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Peering over the precipice

A toolkit to reinvent and thrive

[Centre for Charity Effectiveness]

CENTRE FOR CHARITY EFFECTIVENESS (CCE)

Inspiring transformation within the nonprofit sector.

The vision of the Centre for Charity Effectiveness (CCE) at Bayes Business School is that of a nonprofit sector leading positive social change. We support the sector to achieve this through the services that we deliver; education, knowledge sharing, research and independent consultancy advice.

As one of Bayes Business School's centres of excellence, impactful knowledge exchange has been at the heart what we do since our inception over 20 years ago.

CCE aspires to see a voluntary, community and social enterprise sector constantly extending its own knowledge boundaries and driving performance excellence – whilst developing and inspiring the next generation of leaders.

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Foreword

The unwavering vision of the Centre for Charity Effectiveness is that of a strong nonprofit sector leading positive social change. We support the sector to achieve this through the services that we offer; education, knowledge sharing, research and independent consultancy advice. One area of focus where we are seeing an increase in requests, from charity trustees and executives, is for support and knowledge around sustainability.

What does an organisation need to address in order to create maximum impact for their current and future beneficiaries and service users? We know that in so many cases the status quo is no longer an option. All organisations are operating in a dynamic and uncertain world. Business models that have served organisations well in the past become redundant and assumptions made about managing an organisation may no longer be valid. Leaders need to deliver business as usual while reviewing current practises and innovating for the future.

Whatever your leadership role, you will want to seek answers to two questions: how will you navigate through the changing operating environment and what will your organisation look like on the far side?

Settling for the status quo for parts, or the whole, of an organisation is unlikely to be the right option and inaction could lead to decline and crisis.

This toolkit is aimed at charity trustees and executives who want to consider where they are on the organisational lifecycle curve. It will enable them to explore what impact the current environment is having on their organisation and on the economic and social value that it creates. By drawing on Cass CCE's cumulative knowledge, derived from in-depth work with our students, delegates and clients, we offer a health check to revitalise and a framework to consider reinvention for financial sustainability.

We ask the tough questions to help you consider if your organisation is already in decline. We provide the equally tough answers that will ensure that the decisions taken are in the best interest of your organisation's mission, before that of its existence.

Ultimately, timely and brave decision making will enable a stronger nonprofit sector that leads increasing amounts of positive social change, both now and in the future.

Alex Skailes
Director, Centre for Charity Effectiveness (CCE)

hospice UK

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Chapter 1: **Introduction**

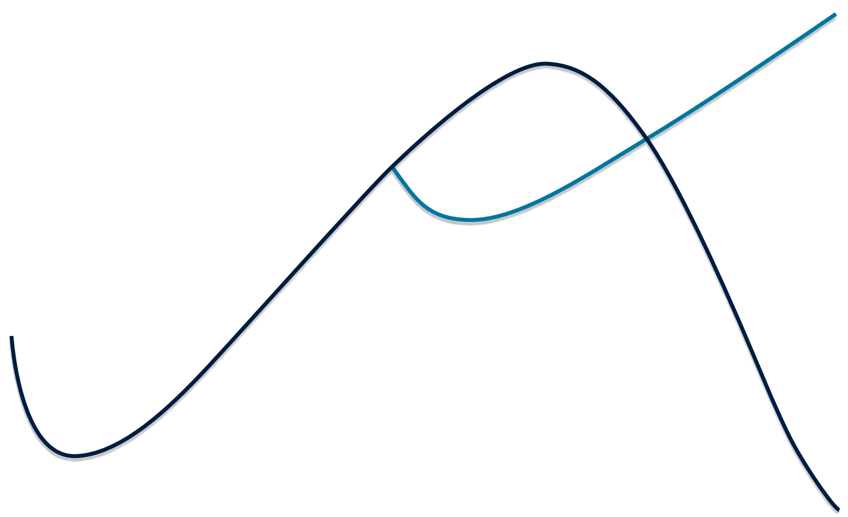
For many charities the business model that has served so well in the past and the assumptions made about the business of running a charity may no longer be valid in future. There is growing polarisation between those organisations that are effective and those who are failing – it is much less possible for organisations in the charity sector to merely survive: increasingly thrive or fail seems to be the reality. Settling for the status quo is unlikely to be the right option and inaction is likely to lead to decline and crisis. Reinvention of both the sector and of individual organisations is the only sustainable solution.

1.1 THE PURPOSE OF THIS TOOLKIT

The purpose of this toolkit is to support nonprofits to respond to these challenges and provide a range of resources to enable boards and senior staff to consider what they need to do to go beyond survival and to thrive in an increasingly challenging and markedly different external environment.

The approach in the toolkit is based on organisation 'lifecycle' theory. Charles Handy introduced the metaphor of 'sigmoid curves of reinvention' and builds on this in his book The Second Curve[1]. A sigmoid curve (the blue line below) is 'the line of all things human' and can be applied to organisations (and products and services). It begins with a period of investment, moving into trial and experiment, resulting in growth, until the curve inevitably peaks and begins its descent and decline.

Figure 1: CHARLES HANDY'S SECOND CURVE



1. Charles Handy (2015) The Second Curve: Thoughts on Reinventing Society. London: Random House, p23

First curve success can be built upon by reinvention, but the second curve (the lighter blue one), says Handy, has to start before the first curve peaks: you need to reinvent before the downturn, even if this seems counterintuitive. According to Handy, it's much harder to reinvent or turnaround once you've lost momentum, once times are hard, morale is low and investment resources are running out. He sees the second curve as our opportunity to 'redeem ourselves and to show that we have learnt from the past in order to create a better future'. The overriding message is that you can't stand still.

The toolkit offers tools to:

1. Work out where you are on the curve
2. Take action to keep fit and reinvent to survive and thrive
3. Work out the best next steps if your organisation is on the decline.

1.2 HOW TO USE THIS TOOLKIT

We have seen from our work with many nonprofits that the organisations that thrive are those where boards and senior staff work together to explore, adapt and change. So the audience for this toolkit is the board and senior team: the 'top team'. It might be useful for both the Chair and Chief Executive to discuss how the toolkit could be used to stimulate strategic thinking and improvements to governance and management. There is a range of materials that could be used in board meetings, at senior team meetings or away days.

We expect you will want to read the whole toolkit to get a sense of the content, look in some detail at chapter three to work out where your organisation is on the 'curve' and then dip down into the other elements according to your needs. In the longer term we hope that you will revisit the different sections, again according to need.

In chapter two, we look at tools to explore the drivers of change in the external environment, how they will impact your organisation and what your response could be. Chapter three contains a series of tools to help you conduct a 'healthcheck' to assess your organisation's present state – where you are on the curve. Chapter four looks at a spectrum of responses according to where you are on the curve: get even fitter to move up the curve; reinvent to take advantage of the momentum; think about next steps/turnaround if you are on the downward slide. Chapter five summarises the key themes and learning points.

Each chapter has a mix of materials to help you explore the topic

Tool – something practical that can be used by the board and senior staff and to explore challenges together

Worksheet – a guide through the steps you can take together to achieve a practical result to help bring insights, focus or prioritise

Board conversation piece – some guidance for boards about useful questions to consider with the senior team, how to tackle the topic in board meetings etc.

Signposts – to useful resources specific to the topic.

Chapter 2: Drivers of change and their implications

If we understand the drivers in the external environment (trends and forces) and their implications we will be better able to take positive steps to deal well with them.

With a little foresight, we can better prepare ourselves to take advantage of opportunities and decide the optimum allocation of resources to particular areas of activity in the future. There is an established link between top teams that constantly keep their eye on the external environment, anticipate likely future events and have regular conversations about possible future scenarios and organisations that go beyond survival to thrive.

2.1 ORGANISATION EXTERNAL ENVIRONMENT ANALYSIS

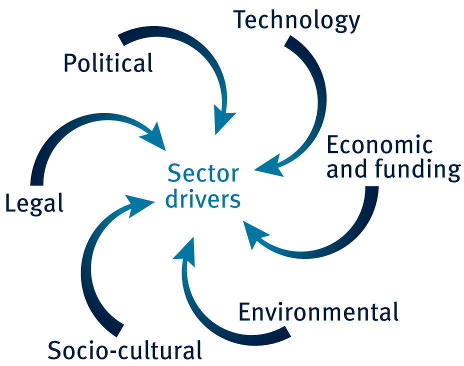
This section contains an overview of how to do PESTLE analysis, how to turn this information into something useful to explore future strategic options, some questions for trustees to ask and some signposts to where you can find out more.

2.1.1 PESTLE

PESTLE is a framework to help scan the external environment to better understand what drivers (trends and forces) might need to be taken into account as part of strategic decision making.

PESTLE is an acronym to help us categorise different kinds of external drivers and make sure we don't miss anything in our analysis: Political; Economic; Social; Technological; Legal; Environmental.

Figure 2: **PESTLE ANALYSIS FRAMEWORK**



How to use this tool

1. Get a group of people together who have different roles, perspectives and mindsets – this will help strengthen thinking and enable you to explore new and different questions.
2. Start with the mission for your organisation and the things you have to do well, then ask 'given what we have to achieve now and in the future, what external drivers (trends and forces) could impact on us, creating either opportunities or threats?'
3. Think about these drivers under each of the PESTLE headings. The headings are just there as an aid to getting ideas out – there's no need to worry about where something sits – if it's big, it needs to be part of your analysis.
4. Go for broad analysis as well as deep:
   a. How will these drivers affect statutory funders/commissioners, donors, strategic partners and other stakeholders? What does that mean for your organisation?
   b. What about other players – what different forces could impact on them? (e.g., a commercial organisation with shareholders might be impacted by different drivers than your organisation).
   c. What other drivers might affect service users and other beneficiaries?
5. Consider the relationships between drivers. Looking at how two or more interact or play against each other might tell a different story compared to looking at them one by one (e.g. an increasing desire to be in control of your own life; growth in SMART technology).
6. Select three or four drivers that will have the greatest potential for opportunity or threat, and do more work on them to consider options for either maximising opportunity or mitigating threat (see the worksheet).

2.1.2 Worksheet: Impact analysis: What, So what, Now what?

Sometimes people just do a PESTLE analysis and stop once they've got a list of drivers – they stop at **'What?'** To turn the list into a useful analysis, once you have identified the drivers that you want to explore in more detail, ask yourselves: **'So what?'** So what might be the impact on the organisation? What new challenges, threats and risks might emerge? What opportunities might there be for improving effectiveness and impact?

Once you've considered the implications, the final question is **'Now what?'** When you generate options to tackle what might happen and what you might do to build on opportunities and to mitigate threats. It's important to open up thinking by asking the **'So what?'** question, before you close things down to consider strategic options and action.

Use the worksheet opposite to explore the **'So what?'** implications.

How could each driver affect your organisation? What opportunities does this create?

	External				Internal			
Your 3-4 key drivers	Service users and their needs	Funders, Commissioners and their priorities	Local community	Relationships and influence	Workforce (paid and volunteer) and trustees	Your work (services and activities)	Governance (including accountability and evaluation)	Systems, skills, technology (new treatments, communications, admin, management)
Driver 1								
Driver 2								
Driver 3								
Etc.								

Once you've asked 'So what?' turn to 'Now what should we do about it?': covered in the rest of this toolkit and especially chapter four.

2.1.3 Board conversation piece: external environment

Ideally boards will take an in-depth look at the external environment and its implications once a year and supplement or update this at each board meeting by considering any new intelligence that provides insights about the future strategic landscape, opportunities and threats. Some questions to ask might be:

- What trends aren't we watching that could creep up on us?
- What's so uncertain that we're not really thinking about it?
- What's our foresight track record like? How can we get better at it?
- Which drivers and their implications are within our control to tackle and which aren't? What should our tactics be for each?
- Who can we call in to give us their best guess about the uncertainties we face?
- How can we best allocate our resources to deal with certainties and uncertainties?
- When will things firm up enough to be put on the risk register?
- When will things firm up enough to change our plan?
- Do we have a collective view about whether and how our funds should be used to prop up shortfalls in statutory funding? What we will do if the funding situation gets worse?
- What are other organisations in our locality doing and how might this affect our future?

2.1.4 Signposts: external environment

Useful general information:

The NCVO Road Ahead 2018: a review of the voluntary sector's operating environment, Michael Birtwistle, Elizabeth Chamberlain, Véronique Jochum Chris Walker (free to NCVO members; summary available to non NCVO members).

NFP Synergy PEST analysis for the nonprofit sector.

The links between effective leadership and analysing the external environment: BCG Perspectives (2011) The Five Traits of Highly Adaptive Leadership Teams, Roselinde Torres and Nneka Rimmer

The next chapter contains tools to help you assess your organisation's present state of health: to understand where you are on the curve, and give you insights into how fit you are to respond to the opportunities and threats in the external environment.

Chapter 3: Organisation health-check – understanding your present state

This chapter is designed to help you carry out an 'organisation healthcheck' to assess your organisation's present state of health by looking at both the factors critical to success and the risks the organisation faces and using this knowledge as the basis for strategic decisions.

3.1 FACTORS CRITICAL TO SUCCESS

It's important to develop an in-depth understanding of what organisations need to do well in order to survive and thrive. This isn't just about the tangible aspects of the business model, but also the intangible aspects such as culture, behaviour and morale. The analysis will help you judge your present state, work out what to focus on to improve capacity and capability and understand your fitness to respond to the drivers in the external environment.

The section offers:

- An 'internal healthcheck' – an exploration of the factors critical to success – the things you have to do well
- A discussion of the behaviours that ensure effective board decision-making
- Some tips to help 'spot the ostrich' and have the courage to challenge colleagues. Not picking up or ignoring the signs that things aren't going well is seen as a major contributor to decline, so to be fit and successful we need to be alert with 'heads up'.

3.1.1 Tool: Internal healthcheck

This framework enables a thorough review of internal capabilities and processes as the basis for setting an action agenda for strategic development.

How to use this tool

Use it to stimulate discussion and explore your organisation's fitness in each of the areas of capability. You could use it at a board/senior team away day for example. Make sure you prioritise rather than produce a long list of things to improve. Use the external environment analysis in section 2.1 to help prioritise: what are the factors most critical to our success given the external challenges we face?

External perspective – rate how well you:	
Meet beneficiary needs and aspirations	
Meet statutory funder/commissioner needs	
Meet donor and other funder needs	
Meet the needs of the local community (including different demographic groups within the community)	
Influence policy and practice locally, actively engage in the local economy	
Get external recognition for the work of the organisation	
Are accountable and transparent in dealing with the community	
Know and shape what others think of the organisation and your work	
Are active in and engaged with other organisations to build sector capacity, increase reach and address unmet need	
Understand the drivers and forces in the external environment and how these will impact on the work of the organisation in the future	
Strategy and impact – rate how well you:	
Achieve your desired impact, evaluate your services/initiatives and can systematically evidence your outcomes using robust quantitative and qualitative measures	
Periodically carry out strategic reviews to ensure you are doing the right things and doing them right	
Develop scenarios to understand the range of future potential opportunities and possibilities	
Communicate core values to shape an effective culture both within and beyond the organisation including to those who carry out work on your behalf	
Use the ideas and insights of staff, volunteers, service users and their families, other beneficiaries and the local community to shape strategy and services	

Use the strategy to guide your work (minimise reactive or unplanned growth)	
Adapt to respond to changing need	
Link high-level goals with the front line work of the organisation	
Leadership – rate how well you:	
Link governance and executive direction and have a top team (especially Chair and Chief Executive) that collaborate to add value	
Communicate what is important – internally and externally	
Do what you say you will and how you say you will do it	
Perform as a team (across, up/down the organisation)	
Exercise power and resolve conflict	
Align people (staff and volunteers) towards achieving the Mission	
Management practice – rate how well you:	
Practise effective governance, including ensuring regular board renewal and review	
Delegate authority to ensure appropriate levels of participation and use of discretion and check how these have been applied	
Use comprehensive management information to enable an in-depth understanding of the drivers of performance and make informed decisions	
Acquire and allocate financial resources; have a broad income base (not reliant on a limited number of sources)	
Understand costs, overheads and the business model	
Use all resources to build future capacity	
Leverage collaboration to secure new and varied capital	
Manage resources such as IT and premises	
Understand and manage risk and link this to the reserves policy	
Map all aspects that provide assurance and use this as the basis of a comprehensive system of controls and alerts; test this periodically from front line to board	
Evaluate against an outcomes framework linked to your strategy	
Manage performance with a focus on results and outcomes	
Recruit, retain and develop the right people	
Run core services and develop new services that respond to need	
Quality governance – rate how well you:	
Promote a quality-focussed culture and agenda and engage with service users, staff, volunteers and key stakeholders to check out the reality	
Put quality at the heart of the strategy and ensure sufficient resources to have full and proper insight and oversight	
Have the right knowledge, skills and confidence on the board and at each level of the organisation to ensure delivery of the quality agenda	
Have clear roles, accountability and processes to ensure quality governance	
Analyse, interrogate and challenge quality information to ensure its integrity	
Promote a commitment to continuous quality improvement	
Learning and growth - rate how well you:	
Stimulate creativity and improvise	
Motivate and inspire at all levels	
Reach out beyond organisational boundaries to contribute to and participate in sector wide knowledge sharing	
Match tasks and with the necessary skills required and build capacity for the future	
Manage change	
Manage knowledge and use this to learn and improve	
Involve and include different kinds of people with different mindsets, perspectives and backgrounds	

3.1.2 Worksheet: Getting board behaviour right for effective decision making

Effective board behaviour is most readily apparent at board meetings, when trustees interact to make decisions that set the course for the organisation. This worksheet sets out a checklist for trustees to use to ensure their approach and behaviour drives high-quality decision-making.

When exploring the papers in preparation for the board meeting, think about how you can:

- Focus on asking better questions
- Consider the future and longer term implications (perhaps carrying out some research of your own to build knowledge about specific topics)
- Frame issues, find meaning and explore why?
- Switch your brain on to critical thinking: 'the art of analysing and evaluating thinking with a view to improving it'
- Tap feelings and insights as well as analyse and be rational
- Get rid of impediments such as:
  - Being certain you're right/not wanting to be wrong
  - Social loafing[2]
  - Groupthink[3]

In the meeting itself:

- Focus on sense-making, framing and asking questions and engage in real dialogue – listen with the intent to understand
- Be curious and ready to build on what others have said: create new ideas together
- Speak up to share ideas and challenge positions (including the attractive status quo).

Question for the Chair and Chief Executive to explore together:

- How can we create a culture and group dynamic that enables trustees to fully engage and participate in meetings?
- How can we harness the diversity of background, experience and opinion on the board to generate the best discussions and decisions?

3.1.3 Board conversation piece: Surely we can't be ostriches?

Denial is the first stage of crisis. How can we recognise the signs, 'out' the ostriches who have their heads in the sand and become a more successful, more alert and open board and organisation?

How to spot an ostrich

- I don't tell anyone that I don't really understand the finances
- I don't tell anyone that I don't really understand all of our services and what we do
- I don't tell anyone that I don't really understand service user need and our potential
- I don't tell anyone that I don't understand what is meant by population needs or unmet need
- I don't tell anyone that I don't really understand the components of quality
- I don't really understand about income generation or getting the business model right
- I don't stop people when they talk about things I don't understand
- I'm a bit worried that we're not doing the right things but I don't want to rock the boat
- I'm a bit worried we're doing the wrong things, but I don't want to rock the boat
- I don't want to rock the boat
- I don't know how best to rock the boat.

How to rock the boat

1. Find an ally:

- Someone who also looks uncomfortable during board meetings
- Someone who also looks like they want to say something but aren't doing it

2. People exerting less effort to achieve a goal when they work in a group than when they work alone
3. People feeling conformity and harmony make for better decisions than does challenge. A group is especially vulnerable to groupthink when its members are similar in background, when the group is insulated from outside opinions, and when there are no clear rules for decision making.

- This is about getting moral support, not creating a clique or plotting.

(Avoid those who talk the whole time, never listen, those who always agree with those who talk the whole time and never listen and those who obviously haven't read their papers).

2. Make a plan; work with your ally to:

- Focus on the perfect outcome. What does... good look like? It might be simply 'the majority realising that we are being ostriches and need to get a grip of what's really going on'. Don't aim too high for this first courageous leap
- What steps do we need to go through to create this perfect outcome?
- Where does the Chair stand in all of this? Will they be an enabler or barrier?
- Who might other allies be? Can we cluster different people into groups? e.g.,
  - intellectual or social loafers (those who never have their own view and always take the easy route);
  - deniers (those who have fooled themselves into thinking things will get better if we just wait);
  - bombasts (those who think they know it all, but might be wrong);
  - unengaged (those who have brains but have switched them off)
- What arguments would most persuade different groups?
- How far off getting a critical mass are we?
- Which group should we focus on first to build the critical mass?

3. Get some evidence

- Work out what information you need to form a case/argument to persuade
- Gather evidence, seek out the views of experts, other trustees, staff
- Work out what you know and what this tells you
- Work out what you don't know, and what this tells you.

4.Build a rationale or mini-case

- We are worried about this... because of this...
- We don't know enough about this... and feel we should know more because...

5. Support each other to be courageous

- What's the best that could happen?
- What's the cost of not being courageous?
- What would service users say if they knew we knew something was wrong and kept quiet?
- What's the worst that could happen?

6. Speak out

Use an established agenda slot, not AOB.

Preferably a slot which is early on the agenda, when people are feeling fresh; ideally one that is on the topic of performance.

If you feel there is the danger of your views being misquoted, ask the secretary to record your exact words in the minutes.

What to do if you can't speak out

Talk in private to the Chair. Use the annual review process if you have one or request a one-to-one meeting: have a discussion with the Chair about how different views and perspectives can be better aired.If the Chair's style is part of the problem, consider talking to the Vice-Chair or Chief Executive instead.

3.1.4 Signposts on factors critical to success

A simple healthcheck framework: NPC What makes a good charity by Iona Joy and Ruth Gripper

A more sophisticated framework: Business Model Canvas by Alexander Osterwalder

Resources specifically for Chairs: Association of Chairs

Resources specifically for Treasurers: Honorary Treasurers Forum

3.2 PERFORMANCE MANAGEMENT

The focus in this section is on how well the board collects performance information and has regular conversations with a view to improving results. Performance conversations focus on results against expectations both for the organisation as a whole, for teams including the board and for individuals. This approach enables action to be taken when performance is not as expected and is crucial to both surviving and thriving.

3.2.1 Tool: Key performance indicators: Dashboard pick'n' mix

What are the indicators that we should keep our eye on that provide a picture of the whole system, that alert us to when things are going well and not so well and that enable us to make informed decisions about the future?

Whilst KPIs and thus your dashboard should be aligned closely to your strategy and are therefore unique to your organisation, it is possible to offer a selection of indicators that could be relevant to any organisation, whatever its strategy. Such core indicators are shown in Figure 3, along with some examples of strategy specific indicators – ones which would only be relevant in certain organisation contexts. See this as a 'pick'n' mix' from which to draw the indicators that are important to your organisation.

Variance analysis, trends and projections: keeping your eye on the ball (The whole bouncing ball, not the wrong ball, an old ball, a bit of the ball, or a static ball).

Merely reporting performance results as a static indicator or measure isn't enough. It is performance against expectations that really matters (results against budget, compared with local and national standards, against previous results/years etc.), followed by having conversations about the implications. From this comparative analysis we can develop a picture of what the indicators are telling us, explain variances, and explore what the patterns mean for the future as well as the past. Dashboards should show historical and comparative data and contain projections based on the trend.

Figure 3: EXAMPLE KEY PERFORMANCE INDICATORS FOR A HOSPICE

Impact		Community engagement/awareness	
Core	**Strategic examples**	**Core**	**Strategic examples**
Activity # new patients • IPU • Community • Day • Bereavement care # core hours • IPU • Community • Day • Bereavement support Average IPU bed occupancy Average lenght of stay	Results against Commissioner contract e.g., • bed days • community patients % non cancer patients BAME patients Patients reporting improvement in quality of life	% increase in social media activity # external event attended # attending hospice events # items positive media activity	# new partnerships % satisfaction of those attending events # people supported through community befriending initiatives % donor satisfaction % commissioner satisfaction

People		Financials	
Core	**Strategic examples**	**Core**	**Strategic examples**
%Staff engagement % Volunteer engagement % Staff sickness absence % Volunteer sickness absence % Staff completing mandatory training	Staff turnover Volunteer turnover Vacancies (by specialism) Time taken to recruit (by specialism) Staff age profile Volunteer age profile	Liquidity/quick ratio Unrestricted reserves Cashflow forecast Operating surplus/deficit Income against budget for key sources Income source return on investment ratios Fundraising ratio	Cost of bank/agency staff Cost overheads and contribution by each service area

3.2.2 Worksheet: Regular performance conversations about the things that matter

In addition to focussing performance conversations on the breadth of the business model as outlined above, it will be helpful to put feedback loops in place to explore the causal factors of decline[4] and determine how strong your organisation is in each of these areas.

Whilst this research is generic and almost certainly did not include nonprofit organisations, there is strong evidence that a crisis is most likely to occur when an organisation is already weakened by poor governance and management, lack of control and inefficiency. When such an organisation is 'hit' by change in demand, some threat from the external environment or one-off events such as a big project or acquisition, it cannot cope, is slow to adapt and respond, and ultimately fails.

Causal factors of decline (in order of frequency of citation as main cause; a typical crisis situation has 6 or 7)

Internal	
Poor governance and management	Incompetency and lack of interest are common characteristics in the leadership of failing organisations Ineffective boards, making poor decisions about resource allocation and control Failure to lead and manage change Lack of management depth (at the level below the chief executive)
Inadequate financial control	Poor systems of proper financial control A lack of data about income, costs, overheads and cash Financial data poorly presented so that it is not understood by the whole board Poor budgetary control: over-centralisation is a common symptom Lack of working capital management (inadequate planning)
High cost structure	Management style and organisation culture and structure (centralised bureaucracies are cost ineffective and inefficient, giving rise to low productivity and slow/uninformed decision making) Operating inefficiencies more generally are features of those in decline: low staff productivity, poor planning, lack of adequate maintenance, out of date premises layout, office procedures etc.
Poor marketing	Lack of responsiveness to customers/key stakeholders (e.g., service users, donors and statutory funders/ commissioners) Lack of market research/knowledge of customer/stakeholder needs; reliance on out of date assumptions Lack of promotional material or use of outdated material Weak or non-existent new service development (including income generation products)
One off capital or revenue projects	Big projects that go wrong because costs are under-estimated and/or revenue is overestimated are often the 'last straw'
Mergers/acquisitions	Crisis can be driven by acquiring poor organisations and not taking real costs and the cost of change into account Then/or by not being able to turn them round to health – poor post acquisition management, including culture clash, drives crisis
Financial policy	A high debt: equity ratio (high gearing) A very conservative financial policy – prolongs the slow decline phase The use of inappropriate financing sources e.g., borrowing short term money (including 'raiding reserves') to invest in long term projects Being over cautious e.g., having reserves of many months and not investing these in sustainable ways of improving impact Poor decision making – using short term money to invest in the long term e.g., creating new posts when a one-off legacy arrives
Inertia and confusion	Distressed organisations are characterised by a failure to make decisions and make things happen Inappropriate structures and processes, lack of defined accountabilities
External	
Changes in market demand	Not paying attention to changing 'customer' need Being slow to adapt and remodel
Competition	New entrants into the marketplace Who bring new approaches and different cost structures Subsidising to gain market share

4. Adapted from Stuart Slatter and David Lovett (1999) Corporate Turnaround. Suffolk: Penguin, p 21

3.2.3 Board conversation piece: Strengthening the top team

The importance of effective governance, leadership and management is a constant theme in this toolkit.

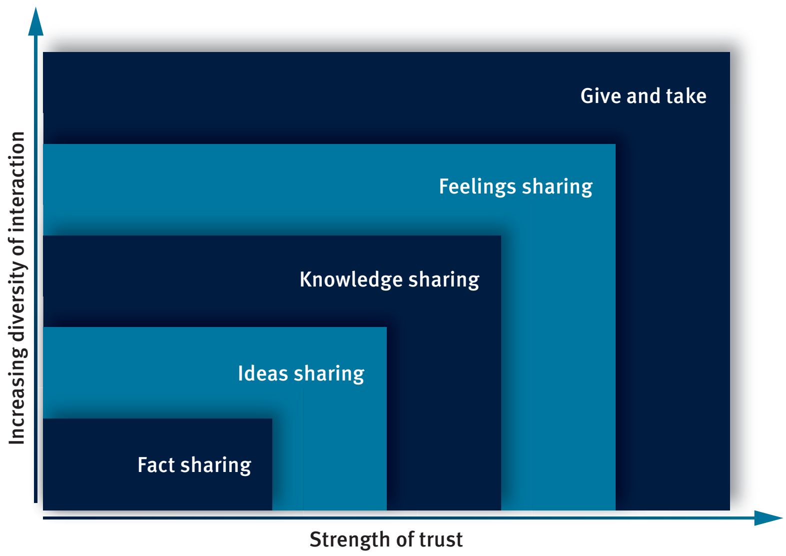
This conversation piece is designed to stimulate conversation to strengthen the top team of the organisation i.e. the board and senior team.

Some warning signs that a top team may be in decline and the organisation may be vulnerable:

- Board breaking into factions, not talking about the issues or not resolving conflict
- Board business often done outside of formal meetings
- Board not challenging the chief executive
- Chief executive or trustees resisting challenge, evading open discussions about difficult issues
- Chair and chief executive relationship too cosy
- Chair and chief executive relationship too distant, lacking in trust
- Chair or chief executive dominates meetings and decision-making
- Trustees too involved in operational issues
- Trustees in post for too long
- Board not clear on appetite for risk – seen as risk averse
- Complacency: not seeing the warning signs, or hoping for improvements without really having a plan
- Lack of trust between the board and senior staff.

Hiland 2006[5] helps us think about how increasing the diversity of interaction between members of the top team will of itself will build trust, as shown in Figure four. If you start with fact sharing and move up the diversity scale, sharing ideas, then knowledge, then feelings – leading to more give and take: trust will grow. The more you do this, the greater the trust.

Figure 4: FIVE TYPES OF INTERPERSONAL DYNAMICS



5. Hiland, M (2006) 'Effective Board Chair - Executive Director Relationships: Not about roles'. The Nonprofit Quarterly. Winter, pp49-50.

What steps can your top team take to build and strengthen trust?

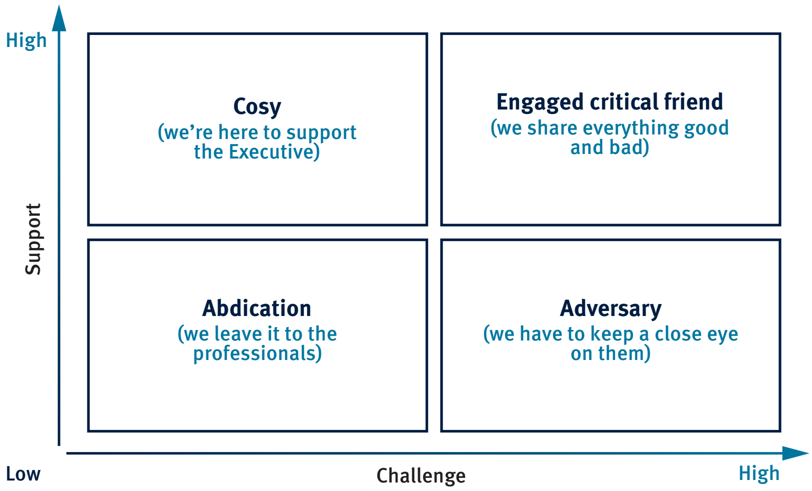
How can you create safe and appropriate situations to build the top team as a vibrant, healthy, trusting team, sharing feelings and give and take?

Another way of exploring the top team relationship is to consider the approach the board takes to support and challenge. Top right is seen as the place to be. Where is your board?

Some ideas CCE recommend to better understand and improve the quality of the top team relationship include:

- Emphasis on reviewing governance practice at least annually (using a mix of formal and informal, internal and external approaches and at both individual and collective board performance)
- Having some trustee-only meetings at the end of a board meeting so that the board can talk about issues that inhibit their effectiveness
- Regular whole top team bonding opportunities – social time together
- Discussion about boundaries and what effective support and challenge looks like
- Formal structures for regular board, trustee and chief executive appraisal or performance review; seeking feedback from a range of sources to inform these

Figure 5: BOARD APPROACH TO SUPPORT AND CHALLENGE



3.2.4 Signposts to improve performance

Information on how to manage reserves effectively: Sayer Vincent 'Beyond Reserves'

More on managing overheads: The Bridgespan Group's: Nonprofit Starvation Cycle

3.3 RISK MANAGEMENT

3.3.1 Tool: Risk appetite

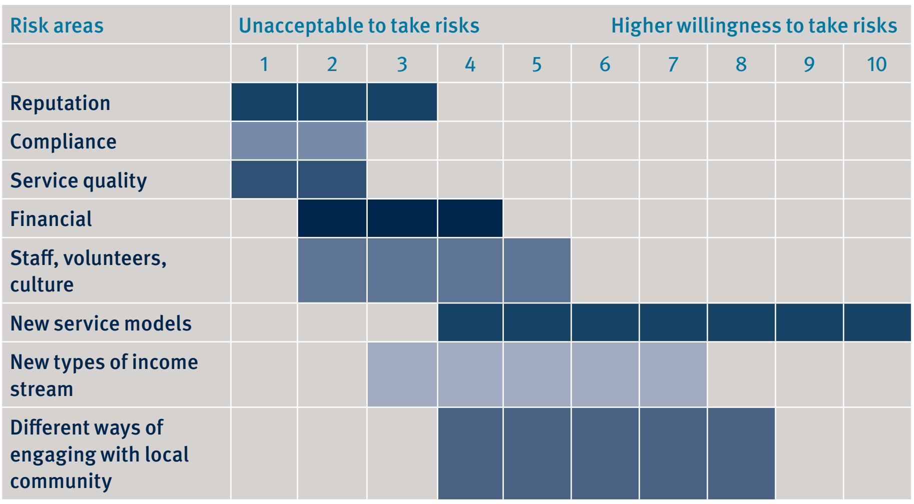
This chapter is all about 'exploring the present state' of your organisation. In this final section, we aim to encourage a greater shared understanding of risk, looking both at the organisation's appetite for risk and how risk is governed and managed.

Boards need to be aware of and consider the possibility that they might be holding organisations back by their aversion to taking risks. It's a tough and challenging balancing act. Without doubt those organisations that survive and thrive will be those that differentiate more explicitly between the areas where only very low risk is tolerated and those areas where more risk can be accepted in order to enable growth in impact, so long as there is a plan in place to mitigate and learn.

Risk appetite is an expression of the amount of risk an organisation is willing to seek or accept in pursuit of its long term strategy. Top team discussions about risk appetite are vital and should be part of regular strategic discussion at both board and senior team meetings.

One approach based on the work of Edinburgh University's risk management committee[6] is:

1. Develop a set of risk areas relevant to your future strategy (see example below)
2. Decide on your attitude to risk in each area: what the tolerance levels are and how this will affect your ability to deliver your strategy. Be bold where you need to be bold to improve and develop new services, extend reach and get the business model right, ensure compliance, safety and excellence in other areas:
   - Be clear on those areas where you will not compromise and have no appetite for risk and why
   - Be clear what your minimum standards are (e.g., specific quality standards or financial indicators)
   - Be clear where you will tolerate greater risk and why
   - Explore the trade-offs: e.g., accepting greater risk to reputation in order to pioneer services to reach under represented communities.
3. Document your rationale and communicate it so that everyone appreciates the logic and motivation, your intent, the culture you seek to create, and the checks and balances in place to ensure learning
4. Determine how you will monitor and review the decision to make sure it remains relevant
5. Decide on escalation procedures should new intelligence change the logic.



This is just an example – yours will be different

6. Adapted from University of Edinburgh risk appetite approach

3.3.2 Worksheet: Risk management

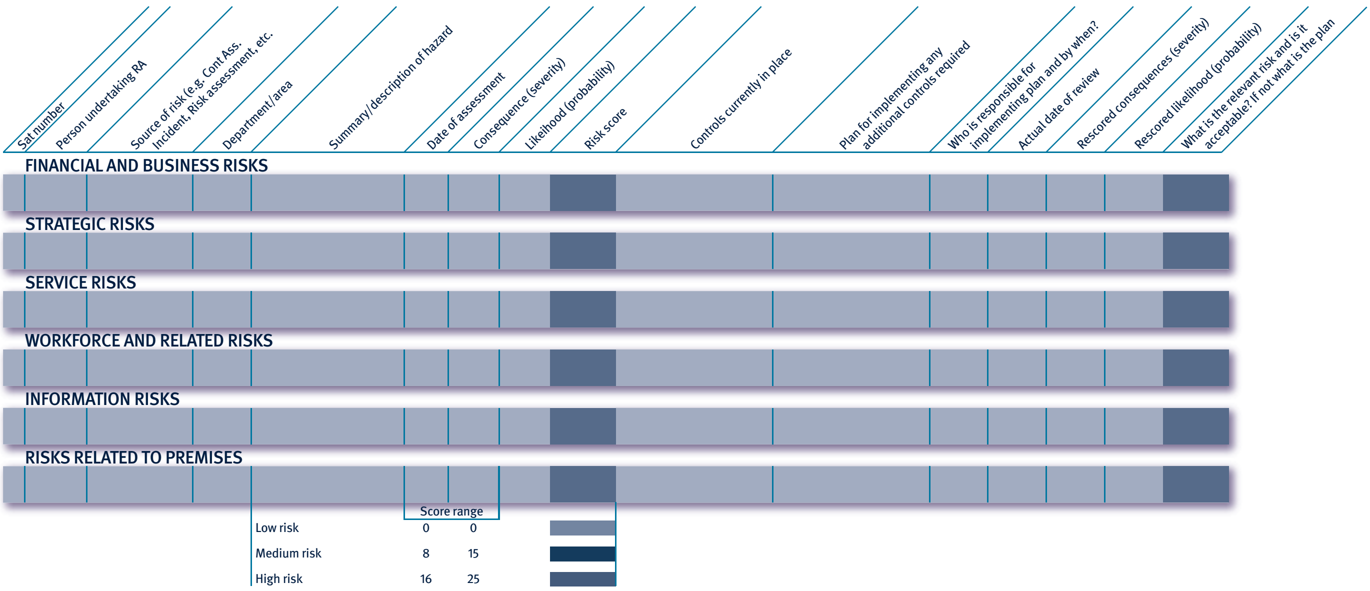
This sample risk register[7] illustrates the breadth and depth required to ensure that risk is understood, assessed and managed. It relies upon an organisation wide system of controls and alerts to ensure events at the front line are connected up, patterns studied, criteria adjusted, learning applied. The risk register should be a dynamic, living document, rebalanced as the organisation learns, as new risks are identified, as the context changes and risks grow or recede.

A risk management programme would:

1. Identify risks: all hazards that could arise from activities
2. Evaluate the risks according to the their likelihood (probability) and the degree of loss/liability (impact)
3. Determine how the risks might best be managed:
   - avoided (and consider the cost of not doing the activity exposing the risk)
   - controlled or reduced (such as by introducing policies and procedures)
   - financed (to cover the cost of eventual liability).

- What's on your risk register?
- How often is it updated?
- Who is involved in compiling and discussing it?
- How well do your controls and mitigation plans reduce risks to acceptable levels?
- Do operational staff know what is expected of them to mitigate the risks that have been identified?
- Do you report movement in the RAG rates to the board on a quarterly basis?

Figure 6: **EXAMPLE ORGANISATION RISK REGISTER**



7. With thanks to St Christopher's Hospice for providing this example

3.3.3 Board conversation piece: Risk from board to the front line

The board sets the risk strategy of the organisation, as well as being accountable for how risk is managed and controlled. Whilst it is usual for risk management to be given greater attention by a board committee and for risk registers to come to the board periodically, it may be useful for the whole board to also explore the extent to which its intentions regarding risk are embedded in the reality of what actually happens at the front line:

- How do we know that our appetite for risk is taken into account when new projects are started?
- How do we ensure that staff and volunteers understand where we will not compromise and where we are more likely to tolerate risk?
- How do we know that those acting on our behalf in the wider community (such as fundraising agencies) understand and comply with our risk management strategy?
- How can we be both careful and diligent, while also creating a culture where people will try things out, experiment, feel they have our permission to explore and push boundaries for the people we support?
- How can we have open conversations about things we don't do too well, to enable us to learn without creating a blame culture?
- How do we know we have the right people to stretch and challenge our assumptions, bring in new perspectives so that we get the balance of risk and reward right for our organisation and beneficiaries?
- How do we make ourselves aware of issues of which we are currently unaware?

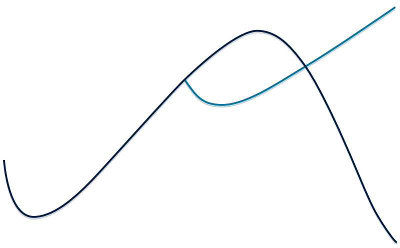
3.3.4 Signposts: risk

The Institute of Risk Management: guides on risk management.

Sayer Vincent guide: 'Rethinking Risk: Beyond the tick box' published in partnership with the Charity Finance Group

CRITICAL STAGING POST

In working through this chapter together, you will have developed a view about the present state of health of your organisation. Where are you on the lifecycle curve (Figure 1)?



- You might be consolidating after a period of uncertainty and on the up, but still with a list of things to do to have even greater impact.
- You might have such a long list of things to do that you may have peaked. Where you are on the downward curve is important. Reinvention/turnaround gets much more difficult as you travel down the slope.
- You may be mid way through reinvention – changing how you do things, but with huge potential for greater impact.
- You may be feeling really good about the impact you're having and your capacity and capability to do more: it's time to reinvent.
- If you're saying 'actually things are just OK and they'll get better soon', revisit the board conversation piece: 'Surely we can't be ostriches'.
- In the next chapter, we turn to considering the range of possible responses according to where you are on the curve.

Chapter 4:
A menu of responses

This chapter explores a spectrum of responses according to where you are on the curve.

If you feel your organisation is fit for its future then the first two sections will help you focus on keeping up the good work: identifying ways of getting even fitter and then ways of reinventing the organisation to remain fit, healthy and relevant in the longer term.

The final section provides signposts to action when your analysis has revealed that your organisation is some way from being fit and on the decline. Where the action required is much more about either turning decline/crisis around or making a graceful exit.

4.1 GET FITTER AND PREVENT DECLINE

Our work with a broad mix of charities reveals a range of different ways organisations can maintain their focus on getting fitter and preventing decline (steps often taken concurrently):

- Improve operational effectiveness by service redesign – doing things differently: focussing on quality; creating more cross-team collaboration (such as multi-disciplinary team working); standardising processes where there are inconsistencies; understanding outcomes and focussing on those things which have the greatest impact for service users and the community; sharing back-office or other functions with other organisations
- Improve operational efficiency by process improvement – doing things better: improving productivity; reducing costs by taking them out or doing things more efficiently; outsourcing back office services; apportioning overhead so that you properly price the services you contract for; controlling supplier prices
- Raise more income by seeking out new sources, with a focus on ensuring return on investment for each new source and investing in the instruments that bring greater return
- Key messages are:
  - Really understand your financial drivers – how much your services actually cost
  - Have confidence to say no when the price from statutory funders/ commissioners is too low.

This section provides a tool to help you understand your portfolio of services/ activities and the business model and some questions trustees can ask to keep the focus on fitness.

4.1.1 Tool: Business Model Matrix Map

The Business Model Matrix Map as shown in Figure 7 overleaf, is a way of looking at your activities to assess both impact and sustainability of the portfolio.

A sustainable business model can be seen as having both a relevant and impactful portfolio of activities, along with sufficient working capital (funds to continue operations) to meet the needs and activities of the organisation and to grow impact over the medium to longer term. To determine sustainability, Bell, Masaoka and Zimmerman[8] encourage nonprofits to look at how their whole portfolio of activities works together and map both the Mission Impact and Financial Return of all activities (products, services, campaigns and revenue generation activities).

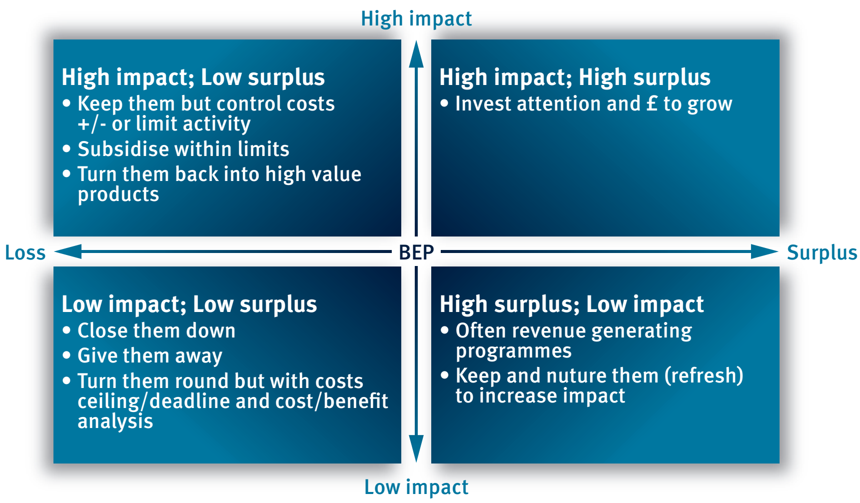
8. Bell, J, Masaoka, J, Zimmerman, S (2010) Nonprofit Sustainability: making strategic decisions for financial viability. San Francisco: Jossey Bass, p25

In the matrix (Figure 7), the horizontal axis is about Profitability (BEP = Break Even Point). This is seen as revenue minus costs for each activity (including accurately apportioned overheads). For charities profit or surplus is about creating funds to improve outcomes and impact and invest in the future. The vertical axis is Mission Impact where activities can be given a ranking against a selection of criteria: fit with Mission; excellence in terms of quality; scale of impact (numbers); depth of impact (in terms of change for the beneficiary); FIG (filling important gap); community building; leverage of other benefits (use data as evidence where possible, but the best guess of a diverse group is good enough). You can use your own criteria too.

How to use this tool

Draw up a matrix map for all of your activities and services. Use a 'bubble' for each activity; make the size of the bubble relative to the cost of each activity (to spotlight where resources are going). Determine each activity's level of Mission Impact and Profitability. Then evaluate how you can make your portfolio of activities more impactful and sustainable. Your model will be in balance if there are enough high surplus/low impact activities to subsidise low surplus/high impact ones. You may also be alerted to things you need to wind down or redesign. NB it is acknowledged that to withdraw a service is very challenging, but propping up activities that don't contribute to Mission Impact and make a loss (bottom left) is not in the long term interest.

Figure 7: BUSINESS MODEL MATRIX MAP



4.1.2 Board conversation piece: Getting fitter

Questions to ask ourselves

- How can we use our reserves more effectively?
- What scenarios can we use to stress test our business model?
- Who else can we learn from?
- How could our corporate supporters be used to open our eyes to different and better ways of working?
- How can our service users be better involved in shaping and improving services?
- How can our staff and volunteers be stimulated to help us think differently about increasing effectiveness and efficiency?
- How can we give more freedom to staff and volunteers to allow them to develop new and improved ways of working?
- How can we track progress for all of our effectiveness and efficiency projects to make sure we are investing in the things that will really make a difference?

4.1.3 Signposts: Getting fitter

Portfolio analysis using social purpose and financial impact: 'Organised Abandonment Grid'[9]

Maximising impact whilst reducing waste: LEAN Enterprise Institute

Both NPC and NESTA have a range of useful resources about evaluation and impact measurement on their websites.

9. Boschee J, (2003) Keep or Kill: Score your programmes. Nonprofit World, Vol 21, No 5 Sept/Oct 11.

Figure 8: ANSOFF'S GRID

	Existing products/services	New products/services
New markets	**Market development** • Existing services to new markets • Higher risk than market penetration • Could be new service user groups e.g., young adults or new geographical areas	**Diversification** • New services to new markets • Higher risk • Could be used to generate unrestricted income – retail and personal care are examples from the past
Existing markets	**Market penetration** • Do more of the same in the same market • Lowest risk • Could be working with different partners to draw in more service users or smoothing referral processes	**Product development** • New services to existing markets • Higher risk than market development • Could be added value services that enhance the service users experience e.g., meditation therapies

4.2 REINVENT THE BUSINESS MODEL

It was acknowledged right at the start of this toolkit that maintaining the status quo is unlikely to be a sustainable option. It may not even be enough to just focus on driving greater effectiveness and efficiency into your business model: Changes in the external environment may cause you to find completely different ways of doing your traditional work and even to do radically new things to meet changing needs and respond to constrained resources. This section offers some approaches to getting the reinvention conversation going:

- A way of looking at growth and reinvention options and then consider how you might work with others to deliver them
- Change management techniques to make sure you take people with you on the journey
- A closer look at mergers as one way of both achieving greater impact and improved sustainability.

4.2.1 Tool: Ansoff's grid[10]

Ansoff's grid is a tool to help decide how and where to grow impact in a very beneficiary focussed way. It helps compare and contrast options to reinvent the way you do things and achieve the Mission in new and different ways.

How to use this tool

The first step is to identify all your current services/products (including income generation products) and their markets so that you understand the breadth and depth of what you do and for whom. Then consider potential options for expansion using the matrix which encourages you to think about new services/products, new markets and unmet need. Useful questions might be:

- How can we get greater impact by doing what we do differently or better? Or by ceasing to do some of the things we do that don't meet the needs of our beneficiaries? (market penetration)
- How can we grow our impact by taking what we currently do well and offering it to new groups/markets? (market development)
- What services and products do our beneficiaries need that we don't currently provide? (service/product development)
- What challenges does society face that we have the capability to help resolve? (diversification).

Once you have developed a range of options you then need to consider the associated costs, benefits and risks for each option.

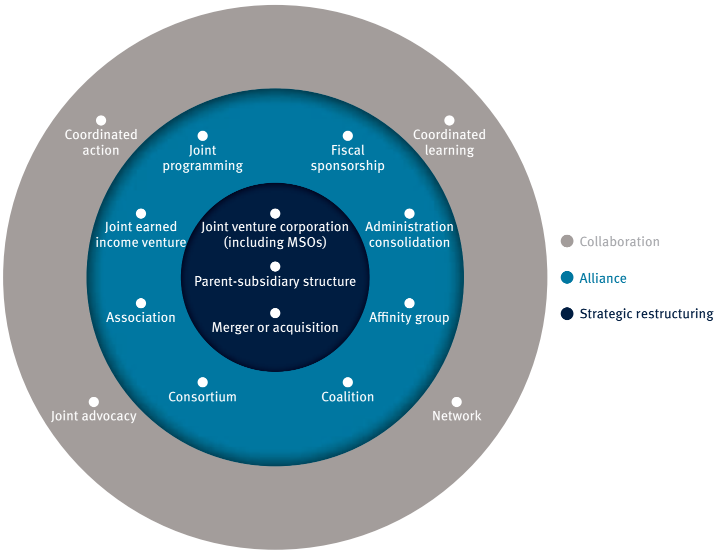
10. Copeman, C, Bruce, I, Forrest, A, Lesirge, R, Palmer, P and Patel, A (2012) Tools for Tomorrow. London: NCVO

One way of potentially having greater impact and reducing risk is to consider working with other organisations/strategic partners to achieve your growth or reinvention strategy. There are many examples:

Growth strategy	Examples of the potential for working with others
Market penetration (including improving effectiveness & efficiency)	• New referral partners streamlining service user access • Coordinated action to apply for joint funding or jointly bid for tender opportunities • Gain greater understanding by learning from another organisation providing different services to shared service users • Joint procurement to achieve better prices from suppliers • Joint venture to share cost, risk and reward in income generation or impact • Staff rotation between agencies • Shared posts with other agencies • Shared services: facilities, HR, IT, finance • Learning collaborations between organisations
Market development	• Merger or acquisition of an organisation in a different geographical area • Joint venture or collaborative learning with an organisation already working with your target group
Product development	• Merger or acquisition of an organisation specialising in new/different services • Joint venture with them to pool risk and reward
Diversification	All of the above

David la Piana[11] captures these opportunities in his collaborative map:

Figure 9: LA PIANA'S COLLABORATIVE MAP



Piana's model distinguishes between:

Collaboration = coordinated action with mutual benefit

Alliance = a more formal, structured partnership, doing business together in a joint venture

Strategic restructuring = a structural change or the creation of a new entity.

It is important to note that there is always the cost of collaboration to consider: the cost of change, professional fees, dips in productivity as people learn, or as some leave the organisation etc. Collaboration takes time and requires investment to get alignment, integration and for the change to be embedded into the culture.

11. LaPiana: The Collaborative Map

4.2.2 Worksheet: Change management – taking people with you, building ownership

John Kotter provides us with a step by step structure for large scale change programmes:

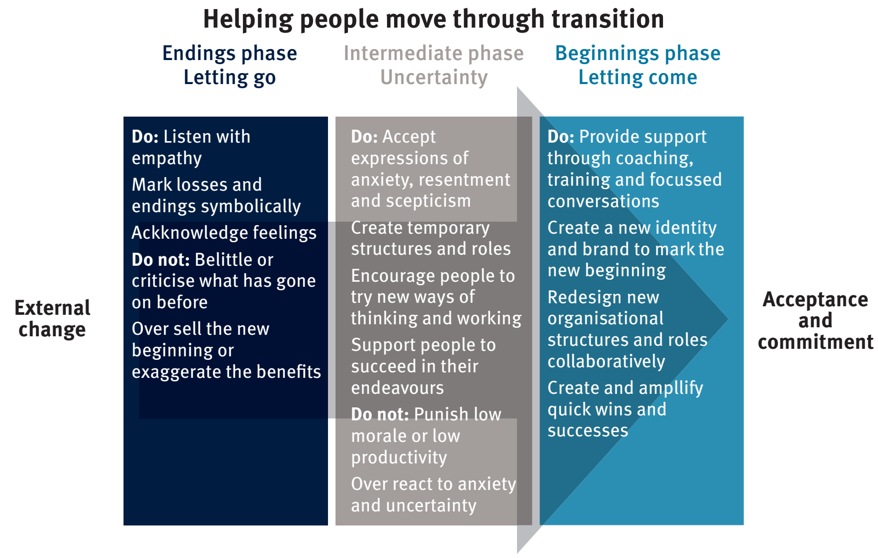
Steps	Approaches	Think about the actions you would take
Establish a sense of urgency	Make sure key stakeholders are onboard and have strong and consistent views about the need to change. Evidence the need to change. Celebrate past achievements and departure	
Create a guiding coalition	Get a group of stakeholders together to guide the change and give them authority to act: be clear on the change mandate	
Develop a vision and strategy	Establish a positive and engaging vision of what the changed organisation will look like. Then be clear about the transition steps	
Communicate and change vision	This should be a mix of 'what', 'why' and 'how'…as well as a bit of 'who'. Constant, consistent and clear	
Empower broad based action	Get everyone involved at all levels. Use change agents or 'network leaders' to ensure alignment	
Generate short term wins	Get some early recognisable successes promoted and publicised	
Consolidate gains and produce more	Build on the momentum, create a critical mass of support	
Anchor new approaches in the culture	Make sure the change is deeply rooted by fixing it into the culture –'start using the present tense'. Celebrate arrival	

Tammy Tawadros from CCE has produced a useful summary of why classic change efforts often fail:

- They are too rational and overlook the emotional aspects
- They concentrate on the processes and procedures and not enough on the people
- They pay insufficient attention to the psychological impact of external change on individuals and groups and the personal relations and networks that exist within the organisation
- They fail to take account the interconnectedness of different parts of the organisation.

Tammy has developed a summary (overleaf) of how to manage the psychological elements of change: helping people to move through transition, based on William Bridges ideas:

Figure 10: WILLIAM BRIDGES: THE PSYCHOLOGY OF TRANSITION[12]



4.2.3 Board conversation piece: Getting familiar with the 'M' word!

Explore the barriers to successful merger and seek to improve the chance of success; use this as a way of checking out your willingness and preparedness for merger:

Barriers	Implications	What can we do?
Fear of loss of identity and independence	• 'Take-over' type language is unhelpful • Depends on who makes the approach and their motivation	• Have clear parameters and explicit expectations around brand, name, retention of key services • Think hard about how to minimise impact on supporter base: sell the benefits to service users and the community, be clear about what is remaining the same, consider two brands sitting side by side rather than a new joint brand
Egos and self interest	• Emotional attachments can get in the way • People with a high stake (often related to power and self-esteem) can block and resist • Founder syndrome can prevail	• Keep an open mind until the shape and scope of the new organisation is known (form follows function) • Avoid early appointments • Keep a clear focus on beneficiaries and how merger would enable you to improve services, reach more people, increase impact
Putting together two cultures	• Often cited as the biggest barrier to successful merger • Affects how people work together • How decisions are made • How success is viewed • How people deal with change • Pockets of resistance	• Really understand both cultures before the journey starts • Establish a joint vision, shared values and language • Have non-negotiables around shared values and protection of beneficiary interests

12. William Bridges, Managing transitions, 1995 and 2002 and William Bridges Associates | Consultants to Organizations & Individuals in Transition

4.2.4 Signposts: reinvention

To explore options for social investment by charity boards, see Big Society Capital: Get Informed

Eastside Primetimers have produced a guide to help nonprofits explore options for merger: Good Merger Guide

Charity Commission guidance on mergers

The BCG E-publication Transformation: delivering and sustaining breakthrough performance offers tips and techniques to getting transformation right
offers tips and techniques to getting transformation right.

New Philanthropy Capital has a publication exploring how merger can be a strategy for increasing impact: Let's Talk Mission and Merger by Iona Joy, Katie Boswell, Oliver Carrington, Sonali Patel, Tom Collinge

4.3 TURNAROUND FROM CRISIS OR MAKE A GRACEFUL EXIT

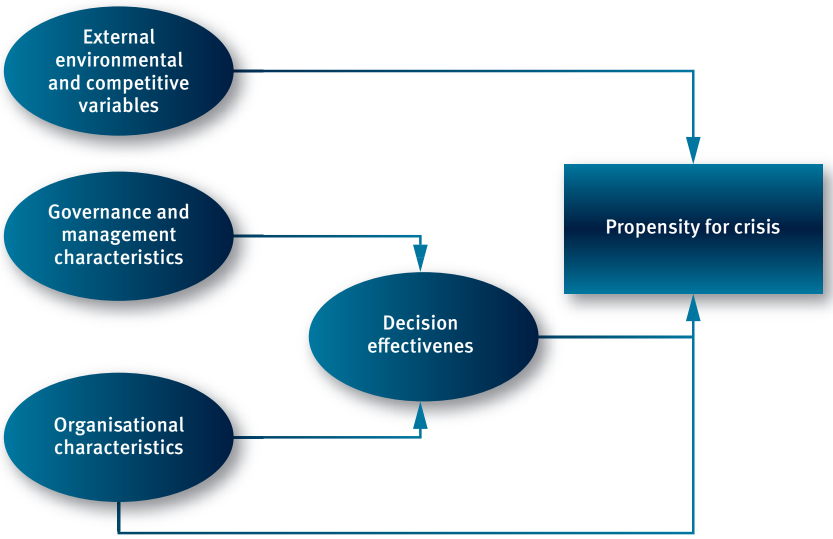
While the focus of this toolkit is on surviving and thriving we can't ignore the fact that many charities are under immense pressure in the current climate and some are in decline and approaching crisis. This section looks at generic turnaround strategies and provides some signposts to preparing for a graceful exit.

The dilemma that many charities find themselves in is that trading while insolvent in order just to survive is not a long term option, nor are trustees fulfilling their fiduciary responsibilities when they decide to do this and indeed may be at risk of being proven negligent. If the basic business model is out of balance, crisis will happen and it's much harder to turnaround when you're in severe decline.

4.3.1 Generic turnaround strategies[13]

A series of causal factors interact with each other to affect the propensity for crisis and it is these internal characteristics and the resulting effectiveness (or ineffectiveness) of decisions that are the focus of turnaround strategies as shown in Figure 11.

Figure 11: FACTORS AFFECTING DECISION EFFECTIVENESS

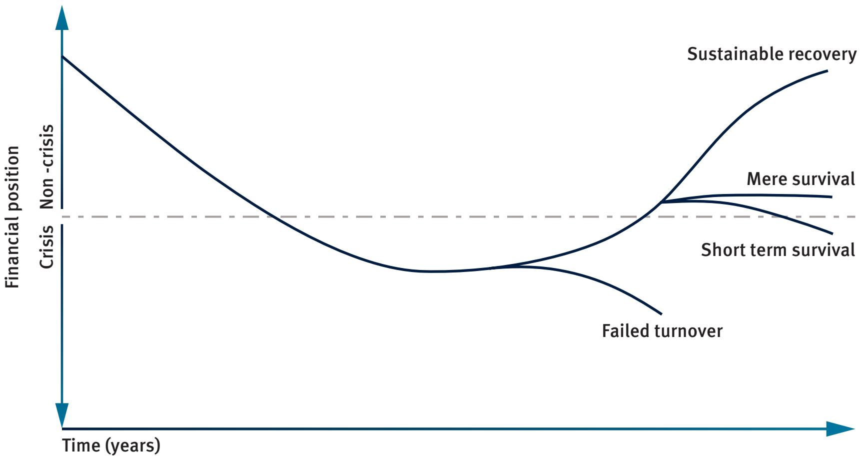


13. This section adapted from Stuart Slatter and David Lovett (1999) Corporate Turnaround. Suffolk: Penguin, p 55

Turnaround approaches can help organisations in decline or crisis. These are focussed on managing the immediate crisis, tackling the more deep-rooted systemic issues, while rebuilding stakeholder confidence (local community, local statutory funders/commissioners, other professionals, the media etc.) to get a secure footing for the future. Some generic steps that would need to be tailored to each individual context are:

1. Crisis stabilisation	• Take control • Cash management • Asset reduction • Short term financing • First step cost reduction
2. Leadership	• Change of chief executive • Change of other senior management • Change of Chair and/or other trustees
3. Stakeholder support	• Communications to keep key external stakeholders on board and manage the reputation • Communications to help staff and volunteers engage and understand the process
4. Strategic focus	• Redefine core business • Divestment and asset reduction • Service/product/market refocusing • Downsizing • Outsourcing • Investment
5. Organisational change	• Structural changes • Key people changes • Improved communications (internal and external) • Building commitment and capabilities • New terms and conditions of employment
6. Critical process improvements	• Improved income generation and marketing • Cost reduction • Quality improvements • Improved responsiveness • Improved information and control systems • Improved efficiency • Service redesign
7. Financial restructuring	• Refinancing/renegotiating contracts • Asset reduction

Figure 12: TYPES OF RECOVERY SITUATION



4.3.2 Board conversation piece: can we ensure sustainable recovery?[14]

The goal of a turnaround effort is sustainable recovery. Some questions that might help focus the mind on the right next steps if your organisation is in decline or even in crisis are:

- Are we up for the effort we will have to take to turn our organisation round?
- Would we have a better chance of survival merging with another organisation? And why would they want to merge with us? What can we offer?
- What is in the best interests of our service users and our local community?
- Is the cost of turnaround greater than the likelihood of sustainable recovery? Do we have the resources to invest in recovery sufficient to make it sustainable?
- Is the prospect of mere survival or short term survival good enough? What do we need to do to ensure sustainable recovery, delivering beneficiary impact?

4.3.3 Signposts: Turnaround

Get in touch with CCE if you feel you are in difficulty and require a sounding board, expert advice (including from one of our turnaround professionals) or support.

Charity Commission guidance on managing difficulties and insolvency.

NCVO guidance on financial difficulty and insolvency.

14. Stuart Slatter and David Lovett (1999) Corporate Turnaround. Suffolk: Penguin, p115

Chapter 5: Key themes in summary

We hope you've seen from your exploration of the toolkit that how you respond to the challenges in the external environment is a matter for your board and senior staff to shape and develop together.

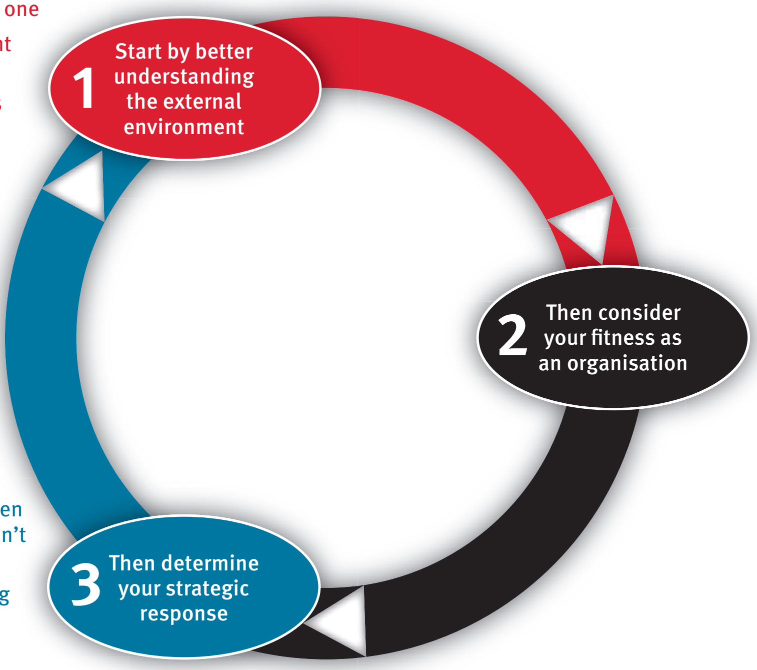
There are a number of tools that can help and some questions and further research that will help you get greater depth to your thinking and a more considered response. Exploring the external environment, considering your fitness to respond and determining the most appropriate response is an ongoing top team conversation if you are to make the maximum impact for your beneficiaries and add value to your community:

Figure 13: **KEY THEMES IN THE TOOLKIT**

Make conversation about drivers and their implications a regular one

Involve the board to get different views and perspectives

Really think about uncertainties



Work out where you're at in your lifecycle

Consider how fit you are to respond to the challenges

Carry out a healthcheck

Get performance and risk management right

Get board behaviours right – support and challenge; avoid groupthink

Have the whole top team working together

Take positive action to get even fitter and prevent decline: don't be complaisant

Look at growth options: doing more for beneficiaries

Work with others to be more effective and efficient

Consider turnaround if on the download slide but don't settle for mere survival

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