

About the Firm

Lancaster Pollard Investment Advisory Group, an SEC-registered investment advisor, helps nonprofit organizations create the financial means to last the life of their missions by managing *total* financial risk rather than just investment-associated risk. Lancaster Pollard Investment Advisory Group shares common ownership with Lancaster Pollard, a leading provider of investment banking and mortgage banking services for the senior living, health care, affordable housing and private education sectors.

What is Missing in Strategic Planning?

Strategic planning is a proactive process to build on organizational strengths, anticipate competitive and environmental threats, and position the organization to best deliver its mission, given its *resources*. Many organizations focus on the first three components of strategic planning, but struggle with or ignore the phrase “given its *resources*.”

Adequate financial resources are critical to the long-term future of an organization. The idea of planning for these resources is often missing in strategic plans. Organizations fail to ask themselves how the balance sheet will be affected by the strategic plan.

Strategic Planning Basics

In his article, “Planning and Management in Nonprofit Organizations,” John O. Alexander says, “Planning can best be defined as the rational determination of where you are,

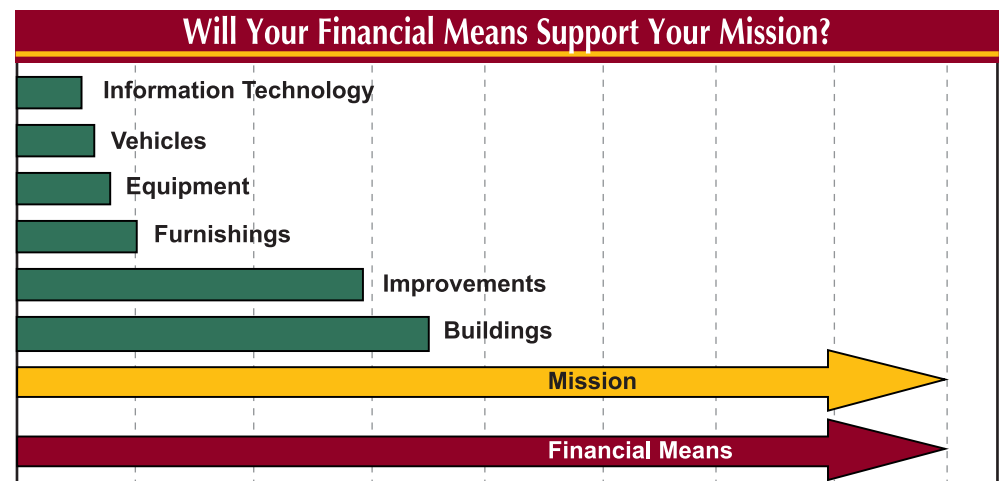
where you want to go, how you are going to get there, and how you will know when you have arrived.”

Many organizations go through a SWOT (Strength, Weakness, Opportunity and Threat) analysis as part of their strategic planning process. There are many variations of this model, but all provide a way to assess and plan. They often are integrated with master plans for the campus(es). These plans deal with two general themes:

1. What will be the **focus of the mission** at the end of the planning horizon?
2. What changes will be made to the campus, **facilities and infrastructure**?

While these two questions are important to address in a strategic

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plan, they ignore one of the fundamental truths about the nature of the organization. If a nonprofit is managed to be an enduring, long-lived, mission-oriented organization, then there are only two things that are truly ongoing – the mission itself and the financial means to support it. This point is illustrated in the graphic on the front.

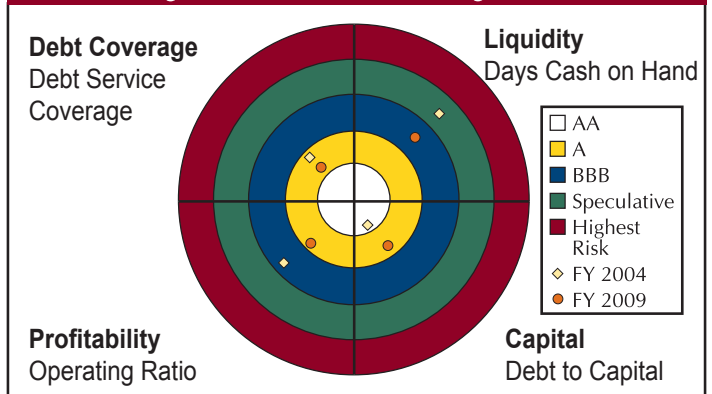
Integrating Financial Strength into the Strategic Plan

How then, can an organization illustrate how its financial strength will change over the life of its strategic plan? Organizations involved in strategic planning can use the Target Chart, shown to the right, as a diagnostic tool to 1) understand current financial strength, 2) identify the financial focus areas for the strategic plan and 3) graphically depict what the strategic plan is expected to accomplish.

Credit quality is the best indicator of an organization's financial strength. The rings, representing credit rating medians, improve toward the center of the circle. As a general rule, an organization can determine its credit quality by looking at a blended view of where the ratios fall on the target chart. Similar to a weak link in a chain, having one ratio significantly further out on the circle plays a role in weakening the organization's credit quality. The goal is to bring the dots closer to the center, indicating a stronger balance sheet.

Illustrating the chart's diagnostic value, we can see in the example that FY 2004 ratios indicate liquidity and profitability ratios are both in the speculative rings. An organization can use this information to develop strategies to improve these two areas. By combining these strategies with its mission-driven strategies over the planning horizon, the organization can simultane-

Stronger Balance Sheet = Longer Mission



ously continue to fulfill its mission and improve its financial strength. By building a stronger balance sheet, the organization greatly improves its ability to perform its mission well into the future.

Balancing Money and Mission

Nonprofit boards can use the chart as a tool in the strategic planning process to quantitatively assess the financial strength of the organization. By integrating the chart into the strategic planning process, the organization can better link its mission to the reality of the resources available.

To help you determine if your organization's strategic plan is helping to maintain and develop a sustainable mission, please contact William M. Courson at wcourson@lancasterpollard.com.