INCOME TO IMPACT

Is your organisation having as much beneficial impact on those it exists to serve as it should be, given the financial resources available to it?

With these opening words Adrian Poffley sets out the challenge facing every not-for-profit and public sector organisation: how to convert income into maximum impact. Drawing on his latest thinking and experience of organisations worldwide – from NGOs to the World Bank – Income to Impact identifies five key principles to good financial stewardship that will significantly improve your organisation’s performance and demonstrates how to apply them.

Challenging and thought-provoking, this book makes essential reading for leaders and managers who want to ensure that their organisation really makes a difference.

Every organisation – whether a national Government or a local NGO – is under pressure to deliver results with limited resources. Income to Impact shows what it takes to succeed. Leaders should read it carefully if they are serious about improving performance and productivity.

Michael Darby, former Head of the UK Government’s Delivery Unit

Adrian Poffley says with the authority that comes from an impressive back ground of designing and implementing innovative, robust and high impact management practices in organisations as diverse as the Refugee Council and the World Bank.

Nigel Cohen-Chair of St George’s Healthcare NHS Trust, UK

Adrian Poffley

The Financial Stewardship of Not-for-Profit and Public Sector Organisations

2nd edition

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‘Every organisation – whether a national Government or a local NGO – is under pressure to deliver results with limited resources. *Income to Impact* shows what it takes to succeed. Leaders should read it carefully if they are serious about improving performance and productivity.’

**Sir Michael Barber**, former Head of the UK Prime Minister’s Delivery Unit

‘In these tough economic times those of us who work in the voluntary and public sectors must make every penny count for those we exist to serve. *Income to Impact* shows what financial management with the beneficiary in mind means. Adrian Poffley writes with the authority that comes from an impressive track record of designing and implementing innovative, robust and high impact management practices in organisations as diverse as The Refugee Council and The World Bank.’

**Naaz Coker**, Chair of St George’s Healthcare NHS Trust, UK

‘Most public sector and nonprofit managers spend their time managing budgets and people rather than meeting the purpose of the organization and designing systems that help them to achieve this purpose. The result is that many managers are dissatisfied and demoralized. In this excellent book Adrian Poffley not only explores these problems but also provides a roadmap for change based on leading-edge thinking and practice. This book should be mandatory reading for all CFOs (and even CEOs) of public sector and other nonprofit organizations who really want to improve their management practices and transform the performance of their organizations.’

**Jeremy Hope**, co-founder of Beyond Budgeting Round Table and author of *Reinventing the CFO*

‘An insightful book that challenges conventional wisdom and sets out new ways of stewarding financial resources more rigorously.’

**Mike Hudson**, founder and Director of Compass Partnership and author of *Managing Without Profit*

‘Adrian Poffley argues persuasively for the need to weave process-oriented systems thinking into the management of financial resources in public sector and nonprofit organizations. His concept of “Income to Impact” replaces the traditional “ends justify the means” logic taught in business schools with a “means are the ends-in-the-making” logic once taught by W. Edwards Deming and followed for years by management in Toyota. *Income to Impact* opens a door to new thinking that will be indispensable to managers of public sector and nonprofit organizations around the world.’

**Professor H. Thomas Johnson**, Portland State University, USA

‘This insightful and well-written book covers all the important topics thoroughly, drawing on many sources to provide a systematic guide that acknowledges and tackles the tricky realities of organizational life. It will be invaluable to anyone who manages the finances and performance of not-for-profit and public sector organisations. I soon found I had made many notes as I read and I think readers are almost guaranteed to learn something important they didn’t know before.’

**Matthew Leitch**, author of *Intelligent Internal Control & Risk Management*
‘This book provides a thoughtful diagnosis of the key management challenges facing not-for-profit and public organizations and a highly innovative model of control to enable board members and senior managers to drive significant performance improvement towards mission-related impact. Adrian Poffley offers that rare combination – robust, well thought through argument coupled with years of practical experience working in challenging environments – that enables him to write with real authority in an accessible manner. Income to Impact is a must read.’

R. Murray Lindsay, Dean and Professor Accounting, Faculty of Management, University of Lethbridge, Canada

‘A thoughtful discourse which comprehensively covers the financial issues facing not-for-profit organisations in an age of reporting. Well researched, combining theory with best practice in an easy-to-read but reflective style. Essential reading for any professional with responsibility for managing or advising.’

Professor Paul Palmer, Cass Business School, UK

‘Adrian Poffley’s book could not have come at a better time. More than ever, charities need to grasp the nettle of understanding impact – what works and what doesn’t work. This requires clear strategic thinking and integrity as well as the tools to achieve the seemingly impossible. This book gives you both the thinking and the practical tools to do the job.’

Kate Sayer, Partner, Sayer Vincent, consultants and auditors for the UK charity sector

‘I have not seen anything that gives such a good description on the vagaries and problems that face not-for-profit organisations.’

Professor Hugh R. Taylor AC, Harold Mitchell Chair of Indigenous Eye Health, Melbourne School of Population Health, University of Melbourne, Australia

‘In our current environment of evolving client demands and competing service delivery, where shareholders call for continued efficiency, effectiveness and accountability, Adrian Poffley embodies the new finance executive who actively manages the line-of-sight from end-to-end, from inputs to strategic goals, to think, plan, monitor and support delivery in the line. Every leadership team needs to have someone like Adrian at the table.’

Hasan Tuluy, Vice-President, Human Resources, The World Bank, USA

‘This book lays out a step-by-step approach for addressing the key set of challenges that a CFO in a public organization should spend their time on. It is an invaluable “how to” guide for public sector and not-for-profit organizations in terms of making sure that the valuable resources they are entrusted with are spent to achieve their strategic goals in the most efficient way by making them accountable in terms of measurable outcomes. This book is a necessary read for anybody who is trying to make their organization relevant, efficient and responsive to its clients needs.’

John Wilton, former CFO, The World Bank, USA
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For Mariela, Jonathan and Alison
Preface

It is eight years since Financial Stewardship of Charities was published in early 2002. As the title implies its focus was exclusively on charities – UK ones – reflecting my own experience as an honorary treasurer and finance executive based in the middle of such organisations. It sought to present a new financial management model for voluntary organisations; one based on nimble, responsive practices in the face of operating uncertainty. It aimed to provide a complete, yet straightforward guide on how to use a charity’s financial resources to maximum effect despite uncertainty, grounded in particular in the experiences of Sightsavers International, where I held the position of Finance & Support Services Director and the Refugee Council on whose board I served.

Just as Financial Stewardship was published, the story of Sightsavers International’s experience with an innovative approach to financial management began to attract wider attention. The charity became one of the first not-for-profit participants of the Beyond Budgeting Round Table (BBRT), a global consortium of mainly international commercial organisations funding research into performance management practices in the age of uncertainty and discontinuous change, where it was recognised as one of the ‘barrier breakers’ (www.bbrt.org). It was nominated for charity awards and received public commendation for having ‘pioneered dynamic decision making suitable for an uncertain operating environment’ (UK Charity Awards, 2001); UK national press coverage headlined the potential of its approach to ‘revolutionise financial management’ (Caulkin, 2003); and an academic case study on the organisation’s approach to financial management was written for teaching use at a leading Canadian Business School (Lindsay and Mark, 2005). Early reaction outside the UK to Financial Stewardship confirmed the book’s international relevance.

Further, Sightsavers’ participation in the BBRT quickly confirmed that the adaptive management principles promoted by the BBRT and its members, and the management methodology implemented by the charity, had wide applicability across sectors and national borders.

My recruitment by the World Bank in Washington, DC in 2003 – specifically to contribute to the design and implementation of reforms to the institution’s corporate performance management practices – provided an opportunity to test the truth of this supposition from within one of the most extraordinarily complex, diverse organisations imaginable. It quickly became apparent that the performance management challenges applicable to an NGO with an annual turnover of £32 million (Sightsavers International, 2008) and an International Finance Institution lending US$47 billion a year (World Bank, 2009c) to developing countries are, in essence, the same: how best to use the money
available to it in conditions of uncertainty given its development mandate, and how to assess the cost-effectiveness of its chosen actions. The scale of operations may be vastly different and the level of political and administrative complexity almost incomparable. Nevertheless, all not-for-profit and public sector organisations must grapple with setting objectives, defining direction, and aligning strategies, work programs, staffing and money. The symptoms of that struggle are prevalent everywhere: difficulties in measuring success; in prioritising and therefore in making trade-offs between competing demands on the organisation’s focus and resources; and, most noticeable of all, flawed financial planning and monitoring processes, dominated by annual budgets and year-end targets that drive behaviour that significantly dilutes organisational effectiveness.

Reform of management practices in the World Bank has proved a tough journey so far, but even in this most change-resistant of cultures some important progress has been made. The budget preparation process has been streamlined, planning ranges within a multi-year horizon have become the norm, and the quality of business reviews has improved significantly.

Above all, working in the World Bank and in the United States has assured me that the key themes and principles of the first edition are relevant to a much broader constituency of organisations, big and small, across the not-for-profit and public sectors worldwide. *Income to Impact* therefore builds on *Financial Stewardship*, complementing the UK charity case study material with illustrative practice from within the World Bank and the international public sector. New chapters offer insights on the huge challenges of setting clear direction and allocating resources effectively. Other chapters have been updated or extended to include new material. My aim throughout has been to embed the function of financial stewardship within the much broader responsibility of managing organisational performance. Extensive references to leading thinkers and practitioners in organisational performance management serve to point the reader to up-to-date concepts, practices and debates. They demonstrate how much of value there is to share across organisations of all types.

The roots of the first edition are not forgotten, however. The appeals from leaders and managers of organisations for clarity and guidance on how to manage the finances remain as vocal as ever. The economic crisis that has enveloped all organisations across the globe has placed unprecedented focus on the financial management responsibilities that must be discharged, even though many governing bodies of not-for-profit entities meet as a board for just a few hours each year. Ever greater accountability is expected. The controls industry has proliferated in recent years placing ever more stringent demands on leaders to justify their organisation’s actions and demonstrate its results. Rapid globalisation is forcing organisations to collaborate, to find new ways of working. Chief executives, trustees and governors have no choice but to invest in understanding the financial fundamentals that underpin the capacity of the organisation to
deliver its purpose. They have to understand the relationship between the income they generate and the impact they have and how to leverage the former in pursuit of the latter. The finance function is right at the heart of that challenge. The finance fraternity cannot hide in the back-office counting the numbers.

The title *Income to Impact* captures the essence of the real job facing leaders, operations and finance: how best to convert income into impact. Organisational success has to be measured in terms of the ability to deliver beneficial impact with the resources available.

*Income to Impact* reflects the ideas and experiences of many people. I would like to thank my colleagues at the World Bank, my fellow trustees on the board of the International Agency for the Prevention of Blindness (IAPB), and those with whom I worked at Voluntary Service Overseas (VSO), National Asthma Campaign, Sightsavers International and The Refugee Council. With humility and admiration I praise the guidance and leadership I have received over the years from Ken Caldwell, Naaz Coker, Christian Garms, David Green, Nick Hardwick, Achim von Heynitz, Andrew Hind, Martin Kyndt, Melinda Letts, Jennie Meadows, Dick Porter, Nag Rao, Kate Sayer, Hugh Taylor, Hasan Tuluy, Julia Unwin and John Wilton. Let me also acknowledge the continued pioneering work of the BBRT under the direction of Peter Bunce, Robin Fraser, Jeremy Hope and Steve Player. I would like to thank Caroline Harper, Chief Executive of Sightsavers International, for her willingness to allow me to share the charity’s latest material and experiences with a wider audience. I am also grateful to my brother Richard Poffley for the many hours and ideas that he has invested in the book and acknowledge with gratitude the collaboration and guidance of Kate Bass, John Martin, Christopher Moore and Lucy Muir-Smith at DSC.

Finally, I thank my family. I salute the inspiring lives and lifelong support of my parents, Michael and Betty, my brothers Richard, Mark and Christopher and their families. In particular at this time, I pay tribute to my mother. Through her life of unconditional, dedicated love she has had more influence on this book than she will ever know. Above all, I thank the three people who have been immeasurably impacted by this book even before its publication. Completing *Income to Impact* has placed a heavy burden over many months on Mariela, my wife, and on Jonathan and Alison, our children. I dedicate this to them hopeful that, in their eyes, it will justify the sacrifices they have made. Their unwavering support, encouragement and total belief in the book has been extraordinary. Without their love and example *Income to Impact* would never have happened. I hope it encourages them to continue to be the wonderful people that they are, living meaningful lives, having beneficial impact on others.

Adrian Poffley
Washington DC
August 2010
About the author

Adrian Poffley joined the World Bank in Washington DC in 2003, where he is currently Chief Administrative Officer, Human Resources. Previously he was Senior Resource Management Officer, Corporate Finance & Risk Management. Before joining the Bank, Adrian spent 13 years in the UK voluntary sector including as Director of Finance & Support Services of Sightsavers International and Chief Accountant of Voluntary Service Overseas. He has been Honorary Treasurer of the International Agency for the Prevention of Blindness since 2004, and previously served for eight years on the board of the Refugee Council in the same role. He is a Fellow of The Chartered Institute of Management Accountants. The first edition of Income to Impact, called Financial Stewardship of Charities was published in 2002.

Adrian can be contacted at www.incometoimpact.com.
The task of governing, managing and leading not-for-profit and public sector organisations is in itself an immense privilege. To be charged with the distribution of resource for the common good must be one of the greatest honours available to any of us. And yet, too often academic and managerial text books assume that skills, knowledge and experience from the private sector can simply be imported. Adrian Poffley’s thoughtful, challenging and deeply committed book comes from a different impulse. With a clear unblinking focus on the need to maximise the impact of every pound or dollar spent, Adrian Poffley brings to this work wide experience, deep knowledge and abundant commitment to explain the very real, and very different priorities, pressures and purposes of the not-for-profit and public sectors.

It is easy for commentators to dismiss both sectors as fluffy, unfocused and insufficiently disciplined in the allocation of time, money and carbon. So too it is easy for those who lead organisations in these sectors to hide behind generalisations and to protest that measurement only detracts from our core purpose. In elegant and insightful analysis this book challenges both these stances.

Highlighting excellent practice from across both the not-for-profit and public sectors, this book demonstrates their capability and commitment, making the indisputable case that efficiency and economy can be the hallmarks of high performing not-for-profit and public organisations. But this book also makes the case that organisations which exist for the public benefit cannot avoid this obligation. Perhaps even more than companies with a single bottom line for which they need to account, not-for-profit and public sector organisations need to manage increasingly scarce resources brilliantly if any of us are to achieve any of our ambitions.

Practical as well as inspirational, this book serves as an urgent reminder to those of us seeking to lead such organisations through a very challenging external environment, that our greater purpose is only serviced by high-quality stewardship, innovative approaches, and most importantly a clear and unwavering focus on the needs of our beneficiaries. To do any less is to let down people in poverty everywhere. This book is an excellent guide to making sure that we all avoid squandering the resource that is so desperately needed.

Julia Unwin CBE
Chief Executive
Joseph Rowntree Foundation
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1 Introduction

HOW WELL IS YOUR ORGANISATION DOING?

Is your organisation having as much beneficial impact on those it exists to serve as it should be, given the financial resources available to it? How do you know? These are not easy questions to answer, but you must answer them. You need to be able to explain what your organisation has achieved with the resources available to it.

All public and not-for-profit organisations face a common challenge, whether they are major government departments, small community-based charities, schools, or organisations such as the World Bank, which is structured as a cooperative where its member countries are shareholders. Finding themselves under increasing scrutiny to justify their *raison d’être*, they have to account for the results they achieve, for how they choose to operate, and for how they manage the financial resources placed in their trust by others (whether central or local government treasury departments, taxpayers, private donors, foundations or other types of funding agency).

In short, all public and not-for-profit organisations are on the hook to demonstrate how they add value. ‘What do our donors get for their money?’ is a question that should preoccupy board members, senior executives, managers and employees of all public and not-for-profit organisations across the world. It demands an assessment of organisational performance.

This book is about how such organisations convert income into intended impact – or rather, how they should convert income into impact (see fig. 1.1). Many fail to have the impact that they should have, even allowing for resource constraints and challenging environments. Many are trying to do something about it, often under ambitious reform banners. The book’s key focus is the central role of financial stewardship – in other words, how public and not-for-profit organisations should steward the financial resources at their disposal in order to maximise the impact that they have over time – while operating in an environment of increasing uncertainty.

Coping with uncertainty is paramount, as the global economic crisis that erupted in 2008 demonstrates all too well. Organisations’ capacity to anticipate the future
correctly is understandably difficult, given the number of interconnected factors at play. As a result, they must be organised to adapt and respond with agility.

**DEFINING SUCCESS**

The core proposition of this book is that the goal of any public or not-for-profit organisation is to maximise its impact over time for those it exists to serve. The impact must be beneficial rather than detrimental (whether intended or not), must be sustained over time, and must be enjoyed by the group of individuals targeted. Impact must not just be promised – it must be delivered. Successful organisations convert income into impact efficiently and effectively. Unsuccessful ones do not. Their conversion rate is low. But there is no place for complacency for any organisation: whatever the level of performance today, all organisations need to be on a journey of continuous improvement.

The task of converting income to impact can be helpfully depicted using a results chain (see box 1.1). This concept is frequently used to explain how inputs – including money – are used to generate impact. The task facing every organisation is to move along the chain as effectively and efficiently as possible. This book attempts to explain why many organisations struggle to do this well, to draw key lessons from the emerging practice being adopted by innovative organisations, and to offer its own contribution to what organisations can do to improve performance.

**Box 1.1 The results chain**

*The objective of interventions is to improve the welfare outcomes of the target group, based on the achievement of …*

- **Intermediate outcomes**, such as increased consumption of goods and services, as a result of …
- **Outputs**, such as the goods produced or services delivered, as a result of …
- **Inputs**, such as the financing, organizational capacities, and human capital provided by the intervention.

*The World Bank, 2005, p. 2*
The logic of the results chain is straightforward. However, if it is used and interpreted effectively it can provide profound insights into how an organisation must operate, as follows.

- **The chain provides an explicit definition of performance** – of what organisational success actually looks like. Unless it has beneficial impact on its targeted beneficiaries, then an organisation has failed – however virtuous its intentions or industrious its efforts. Nothing is delivered unless the intended beneficiaries (real people) enjoy real benefit. The focus of an organisation, as manifested in its values, strategies, programmes, processes and incentives, must therefore be orientated towards outcomes and impact. It must be clear how all of the inputs and outputs contribute to the generation of outcomes and impact.

- **Yet many organisations focus predominantly on inputs and outputs** – on money, staffing and activities. Everyone’s head is down, furiously busy, completing task after task. This raises the risk of non-alignment, meaning that the activities of the organisation are either inappropriate – the wrong work programme is carried out – or managed in a way that will fail to deliver the intended outcomes and impact.

- **Clarity about what success looks like also defines accountability** – in other words, what an organisation’s people are accountable for. There is an obvious basis for establishing how the performance of individuals, units and teams need to link to organisational success. It becomes possible to provide a line of sight, so that everyone can see how their effort contributes to the organisation’s outcomes and impact.

- **The chain highlights how to plan, and how to execute those plans** – given that the task of any organisation is to convert income to impact efficiently and effectively. Note in box 1.1 how the design of work undertaken can derive from outcomes backwards. Strategy and work programmes should be designed from intended outcomes backwards. Implementation of those plans takes place from inputs forwards. That’s the message of the chain: plan from outcomes backwards; deliver from inputs forwards. By working from impact to inputs, the chain helps design strategy. By working from inputs to impact, the chain helps manage implementation.

- **The chain explicitly connects finance to the business of the organisation** – it shows that it is not possible to divorce the management of the organisation’s financial resources from the management of its programmes and strategy. They sit on a single spectrum: a single results chain. So, those charged with financial stewardship of the organisation have to understand how the conversion of funds moves along the chain. This fundamentally influences how such stewardship is undertaken, and the roles that leaders (including for example the chief financial officer), need to play. Financial stewards must be judged, and judge others, in the same way as the organisation as a whole: on the extent