What Corporates can learn from Not for Profit Strategy Setting

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Abstract

The Not for Profit sector is one of the largest sectors in Australian society, with over 110,000 incorporated and 700,000 unincorporated Not for Profit organisations, many of which have been around for decades, and some for over a century. These organisations range from educational, charity, healthcare, religious and community organisations to trade union, industry, professional and sporting bodies.

This sector has had to be very innovative in managing its future, as it has traditionally been called upon to do more with less, year after year. As a result, some of the strategic tools, practices and accountability mechanisms developed by the Not for Profit sector have some salutary lessons for the corporate sector.

The corporate sector is under increasing pressure, both legal and moral, to conduct its affairs with increasing awareness and regard for society generally. Some of the guideposts for this change in behaviour can be found in the Not for Profit sector. This article identifies the key tools and philosophy behind some of the strategy setting practices used by successful Not for Profit organisations, and the implications for the corporate sector.

These key tools include:

Tool 1: Creating a Vision Filter

Tool 2: Creating a Strategic Board (a mixture of skills based and representational Board members, strategically focused agenda, and transparent and publicly acknowledged accountability measures)

Tool 3: Involvement of a range of stakeholders (Board, customers, staff, suppliers etc) in identifying strategy

Tool 4: Leveraging off the Inheritance of the organisation

Tool 5: Embedding ethics into the strategic planning process

Introduction

Not for Profit organisations have been around for centuries, and have developed certain characteristics that have ensured that they survive and prosper in an environment where their finances are increasingly limited and the majority of their projects are developed and managed by volunteers. Some of Australia's largest providers of services are from the Not for Profit sector.

These characteristics of successful Not for Profit organisations essentially revolve around their strategy setting processes. Some of these processes have been uniquely developed by the Not for Profit sector, and include:
- Creating a Vision Filter
- Creating a Strategic Board
- Stakeholder involvement in strategy setting
- Leveraging off the inheritance of the organisation, and
- Embedding ethics into the strategic planning process

Tool One: Creating a Vision Filter

Not for Profit organisations have a powerful sense of purpose. They are typically created to fulfil a vision or a need of a group of people, and most often have the ethos of adding value to society and "doing good" generally. They have very strong views on what is appropriate, what are core values for the organisation, and what is their core purpose. All Not for Profit organisations have either a formal Vision/Mission statement, or such a strong sense of purpose that this has not needed to be defined in words. The key benefit of this sense of purpose, or Vision, is that it attracts people and resources to that organisation, hence the strong history of volunteer time or resource donation to the Not for Profit sector. This sense of purpose provides guidance to the organisation in good times and bad.

Corporates, on the other hand, often do not have this strong sense of purpose, and whilst they may be successful in the production of goods or services for their markets, may find it difficult to attract or keep staff, customers and resources, and very difficult to stay focused on their core activities.

The Not for Profit sector is very successful at creating Vision statements that actually guide what the organisation does. Successful Not for Profits create Vision statements that act as filters for all activities and programs that they are involved in.

Vision statements provide the context where the Board, the staff, constituents and the public all share a common expectation of the organisation. This common expectation can be one of the organisations most powerful management tools, as well as a powerful marketing message.

The issue of what is a Vision Statement and what is a Mission Statement is a vexed question that often gets organisations derailed during their planning sessions. The difference is often explained as 'Vision is where we want to be', 'Mission describes where we are today'. In the context of the planning process, it is irrelevant whether the Statement is called a Vision or a Mission Statement.

If a corporate has a current Vision or Mission statement, conduct the following exercise. Take each of the substantive words in the statement, and ask the questions

    a.   What is the corporate actually doing to ensure that the intent behind this word/concept is embedded into all programs and services of the corporate. After all, the Board has agreed that the Vision/Mission statement embodies the guiding principles behind all the corporate stands for.

    b.   How are all new or proposed programs filtered through the statement to ensure that the intent of the Vision/Mission statement is structured in to the program.

    c.   Are the Board and staff able to express the key concepts and intent behind the Vision/Mission statement? The exact words are not important, but the intent is crucial. [1]

Tool Two: Creating a Strategic Board

The nature of Not for Profit organisations has meant that they typically have to hold themselves more accountable than their corporate counterparts. The volunteer nature of their Boards has meant that Board members have been most interested in being efficient, effective and accountable, because, after all, they donate their time and don't want it wasted on meaningless activity or rubber stamping projects. This in turn has led to the creation of Strategic Boards.

This increased awareness of accountability has led to a number of worthwhile practices that corporates could emulate.

Firstly, Not for Profit Boards are typically made up of Non-executive Directors, chosen either for their representation of a certain sector, or their skills necessary to move the organisation forward. A mixture of representation and skills based Board members is most common. The practice of Board succession planning is taken seriously, with Board skills analysis providing key planning guidelines for the Board, and allowing the board to focus on extracting the most value from Board members.

Secondly, Not for Profit Boards are focused on public and member accountability, and typically reflect this by providing annual reports that provide appropriate details of strategic plans, achievement against strategic plan success measures, forward projections for future years and how these tie in to the strategic plan. One of the best examples of this is the Epilepsy Association Australia's annual report, which covers areas under headings such as" What we are, What we do, Key influences in year, Key strategies, Planned for this year, Achieved this year, Planned for next year, Outlook and issues, Performance targets for next two years, Why selected, Progress in achieving, and Benchmark comparisons. [2]

Other accountability measures include Board appraisal systems that allow the Board to reflect upon its own performance in light of the strategic plan and other agreed measures. [3]

Thirdly, Not for Profit organisations are skilled at ensuring that the CEO is accountable to the Board. The CEO's performance is typically reviewed at least annually, if not biannually. Directors of a Not for Profit are most often in that position because they share the same values as the organisation, and will protect those values

even against a strong-willed CEO. Whilst this can be a continual source of annoyance for the CEO, it does protect the organisation from staff who might wish to take the organisation in a direction at odds with the Boards wishes. [4]

Fourthly, because the Not for Profit is typically focused on its core purpose, the agenda for the Board meetings often reflects the strategic plan, which in turn reflects the core purpose of the organisation. This ensures the Board is focused on those key activities they have already agreed are the most important things to the organisation. Most corporates, on the other hand, have very operational agendas that reflect how well particular projects or Divisions are going, rather than their contribution to the achievement of the strategic plan. Corporates should review the agenda of their Board meetings to ensure that the following are included: inclusion of a consent agenda item, declaration of conflict of interest, financial reports, Board Operation reports from Board committees (eg Finance/audit, Succession Planning and Compliance committees), reports on outcomes from relevant action plans from the strategic plan, professional Board development, other business, and a section on changes to the strategic environment. [1]

Tool Three: Stakeholder involvement in strategy setting

Not for Profits typically have a number of stakeholders that are interested in being part of the organisation. These stakeholders are often invited to participate in strategic planning, as it cements the relationship as well as adds value to the planning process through the additional perspectives and skills of the participants. For example, the Australasian Institute of Banking and Finance (AIBF) invited 76 stakeholders to participate in its strategic planning session. These stakeholders included strategists from the major financial institutions, CEOs of similar Not for Profits (eg the Insurance Institute, the Financial Planners Association, the Australian Society of Corporate Treasurers), senior HR staff of financial institutions, students, older members, non-members, and academics.

The most effective strategic planning process involves those people who can add value to that process. It is a mistake to use only the senior staff of the organisation in the planning process. Senior staff, constituent representatives, supporters of the organisation, perhaps even some 'competitors' should be considered for the planning team. Planning teams made up of only staff leaders or the Board may not be functional, as there is a tendency for CEOs to attempt to create something distinctive during their term, and often 'pet' projects get emphasised.

The first step in the strategic planning process is to identify those individuals necessary to the development of a Strategic Plan for the organisation, and to get support from these individuals for the planning process. These individuals should be chosen for their knowledge and skills, not just for their position in the hierarchy. Included should be a mix of constituents, Board members, senior staff and some outside people who are not as familiar with the operations of the organisation. There is no ideal number of participants for the planning team, but it should encompass individuals who represent different skill levels in knowledge, expertise and thinking styles, and more importantly, in group dynamics. The group could be anything from five (5) people up to seventy six (76). The facilitation of these groups will differ depending on size, but the outcome will be very similar.

The roles of the various groups in the strategic planning process can be summarised as:

- The Board – monitoring role: The Board ultimately approves the Strategic Plan, but does not necessarily formulate the Strategic Plan. Board members may participate in the planning process, but they do so as individuals, not as a formally constituted meeting of the Board. The Board then monitors the achievement of the Strategic Plan, and undertakes corrective action where required.
- The CEO – implementing and controlling role: The CEO sets the climate and tone of the strategic planning process, establishes the planning group, and ensures the Action Plans are completed on time and have appropriate control and measurement systems in place.
- Senior staff – implementing role: Senior staff duplicate the CEO's role within their respective departments, maintain communications between the Board/CEO and other staff, provide functional guidance to other staff, and report on progress of the Action Plans.
- Stakeholders – expert advice or representative role. Stakeholders could represent a current or potential consumer base, key suppliers, and indirect competitors. [1]

Tool Four: Leveraging off the Inheritance of the organisation

Many Not for Profit organisations have a long and distinguished history, and are proud of this inheritance whilst at the same time remaining relevant and essential in present day society. One of the major strengths of a Not for Profit organisation is that its Inheritance is a coalescing factor that partially drives the values of the organisation and partially attracts people to the culture of the organisation.

All organisations have a history, some of which may be more colourful than others. The Australian Funeral Directors Association published a book "No Funerals on Picnic Day" which traces the history of the profession and the Association over many years, and the impact of this history on the profession[5]. The IOOF commissioned a book in 1991, written by Geoffrey Blainey, which captures the flavour and work of the IOOF which the organisation felt was in danger of fading away.[6] Whatever the qualitative aspects of their backgrounds, it is nevertheless critical for organisations, especially corporate organisations, to have a sense of their past.

Too often organisations have tenuous links with their history. The reasons can vary from loss of key Board members, loss of long-serving staff, involvement of younger people, involvement of personnel that come from different corporate cultures, or an emphasis on making money or raising finances as an end in itself, rather than the reward for achieving a core purpose.

An organisation needs to establish the importance of the history of the organisation, the original purposes of the organisation and how they align with current purposes, and the importance that customers and constituents place on the Inheritance Factor. To ignore this, risks that customers and constituents no longer see the relevance of the organisation, and move elsewhere.

Tool 5: Embedding Ethics into Strategic Planning

The Not for Profit sector has always been preoccupied with ethics. The creation of Codes of Conduct and Codes of Ethics predate any formal legal attempt to codify ethical behaviour. Charitable, trade and professional Not for Profit organisations date back to the 17th century, and there is evidence of Codes of Ethics from this era. It is not surprising, then, that the Not for Profit sector is using ethics as a major strategic tool.

One of the most innovative uses of ethics, pioneered by Enterprise Care and now in use in Not for Profit organisations throughout Australia, is the embedding of ethical decision making into the strategic planning process. This has been illustrated in the development of the SCORE analysis as part of the Strategic Planning process. The SCORE analysis leads the strategic planning team through an environmental analysis that includes Strengths, Challenges, Opportunities, Risks and Ethics. The ethical component is also embedded into the creation of action plans, where each strategy is drilled down into specific action plans with the following elements:
Scope, Start date, Completion date, Resources, Project Manager, Success Measure and Ethics.

The Ethics element poses the question: are there any issues of rights, responsibilities, obligations or fairness inherent in what we plan to do in this action plan. If any issues are raised, then these are considered and rewritten into the Scope of the action plan.

Examples of the embedding of ethics into Action Plans of the Strategic Plan include:

Action Plan 1.2 – Who should comprise our membership?
Scope: Environmental scan of all possible members eg (overseas, associates, OHS, technicians and equipment suppliers, Pharmacy assistants etc), identify potential organisations that can create value links, create Memorandum of Understanding's (MOU) with identified organisations
Resources: Office personnel
Start Date: November 2003
Completion: May 2004
Project Manager: SB
Success Measures: Establishment of new member category. Establish MOU's with 50% of all identified organisations.
Ethics: Confidentiality with sharing information. Obligations in relationships. Sharing of same value systems.

Action Plan 3.1 – Establish Volunteer Program
Scope: Establish resource file on Volunteer Co-ord positions/agencies, contact Volunteering Victoria, research how other Organisations fund it/do it, develop Position Description and scope of role, budget including income streams/resources **P**roject Plan to Committee of Management
Resources: Allocation of administration time
Start Date: December 2002
Completion: February 2003
Project Manager: FM
Success Measures: Committee of Management signs off on Project Plan
Ethics: Document ethics and rights of Volunteers

Action Plan 5.1 – Identification of all current member services.
Scope: Identify current services and identify any gaps between current services and what we should be providing.
Resources: Staff time
Start Date: February 2003
Completion: March 2003
Project Manager: GS
Success Measures: Report for the project manager
Ethics: Are we disadvantaging any members by reducing some service?

This simple but powerful technique ensures that the organisation considers ethical questions before embarking on specific actions. [1]

In today's environment of societal discomfort with corporate behaviour, this simple Not for Profit technique has powerful implications for the corporate sector.

Summary

This article explores five processes for strategy setting developed by the Not for Profit sector, and their implications for the corporate sector.

Creating a Vision filter ensures that the core values and core purpose of the organisation guide it through its life, and provide a built in innovation process whereby all activities are filtered through the Vision statement, and ideas and products that enable the organisation to achieve its Vision are created.

Corporates have been urged by regulators such as ASIC and by professional bodies such as the Australian Institute of Company Directors, to create Strategic Boards that are focused on the future, not short term gains, and Not for Profit organisations lead the way in these types of Boards. The use of a mix of representational and skills based Board members, succession planning for the Board, strategic annual reports, Board appraisal systems, CEO reviews and strategic Board agendas are all symptomatic of the Strategic Board.[7]

Extended stakeholder involvement in the strategic planning group adds value to the process, and ensures that management (or the Board) do not get carried away with "pet" projects.

Understanding and celebrating the inheritance of the organisation is a powerful way to communicate the values and integrity of the organisation, and maximise the possibility of the best elements of the organisation being carried into the future.

Embedding ethics into the strategic planning process ensures that ethical issues are addressed before they become problems. It also makes sense that the corporate promote the use of ethical strategic planning, both within the organisation and to stakeholders and the public.

These five tools from the Not for Profit sector can assist corporates repair some of the current damage to corporate reputation and assuage societal concerns about the state of play in the corporate sector.

Endnotes

[1] *Bowman S & Smith DJ*, 2003, <u>The Secrets to Developing Strategic Plans that Work</u>, Enterprise Care Not for Profit Services

[2] www.epilepsy.org.au/epilepsy/epilepsyadult.nsf/Content/2002+AnnualReport

[3] *Bowman S & Smith DJ*, 2002, <u>Practical Board Appraisal Techniques</u>, Enterprise Care Not for Profit Services

[4] <u>Developing Not for Profit Performance Management Systems</u>, Enterprise Care Not for Profit Services, 2002

[5] 1992, No Funerals on Picnic Day, Australian Funeral Directors Association

[6] *Blainey, G.*, 1991, Odd Fellows: A History of IOOF Australia, Allen & Unwin

[7] *Smith DJ & Bowman S*, 2002, <u>Good Governance Guide</u>, Enterprise Care Not for Profit Services