The Bridgespan Group

APRIL 2002

An Introduction to Business Planning for Nonprofits

Zoe Brookes

Business planning for nonprofits: it sounds like a contradiction in terms. Yet rightly understood, a "business" plan can be an enormously helpful tool, not only for an organization's leadership but also for its staff, its board, and its funders.

Business plans are a lot like stories. They describe what a given organization hopes to accomplish. They specify the resources its leaders think they will need to achieve their goals. And they explain why they think the activities the organization is proposing to pursue will lead to the results they desire.

What differentiates good stories from poor ones is that the good ones hang together. Their narratives (however different in style and content) make sense. The same principle applies to business plans. Good plans make their logic and assumptions transparent, so that even people who don't know anything about an organization can understand and evaluate what it proposes to do. Poor plans are another matter. If you read an organization's business plan and you can't understand how it's going to get from B to C, the chances are its authors don't understand how they will do it either.

In the for-profit sector, business plans typically have one (and only one) real audience: potential investors. The stories they tell are designed to persuade investors that funds put into this particular enterprise will yield significant financial returns over time. In the nonprofit sector, the situation is considerably more complicated and complex. The audience of readers who will be interested in a nonprofit's business plan extends well beyond its current (or potential) funders to encompass its board members, its staff, and sometimes its program beneficiaries and larger community as well. For this reason, the story it has to tell will hinge as much (or more) on matters of human behavior, motivation, and social change as it does on financial figures and economic analyses.

This article draws on Bridgespan's experience with clients to highlight some common steps and concerns with nonprofit business planning.

As the leader of a nonprofit, you're probably all-too-familiar with feeling pulled in three directions at once. You have to spend a great deal of time persuading potential funders that your work yields results worthy of their dollars. You regularly need to spread the word about your organization and its impact on the world. And in the time left over from both these tasks, you have to guide your staff in making day-to-day decisions that will move your organization towards its goals.

Faced with enormously challenging goals, highly fragmented income sources, overwhelming demand for your services, an over-stretched staff, and a plain lack of hours in the day, it's not surprising that many Executive Directors spend all their time fighting fires, with no spare capacity to think beyond the end of the financial year. Nor that the kind of overstretch which leads to burnout is so common among the nonprofit sector's leadership.

Given these realities, it can be immensely helpful to have a business plan that maps your priorities and ties today's activities to tomorrow's goals.

- A business plan sets out what your organization intends to achieve, and how, providing a roadmap that links day-to-day activities to your ultimate goal. This map can then guide your staff in allocating resources and making other difficult trade-offs among competing priorities.
- A good plan provides an effective tool for communicating with funders, employees, and other stakeholders.
- A good plan also shows what success will look like at each stage, so you and your funders can check progress regularly, and adjust your course accordingly.
- The act of developing a business plan serves as a health-check for the whole organization, bringing areas of ineffectiveness into focus.

What Is A Business Plan?

A business plan sets out comprehensively what an organization intends to accomplish and how. Four elements are essential:

- A precise description of the impact for which your organization holds itself accountable (your *desired impact*), and an explanation of how your work will lead to that impact (your *theory of change*);
- A description of the actions and activities that must take place for you to achieve your desired impact;
- Details of the resources - financial and human - that you will need to take these actions;
- An explanation of how you will measure success; not only ultimately, but in terms of progress towards your desired impact, year on year.

Physically, a business plan is usually a written document that someone unfamiliar with your organization could read and understand what you are planning to achieve. In most cases, the time frame is three to five years. But since many nonprofits set ambitious long-term goals, you may choose to create a plan that spans a longer period – say ten years – so you can relate near term activities to those long-term goals. The longer the span of the plan's projections, the less certain your figures and the less detail you should attempt to provide.

Are We Ready for Business Planning?

Mike Bailin, President of the Edna McConnell Clark Foundation (EMCF), urges Executive Directors to ask themselves a simple question as they contemplate a business planning process. "Are we ready for this?" While we believe that most, if not all, nonprofits can benefit from taking some time away from day to day operations to plan ahead, the appropriate depth and range of planning vary considerably across the sector. In our experience, you will derive most benefit from an in-depth business plan if:

- You have, or believe you can develop, clarity about your organization's mission and the goals you would like to achieve over the next few years;
- You have a stretch goal you cannot achieve in one year's operation;
- A range of activities within your organization contribute in different ways to achieve an overall goal;
- You are considering growth in some or all of your operations over the next few years.

You're in reasonable shape to embark on an in-depth planning process if you have:

- A financial track record, which suggests that the organization will succeed in funding most of its current operations over the next few years;
- A good understanding of the cost of each important element of your operation;
- Sufficient administrative staff to allow any individual member to devote 10% to 20% of his or her time to planning without the organization struggling to continue operating.

A good candidate for business planning might be a $10M community organization intending to reduce drug dependency in its local neighborhood by 80% over the next ten years. Such an organization is likely to provide a range of programs in education, counseling, youth services and employment development, and might well be considering how much to invest in each of these activities in order to move towards its ultimate goal. By contrast, an arts group that comes together each year to put on a holiday-season play would probably have little use for any form of plan beyond a simple budget for the following financial year.

How Can I Create A Business Plan?

Step one, set aside the time. Creating a business plan should streamline your job in the long term, but you will need to invest time up-front. You can count on spending a day a week for somewhere between two and six months, depending on the complexity of your organization, and on your starting point. Plan to spend roughly equal parts of your time on four key stages of business planning:

- Reviewing your mission, desired impact, and theory of change;
- Determining which actions and activities must take place for you to achieve your desired impact, and which activities should cease;
- Setting out detailed plans for the resources you need for these activities;
- Determining measures of success.

Depending on their roles, your staff will become heavily involved at different stages of the planning process. For example, your senior managers might play an important part in the first stage; your program managers would probably become more deeply involved in the second stage; and your finance and human resources staff are likely to be key players during the third and fourth, detailed-planning stages.

STAGE 1: REVIEWING MISSION, DESIRED IMPACT AND THEORY OF CHANGE

In order to create a coherent plan that links all your day to day activities to your organization's mission and desired impact, you need a very clear understanding of that mission, and how what your organization does will lead to the impact you hope it will have. To develop such clarity, try asking yourself a series of questions:

1. "What change in the world would we ultimately like to see"?

Typically, your mission statement should contain the answer. For many organizations, particularly those that are tackling social problems, it may help to ask, “What would render our organization obsolete”? Harlem Children’s Zone (HCZ, formerly Rheedlen Centers for Children and Families) is committed to “improving the lives of poor children in America’s most devastated communities.” The organization would like to see the children in these communities afforded the same opportunities as those in average American middle class families. Does HCZ expect to achieve this goal in the life of a foreseeable plan? No. But all its work focuses on it, and if this goal were achieved HCZ could pack up and go home.

2. “What are we trying to accomplish”? “What impact do we hold ourselves accountable for”?

Not-for-profit managers often find it difficult to separate ultimate goals, to which they are deeply and personally committed, from practical ones that they can expect to achieve with their colleagues in a given timeframe. One of the most valuable aspects of the planning process is identifying practical, interim goals for which you’ll hold yourself and others accountable. Being held accountable for something means accepting that your funding, and potentially your continued existence, depends on your ability to achieve that something. Given this, choosing a desired impact that you can measure, and that your organization has the power to effect, is essential.

At HCZ, for example, the staff wrestled with a set of hard questions to help them translate their mission into specific, practical goals. Among them were:

- Which children are we trying to help: all those in the community we’re working in, or simply those who come to our door in search of services?
- What improvement do we want to make in these childrens’ lives? Should we hold ourselves accountable for their successful transition to adulthood, or just to the next stage of their development?
- What standard should we judge ourselves by? Should we commit to achieving literacy levels equivalent to those of middle class children, or should we aim for measurable improvements against the status quo?
- Answering questions like these helps pin down precisely what it is an organization should be aiming to do during the life of its plan.

Clarifying your desired impact forces you to attach priorities to the different ends your organization may be seeking. One management team produced a list of eight desired impacts, all in pursuit of the same mission, but each making different demands on the organization's resources. (For example, aiming to "improve the reading scores of local children" at the same time that you aspire to "increase household income" sets an organization up for conflict in allocating moneys and other resources between after-school programs and job development.) If this sounds like something your organization might do, ask yourself which goal you would keep if you could pick only one. Then decide which of your secondary goals are in keeping with that top priority. Be prepared to cut back on—or even abandon—those that are not.

3. "How will we make our desired impact happen"?

Once your aims are clear, you need to articulate your theory of change, how each of the activities you plan to pursue will contributes to the ends you seek. HCZ determined that it could achieve lasting change in one Harlem neighborhood by focusing on a critical mass of children and parents. HCZ defined critical mass as including 80% of the children in the neighborhood under the age of two, 70% of the children aged three to four, and a descending proportion of the children in higher age brackets (through to 30% of children aged 14 to 18). For each age group, HCZ identified the nature of the intervention needed to ensure age-appropriate development. For example, HCZ's intervention for the youngest age groups is to provide information to parents on how to raise happy, healthy children.

Don't stretch your theory of change in order to justify all your existing programs. If programs have developed over time to meet the availability of funding or the personal interest of program managers, you may find that some activities just don't fit your mission. For example, a community organization that intended to serve families residing in one New York neighborhood was running job skills courses that almost exclusively attracted single people from outside the neighborhood. Though successful in stand-alone terms, the program did not help the community organization towards its ends. Because management teams often tend to lapse into turf battles when this kind of discussion begins, you may find it more productive if you keep to a somewhat theoretical level at first.

Some teams that hit logjams in defining their true theory of change have broken them by naming the activity they would keep if they had to choose only one. The Great Valley Center (GVC) in California exists to support organizations and activities that promote the economic, social and environmental well being of California's Central Valley. GVC supports a number of programs that increase community engagement and provide informational, technical, and financial resources to local communities. In a recent review of GVC's theory of change, its managers determined that the Center's core - the one activity they would keep above all others – lay in fostering enlightened leadership in local communities, thereby increasing the ability of those communities to solve the issues that affect them. Identifying the organization's central theory of change helped GVC to focus its attention on the activities most important to its mission and to consider developing partnerships with other organizations to pursue less central activities.

Although your mission, desired impact, and theory of change may ultimately form only a very small part of your written business plan, reviewing these elements can take a lot of time and cause some pain. As one executive director commented, "It's so simple, no-one will ever believe how much work went into it". The process may bring to light deep misunderstandings and major differences in opinion. People may feel threatened, and everyone (including you) may feel discouraged when you compare what you actually accomplish to the enormity of the problem you hope to solve. But organizations that take the time to build consensus and create a common language to describe their work do reap the benefits; including a heightened clarity that helps them improve the quality of their decision making several times over.

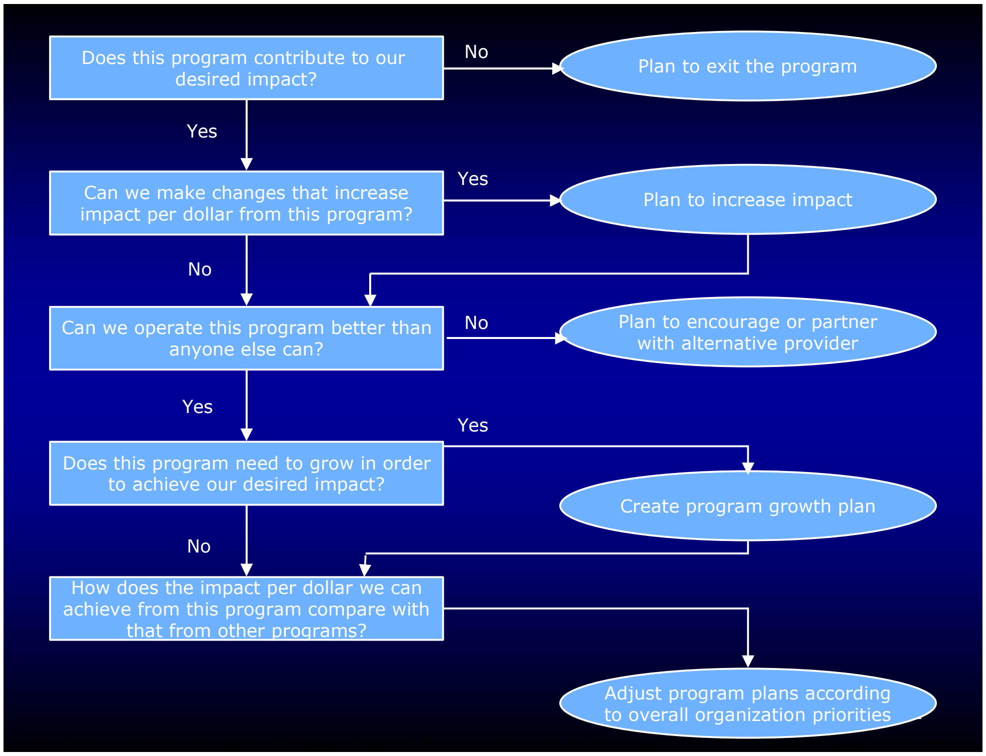
STAGE 2: DECIDING ON ACTIVITIES

Your desired impact and theory of change give you a yardstick against which to measure current activities or programs, as well as activities you might consider engaging in. In the second stage of business planning, the goal is to determine which of your current activities need to change, which need to grow, and which if any should cease. You will also identify activities that could help achieve your desired impact, but that your organization shouldn't try to do itself.

At this stage, you probably need to involve more of your staff in the planning process: program managers, for example, can develop draft plans for their areas, based on the overall desired impact. For each activity or program ask a series of questions. (See Figure 1):

- Does this program contribute to our overall desired impact? If not, consider exiting the program.
- What changes could we make that would increase impact? For example, could we increase the focus on our target clients or target area? Or select recipients to increase the chances of success? Or alter operations to reduce costs? To answer these questions effectively, you will need to understand the full cost of operating each of your programs.
- Given these changes, could we operate this program as well as or better than anyone else could? If another agency down the road can achieve what you do with less money, you might serve your cause better if you handed over the dollars you raise directly to that organization. You may consider starting new activities you consider necessary to your desired impact. Don't assume you have to do everything yourself, though. Perhaps you could encourage another, better qualified organization to set up a complementary service?
- How big does this program need to become for us to achieve our desired impact? What does that mean in terms of annual growth? In choosing a rate, be realistic: few organizations successfully sustain more than 25% growth for more than a year or two.

Figure 1: Deciding on activities



Once you have developed draft program plans, you need to consider the priorities of your organization as a whole. Most organizations would like to grow all of their operations, but feel constrained by management capacity and by the availability of funds. You need to decide how much you can practically achieve without putting your staff under excessive strain, and then decide where your priorities lie. You also need to decide how these priorities will affect your use of funds, in the event that you cannot raise sufficient funding for all your plans.

STAGE 3: PLANNING REQUIRED RESOURCES

At this point, you have made the major decisions that will guide your organization for the next few years. Next, you need to create a detailed plan for the resources required to achieve your goals. Make detailed plans for the three or four largest cost elements in your organization, and then put those projections together in a financial plan. In most cases, human resources, followed by physical facilities and technology, usually use up the largest share of the budget, so the staffing plan makes an obvious starting place. You can gather much of the information you need to plan staffing by examining current operations. For each area, ascertain how many people contribute directly to each activity or program. Then use your growth plans for that program to project how many additional staff you will need to facilitate that growth. Also consider how much growth you will need in staff not directly connected to programs, such as clerks, finance professionals, and receptionists. Consider what drives the need for additional staff in these areas. For example, you may need to add an accounts clerk every time your budget increases by 25%, or a receptionist every time you open a new building. If you plan substantial changes in your organization, you may need to hire additional senior management, or to staff an entirely new program. Use the experience of other organizations to help you determine how many people you will need.

Determining the physical space and building facilities you need may simply mean calculating your current square footage per staff member and planning to add equivalent space to accommodate new people. If current facilities don't meet your needs, you can plan additions that will allow you to operate comfortably, and consider that 'comfortable square footage' as the base to which to add facilities for new staff. Some organizations' core operations depend on acquiring space: for example, Artspace creates and manages space for artists and their families. In such cases, determining space needs would form a major part of program planning in Stage 2, and cost projections would depend not on staff numbers but on the nature of those program plans.

You can approach your technology plan in a similar manner. Consider the technology investments you will need to equip your new staff, based on a current average cost per staff member. Then plan to increase the average cost as you introduce new technology into your organization. You may choose to consult a professional to establish how you might use new technology to enhance operations. As with space, the core program plans of some organizations (for example, the on-line volunteer recruitment agency, Volunteermatch) depend on developing new technology.

Your financial plan brings together all your resource plans, plus projections of all the other costs your organization incurs. Assign costs to your staffing, facilities, and technology plans based on what you know of current costs, plus adjustments for cost-of-living increases and likely changes in the respective markets. For expenditures not covered by these detailed plans, consider what drives the annual cost of each element. For example, your insurance and office supplies bills probably most closely reflect the number of people you employ, whereas the number of clients you plan to serve might best indicate how much you should plan to spend on advertising.

Putting all these elements together will show how your organization needs to change to achieve your goals. You will see how your overall budget and staff numbers must change over the life of your plan. If the picture seems unrealistic – staff growth looks like more than you can handle or your plan requires an unattainable level of funding - revisit the program plans you created in Stage 2, and make some adjustments.

Once you have a financial plan you can commit to, review your funding sources and make a plan for raising the money you need for implementation. Will you raise money from the same sources as you do now? What proportion do you expect to receive from each? Can you pursue new sources, given planned changes in your operations? Funders rarely make commitments more than a year in advance, so you cannot plan in great detail, but you can set broad targets that will help you develop a fundraising strategy.

STAGE 4: DETERMINING MEASURES OF SUCCESS

The difference between a plan sitting on a shelf and one lying open and well-thumbed on a manager's desk lies in the guidance the plan provides on short-term actions that lead to the organization's overarching goals. Ideally, each member of your organization should be able to determine how his or her day-to-day activities contribute to the whole. For example, suppose a teacher in an after-school program knows that his organization plans to engage five hundred heads of household in a community action program this year. In addition to his target of helping each child in his program improve their reading scores, he might aim to contribute to the broader goal by encouraging at least fifty parents from his class to join the action program. As a result, in his work he'd put extra emphasis on making contact with parents, setting aside time to keep them informed, and encouraging them to visit.

To create meaningful targets for everyone in your organization, start with your organizational goals and work downwards, asking at each level "What do we need to accomplish here, this year, in order to achieve our targets at the next level up?" Keep targets simple and easy to measure so progress checking doesn't take up too much time. Highlight specific actions your organization needs to take. For example, if a job development unit needs to place a hundred people this year, this target could mean that each staff member needs to develop relationships with eight more employers during the year, and that the unit must hire two more job developers before May. Involving all your staff in detailed planning will help ensure they have meaningful targets that they can commit to achieving.

How Can We Use Our Business Plan?

At this point, you have a document that both tells your organization's story and demonstrates that you will apply your resources to clear, measurable ends. To make it an even more powerful tool for communicating with funders, staff, and other stakeholders you may also want to add sections explaining the history of the organization and the context in which you operate.

Using a business plan to attract funding can be tricky, because many donors are unaccustomed to reviewing business plans and may have an interest in only parts of what your organization does. As a result, you may need to add commentary that speaks to particular funders' concerns or provide edited highlights that show only the part of your work that will pique a funder's interest.

On the other hand, your plan can help you avoid a common trap among not-for-profits: mission creep. Adapting programs and target outcomes to suit the terms of a particular grant maker can be extremely tempting. But such adaptations are a prime cause of the three-way pull we described at the start. If you find yourself contemplating a substantial rewrite of your plan in order to attract funds, it may be the case that the opportunity will take you away from your mission. If that's so, don't pursue it.

Once you have brought funders on board, use the details in your plan – budgets, milestones and program outcomes – to provide updates on performance or to trigger stage payments of longer-term grants. You may also use your plan to explain failures to meet targets. For example, if you based projected client numbers on an overestimation of population growth, your business plan will provide evidence that only your assumption was wrong, and not other aspects of your management approach.

Internally, your business plan can wield equal power. Geoff Canada, Executive Director of the Harlem Children's Zone (formerly Rheedlen Centers for Children and Families) in New York City explains that his plan became "the touchstone of our organization." Use the plan to communicate the direction of the organization to all the staff, as well as to clarify what the direction means for each of them. Refer to the plan regularly to review progress. By identifying where you tend to depart from your plan, you can focus efforts on fixing problems, or use recent performance information to adjust your targets.

Not every not-for-profit organization should prepare a business plan. If you have only short-term aims, and no need to grow, you probably don't need anything more sophisticated than an annual budget. On the other hand, established organizations with multiple funding sources, a wide-range of activities calling for resources, and complex, audacious goals, can't afford not to develop a business plan. For some, it may make sense to enlist consultants or other outside experts to help guide the process and share the burdens of analysis.

A plan guides the distribution of scarce funds toward those activities that have the highest impact on the organization's overall goal. Strong guidelines help managers avoid becoming sidetracked by projects that don't contribute to the mission. And managers have a tool to track progress and correct their course as necessary. Developing a business plan typically requires a substantial investment of time by senior executives, but most find the investment pays for itself quickly. As Aaron Lieberman, Executive Director and Founder of Jumpstart in Boston, Massachusetts, put it, "when you look at the benefits, I the way I see it, planning is free."