



THE PERFORMANCE PRACTICE

LEARN. IMPROVE. REPEAT.

PRINCIPLES & PROOF POINTS

PILLAR 4

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LEAP OF REASON
AMBASSADORS COMMUNITY

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Principle 4.1: The board and senior management **take charge of their organization's financial destiny**. They articulate the value they deliver and develop overall strategies, tightly aligned with their mission, to support and sustain the organization.

4.1.1: My organization tracks major revenue and expense assumptions and key financial-health indicators. At least semi-annually, we assess our financial performance and make course corrections as necessary.

4.1.2: My organization's financial plan is designed to help us generate the resources we need to deliver meaningful results—not just whatever resources are readily available.

4.1.3: My organization's financial plan aims to maximize sustainable sources of revenue—so we're not overly dependent on sources that are short term or subject to shifts at any time.

Principle 4.2: The board and senior management **nurture the external financing relationships** required to support their organization's operations.

4.2.1: My organization invests time in building and sustaining relationships with current and prospective financing partners, such as donors, foundations, banks, and other financial services organizations. (We recognize that these relationships are critical during trying financial times.)

4.2.2: My organization understands and fulfills the requirements of our agreements with financing partners. When there are issues relating to such requirements, we are proactive in coming to a workable resolution with the financing partners.

Principle 4.3: The board and senior management establish **strong systems for financial stewardship** and accountability throughout their organization.

4.3.1: My organization's CFO and finance staff have the requisite training, expertise, and systems to manage all financial affairs, including accounts receivable/accounts payable, budget management, capital budgeting, cash management, investment management, debt financing, third-party reimbursement (where applicable), grants management, and audit and compliance.

4.3.2: My organization's board monitors financial performance through formal committees (e.g., finance, audit, and/or investment committees) with:

- clear charters
- different leadership, providing for diverse perspectives as well as checks and balances
- a willingness to engage outside experts if needed.

4.3.3: My organization has clearly defined its fiscal policies and procedures. Management, staff with budget responsibility, board (especially audit and finance committees), and key stakeholders understand these policies and procedures. Our managers and CFO hold staff accountable for following these policies and procedures.

4.3.4: My organization's CEO and some board members review the performance of our CFO (or equivalent) at least once a year. They assess against the previous year's goals (individual and organizational) and set goals for the following year.

Principle 4.4: The board, management, and staff build and participate in **budget processes that are oriented toward achieving results** and not just conducting activities. This means allocating adequate resources for monitoring and evaluation. And it means making hard choices, especially in tough financial times, to direct money where it needs to go to drive the intended results.

4.4.1: My organization's program managers develop, manage, and are accountable for managing their own budgets. The finance team understands our programs, the supporting operations, and the results we aim to achieve. They educate and support managers and staff in developing their area budgets, managing their expenses, and understanding the implications of their decisions.

4.4.2: My organization's budget allocates resources for monitoring and evaluation to ensure we're on course to deliver strong programmatic results.

4.4.3: My organization's board finance committee reviews and has an opportunity to shape our budget before it goes to the full board for approval. Its oversight focuses on ensuring that all assumptions about revenues and expenses are reasonable and that the budget supports achievement of outcomes.

Principle 4.5: Senior management **uses financial modeling to make clear and transparent the organization's financial condition** and, at any given point, predict how it will end the year (and what will make the prediction more or less reliable).

4.5.1: My organization has developed a multi-year financial plan that comprehensively considers critical cost, cash flow, and revenue assumptions.

4.5.2: My organization conducts a "what-if analysis" at least annually to prepare for the possibility of significant economic changes or other disruptive events—and then identifies ways to mitigate these disruptions if they were to occur.

Principle 4.6: The board and senior management **share financial results transparently** with key stakeholders at regular intervals.

4.6.1: My organization's monthly financial reports include an analysis of financial performance, a variance analysis (plan/forecast versus actual results), and a cash-flow analysis. We share these reports with all leaders and appropriate managers.

4.6.2: My organization shares with the board quarterly financial reports that focus on critical financial issues, including actual and projected cash flows as well as operational or external issues that have financial implications.

4.6.3: My organization produces financial reports for external stakeholders (e.g., funders, lenders) in response to reasonable requests.

Principle 4.7: The board and management **treat fundraising/fund development as a strategic function that requires focus, management, capital, and specialized skill sets.** They craft clearly defined roles and goals for the board and staff.

4.7.1: My organization invests in a dedicated, disciplined fund-development function. It builds internal capacity so that the organization is not overly reliant on consultants or the heroic efforts of one staff or board member.

4.7.2: My organization manages to a fund-development plan aligned with our strategy. We ensure that our projected costs and revenues are structurally balanced and that we have sufficient liquidity to fund operations.

4.7.3: My organization's board, management, and staff have defined—and are accountable for—their respective roles in fund development.

Principle 4.8: The board and senior management operate their organization **at a surplus that allows them to continue to build a strong balance sheet with appropriate reserves.**

4.8.1: My organization maintains an operating reserve to sustain cash needs for at least three months.

4.8.2: My organization reserves funds to cover the depreciation on buildings and equipment, maintaining capital reserves to cover planned and unexpected capital expenditures or major repairs.

4.8.3: My organization maintains a capital budget to quantify and plan for future capital outlays related to buildings and equipment.

Principle 4.9: The board, management, and key staff **understand their organization's cost structure,** which aspects of it are required to produce high-quality programs and/or services, and how it aligns with reliable revenue sources for funding it year in and year out. They are relentless in making necessary investments with an eye to costs and benefits while being equally relentless in reducing unnecessary costs.

4.9.1: My organization continuously works to eliminate unnecessary costs and maximizes operational efficiency. My organization is good at distinguishing between expenditures that are essential for driving desired results and those that aren't.

4.9.2: My organization understands the full cost of delivering programs and services (including all direct, shared, and administrative costs) and incorporates the full cost in our financial plan and supporting fund-development activities.

4.9.3: My organization's leadership ensures that we only grow our programs when we can also grow our program capacity and administrative infrastructure—to ensure reasonable alignment of costs and revenues.

Principle 4.10: Senior management instills an organization-wide **discipline of compliance with all regulatory requirements.**

4.10.1: My organization annually reviews all applicable regulations and adapts internal procedures to ensure timely compliance.

4.10.2: My organization implements policies, procedures, and an accountability structure for managing government grants/contracts and financial obligations.

Now that you've had a chance to carefully work your way through each proof point, we encourage you to **take a step back and reflect** on your organization's overall progress on **Pillar 4**.

Where are you excelling? Where are you falling short of your own expectations? What two or three actions could you take in the next 12 months to lead to the biggest improvement on your Pillar 4 self-assessment the next time around?

Given the importance of human capital for making progress on Pillar 4 do you have the "right people in the right seats" in the words of *Good to Great* author Jim Collins? What more could you do to develop the talent you have and find the additional talent you need? What talent actions would likely lead to the greatest improvements on your Pillar 4 self-assessment the next time around?

What additional resources or support do you need?

GLOSSARY

This glossary provides explanations of terms we used in this pillar. While not exhaustive, it includes terms that may have multiple meanings, due to different perspectives.

Capital budget – Plan for the acquisition of buildings and equipment that will be used by the organization in one or more years beyond the year of acquisition. A minimum-dollar cutoff must be exceeded for an item to be included in the capital budget.¹

Capital reserve fund – A resource created by the accumulated capital surplus of an organization, such as by an upward revaluation of its assets to reflect their current market value after appreciation.²

Cash-flow analysis – An examination of the movement of cash into and out of an organization; or the difference between cash receipts and cash disbursements during a period of time.³

Evaluation – The systematic assessment, usually conducted by outside experts, of an organization’s attempt to produce significant change through intentional actions. For information on the two key types of evaluations, see “Formative evaluation” and “Summative evaluation” below.⁴

Financial model – A mathematical forecasting tool that can help organizations project their financial condition at the end of a given year, assess the likely costs of new projects before committing any funds, or plan for different economic conditions. A financial model generally includes cash-flow projections, depreciation schedules, debt service, and rate of inflation.⁵

Fund development – The process by which organizations use fundraising to build capacity and sustainability. Fund development is a part of the strategic marketing of a nonprofit organization. It is concerned not only with raising money, but doing so in a way that develops reliable sources of income that will sustain the organization through the realization of its long-term mission and vision. Fund development usually involves building relationships with people and other organizations that will support the nonprofit. It requires a strategic plan that relates funding to the purpose and programs of the organization. A part of the strategic plan will be a fund development plan that coordinates various forms of fundraising, marketing, communications, and volunteer management.⁶

Indicator – Specific, observable, and measurable characteristics, actions, or conditions that demonstrate whether a desired change has happened toward the intended outcomes. For example, grades and standardized test scores can be used as indicators of academic achievement.⁷

Operating reserve fund – An operating reserve is an unrestricted fund balance set aside to stabilize a nonprofit’s finances by providing a “rainy day savings account” for unexpected cash-flow shortages, expenses, or losses. These might be caused by delayed payments, unexpected building repairs, or economic conditions.⁸

Outcomes – Socially meaningful changes for those served by a program, generally defined in terms of expected changes in knowledge, skills, attitudes, behavior, condition, or status. For example, a tutoring program might define its intended outcomes as measurable improvements in reading and math skills.⁹

Reliability – Consistency or dependability of data. Data are considered reliable when the repeated use of the same data-collection instrument generates the same values.¹⁰

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Reserves – Money set aside to pay for anticipated expenses. Reserves can be established for many purposes, including emergencies/rainy days, capital improvement, building replacement, future investments, and general operations.¹¹

Variance analysis – Actual results compared with the budget, followed by investigation to determine why the variances occurred.¹²

What-if analysis – A simulation in which key quantitative assumptions and computations (underlying a decision, estimate, or project) are changed systematically to assess their effect on the final outcome. What-if analysis allows organizations to predict alternative outcomes that could result from a particular course of action.¹³

Zero-based budgeting – A tool for thorough evaluation or reevaluation of each of an organization's programs, units, and activities to determine if it should be initiated or continued (and if so, how?). The process requires managers to explain the need for the various operations of the organization; there are no built-in assumptions or automatically included items. Those using zero-based budgeting are starting the budgeting process from zero (as opposed to using prior budgetary figures to build on in creating the next budget).¹⁴

¹ Finkler, S. A., Smith, D. L., Calabrese, T. D. & Purtell, R. M. (2016). *Financial Management for Public, Health, and Not-for-Profit Organizations* (5th ed.). Thousand Oaks, CA: SAGE Publications.

² Adapted from Business Dictionary. (2016). *Capital Reserves*. Retrieved from <http://www.businessdictionary.com/definition/capital-reserve.html#ixzz4B6bkwVEw>

³ Nonprofit Assistance Fund (Undated). *Glossary of Financial Terms for Nonprofits*. Retrieved from <https://nonprofitsassistancefund.org/resources/glossary>

⁴ Adapted from Hunter, David E. K. (2013). *Working Hard and Working Well: A Practical Guide to Performance Management for Leaders Serving Children, Adults, and Families*. Hartford CT: Hunter Consulting.

⁵ Adapted from WebFinance, Inc. (2016). *Business Dictionary*. Retrieved from <http://www.businessdictionary.com/definition/financial-model.html>

⁶ Adapted from Strand, Ron. (2016). *Fundraising or Fund Development—What's the Difference?* Retrieved from https://www.experience.com/alumnus/article?channel_id=nonprofit&source_page=additional_articles&article_id=article_175027506594

⁷ Adapted from Morino, M. (2011). *Leap of Reason: Managing to Outcomes in an Era of Scarcity*. L. Weiss & Collins, C. (Eds.). Washington, DC: Venture Philanthropy Partners, in partnership with McKinsey & Company.

⁸ Grant Space Knowledge Base. (2016). *How Much Should My Nonprofit Have in its Operating Reserve?* Retrieved from <http://grantspace.org/tools/knowledge-base/Nonprofit-Management/Sustainability/operating-reserves>

⁹ Adapted from Morino, M. (2011). *Leap of Reason: Managing to Outcomes in an Era of Scarcity*. L. Weiss & Collins, C. (Eds.). Washington, DC: Venture Philanthropy Partners, in partnership with McKinsey & Company.

¹⁰ Adapted from USAID (2009). *Glossary of Evaluation Terms*. Washington, DC: Planning and Performance Management Unit, Office of the Director of U.S. Foreign Assistance, United States Agency for International Development. Retrieved from http://pdf.usaid.gov/pdf_docs/Pnado82o.pdf



GLOSSARY

¹¹ Nonprofit Finance Fund. (2016). *Financial Terms*. Retrieved from <http://www.nonprofitfinancefund.org/financial-terms/r?title=>

¹² Finkler, S. A., Smith, D. L., Calabrese, T. D. & Purtell, R. M. (2017). *Financial Management for Public, Health, and Not-for-Profit Organizations* (5th ed.). Thousand Oaks, CA: SAGE Publications..

¹³ Adapted from WebFinance, Inc. (2016). *Business Dictionary*. Retrieved from <http://www.businessdictionary.com/definition/sensitivity-analysis.html>

¹⁴ Adapted from Dropkin, M., Halpin, J. and La Touche, B. (2007). *The Budget-Building Book for Nonprofits: A Step-by-Step Guide for Managers and Boards*. Second Edition. San Francisco: Jossey-Bass.