

NGO GOVERNANCE: STRIVING FOR A BALANCE BETWEEN FINANCIAL SUSTAINABILITY AND SOCIAL IMPACT

Dr. Sammy Fung
Principal Lecturer
Faculty of Business and Economics, HKU

November 9 2018
Hong Kong, China

FINANCIAL SUSTAINABILITY AND SOCIAL IMPACT

*“Financial sustainability refers to the ability to **maintain** financial capacity over time (Bowman, 2011).*

*“... refers to ensuring a **steady flow of funds** and generating revenue for maintaining and continuing the organizations’ work ...”
(fundsforNGOs)*

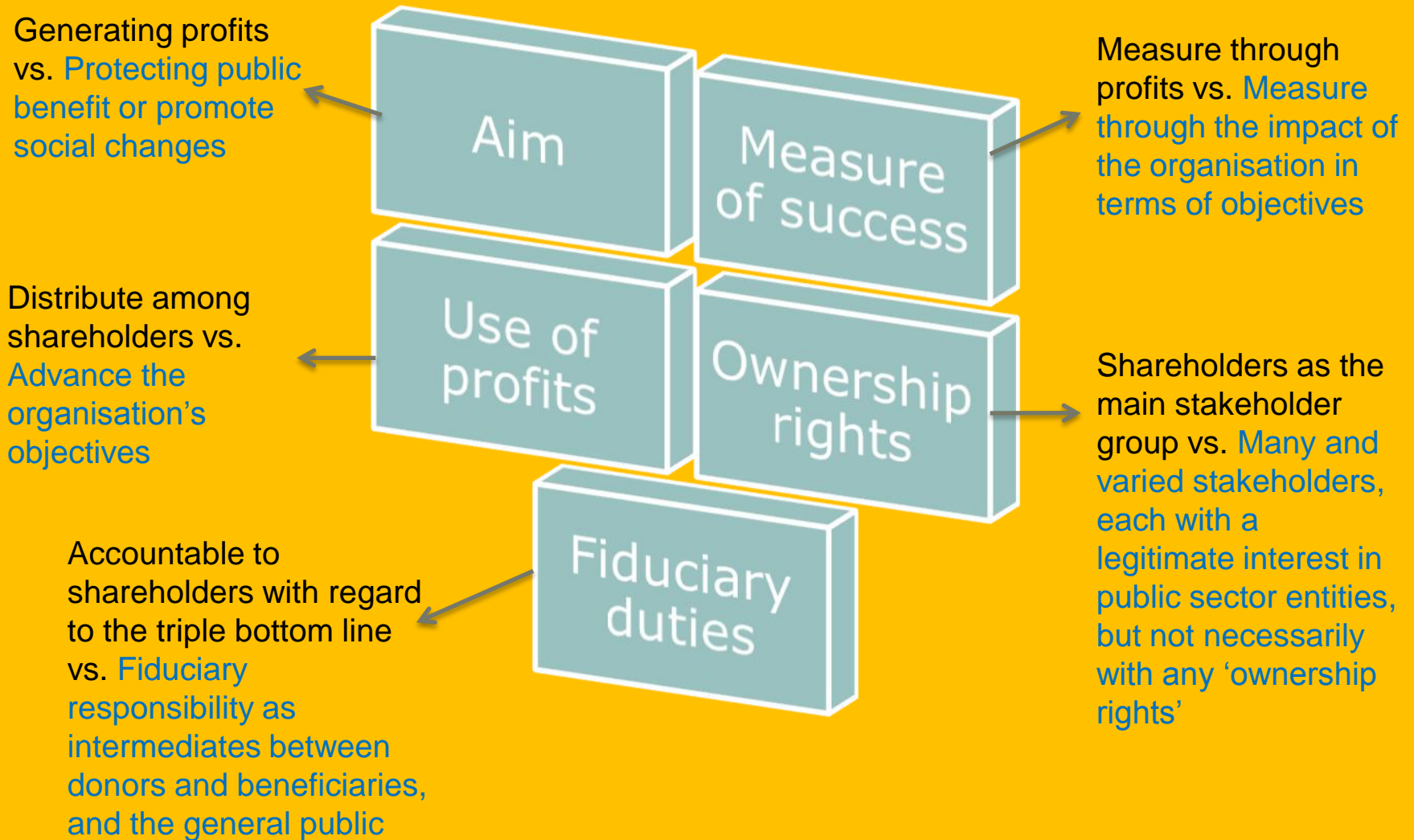
*“By managing risks and **effectively** using our financial resources, we remain financially sustainable ...” (International Finance Corporation of World Bank)*

*“.....NGO should has adequate **working capital** to do its work over the **long-term....”***

FINANCIAL SUSTAINABILITY AND SOCIAL IMPACT

- In recent years, some crises in the NGO sector has aroused widespread public attention on their governance and financial management.
- NGOs' financial sustainability is one of the key factors to enable their pursuit of social impact.
- Financial sustainability is only the means to the ends. NGOs exist not to make money but to advance their missions with impact.
- **In order to create long term impact, every NGO should develop its own sustainable business model.**

DIFFERENCES BETWEEN CORPORATE AND NGO



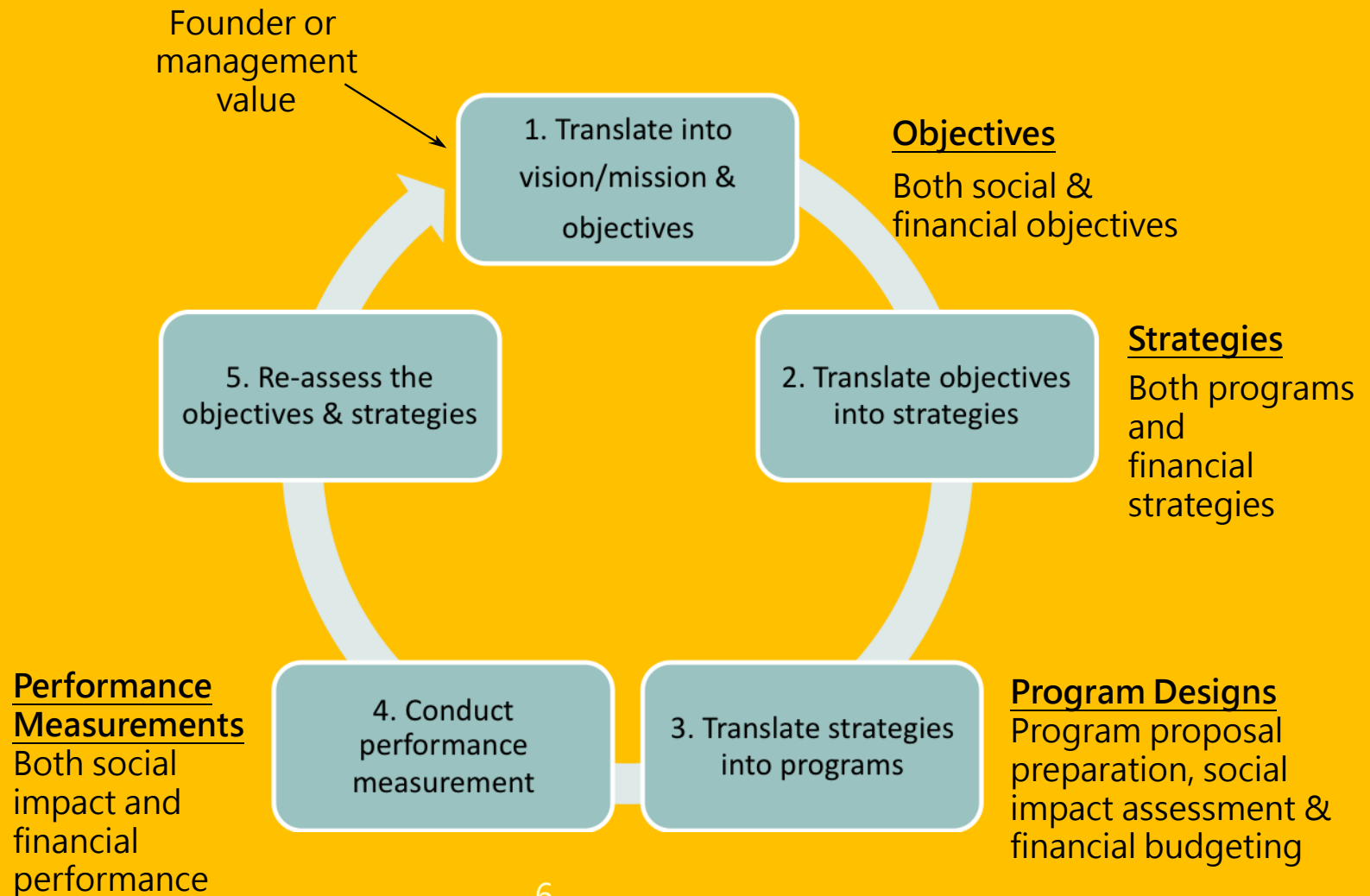
DUAL-BOTTOM LINE STRATEGY

Each program has two kinds of impact:

- Social and Financial impacts

So a strategy for sustainability must be a strategy that combines both kinds of impact

CAPTURING SOCIAL IMPACT AND FINANCIAL SUSTAINABILITY IN STRATEGIC PLANNING CYCLE



STEP 1. TRANSLATE INTO VISION/MISSION & OBJECTIVES

- To understand well the organization's vision/ mission and translate into concrete objectives that establish the foundations for strategy and program formulation
- To identify who are the major stakeholders, including government agencies, donors, employees, service recipients and their families
- To perform detailed stakeholders analysis to understand their concerns/ constraints that can facilitate the design of program and impact assessment in the later stages

STEP 2 & 3 TRANSLATE OBJECTIVES INTO STRATEGIES/ PROGRAMS

- To design and identify what are the organization's core programs, products and services
- To assess the potential target **impacts** or expected changes created for various stakeholders. This step is very critical and need to have board members/ management to buy-in
- To have preliminary understanding how to **finance** these activities (e.g. government subvention, private foundations or sales of products/ services)
- NGO also needs to know program's **surplus/ loss**. Higher reserve level can enhance financial capacity that give an organization the ability to seize opportunities and react to unexpected threats

STEP 2 & 3 TRANSLATE OBJECTIVES INTO STRATEGIES/ PROGRAMS

Examples of criteria for impacts assessment:

- Alignment with core mission
- Excellence in execution
- Scale or volume
- Filling an important gap
- Community building
- Potential to leverage
- More.....



STEP 2 & 3 TRANSLATE OBJECTIVES INTO STRATEGIES/ PROGRAMS

- Please don't forget the **financial side** of the planning

a) To obtain a holistic picture of the program's full cost, including

- Direct cost
- Allocated common cost
- Allocated administration cost

STEP 2 & 3 TRANSLATE OBJECTIVES INTO STRATEGIES/ PROGRAMS

- Please don't forget the **financial side** of the planning

b) To understand potential revenue sources and the timing of cash flow or reimbursement patterns:

- Some government subvention may have limitation on admin overhead
- Some foundations may have period restrictions

STEP 2 & 3 TRANSLATE OBJECTIVES INTO STRATEGIES/ PROGRAMS

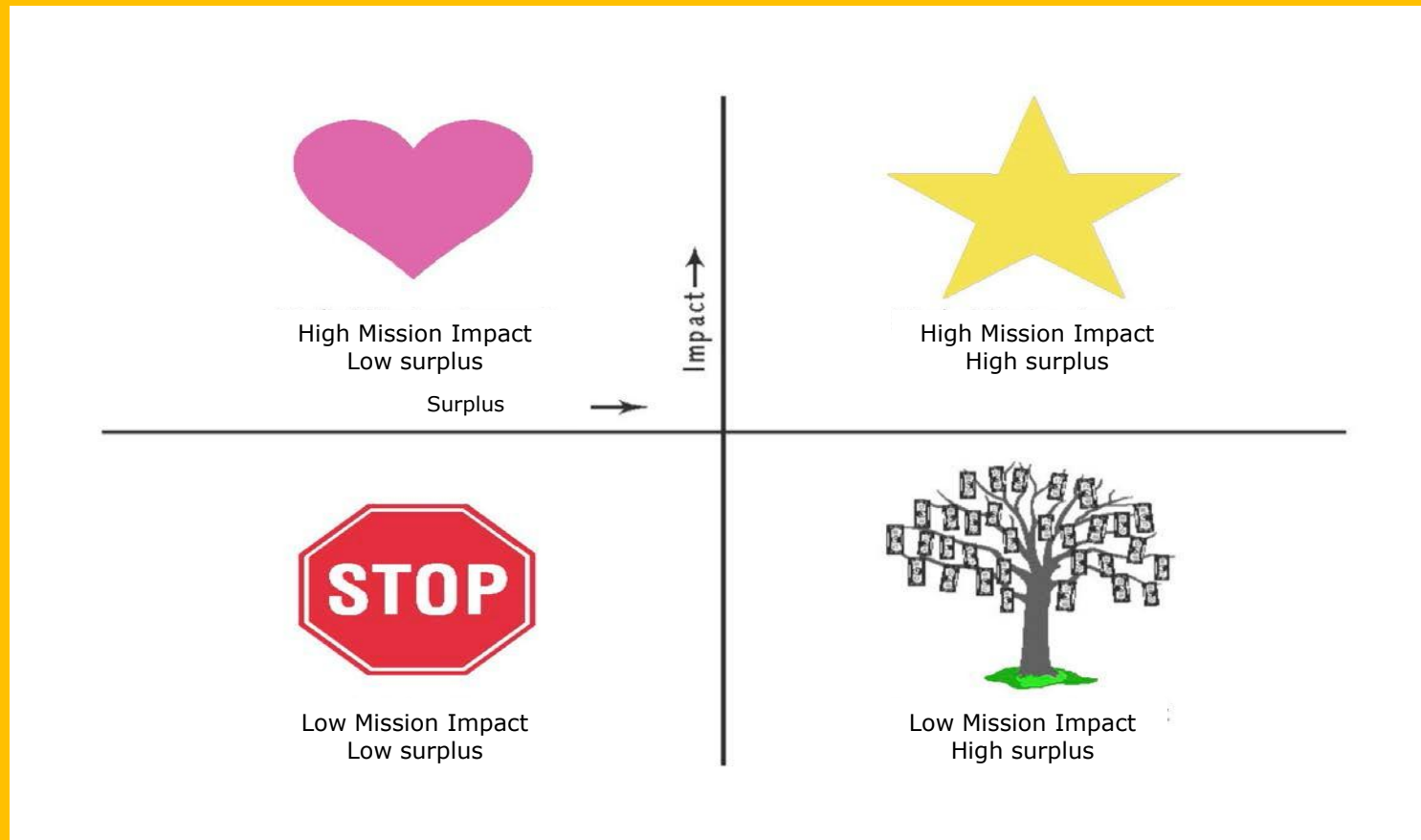
- Please don't forget the **financial side** of the planning

c) To estimate the potential surplus/ loss of each programs

d) To facilitate management to improve their resources mobilization and allocation (e.g. volunteer work or temporary staff)

4. CONDUCT PERFORMANCE MEASUREMENT & 5. RE-ASSESS THE OBJECTIVES & STRATEGIES

Let's create your own Impact and Surplus Matrix



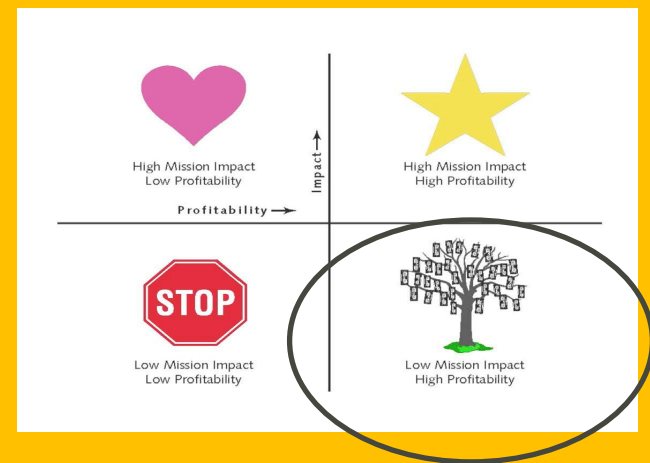
INSIGHTS FROM THE IMPACT SURPLUS MATRIX

- Low impact low surplus services
 - May try once again to improve it
 - Spin it off to another organization
 - Close it



INSIGHTS FROM THE IMPACT SURPLUS MATRIX

- Low impact high surplus services
 - Water the tree
 - Put more effort to explore/ increase the impacts



INSIGHTS FROM THE IMPACT SURPLUS MATRIX

- High impact low surplus services
→ To keep the “Heart” and control the costs better



INSIGHTS FROM THE IMPACT SURPLUS MATRIX

- High impact high surplus services
 - Pay more attention
 - Keep it a star
 - Grow and leverage it!



FINANCIAL GOVERNANCE

A strong financial governance in NGOs should have the following major pillars:

1. Financial planning and budgets should include, but not limited to:

- a. Operating Budget – to reflect income, expenses and surplus/loss
- b. Cash Flow Budget – to reflect cash collection and payment conditions
- c. Financial Budget – to present a NGO's strategy for managing its assets, cash flow, income, and expenses. A financial budget is used to establish a picture of a company's financial health.
- d. Each NGO should not only prepare a yearly budget, but also long term budget, say 3 – 5 years for goals setting and resource planning purposes.

FINANCIAL GOVERNANCE

2. Financial monitoring

- a. Financial statements for external accountabilities
- b. Budget-actual variance analysis for internal reviews and appraisals

3. Internal control

- a. Policies and procedures
- b. Check and balances (e.g. proper authorization and segregation of duties)

FINANCIAL GOVERNANCE

- Board and management should better understand organization's financial reporting requirements for both **external** and **internal** accountabilities and monitoring purposes.
- To better communicate the **financial and social impacts** created to outsiders can facilitate NGO's diversification of the revenue sources and achieve financial sustainability!
- To gain more support from potential funders, NGOs may consider enhance your information quality voluntarily, for example, by:
 1. Issuing supplementary reports/ newsletters to disclose the **financial situations and social impacts** created
 2. Better designing the organization's websites!

CONCLUSIONS

- Each NGO is special and unique!
- NGO people, including the board and management, bear heavy responsibilities through a long struggle (“任重而道远”) .
- It is essential to balance the social impacts with the financial objectives. Please take every steps in strategic planning process seriously!
- Albeit there is no “one-size-fit-all” financial governance solution, the principles of **Accountabilities** and **Transparency** should always be kept in your mind !