Integrated Strategic and Financial Planning for Nongovernmental Organizations

Paige MacLeod
Patricia León
Pedro Esquivias

Resources for Success Series
Volume 3

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Copyediting:	Norma Adams
Design/Layout:	Jonathan Kerr/TNC
Production:	Publications for Capacity Building, The Nature Conservancy, Worldwide Office, 4245 North Fairfax Drive, Arlington, VA 22203, USA. Fax: 703-841-4880; email: publications@tnc.org.

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For further information on Integrated Strategic and Financial Planning projects or to provide feedback, please contact:

Angel Cárdenas
Self-sufficiency and Fund-raising Specialist
The Nature Conservancy
Worldwide Office
4245 North Fairfax Drive
Arlington, VA 22203 USA
Phone: 703-841-4188
Fax: 703-841-4880
Email: acardenas@tnc.org

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Foreword

Through local partnerships, The Nature Conservancy assists countries to build the capability and commitment to conserve biological diversity and the natural systems necessary to sustain life. Since 1988, the Conservancy has worked to strengthen the institutional capacity of our in-country partner organizations to achieve our shared conservation goals.

In 1993, the Conservancy published its watershed institutional development manual, *Resources for Success*, to share the lessons learned from the first five years of its work with in-country partners. It proved to be a groundbreaking document for literally thousands of conservation and other nonprofit organizations. Initially designed as an easy-to-use primer for strengthening Conservancy partners, *Resources* quickly became a classic reference book in countries where local nonprofit organizations had little access to practical advice and best practices on issues of institutional development. Eight years later, *Resources for Success* continues to be a standard reference for Conservancy staff and partners, as well as other conservation and organizational development practitioners around the world.

Given the importance and impact of *Resources for Success,* the thought of improving upon it was at first daunting. But the Conservancy and its partners have learned many important lessons in organizational development in the intervening years. We now work with more than 90 in-country partners in Latin America, the Caribbean, Asia, the Pacific, and Canada. These partners vary in nature from small, fledgling groups to powerful national organizations that have the capacity to provide assistance to others. As we have continued to work with our partners, we have learned from them how to develop new and better approaches to building strong local organizations with sustainable, lasting capacity to pursue their missions.

We have collected the lessons of our partnership-based best practices and field-tested tools in our new *Resources for Success* series, which replaces the earlier edition. The new series is designed to be even easier to use than its predecessor, with practical, hands-on tips and approaches, clearer text, and more in-depth background information. The series is presented in accessible booklets, each covering a particular organizational strengthening topic. The first two volumes, already published, are *Institutional Self-assessment* and *Four Pillars of Financial Sustainability.*

We are proud to present the latest volume in the series, *Integrated Strategic and Financial Planning.* Upcoming volumes include such topics as:

Developing Membership Programs

Human Resource Management

Fund Raising

We think you will find the new *Resources for Success* series beneficial to your organizational needs, and hope it will encourage your organization to develop and share its own best practices.

Marlon Flores
Acting Director
International Partnership Program
The Nature Conservancy

Introduction

This volume, in the updated *Resources for Success* series, expounds on the relatively new concept of integrating strategic and financial planning, based on continuing work with partner organizations in Latin America, the Caribbean, Asia, and the Pacific. While the Conservancy's in-country partners around the world are familiar with the concept of strategic planning, it is only in the past four years that we have begun to recognize the inherent need to analyze the financial viability of implementing the strategic plan.

In strategic planning, organizations define how they plan to work in the upcoming three-to-five years, detailed through a combination of goals, objectives, strategies, and activities. In *Integrated Strategic and Financial Planning,* the activities are prioritized, the implementation costs are estimated, and then are compared with the available resources to execute them.

If an organization lacks the resources to implement at least 70 percent of its strategic plan, it will find it has developed a "wish list" of good intentions rather than a document that can guide the organization's future actions.

This logical continuum of the strategic planning process provides organizations a methodology to determine their financial and human-resources capacity to implement their strategic plan.

After completing the Integrated Strategic and Financial Planning process, organizations will have developed a tool that not only serves as a reality check, but that also provides the basis for developing annual operations plans, establishing quantifiable fund-raising goals and priorities for upcoming years, and measuring the organization's success.

The organization's managers will obtain a clear idea of which strategic objectives are the most important and possible with the available resources, and which are beyond the scope of short-term action.

After completing the Integrated Strategic and Financial Planning process, some organizations will find the need to adjust their expectations to reflect more accurately what they can accomplish. This could include revisiting or revising the strategic plan, re-prioritizing activities, eliminating certain proposed activities, or postponing implementation of some activities by a year or two. In some instances, it could also include development of an aggressive fund-raising plan. It is imperative that the organization become aware of its needs, abilities, and resources so that it can make informed decisions on the best course of future action.

As nonprofit organizations, we dream of making the world a better place for humanity. We hope this methodology helps such organizations reach their dreams by developing realistic plans that are achievable.

How To Use This Manual

This manual is designed as a self-paced tool that your nonprofit organization can use to develop its Integrated Strategic and Financial Plan. It is divided into chapters and sections describing a series of steps to follow. A case study has been included to provide concrete examples of how to develop the work at each step. At the back of the manual, a set of blank worksheets is available for your use.

This methodology assumes that your organization has an existing strategic plan or is in the process of completing one. If it does not have a strategic plan, Chapter 4, “Reviewing the Strategic Plan,” provides fundamental concepts, as well as a list of references for further assistance on the topic.

The case study presented in this manual is based on the Conservancy's work with an Ecuadorian organization, Arcoiris, to whom we are extremely grateful. Arcoiris' willingness to openly share its Integrated Strategic and Financial Plan is yet another example of its desire to assist other non-profit organizations, in this case those who are working through the Integrated Strategic and Financial Planning process for the first time.

The version of Arcoiris’ strategic plan presented in this document is the organization’s first draft, with all of the inherent flaws that a first draft implies. For this reason, it provides a classic example of how to develop an Integrated Strategic and Financial Plan. Based on subsequent work, including review of the conclusions of the Plan's first iteration, Arcoiris was able to improve and refine the document; as a result, the organization now has a realistic guide that can strategically direct its future work.

Practical Applications

This Integrated Strategic and Financial Planning tool will assist your organization in:

- ❖ Articulating its organizational goals, objectives, and activities;
- ❖ Prioritizing activities detailed within the strategic plan;
- ❖ Identifying the cost of implementing the strategic plan;
- ❖ Estimating its annual administrative costs;
- ❖ Identifying potential funding gaps or surpluses, based on the cost of implementing the proposed activities compared to current financial capacity;
- ❖ Identifying fund-raising goals;
- ❖ Determining whether it needs to revisit or revise its existing strategic plan to more accurately reflect what can be accomplished within the proposed time frame; and
- ❖ Validating the feasibility of implementing its strategic plan.

Glossary

Activities
Specific actions that will produce services or products to achieve stated objectives. Provide the most detailed information on what is to be implemented in a strategic plan.

Goals
Outcome statements that define what an organization is trying to accomplish, both programmatically and organizationally. Describe how the organization will achieve its mission.

Integrated Strategic and Financial Plan
Document that translates the strategic plan into financial projections of funding needs and probable available funding capacity.

Mission
A succinct statement articulating the organization's purpose or business. (Some missions also include organizational values and beliefs or describe how the organization will achieve its purpose.) Should answer the following:

Who is doing the work?
What is being done?
Where is it being done?
Why is it being done?
(for) Whom is it being done (beneficiary)?

Objectives
Precise, measurable, time-phased results that support reaching a goal. Describe how the goal will be achieved. Should be:

S Specific
M Measurable
A Achievable
R Relevant
T Time-phased

Operations Plan
Type of plan that usually covers one year (calendar or fiscal) and includes the annual budget. Usually includes details on the types of activities to be implemented. Is not a component of Integrated Strategic and Financial Planning, but can be derived from it, based on activities detailed for each year.

Program Areas
How the nonprofit organization is structured (usually by programs, themes, or geographic areas).

Strategic Plan
Document that clearly defines an organization's purpose and establishes realistic goals and objectives, consistent with its mission, with a defined time frame.

Strategies
Broad, overall priorities or directions adopted by an organization. (optional)

SWOT Analysis
Methodology organizations use to assess their internal capacity (strengths and weaknesses) and external environment (opportunities and threats) that could affect the organization.

S Strengths
W Weaknesses
O Opportunities
T Threats

Vision
Statement that describes how the world would be improved, changed, or different if an organization is successful in achieving its purposes. *(Note: while many organizations find a vision statement essential, an equal number have not articulated one, although they may have a unified vision.)*

"We now utilize the Integrated Strategic and Financial Planning process in all our activities, down to project planning and design. This tool has proven an invaluable resource for Arcoiris."

— Fausto López
Director, Arcoiris Foundation
Ecuador

Chapter 1

What is Integrated Strategic and Financial Planning?

This chapter answers the question by covering the following points:

- ❖ Definitions and Descriptions of Relevant Terms
- ❖ Evolution
- ❖ Importance of the Plan
- ❖ How a Budget Differs
- ❖ Steps in the Process
- ❖ Expected Results

Definitions and Descriptions of Relevant Terms

The term *strategic planning* refers to a set of concepts, procedures, and tools designed to help an organization think and act strategically through a consensus-building process. Strategic planning is a disciplined effort to produce fundamental decisions and actions that shape what an organization is, guide what it does, and demonstrate why and how it does them.

The strategic plan clearly defines the organization's purpose, establishes realistic goals and objectives consistent with the mission and vision within a defined time frame, and identifies the organization's implementation capacity. Its focus is on the future, and its fundamental concern is adaptation to a changing environment. The more changes that occur in the environment, the more frequent the planning process needs to be revisited.

In Integrated Strategic and Financial Planning, the individual activities of a strategic plan are translated into financial figures to estimate future funding needs, and corresponding resources are analyzed for the strategic plan's implementation.

Preparing a financial plan is essential in determining the feasibility of the strategic plan, as it allows the organization to verify that income will be sufficient to cover the projected expenses of planned activities. If an organization does not implement a minimum of at least 70 percent of its strategic plan, it has not complied with its promise to society on the goods, services, or results it was to provide.

Evolution

Nonprofit organizations in developing countries confront several obstacles when trying to finance their activities. The reduced per capita income, as well as high concentration of wealth in a few individuals, tremendously limits the number of individual donors and the amounts to be raised locally.

The relative absence of tax incentives significantly limits the funds donated by the corporate sector. Although in recent years some governments have placed more funds at the disposal of these organizations, turning to governmental institutions is still not a valid solution, as these incipient funds are usually insufficient to finance a long-term, large-scale operation. The economic, political, and social fluctuations that can affect such countries create an insecure environment that leads heads of households to ensure the well-being of their families before distributing any excess income to support social causes.

Furthermore, the policies and principles that many nonprofits defend presume a short-term change in local customs and activities. Changing these habits generally requires substantial time, effort, and resources. As a result, organizations in developing countries have needed to direct their fund-raising efforts toward international donors. In addition to traditional fund-raising, many organizations have begun to assess the feasibility of becoming involved in business projects that would allow them to diversify their income sources.

These two types of activities require organizations to develop a greater degree of sophistication in planning and control mechanisms. A large part of the success in obtaining financing from international donors is the ability to carefully plan medium-term actions, as well as specific financing requirements-something that may only be done if the organization is able to tie its strategic plan to its financial plan. The successful launch of business-oriented activities requires developing strategies that identify business opportunities and monitor their results.

The variability caused by these types of activities has complicated the planning procedures of non-profit organizations. In addition to the need to finance administrative (fixed or overhead) costs, managers now encounter business initiatives with uncertain profitability and project cash flow that possibly may not be secured. Poor planning may lead an organization to involve itself in projects that may not obtain enough future financing to ensure their completion, or even focus so much on project financing that there is insufficient funding to cover administrative costs.

The Integrated Strategic and Financial Planning tool avoids this type of scenario. It transforms the objectives and actions stated in the strategic plan into financial figures that estimate and predict probability of future funding needs and resources. Preparing an Integrated Strategic and Financial Plan is essential to determining the feasibility of the strategic plan, as it allows the organization to verify sufficient future income levels to pay for expenses incurred in implementing the strategic plan.

Importance of the Plan

As an organization grows and becomes involved in an increasing number of activities, it runs the risk of concentrating too much effort on the challenges of day-to-day management, thereby losing sight of its long-term objectives. Strategic planning is the mechanism whereby the organization clarifies its objectives and prioritizes the actions needed to achieve them. Sound planning allows managers to determine how the organization's generally limited resources should be invested. In addition, having a solid strategic plan has become an essential prerequisite for gaining access to available international funds.

In general, strategic planning is limited to analyzing the organization, including its strengths and weaknesses, in the medium-term. As a result of this analysis, managers are able to determine the organization's mission and objectives, as well as the appropriate actions to achieve them.

Because it is developed on a conceptual level, strategic planning has one inherent weakness: it does not account for the organization's available resources to implement the plan or the ability to obtain new resources. This is why strategic planning should be integrated and implemented in conjunction with financial planning, which allows the organization to translate the actions described in the strategic plan into measurable financial figures.

How a Budget Differs

The basis of an Integrated Strategic and Financial Plan consists of an organization's projected income and expenditures. Although a financial plan may appear similar to a budget, the two differ in significant ways. A budget is a detailed, annual accounting of an organization's costs and income sources that serves to assign a monetary value to the organization's activities, clarify the relationship between programmatic and administrative costs, identify when financial resources are needed, help control expenses, and evaluate the results of specific activities.

A financial plan, by contrast, is a dynamic document that changes frequently. Its ultimate objective is to determine whether the organization will have sufficient financial resources available to meet the

Table 1. Key Differences Between a Budget and a Financial Plan

Factor	*Budget*	*Integrated Strategic and Financial Plan*
Time Frame	Annual (One year)	Medium-term (Three to five years)
Application	Monitor and evaluate current financial situation	Projects future financial situation; Medium-term planning tool
Degree of Detail	Detailed and precise	General, projected estimates; Subject to greater uncertainty
Variability	Not subject to change	Constantly modified to include once approved the organization's most recent changes

objectives described in the strategic plan in the medium-term (Table 1).

In the financial planning process, the final results are as important as the mechanisms used to achieve them. The planning process is a tool that helps managers periodically evaluate their organization's strengths and weaknesses.

Steps in the Process

The Integrated Strategic and Financial Planning methodology includes nine basic steps, as described below. The flow chart that follows the descriptions of these nine steps shows the process of moving through them, based on responses to key questions (Figure 1).

Step 1. Planning To Plan

Before beginning the Integrated Strategic and Financial Planning process, it is important to define several issues that will influence how your organization will move forward, at what pace, who will be included, who will be responsible for which components, and how much funding will be needed for the planning process. You should establish a time limit for the process, as well as for identifying project leader(s) who will ensure follow up with the work team(s) on progress and meeting deadlines. It is useful to identify external or internal individuals who can serve as facilitators, as well as someone who will record and report conclusions to the rest of the staff.

Step 2. Reviewing the Strategic Plan

The more accurate the strategic plan, with regard to your organization's current view of future direction, the more accurate the Integrated Strategic and Financial Plan. Your organization should review and update the strategic plan annually to monitor and evaluate the organization's performance and adapt to changes in its situation. If your organization's strategic plan has not been reviewed in the past six months, this should be done. If your organization does not currently include activities describing how each objective will be reached, then these should be articulated.

Step 3. Establishing the Organization's Priorities

Once the various strategic objectives and activities have been agreed upon, your organization's managers need to assign a clear priority for each activity. In a later step, once current funding has been identified and compared with projects, your organization will need to determine whether sufficient funding exists or can be raised to cover all activities, or whether the reality is that only the highest-priority activities can be implemented.

Step 4. Estimating Costs of Implementing Activities

You should estimate the cost of implementing each activity. If an activity can be divided into sub-activities, then estimate the costs associated with each sub-activity.

Step 5. Estimating Administrative Costs

In addition to the costs associated with implementing each activity, your organization will incur administrative (overhead or fixed) costs, which are necessary to provide administrative support to the programs. You should estimate these for each year of the planning period.

Step 6. Projecting Income

You should draft a list of all potential income sources and assign each source a percentage probability of receiving funds.

Step 7. Projecting Income and Expenses by Program Area

This step summarizes the information from Steps 4-6 to provide an overview of each program's funding situation. Only funds that are, for all practical purposes, guaranteed are assumed to be available. This includes donations approved by the donor, contracts with third parties for services, and possibly historical product sales data. This allows your organization to evaluate which programs have funding allocated, determine which ones require more funding, and how much is needed. You can use the results of this step as the basis for developing a fund-raising plan.

Step 8. Developing Scenarios

Based on the information from Steps 3-6, three case scenarios can be developed that project the organization's financial capacity to implement the strategic plan: modest, moderate, and optimal. Under the modest case scenario, secured funding is compared with the cost of only high-priority activities. Under the moderate case scenario, secured funding is compared with the cost of both high- and medium-priority activities. Under the optimal case scenario, secured funding is compared with the cost of implementing all activities. In addition to income and expenses projections, this process provides your organization with a second form of evaluating its current financial capacity to implement activities.

Step 9. Evaluating Feasibility of the Plan

At this stage, your organization needs to analyze the results of the previous steps to determine whether implementing the strategic plan is feasible. Its decision should be based on the amount of secured funding currently available, and the evaluation of its capacity to raise funds, based on past experience. An additional component in the evaluation is the staff capacity and time available to implement the stated activities—in all too many instances, organizations do not adequately account for the number of human resources needed; as a result, the staff becomes overextended and unable to achieve the desired results. If your organization determines that the plan is feasible, it now has a viable strategic plan, as well as the basis for developing its future annual operations and fund-raising plans.

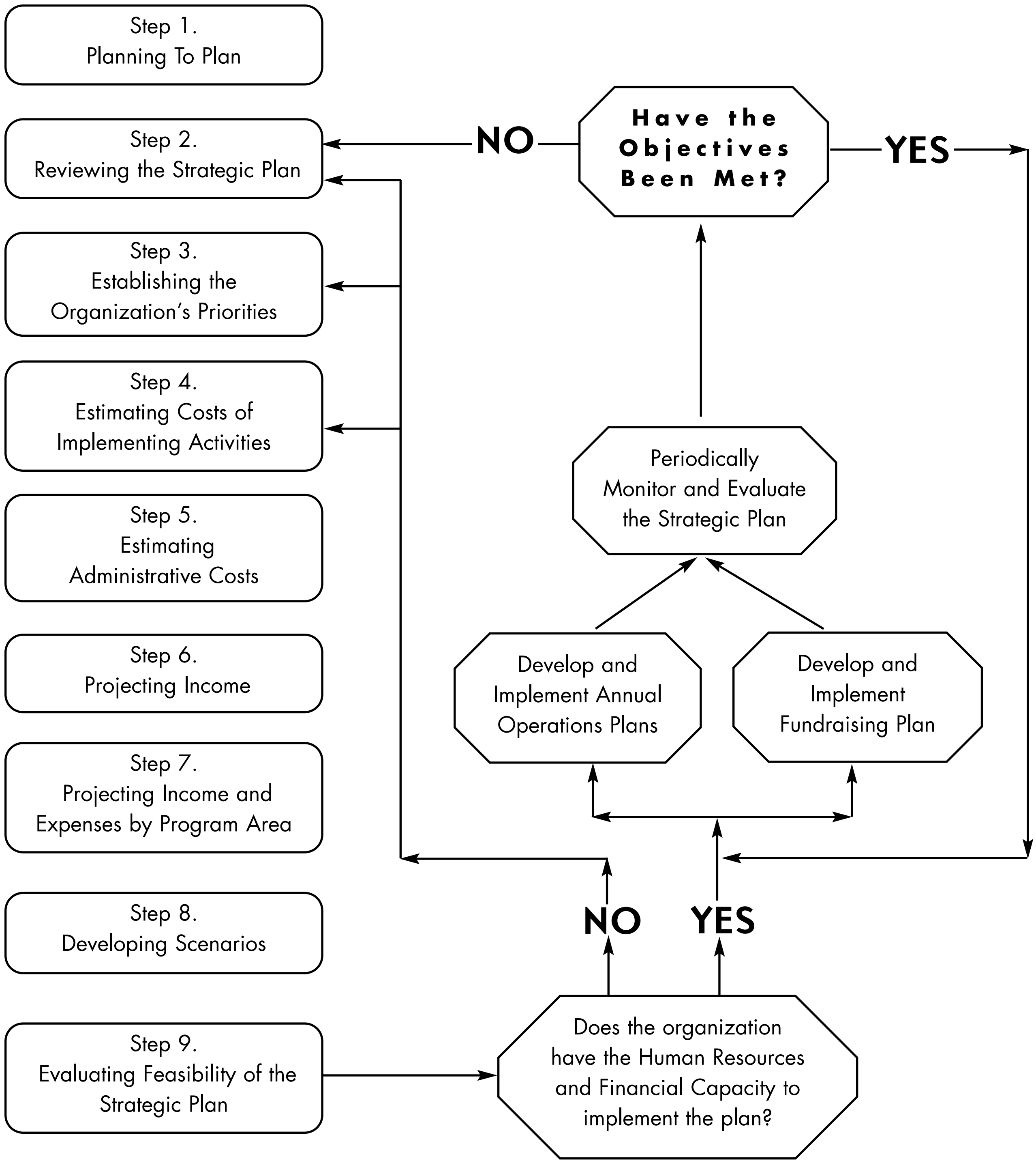
If your organization decides that the strategic plan does not realistically detail what can be accomplished within the time frame, it will need to determine how to adjust its expectations to more accurately reflect what it can accomplish. This could include revisiting or revising the strategic plan, re-prioritizing activities, eliminating certain proposed activities, or postponing implementation of some activities by a year or two. In some instances, this could include development of an aggressive fund-raising plan.

Expected Results

In general, engaging in Integrated Strategic and Financial Planning allows your organization's managers to determine their priority actions in accordance with the availability of funds. Other benefits include the following:

- ❖ Your organization's managers will obtain a clear idea of which strategic objectives are possible with the available resources, and which are beyond the scope of short- or medium-term action.

Figure 1. Steps Involved in the Integrated Strategic and Financial Planning Process



- ❖ Your organization's managers may determine medium-term fund-raising objectives based on priority activities they wish to carry out. This can allow implementation of multi-year fund-raising or income-generation campaigns with specific monetary amounts for specific activities or projects.

- ❖ Financial planning allows your organization to provide donors with a clear and coherent picture of medium-term financing needs, generating more credibility and avoiding the need to revisit donors to raise funds year after year. The latter is especially important in avoiding "donor fatigue" (potential to cause a negative donor reaction due to recurrent funding requests).

- ❖ Project staff will have detailed activities for developing annual operations plans and a means of monitoring and evaluating effectiveness in implementing these plans.

- ❖ If business-oriented initiatives are desired, financial planning allows these initiatives to be linked to your organization's funding needs, and makes it possible to analyze and determine whether the expected results would match the expectations created.

Chapter 2

The Arcoiris Foundation Case Study

This chapter provides the backdrop for the concrete examples provided for each step in the Integrated Strategic and Financial Planning process. The authors recommend that you become familiar with this case study to better facilitate your understanding of the Arcoiris examples, which are presented following the descriptions of the steps.

As 1997 drew to a close, Fausto López deserved to feel proud, but he also had reason to worry. The Arcoiris Foundation, which he ran, was approaching its tenth anniversary. Arcoiris had undergone an important transformation over the past four years, becoming one of southern Ecuador's leading conservation organizations. The prestige it had obtained through conservation work in the Podocarpus National Park had allowed Arcoiris to attract an increasing number of international donors. Through their support, Arcoiris had expanded its activities. It had undergone an institutional restructuring to supervise and coordinate these activities more effectively, which resulted in a strategic plan. Fausto could already see the benefits of the restructuring, but still had doubts about the organization's future.

Arcoiris had grown significantly over the previous year. The strategic plan, which mapped out activities through 2001, had allowed Arcoiris to specify its goals and objectives, as well as the actions required to meet them. But satisfying the ambitious goals established in the strategic plan would require diversifying and increasing the Foundation's financing sources. Fausto was unsure whether financial resources would be sufficient to allow his organization to implement the proposed activities and cover the increased administrative expenses needed to service the program's expanded activities.

Fausto was beginning to realize that the methodology Arcoiris had been using for its strategic plan did not allow managers to visualize their future financing needs or determine the sources of such financing.

History and Early Activities

In 1989, a group of university students decided to establish the Arcoiris Ecological Club, with guidance and assistance from the national Ecuadorian Nature Foundation. Two years later, the club became known as the Arcoiris Foundation and set off on a path to preserving the biological wealth of the Podocarpus National Park.

Arcoiris' initial actions focused on determining the magnitude of ecological damage from mining, as well as bringing lawsuits to stop destructive mining practices in the region. With the help of the Imperial College of London, Arcoiris analyzed water pollution in the local rivers, which showed high levels of mercury and other toxic metals. In 1993, it won legal support, obligating the large mining companies to cease their activities immediately.

By the mid-1990s, Arcoiris had evolved from an activist organization into one that took a more active role in managing and preserving the Podocarpus National Park. It obtained funding to carry out a wide range of activities, including Park management, educating local community members living in or around the Park, and launching sustainable development projects. The Foundation's influence expanded when it joined the Inter-institutional Committee to Defend the Podocarpus National Park, a group comprising several public and private organizations. Thus, Arcoiris had gradually become one of the most highly regarded conservation organizations in southern Ecuador, enabling it to expand operations into other areas in the region.

Podocarpus National Park

Created in 1982, the Podocarpus National Park covers more than 146,000 hectares and is situated at 800-3,700 meters above sea level. It is the only protected area in southern Ecuador that encompasses ecosystems ranging from mountainous rainforest to the Amazon forest. The region contains a large variety of animal and vegetative species and serves as the principal water source, not only to areas adjacent to the Park, but to more than half of southern Ecuador's population.

The socioeconomic consequences of environmental degradation became evident in the 1960s, when a series of prolonged droughts forced the massive emigration of regional inhabitants. At present, the municipalities of the region's two cities are concerned about preserving the river basins that provide their water, which are located within the Park's perimeter and buffer zone.

A final factor leading to the Podocarpus National Park's degradation was colonization, or the expansion of the human frontier. Traditionally, inhabitants of the Park's surrounding areas used slash-and-burn techniques to prepare fields for farming or to produce firewood. As these wooded areas diminished, incursions into the boundaries of the Park became increasingly frequent.

With Success Came Complications

Through the years, Arcoiris' success had begun to generate expectations reaching far beyond what the organization was founded to do. There was a perception among certain circles that Arcoiris had access to large financial resources and should "share" them with other local public and private organizations. The government entity charged with oversight of the region's natural resources was anxious to expand Arcoiris' programs in order to obtain more private financing for the government's conservation activities. The situation had become pressing for government park administrators as a new law eliminated the access to funding from the better-known Galapagos Islands National Park, decreasing an important income source for the Podocarpus National Park's activities.

In general, all of the Arcoiris' members agreed that the Foundation's basic objective was to preserve southern Ecuador's natural environment. However, perspectives on action priorities differed. Some thought Arcoiris should concentrate on protecting the Park, dedicating more resources to scientific research and field work. Others thought the Foundation should focus on strengthening educational activities at both academic and local-community levels (including sustainable development and agricultural activities). Another group wished to devote more time and effort to natural resources activities in the region's capital city, such as city parks, urban waste, and sewage treatment, as requested by the local mayor. Several members of the management team and board of directors had become especially interested in diverse projects, such as construction of permanent exhibitions to educate city dwellers on environmental issues.

As the number and complexity of the activities increased, Arcoiris found it necessary to attract new qualified personnel with technical skills ranging from scientific knowledge to education and administration of personnel. Although Arcoiris had the advantage of being situated in Loja, a city with two universities, it was difficult to attract staff who were both motivated and sufficiently qualified. This situation required additional expenses to increase its work force.

Although Arcoiris had achieved success in preserving the Podocarpus National Park from large mining development, the number of individual miners seemed to be increasing rather than decreasing. The solution would require achieving consensus among local authorities, the federal government, police forces, mining unions, and the National Mining Directorate. Arcoiris had succeeded in obtaining the backing of some local forces, but still lacked the ability to exert pressure at the federal level.

As activities conducted during its early years primarily relied upon volunteer time and effort, Arcoiris had not needed to worry about generating income or preparing financial statements. However, as the Foundation became more involved in the daily management and conservation of the Park, the need became clear for improved planning and funding to finance activities. This realization led Arcoiris to prepare its first strategic plan in 1997. The plan proved timely, as the credibility generated from submitting it to donors enabled Arcoiris to be named by the Netherlands as one of the managing organizations for funds distributed in the region.

The Foundation's recent restructuring and growth had increased administrative expenses to nearly US$30,000 per year. While most of these expenses were covered through current project funds, it was unclear whether this would continue to be the case. Arcoiris received most of its funding from four sources, one of which accounted for about 75 percent of the Foundation's entire budget. This primary funding source was about to draw to a close as the project neared completion.

As Fausto began to evaluate the strategic plan, he soon understood its limitations when he tried to decide which projects were high priority, how to distribute limited funding between projects, which types of projects needed funding, and what types of resources he should seek from various donors. These questions led Fausto to consider using another tool to help Arcoiris' growth: the Integrated Strategic and Financial Plan.

Chapter 3
Planning To Plan (Step 1)

This chapter covers the following points:

- Educating Participants and Decision Makers
- Determining Who Should Facilitate
- Determining the Timetable and Method
- Determining Who Participates and Assigning Responsibilities
- Involving Board of Directors
- Determining Financial Resource Needs

The first step in developing an Integrated Strategic and Financial Plan is to begin mapping out a "plan to plan." While investing time in this step might seem absurd to some, it helps organize the process, determine responsible parties for all steps in the planning process, evaluate the financial and human resources needed to complete the strategic plan, and set a timetable to ensure expedient completion of the process. A time limit should be established for the process, as well as for the identification of project leader(s) who will ensure follow up with the work team(s) on progress and deadlines.

The Integrated Strategic and Financial Planning process should begin by establishing the core team, as well as setting deadlines for completing the process, determining the desired degree of participation, and identifying the key actors to be involved. The following steps detail the chronological order for implementing the methodology.

Educating Participants and Decision Makers

Integrating financial planning, like strategic planning, involves a participatory process. Program and project staff often balk at participating in "financial planning," assuming this task is the responsibility of the financial or administrative staff. However, when financial and administrative personnel conduct the process in isolation, the end result may not accurately reflect the organization's future financial needs. Project and program staff know how many workshops need to be conducted, how many field visits will be needed, and how much gas they will likely consume for different types of activities in order to reach stated objectives.

If this is the first time that your organization has participated in Integrated Strategic and Financial Planning, you should share information with and educate staff and board members to achieve a high degree of their participation and buy-in. This stage could be as simple as sharing materials or conducting a brief meeting.

Determining Who Should Facilitate

While hiring an outside facilitator will increase the cost of developing an Integrated Strategic and Financial Plan, in the long run, it can help move the process forward more expediently. If an individual in your organization is experienced in both formulating financial plans and facilitating participatory processes, you may not need an external facilitator. However, not all financial managers or accountants are born facilitators, in much the same way that all scientists are not necessarily good accountants. If you determine your organization has an appropriate individual, then have this person facilitate the process. Otherwise, hiring an outside facilitator can save time, promote participation, and help your organization move the process forward quickly and efficiently. Regardless of who is selected to facilitate, ensure that all parties are aware that the process can only move forward if your organization's staff members actively participate in the process.

Defining the Timetable and Method

Begin by determining when you would like to complete the process, then work backwards to determine when other activities should be conducted. In many instances, if the appropriate individuals participate, the bulk of the work can be done in one or two days with follow-up from the finance department to smooth out historical financial information when needed. If full-day retreats are not possible, the process can be conducted in periodic weekly meetings. However, the entire process should last a maximum of four-to-six weeks.

Determining Who Should Participate and Assigning Responsibilities

It is up to each organization to determine who should participate in the process. In organizations with fewer than 20 employees, it is common that all staff members are invited to participate frequently. In larger organizations (50 or more employees), directly involving all staff is impractical. At a minimum, the work groups should comprise four primary categories:

1. *A core team charged with moving the process forward*—A small group, whose size varies, based on that of the organization. The team should adequately reflect the different levels within the organization. The team should choose a team leader and define the roles and responsibilities of each member.

2. *Programmatic, technical, and administrative directors*—Those individuals in a supervisory role for programmatic, as well as support, areas within the organization. Their participation is necessary to identify the organization's capacity for income generation, growth rate, personnel, and other requirements.

3. *Project directors and/or staff*—Those who support the majority of project details, from the types of activities needed to comply with proposed objectives to the cost of implementing them.

4. *The rest of personnel*—Other staff members, who provide ideas and feedback through contact with the core team. Depending on the size of the institution and the individuals involved, their degree of participation in the process may vary from joint planning sessions with the entire staff to informative presentations or distribution of written information to facilitate involvement.

Involving Board of Directors

If your organization has an active board of directors, some members may choose to become involved and contribute to the sessions. Their participation can become important, especially if a feeling of ownership is to be created in a process that can greatly affect the organization's future. In many instances, the board is educated about the process before it begins and then informed of the results to assist in their decision-making. How you choose to involve your board will depend on the nature of your organization; in any case, you should consider this issue before beginning the process.

Determining Financial Resource Needs

Once your organization has defined how it will go about the planning process, it can determine the amount of time staff will need to invest, as well as funding needs for staff time, meetings, retreats, and printing and distribution of drafts and the final document. If your organization lacks these resources or is unwilling to invest in them at this time, it is wise to delay developing the Integrated Strategic and Financial Plan until resources become available.

Arcoiris Case Study
Planning To Plan Worksheet

1. Do you wish to use an external facilitator: Yes___X___ No______

   1a. If yes, indicate how much time will be allotted to contract the facilitator, as well as individuals who could potentially fulfill this role.
   Time needed to locate facilitator: 1 month
   Potential facilitators: P. León, P. MacLeod

2. Ideally, when would you like to finish the planning process: 2 months (December)

3. Work Team:

Individual	Role
Executive Director	Involve board, contract facilitators, oversee strategic-plan updating
Financial Director	Prepare historical data on previous years' costs for activity implementation, as well as administrative costs
Technical Director	Inform key staff about and involve them in the process
Executive Assistant	Follow up with E.D., F.D., and T.D. to ensure process stays on track

4. Assigning of Responsibilities:

Action	**Responsible Party**	**Other Participants**	**Date**
1. Involve board of directors	E.D.		10/97
2. Revise/update strategic plan	All staff and board	Invite partner organizations to participate	10/97
3. Prioritize and cost out activities	All staff and board		10/97
4. Obtain feedback from the teams on prioritizing and costing of activities	All staff and board E.D. and F.D.		10/97 10/97
5. Evaluate future income-generation capacity			
6. Develop income/expense projections and implementation scenarios	Consultants, F.D.		10/97
7. Conduct final feedback session	All staff and board		11/97
8. Carry out monitoring and evaluation	E.D., F.D., and T.D.		12/97

Chapter 4

Reviewing the Strategic Plan (Step 2)

This methodology assumes that your organization already has a strategic plan or is in the process of completing one. In the event it does not, this chapter provides fundamental strategic planning concepts, as well as a list of references on this topic, to assist you further.

This chapter covers the following points:

- What Is a Strategic Plan?
- Strategic Plan Time Frames
- What Is Strategic Planning?
- The Vision
- Review of the Mission Statement
- Review of Internal and External Environments (SWOT Analysis)
- Program Areas
- Review of Goals
- Review of Objectives
- Review or Development of Activities
- For Further Reading

As you begin the process of Integrated Strategic and Financial Planning, it is essential that you have a well developed strategic plan that readily articulates what your organization plans to accomplish in the upcoming years. If your organization has had a strategic plan longer than six months, it is important that you review it to ensure that it still portrays what your organization wishes to accomplish in its current environment. In general, strategic plans should be reviewed and updated annually, and more frequently if the local environment changes often. You should conduct progress reviews every three months to evaluate your organization's performance against the stated objectives and to determine whether any adjustments are needed because of external or internal changes.

It is extremely important that technical and administrative staff participate in this exercise as part of the integrated team. If you find the need to make revisions or adjustments, the following sections can provide a basic framework, as well as information on where to find more in-depth materials. Once the review is complete, the team will be asked to define any activities that were not part of the original strategic plan.

What Is a Strategic Plan?

A strategic plan clearly defines an organization's purpose, establishes realistic goals and objectives consistent with the organization's mission statement, and defines the organization's implementation-capacity time frame (in the medium term). The plan's focus is the future, and its fundamental concern is adaptation to a continuously changing environment. The more frequently the environment changes, the more frequently the planning process needs to be revisited.

A strategic plan is an organization's most powerful tool for expressing its vision of how the world should be to the rest of society. It is an opportunity to describe those issues the organization believes are key, as well as how to address or resolve them most effectively. The strategic plan details how the organization will affect change to address these key issues, the local community, region, or the world at large by capitalizing on its strengths and/or developing new skills. Above all, a strategic plan represents the promise an organization makes to civil society about what it wishes to accomplish.

A nonprofit organization is accountable to society for its actions. If it does not achieve progress and the changes proposed in its strategic plan, the organization has no reason to exist. A strategic plan becomes the only tool that allows society to measure the organization's results. For this reason, it is extremely important that an organization implements at least 70 percent of what its strategic plan proposes; otherwise, it has, in effect, broken its commitment to society.

While strategic plans have no exact time frames, most organizations tend to draft three-to-five year time frames, which are divided into 12-month periods. If the external environment is extremely volatile and subject to frequent change, then the strategic planning time frame should be shorter. For example, when a country experiences extreme inflation or unstable economic and political conditions, such as Peru's 7,000 percent annual inflation rate during the late 1980s or Indonesia' recent civil unrest, the business sector will adjust its medium- to long-term planning from the traditional 3-10 years to a much shorter time frame of about 45-90 days.

The following are time-frame definitions that assume relatively stable conditions:

- *Short term*—One year or less. This time frame is standard for annual or operations plans.
- *Medium term*—Three to five years. This time frame is used to project tendencies and expected results. For example, many Mexican institutions use six years for medium-term planning to correspond with the country's six-year presidential term.
- *Long term*—Ten years or more. This time frame assumes a relatively stable external environment, reflecting a frequently encountered situation in strategic planning of the past. Through the end of the 1980s, U.S. businesses used this type of planning; some studies cite this as one of the main reasons many U.S.-based companies lost such a large portion of the international market.

What Is Strategic Planning?

Strategic planning is a participatory, systematic, and continuous process that helps an organization focus all activities on achieving its mission and ensuring members that they are working toward the same goals. Strategic planning signifies anticipating the course of action that should be adopted to reach a desired situation. The definition of the desired situation, as well as the selection and course of action, form part of a sequence of decisions and actions that are to be accomplished in a systematic and organized manner (IDB, EAIO, and FGC [Brazil]; 1985).

Participatory Process

A strategic plan should not be developed by one individual working in isolation, as some organizations have done. The end result of one person providing all strategic leadership is staff and board members who do not feel they are contributing to the direction of the organization's future growth. In strategic planning, the participatory process is as important as the end result, which is a documented strategic plan. The higher the degree of staff involvement in the process, the more valid the strategic plan becomes as a document that reflects the vision of the entire organization. To be valid, a planning exercise should generate consensus on the organizational direction, providing an opportunity for open dialogue among those involved to promote arriving at joint conclusions. For this reason, it is essential that representatives from all organizational levels are involved in the process.

Systematic Process

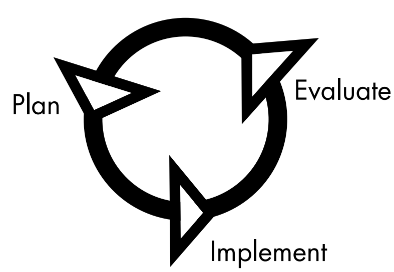
Numerous strategic planning methodologies exist that could be implemented by any one organization. The method used is often dictated by access to resources (e.g., consultants, books, board members) and previous staff experience with any given methodology (see "For Further Reading" section below). All methods involve a process that follows specific steps to develop the strategic plan, develop key elements (mission, goals, and objectives), contemplate the organization's strengths and weaknesses, and consider the external factors that influence how the organization works. (Information provided later in this chapter details the key elements and steps needed to undertake any type of strategic planning.)

In general, once the objectives are defined, the strategic planning process is considered completed, and emphasis turns to developing annual implementation or operations plans. However, the Conservancy has observed that one of the greatest obstacles to an organization's achieving an effective strategic plan has been the lack of financial projections to test the organization's implementation capacity. For this reason, the methods presented here include identifying activities to reach objectives, as well as conducting a financial analysis. This integration of the strategic and financial plans is an essential component of the strategic planning process that better determines the plan's viability, as well as future financial needs.

Continuous Process

Once the strategic plan has been developed, some organizations consider their planning efforts complete. However, to maximize the time and effort already invested, the process should include periodic revisiting of the strategic plan. This allows the organization to monitor and evaluate progress and reflect on any internal or external changes that might influence the organization's ability to implement the plan or need to adjust it. Strategic planning should be able to incorporate, accommodate, and reflect changes to the organizational environment. If the planning process is not periodically revisited, the plan itself can become obsolete and of little value as a guide to direct the organization (Figure 2).

Figure 2. Continuous Process of Strategic Planning



The Vision

Confusion often surrounds the distinction between an organization's vision and its mission. A vision statement describes how the world (society at large or local community) would be theoretically if your organization were successful (e.g., people living in harmony with nature). Organizations may have a unified vision that may or may not be articulated in the form of a vision statement. A mission statement, essential for all organizations, succinctly communicates who your organization is, what you are trying to accomplish and why, and where and for whom the work is being done (e.g., The Evergreen Foundation is dedicated to conserving our country's natural environment for the benefit of present and future generations).

Regardless of whether your organization chooses to articulate its vision in a formalized statement, it is nonetheless the dream you aspire to achieve. Visions have led some of the world's most famous individuals, such as Mother Teresa of Calcutta, Mahatma Gandhi, Siddhartha Gautama (Buddha), Adolf Hitler, Joseph Stalin, or Bill Gates to transform the world for good or evil, focusing efforts on attaining world peace, elimination of hunger, a higher quality of life, social and economic equality, or world domination. Similarly, a vision guides an organization's mission and strategies and motivates personnel to work together. As Robert Greenleaf states, "The vision of many is more powerful than a charismatic leader."

Review of the Mission

The mission statement articulates the organization's purpose or business. It should be short and succinct, with a maximum length of 40 words (fewer words is better). All employees should be able to readily articulate it, and those outside the organization should be able to easily understand it.

The mission statement should convey:

Who is doing the work

What is being done

Where it is being done

Why it is being done

(for) Whom it is being done (beneficiary)

Some organizations opt to include the organizational values and beliefs and/or "how" they will achieve their purpose. Research has shown that a clear, agreed upon mission statement is one of the four primary characteristics of successful nonprofit organizations (the other three are a strong and competent executive director, dynamic board of directors, and an organization-wide commitment to fund-raising) (Knauft, Berger, and Gray).

While it is not advocated that the mission statement be changed frequently, some circumstances warrant it. Some organizations have found that their mission no longer accurately reflects what they would like to do or are currently doing. This occurs when the mission was either narrowly defined or when the organization's growth has evolved away from its primary purpose. Under such circumstances, the organization will need to determine whether its mission should be redefined or whether its current and future work need to be redirected to accomplish its mission.

In some instances, organizations have discovered they have drifted away from their mission. This has been known to occur when organizations decide to take advantage of available donor funding that does not necessarily fit within the organization's stated mission or strategic plan. In some instances, this may prove a beneficial move for the organization; more often, however, the result is that donors drive the type of work the organization implements. The existence of a strategic plan used to guide the organization will help ensure that the organization directs itself, rather than allowing others to decide how and where it works.

If your organization believes it is warranted, review the mission statement. You may need to reformulate it if your answer to any of the following questions is "no":

- ❖ Do the employees and board members know the mission?
- ❖ Can they readily repeat it?
- ❖ Is it easily understood by individuals outside the organization?
- ❖ Does it reflect what the organization currently does?
- ❖ Does it reflect what the organization wishes to do?

Review of Internal and External Environments (SWOT Analysis)

The SWOT Analysis (Internal Strengths and Weaknesses, and External Opportunities and Threats) is one of the best known and most often used tools in the strategic planning process. This essential step allows an organization to reflect on what it would like to achieve and to use this information to refine what the strategic plan should encompass (Table 2). Allison and Kay state that

> No organization exists in a vacuum. The definition of strategic planning stresses the importance of focusing on the future within the context of an ever-changing environment—taking into account the myriad political, economic, social, technological, demographic, and legal forces that affect our world daily. In addition to assessing the external environment, it is important to understand the organization's internal environment—what resources and capacities the organization brings to the work of its mission (Allison and Kay, 1997).

If more than a year has passed since your organization conducted a SWOT Analysis, conduct one at this time. If you have the conclusions of a current SWOT Analysis, it should be reviewed by all participants in the planning process and kept in mind when reviewing the goals, objectives, and activities.

Internal Analysis: Strengths and Weaknesses

To help your organization define exactly how it should be working, it is essential that it have a clear idea of how its current situation (including abilities and deficiencies) affects its capacity to implement activities. This internal analysis allows your organization to capitalize on its strengths and decide which weaknesses need to be addressed. The following items might be evaluated, but in no way represent a comprehensive list of what your organization may wish to include in its evaluation:

- Capacity of board of directors,
- Capacity and experience of personnel,
- Volunteers,
- Reputation of organization and its programs,
- Program quality,
- Information management,
- Accounting and financial systems,
- Contacts, and
- Financing sources.

External Analysis: Opportunities and Threats

The external analysis helps determine what external factors might affect the organization. An added benefit to assessing the external environment is the possibility of determining strategic partnerships that could be developed with other groups or companies that may be able to help your organization reach its goals more efficiently. In this portion of the SWOT Analysis, you should consider:

- Financing source trends (many donors change their focus every few years);
- Changes or trends in your organization's field of work;
- Political, social, and economic environment;
- Demographic factors;
- Technological innovations;
- Regulatory or legislative changes; and
- Competition (for funds and provision of beneficiary services).

Program Areas

Within a strategic plan, program areas are usually based on how the organization is currently structured, such as existing departments. While programs may be recognized as separate, it is important that areas of overlap be searched out and that programs or departments work together to avoid duplicating efforts. Program areas are usually divided into the following categories:

- *Programmatic*—Organization's thematic or geographic areas;
- *Organizational*—Organizational development work (e.g., creation of alliances or financial sustainability); and
- *Operational*—Administrative support systems (e.g., management or financial administration).

Review of Goals

Goals are outcome statements that define what an organization is trying to accomplish. Typically written in a general way, goals statements also describe how an organization will work to achieve its mission and usually cover the same time frame as the Integrated Strategic and Financial Plan. At this stage, you will begin to use the SWOT Analysis conclusions, along with the vision and mission statements, to verify the goals your organization is responding to what it deems as the most important issues. In some instances, certain program may have several goals. In others, one goal may apply to more than one program area, in which case different departments need to ensure they are working together to reach the same goal in the most efficient and effective way possible.

In general, developing programmatic-based goals is relatively simple for most organizations. However, keep in mind the organizational and operational areas. In an age of ever-increasing competition from increased numbers of nonprofit organizations, it is essential that organizations plan not only for how they will make the world a better place, but how they will make their organization stronger and more efficient over the long term.

Table 2. SWOT Analysis Conducted by a Conservation Organization Located in the Pacific

Strengths:

- Strong, diverse, and potentially "great" board
- Assets (land and infrastructure)
- Funding
    - Five-year (donor 1)
    - Private donors
    - Good standing as national NGO
    - Income generation
- Good relationships with donors, other organizations, and private sector
- Location (base work at supreme scuba diving spot)
- Credibility with
    - Local donors
    - National government
    - Link with local people respected
- Staff
- Organizational infrastructure
- Nonconfrontational vision
- Programs receiving attention
- Successful/good reputation
- Research benefits
- Developing partnerships (networking and alliances)

Opportunities:

- Interest in funding local nonprofits for:
    - Education
    - Marine conservation
    - Research
    - Biodiversity conservation
    - Community-based conservation
    - Institutional strengthening
- Government (now supports NGO through policies)
- Relationship with national/international universities, partnerships, government, and other NGOs
- Learn from others' experiences
- Leverage opportunity to other sights, expansion
- Need for education work and skills,
- Land tenure/resource management system
- Local independence of resources
- Other stakeholder involvement
- Marine diversity undamaged
- Terrestrial research opportunity
- Archeological research
- Location
- Influence/learn from new universities focus
- Local labor market
- Alternative income sources, community guide training

Weaknesses:

- No strategic plan, operations, fundraising, marketing/PR
- Few full-time staff
- Little financial skill
- New, inexperienced board
- Little oversight/leadership from board, distant from project site
- New director
- Lack of policies and procedures, as well as communication among board members and staff
- Constitution not finalized/not completed
- Funding
    - No long-term funding secured
    - Overdependence on two donors
    - Not optimizing potential income generation
- Research potential not harnessed
- Space constraints
- Remote location
- Success not measurable

Threats:

- Jealousy
- Rapid growth, over-extended
- Poor financial management
- Donor driven, donor dependency, nondiversified income
- Staff turnover, recruitment, and salary competition
- Too much funding now, conservation funding decreasing
- Government views of NGOs, difficulty obtaining research permits, government support for research may drop
- Environmental threats:

    land-use practices, global warming, dynamite fishing, human-use impacts, modern fishing gear, timber harvesting, subsistence-level agriculture, storm damage, mining exploration, subsistence-level hunting, anthropogenic fire, urbanization/population growth, indiscriminate fire lighting
- Economic situation, population growth, handout mentality
- Land owner issues, lack of broad community support

Review of Objectives

Objectives should be precise, measurable, time-phased result statements that describe how your organization's goals will be reached. They should allow your organization to not only plan what it would like to achieve during the upcoming years, but also provide a means of monitoring progress and evaluating results. Each goal should have at least one objective (some may have several). For monitoring and evaluation to occur, the objectives need to be SMART (Table 3).

Table 3. SMART Objectives

Characteristic	*Description*
S Specific	What exactly will be done
M Measurable	What the expected results will be, expressed in either quantifiable or qualitative terms
A Achievable	Whether the objectives are realistic, given the amount of time, funding, staff capacity and ability
R Relevant	Whether the objectives address key issues and provide solutions
T Time-phased	How long it will take to accomplish the objective

You should review your objectives to ensure that they meet the above criteria and to provide a means of evaluating your progress.

Review or Development of Activities

Activities are the individual steps an organization needs to take during the upcoming years to produce results. Most organizations think of activities when putting together their annual operations or project implementation plans; however, many organizations have not traditionally included activities in strategic planning. It is important that they do so in order to attain a degree of accuracy when projecting financial needs.

For example, a Honduran community development organization set an objective of "assisting five communities obtain access to safe drinking water by the end of year three." It might be difficult to estimate how much funding would be needed to reach this objective. However, if the organization lists the corresponding activities, it becomes possible to estimate more accurately the cost of each activity, as well as the number of human resources needed.

Based on the above example, the activities included the following:

- Identify the five priority communities (those with the most crucial need for access to clean drinking water);
- Contract studies on the design of appropriate water purification systems for each community;
- Involve local communities in organizing and managing the project;
- Install five water purification systems;
- Train community members in the use and maintenance of the purification system; and
- Assist the communities to protect water sources.

If your organization's current strategic plan does not include activities, list them using the worksheet (Steps 2, 3, and 4) found at the back of this manual. This work can be done in conjunction with Establishing the Organization's Priorities and Estimating Costs of Implementing Activities (Steps 3 and 4). The most effective way to develop, prioritize, and estimate the cost of activities is for the current staff involved in implementing the objectives (including field staff) to work in teams to develop this information. The teams will often mirror existing departments, such as environmental education, community development, and conservation management. When two or more departments are working to achieve the same goal, it is recommended that department representatives work together to develop the activities, which will also help them determine how best to work together and who is responsible for which portions once the plan is under way.

Once the individual teams have completed the task, all teams should assemble to share information and provide constructive feedback. In many cases, based on this joint review session, activities, their costs, or their prioritization are adjusted to reflect the organization's priorities or funding capacity more accurately.

For Further Reading

If you would like additional information on organizational development and strategic planning, the authors recommend the following publications and web sites:

Allison, Michael, and Jude Kay. 1997. *Strategic Planning for Nonprofit Organizations: A Practical Guide and Workbook.* New York: Wiley.

Laycock, Kerry D. 1993. "Strategic Planning and Management Objectives." In *The Nonprofit Management Handbook: Operating Polices and Procedures,* ed. Tracey Conners. New York: John Wiley and Sons.

Barry, Bryan. 1997. *Strategic Planning Workbook for Nonprofit Organizations.* Saint Paul, Minn: Amherst H. Wilder Foundation.

Web Sites:
http://www.allianceonline.org
http://www.supportcenter.org.

Arcoiris Case Study

At the end of 1997, Arcoiris prepared its first strategic plan. The plan defined the organization's mission, as well as four specific goals to be achieved over a three-year time frame. Specific objectives were defined to describe how the goals would be achieved. The final step was to develop detailed activities to achieve each objective.

Arcoiris Strategic Plan

Mission: Contribute to the conservation of the environment, biodiversity, and natural resources of Podocarpus National Park and the southern region of Ecuador by implementing environmental education, community development, research, and public action programs.

Program Area: Community Development

Goal 1: Increased public awareness of the importance of Podocarpus National Park and creation of a favorable environment for conservation activities

Objective 1: Actively involve seven communities in the support and management of the natural resources

Activities:

1.1.A Subsidize community reforestation efforts in the Park's buffer zone
1.1.B Develop new compatible economic development activities with the communities
1.1.C Expand the community strengthening program to reach all seven communities
1.1.D Continue to implement environmental education, with heavy emphasis on educating adults in the community
1.1.E Expand the irrigation program to promote farming in sectors more remote from the Park's borders
1.1.F Train community members in sustainable farming, economic development, and small business management

Objective 2: Educate population on the importance of conserving the Park

Activities:

1.2.A Train high school teachers in environmental and conservation related curricula
1.2.B Provide internships on ecology research for 20 high school students
1.2.C Promote student visits to the Park
1.2.D Develop interactive educational games to be used by elementary school teachers
1.2.E Make visits to the schools
1.2.F Develop and distribute interactive games
1.2.G Make student field trips to the National Park
1.2.H Provide agro-ecological training
1.2.I Create ecological clubs
1.2.J Arrange student exchanges between schools
1.2.K Create interactive teaching tools
1.2.L Give presentations in local communities
1.2.M Manage the school assistance program
1.2.N Execute program
1.2.O Purchase a bus

Arcoiris Strategic Plan (continued)

Program Area: Park Management

Goal 2: Protection of the integrated Podocarpus National Park's natural resources and surrounding areas

Objective 1: Demarcate 60 percent of the Park within three years

Activities:

2.1.A Complete sign posting at the Park's borders

Objective 2: Protect 60 percent of the Park within three years

Activities:

2.2.A Purchase land in the Park's buffer zone
2.2.B Construct three community centers
2.2.C Purchase and install a communications system

Program Area: Environmental Policy

Goal 3: Application of favorable environmental policies and laws

Objective 1: Launch the environmental policy program

Activities:

3.1.A Obtain positive policies through public debates
3.1.B Promote inter-institutional work
3.1.C Local transportation

Program Area: Finance and Administration

Goal 4: Efficient management of the Foundation

Objective 1: Administrate human resources efficiently

Activities:

4.1.A Develop a policies and procedures manual
4.1.B Institute a training program (e.g., accounting, language, technical)

Objective 2: Administrate financial resources efficiently

Activities:

4.2.A Develop budgets and ways to monitor them
4.2.B Develop financial plans
4.2.C Arrange for external audits

Objective 3: Administrate materials efficiently

Activities:

4.3.A Monitor inventory
4.3.B Obtain and install three computers
4.3.C Remodel office space

Objective 4: Develop a public image

Activities:

4.4.A Involve the media in Arcoiris' activities
4.4.B Celebrate the 10-year anniversary with a gala
4.4.C Create a TV program on environmental issues

Objective 5: Financial self-sufficiency

Activities:

4.5.A Design and implement a self-sufficiency plan
4.5.B Contract a self-sufficiency coordinator

Exercise	**Step 2**

Review the excerpt from Arcoiris' strategic plan. Based on the information provided about Arcoiris thus far, answer the following questions:

1. Are the objectives measurable and attainable? Do they contribute to accomplishing the stated goals?
2. Have any changes occurred in the external environment that would merit changes in the objectives and/or strategies?
3. Are there objectives that contribute to accomplishing more than one goal? If so, should the objectives be undertaken as one programmatic team charged with the entire responsibility or as a collaborative effort between teams?
4. Based on the list of activities supplied for Goal 1, Objective 2, do the activities appear to contribute to attaining the specified objective?

Revised Arcoiris Strategic Plan

Possible Revisions to Goals and Objectives

Note: The revised goals and objectives below are included only to provide examples of how goals and objectives should be structured (in light of the objectives that were poorly structured for the purpose of this exercise, which you have just reviewed in the original strategic plan). The original strategic plan will be used in subsequent steps of the case study, not in this revised set of goals and objectives.

Goal 1: Increased public awareness of the importance of Podocarpus National Park and creation of a favorable environment for conservation activities

Objective 1: Actively involve seven local communities in managing environmental conservation activities in Podocarpus National Park

Objective 2: Educate 200 high school students per year on the value of conserving natural resources

Goal 2: Protection of the integrated Podocarpus National Park's natural resources and surrounding areas

Objective 1: Demarcate 60 percent of the Park within three years

Objective 2: Develop an integrated Park management system comprising local community-member, government, and nonprofit representatives

Goal 3: Application of favorable environmental policies and laws

Objective 1: Launch the environmental policy program

Goal 4: Strengthened internal capacity to function independently and efficiently in the long term

Objective 1: Establish efficient and accurate administrative, human resources, and financial management systems

Objective 2: Develop a public image in the region as a serious and successful conservation organization

Objective 3: Establish a financial self-sufficiency program that generates a profit equivalent to 20 percent of annual administrative costs by the end of year three

Chapter 5

The Heart of Integrated Strategic and Financial Planning (Steps 3-8)

This chapter covers the following points:

- ❖ Establishing the Organization's Priorities
- ❖ Estimating Costs of Implementing Activities
- ❖ Estimating Administrative Costs
- ❖ Projecting Income
- ❖ Projecting Income and Expenses by Program Area
- ❖ Developing Scenarios

* * *

Steps 3-8 consist of the financial projections and cost estimates for the Integrated Strategic and Financial Plan. In most instances, Steps 3-6 can be done in one or two days, if appropriate staff members are involved (detailed under each step).

STEP 3. Establishing the Organization's Priorities

Prioritizing objectives and activities provides a high degree of flexibility within the strategic plan, affording space to include activities that may not yet have financing, while, at the same time, identifying activities that are indispensable if the organization is to comply with its mission. In this methodology, the objectives and activities are divided into the following three categories:

1. *High Priority*—Actions that, if not completed, corresponding objectives will not be met, running the risk of not fulfilling the institution's mission. As a general rule, when evaluating the strategic plan, 100 percent of high-priority actions should be completed.

2. *Medium Priority*—Actions that should contribute greatly to complying with the objectives. Under an ideal scenario, they would be completed to the same degree as high-priority actions.

3. *Low Priority*—Actions that could be implemented during a determined time frame if the funding existed. They are not essential for compliance with objectives, but are useful in contributing to the organization's mission.

While various external and organizational factors influence how activities are prioritized, you should always consider the following four key factors:

- ❖ Long-term effect of the activity on contributing to achieving the proposed objective,
- ❖ Financial resources needed in relation to other strategies that might achieve the same or similar results at a lower cost,
- ❖ Ability to meet the objectives during the proposed time frame, and
- ❖ Relationship of the activity to current ongoing activities.

Who Should Prioritize Activities?

When implementing the priority-assigning exercise within an organization, it is often most useful for the original work groups that defined the activities to assign priority levels and estimate implementation costs. This information can then be shared with the wider planning group for input, comments, and discussion on any potential changes in prioritization. In some organizations, the work teams assign priorities in a plenary session, reaching consensus together on each activity.

Arcoiris Case Study

Prioritizing Activities

The Arcoiris Foundation's initial actions were focused on determining the magnitude of ecological damage caused by mining, as well as bringing lawsuits to stop destructive mining practices in the region. With the help of the Imperial College of London, Arcoiris analyzed water pollution in the local rivers, which showed high levels of mercury and other toxic metals. In 1993, the Foundation won legal support, obligating the large mining companies to immediately cease their activities.

By the mid-1990s, Arcoiris had evolved from an activist organization into one that was actively engaged in Park management and preservation. It obtained funding to carry out a wide range of activities, including Park management, educating local community members living in or around the Park, and launching sustainable development projects. The Foundation's influence expanded when it joined the Inter-institutional Committee to Defend the Podocarpus National Park, a group comprising several public and private organizations. The Foundation gradually became one of southern Ecuador's most highly regarded conservation organizations, enabling it to expand operations into other areas of the region.

In general, all of the Foundation's members agreed that the organization's basic objective was to preserve southern Ecuador's natural environment. However, perspectives regarding action priorities differed. Some thought the Foundation should concentrate on protecting the Park, dedicating more resources to scientific research and field work. Others believed educational activities, including sustainable development and agriculture, needed strengthening at both academic and community levels. Another group wished to focus more on natural resources activities (city parks, urban waste, and sewage treatment, as requested by the local mayor) in the region's capital city of Loja. Several members of the management team and board of directors had become especially interested in such diverse projects as construction of permanent exhibitions to educate city dwellers on environmental issues.

Program: Environmental Education and Community Development

Goal 1: Increased public awareness of the importance of Podocarpus National Park and creation of a favorable environment for conservation activities

Objective 1 Actively involve seven communities in the support and management of natural resources, over a three-year period

Activity No.		Reason for Priority	Priority
Activity 1.1.A	Subsidize community reforestation efforts in the Park's buffer zone	Local buffer-zone communities have been educated on environmental issues and are interested in reforesting their properties, but lack funds to purchase plants/materials.	
Activity 1.1.B	Develop new compatible development activities with the communities	The communities are primarily subsistence farmers and will not stop destructive farming practices without alternative income sources.	
Activity 1.1.C	Expand the community strengthening program to reach all seven communities	Initial success has been achieved through work with a pilot community, and its integration into conservation activities. This work will support ongoing activities and strengthen the organization's position within the communities.	
Activity 1.1.D	Continue to implement environmental education; heavy emphasis on adults	Initial phase of this program has shown some limited success, but requires ongoing attention to obtain desired results.	
Activity 1.1.E	Expand irrigation program to promote farming farther from the Park's borders	It is hoped that moving agricultural activities away from the park will reduce community encroachment, but this requires adequate water.	
Activity 1.1.F	Train community members in sustainable farming, economic development opportunities, and small business management	Training activities must accompany economic development activities to ensure long-term viability and success.	

Exercise **Step 3**

1. Based on the information provided thus far, what priority would you assign each activity if financial resources limit you to only two high-priority, two medium-priority, and two low-priority activities?
2. What reasons led you to these conclusions?

STEP 4. Estimating Costs of Implementing Activities

Estimating the costs of implementing activities is the very soul of financial planning. If the costs of implementing proposed activities are unknown, it is not possible to evaluate the feasibility of implementing them or to determine a strategy to obtain the funds. By costing out activities, you can realistically identify potential financial goals.

Who estimates the costs of implementing?

Many institutions charge the administrative team with this task. However, when this happens, information collection is often delayed or inaccurate, as the technical personnel are more familiar with the actual costs of activity implementation. The team that implements the activities should be responsible for estimating the cost of executing them. If a mistake is made in calculating costs, these individuals will suffer the consequences. At the same time, this team can always ask the administrative team for assistance with the exercise. The person charged with supervising the area or project should be involved in the quality control of the information produced.

You can identify costs in three ways:

1. **Activities currently being implemented:** If the activities are already being implemented, the budgeted costs are likely to recur, and adjustments to some projections can be made (oftentimes, activities are being implemented within the budgeted costs that have been adapted to financial limitations). It is important that the costs accurately reflect what the activity would cost to implement.

2. ***Activities that have been carried out in the past:*** If a particular activity (or one similar to it) has been executed in the past, it is useful to refer to the historic costs. The accounting department can be helpful in this area, as can a revision of past budgets. It is unnecessary to conduct exhaustive research; instead, refer to the most recent costs that can be found. If doubts exist on the validity of those actual costs, it would be prudent to request one or two quotes to verify the most important costs.

3. ***Activities that have never been implemented:*** In addition to referring to the knowledge of involved individuals in implementing activities, it would be prudent to verify costs or ask for quotes for some components, if possible.

When estimating costs, make sure to include staff time for activity implementation. If this break down proves difficult for your organization, you can include a line item for “salaries” under each program area.

Arcoiris Case Study

Estimated Costs of Implementing Strategic Plan Activities

Projects to be carried out (US$)		Priority	1998	1999	2000	Total
Program 1: Community development		**High**				
1.1.A	Reforestation	High	11,667	6,667	6,667	25,001
1.1.B	Production activities	High	30,000	15,000	15,000	60,000
1.1.C	Community strengthening	High	1,667	1,667	1,667	5,001
1.1.D	Environmental education	High	6,667	1,667	1,667	10,001
1.1.E	Irrigation	High	80,000	0	0	80,000
1.1.F	Training	High	20,000	0	0	20,000
			150,001	25,001	25,001	200,003
Program 2: Environmental education		**High**				
1.2.A	Teacher training workshops	High	1,500	2,000	2,500	6,000
1.2.B	Internships	Low	2,000	2,000	2,000	6,000
1.2.C	Teacher selection	Low	1,000	500	0	1,500
1.2.D	Inter-institutional agreements	Medium	1,000	0	0	1,000
1.2..E	Observation tours	Medium	5,000	10,000	0	15,000
1.2.F	Interactive educational gamesHigh	4,000	4,000	3,000	11,000	
1.2.G	Visits to the National Park	Medium	5,000	5,000	5,000	15,000
1.2.H	Agro-ecological practices	High	6,000	4,000	1,000	11,000
1.2.I	Establishment of ecology clubsHigh	8,000	2,000	0	10,000	
1.2.J	School exchanges	Low	N/D	N/D	N/D	
1.2.K	Preparation of educational material	High	15,000	10,000	10,000	35,000
1.2.L	Community talks	Medium	N/D		N/D	N/D
1.2.M	Internal management	Low	1,000	1,000	1,000	3,000
1.2.N	Program implementation	Medium	5,000	5,000	5,000	15,000
1.2.O	Bus purchase	High	40,000	0	0	40,000
			94,500	45,500	29,500	169,500
Program 3: Conservation and management		**Medium**				
2.1.A	Signposting	Medium	25,000	25,000	0	50,000
2.2.A	Purchase of land	Medium	166,667	166,667	166,667	500,001
2.2.B	Construction of community centers	Medium	50,000	50,000	50,000	150,000
2.2.C	Communication systems	High	15,000	0	0	15,000
			256,667	241,667	216,667	715,001
Program 4: Policies and legislation		**Low**				
3.1.A	Environmental public discussions	Low	5,000	0	0	5,000
3.1.B	Coordination of institutional work	Low	6,667	3,333	0	10,000
3.1.C	Citizen mobilization	Low	3,000	0	0	3,000
			14,667	3,333	0	18,000
Program 5: Consolidation and administration		**Low**				
4.1.A	Manuals	Low	50	–	–	50
4.1.B	Training	Low	5,000	5,000	5,000	15,000
4.2.A	Budgets	Medium	500	500	500	1,500
4.2.B	Financial reports	Medium	500	500	500	1,500
4.2.C	External audit	High	1,000	1,000	1,000	3,000
4.3.A	Inventory	Low	500	250	250	1,000
4.3.B	Office equipment	Medium	2,000	1,000	1,000	4,000
4.3.C	Office space	Low	1,000	1,000	1,000	3,000
4.4.A	Press involvement	Low	500	500	500	1,500
4.4.B	Tenth anniversary	High	4,000	–	–	4,000
4.4.C	Television program	Low	500	–	–	500
4.5.A	Self-sufficiency plan	Medium	500	–	–	500
4.5.B	Contracting of self-sufficiency coordinator	Medium	2,500	–	–	2,500
			18,550	9,750	9,750	38,050
	Total		**534,385**	**325,251**	**280,918**	**1,140,554**

STEP 5. Estimating Administrative Costs

Administrative costs include all necessary expenses for the organization to function, regardless of the number or type of projects it implements. Variously referred to as “fixed,” “indirect,” “overhead,” or “operating” costs, these costs are usually expressed as a percentage of the overall institutional budget (such as administrative costs of 20 percent). Some potential administrative costs include executive offices expenses, accounting, and fund-raising.

In theory, the greater the number of projects, the smaller the percentage of administrative costs, based on the advantages of the economies of scale. However, there is a limit to this relationship, based on the capacity of the infrastructure, equipment, and personnel needed to support an increased number of projects. For example, when an institution begins with one or two projects, an accountant can manage all of the accounting needs for the organization. As the complexity of donor requirements increases and the volume of projects increases, the organization will reach the point where it needs to hire more accounting personnel.

Within nonprofit organizations, confusion often exists with respect to these costs. Many donors refuse to pay them or will only pay a small portion. Consequently, many organizations include these costs as direct project costs (percentage of the accountant’s time or of the electricity used for the project). Unfortunately, a solution to this donor dilemma usually does not exist. Regardless of how these costs are charged, it is imperative that organizations understand their real administrative costs. The greater risk is that many organizations lose sight of their real administrative costs, which limits their ability for planned future growth or projecting potential deficits.

Who should identify administrative costs?

Administrative or accounting personnel, in conjunction with the executive director, should complete this exercise. It is also recommended that technical area directors be involved to promote an increased understanding of the need for these costs and to help determine whether there may be increased need for administrative services, based on increases in projected activities. It is also important to involve some board members to facilitate labor supervision. In the Arcoiris case, administrative costs were based on historical data, which provided the basis for an assumption of approximately a 10 percent increase in costs each year.

Estimated Annual Administrative Costs (US$)

Costs	Historic Data		Projected Costs	
	1997	1998	1999	2000
Salaries	11,250	12,500	13,800	15,000
Taxes	540	600	700	770
Benefits	675	750	835	900
Total administrative salaries	12,465	13,850	15,335	16,670
Rent/mortgage	2,070	2,300	2,530	2,783
Utilities	1,125	1,250	1,375	1,511
Communications	3,150	3,500	3,850	4,235
Vehicle maintenance	270	300	330	363
Equipment maintenance	400	500	550	605
Equipment purchase	400	500	550	605
Annual audit	900	1,000	1,100	1,210
Public relations	360	400	440	484
Annual report	270	300	330	363
Newsletter	90	100	110	121
Fund-raising (travel, grant writing)	4,500	5,000	5,500	6,050
TOTAL	26,000	29,000	32,000	35,000

STEP 6. Projecting Income

In this step, you will project the organization's future income. If you have done so for previous fund-raising efforts, activities can be grouped into projects, always taking into account that each activity corresponds to a specific objective. The projects are the instruments the organization uses to raise funds from potential donors and can cover one-to-several years. It is important to remember that fund-raising is an ongoing process—one that seldom produces immediate results. In most instances, the average time period from initial contact with a potential donor to successfully receiving funds from that donor ranges from six months to two years.

If the potential donor is a multilateral or bilateral institution, the time investment could easily double. If your organization lacks secured funding or is not currently cultivating donors to fund activities during the first year of the strategic plan, you may need to evaluate what can actually be accomplished. At the same time, it is not uncommon for little funding to be secured for the third year onwards of a strategic plan, as donor cultivation may not have begun or may have just recently gotten under way.

For the purposes of this manual, the probability of raising funds has been divided into six categories (Table 4). The actual percentages your organization assigns to each category may vary from the ones presented here, and should be based on your previous fund-raising experience and donor cultivation activities. For some organizations with strong fund-raising skills and experience, presenting a proposal could represent a 90 percent probability of receiving funding. For others who are still honing their fund-raising abilities, presenting a proposal could rank less than 50 percent.

To provide a more conservative overview of the current financial situation, only income that is 90-100 percent secured (listed in Table 4 as "project approved/contract signed" or "project approved/contract not signed") should be counted as secured income.

Who should project income?

Those individuals charged with fund-raising and donor follow-up, as well as technical and administrative staff, should be involved in this exercise. It is important that this group work as a team, not only for this exercise, but also on an ongoing basis to fully coordinate fund-raising activities, ensure proper costs are included in proposals, and to more accurately develop proposal concepts that reflect funding needs.

This team should develop a comprehensive list of current donors, grants, and funding amounts. In addition, this team should draft a list of potential donors who might be approached for funding or other projects. For each activity or program area, this analysis should be conducted to determine the probability of funding, as well as potential funding amounts. This information will be summarized and transferred to the consolidated Projected Income and Expense worksheet (Step 7).

Table 4. Fund-raising Probability, by Category

% Secured Income	Category
100	Project approved/contract signed
90	Project approved/contract not signed
75	Proposal presented/donor has indicated interest
50	Proposal being prepared/donor has indicated interest
25	Project in initial discussion stage with donor
0	No donors identified or limited probability

Arcoiris Case Study

Program Area/Activities	Year	Estimated Cost (US$)	Potential Income Source	Amount by Source	Probability Level (%)
3 Conservation and Management					
3.1.A Signposting	1998	25,000	Border Foundation	25,000	100
	1999	25,000	Border Foundation	25,000	100
3.1.B Land purchase	1998	166,667	Adopt an Acre	100,000	25
			Land Rescue Foundation	50,000	25
			Not Identified	16,667	0
	1999	166,667	Generous Foundation	19,917	100
			Adopt an Acre	100,000	25
			Land Rescue Foundation	50,000	25
	2000	166,667	Buy Land NGO	39,500	100
			Adopt an Acre	100,000	25
			Not Identified	27,167	0
3.1.C Community centers	1998	50,000	Rainforest Foundation	10,000	100
			Education Foundation	25,000	25
			Not Identified	15,000	0
	1999	50,000	Generous Foundation	30,000	100
			Not Identified	20,000	0
	2000	50,000	Generous Foundation	30,000	100
			Not Identified	20,000	0
3.2.A Communication system	1998	15,000	Green Fund	10,000	90
			USAID	5,000	25

STEP 7. Projecting Income and Expenses by Program Area

In this step, you will summarize, or simply add the total estimated costs by program area, and then do the same for projected income by program area. While administrative costs are not a program area, the projected annual expenses and income should also be included on this chart to reflect funding needs and availability for these expenses. This allows you to develop an estimate of the total projected annual costs by program area and compare them with the projected actual and potential funding for each program area. This permits your organization to determine which areas already have funding, which do not, and where you might want to focus future fund-raising activities.

The results of this summary provide a clear picture of the funding needs by program area, and can help you determine future fund-raising goals. They can also help determine which program areas are most in need of funding and which are projecting surpluses. If surpluses are projected in program areas, your organization can try to negotiate with donor(s) to see whether funds might be applied to other priorities, or whether funding could be applied to future years.

The chart allows your organization to track its fund-raising efforts in relation to its funding needs. If a donor is listed at 50-percent probability in a program area with limited funding, your organization can determine whether or how aggressively it wants to continue pursuing funds from the donor. In the same way, if a program area is projecting a surplus and there are potential donors already lined up, the organization might wish to consider asking the donor to fund other projects or programs.

To fill out this chart, complete the following steps:

1. Sum the annual projected costs for each program area by year and fill in the corresponding spaces.
2. Similarly, for each program area, sum the annual projected income by probability level by year, and fill in the corresponding space.
3. For each program area and year, subtract the amount of secured funding (90-100 percent probability of receiving funds) from the amount of projected expense. This amount should be written in the surplus/deficit column.

Who should participate in projecting income and expenses?

The administration or finance department often conducts this activity. However, if your organization lacks staff capacity to develop the projections, it can often draw upon board members experienced in developing financial projections.

STEP 7 **Projecting Income and Expenses by Program Area**

The following is Arcoiris' consolidated Projected Income and Expense worksheet by program area, summarizing the results of Step 4 (Estimating Costs of Implementing Activities) and Step 6 (Projecting Income).

Arcoiris Case Study
Projected Income and Expenses by Program Area

Program Area	Year	Projected Expenses	Probability of Receiving Funding				Surplus/ Deficit*
			90%+	75%	50%	25%	
1. Community development	1998	150,000	150,000	0	0	0	0
	1999	25,000	25,000	0	0	0	0
	2000	25,000	25,000	0	0	0	0
Total		**200,000**	**200,000**	**0**	**0**	**0**	**0**
2. Environmental education	1998	94,500	25,000	0	0	0	-69,500
	1999	45,500	75,000	0	0	0	29,500
	2000	29,500	69,500	0	0	0	40,000
Total		**169,500**	**169,500**	**0**	**0**	**0**	**0**
3. Conservation & management	1998	256,667	35,000	0	0	200,000	-221,667
	1999	241,667	59,917	0	0	150,000	-181,750
	2000	216,667	69,500	0	0	100,000	-147,167
Total		**715,001**	**164,417**	**0**	**0**	**450,000**	**-550,584**
4. Environmental policy and legislation	1998	14,667	0	0	0	10,000	-14,667
	1999	3,333	3,333	0	0	0	0
	2000	0	0	0	0	0	0
Total		**18,000**	**3,333**	**0**	**0**	**10,000**	**-14,667**
5. Consolidation and administration	1998	18,550	2,000	0	10,000	3,000	-16,550
	1999	9,750	9,750	0	0	0	0
	2000	9,750	9,000	0	0	0	-750
Total		**38,050**	**20,750**	**0**	**10,000**	**3,000**	**-17,300**
6. Annual administrative costs	1998	29,000	17,000				-12,000
	1999	32,000	14,000				-18,000
	2000	35,000	5,000				-30,000
		96,000	36,000	0			-60,000
TOTAL		**1,236,551**	**594,000**	**0**	**10,000**	**463,000**	**-642,551**

* Surplus/deficit equals projected expenses minus 90%+ projected income. Only funds that are 90-100% secured are considered when calculating the projected surplus or deficit. Other projected income is for your information on the fund-raising effort, but those quantities are not budgeted.

Exercise STEP 7

1. Based on the information in Arcoiris' projected income and expenses statement by program areas, and on the activities prioritization information, where should the organization focus its fund-raising efforts?

2. What implications could projected surpluses in environmental education for years 1999 and 2000 have in regard to current contracts and proposals?

3. Given the large projected deficits for the first year of the strategic plan in several of the program areas, should Arcoiris consider adjusting its expectations of what it can accomplish in the first year?

4. In relation to annual administrative costs and funding, what options should Arcoiris consider in regard to projected deficits?

STEP 8. Developing Scenarios

Based on the previous work, three scenarios can be developed to assist in your decision-making. This consists of projecting diverse situations that your organization may encounter in relation to securing financing. This step is intimately linked to activity prioritization, as the "modest case" scenario demonstrates how much your organization must secure if it is to implement all high-priority activities—those essential to complying with your organization's mission. As in the previous step, it is important to remember that only income that is 90-100 percent secured is considered secured income. This is a conservative way to project long-term scenarios.

The three proposed scenarios are as follows:

Modest case—Determines the absolute minimum level of activities the organization must implement to ensure it fulfills its mission. This scenario presents the cost of implementing all high-priority activities and administrative costs, as well as corresponding income for their implementation. It provides a view of the organization's current financial situation. It also helps to determine which priorities are essential to the organization, and if fixed (administrative) costs can be covered with the secured income. If there is a difference in the cost of implementing high-priority activities and projected income, this becomes the essential financial goal the organization should obtain to comply with its mission. This hypothesis helps answer the following questions:

- ❖ Can the organization implement high-priority activities with the projected secured funding?
- ❖ Can the organization cover its administrative costs with the volume of projects and projected own income?

Moderate case—Determines the funding needs to implement both essential and medium-priority activities and administrative costs. The difference between this figure and the projected secured income is the funding the organization needs to generate/raise in the short-to-medium term. This hypothesis helps estimate the income/fund-raising goal that will help meet the strategic plan's objectives.

Optimal case—Determines the level of income needed to carry out all activities stated in the strategic plan and the administrative expenses. The difference between this figure and the secured income is the funding the organization needs to generate/raise in the medium term.

Who should participate in developing scenarios?

The administration or finance department often conducts this activity. However, if the organization lacks staff capacity to develop the scenarios, it can often draw upon board members experienced in developing financial projections.

Arcoiris Case Study Scenarios

	1998	1999	2000	Total
Modest Case Scenario				
Only high-priority activities and income that is 90%+ secured are included.				
Projected High-priority Activity Costs	244,500	48,000	40,250	332,750
Projected Administrative Costs	29,000	32,000	35,000	96,000
Total Projected Costs	273,500	80,000	75,250	428,750
Total Estimated Income for High Priority/Admin.	253,099	189,416	121,333	563,848
Projected Surplus/Deficit (Income, Expenses)	-20,401	109,416	46,083	135,098
Moderate Case Scenario				
Only high- and medium-priority activities & 90%+ secured income are included.				
Projected High- and Medium-priority Activity Costs	507,717	311,667	268,917	1,088,301
Projected Administrative Costs	29,000	32,000	35,000	96,000
Total Projected Costs	536,717	343,667	303,917	1,184,301
Total Estimated Income for High and Medium Priority/Admin.	229,000	187,000	178,000	594,000
Projected Surplus/Deficit (Income, Expenses)	-307,717	-156,667	-125,917	-590,301
Optimal Case Scenario				
All activities and income that is 90% secured are included.				
Projected Cost of All Activities	534,384	325,250	280,917	1,140,551
Projected Administrative Costs	29,000	32,000	35,000	96,000
Total Projected Costs	563,384	357,250	315,917	1,236,551
Total Estimated Income for All Activities/Admin.	229,000	187,000	178,000	594,000
Projected Surplus/Deficit (Income, Expenses)	-334,384	-170,250	-137,917	-642,551

Exercise — STEP 8

Review the three Arcoiris scenarios.

1. Does Arcoiris appear to have the capacity to raise the funds needed for the modest case scenario?
2. What implications could the three proposed fund-raising goals pose for the organization in regard to time and financial investments?
3. Based on the moderate and optimal case scenarios, does Arcoiris' strategic plan appear viable?
4. Based on the information contained in the case study and manual, what suggestions do you have on how to modify Arcoiris' strategic plan?

Chapter 6

Evaluating Feasibility of the Strategic Plan (Step 9)

This chapter covers the following points:

- Evaluating Feasibility of Implementing Current Plan
- Analyzing Funding Gaps or Surplus Implications
- Analyzing Fund-raising Experience and Expertise
- Evaluating Need To Revisit Strategic Plan and Activities Prioritization
- Monitoring, Evaluating, and Adjusting Strategic Plan

Now that your organization has completed the Integrated Strategic and Financial Planning exercise, you have come to the most important juncture: analyzing the results and determining the strategic plan's viability. You now know:

- **Which objectives and activities are essential to comply with your organization's mission,** and which ones could be set aside or delayed if financing is not readily available. (Step 3)
- **How much funding is needed to accomplish the stated goals and objectives.** This information is further delineated by funding needed for implementation of each activity, which provides the basis for developing annual operations plans. (Step 4)
- **Amount of funding needed for annual administrative costs.** (Step 5)
- **Amount of secured financial resources by program area,** or those resources for which a contract is to be signed or has already been signed with a donor. This information can serve as the basis for the fund-raising plan, and allows your organization to track and monitor the fund-raising progress. (Step 7)
- **Funding requirements for essential activities and administrative costs,** based on the three scenarios. (Step 8)

Evaluating Feasibility of Implementing Current Plan

Based on this information, does your organization have the financial capacity or fund-raising expertise to attain at least 70 percent of the strategic plan's projected results for the first two years? Does your organization have the capacity to raise necessary funds for subsequent years? If you answered "yes" to both questions, then you have completed the process and should move on to implementation, along with periodic monitoring and evaluation. If you answered "no" to either or both questions, then your organization should revisit the results and determine a course of action.

While the strategic plan usually covers a three-to-five-year time period, it is unusual for organizations to have funding secured for more than a two-year time frame. As previously mentioned, fund-raising activities do not usually produce immediate results; they require a time investment ranging from several months to several years before donor funding is secured.

Analyzing Funding Gaps or Surplus Implications

If surpluses have been projected for any of the program areas, you will need to determine why these exist and how to address them. Many organizations consider funding surpluses a windfall.

However, in most instances, surpluses imply that too much funding has been secured to implement certain activities, or that funding was raised for activities not included in the strategic plan. If they are not part of the strategic plan, you will need to determine whether these activities should have been included and, if so, add them in. If you determine that these activities are not strategic, given the direction your organization wishes to take, you will need to open a dialogue with the donor(s) and determine how to proceed. If you have simply raised too much funding for the activities, you must discuss this with the donors to determine whether the funds can be applied to other activities, can be deferred for implementation of similar activities in future years, or must be returned to the donors.

Analyzing Fund-raising Experience and Expertise

A major factor in evaluating the feasibility of implementing the strategic plan is your previous fund-raising experience and level of expertise. If your organization has a strong fund-raising track record and believes this can be continued, you should evaluate the funding requirements for implementing the strategic plan to determine whether you can meet the new fund-raising goals. If your organization has little fund-raising experience or lacks a successful track record in this area, you will need to evaluate how this affects your ability to implement the strategic plan and determine how to react accordingly.

If your organization's funding needs are somewhat similar to the current annual funding requirements and you have a strong donor base, then your strategic plan may be easily attainable. If you project huge increases in annual funding needs (based on the current annual income), you should determine if you can meet these needs with existing staff and financial resources or if you will need to increase them. If you determine that the fund-raising goals are difficult to attain, you may want to develop an aggressive fund-raising campaign or adjust expectations based on what can be accomplished in the upcoming years. If you opt to aggressively raise funds, then ensure that the needed financial and human resources are available. In too many instances, nonprofit organizations become so focused on the daily activities of implementing projects that they lose sight of the need to continuously fundraise for future projects, creating the need to conduct the ever unpopular and difficult "emergency" fund-raising.

Evaluating Need to Revisit Plan and Activities Prioritization

If you have large projected funding gaps (projected expenses far in excess of projected income) or surpluses (funding in excess of projected expenses), your organization will need to determine how best to interpret the information to make educated decisions on future direction. In some instances you will need to revisit the strategic plan to adjust expectations on what can be accomplished within the proposed time frame. When you take this step, remember what you want to accomplish in upcoming years and which actions will be most essential to achieving your mission.

Revisiting the strategic plan can include adjusting goals and adjusting or reducing the scope of some objectives and activities. In some instances, you may decide to postpone implementation of certain activities a year or two. In other cases, you may decide to reduce the projected expenses of certain activities by reducing the scope of what is to be implemented. In the direst situations, you may need to eliminate some activities or objectives. Once this work is completed, you should then continue to reprocess the financial projections to determine your financial-resource needs under the revised strategic plan, and then re-analyze whether the plan is realistic and viable, given your funding and fund-raising ability.

Short-term Implications (Year 1 of the Plan)

For the first year of the planning period, if funding has not yet been secured to implement at least 70 percent of the strategic plan, and if your organization is not currently fund-raising in an aggressive manner for the financial resources, you will need to revisit the strategic plan, goals, objectives, and activities prioritization to adjust expectations on what can realistically be accomplished with available funding. If fund-raising efforts are actively under way, you will need to weigh previous fund-raising experience against funding needs to determine whether you can raise the needed resources in the short term.

Medium-term Implications (Years 2-End of the Plan)

For the second year of the strategic plan, determine how much funding has been secured and evaluate current fund-raising efforts. Again, based on your fund-raising experience, determine whether you can raise the resources within the upcoming year. If you think it is feasible, then use the funding gaps as the basis for developing your immediate fund-raising plan. If you think you lack sufficient experience to raise these funds, then you will need to adjust expectations on what can reasonably be accomplished by reducing the scope of your goals or cutting back on objectives and activities. For subsequent years in the strategic plan, your analysis will be based primarily on past fund-raising experience.

Monitoring, Evaluating, and Adjusting the Plan

Once you have determined that the strategic plan is viable, you should use the detailed goals, objectives, and activities as the basis for developing your annual implementation or operations plan. You should revisit the strategic plan at least every three months to evaluate progress and determine whether the objectives are being met. Based on this review, you can determine whether you should continue to implement the plan as developed or whether you need to revisit and adjust it because of internal or external conditions that influence its implementation.

Exercise — Step 9

1. Based on the information contained in the case study thus far and on your own experiences, do you believe Arcoiris has the financial capacity or fund-raising expertise to attain at least 70 percent of the strategic plan's short-term projected results (1998)? What about medium-term results (1999-2000)?

2. What implications could Arcoiris' strategic plan have on its fund-raising efforts?

3. What implications could projected surpluses in 1999 and 2000 have in regard to current contracts and proposals?

4. Given the large projected deficits for the first year of the strategic plan in several of the program areas, should Arcoiris consider adjusting expectations on what it can accomplish in the first year? Please use the following worksheet to demonstrate how you would recommend that Arcoiris re-prioritize or re-evaluate funding needs for activity implementation and/or eliminate some proposed objectives/activities.

Arcoiris Case Study
Worksheet: Revisiting the Strategic Plan

Conclusion: Arcoiris Case Study

For Fausto López and the Arcoiris Foundation, the financial planning process was part of an intensive, year-long internal reorganization that proved extremely fruitful. Using the financial planning exercises to evaluate the strategic plan allowed Arcoiris to quantify its programmatic needs and successfully integrate them with its fund-raising priorities.

In 1998, the Foundation obtained US$800,000 in additional financing from three new donors, based on fund-raising activities that were already under way as the Integrated Strategic and Financial Plan was being developed. This allowed the Foundation to implement most of its high-priority activities, as well as many medium-priority and several low-priority activities.

The first source of financing was a European government organization that contributed $100,000; the second was a Canadian government organization that also contributed $100,000; the third was the Pennsylvania state chapter of the Conservancy, through the Wings of the Americas program, which pledged $600,000 over a five-year period.

Another important aspect was training the Foundation's personnel in the financial planning exercise and establishing an example that, at least in Ecuador if not in the rest of Latin America, serves as a teaching tool for other nonprofit organizations that arrive at the same growth crisis.

In 1999, 18 months after initiating the Integrated Strategic and Financial Planning process, Arcoiris decided to monitor and evaluate its progress in order to continue planning for upcoming years. The review included an evaluation of the Foundation's accomplishments during the time the plan had been in effect, based on the stated goals, objectives, and activities. During the evaluation, Arcoiris quickly realized an added value of the Integrated Strategic and Financial Planning process: a tool to evaluate progress of ongoing activities.

The evaluation showed that the community development program had implemented 300 percent of its original plan, having expanded its capacity and reputation to work with not only communities in and near the park, but also with other communities. The environmental education program had implemented about 75 percent of its original plan and had replaced other activities, due, in part, to a change in department leadership and priorities.

Administration had also been able to implement about 75 percent of its original plan, recognizing that the original plan had been somewhat ambitious and the need to keep the goals and objectives in mind throughout the year. The big surprise came when Arcoiris realized it had implemented only about 25 percent of its proposed conservation activities for the time frame, demonstrating some mission drift as the environmental organization had become more focused on implementing other activities. Arcoiris has since decided to redirect activities to ensure that all program areas provide support for the conservation priorities.

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WORKSHEETS