
- ✓ Negative cash flow.

GROWTH – An organization that is established, but has not yet stabilized operations.

- ✓ Insecure sources of funding.
- ✓ Demand exceeds ability to supply services.
- ✓ Good sense of direction with vision of unlimited potential.
- ✓ Organizational fatigue.
- ✓ Unsophisticated operation and financial systems.
- ✓ Negative cash flow.

MATURITY – An organization that is well-established and operating smoothly.

- ✓ Results oriented.
- ✓ Well organized with sense of organizational security.
- ✓ Secure source of funds.
- ✓ Stable position in the community.
- ✓ Client focused.

DECLINE – An organization that is operating smoothly, but is beginning to lose market share.

- ✓ Pride in past achievements and good reputation in the community.
- ✓ Cash rich.
- ✓ Try to increase fundraising, rather than cut expense to meet budgets.
- ✓ Collective arrogance of complacency.
- ✓ Emphasis on how something is done, rather than on what is done
- ✓ No risk taking.

TURNAROUND – An organization that is losing money, short of cash and in a state of crisis.

- ✓ Sense of urgency.
- ✓ Confusion.
- ✓ Quality employees/board members are leaving.
- ✓ Negative cash flow.

TERMINAL – An organization that no longer has a reason for existing.

- ✓ Deficit spending.
- ✓ Paranoia paralyzes the organization
- ✓ Internal fighting and back stabbing.
- ✓ Emphasis on who caused the problem, not what the problem is.
- ✓ Inward focus, rather than outward client focus.
- ✓ Lack of commitment.

Kathleen Corley/February 2011. Based on Stevens, Susan Kenny Ph.D., *Nonprofit Lifecycles: Stage-based Wisdom for Nonprofit Capacity,* 2ndEdition
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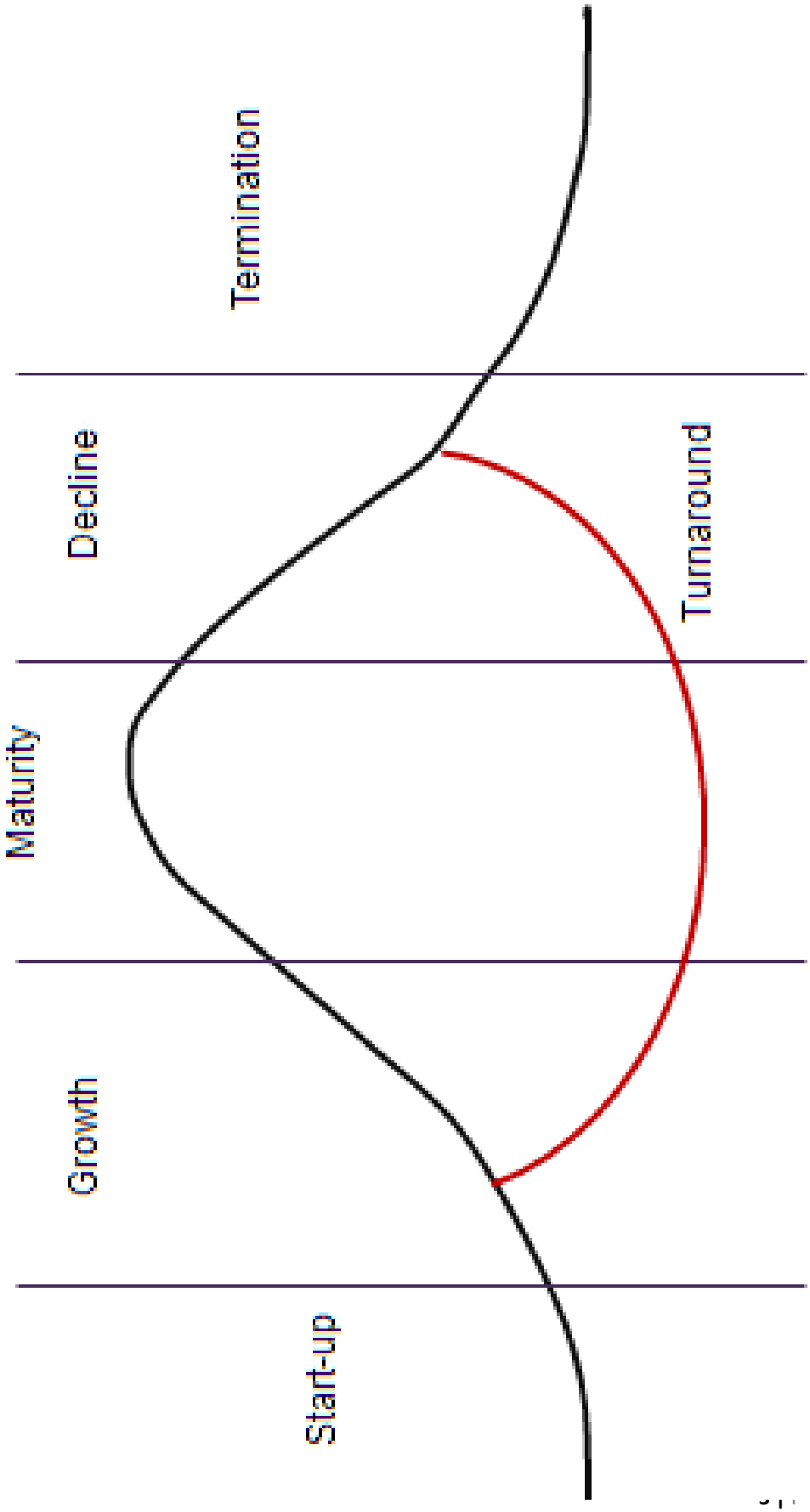
Life Stages of Organizations



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WHAT IS YOUR CURRENT BUSINESS MODEL?

Name of Organization _____

What geography do you serve?

Who are your customers?

What do you offer – programs/services/products?

What generates your income?

What do you NOT do?

Financial Snapshot

Year:		
		Percentage
Audience (tickets, admission)		
Education (class, tuition)		
Retail (products, shop, café)		
Contributions		
Government grants		
Foundation/Corp. Grants		
Contracts		
Other:		
Other misc. types of income		
Total Income		
Three largest expenses		
1.		
2.		
3.		
All other expenses		
Total Expenses		
Change in Net Assets (Surplus/Deficit)		

Financial Management Self-Assessment for Nonprofit Organizations

Nonprofit financial health is not a matter of endowment balances or grant size. Even nonprofits with large budgets must manage their resources in order to provide services effectively and remain accountable to the public. Financially healthy nonprofits of all sizes are committed to a culture of accountability and financial management best practices. Use this checklist to assess your organization's financial management practices and identify areas for improvement.

Organization:	Date:	Prepared by:

Financial Management Practices	STRONG	GOOD	WEAK BUT IMPROVING	WEAK, NOT IMPROVING	UNKNOWN
1. Board members clearly understand their roles and responsibilities for financial health					
2. Board receives and reviews complete financial information at every meeting					
3. A computerized accounting/recordkeeping system is maintained					
4. Qualified and knowledgable staff or volunteer responsible for accounting records					
5. All staff understand their responsibilities regarding the financial systems					
6. Process in place to develop a well-considered and realistic budget					
7. Budget is reviewed by the board and approved before the fiscal year begins					
8. Organization routinely budgets for an unrestricted operating surplus					
9. Financial reports are prepared in an accurate and timely manner					
10. Staff and board regularly compare financial results to budgets					
11. Regularly plan for adequate cash balances, including cash flow projections and monitoring					
12. Maintain cash balances or reserves appropriate for the organization (minimum 30 days)					
13. Maintain a system for tracking restricted or designated funds					
14. Payroll tax deposits are made when due					
15. Organization is able to pay bills and make loan payments when due					
16. Written financial policy in place including responsibility and authority for financial decisions					
17. Adequate and appropriate internal controls are in place and maintained					
18. Maintain a system for compliance with all required legal and funder reporting					
19. Annual financial audit (or comparable annual review) completed and reviewed by board					
20. Board and staff regularly review short-term and long-term plans and goals					

Nonprofits Assistance Fund's mission is to build financially healthy nonprofits.
Learn more at www.nonprofitsassistancefund.org.

NONPROFITS ASSISTANCE FUND
Helping Nonprofits Thrive

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True Cost of Program

		Annual	
		Cost	**Fee**
Program/Direct			
Salary			
FICA/Taxes			
Benefits			
Program Supplies			
Subtotal			
Allocated			
Overhead/Indirect			
Rent			
Salary/Benefits/Taxes			
Utilities			
Audit/Insurance			
Marketing			
Reserves			
Subtotal			
Total True Cost of Program			

Strategy Screen

What criteria might you use to evaluate opportunities to carry out your strategy?

- ❑ Align with mission
- ❑ Integrate with other activities
- ❑ Enhance core strategy
- ❑ Responsive to community/market
- ❑ Leverage competitive advantage
- ❑ Financially sustainable

What are YOUR criteria? _____

What are your criteria?

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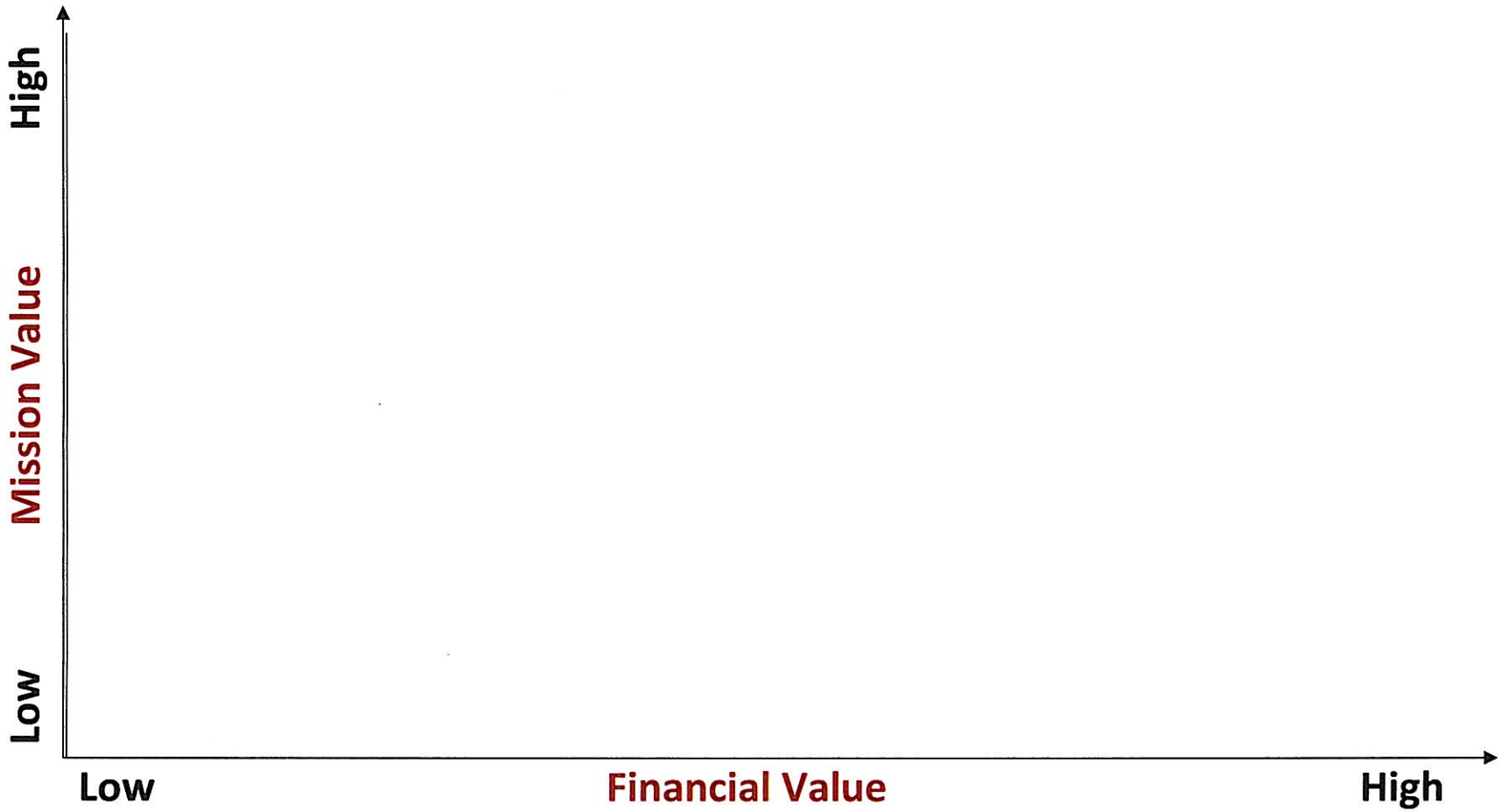
Mission-Money Analysis

Activity:				
Mission impact				

Related
revenue type(s)

Financial sustainability				

Matrix position

Mission-Money Matrix