NGO

Financial

Sustainability

Acknowledgments

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Acronyms

CYP	Couple year of protection (of contraceptives)
CIDA	Canadian International Development Agency
DFID	Department for International Development (UK)
EU	European Union
FP	Family planning
IUD	Intrauterine device
MCH	Maternal and child health
NGO	Nongovernmental organization
PP	Purchase price
PUL	Period of useful life
RH	Reproductive health
RVU	Relative value unit
SP	Salvage price
STD	Sexually transmitted disease
SWOT	Strengths, weaknesses, opportunities, and threats
TBA	Traditional birth attendant
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
UNICEF	United Nations Children's Fund

Introduction

Vision of the Manual

This manual provides a meaningful, flexible source of tools to enable users to enhance the operational sustainability of their organizations in delivering vital health services to populations in need. Sustainability is a measure of an organization's ability to fulfill its mission and serve its stakeholders over time. For health care service delivery organizations, improved sustainability means broader sources of funding and an enhanced ability to deliver vital services to target populations.

Sustainability is a process, not an end. Sustainability involves all the elements and functions of an organization and every major decision made within the organization. This manual seeks to provide users with the fundamental tools required to enhance the sustainability of their organizations. These tools can be tailored to fit the needs of various organizations, but they are effective only when the users are committed to the process of sustainability, begin the journey with an open mind, and remain willing to look hard at their organizations. This commitment to the process must involve all levels of the organization, from the board of directors through senior management and the entire staff.

The value of the manual lies in the desired outcome: sustainability in delivering vital services to populations in need. This will be achievable for many, aggressive for some, and lofty for others. The most important task is to adopt a sense of urgency in promoting operational sustainability.

Many factors influence sustainability, including the legal environment and national politics and policy, and other factors outside the control of individual health care organizations. This manual takes a practical approach and focuses on factors that implementing organizations can control.

Using the Manual

This manual is designed to support pragmatic, hands-on training to address key sustainability issues faced by implementing organizations. The rationale for this strategy is straightforward: there is a demand for sustainability training at the service delivery level. The manual was designed to be flexible, and different organizations should adapt it to meet their needs, but the material will generally be used in one of two ways:

▶ **Self-guided instruction**: Users can lead themselves through the manual, individually or as a group. Although it was not designed to be "self-instructional," the manual does include numerous examples to help clarify the material and a number of exercises to help users assess their comprehension of the material and identify where they may need additional work. Much of the work can be done individually, but we recommend that users work in groups, discussing the examples and the exercises.

▶ **Facilitated training**: A trainer, facilitator, or outside specialist can use the manual to develop training sessions to present the material and engage participants in practical exercises. Training participants can use the manual during the sessions to refer to the examples and exercises and as a reference outside of the classroom. Note: Trainers should use their discretion in tailoring the manual to the needs of the participants. Less experienced trainees will need more time and more thorough explanations, while those who have mastered some of the material should focus on topics that are less familiar to them. The facilitator should be experienced and skilled at monitoring the skill levels of their participants in order to adapt the training to their needs. For example, trainers may want to develop basic proficiency tests for each chapter to help assess what material to include or to emphasize and what material to simply review.

Facilitated Training Strategy: The Recommended Approach

The pragmatic, hands-on approach to training that underlies this manual can be implemented through a process with several steps (which are illustrated in the figure on the next page):

▶ **Classroom/group instruction**: The trainer will guide participants through a number of practical sessions during a pre-determined

number of days. The sessions will be composed of lectures, work-groups with "live" examples, conceptual cases, and individual development based on current (real) needs. The trainer or facilitator will use his or her discretion to determine how many sessions will be held each day, based on the preparation and background of the participants. It is recommended, however, that classroom instruction be alternated with "enrichment" activities, such as those described below. The trainer should determine how to arrange the balance of classroom training and enrichment activities.

▶ **Enrichment**: The classroom "segment" is designed to be divided by a two- to three-week interim period, during which participants can further digest the material, try out some of their new skills, and identify their questions and concerns regarding what they have learned and experienced. During this interim period, participants should also have recourse to local trainers/resource people for individual consultation and follow-up.

▶ **Successive classroom/group instruction**: A second session of classroom work, lasting several days, should follow the enrichment period. This allows participants to further synthesize what they have learned and discuss with each other and the trainers the real-life challenges they encountered during their practice. Additional topics can also be presented.

▶ After the training, there should be periodic **follow-up and technical assistance** for an extended period of time.

The figure below illustrates the recommended training methodology. A sample training schedule is included in Annex B, and sample Interim Exercises for the enrichment period are in Annex C. Note that this methodology is the one recommended by the designers of this manual, but it is not the only approach. It should be modified to meet the needs of users.

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           (           Trainer-Led             )
           (            3-4 Days               )
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           │       Enrichment Period          │
           │     with Interim Assignments      │
           │  2-3 Weeks of Workplace Experience│
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           ( Successive Classroom Instruction  )
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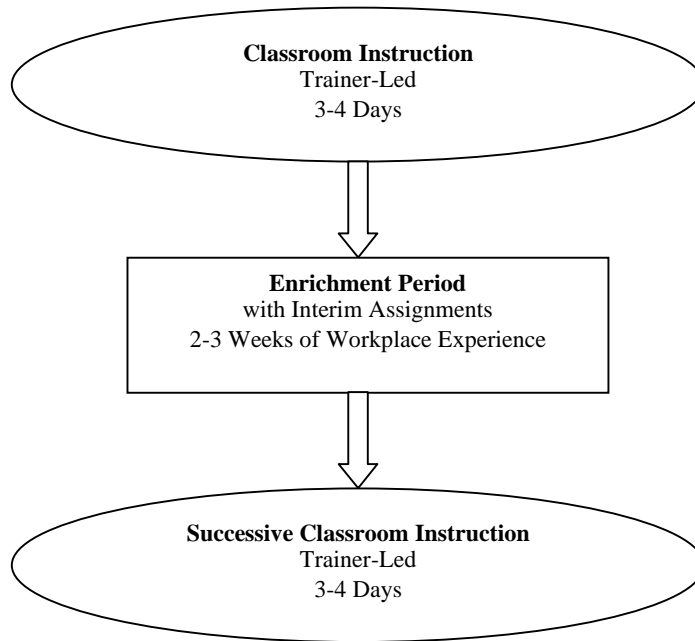
Organization of the Manual

The twelve chapters in this manual each include the following components:

▶ **Purpose**: The overall purpose of the chapter is stated on the first page.

▶ **Target skills**: The skills users should build through the material are listed, along with a note about any prerequisite skills or experience.

▶ **Body**: The bulk of each chapter is devoted to introducing key terms, explaining fundamental concepts and methodologies, and explaining how nongovernmental health organizations can best use the skills.

▶ **Examples**: Each chapter also includes several detailed examples, which illustrate the material presented in the text.

▶ **Exercises**: Users can use the questions and activities provided throughout each chapter to apply the new information and techniques and also to measure their progress. The exercises appear in boxes in the margins.

The manual is organized to present more general concepts and skills in the early chapters and to build on these fundamental skills in subsequent chapters. However, each chapter is self-contained, and trainers and individual users can use them in any order that suits their needs.

Training Lessons Learned

Here are a few recommended training tactics, based on lessons learned from other training sessions:

1. Training topics include general management training, budgeting, cost accounting, internal control, and other management activities. The training should always focus on moving the organization's leadership to make decisions with sustainability in mind — either the sustainability of the organization or the sustainability of activities, as appropriate. The training should also emphasize the need for organizations to formulate and use data to improve decision-making and promote sustainability, rather than simply reporting data for its own sake.

2. Training by external trainers/specialists is beneficial, but it should only be one aspect of the training. Local support for sustainability efforts is universally needed. The preferred training scenario would be three to four days of classroom work with an external trainer/specialist trainer, followed by a week or two of learner practice, during which students can apply the concepts introduced in the classroom setting to a real world situation. Then, trainees would undertake a second segment of classroom work, during which participants can cement what they have learned and discuss with each other and with the trainers the real-life challenges they have encountered.

3. Concurrent measurement of the training programs is essential. This means that participants should be tested during the training sessions. It is also recommended that each student be given some sort of award or certification after successfully completing the training.

4. Follow-up and additional training for local staff members is best accomplished in small groups after the classroom experience with the visiting trainer/specialist. Such small group activities should not preclude supplemental training, however (for example, through customized fieldwork toward the end of the training cycle). Follow-up helps to ensure that:

   ▶ Students can return to their organizations after the classroom experience to attempt to apply/integrate the classroom material into their daily activities.

   ▶ Local data can be used and the students can actually make real budgets and cost calculations using their organizational data - this is the best case study of all: real experience under the periodic guidance of a technical specialist.

▶ Students have an opportunity to apply new skills and internalize new information in their local language and working situation.

▶ Students are able to more thoroughly reconcile the "old way" of doing things with the "new way" (as can the training staff). This allows students a chance to identify issues that can be resolved during the second segment of classroom training.

5. Pragmatic "homework" assignments are essential and should be designed with both frequency and quantity in mind. Assignments should require participants to implement the material covered in the classroom sessions. Sample assignments may include:

▶ Working with key staff members to define a mission and vision for the organization

▶ Creating revenue, expense, statistics, and capital budget sheets

▶ Writing an essential set of internal controls

▶ Calculating key procedural level costs

▶ Creating a set of basic internal performance reports.

6. Participants should be organized into small groups to carry out the classroom work, and technical assistance and supervision should be offered to the groups by the trainer(s). Working in small groups helps ensure adequate "air time" for each participant, and, at the same time, allowing individuals to benefit from the background and diversity of experience offered by other participants. Small groups promote class involvement, student sharing, and group problem-solving.

7. With the type of "classroom and field work" training experience recommended here, 25 percent of the material is usually learned in lessons and/or lectures, 25 percent is learned in homework and reading materials, 25 percent is learned from other participants, and 25 percent is learned by doing.

Key Elements of Sustainability

Purpose

Introduce the concept of sustainability.

Target Skills

1. Describe and define the primary types of sustainability.
2. Identify the principal characteristics of sustainability and explain how they interact.
3. Describe financial sustainability.

Key Elements of Sustainability

Sustainability is a measure of an organization's ability to fulfill its mission and serve its stakeholders over time. This manual is designed for health care service delivery organizations, for which improved sustainability means broader sources of funding and an enhanced ability to deliver vital services to target populations.

There is a wealth of knowledge about the process of improving organizations' sustainability, built by the experiences of many people who have worked over many years to improve the sustainability of many different organizations. The main insight from this collective experience is that an organization's level of commitment to sustainability is the most important factor in its success. There must be full commitment to the process throughout the organization, from the board of directors through senior management and the entire staff.

This is because sustainability is a process, not an end. An organization does not "become" sustainable and then rest on its success. Sustainability involves all the elements and functions of an organization, and every major decision made within the organization — from human resources to finances to service delivery — must be considered through the filter of sustainability. Focusing on the organization's commitment to sustainability helps decision-makers look toward the future and consider all relevant factors, instead of making more expedient and shortsighted decisions. This commitment has two practical implications:

1. The people impacted by decisions that involve the organization or the services it delivers must have input into the decision-making process.
2. The people responsible for making those decisions must consider the broad impact both within and outside the organization and over time.

> Sustainability requires a full commitment at all levels of the organization.

Exercise 2.1

Describe/discuss how strategic planning would benefit your organization.

The Types of Sustainability

This manual helps people improve health care service delivery organizations by targeting three types of sustainability: organizational sustainability, the sustainability of services, and financial sustainability.

Note that financial sustainability, while critical, is only one aspect of an organization's overall sustainability; organizations must also build a broad range of organizational, technical, and human capacities. Therefore, in this manual (unlike in many other training programs that exclude non-financial issues), financial sustainability is promoted through a broad-based, interdisciplinary approach.

Many people equate an organization's sustainability with its financial strength, but financial sustainability alone is insufficient over time. If an organization does not also develop its overall capacities, ultimately the lack of good management or technical capacity prevents the organization from generating revenue or attracting donor funding.

Financial sustainability can be gauged by an organization's net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities).

Again, this manual promotes a broad, interdisciplinary role for financial management, as one component of overall sustainability.

> Financial sustainability can be gauged by an organization's net income, liquidity, and solvency.

Organizational Sustainability

Most efforts to improve sustainability in health care delivery focus first on organizational sustainability. **Organizational sustainability** is the ability of the organization to secure and manage sufficient resources to enable it to fulfill its mission effectively and consistently over time without excessive dependence on any single funding source.

The objective is to maintain and build the capacity of an organization that is providing a beneficial service in a community. The benefits of improving the organizational sustainability of health care organizations can be far-reaching because, in most cases, such organizations play a vital role in delivering services that would otherwise be unavailable or reaching people that would otherwise be unserved.

> Organizational sustainability is the ability of the organization to secure and manage sufficient resources to enable it to fulfill its mission effectively and consistently over time.

Example: Organizational Sustainability
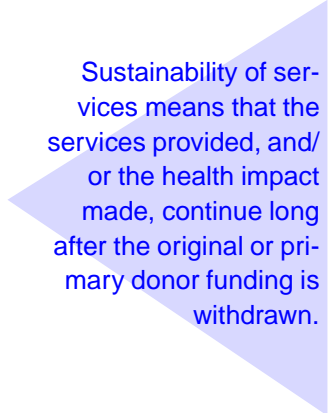
The Afya Clinic was founded by a large international nongovernmental organization (NGO). When the clinic first opened, almost all of the funding was provided by this NGO. Over time, the clinic developed methods to raise its own money — through cost recovery,

diversified fundraising efforts, and successful marketing schemes. The international NGO gave the clinic its final grant last year. Because of its efforts, the clinic is fully capable of generating funding for itself and is not exclusively reliant on external sources. The clinic worked towards organizational sustainability so that when donor funding ended it could demonstrate to other funding sources, both local or international, that it is capable of managing resources to meet its clients' needs.

Sustainability of Services

The **sustainability of services** and their benefits is especially relevant to the health care sector and is defined by the following statement: Sustainability of services means that the services provided, and/or the health impact made, continue long after the original or primary donor funding is withdrawn.

Efforts to improve the sustainability of services focus on maintaining and improving the provision, quality, and impact of services rather than on building the capacity of the organizations that provide those services. In other words, the focus is on ensuring the continuation of services, not the organizations that deliver them.

Sustainability of services means that the services provided, and/or the health impact made, continue long after the original or primary donor funding is withdrawn.

Example: Sustainability of Services

Two years ago, the Afya Clinic sponsored (with their founding NGO's funding support) a program to train traditional birth attendants (TBAs) in safe delivery practices. The training program was designed as a six-month effort involving training and supervision, with the objective of decreasing delivery-related complications reported within the community. Ten TBAs (who were long-term residents of the community) were trained in better sanitation, diagnosing risk factors, and prenatal and postnatal care of mothers. After the training, the TBAs demonstrated increased levels of knowledge and improved abilities to perform their roles so as to better protect the health of mothers and babies. The clinic began to provide similar training to local community members, which means that the program's impact can be considered sustainable beyond the original six-month period of the TBA training program.

Factors that Influence Sustainability

Many factors influence the sustainability of an organization, including the operating environment, national and local politics and policy, the activities of other organizations, the availability of skilled personnel, and more. Understanding the nature and impact of these influences on your organization and programs is critical because it better prepares you to anticipate and respond to changes in your external environment in order to generate sufficient resources to consistently meet your clients' needs. However, it is also important to differentiate between those factors you can control and those you cannot. This manual recommends a practical approach and helps focus your efforts on those forces under your control.

There are varying degrees of sustainability, and therefore some organizations are more sustainable than others. The "starting point" is different for each organization: each has strengths that can be enhanced and weaknesses that can be improved upon. For example, some organizations may always require international donor funding, while others may be able to generate sufficient funds through cost recovery and local donations.

Exercise 1.1

List some internal factors within your organization's "control" that you think affect sustainability.

Monitoring Sustainability

Each organization should delineate and monitor the key factors that influence its sustainability over time. Four factors in particular are helpful for monitoring sustainability, and each is discussed in turn:

1. The organization is financially stable and growing.
2. Stakeholders appropriately recognize and share in the benefits.
3. Leaders and managers excel.
4. Sustainability efforts remain in harmony with stakeholders' interests.

1. The organization is financially stable and growing.

Financial stability and growth are typically monitored by three measures:

▶ Net income: the surplus of revenue over expenses
▶ Liquidity: the ability to meet cash requirements to pay bills
▶ Solvency: the relationship between assets and debt or liabilities.

These measures provide a better picture of financial sustainability when used in combination rather than separately. (These are explained in greater detail in Chapter 5.)

2. Stakeholders appropriately recognize and share in the benefits.

Each organization has multiple stakeholders, including community leaders, staff, clients, and vendors, to name a few. No organization can be sustainable over time without knowing its internal and external stakeholders, understanding their needs and expectations, accurately assessing the relative priority (importance) of each group of stakeholders vis-à-vis the others, and addressing the needs of various stakeholders in a balanced fashion.

3. Leaders and managers excel.

The characteristics of good leaders and managers are numerous and varied, but there is little doubt that excellent leadership and management are keys to success for any organization. Effective management involves a number of tangible skills, most of which are presented in this manual. However, successful leaders and managers also have a number of intangible skills that are impossible to teach through a manual like this. Instead, this manual 1)

emphasizes the importance to sustainability of both tangible and intangible leadership and management skills and 2) encourages organizations to identify and articulate the strengths and weaknesses in this area. The framework for our discussion is the eight general characteristics of excellent leadership and management presented in Figure 1.1.

Figure 1.1. Eight Characteristics of Effective Leadership and Management

1. Possesses and effectively articulates a clear vision, mission, and plan.

2. Knows the important issues, the consumers, and the related stakeholders.

3. Reconciles the planning, organization, implementation, monitoring, and measurement of key processes and results with the organization's vision and mission.

4. Creates an environment that enables all resources to be put to their best use.

5. Fosters an atmosphere that promotes creative thinking for program development and problem-solving.

6. Establishes sound financial and operational information systems.

7. Implements solid organizational structures, systems, policies, procedures, and techniques.

8. Hires, inspires, and retains qualified staff by building a learning/teamwork environment within the organization and delegating and empowering staff, while demonstrating integrity, enthusiasm, and self-confidence.

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4. Sustainability efforts remain in harmony with stakeholders' interests.

Too often, a good organization fails because its mission gradually "drifts" away from the needs of those it serves. Organizations must recognize that their stakeholders and their stakeholders' needs may change over time, and they must consciously change and adapt as needed. Organizations must remain aware of their stakeholders' priorities and interests and ensure that there is overlap as illustrated in Figure 1.2.

Exercise 1.2

1. List the key stakeholders of your organization, and define the process by which you remain aware of their priorities.
2. List the areas of overlap between your organization's goals and objectives and your stakeholders' goals and objectives.
3. Ask your key stakeholders to make the same list and compare the two.

Figure 1.2. Harmony of Sustainability Efforts and Stakeholder Interests
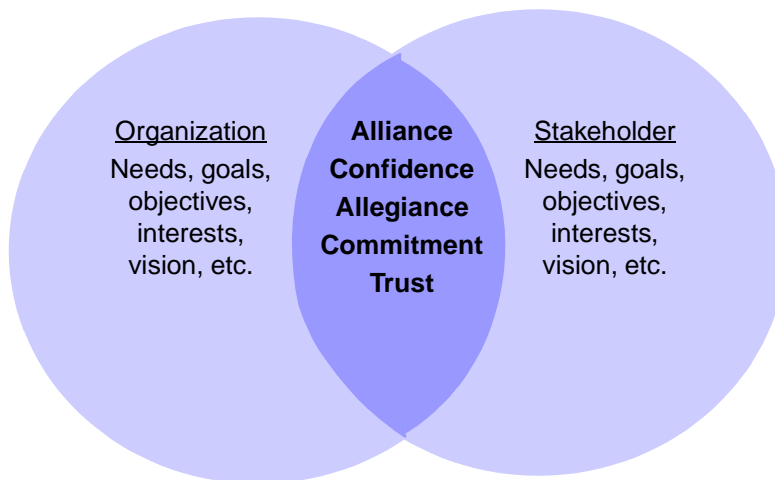
The Role of Communication

The importance of **communication** to the process of sustainability cannot be overstated. The principal traits of a sustainable organization revolve around good communication and dialogue: a sustainable organization maintains positive relationships with its stakeholders, carries out effective marketing and community outreach, and responds to the "felt needs" of the community. These elements of the process reinforce each other. Effective marketing and community outreach help an organization better understand the community's needs, which in turn enables the organization to maintain positive relationships with its stakeholders. Good communication and dialogue are also fundamental to effective management of the organization, allowing available resources to be appropriately allocated to meet the organization's obligations and maintain services for the community over the long term. These concepts are illustrated in Figure 1.3.

Figure 1.3. The Importance of Communication
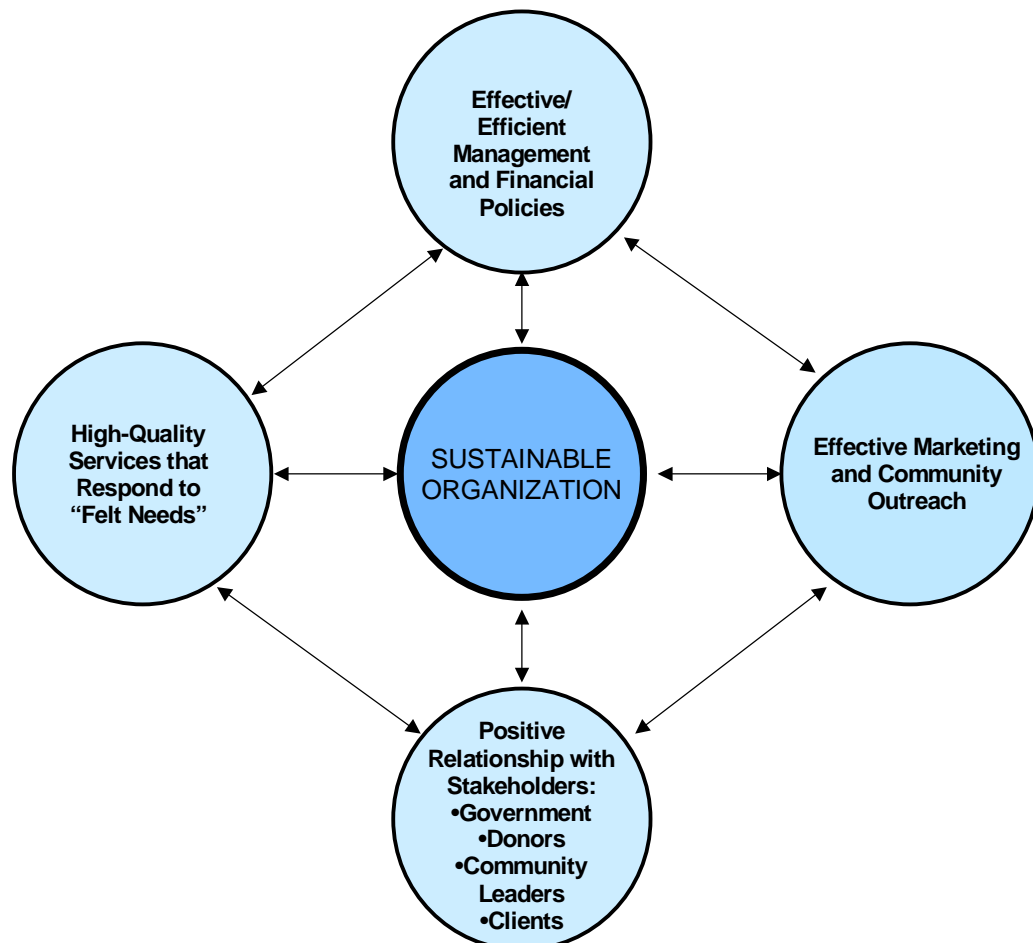
The Sustainability Process

The process of sustainability is complex and continuous, as illustrated in Figure 1.4 on the next page. It begins when an organization defines its vision, values, and mission. The next step is an **organizational assessment**, which helps the organization develop a strategy for effectively implementing its vision and mission. The people within the organization must approach the assessment with an open mind as to what it may reveal, or there is no point in undertaking the assessment. Many tools exist that provide a good basis for implementing a thorough organizational assessment, but it is important to adapt any tool to the specific nature and situation of the organization. (One recommended tool is included at the end of this chapter.)

If possible, the assessment should be implemented with outside assistance. In determining who should assist with the assessment, consider the following:

▶ The individuals should have experience with organizational assessments.

▶ They should have no direct stake in the organization.

▶ They should have sound judgment, as attested by people who have worked with them in the past (organizations that have already been assessed by the selected individual can be contacted as references).

After the assessment, the organization must design a structure that enables it to effectively implement its strategy. The key processes of the organization must then be outlined. The next step (in the lower-right part of Figure 1.4) is to define how these key processes will be carried out by the staff and what type of staff is needed. Next, the services and products that the organization will provide and market must be clearly defined, based on the needs defined by the community. The outcome of the services must be monitored for quality assurance. Finally, the organization must consistently examine the driving forces (positive) and constraints (challenges) it faces in order to adapt to changes in the operating environment.

This cycle is continuous and comprehensive, and all key staff members must participate. However, different components of the model are reviewed with varying frequency. For example, the strategic plan is reviewed regularly only to monitor the organization's progress, not to change the overall organization strategy (unless a significant change within the organization or the operating environment has directly affected the organization's strategy). On the other hand, there should be regular monitoring of key processes, staff duties, and services and products, and changes should be made whenever necessary.

Figure 1.4. The Process of Sustainability
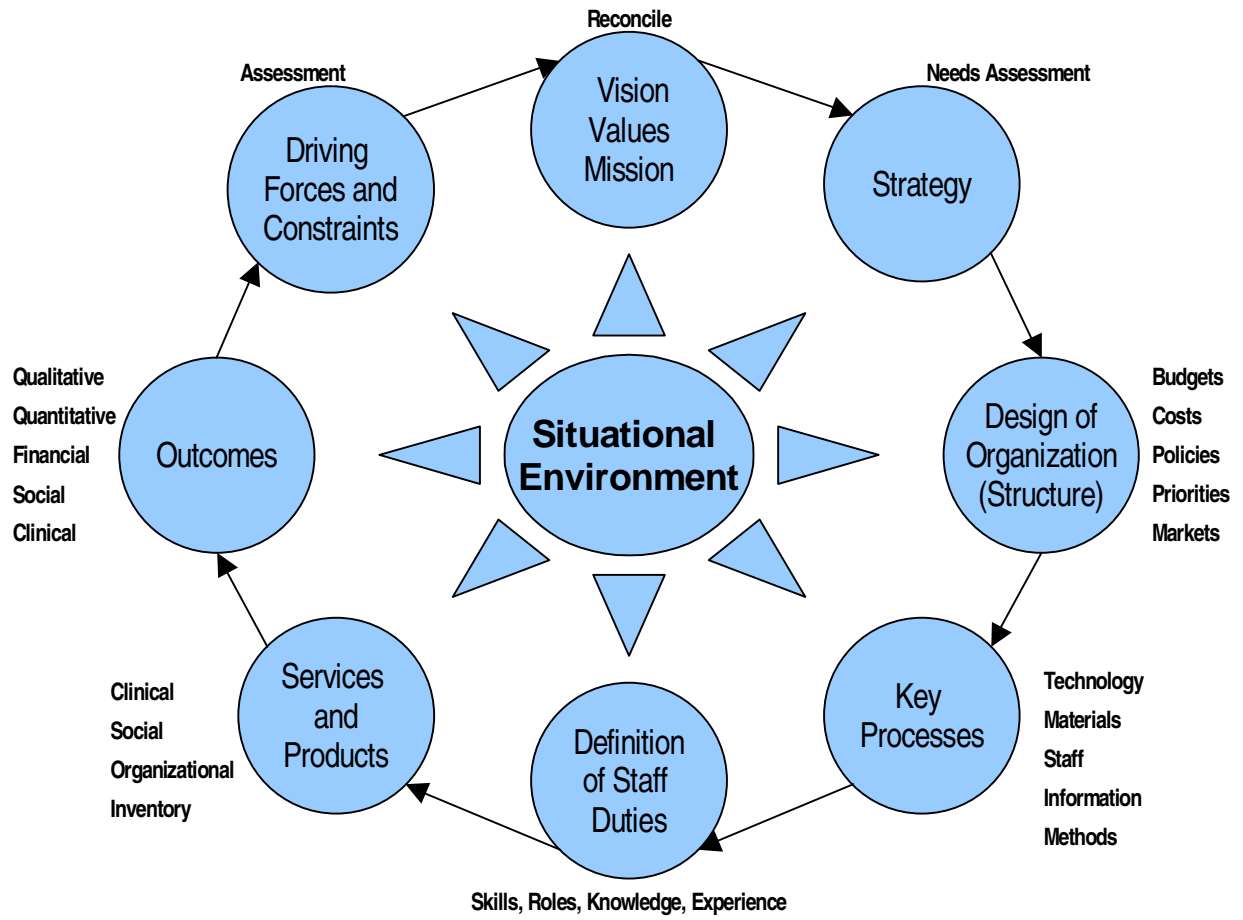
Conclusion

This chapter introduced the different elements of the process of sustainability. The remainder of this manual provides background knowledge, exercises, and tools to help you implement this process.

Example: Guide for Organizational Assessment

I. Background

Country background information should be gathered on socioeconomic, political, and epidemiological conditions, including a description of the country's health system and the NGO's role in it. Information on the stability of the country's operating environment also should be sought, especially with respect to the country's health system. Information on the organization's relationship with the government (local and national) and other donors helps understand their operating context and decision-making. Assessment team members should plan in advance of the assessment, set up meetings, identify people to contact, and state the purpose of the meeting.

II. Overview of Organization

(interview senior managers)

1. What are the mission and objectives of the organization?
2. Describe the primary activities of the organization, including the approximate budget and primary sources of funding for each of the activities.
3. How does FP/RH fit into the NGO's overall mission?
4. Who is the primary target population (geographic, socioeconomic, religion)?
5. What percentage of the activities is related to family planning and/or reproductive health (FP/RH)?

III. Organizational Structure

(interview senior managers)

1. Describe the organization and management structure of the NGO.
2. Is there a board? How is the board selected? How active is it?
3. Is there an organization chart and clearly defined duties for all personnel? If so, obtain copies.
4. What are the qualifications of the management staff?

5. Describe how the FP/RH activities fit into the overall management structure. To whom does the director of the health service report?

6. What is the staffing pattern at each type of facility — clinic, community-based distribution (CBD) site? Is it centrally set?

7. How much autonomy do facility-level staff have? What types of decisions can they make? How are the facility in-charges involved in budgeting, decision-making, etc.?

8. Human resource policies — How do salaries compare with the public sector? Are there performance-based incentives? Are people promoted from within the organization based on performance? What is the turnover rate?

IV. Current Financial Position and Recent Trends

(obtain actual records, calculations of fees as percentage of funding, analyze trends)

1. Obtain sources of revenue and expenditures for last four years.

2. What is cost recovery (user fees) as percentage of funding for last four years?

3. What are the trends in revenue and expenditures?

4. Analyze workload trends (use indicators such as number of clients, cost per couple year of protection (CYP), with breakouts as available — static clinic client vs. CBD client, FP vs. RH client, etc.)

5. Calculate aggregate unit costs (per client, per CYP, etc.).

6. Obtain information on workload and revenue by facility or cost center. *What is overall trend in revenues, expenses, and workload?*

V. Review of Financial/Accounting System

(interview financial managers and in-charge of clinics; obtain actual budgets)

1. Obtain annual financial statements for last four years.

2. Obtain last audited financial report.

3. Does the company use any computer system?

4. Has a system to track costs by cost center been implemented? What type of system is in place to track costs?

5. Are there cost centers?

6. How are cost centers defined, and how are overhead costs allocated?

7. What types of costs are allocated by cost center?

8. What types of costs are not allocated by cost center?

9. Is a budget prepared each year? Is the budget prepared by cost center? Does each site/facility prepare their own budget? Who helps them in this process?

10. Are cash flow projections prepared? Are they prepared for each cost center? Who prepares them?

11. Is budget/cost information reported to each site/cost center? How often?

12. Are variance analyses and reports prepared regularly? Who prepares them? Are they reported to each cost center or facility?

What are the weaknesses with the accounting system (costs not fully allocated, no cost centers, managers of facilities don't understand the costs, etc.)? What would be required to maintain fully allocated costs at each clinic?

VI. Funding from and Reporting to Donors

(interview senior managers, facility in-charges)

1. How many donors are there? What is the funding from each donor?

2. What is the nature of donor funding? Do donors fund specific activities only? Do they fund specific facilities?

3. What is the overall trend in donor funding — is it increasing/decreasing? Are the number of donors increasing/decreasing?

4. Have there been any problems with meeting auditing requirements of donors? What are the problems? Review financial reports to donors.

5. Who is responsible for preparing financial reports to donors?

VII. Management at Facility Level

(interview facility-level staff only; actual observations)

1. How much autonomy do facility-level staff have? What types of decisions can they make? How are the facility in-charges involved in budgeting, decision-making about staff, fees charged, etc.?

2. Do you prepare your own budget? How do you keep track of budget and cost information?

3. Human resource policies — How do salaries compare with the public sector? Are there performance-based incentives? Are people promoted

from within the organization based on performance? What is the turn-over rate?

Internal comparisons among facilities — What is the range in work-load of various facilities? Do some facilities see many more clients than others? How is staffing related to workload? Are some facilities visibly more crowded or busier than others? Do some facilities main-tain better records than others?

VIII. Management Information System

(interview facility in-charges and staff; review of records and procedures at facilities)

1. What type of service delivery data is collected at each site?
2. What is the record-keeping process at each site? What types of regis-ters or logs are kept? What kind of staff are responsible?
3. How is that data compiled and used?
4. Is service delivery data used to validate revenues collected? (For exam-ple, if each user pays $1 and there were 10 users, is there some proce-dure to check whether $10 was collected? If not, how can that be changed?)

   On an organization-wide basis, what is the process of routine infor-mation management (data collection, entry, analysis and review)?

IX. Analysis of User Fees Charged

(interview senior managers, facility in-charges, and staff; calculate fees as percentage of expenses)

1. Describe the fee structure for various services.
2. Are fees the same across the NGO?
3. Have fees been increased over the last several years?
4. What was the basis for fee-setting?
5. Is there a policy for fee-exemption or fee scaling?
6. How have fees compared with costs over the last several years?

X. Market Position

(interview senior managers, all levels of staff, clients; obtain any records or studies available; * questions 1-4 are priority questions)

1. * What is the availability and quality of public services in their operating areas?
2. * Who are other private and NGO providers of services?
3. * What types of services are available through other providers?
4. * How do the fees charged compare with those of other providers?
5. What is the socioeconomic profile of the NGO's clients?
6. What is the reputation/perception of the NGO's services?
7. What percentage of clients are new clients?
8. How does the external environment present opportunities and risks for the organization?
9. How does the organization promote its services?

XI. Consideration of Additional Revenue Opportunities

(interview senior managers and staff; prepare projections for new revenue opportunities)

1. How do managers and staff react to adding new services to increase revenue?
2. What types of services are being considered?
3. What are the investment costs of the various types of services considered?
4. Where would the NGO get the investment funding?
5. What is the target market for the new services?
6. What is the projected demand for services?
7. What are the risks involved?
8. What are the ongoing operating requirements (new staff, new facility, etc.)?
9. What is the capacity of the organization to manage/operate the proposed new services?
10. What is the financial feasibility of the opportunities considered? Will it have a net positive revenue contribution? Analyze sensitivity to specific risks (demand is lower than expected, additional staff are needed, etc.).

11.What is the recommendation regarding addition of new services (by type of service)?

XII. Additional Fundraising Opportunities

(interview senior managers and staff)

1. What is the potential for expanding other sources of funding (new donors, local government, local fundraising, etc.)?
2. Who is responsible for such activities?
3. Is there a feasible strategy for increasing fundraising?

Strategic Planning

Purpose

Understand the importance of strategic planning, and develop a strategic plan for your organization.

Target Skills

1. Plan a strategic planning process.
2. Conduct a strategic planning workshop, including the following activities:

   ▶ Conduct a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.
   ▶ Develop a mission statement.
   ▶ Develop a vision statement.
   ▶ Specify goals.
   ▶ Specify objectives.
   ▶ Choose appropriate strategies.

Prerequisites

   ▶ Organizational skills
   ▶ Planning skills

Strategic Planning

Strategic planning is a process for charting the general direction of an organization and defining strategies the organization will use to reach its goals. Strategic planning starts with an examination of the organization's current situation and its vision of the future. The process concludes with the preparation of a **strategic plan** — a document that outlines concrete steps by which the organization will achieve its objectives for the future. A strategic plan is forward-looking and includes creative ideas and initiatives. It is realistic and focused, but provides a broad map of the general programs and objectives the organization will pursue over a three- to five-year period.

To begin the strategic planning process, an organization needs a clear and concrete **vision** of the future and also of its unique mission in realizing that future. Strategic planning involves defining specific strategies and activities to achieve the organization's **mission**, which requires that the organization clearly understand both its external environment and its own strengths and weaknesses. The strategic planning process is an opportunity to critically analyze current programs and activities and to consider opportunities for creative new initiatives.

> Strategic planning involves examining an organization's current situation and its vision of the future in order to define strategies for realizing its goals over a three- to five-year period.

The Benefits of Strategic Planning

A strategic plan charts a course for an organization to follow and provides a framework for making decisions and reacting to changes in the operating environment. By outlining concrete programs and activities through which the organization will achieve its objectives, the strategic plan also helps the organization better estimate its requirements for human and financial resources and helps ensure that the organization does not either undertake activities that are out of line with its strategic objectives or overcommit its resources. Finally, the strategic plan provides a tool for monitoring and evaluating the organization's progress toward reaching its goals and objectives.

> Strategic planning is an opportunity to consider innovation.

The success of a strategic plan depends on the extent to which it serves the needs of the organization's stakeholders and on the level of commitment of those at every level of the organization who will implement the plan. Therefore, it is essential that the organization's leadership, key staff, and stakeholders be fully involved in the strategic planning process.

Exercise 2.1

Describe/discuss how strategic planning would benefit your organization.

The Three Stages in the Strategic Planning Process

There are three stages in the strategic planning process, as outlined in Figure 2.1. The remainder of this chapter describes the steps involved in each stage of the process.

Figure 2.1. The Three-Stage Strategic Planning Process

Stage One: Planning and Preparation
1. Form an organizing committee.
2. Determine who will be directly involved in the strategic planning process.
3. Establish a timeframe for the planning process.
4. Carry out a preliminary assessment of the external environment.
5. Plan a three- to five-day strategic planning workshop.

Stage Two: The Strategic Planning Workshop
1. Continue the assessment of the organization's external environment.
2. Carry out a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.
3. Develop a mission statement.
4. Develop a vision statement.
5. Specify the goals of the organization.
6. Specify the objectives that will help the organization reach its goals.
7. Choose strategies for the objectives.

Stage Three: Finalize the Strategic Plan
1. Write the strategic plan.
2. Gain formal approval for the strategic plan.
3. Develop a yearly work plan.
4. Establish a monitoring system.
5. Develop a yearly financial plan.

Stage One: Planning and Preparation

Step 1.1. Form an organizing committee.

The process of writing a strategic plan requires organization, time, and resources. It is helpful to establish an organizing committee of two or three people to coordinate the process. The committee should include a programmatic/technical person and an administrative/financial person who can assist with logistics. A third person can be added to complement the skills and experience of other two.

The remaining four activities involved in Stage One will be carried out by the organizing committee.

> **Exercise 2.2**
>
> Make a list of the people who will comprise your organizing committee.

Step 1.2. Determine who will be directly involved in the strategic planning process.

The organizing committee should determine whom among your **stakeholders** — leadership (including board members), staff, volunteers, supporters, donors, community leaders, business leaders, partner nongovernmental organizations (NGOs), and clients — should be involved in developing the strategic plan. Including outside people in the discussion of your organization's operating environment will allow for differing perspectives and opinions. However, it is up to your organization to decide what outside opinions and ideas will be useful and applicable. For example, examining your donors' strategic objectives will be an integral part of the strategic planning process for your organization, but your donors should not become the driving force behind the process.

Participation of staff members at various levels and different parts of the organization helps ensure that there is consensus about the plan within the organization and a strong commitment to its successful implementation. Staff members should come from key departments, especially those involved in programming and financial management. Most of the work involved in conceptualizing and writing the strategic plan will occur during a three- to five-day **strategic planning workshop** (see Step 1.5). Ideally, no more than 20 people should attend this workshop. Therefore, careful consideration should be given to which staff members are the most appropriate and qualified to participate in the process. Restricting the number of participants will ensure the full participation of these key staff members. The Strategic Planning Participants table in the example can be useful for planning who will be directly involved in the strategic planning process for your organization.

> **Exercise 2.3**
>
> Fill in the Strategic Planning Participants table with the names of the people who will be directly involved in the strategic planning process for your organization. Adapt the table to fit your needs (e.g., add more positions, more space for names, etc.).

Example: Strategic Planning Participants

Positions	People
Organization leaders	
Board members	
Staff members	
Volunteers	
Government partners	
Donors	
Community leaders	
Business leaders	
Partner NGOs	
Clients/customers	

Exercise 2.4

Develop a schedule for your organization's strategic planning process. Be sure to take into account the size of your organization and the complexity of it operations.

Step 1.3. Establish a timeframe for the planning process.

A schedule must be developed at the beginning of the strategic planning process, including key activities, dates, and responsible people. The overall timeframe will depend on the size and complexity of your organization. For example, the process may take longer if your organization has sub-offices because of the more complicated logistics involved in having staff and stakeholders from those sub-offices participate.

Step 1.4. Carry out a preliminary assessment of the external environment.

To be effective, your strategic plan should address the current and future needs of the communities and constituencies you serve. Conducting a preliminary assessment of your external environment helps you understand how your organization's programs and activities are affected by various trends and actors. You should give special consideration to assessing the activities of your "competition" — those organizations that provide similar

services and implement similar programs and with which you "compete" for clients and funding. Developing a better understanding of these organizations' programs and activities also helps you avoid duplicating services that are already being provided and helps you identify opportunities for networking and collaboration, which can be useful for information-sharing and lobbying.

The **preliminary assessment** is carried out in three steps:

▶ **Gather information**: The following types of information can be gathered from written resources and key informant interviews with actors from government, other local organizations, international NGOs, multilateral and bilateral institutions, and donors.

  ▶ Socioeconomic information: inflation, local income, transport accessibility, etc.

  ▶ Demographic and health indicators: STD (sexually transmitted disease) rates, average family size, attitudes towards family planning, preferences for family planning methods, etc.

  ▶ Programs of other health organizations: plans and activities of similar organizations in your programming areas.

  ▶ Government policies and regulations: policies on user fees, health insurance, importation of contraceptives, etc.

  ▶ Donor funding trends and initiatives: funding availability for health and population activities from multilateral and bilateral organizations and international NGOs.

▶ Prepare a **summary document**: Summarize your major findings before the strategic planning workshop (the summary will be used in the SWOT analysis conducted during the workshop).

▶ **Distribute** the summary to the workshop participants: This should be done at least two weeks prior to the workshop.

> Organizations that provide similar services, implement similar programs, and with whom you compete for funding are your "competition."

Exercise 2.5

Determine the sources for the types of information you will gather in the external data collection process. For example, where will you find information on government policies?

Step 1.5. Plan a three- to five-day strategic planning workshop.

Plan a three- to five-day strategic planning workshop. An organization with a smaller staff (10-15 people) may need only three days for the workshop, whereas a larger group may need a full five days. Ideally, no more than 20 people should attend the workshop to ensure that each attendee can participate fully in the discussion and activities.

No matter how large or small the organization, however, careful planning is essential. The agenda should be developed prior to the workshop and distributed to participants (a Sample Agenda for a Strategic Planning Work-

Exercise 2.6

Develop an agenda for your strategic planning workshop, adapting the sample agenda found at the end of this chapter to reflect the needs and the context of your organization.

shop is included at the end of this chapter). The agenda should include the following activities:

▶ Analyze the results of the preliminary assessment of the external environment (i.e., the summary document completed and distributed prior to the workshop).

▶ Carry out the SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.

▶ Develop the mission statement.

▶ Develop the vision statement.

▶ Specify the goals of the organization.

▶ Specify objectives for each of the organizational goals.

▶ Choose strategies for each of the goals and objectives.

▶ Develop a yearly work plan (or specify who will do so).

▶ Develop a yearly financial plan (or specify who will do so).

If the financial resources are available, an outside facilitator should be used to lead the discussion. An experienced facilitator can help focus the discussion on key issues and ensure the full participation of all.
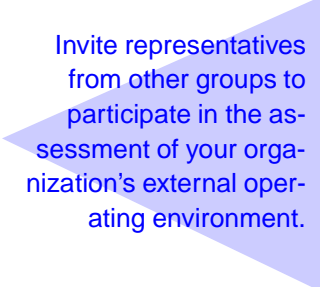
Each day, one person should be designated as the reporter, responsible for taking notes on any decisions and on the highlights of the day's discussion. Speakers, moderators, and facilitators should use flip charts, rather than erasable chalkboards or whiteboards, and these notes should be saved. These two sets of notes should be used to write the final strategic plan.

Stage Two: The Strategic Planning Workshop

Step 2.1. Continue the assessment of the organization's external environment.

This assessment is conducted during the first day of the workshop and is based on the summary document of the findings of the preliminary assessment of the external environment, which was distributed prior to the workshop (Step 1.4). As noted above, in addition to the key staff members participating in the strategic planning process, it is advisable to invite representatives from other organizations and groups to participate in the assessment of the organization's operating environment in order to bring in different perspectives and opinions. These people could include your organization's donors, government counterparts, and representatives of other NGOs, among others. They can be invited to attend the full first day of the workshop, during which the assessment of the external environment is carried out.

Invite representatives from other groups to participate in the assessment of your organization's external operating environment.

The assessment includes a discussion of the major findings of the preliminary external assessment and the possible implications of those findings for the work of the organization. A participatory exercise should be planned to best elicit the input of the outside representatives and other stakeholders participating in the workshop. Participants should be invited to provide their assessments of current policies, analyses of recent trends in the data presented in advance, summaries of their current strategic priorities, and their projections about what the operating environment will look like during the next few years (i.e., the life of the strategic plan).

Step 2.2. Carry out a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.

(This step will be carried out by the staff members participating in the workshop after the outside participants have left.) A **SWOT analysis** is a tool to identify your organization's Strengths, Weaknesses, Opportunities, and Threats. The purpose of the SWOT analysis is to identify the positive and negative aspects of your organization and identify those areas where changes and adjustments may be required. A SWOT analysis is an important tool to help your organization think strategically and creatively, not simply to review traditional programming and planning.

A SWOT analysis can help you answer key questions:

▶ What are your organization's internal strengths upon which the strategy should build?

▶ What weaknesses must your organization correct in order to achieve its strategy?

▶ Are there specific weaknesses that prevent your organization from taking advantage of certain opportunities?

▶ Which opportunities can your organization pursue with sufficient resources and a strong chance of success?

▶ What threats are most worrisome?

Ideally, the entire staff of your organization is involved in the SWOT analysis. However, if the organization is too large for all staff members to participate in the workshop (as stated above, there should be a maximum of 20 people in the workshop), you can solicit the staff's input in advance of the workshop, for example, by interviewing key staff members or distributing questionnaires. The information gathered can be incorporated into the SWOT discussion held during the workshop. The **SWOT Guidelines** in Figure 2.2 provide a suggested list of categories of information to gather and questions to ask.

Traditionally, a SWOT analysis considers strengths and weaknesses as part of the organization's internal environment (within the organization itself), and opportunities and threats as part of the external environment (outside the organization's control). However, it is valuable to evaluate an organization's strengths and weaknesses from both points of view – internal and external.

Accordingly, a strength is something the organization currently takes advantage of, whether it is internal or external. An opportunity, on the other hand, is something that is available or present but is not necessarily helping

> The purpose of the SWOT analysis is to identify the positive and negative aspects of your organization.

> A strength is something the organization currently takes advantage of; an opportunity is available but is not helping the organization now.

Figure 2.2. SWOT Guidelines

An analysis of your organization's strengths, weaknesses, opportunities, and threats covers three areas: management, programming, and financial resources. Below are questions to consider under each area. These questions are only a guide and can be adapted to suit your own organization's needs and structure.

Management

Organizational Structure
- Does your organization have an organizational chart delineating all staff positions?
- Do all of these staff positions, including volunteers, have clearly defined roles?

Supervision
- Based on your organizational chart, is there adequate and clear supervision of all staff members?
- Do supervisors provide regular support and supervision to staff?
- Are annual performance reviews conducted for all staff?

Staffing
- Are new and open positions advertised?
- Are positions filled based on a competitive recruiting process?
- Do all staff members have clear job descriptions with job responsibilities?

Coordination
- Is there coordination among staff in carrying out activities?
- If your organization has different departments, is there coordination among these departments?
- If your organization has sub-offices, is there coordination between sub-offices and the main office?

Training
- In what areas does your staff need training?
- Is there a training plan for the organization and individual staff members?
- Are training goals established for individual staff members?
- Is your training program evaluated?

Management Information System
- Does your organization have a management information system?
- Do managers have the necessary information to make knowledgeable decisions?
- In the area of finance, do managers have information to make budgeting decisions?
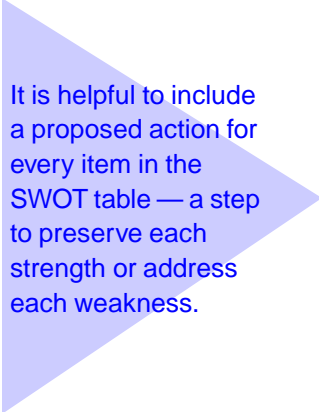
Programming
- How would you rate the quality of your programs?
- How could you improve the quality of your programs?
- What are the strong points of your programs?
- What are the weak points of your programs?

Financial Resources
- What are your current sources of funds (external and internal)?
- Are these sources stable?
- How much of your resources are self-financed?

the organization at the moment. For example, an external strength of an organization could be that it is based in a community with access to good roads and electricity, allowing for smooth vaccine delivery and storage of the antigens in refrigerators (the organization takes advantage of both the good roads and electricity). An external opportunity could be the presence of many trained community health workers that could be recruited for a community immunization campaign (the organization does not yet use this resource, but it is available to them).

A **SWOT table** (see the example below) may be used to organize the SWOT analysis during the workshop. Participants, led by the workshop facilitator, may discuss the results of the preliminary external environment assessment, the summary of which was distributed prior to the workshop. They may fill in the SWOT table as they reach consensus on the strengths, weaknesses, opportunities, and threats of the organization. It is helpful to include a proposed action for each item. For example, a reinforcing action can be proposed to preserve each strength. On the other hand, a suggestion can be made to mitigate or eliminate each weakness. Reviewing a SWOT table can help an organization develop its goals and strategies for the next three to five years and make decisions about its operations, program planning, budgeting, and staffing during this period.

It is helpful to include a proposed action for every item in the SWOT table — a step to preserve each strength or address each weakness.

Example: SWOT Table for Afya Clinic

SWOT	Internal	External
Strengths	▪ Qualified and experienced staff ▪ Existing strategic plan. ▪ Existing board. ▪ Facilities owned and well-maintained (buildings, grounds, and equipment).	▪ Strong donor support. ▪ Good relationship with donors. ▪ Strong community support. ▪ Central and convenient location.
Weaknesses	▪ Weak financial controls. ▪ Programs are "projectized" and not complementary and holistic. ▪ No performance plan and review system. ▪ Inadequate transport. ▪ High staff turnover. ▪ Inadequate staff development. ▪ Inadequate staff incentives.	▪ Donor-driven support. ▪ Weak relations with national and local government officials. ▪ Changing and unclear government policies. ▪ Heavy taxation. ▪ Poor roads.
Opportunities	▪ Staff enthusiasm and feeling of ownership of strategic planning process. ▪ Strong record of achieving program goals. ▪ Strong clinical capabilities.	▪ New national, government health plan. ▪ Acceptance by the community. ▪ Service and name recognition. ▪ Good record of securing donor funds.
Threats	▪ Weak involvement of board in planning the direction of the organization.	▪ Decreasing donor funds in our programming areas. ▪ Increasing competition from other agencies. ▪ High incidence of HIV/AIDS. ▪ Changes in technology.

Step 2.3. Develop a mission statement.

A **mission statement** is a broad statement of an organization's general purpose and values. The mission statement is linked to the organization's vision of how it contributes to the development of a better community. The mission statement is unique to every organization and expresses its motivation in choosing its special mission.

> A mission statement is a broad statement of an organization's general purpose and values.

Questions to answer in writing your mission statement include:

1. What business are we in?
2. What do we believe in?
3. Whom do we serve?
4. What needs do we meet?
5. What makes us unique?

Example: Mission Statements

The Karibu Health Clinic is a service-oriented health organization providing curative and preventive services to all members of the community. It is committed to high quality, affordable health care, and to the improvement of the health status of all community members, especially women and children.

It is the mission of the High Risk Adolescent Counseling clinics to improve the reproductive health (care) of adolescents in Kenya through the prevention of pregnancy-related morbidity and mortality.

Exercise 2.7

1. Answer questions 1-5 under Step 2.3.

2. Review your answers to these questions to formulate a mission statement for your organization.

Step 2.4. Develop a vision statement.

The vision of an organization is the positive change or impact it seeks to create in its community. **Vision statements** are more specific descriptions of what the organization will do and accomplish.

Example: Vision Statements

To provide contraceptive methods to over 10,000 men, women, and youth through the static clinic and community-based health workers and to also provide treatment of STIs and IEC on prevention and control of STI/HIV/AIDS in the catchment area.

To improve the health care services for 3,000 poor families by providing preventive and curative health services.

Exercise 2.8

1. Describe what impact your organization seeks to have in your community. What positive change does your organization hope to create?

2. Review your answers to question 1, and write a vision statement for your organization.

Step 2.5. Specify the goals of the organization.

A mission statement describes an organization's general direction; goals are more specific. These are the achievements the organization will pursue in order to fulfill its mission. **Goals** are general statements, which are limited in number and focused on the unique mission of the organization. Goals can be programmatic or organizational.

Programmatic Goals

Programmatic goals relate to the programmatic impact the organization seeks to achieve. For example, this impact could be in terms of expanding access to health care or improving health care quality.

Example: Programmatic Goals

To increase access to, availability of, and use of high-quality reproductive health and family planning services in our catchment area.

To provide quality health care at an affordable cost to our clients.

Organizational Goals

Organizational goals relate to improvements the organization seeks to make in order to better achieve its goals.

Example: Organizational Goals

To incorporate an organization-wide training program to improve the quality of care and increase client satisfaction.

To improve our management information system to better measure quality of care and client satisfaction.

The SWOT analysis guides you to set realistic goals for your organization. Your goals should be within your organization's financial resources and capacity, as defined by the strengths and weaknesses you identified. Your goals should take advantage of the opportunities and minimize or avoid the threats identified in the SWOT.

> An organization's goals are the general achievements it will undertake in pursuit of its mission.

Exercise 2.9

1. What is the programmatic impact your organization seeks to have?

2. Develop a programmatic goal for your organization that reflects the answer to question 1.

3. What are the improvements you believe your organization should undertake to achieve its goals effectively?

4. Develop an organizational goal for your organization that reflects the answer to question 3.

Step 2.6. Specify objectives that will help the organization reach its goals.

Objectives are the specific action steps an organization takes to realize its goals.

Objectives are specific actions the organization will take to reach its goals. Establishing specific objectives helps an organization prioritize its goals and set tasks and guidelines for its staff over the period of the strategic plan. The organization's objectives — like its goals — must reflect its external and internal environment and be **SMART:**

Specific — to avoid misinterpretation
Measurable — to allow monitoring and evaluation
Appropriate— to your vision, mission, and goals
Realistic — to be within your capacity and resources
Time-bound — to be achieved within a specific time period

Objectives can be program- or organization-related. **Programmatic objectives** relate to the impact of the organization's activities on your clients and community. **Organizational objectives**, on the other hand, are measurable and specific changes in the management or structure of an organization that improve its quality, effectiveness, or sustainability.

Exercise 2.10

1. Develop two program objectives and two organizational objectives for your organization.

2. Assess whether your program objectives reflect the impact of your programs on your clients and community.

3. Assess whether your organizational objectives state measurable and specific changes required in the management or structure of your organization to improve its quality, effectiveness, or sustainability.

Example: Programmatic Objectives

By 2002, the estimated rate of sexually transmitted diseases will be reduced by 20%.

By 2002, the use of contraceptives will increase by 15%.

Example: Organizational Objectives

By 2003, we will design and implement a new financial system to track revenues by cost center.

Step 2.7. Choose strategies for the objectives.

A strategy describes how the organization intends to achieve a given objective; individual strategies taken together define the organization's program.

A **strategy** is the path by which an organization will pursue each of its objectives. A strategy is needed for each objective and, when taken together, these strategies define the organization's program. Strategies should reflect the organization's mission, vision, goals, and objectives, and should match the available resources (current and potential).

Your organization must develop a strategy for achieving each of your objectives. During the strategic planning workshop discussion, many different strategies will be proposed for consideration. In choosing the strategy you will implement, select the one that most closely matches your SWOT

analysis, is most financially feasible, and is most likely to be successful in reaching your goals. Use the following questions to make this choice:

▶ Does the strategy give overall direction to the organization and relate to its objectives?

▶ Does the strategy make efficient use of the organization's current human and financial resources?

▶ Does the strategy overcome or minimize the organization's weaknesses and external threats?

▶ Is the strategy feasible given the SWOT analysis?

▶ Does the strategy reach the intended clients?

▶ Does the strategy advance the organization's mission?

Exercise 2.11

1. For one of the program objectives identified in Exercise 2.10, choose a strategy to achieve it.

2. Examine the strategy by asking the six questions listed to the left. If the answer to any of the questions is "No," revise or replace the strategy. Examine the new strategy by the same criterion.

3. For one of the organizational objectives identified to the left, choose a strategy to achieve it.

4. Examine the strategy by asking the six questions listed to the left. If the answer to any of the questions is "No," revise or replace the strategy. Examine the new strategy by the same criterion.

Stage Three: Finalize the Strategic Plan

Step 3.1. Write the strategic plan.

The discussions held and decisions made during your strategic planning workshop should be summarized into a final document. All of the workshop participants should review the document to ensure that it accurately reflects what was discussed and agreed upon during the workshop. This document is combined with the assessment of the external environment and the SWOT analysis to create the **strategic plan**.

The strategic plan is comprised of the workshop summary, the external assessment, and the SWOT analysis.

Step 3.2. Gain formal approval for the strategic plan.

Present the strategic plan to your board for formal approval. Once approved, distribute a copy of the plan to each key staff member and circulate the plan for review by all other staff members. By obtaining the formal approval of your board and ensuring that all staff members are familiar with the strategic plan, you help ensure the full commitment of your organization to its successful implementation.

Step 3.3. Develop a yearly work plan.

The strategic plan is used to develop work plans, which are detailed outlines of how the organization's objectives and strategies will be implemented during a particular period of time. The **work plan** is more specific and detailed than the strategic plan and describes action steps to be taken by each department or program to help the organization implement strategies to achieve its objectives and realize its goals.

A work plan is a detailed outline of how the organization's objectives and strategies will be implemented.

The work plan is directly linked to the strategic plan: it sets out how each strategic objective will be met during a particular period of time. In short, work plans help make the strategic plan a "living document" by making it the foundation for all the organization's activities and by providing a tool for monitoring the organization's progress in implementing the plan.

Work plans generally cover a single year and include detailed budgets. They also identify who is responsible and accountable for carrying out specific parts of the operational plan and what resources are available to carry out the plan.

Although you do not need to create your work plan during the strategic planning workshop, it must be developed soon thereafter and then updated for each subsequent year covered by your strategic plan. Key program and

financial staff should be involved in developing the work plan. Staff members should schedule meetings to discuss in detail how the strategic plan will be implemented over time and to develop the work plan for the first year. Once the work plans are developed, staff members should constantly refer to them to monitor program implementation.

As illustrated in Figure 2.3, each action step should describe:

▶ What activities will occur

▶ Who will carry out the activities

▶ When each action step will occur

▶ What resources will be needed to carry out the activities

▶ What types of communication and collaboration will occur within and outside the organization.

Figure 2.3. Sample Work Plan Table

Action Step	Responsible Person(s)	Date Completed	Resources Required	Collaborators

Step 3.4. Establish a monitoring system.

Review your work plan on a quarterly basis to monitor progress and make adjustments as necessary. At the end of the year, conduct a complete review of the work plan to measure accomplishments against the objectives outlined in the strategic plan and the activities detailed in the work plan for the year. Also identify any obstacles encountered. Use this assessment to develop the work plan for the following year, keeping in mind any "lessons learned" and any possible changes in the internal or external environments. The financial plan for the following year also should be updated to reflect changes in revenues or costs (including inflation).

Note: Any major changes to the work plan or the strategic plan should be taken seriously and should be made with the involvement of the organization's management and leadership. A change in the strategic plan is only warranted when there is an unexpected and drastic change in the organization's internal or external environment. When considering changes to either your objectives or strategies, refer back to the summary of the discussions held during your strategic planning workshop. Are there objectives or strategies that were discussed during the workshop that were not chosen but are now more feasible given changes in your external or internal environment? If the strategic plan is modified, have your board formally approve the changes.

> A change in the strategic plan is only warranted when there is an unexpected and drastic change in the organization's internal or external environment.

Step 3.5. Develop a yearly financial plan.

Developing a financial plan ensures the overall financial sustainability of your organization. Prepare a financial plan that estimates expenses and revenues for each year covered by the strategic plan, with input from both program and financial staff. Revenues would include outside funding and funds from user fees or other income-generation activities.

In preparing the financial plan, calculate the amount of expenses that are covered by your revenues, either generated by the organization or obtained from donors. If expenses are not completely covered by revenues, then either further outside funding must be obtained or actitivities must be prioritized and some eliminated.

The following steps are involved in preparing a financial plan:

> A financial plan helps ensure the overall financial sustainability of your organization.

▶ Estimate expenses.
▶ Identify current and potential sources of revenue, including outside funding and funds from user fees or other income-generation activities.

► Conservatively estimate revenue (including donor grants and user fees).

► Analyze if revenue will cover expenses.

► Adjust activities or strategies based on this analysis.

► Prepare a detailed financial plan of revenues and expenses.

Note: Review Chapter 5 (Financial Accounting) and Chapter 6 (Budgeting) of this manual before developing your yearly financial plan.

Example: Strategic Planning Workshop Agenda

DAY 1

(Including external stakeholder participants)

External Environment Assessment

▶ Discuss the analysis of your external environment by category.

▶ Organize a small group exercise where participants identify major   environmental factors involving political, economic, social, and technological sectors.

▶ Use the plenary session to present and consolidate findings.

▶ Review the major findings and issues identified in the assessment.

▶ Identify next steps in the strategic planning process to external participants.

DAY 2

(Only participants associated with the organization)

1. Introduction to Strategic Planning and Why Carry Out a Strategic Planning Process
2. SWOT Analysis

   ▶ List the major strengths, weaknesses, opportunities, and threats identified in the interviews/questionnaires

   ▶ Brainstorm in small groups about our strengths and weaknesses

   ▶ Brainstorm in small groups about opportunities and threats

   ▶ Complete the SWOT Analysis Worksheet

3. Writing Our Mission Statement

   ▶ Definition of a mission statement

   ▶ Brainstorm in small groups about our mission statement

   ▶ Write our mission statement

4. What is Our Vision?

   ▶ Definition of vision

   ▶ Brainstorm in small groups about our vision

   ▶ Define our vision

DAY 3

1. Identifying Our Goals

   ▶ Definition of goals

   ▶ Brainstorm in small groups about our goals

   ▶ Identify our goals

2. Defining Our Objectives

   ▶ Definition of objectives

   ▶ Brainstorm in small groups about our objectives

   ▶ Identify our objectives

DAYS 4 & 5

1. Choosing Strategies to Meet Our Goals and Objectives

   ▶ Definition of strategies

   ▶ Brainstorm in small groups about our strategies

   ▶ Identify our strategies

2. Determining Resource Needs

   ▶ Financial requirements

   ▶ Staffing needs

3. Finalize the Strategic Plan and Next Steps

   ▶ Identify who will be responsible for finalizing the strategic plan
     and by when

   ▶ Identify who will be responsible for preparing the work plan
     and financial plan for Year 1

Human Resource Management

Purpose

Develop a human resource management system for your organization.

Target Skills

1. Plan your staffing needs.
2. Develop an organizational chart.
3. Create job descriptions.
4. Develop performance plans.
5. Establish a performance appraisal and review process.

Prerequisite

Supervisory experience

Human Resource Management

Human resource management is the process of identifying, recruiting, and managing personnel to meet the organization's needs on the basis of fair and competitive policies. The objective of human resource management is to supervise and support employees in a way that enables them to reach their performance objectives and work to their highest potential.

Human resource management systems provide a constructive and positive approach for supervising and supporting staff performance and development. A human resource management system includes the following elements, which are described in more detail in the following sections:

> Human resource management involves supervising and supporting personnel in order that they may achieve their performance objectives and work to their highest potential.

▶ A clear staffing plan for the organization

▶ An organizational chart

▶ Detailed job descriptions that reflect the tasks and responsibilities outlined in the strategic and operational plans

▶ Performance goals and objectives for each employee over a period of time that are clearly defined in written documents developed by both the supervisor and staff

▶ Mechanisms for the daily supervision of employees that are based on specific job responsibilities and tasks that are understood and agreed upon by both the employee and the supervisor

▶ A process for evaluating employees' job performance based on achievement of the performance objectives detailed in their work plans.

Establishing a human resource management system is important to your organization's sustainability because it contributes to the organization's performance and to employee performance and satisfaction. To be successful, however, your organization must commit to the entire process and must dedicate sufficient time and resources to complete it. It is important to establish a concrete timeline for the process and to communicate that timeline to employees. The steps involved in establishing such a system are outlined in Figure 3.1.

Figure 3.1. Developing a Human Resource Management System

Plan Your Staffing Needs

1. Assess current staff.
2. Write a staffing plan.

Develop an Organizational Chart

Create Job Descriptions

Develop Performance Plans

1. Involve employees in the development of the plan.
2. Write the performance plans.
   - Review the job description.
   - List performance objectives.
   - Develop a training plan.

Establish a Performance Appraisal and Review Process

1. Ensure regular supervision.
2. Implement quarterly reviews.
3. Carry out an annual performance appraisal and review process.
   - Prepare for the performance review session.
   - Implement the performance review session.
   - Complete the final performance appraisal form.

Plan Your Staffing Needs

Planning your staffing needs is necessary to ensure that you have the appropriate human resources (in terms of numbers of staff, qualifications, and experience) to implement your strategic plan.

Assess current staff.

The first step in developing a staffing plan is to assess your current staff by asking the following questions:

▶ Is there overlap in the responsibilities of staff members?

▶ Do some staff members have too many tasks and responsibilities?

▶ Do some staff members have too few tasks and responsibilities?

▶ Do key staff members understand the responsibilities of their colleagues?

The answers to these questions will point out whether any staffing changes are necessary. For example, you may need additional employees to take on some of the tasks and responsibilities of overworked staff members. Or, you may need to eliminate some positions or reassign some responsibilities to remove unnecessary overlap in staff responsibilities.

Your staffing plan should take into consideration any potential new programs, and these staffing questions should be asked before new proposals or programs are developed, not afterward. Job descriptions should be established as new proposals are developed, so that the staffing process can begin once funding is secured for the new programs.

Write a staffing plan.

Once you have completed the above analysis, sit down and write a staffing plan by detailing the following:

▶ Changes to be made in the job responsibilities of existing positions

▶ Positions that should be eliminated

▶ New positions to be created, including a list of major responsibilities

▶ A recruitment schedule for new positions.

Exercise 3.1

Write a staffing plan for your organization.

Example: Staffing Plan

AFYA CLINIC STAFFING PLAN 2000

Current Staff

No positions should be eliminated at this time.

Changes in Job Responsibilities

Redistribute job responsibilities of Community-Based Distribution (CBD) Evaluation Officer and CBD Assistant Evaluation Officer to avoid duplication of responsibilities.

New Positions

Community-Based Distribution Project Officer: This staff member will manage all aspects of the CBD program, including supervising performance of agents and monitoring meeting of targets. Hire by September 2000.

Accountant: This staff member will assist the Finance Manager in implementation of the financial system. Hire by June 2000.

Develop an Organizational Chart

Organizational charts are developed to delineate the lines of authority and outline the departmental structure of the organization. Organizational charts should be designed to organize responsibilities into groups (see the example below) and to facilitate communication among them. The organizational chart should show the structure, information flow, or lines of operation within an organization and its departments. These must be understood by all staff members.

Although organizational charts are generally used to show the current structure of an organization, they also can be used by management to plan changes in staffing or in the overall structure of the organization. Using organizational charts as a management tool can enhance an organization's ability to reach its goals through human resource planning.

Before you develop an organizational chart, you must have a firm understanding of how your organization is intended to function. Most standard organizational charts are pyramidal in shape, with the person in charge at the top (director, president, senior manager, etc.). Employees who report directly to the director are listed in the next level. Staff members who share the same level of responsibility within the organization and who report to the same person are known as "peers." "Supervisory" positions, such as managers, are shown above their "subordinates." Lines or arrows indicate the flow of responsibility.

The following example shows the organizational chart for a small health clinic. There are many ways to create and illustrate an organizational chart. This is just one example. Organizations differ in their structure, which will change the way an organizational chart looks. For example, an organization with a flat management structure will be more horizontal looking, with less "supervisory" positions and more "peer" positions.

Exercise 3.2

Use the following steps to create an organizational chart for your organization. Each box should contain the person's name and title (and department or work unit, if appropriate).

1. Start with yourself. Draw a box and enter your name and your title (and your work unit or department, if appropriate).

2. Draw a box above yours for your direct supervisor. Connect the boxes with a vertical line.

3. Draw a row of boxes below yours for all the people who report to you.

4. Connect the boxes of peers with a horizontal line. Connect them to you with a vertical line.

5. If you wish, draw similar boxes and lines for any people who report to your subordinates.

6. Continue this process until you have included all of the staff members of your organization.

Note: If your organization is large, you can do this exercise for your work unit (department) or any smaller organizational unit that is structured by authority or employee type.

Example: Organizational Chart

Afya Clinic

```
                      ┌─────────────────────┐
                      │    Dr. Mudyara      │
                      │   Clinic Director   │
                      └─────────────────────┘
            ┌──────────────────┴─────────────────────┐
┌─────────────────────────┐            ┌─────────────────────────┐
│       Ms. Mosha         │            │       Dr. Rafiki        │
│ Senior Manager, Finance │            │ Senior Manager, Clinical│
│   and Administration    │            │       Activities        │
└─────────────────────────┘            └─────────────────────────┘
```

Organizational chart showing:
- Dr. Mudyara, Clinic Director (top)
  - Ms. Mosha, Senior Manager, Finance and Administration
    - Mr. Maneno, Clinic Manager
      - Ms. Haya, Secretary/Receptionist
        - Mr. Bseiso, Messenger
    - Mr. Rajab, Clinic Accountant
  - Dr. Rafiki, Senior Manager, Clinical Activities
    - Ms. Hodi, Nurse-in-charge, MCH program
    - Ms. Nyaka, Nurse mid-wife, Delivery
      - Nurses
    - Ms. Kazi, Manager, Laboratory
      - Ms. Siku, Lab Technician

The clinic's leadership is clearly defined, with the director at the top of the chart. There are two senior managers who report directly to the director, Ms. Mosha and Dr. Rafiki. The clinic is organized into two work units, or departments, the finance and administration department and the clinical activities department. Within each department, there are different structures. The clinic manager and the clinic accountant are peers and both report to the senior manager of their department. The secretary/receptionist, however, reports directly to the clinic manager, not to the clinic accountant. And, while the secretary/receptionist is supervised by the clinic manager, he or she is still accountable to both the senior manager and the director. In the other department, the nurses-in-charge and lab manager report to the senior manager. The nurses in the MCH and delivery program are "peers," as shown by the horizontal line connecting them, as are the nurses and lab manager.

Create Job Descriptions

A job description explains the role and function of the position within the organization, lists the tasks and responsibilities involved, and describes the skills and qualifications for the position. The components of a job description are listed in Figure 3.2.

Figure 3.2. The Components of a Job Description

Job title, location, and supervisor

Date: when the description was developed

Job Summary: the purpose and function of the job within the organization

Job Duties: all of the responsibilities, tasks, and activities of the employee

Qualifications: including educational credentials, skills, and experience

Salary Range

A job description serves several purposes:

▶ Planning the organization's staffing needs: to determine the responsibilities of each position and outline how it contributes to the organization's overall goals and strategies.

▶ Hiring new staff: to ensure that the most qualified and skilled person is hired to fill a new or open position.

▶ Orienting newly hired or appointed staff members: to help them understand their role and how their position fits in with the rest of the organization.

▶ Evaluating employees' performance: to help define a performance plan and to review and appraise employee performance on all tasks and responsibilities.

▶ Developing the organization's overall salary structure: to determine the appropriate salary and benefits for each position.

A job description should be written for each new position created in your organization. Job descriptions also should be reviewed when new employees are hired to ensure that the description is accurate and to make any necessary adjustments. Job descriptions also should be revised if there are any changes in the organizational structure.

Exercise 3.3

Describe the importance of having job descriptions for every position in your organization.

As you develop a job description, ask yourself the following questions:

1. How will this particular position contribute to the achievement of the organization's mission and goals?

2. What values, principles, and characteristics would I like the employee to have, given our organization's mission statement?

3. What is the primary purpose of the job and how does it fit into the organization as a whole?

4. What are the specific activities, tasks, and responsibilities for the position? Note: If possible, similar activities should be grouped into categories. Categories could include management, administration, programming, and technical. This list should be action-oriented, stating the expected end result and explaining, in terms of tasks, how the end result is to be achieved.

5. What authority does the position have, and what are the subordinate, peer, or supervisory relationships of the job?

6. What are the qualifications, knowledge, and skills needed to successfully carry out the job? (These qualifications can be listed in terms of education, knowledge, or skills gained from particular professional experience, or as specialized experience such as supervision or language skills.)

7. What are the special requirements of the position, such as travel, extra hours, or evening work?

Exercise 3.4

Write a job description for your position, including all of the suggested components:

• Job title, location, and supervisor

• Date the description was developed

• Job Summary: the purpose of the job and the main responsibilities

• Job Duties: all the tasks and activities of the employee

• Qualifications including educational credentials, skills, and experience

Example: Job Description

Job title: Clinic Accountant

Location: Afya Clinic

Date: June 2000

Reports to: Ms. Mosha, Director of Finance and Administration

Job Summary: The Clinic Accountant is responsible for managing and implementing financial and accounting systems and programs for the purpose of asset control, budgetary planning, expenditure control and timely accounting reporting for the organization.

Job Duties

Accounting

Accounts payable and disbursements functions:

- Prepares vouchers for approval and signature.

Payroll function:

- Prepares and verifies the monthly payroll and deductions.
- Monitors payroll, benefits, tax and reporting procedure changes.
- Reconciles the payroll to accounting records.
- Processes and forwards timely payments to tax and benefit authorities.

Cash management:

- Enacts approved cash movements.
- Monitors and reports regularly on cash flows.
- Ensures sufficient petty cash on hand minimizes large balances of cash.
- Maintains bank accounts according to clinic policy.
- Prepares and reviews bank reconciliations.

General ledger:

- Maintains the monthly closing and processing schedule.
- Maintains general ledger up to date.

Monthly reports:

- Prepares monthly financial report in a timely fashion.
- Compares actual to budged expenses for month and year-to-date and provides report to the Director of F&A.
- Prepares special projects and analyses, including all donor reporting.
- Reviews and recommends changes to internal controls.
- Performs other relevant duties, as needed and requested by the clinic director.

Budgeting

- Prepares yearly and multi-year budgets for the clinic.
- Prepares project and donor budgets.

Qualifications

Education: University or technical school degree in accounting from an accredited institution.

Professional skills/knowledge:

Five to seven years of accounting experience in financial reporting, general ledger accounting, and project accounting.

Demonstrated experience with accounting and spreadsheet software.

Experience with USAID and EU contracting rules and regulations.

Personal: Strong oral, written and analytical skills. Team-oriented.

Develop Performance Plans

A **performance plan** is a detailed list of goals and objectives an employee is expected to accomplish during a particular timeframe, usually a year. A performance plan should be written for each employee based upon his or her job description. A performance plan should recognize and build upon the strengths of each employee and should identify and include training to improve his or her weaknesses.

By clearly detailing the goals and objectives for each employee, performance plans help clarify the roles of each person. By outlining the employee's goals and objectives, a performance plan also gives both the supervisor and the employee a clear understanding of what is expected in terms of job performance. This better enables the supervisor to monitor the employee on a day-to-day basis and also provides the basis for the employee's annual performance evaluation (discussed later in this chapter).

Involve the employee in the development of the plan.

Ideally, a performance plan is developed jointly by the supervisor and the employee in order to ensure that the goals and objectives are clear and acceptable to both. The supervisor is responsible for coordinating the development of other staff performance plans and therefore is responsible for seeing that there is no overlap, especially where there are shared responsibilities.

Joint development of the performance plan also increases the motivation of the employee to meet the performance plan objectives. Having both the supervisor and the employee sign the plan can also increase the employee's ownership of it.

Develop the performance plan.

A performance plan includes three sections, which are developed separately.

Step 1. Review the job description.
When writing a performance plan, first review the current job description with the employee and make any necessary revisions. The revised job description becomes the first section of the performance plan.

Step 2. List performance objectives.

The next section of the plan outlines in detail the performance objectives of the employee over the coming year. Performance objectives are specific tasks or activities to be carried out or goals to be achieved by an employee over a specific period of time. Performance objectives should relate directly to the organization's strategic objectives, and each employee's performance plan should include activities that help the organization attain the overall objectives outlined in the strategic plan. Performance objectives should be:

> Performance objectives are specific tasks or activities to be carried out or goals to be achieved by an employee over a specific period of time, generally a year.

▶ Detailed, explaining each task or activity clearly and simply

▶ Observable and measurable, either quantitatively or qualitatively (this helps determine whether the objective has been met during the performance appraisal)

▶ Time-specific and should include deadlines or timelines

▶ Consistent with the level of authority of the individual.

Example: Performance Plan

PERFORMANCE PLAN, Clinic Accountant, 2000

Job Description

    See job description from example on page 3-11.

Performance Objectives

    Review and update the internal control system and submit any recommended changes to the Clinic Director by 1 September.

    Provide all necessary documents to the external audit firm by 1 February and assist external auditors during the period 1-7 March.

    Meet with bank officials by 1 June to negotiate better banking terms for the clinic.

    Recommend new user fee schedule based upon client survey, government regulations, competitor rates, and actual incurred costs by 1 October.

    Vouchers prepared within two (2) working days.

    Monthly payroll processed by first day of the following month.

    Monthly financial report prepared within five (5) working days of the previous month's end.

Training Plan

    Participate in USAID training on United States Government accounting regulations for cooperating sponsors from 1-7 February.

    Participate in British Council training, "Establishing Internal Control Systems for Non-governmental Organizations," from 1-14 July.

Exercise 3.4

Write a performance plan for yourself.

Step 3. Develop a training plan.

Training plans detail how employees will build on their strengths, address their weaknesses, and learn new skills required for their positions. Training can be informal and internal to the organization, or it can be obtained externally if necessary and available. Any training an employee undertakes during the year should directly relate to his or her training plan and job responsibilities or to the employee's professional goals.

Establish a Performance Appraisal and Review Process

Ensure regular supervision.
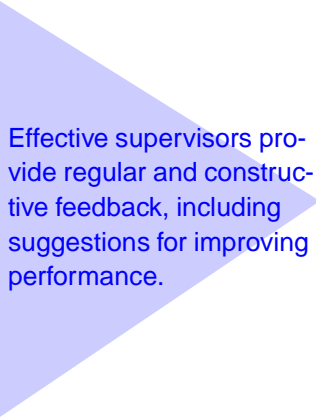
Supervisors must guide and support their staff members on a day-to-day basis. Ongoing monitoring and evaluation of staff performance should be based on the agreed performance objectives outlined in each employee's performance plan. The level of supervision needed for each employee depends on the skills and experience of the individual. More experienced staff members or those whose work is consistently of high quality require less daily **supervision** than inexperienced or under-producing staff members.

Effective supervision requires regular contact between supervisors and staff. Effective supervisors provide regular and constructive feedback, including suggestions for improving performance. They also provide positive encouragement and recognition of a job well done.

Effective supervisors also solicit the input of their staff members in planning and when making decisions, which increases employees' motivation and their feelings of ownership about the organization. Staff input may be particularly beneficial for decisions that require technical expertise or directly impact the work of the staff.

Implement quarterly reviews.

An informal staff performance review every three months can be used to regularly monitor staff performance vis-à-vis the performance plans and to work through any problems the employee is encountering. Such **quarterly reviews** should revolve around a discussion between the supervisor and the employee about the employee's progress in achieving his or her performance objectives. The discussion should include problem areas and suggestions for overcoming any difficulties. The supervisor should take notes during the quarterly review, and these should be used to prepare the end-of-year performance appraisal.

Effective supervisors provide regular and constructive feedback, including suggestions for improving performance.

Carry out an annual performance appraisal and review process.

A supervisor should carry out an annual performance appraisal with each employee, not only to review the activities and achievements of the past year, but also to plan for the coming year. The performance appraisal also helps document problems and poor performance. The annual performance appraisal and review should be used to determine salary increases, promotions, changes in job description, and, when necessary, dismissal of staff members whose performance is unacceptable.

A performance appraisal is carried out in three steps.

Step 1. Prepare for the performance review session.

1. The supervisor schedules a separate time with each employee to discuss his or her annual performance review.

2. Prior to the performance review session with the employee, the supervisor fills out a performance appraisal form, which should be standardized for all employees. The form should include the following sections:

   ► Job description and performance objectives for the period
   ► Training plan
   ► Achievement of job description and performance objectives
   ► Completion of training
   ► Overall comments
   ► Comments by the employee.

3. The supervisor's performance appraisal form is considered a first draft. The supervisor shares the form with the employee before the review session so that the employee has an opportunity to respond to the appraisal in writing.

Step 2. Implement the performance review session.

1. The supervisor discusses with the employee the content of the appraisal, in addition to the written response of the employee. The supervisor must listen, respect, and duly consider the comments of the employee.

   ► If the supervisor agrees with the response and comments of the employee, these comments should be included in the final performance appraisal form.

   ► If the supervisor does not agree with the comments of the employee, the supervisor should clearly explain why and provide

concrete examples to support the explanation. This explanation also should be included in the final performance appraisal form.

2. The supervisor points out those areas in which the employee has performed well.

3. The supervisor discusses with the employee any areas needing improvement. This discussion should be open and constructive, and both parties should enter it with an open mind. Developing the employee's performance plan for the following year presents an opportunity to address any weaknesses in a positive way.

4. The supervisor and employee discuss the employee's performance plan for the following year. The tasks and activities included should be based on the previous year's plan as well as the performance review they are conducting.

Step 3. Complete the final performance appraisal form.

After the review meeting, the supervisor prepares a final performance appraisal form, which is signed by both the supervisor and the employee. Employees should be encouraged to note any final comments or document any concerns, but these are not formally part of the final assessment.

Exercise 3.5

1. Develop a performance appraisal review form for your organization. Be sure to include all six components listed on page 3-16.

2. Ask at least two other members of your organization to review and comment on the form. One of the reviewers should be in a supervisory position in the organization, and the other should be an employee without supervisory responsibilities. Revise the form, as needed, based upon their feedback.

3. Carry out the performance appraisal and review process with a volunteer from your organization. Upon completion of the process, ask the volunteer for feedback.

4. Make any necessary adjustments or changes to the process to better fit the needs of your organization.

Management Accounting

Purpose

Enhance your ability to deliver services more efficiently and effectively through better resource planning and control and improved feedback.

Target Skills

1. Explain how management accounting information can benefit your organization.
2. Determine the level of cost recovery in your organization.
3. Identify how the level of cost recovery in your organization can be improved.
4. Explain how your organization addresses its constraining factors and makes use of its driving forces.
5. Describe ways in which your organization is seeking to improve the quality of the services it offers.

Management Accounting

In order for private, nonprofit health care organizations to be sustainable, they must be competently managed. Many health care organizations are now managed by good people who have a strong commitment to their work but lack critical skills necessary for effective resource planning and management. This chapter introduces some important concepts in management, which when properly applied, can improve the sustainability of health care organizations.

Some Key Terms

Management

Management is the process of creating an environment in which resources can be used to their best advantage to realize the organization's goals. The management process revolves around decision-making, which involves choosing between alternatives in order to achieve an objective. A key ingredient in the management process is the availability of feedback because this allows the consequences of management action to be evaluated. Accounting is part of the information systems that provide feedback to management.

Accounting

An accounting system is designed to measure, record, and report in financial terms the flow of resources in and out of an organization. Accounting is part of an organization's information system. Management is the primary user of accounting information, although there are many other users as well.

The general field of accounting can be broken down into two broad disciplines, each of which caters to the needs of a different group of decision-makers:

▶ **Financial accounting** targets both internal users of accounting information and external users such as funding/collaborating agents, investors, bankers, and government officials. Typically, financial accounting produces summary-level statements that describe the financial status of an organization. The information is generally organized around certain regulated or standardized formats of financial bookkeeping and measurement.

▶ **Management accounting** (which is also known as managerial accounting and includes cost accounting) seeks to address the decision-making needs of the people inside organizations who are charged with directing and controlling resources. These people typically include clinic managers, department managers, and clinicians with various responsibilities. Management accounting helps managers make informed decisions. For example, management accounting can provide useful information on:

Management accounting addresses the decision-making needs of the people who control the organization's resources.

    ▶ Budgeting, including planning and forecasting

    ▶ Pricing

    ▶ Performance and productivity measurement

    ▶ Cost control

    ▶ Investment and divestment decisions, for example, whether to invest in a new service such as a laboratory or to discontinue an existing service such as a program that no longer receives donor funding.
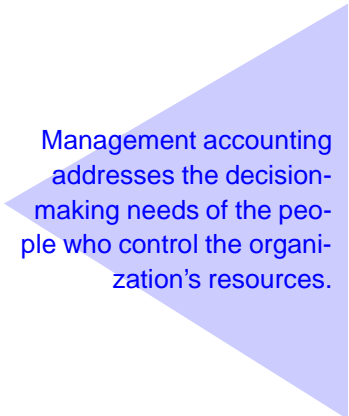
(Note: Management accounting emphasizes the use of information for management decision-making, while cost accounting addresses the specific processing and evaluation methods used to create meaningful management accounting information. In practice, however, the two terms, management and cost accounting, are used interchangeably.)

The information provided by both financial accounting and management accounting is critical to the success of any business. In this respect, health care providers must adopt business-like accounting systems to generate reliable information for decision-making. In many cases, creating such management accounting systems involves analyzing historical information. For example, historical information can be quite useful for setting goals for cost control or establishing trends for budget expenditures. A solid understanding of the historical relationships of costs and activities empowers the decision-maker to make better decisions about future activities.

Control

Controls are regulations or procedures within an organization. Operational control is important for sustaining an organization's successes by improving its ability to consistently reap the benefits of sound management. Controls are established to:

    ▶ Safeguard organizational assets
    ▶ Check the reliability and accuracy of accounting data

▶ Promote operational efficiency and effectiveness

▶ Encourage the adherence to prescribed policies.

Internal controls seek to reduce the risks of unauthorized acquisition, use, or disposition of assets. Internal controls also help ensure the accuracy and reliability of financial information reported to management and to external organizations. Chapter 10 of this manual gives specific guidelines and recommendations for implementing internal control procedures within a health care organization.

The Use of Management Accounting

In the health sector, management accounting provides information for use by managers in decision-making. This section outlines how some types of management accounting information are commonly used in health care organizations and how such financial information can be complemented by other statistical data generally available to management.

Pricing

An understanding of the nature of costs and their behavior can help management set realistic prices. In setting prices, managers must understand the costs of making the organization's services available to the community. For example, they may choose to set a price that only covers part of their direct costs (for example, drugs and medical supplies); or they may set a price that covers all direct costs (for example, including staff costs linked to providing a specific service). Costs are described in more detail in Chapter 7 on Cost Accounting.

> *Setting prices requires an understanding of the cost of making services available to the community.*

However, while analyzing costs is an important step in setting fee levels, pricing is a complex exercise, and many other factors must also be considered. These include:

▶ The market: What prices are other health care providers charging for similar services?

▶ The ability and willingness of patients to pay for services: Many organizations set prices by trial and error, starting low and gradually increasing them as they monitor the reaction of patients.

▶ Government or other controls: These can cap how much can be charged.

▶ The availability of government or other subsidies: Subsidies can prevent the full cost of some services from being charged to patients.

Cost Control
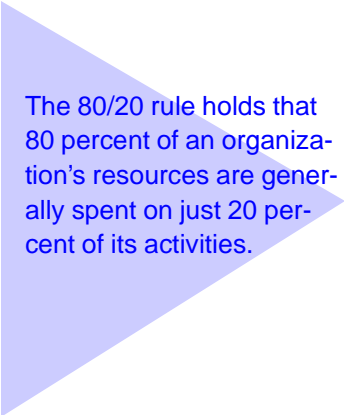
Management accounting facilitates the analysis of costs. Such analysis enables management to exercise closer control over costs by reducing inefficiencies and focusing on cost-effective ways of service delivery. When confronted by escalating costs, many clinics respond inappropriately because they have inadequate information. For example, they might introduce cost-cutting measures that do more harm than good.

> *Cost analysis enables management to reduce inefficiencies and focus on cost-effective ways of delivering services.*

You can use cost analysis to determine what parts of your organization consume the most resources and to identify areas for potential cost savings. Concentrating on your most significant costs follows what is called the **80/20 rule,** a rule of thumb that 80 percent of an organization's resources is generally spent on just 20 percent of its activities. The 80/20 rule can help you focus on areas that use the most resources. For example, in many health care organizations, two items — staff and drugs/medical supplies — account for up to 70 percent of total costs.

Another tool for cost control is to continually review service delivery methods/protocols to ensure that clients/patients are treated in a way that optimizes the use of resources. The focus should be on eliminating waste by avoiding repeated or unnecessary treatments — that is, doing the right things at the right times, and doing things right the first time. For example, misdiagnosis of a patient who is then given the wrong treatment wastes staff time, administration time, drugs, and diagnostic supplies. Revisits by patients for treatment of the same condition also drain the patients' resources (i.e., time and money). The cost of failing to get things right the first time has been called "the cost of poor quality."

> The 80/20 rule holds that 80 percent of an organization's resources are generally spent on just 20 percent of its activities.

Budgeting

Management accounting information can facilitate the preparation of meaningful budgets, which in turn provide useful measures for monitoring financial performance. Management accounting information allows an organization to do the following:

▶ Review historical data and use it to forecast future financial transactions.

▶ Focus on key cost items, such as staff salaries and drugs, which typically consume the majority of financial resources.

▶ Encourage variance reporting and analysis, which makes the budget a useful tool for monitoring expenditure. (Budgeting is covered in detail in Chapter 6).

Performance Indicators

Management accounting information supports the analysis and reporting of the relationship between outputs (goods and services) and inputs (costs that have contributed to their production). Common performance indicators in the health sector include:

▶ Cost per outpatient visit

▶ Cost per inpatient day

▶ Cost per CYP (Couple Year of Protection)

▶ Number of patients or clients per full-time staff member

▶ Number of laboratory tests per laboratory staff member

▶ Cost recovery percentage by service area: the percentage of expenditures by a service area (for example, family planning services) that are recovered by that area's income

▶ Staff utilization: staff time used in service delivery as a percentage of the total staff time available during the period.

A Cost Analysis Summary

The example below shows the summary page of a report to the management staff of a clinic. The data from their accounting system is further analyzed in a spreadsheet and broken down into their key service areas. Before the cost analysis was done, the managers used to receive a report that only showed the "Total" column. They knew that the clinic was losing money, but they had no clear idea of the source. They were also under the false impression that their laboratory was making a lot of money.

The report also shows the utilization of staff in each of the service areas and the unit costs of the services provided by each service area (calculated by dividing the total costs or expenditures for each area by the total number of services for that area). The unit cost per service analysis helps managers determine how best to control costs or improve productivity in any of the service areas, and it shows the extent to which various services are being subsidized for the patient. It is also a useful tool for controlling revenues — the average revenue per unit can be compared with the known charges for the most common services to ensure that the reported revenues are reasonably close to expectations.

Example: Cost Analysis Summary

	Total	Family Planning	Non-Family Planning	Laboratory	Adminis-tration
Volume of services (visits; lab tests)		5,267	539	1,510	
Number of CYPs		11,943			
INCOME	**209,450**	**97,750**	**51,200**	**60,500**	
EXPENDITURES					
Service provider salaries	91,819	66,516	20,694	1,439	3,170
Supplies used	26,543	5,013	13,117	8,413	
Incentives	2,789	2,020	629	44	96
Other operating costs – maintenance	340				340
Non-service provider salaries	51,733	–	–	16,781	34,952
Training	9,187				9,187
Rent	27,000				27,000
Travel and vehicle costs	16,627				16,627
Marketing and promotion	25,875				25,875
Professional fees	1,987				1,987
Interest and bank charges	244				244
Depreciation	63,177				63,177
Other overhead	72,449				72,449
Total before allocation of indirect costs	389,770	73,549	34,440	26,677	255,104
Indirect costs allocated on basis of direct method	–	139,328	65,240	50,536	(255,104)
Total expenditures after allocation	**389,770**	**212,877**	**99,680**	**77,213**	**–**
Surplus (Deficit)	**(180,320)**	**(115,127)**	**(48,480)**	**(16,713)**	
Cost recovery (Income/Total Cost)	**53.7%**	**45.9%**	**51.4%**	**78.4%**	

Staff utilization based on reported workload	
Doctor	21%
Nurses	44%
Health Assistant	34%

Unit costs of services provided	**Family Planning**	**Non-family planning**	**Laboratory**
Average Cost per CYP	17.82		
Costs per unit of service (per visit; per lab visit)	40.42	184.94	51.13
Average revenue per unit of service	18.56	94.99	40.07
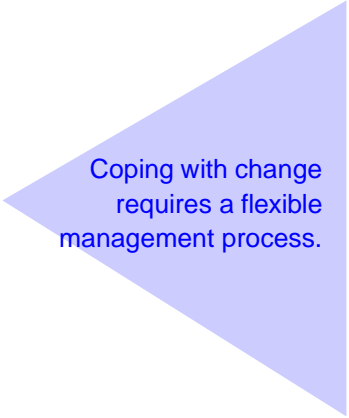
Management and Change

One pressing issue that confronts organizations in the health sector, as in all sectors, is change. Organizations must deal with change in their external environment (social, economic, political) as well as with change from within (changing employee perceptions and expectations). The way business is conducted has changed rapidly in recent years, which presents a constant challenge. Competition from other health care providers is greater than ever. Organizations are forced to recognize and practice business concepts that were quite foreign only recently.

Coping with change requires a flexible management process. Managers must constantly reexamine the way they do business and must be willing to change with the times. In short, an organization will not succeed if it adopts the attitude of "business as usual."

Here are some examples of a "business as usual" approach:

Coping with change requires a flexible management process.

▶ NGO health care providers continue to expect that the solutions to their sustainability problems will be found externally and will be donor-led.

▶ Stakeholders who are not directly involved in the delivery of health care continue to dictate what is best for a health care organization, whether it is viable or not, transforming the health facility into merely another fringe benefit for community leaders, senior church workers (for mission hospitals), or other stakeholders.

▶ The primary qualification for the chief executive of a health facility is that he or she be a medical person (doctor, clinical officer, or nurse), rather than that he or she has the skills to manage the business affairs of the particular facility.

▶ Financial management systems are given last priority and most resources continue to be consumed by program activities. Accounting departments remain understaffed and under-skilled, comprised mainly of bookkeepers with little time and few skills to produce meaningful management information.

Clients

For health care organizations, the process of managing change begins with an acknowledgment that the present ways of operating and providing health services may be inadequate. Managing change can even mean changing the nature of the services themselves to meet the shifting demands of clients.

Health care providers must look at their clients differently by asking the following questions:

▶ Do we really know our clients? Do we have an accurate profile of them that helps us understand their needs, social status, expectations, etc.?

▶ What do our patients want, and how can we best deliver these services to them?

▶ Does our organization's staff have the right mix of skills to deliver the services our patients want?

▶ Do our staff members understand our customers and stand ready to meet their needs?

Stakeholders

Stakeholders are people who have an interest in the success of an organization for personal, business, or political reasons.

Every organization has **stakeholders** — people who have an interest in the success of the organization for personal, business, or political reasons. Your stakeholders may include some or all of the following:

▶ Patients

▶ Community leaders (including religious leaders for mission hospitals, local government administration officials, political leaders, etc.)

▶ Members of the board of directors

▶ Doctors

▶ Staff members

▶ Government leaders

▶ Donors.

Exercise 4.3

1. List the key stakeholders in your organization.
2. Prioritize the key stakeholders in your organization.

An organization can fully achieve its goals only when it understands and accommodates the expectations of its stakeholders. The interests of some stakeholders may at times be contrary to the demands of organizational or financial sustainability, and a special effort may be required to reconcile the organization's operations with the interests of its stakeholders. Otherwise, the stakeholders can hinder the organization's efforts to fulfill its goals. On the other hand, when managers have reconciled the institution's operations with the expectations and interests of its stakeholders, they can better focus their attention on addressing the major forces that are working for or against the organization.

Example: Understanding the Needs of Stakeholders

A clinic starts to charge fees for services that were previously provided free of charge. The patients resist and even stop coming to the clinic (at least for a while) in protest. Community leaders side with the patients in order to gain popularity and to be seen as protecting the interests of their constituents. In responding, clinic managers must carry out their public relations functions very carefully: they must show that they considered the interests of the community and the patients before they introduced or raised fees, and they must show the benefits that will accrue to the affected stakeholders as a result of this action. In short, they must try to reconcile the clinic's interests with those of the affected stakeholders.

Constraining and Driving Forces

Two main types of forces affect the ability of an organization to successfully achieve its goals and objectives: **constraining forces** are negative and work against the organization, while **driving forces** are positive and work for the organization. These forces can be external or internal to the organization.

▶ Constraining forces are all the factors management must overcome to achieve the organization's goals. The challenges that confront most nongovernmental organizations dealing with issues of sustainability include:

> ▶ Bad information or a lack of sound management information upon which to make decisions.

> ▶ Poor organizational management, usually resulting from an inability to hire qualified managers.

> ▶ Lack of skills among staff to do the work for which they are responsible.

> ▶ Poor staff motivation due to inadequate or misdirected incentives.

▶ Driving forces are all the factors that enhance the ability of an organization to achieve positive results, and these often counter the constraining factors described above. They include:

> ▶ Strategy: A well-written strategic plan gives management the direction to guide the organization toward the most effective path for achieving its mission.

> ▶ A qualified staff is often described as the most important asset of any organization. The staff's value, in fact, depends on whether its skills match the needs of the organization.

> ▶ Technology is a valuable tool when it is appropriate for the organization's size, operations, and staff skills.

> ▶ Budgets and plans help control the use of resources and direct them toward achieving the organization's goals in a cost-effective way.

> ▶ Well-targeted incentives provide staff members with the motivation to "go the extra mile" and put in more effort than they would otherwise.

Exercise 4.4

1. List the major constraining factors affecting your organization.
2. For each major constraining factor, explain what actions you could take to address them.
3. List the essential driving forces affecting your organization.
4. For each driving force, explain how to maximize its benefits to your organization.

Quality

Any health care organization that seeks to remain viable must ensure the continued quality of the health care services it provides. In health care, as in other service sectors, clients/customers choose whether and where to buy based on the quality of service.

Points of View

The definition of quality varies depending on the source. Health care providers tend to define quality more by the technical aspects of the service provided. Patients are more likely to base their definitions of quality on their perceptions about the services they receive. The following effectively sums up the dilemma:

> There is a need to understand the components of quality, such as quality in fact and in perception. Quality in fact occurs when an organization meets professionally established specifications. Quality in perception, on the other hand, is quality defined by the patient…based upon their perception of whether a product or service is as good or better than it was expected to be.

Management can best address health care quality by examining the issue from the following three different points of view.

▶ Technical: Here we are concerned with the technical competence of the caregiver, the proper use of diagnostic and other equipment, and the correct implementation of other processes used to arrive at the correct diagnosis and prescribe the correct treatment. This aspect of quality is primarily the domain of the health care providers, because they are most competent to determine whether treatment meets the technical criteria of quality.

▶ Personal service: Patients' perceptions of the services they receive are important. Patients need to feel that they are valued as individuals and that they are well cared for. They want to feel they are understood and that their fears and concerns are being taken into account. Waiting times and other inconveniences in receiving care can negatively affect perceptions of quality from a service point of view.

▶ Administrative or managerial: This third aspect of quality is what enables organizations to ensure the first two. Quality from an administrative or managerial point of view means providing care in a manner that is affordable to the patient and in an environment that is motivating for the staff.

A commitment to quality forces health care organizations to look outward and to concentrate on the end results of its activities.

Looked at from these three points of view, a commitment to quality forces health care organizations to look outward and to concentrate on the end results of its activities.

Financial Accounting

Purpose

Help you present data clearly and accurately and better interpret your organization's financial reports.

Target Skills

1. Explain how to use financial statements for decision-making.
2. Calculate some basic financial ratios to determine the financial health of your organization.

Financial Accounting

A primary responsibility of management is to ensure the financial health of the organization. This requires an understanding of fundamental financial concepts, financial reports, and some key tools for analyzing financial data. The proper presentation of financial accounting data can greatly facilitate both the preparation of management accounting information and the fulfillment of external reporting requirements. Given their limited resources, it is particularly important for not-for-profit organizations to adopt a business-like attitude toward their financial operations and the way they present financial information to stakeholders. One manager summed it up well when he said, "Nonprofit is a tax status not a management style." In other words, diligent stewardship of financial resources and prudent decision-making are critical to the sustainability of both for-profit and not-for-profit organizations.

As explained in Chapter 4, financial accounting serves the information needs of both internal and external users. External users include funding/collaborating agents, investors, bankers, and government officials. Typically, financial accounting produces summary-level statements that describe the financial status of an organization. The information is generally organized around certain regulated or standardized formats of financial bookkeeping and measurement. This chapter introduces the basic methods by which financial information is recorded.

Financial Statements

Financial statements are summaries of the information contained in the accounting records of the organization. Financial statements are important tools for monitoring the organization's activities. Management can track performance through periodic financial reports (monthly, quarterly) that compare planned activities with actual performance. Some organizations produce numerous reports, which are filed away without much notice. Sometimes the reports themselves are not useful — they may be too late, the data may be unreliable, they may contain unnecessary detail, or they may simply be poorly prepared and difficult to read. In other cases, the intended users may not have the skills needed to interpret the reports. In any case, preparing reports that are not useful consumes valuable resources (staff time, stationery, etc.). In fact, the discipline of preparing regular, accurate,
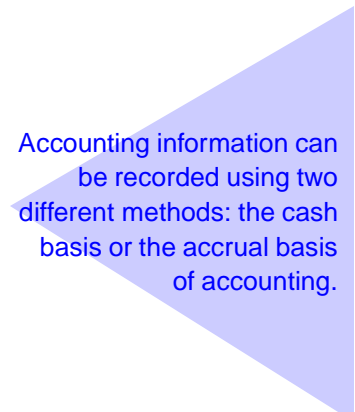
timely, and useful financial statements is essential for improving the sustainability of any organization because it enables management to evaluate the organization's performance and take timely action to correct problems.

There are many kinds of financial statements (reports). This chapter introduces two kinds of financial statements that every manager should understand: an income and expenditure statement and a balance sheet.

Methods of Recording Accounting Information

The usefulness of information in financial statements depends on the accuracy of underlying accounting records and the soundness of the accounting policies used in their preparation. Accounting information can be recorded using two different methods:

▶ **Cash Basis of Accounting**: In this method of bookkeeping, income or expenses are considered to have occurred upon receipt. That is, a cash-basis report shows income only if it has been received and expenses only if they have been paid. For example, a cash-basis report on sales will not include the amount of an invoice for which payment has not been received. A report generated from such a system is also called a "Receipts and Payments Statement."

▶ **Accrual Basis of Accounting**: In this method of bookkeeping, income or expenses are considered to have occurred at the time the service is rendered or the purchase made. Under this method, the entry of a transaction may be separate from the actual receipt of the income or payment of the bill.

Accounting information can be recorded using two different methods: the cash basis or the accrual basis of accounting.

An Account or Chart of Accounts

An account is simply a category of revenue, expenses, assets, liabilities, or funds. Rather than lumping all financial records into one account, an accountant breaks each financial transaction into a category in order to make it more informative. A **chart of accounts** is the entire listing of all accounts.

The design of the chart of accounts is very important, because the way transactions are recorded in the accounting records determines what types of reports can be prepared and the ease with which they can be created. When possible, a chart of accounts should be detailed enough to capture information on the following:

▶ Income from each source (separately). For example, fee income should be shown by source, such as outpatient, laboratory, maternal and child health (MCH), family planning (FP), wards (where the facility has inpatients, e.g., maternity patients), etc.

▶ Costs by expense type and, if possible, the area/cost center to which that expense relates. For example, drugs and medical supplies can be shown separately for laboratory, contraceptives, other non-pharmaceuticals, pharmaceutical supplies, etc.

Exercise 5.1

Determine which method of bookkeeping your organization uses — cash or accrual?

The more detailed the chart of accounts, the easier it is to analyze costs and income. (The subject of cost analysis is covered in detail in Chapter 7.)

The Income and Expenditure Statement

The income and expenditure statement summarizes the organization's transactions, comparing income and expenses over a specific period of time, generally monthly, quarterly, or annually. The statement shows either a surplus or a deficit (profit or loss in for-profit organizations). Some consider the income and expenditure statement to be one of the more important financial statements because understanding historical trends is essential for making sound predictions of future income and expenditure. For example, many organizations include budget comparisons in their income and expenditure statements to track how well management has adhered to the authorized budget. The example on the next page shows an income and expenditure statement for the Afya Clinic.

> Some consider the income and expenditure statement to be one of the more important financial statements because understanding historical trends is essential for making sound predictions for the future.

Analyzing an Income and Expenditure Statement

Relevant Ratios from the Income and Expenditure Statement
Some ratios that can be computed from an income and expenditure statement can be useful management tools, including those that follow.

Cost Recovery Ratio. The ratio of income from patient fees to total costs of the related services. In the example on the next page, the cost recovery ratio (before any of the support service costs are allocated) would be:

20,000/23,500 = 85%

You can also compute the cost recovery ratio based on the total costs of running the clinic:

20,000/90,500 = 22%

Staff Productivity Ratio. Staff productivity can be measured by dividing total income by the number of staff (full-time) employed in the production of that income.

General Overhead Ratio. This is calculated by dividing general overhead by total costs. In this example, the overhead ratio is:

19,500/90,500 = 21.5%

Some donors may frown at an overhead ratio that is greater than 10 percent, as they expect management to devote most of the resources available to programs that directly benefit the community.

Fundraising Ratio. This is calculated by dividing fundraising costs by non-patient fee income. This shows the success of the organization in its fundraising efforts. "Spend money to make money," is a slogan often used to jus-

Example: Income and Expenditure Statement

AFYA CLINIC INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999				
	Restricted (Designated) $	Unrestricted (General) $	TOTAL 1999 $	TOTAL 1998 $
INCOME				
Patient fees		$40,000	40,000	34,000
Government grant		5,000	5,000	–
Other Donor	40,000	2,000	42,000	40,000
Total Income	40,000	47,000	87,000	74,000
EXPENDITURE				
General Program Services				
Staff costs	–	10,000	10,000	7,500
Drugs and supplies	–	7,000	7,000	6,000
Maintenance	–	2,000	2,000	3,500
Travel	–	3,000	3,000	3,200
Other	–	1,500	1,500	2,000
	–	23,500	23,500	22,200
HIV Prevention Program				
Training	23,000	–	23,000	2,500
Travel	4,000	–	4,000	500
Salaries	8,000	2,000	10,000	2,000
	35,000	2,000	37,000	5,000
Immunization Program				
Salaries	4,000	–	4,000	7,500
Supplies	6,000	500	6,500	8,000
	10,000	500	10,500	15,500
Support Services				
Staff salaries	–	12,000	12,000	11,000
Other office expenses	–	5,000	5,000	6,500
Fundraising	–	2,500	2,500	1,000
	–	19,500	19,500	18,500
Total Expenditure	45,000	45,500	90,500	61,200
Surplus (Deficit) for the year	(5,000)	1,500	(3,500)	12,800
Fund balances at start of year	50,000	14,845	64,845	52,045
Fund balances at year end	45,000	16,345	61,345	64,845

tify expenditures on fundraising, but it is important to monitor the returns on the organization's investments in fundraising. Of course, fundraising also yields other intangible benefits such as heightened exposure of the organization among other nongovernmental organizations (NGOs), contacts with government officials, or an enhanced profile in the market that spurs more clients to choose its services.

Exercise 5.2

1. What period of time is covered by the income and expenditure statement in the example?

2. What was the total fund balance at the end of 1998? At the end of 1999?

3. Create an income and expenditure statement for the most recently ended fiscal period (month, quarter, year) for your organization.

4. Calculate the cost recovery ratio for your organization. What does this ratio mean?

The Balance Sheet

The balance sheet describes the relationship between assets, liabilities, and fund balances at a specific point in time (on a specific date). The balance sheet is a report that summarizes the financial position of an organization. It is called a balance sheet because the value of assets is always exactly equal to the combined value of liabilities and funds. The accounting equation is:

<div align="center">assets = liabilities + funds</div>

Below are explanations of some of the components of the balance sheet, and a sample balance sheet is provided in the example.

The balance sheet summarizes the financial position of the organization by describing the relationship between assets, liabilities, and fund balances at a specific point in time.

Assets

Assets are the things your organization owns. These include fixed assets and current assets.

▶ **Fixed assets** are the assets you do not expect to convert into cash during one year of normal operations. A fixed asset is usually something that is necessary for operating the business, such as a vehicle, furniture, cash register, or a computer.

▶ **Current assets** are the assets you are likely to convert to cash within one year. They include the cash on hand, money in current and savings accounts, and the money your customers owe you ("accounts receivable" or "debtors").

Liabilities

Liabilities are what you owe; they are the unpaid obligations of the organization. The ones that are payable within a year are called "current liabilities" and include creditors or accounts payable (which often comprise unpaid invoices). Those that are payable over a period of more than a year are long-term liabilities, e.g., bank loans.

Fund Balances

Fund balances are split between capital funds, operating funds, and restricted funds.

Capital Funds

Capital funds represent the fixed assets of the organization. All movements in fixed assets (purchases, disposals, depreciation, revaluation, etc.) are accounted for through this fund.

Operating Funds

Operating funds show the resources available to the organization for its operations, and include cash and other current assets.
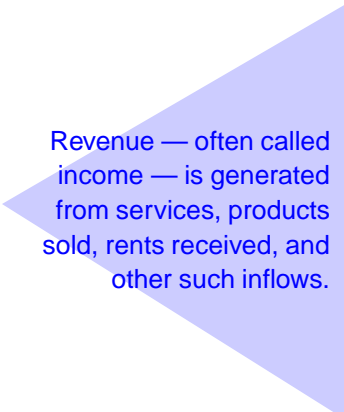
Restricted or Designated Funds

Restricted funds, also called "designated funds," are resources that have been earmarked for specific purposes and may not be used for the general operation of the organization without specific approval of the donor (or entity that imposed the restriction). Many health care organizations are given funds for special purposes and activities or in accordance with special regulations, restrictions, or limitations. These special funds may not be mixed with other funds or spent in any way other than as intended. In some cases, organizations may be required to maintain specific books of account, separate from the organization's general financial accounting system, to record all sources and uses of restricted cash, related liabilities and assets, balances, and residual amounts to allow the donor to monitor compliance. Failure to maintain such records in accordance with the restrictions and terms may mean termination of the funding.

Revenue and Expenses

Revenue is often called income and is generated from services, products sold, rents received, or other such inflows. Money that is borrowed is not revenue but a liability (debt). Expenses are the sums paid for supplies, labor, materials, and other goods and services that the organization employs or "buys." Revenue minus expenses yields a surplus or a deficit:

Revenues – expenses = surplus (deficit)

Revenue — often called income — is generated from services, products sold, rents received, and other such inflows.

Example: Balance Sheet

AFYA CLINIC **BALANCE SHEET ON 31 DECEMBER 1999**		1999 $	1998 $
ASSETS			
Fixed Assets	**(A)**	**18,846**	**23,629**
Current Assets			
Prepaid expenses		4,337	28,189
Accounts receivable		3,000	12,500
Short-term investments		90,000	35,000
Cash at bank and in hand		24,008	9,156
Total current assets	**(B)**	**121,345**	**84,845**
LIABILITIES			
Current Liabilities			
Accounts Payable	**(C)**	60,000	20,000
Net Current Assets (Liabilities)	**(B) – (C)**	61,345	64,845
Net Assets	**(A) + (B) – (C)**	**80,191**	**88,474**
FUND BALANCES			
General Operating Fund		16,345	10,500
Designated (Restricted) Funds		45,000	54,345
Capital Fund		18,846	23,629
		80,191	**88,474**

Assets (A+B) = Liabilities (C) + Fund Balances (D)

For 1999,

18,846 + 121,345 = 60,000 + 80,191

    $140,191= $140,191

Analyzing the Balance Sheet

The balance sheet helps you identify and use various relationships (ratios) that indicate the fiscal health of the organization. Some ratios that may be useful to compute from the balance sheet include:

Relevant Ratios from the Balance Sheet

Current Ratio. This is the ratio of current assets to current liabilities and shows the ability of the organization to pay its liabilities as they fall due:

Current ratio = current assets (CA)/current liabilities (CL).

In the example for Afya Clinic above, for the year 1999, the ratio is:

121,345/60,000 = 2.02

This indicates that there are more than two times of current assets for every unit ($, Shilling, Kwacha, Rand, etc.) of current liability owed. The current ratio should be greater than 1.

This ratio should be used with caution, bearing in mind the composition of your current assets. For example, how easily can you convert your current assets into cash? How recoverable are your accounts receivable?

Quick Ratio. This ratio gives an indication of how "liquid" the organization is by comparing its most liquid assets (cash and other near-cash assets like short-term investments) to its current liabilities. ("Liquid" refers to the ability to convert assets to cash.)

Quick Ratio = Liquid Assets / Current Liabilities

For the year 1999 above, this ratio was:

(Cash in bank or at hand + short-term investments)/current liabilities

114,008/60,000 = 1.9

This represents a very liquid position.

When considering the adequacy of the quick ratio, you should consider the composition of your current liabilities and when they fall due. If all of your current liabilities are due and payable within the next 30 days, you should aim for a quick ratio of 1 or better. A ratio of less than 1 indicates that liquid assets cannot cover current liabilities.

Note: The two ratios above should be used with caution because they only show the organization's position at a given time and do not give a full picture of anticipated cash flows. For example, they do not take into account any commitments to incur expenditures that have not been realized. The situation of the clinic would change considerably, for example, if it purchased a motor vehicle and equipment for $70,000 immediately after the 1999

Exercise 5.3

1. Calculate the current ratio and quick ratio for 1998, based on the example balance sheet figures. Do the results indicate a healthy financial situation for the clinic?

2. Create a balance sheet for your organization for a recent date.

3. Calculate two key ratios for your organization from the balance sheet.

4. Do the ratios show that your organization was in a good financial position at that time?

year-end and before paying off any of their accounts payable. The quick ratio would then be:

$$(114,008-70,000)/60,000 = 0.7$$

This is not particularly healthy if accounts payable are to be paid within 30 days.

In addition, the restricted (designated) fund portion of the Current Asset and Current Liability needs to be excluded while computing both the Current and Quick ratios.

Designated Funds Cover. This is a ratio of cash and near-cash assets to the designated (restricted) fund balances. Available liquid assets should always cover these restricted funds. Therefore, the ratio should be greater than 1. For 1999, the ratio is:

$$114,008/45,000 = 2.5$$

The same ratio for 1998 is:

$$44,156/54,344 = 0.81$$

The ratio for 1998 reflects the situation that some of the designated funds were used for operations or were tied up in prepaid expenses.

Budgeting

Purpose

Use budgeting to employ your organization's limited resources in the most efficient and effective way.

Target Skills

1. Describe the five components typically found in a health facility budget.
2. Explain how to use budgets as a tool for controlling operations.

Budgeting

A **budget** is a detailed plan for the future that describes in formal, measurable terms how resources will be acquired and used during a specific period of time. A budget is an important tool for directing how resources are spent to achieve an organization's goals because it expresses the plans of management in financial terms by matching activities with available resources.

Because a budget is a written plan, it is a reference for setting and evaluating goals. The management of a health facility can use budgets for monitoring trends in various budgeted items in the facility over time, explaining large variations between actual expenditures and budgets during the budget period and monitoring the achievement of internally established goals. In short, a budget helps managers employ the organization's limited resources in the most efficient and effective ways.

The key to sustainability for nonprofit health care organizations is the efficient and effective use of resources. It is critical that these organizations target available resources to the activities that contribute most to achieving their mission. The process of preparing a budget helps management focus on issues that are important in the context of the organization's mission. When reviewing a budget, managers should ask:

> ▶ Are resources allocated fairly and objectively? For example, have resources been appropriately allocated to community health outreach versus services in the static clinic?
>
> ▶ Does the budget incorporate the strategic objectives of the organization? Do budgeted activities support the achievement of the organization's goals?
>
> ▶ What assumptions have been made in preparing the budget, and are they valid? Have assumptions that were valid when the budget was prepared been rendered invalid by changing circumstances?

Your health care organization can also use the budgeting process to help evaluate the manner in which you are delivering services and whether improvements can be made — an important key to sustainability. It is especially critical to examine those areas that make the most impact on cost savings or revenue generation, for example, by asking:

> ▶ Can we do this differently in order to make better use of our resources?

A budget improves sustainability by helping managers employ the organization's limited resources in the most efficient and effective ways.

▶ Is this activity necessary at all? Can we do away with it for the sake of achieving our long-term mission?

Some organizations prepare budgets that are not meaningful; they simply take the previous year's budget and add 10 percent (or some other amount) to cover for inflation and increased activity. This type of poor budgeting contributes to the lack of sustainability of many nongovernmental organizations. A well-prepared budget benefits the long-term sustainability of the organization by helping answer such questions as:

▶ What would be the cost savings if a specific department or activity were eliminated?

▶ What are the reasons behind the non-achievement of planned activities? Were there cost overruns? Was staff productivity lower than planned? Was there inefficiency?

▶ Over what costs am I, as a manager, expected to exert control and to manage efficiently and effectively?

Performance Reporting

Many health organizations have decentralized their operations and decision-making, and managers find themselves with increased responsibility and freedom to run their facilities, often in the face of stiffer competition for patients and clients. Since the budget is a reflection of the organization's plan of how to best achieve its goals during the year, the budget is a tool for keeping managers on target and for measuring their performance against established benchmarks.

The budget can help evaluate the performance of managers using standard, accepted indicators. Managers need to know what indicators will be used to evaluate their performance so they know how best to direct their efforts. For example, in many for-profit organizations, the remuneration of senior staff members is linked to their performance as assessed by budget performance.

Budget performance reports:

▶ Compare actual expenses and income with budgeted amounts.

▶ Compare actual performance with budgeted indicators, such as:

- ▶ Volume of activity by type of service

- ▶ Costs per service (e.g., cost per outpatient visit, cost per discharge)

- ▶ Revenue per service (e.g., average price per outpatient curative visit, per family planning visit, per discharge, etc.)

- ▶ Cost recovery for the organization as a whole or for specific units (cost centers)

- ▶ Service mix (i.e., out of the total number of outpatient services, what proportion is made up of family planning, total or by method, curative services, maternal and child health, etc.)

- ▶ Finance mix, or how much of the financing for the organization is derived from the different sources of income (e.g., patient fees versus donations).

The example on the next page provides more detail on using performance indicators.

> The budget is a tool for keeping managers on target and for measuring their performance against established benchmarks.

Example: Performance Indicators

	Calculation	Purpose
Price Indicators		
Net price per discharge	Net inpatient revenue/Total discharges	Comparing the cost of providing the services to the revenue you are getting from patients.
Net price per visit	Net outpatient revenue/Total outpatient visits	
Net price per outpatient curative visit	Net outpatient curative revenue/Total outpatient curative visits	
Outpatient revenue %	[Net outpatient revenue/Total revenue] x 100	Assessing the relative importance of different sources of revenue and gauging the extent to which you are over-reliant on one source of revenue. The most important sources of revenue deserve to be protected most, but over-reliance on one source of revenue is risky in case it fails.
Inpatient revenue %	[Net inpatient revenue/Total revenue] x 100	
Other revenue	[Other revenue/Total revenue] x 100	
Volume Indicators		
Occupancy rate	Inpatient days/[365 x No. of beds]	Monitoring the utilization of wards.
Length of stay	Inpatient days/Total discharges	Determining how long you are keeping patients before discharge and comparing this to rates at other clinics for same types of patients (e.g., maternity). If your patients are overstaying, they may be costing more than they should.
Intensity of Services		
Cost per discharge	Inpatient operating expenses/Total discharges	Setting fees by comparing average cost per discharge or per visit with the average revenue per discharge or per visit.
Cost per visit	Total outpatient expenses/Total outpatient visits	
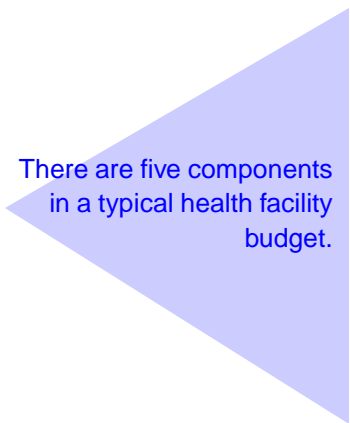
Preparing a Budget

A budget is a very important management tool and therefore needs to be prepared with care. As mentioned, preparing a budget that simply includes a flat percentage increase on the previous year's figures to cover inflation is poor planning. Each budget must be management's most reasonable estimate of future revenues and costs. The overall aim of budget preparation is to ensure that there are sufficient resources to match the anticipated needs. Some of the points that should be taken into account include:

▶ Expected levels of activity for each service that the organization will offer
▶ Changes in the mix of services
▶ Changes in the population and hence the demand for services
▶ Anticipated costs of drugs; staff-related costs, including salaries (e.g., negotiated wages for union employees); other supplies, etc.
▶ Changes in the size of staff
▶ Proposed replacement of capital items (e.g., equipment, vehicles, etc.)
▶ Any proposed building works, renovations, etc.

There are five components in the typical health facility budget, each of which is explained in the sections that follow:

1. A **service volume budget**, which details the levels of operational activities of the facility
2. A **revenue budget**, which details the inflow of funds
3. An **expense budget**, which details the outflow of funds
4. A **capital budget**, which shows major purchases of equipment, buildings, renovations, etc.
5. A **cash budget**, which details the inflow and outflow of cash.

There are five components in a typical health facility budget.

Service Volume Budget

The volume of services provided to clients is one key determinant of costs.

One key determinant of costs is the **volume of services**. To prepare an accurate budget, your organization must estimate the volume of services it will provide to patients. These estimates may be based on a review of historical trends. For example, if there has been a steady increase or decline in each of the past three or four years, you can apply this percentage change to your current service volume to estimate the service volume for the coming year. The example below demonstrates the use of historical trends for forecasting.

Beware, however, that past trends are not always accurate for the following reasons, which should be taken into account:

▶ The mix of patients may change.

▶ Demand for services may change as a result of changes in the facility. If patients perceive that quality has improved — for example, because of the construction of a new building or improvements to the current facility — demand may increase.

▶ Demographic changes in the community may affect demand. For example, an influx of refugees could increase demand.

▶ Changes in staff may have a positive or negative effect on clients and patients.

▶ Changes in the price of services may impact demand. For example, charging fees for services that were previously provided free of charge may cause a dramatic decline in the volume of services demanded.

Example: Service Volume Budget

The Afya Clinic is preparing its budget for 2000. The clinic has experienced the following outpatient visits:

> 1995: 12,000
>
> 1996: 13,200
>
> 1997: 14,520
>
> 1998: 16,000
>
> 1999: 17,600
>
> 2000: ??

Possible estimates for 2000:

1. The trend of patient growth is quite clear. There is a 10% increase each year. Therefore, the estimate based on a trend analysis would be to add 10% to the 1999 volume, as follows:

17,600 + (17,600 x 10%) = 19,360 patients.

2. Another estimate would be to take the average of the last three years:

$$\frac{14,520+16,000+17,600}{3 \text{ years}} = 16,040$$

It is important to understand why there has been a steady increase. This will provide a more complete picture than just the numbers.

Ancillary Service Volumes

Ancillary services comprise mainly diagnostic services (e.g., laboratory and x-ray) and theater (operating room). These services tend to be dependent on the number of other services patients receive. Therefore, there may be a fairly clear relationship between the number of laboratory tests performed (by type of test) and the number of outpatient visits. For example, for every three outpatient visits there may consistently be one malaria parasite slide test.

As with the total volume of patient visits, it is important to exercise caution in estimating the volume of ancillary services. Remember to take into account the following conditions, along with any others that apply to your organization's operations:

▶ New equipment may make new tests available.
▶ Changes in treatment protocol may require that different tests be performed as part of standard treatment procedure.
▶ Staff availability will affect the number of tests performed.

Revenue Budget

The revenue budget is based on the anticipated number of services and the net fee expected per service. (Revenue is computed by taking the average fee expected per service and multiplying it by the expected number of services for the budget period). The net fee actually received will also be influenced by:

▶ Bad debt, which represents revenue lost because a patient defaults on payment. Experience may indicate that a certain percentage of revenue is consistently lost to bad debts.

▶ Charity care, which represents revenue lost because the health facility chooses or is legally required to exempt certain patients from payment.

Other revenues may also be receivable in addition to revenue from patient fees, including photocopying charges, ambulance fees, rents from properties, interest from bank and other deposits, etc. Any projected revenue from other sources should be based on a reasonable expectation of receiving it, such as signed funding agreements with donors, leases for rental properties, interest statements on bank deposits, etc.

The example on the next page shows how to estimate revenue from services provided by a clinic.

Exercise 6.2

Use the example to draw up a revenue budget for your organization for the next three months.

Example: Estimate Fee Revenue for a Revenue Budget

	Average Fee per Service		Total Fee Per Service	Estimated Number of Services	Expected Fee Revenue
	Drugs and supplies	Registration/ consultation fee			
	A	B	C (A+B)	D	E (CxD)
Curative					
Malaria	70	50	120	1680	201,600
Urinary tract infections	80	50	130	500	65,000
Upper respiratory tract infections	60	50	110	752	82,720
Diarrhea	60	50	110	179	19,690
Intestinal worms	20	50	70	212	14,840
Skin diseases	70	50	120	241	28,920
Maternal and Child Health					
ANC – 1st visit	0	50	50	726	36,300
ANC – revisit	0	20	20	1,705	34,100
Child welfare	0	10	10	5,144	51,440
Maternity	1,350	50	1,400	38	53,200
Family Planning					
Pill – 1st visit	0	50	50	19	950
Pill – revisit	0	20	20	90	1,800
Condom – 1st visit	0	50	50	12	600
Condom – revisit	0	20	20	50	1,000
Injection – 1st visit	0	50	50	57	2,850
Injection – revisit	0	20	20	495	9,900
IUD – insertion	0	50	50	2	100
IUD – removal	0	30	30	1	30
Norplant – insertion	0	50	50	16	800
Norplant – removal	0	100	100	10	1,000
TOTAL REVENUE FROM SERVICES					**606,840**

Expense (Cost) Budget

Costs do not exist in a vacuum; they always relate to one or more **cost objects**. Cost objects can be procedures, activities, services, or other items that use or consume resources and are a target of the costing effort. For example, one department may cost a given clinical procedure, while another department may cost an activity.

Preparing a meaningful budget requires that you identify your organization's cost objects and determine how costs will behave as the volume of these cost objects changes. It also requires that you clearly understand the cost structure of the organization. A **cost profile** helps you focus on the most significant costs. The example below includes a cost profile extracted from the income and expenditure statement of an NGO involved in health delivery.

> Cost objects can be procedures, activities, services, or other items that consume resources.

Example: Expense Budget of a Health NGO

Expenditure	Amount	% of Total
Staff costs	39,479,333	58.2%
Drugs and other medical supplies	12,859,990	19.0%
Transportation	4,638,757	6.8%
Utilities	3,154,942	4.6%
Administrative and office expenses	3,437,287	5.1%
Depreciation	2,656,095	3.9%
Building and equipment maintenance	1,635,458	2.4%
Total Expenditure	**67,861,862**	**100%**

This NGO's cost profile shows quite clearly the source of the majority of costs: three expenditure items (staff costs, drugs and other medical supplies, and transportation) account for 84 percent of total expenditures. The budgeting efforts of this NGO would focus on these three areas. (Note: This NGO illustrates the 80/20 rule introduced in Chapter 4, which holds that 80 percent of resources are used by 20 percent of activities or services.)

As noted, the budgeting process is a means of evaluating how you are delivering services and whether improvements can be made — to make better use of resources or to eliminate activities that are not critical to the organization's long-term mission.

Exercise 6.3

1. Use the example to develop an expense (cost) budget for your organization for the next three months.

2. What areas would you prioritize in your budgeting efforts?

Variable and Fixed Costs

When you prepare a budget, you need to know what costs will vary with the level of services (**variable costs**) and what costs will remain constant (**fixed costs**). Here are some of the most common costs in a health care organization's budget (further study of costs can be found in Chapter 7):

▶ **Staff costs**: Staff costs are fixed and will remain constant over a range of activities. Unless there is a reduction in your staff, staff costs are likely to be higher in the coming year than in the current year. Your budget should take into account any negotiated wage increases or any "normal" increases, as well as any special awards, bonuses, etc.

▶ **Drugs and medical supplies**: Drugs and medical supplies are variable costs — they change depending on the volume of services. That is, the cost will increase by a similar percentage, plus any cost inflation. If the volume of services is estimated to increase by 12 percent, it is reasonable to estimate that the quantity of drugs and supplies also will increase by 12 percent. However, this simple relationship should be used only if your current costs are not inflated by theft, improper prescribing patterns, or other forms of waste. If such waste is a problem, you may want to budget a lower amount (to better reflect the organization's true needs) and put more effort into controlling the use of the available drugs.

It is important to estimate the costs of your drugs and medical supplies per unit of service. One fairly simple and relatively quick way to do so is to take your most important services and cost each one separately. You may want to add an additional 10 percent to cover for any other usage and waste. The example on the next page shows how this can be done. (Note that this exercise need not be repeated each year. See Chapter 7 for more detail on costing.)

▶ **Other Costs**: In budgeting for other expenditure items, use all information at your disposal.

▶ Transport: Use your best estimate of the total mileage likely to be covered in the period, plus the cost of routine maintenance and insurance of vehicles.

▶ Travel: The activities planned will determine the amount of staff travel and the associated costs, such as transportation, hotel, and per diem expenses.

▶ Building and equipment maintenance can be estimated based on available historical information.

> Variable costs change depending on the level of services; fixed costs remain constant.

Exercise 6.4

Take your most important services and cost each one separately to practice estimating your cost of drugs and medical supplies per unit of service for your organization. For example, if you are preparing the budget for a clinic, you can take the top ten services offered (curative as well as non-curative) and calculate the cost of drugs and medical supplies used on an "average" visit for each service.

▶ Other office costs (e.g., stationery and telephone) can be based on historical information, adjusting for any planned savings due to better control of usage.

Example: Estimate Costs for Drugs and Medical Supplies

	Drugs per Unit	Clinical Supplies Per Unit	Drugs and Supplies Per Unit	Number of Services	Total (Rounded)
	A	B	C (A+B)	D	E (CxD)
Curative					
Malaria	19.5	4.8	24.3	1,680	40,824
Urinary tract infections	39.9	0	39.9	500	19,950
Upper respiratory tract infections	10.8	0	10.8	752	8,122
Diarrhea	14.0	0	14.0	179	2,506
Intestinal worms	1.6	0	1.6	212	339
Skin diseases	87.0	0	87.0	241	20,967
Maternal and Child Health					
ANC – 1st visit	3.3	53.6	56.9	726	41,309
ANC – revisit	3.3	0	3.3	1,705	5,627
Child welfare	0	4.9	4.9	5,144	25,206
Maternity	4.0	177.3	181.3	38	6,889
Family Planning					
Pill – 1st visit	0	54.7	54.7	19	1,039
Pill – revisit	0	0	0	90	0
Condom – 1st visit	0	0	0	12	0
Condom – revisit	0	0	0	50	0
Injection – 1st visit	0	59.3	59.3	57	3,380
Injection – revisit	0	4.6	4.6	495	2,277
IUD – insertion	0	54.8	54.8	2	110
IUD – removal	0	36.6	36.6	1	37
Norplant – insertion	18.7	62.7	81.4	16	1,302
Norplant – removal	20.2	62.7	82.9	10	829
TOTAL REVENUE FROM SERVICES					**180,676**

Capital Budgets

Capital budgets are usually prepared in larger organizations as a means of tracking and planning for large expenditures on capital equipment. A **capital expense** involves the purchase of equipment, buildings, or land that will serve the organization for a period of several years (a large investment to improve a building or land is also considered a capital expense). Each organization should have a policy that determines the threshold amount for capital expenses. A capital budget should be prepared annually. When the useful life of equipment is coming to an end, the replacement costs should be included in the capital budget. **Depreciation** for equipment also should be taken into account, as this helps plan for capital expenditures. Depreciation is calculated using the purchase price (PP), the estimated period of useful life (PUL), and the salvage price (SP) of selling the item at the end of its useful life. As shown in the example below, the calculation is: the purchase price minus the salvage price divided by the years of useful life. Repairs and regular maintenance of this equipment are *not* forecast in the capital budget.

A capital budget is a means of tracking and planning for large expenditures for equipment, buildings, land, or renovations.

Example: Depreciation of a Photocopier
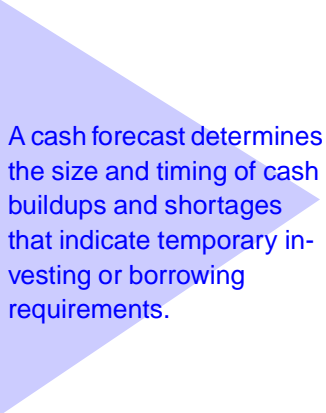
$$\frac{PP - SP}{PUL} = \text{annual depreciation}$$

The photocopier costs $2,000 and is expected to last five years, with a salvage price of $200:

$$\frac{2000 - 200}{5} = 360$$

The depreciation for the copier is $360 per year.

Cash Budgets/Forecasts

A **cash forecast** is a detailed projection of the timing and amounts of cash inflows and outflows over a specified period of time. A cash forecast is essential because it determines the size and timing of cash buildups and shortages that indicate temporary investing or borrowing requirements. Cash forecasts must be updated to reflect changes in the operating environment. The budgets in the examples above have been prepared for a full budget period (i.e., a year). Cash budgets should be broken down into shorter periods, usually a month, so that cash inflows and outflows can be monitored more closely.

Preparing cash forecasts begins with a **revenue/sales forecast**, because this projects the timing, pattern, and amounts of receipts and disbursements. The cash flow budget simply takes the income and expenditure budget and converts it to include the timing of actual payments and receipts on a monthly basis.

The example on the next page illustrates the method of forecasting cash flows according to the timing of cash receipts and payments. You will need to estimate when particular payments will be made, for example, for the purchase of fixed assets, insurance payments, major purchases of drugs (i.e., to take advantage of bulk discounts), etc. Notice that in this example, the cash budget for salaries increases in April; this could be as a result of an annual increment in staff salaries or the hiring of additional staff.

A cash forecast determines the size and timing of cash buildups and shortages that indicate temporary investing or borrowing requirements.

Exercise 6.5

1. Identify which of the five components of a typical health facility budget your organization maintains (i.e., service volume budget, revenue budget, expense budget, capital budget, cash budget).

2. Explain how maintaining each of these components helps an organization control its operations.

3. State how often your budget is reviewed. Who authorizes changes to the budget? What happens about over-spent items? Is under-spending of any concern to management or is it always considered a good thing?

Example: Cash Flow Budget

AFYA CLINIC					
CASH FLOW BUDGET FOR THE 5 MONTHS ENDING MAY 2000					
	January	February	March	April	May
Cash at start of month	400,450	(459,908)	251,734	4,643,526	1,240,293
Cash Receipts					
Patient fees – inpatient	1,145,667	1,145,667	1,345,667	1,345,667	1,345,667
Patient fees – outpatient	2,750,100	2,750,100	2,950,100	2,950,100	2,950,100
Patient fees – laboratory	1,375,050	1,375,050	1,475,050	1,475,050	1,475,050
Donations	0	0	3,000,000	0	0
Interest and other income	50,000	0	50,150	50,150	50,150
Total receipts	**5,320,817**	**5,270,817**	**8,820,967**	**5,820,967**	**5,820,967**
Total cash available	**5,721,267**	**4,810,909**	**9,072,701**	**10,464,493**	**7,061,260**
Payments					
Salaries	3,279,175	3,279,175	3,279,175	3,579,200	3,579,200
Drugs and other medical supplies	1,875,000	0	120,000	2,875,000	0
Transportation	334,167	334,167	334,167	574,167	334,167
Building and equipment maintenance	125,000	125,000	125,000	125,000	125,000
Utilities	266,667	266,667	266,667	266,667	266,667
Administrative and office expense	301,166	304,166	304,166	304,166	304,166
Purchase of car	0	0	0	1,500,000	0
Purchase of medical equipment	0	250,000	0	0	0
Total payments	**6,181,175**	**4,559,175**	**4,429,175**	**9,224,200**	**4,609,200**
Cash at the end of the month	**(459,908)**	**251,734**	**4,643,526**	**1,240,293**	**2,452,060**

Budget Variance Analysis

A primary use of a budget is to control expenditures. Budgets should be analyzed regularly to monitor implementation and to highlight variances and inconsistencies. When the budget and actual expenditures differ, it is necessary to investigate why. This information is helpful not only to adjust existing budgets but also to better plan for the future. Remember, the budget is not a "straitjacket" that binds management to spend only what was budgeted. It should be reviewed and adjusted as new information becomes available and as priorities change over time.

Example: Budget Analysis

	BUDGET ANALYSIS FOR THE 8 MONTHS ENDING 31 AUGUST 1999					
Expenditure	Budget for the Year (12 months)	ACTUAL Year to Date (8 months)	BUDGET Year to date (8 months)	Variance Amount	Variance %	Comments on Variances Greater than 5%
Staff costs	59,025,187	39,479,333	39,350,125	129,208	0.3	
Drugs and other medical supplies	17,250,000	12,859,990	11,500,000	1,359,990	11.8	There was a 5% increase in drug prices, coupled with increased patient load due to malaria epidemic.
Transportation	6,375,000	4,638,757	4,250,000	388,757	9.1	Heavy use of vehicle by patients referred to district hospital
Building and equipment maintenance	2,250,000	635,458	1,500,000	(864,542)	(57.6)	Expenditure postponed due to lack of funds
Utilities	4,800,000	3,154,942	3,200,000	(45,058)	(1.4)	
Administrative and office expense	5,475,000	3,437,287	3,650,000	(212,713)	(5.8)	Stricter control of telephone use; budgeted staff retreat will be held in December.
Depreciation	3,975,000	2,656,095	2,650,000	6,095	0.23	
Total Expenditures	**99,150,187**	**66,861,862**	**66,100,125**	**761,737**	**1.2**	Overall, management is containing total expenditure within budget.

Let's look at the analysis presented in the example.

1. The first column of figures shows the total (annual) budget for each line item.
2. The columns headed "Variance Amount" and "Variance %" show the amount by which the actual expenditure is greater or less than the budgeted amount (over the eight-month time period covered here).
3. Management should consider each variance and explain the reasons for each one. Emphasis should be placed on large variances (exceeding 10 percent); however, the aggregate effect may also need to be analyzed. For example, variances of less than 10 percent in large line items (such as salaries) can affect the bottom line more than a 10 percent variance in a small line item! In this example, explanations are given for all variances greater than 5 percent.
4. The same process should be applied to income items to investigate missed targets.
5. Budget variance analysis should be carried out monthly.

Exercise 6.6

Explain how carrying out regular budget variance analysis can help your organization control its budget and operations.

Cost Accounting

Purpose

Introduce the fundamentals of cost accounting, and help you use financial information to make more informed decisions.

Target Skills

1. Create cost centers based on your organization's needs.
2. Analyze costs and use that information for pricing.
3. Allocate overhead costs to the services your organization delivers.

Cost Accounting

For many people involved in health care, the costs of heath service delivery are a mystery, something that only "the finance people" know. There is a widespread lack of knowledge within management teams concerning most aspects of costing. The closest many managers come to an in-depth look at costs is when the treasurer or finance manager presents the annual financial statements for discussion. Health organizations throughout the world are challenged to gain a better understanding of all the financial aspects of their organizations in order to make more informed decisions.

Cost accounting consists of the identification, measurement, collection, analysis, preparation, and communication of financial information. Cost accounting, sometimes also referred to as **managerial accounting**, helps provide financial information used to:

▶ Equip managers for decision-making
▶ Improve a manager's ability to make decisions
▶ Control and manage resources.

If you do not know your costs, you cannot manage your costs.

The Need for Cost Accounting

Management Accounting

Cost accounting is part of an organization's management accounting system. As mentioned in Chapter 4, management accounting seeks to address the decision-making needs of those with responsibility for directing and controlling the use of resources. In health care organizations, these are typically clinic managers, department managers, and clinicians with various responsibilities.

While the field of management accounting emphasizes the use of information for management decision-making, cost accounting addresses the specific processing and evaluation methods used to create meaningful management accounting information. In practice, however, the two terms — management accounting and cost accounting — are used interchangeably.

Access to affordable health care has become a much more difficult goal to achieve than ever before. Cost accounting can be a useful tool for managers as they deal with the challenges of reduced donor funding, competition from other health service providers, increasing costs of service delivery, and, often, increased poverty within the communities they serve.

> **Cost accounting addresses the specific processing and evaluation methods used to create meaningful management accounting information.**

Example: Cost Recovery Levels

An NGO runs a clinic that provides the following types of services: family planning (FP), maternal and child health (MCH), curative, maternity, and laboratory. The NGO's board of directors is concerned about the clinic's performance, because the clinic has been experiencing larger-than-normal deficits over the last several years. The board's expectation has always been that the curative, maternity, and laboratory services would cover their costs fully and help subsidize the MCH and FP services. The board has asked the clinic management to explain whether this cost recovery objective is being realized.
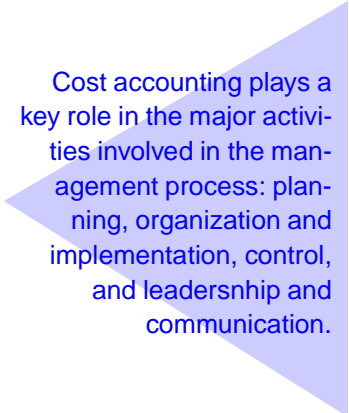
This is a typical situation that confronts many clinic managers. What should they do?

Cost accounting helps them to tally how much it costs to provide each category of services. Once all the costs are tabulated, the managers can compare them against the revenue generated from each category of services and thus work out cost recovery levels for each.

Decision-Making

Cost accounting serves the decision-making needs of managers and facilitates the management process inside an organization. Management processes comprise four major activities.

▶ **Planning**: Cost accounting can provide long- and short-term planning tools for financial forecasting, budgeting, pricing decisions, cost-volume-profit analysis, break-even analysis and more.

▶ **Organization and Implementation**: Cost accounting helps managers quantify their resources in order to implement their plans.

▶ **Control**: Cost accounting provides data for comparing performance against set targets. This feedback information is used to assess, correct, and therefore, control operations.

▶ **Leadership and Communication**: Cost accounting has a major role in promoting leadership and communication. Cost control techniques provide information that can be shared within an organization to provide direction to all.

Cost accounting plays a key role in the major activities involved in the management process: planning, organization and implementation, control, and leadersnhip and communication.

How Is Cost Accounting Typically Utilized?

Cost accounting can be used to answer numerous types of questions. Here are some examples:

▶ How many patients can we treat before we run out of money?

▶ Where is the best place to cut costs?

▶ Which price do we charge for our products or services in order to recover all our costs?

▶ If we have different prices for different services, what combination of products or services provides the greatest financial benefit to the clinic?

▶ What is the most cost-effective service delivery method? Should we emphasize static clinics or mobile clinics?

The wide variety of questions that can be answered with cost accounting information fall under three common areas of decision-making:

Cost accounting information can answer questions related to three key areas: cost control, program funding, and pricing.

▶ **Cost control**: Cost control and cost reduction are the most pressing issues facing the health care industry. Rising costs, coupled with decreased funding from government and other funding agencies, force health programs to examine their operations to identify how costs can be reduced.

▶ **Program funding**: Cost reduction efforts can lead clinics to reduce — sometimes dramatically — the range of health services they offer. Management must prioritize, focusing on the services that can be supported with less money. Cost accounting is an important tool for making decisions about whether to continue a program or discontinue it.

▶ **Pricing**: In health care organizations, pricing involves calculating the cost of individual procedures and setting an acceptable price for a given service (or package of services). Evaluating price against costs is essential even when the price is not intended to fully cover the costs. In addition to cost, other factors must be considered in setting a suitable price for a service. These include:

  ▶ Prices charged by other health care providers for comparable services

  ▶ Ease of administering the price charged: for example, one may choose to round up or down all prices to the nearest 10 (shillings, rand, kwacha, etc.) to make the arithmetic easier for cashiers and supervisors

▶ Introductory offers to popularize a service in the community: introductory offers help clinics increase their penetration of the target market and provide opportunities to sell other services as well

▶ Ability of patients/clients to pay fees above a certain level, which can be a serious constraint on the level of fees a clinic may charge

▶ Government legislative controls that prohibit clinics from charging for certain services or set a limit on how much can be charged: these apply especially to primary health care services such as family planning and child health.

A Note about Matching Needs and Priorities

The effort to obtain cost accounting information needs to be matched with the priorities and needs of the organization. To do so, you must examine the cost of obtaining costing information, which includes both the money and the time required to gather and analyze financial data. You must also examine the benefits of making decisions with the use of costing information. Generally, the more varied the services offered by an organization, the greater the need for costing information. For example, if the decision is very important to running the organization, using sound costing information helps you make an informed decision.

In the final analysis, health care organizations that implement cost accounting techniques must prioritize their decision-making needs, identify those decisions that are best served by cost information, and then seek appropriate costing techniques to provide the necessary information.

The more varied the services offered by an organization, the greater the need for costing information.

Overview of Basic Cost Accounting Concepts, Procedures, and Terms

Different Costs, Different Purposes

In the field of cost accounting, there are different costs for different purposes. This may be confusing for those who are used to dealing with one cost for a given service or procedure. However, here are two simple examples of different costs:

▶ **Average cost per patient** is the total cost (including overhead) divided by the number of patients. These are often described as "full" costs and include all overhead costs as well as all costs that are directly related to patients.

▶ **Direct cost per patient** includes only those costs directly associated with the patient, excluding overhead, which are then divided by the total number of patients. For example, the laboratory manager may be interested only in the laboratory's direct costs because these are under his or her control.

Cost Centers

Grouping activities/services into units, departments, or cost centers helps an organization get more meaningful information from its cost accounting function. (Cost centers are also referred to as "responsibility centers.") These functional areas are usually easily identified. For example, the laboratory in a clinic can be a cost center. For purposes of control, other services in the clinic also may be grouped together into groups of similar services such as maternal and child health (MCH), family planning (FP), outpatient curative care, and maternity (some clinics include maternity under MCH).

Cost centers help focus attention on the respective revenues and costs of various services, allowing decisions to be made based on performance. Without information on cost centers, it is difficult for managers to know which areas of their organization are performing well and which are not.

Chapter 4 includes an example of a report to management (included in summary form below) that included four cost centers: Family Planning Services, Non-Family Planning Services, Laboratory, and Administration. The clinic accountant records revenue and costs under each of the four cost centers. If a cost does not easily fall into the three patient care cost centers, he records it under "administration" for further analysis later.

> Cost centers help focus attention on the respective revenues and costs of various services, allowing decisions to be made based on performance.

Example: Cost Analysis Summary

	Total	Family Planning	Non-Family Planning	Laboratory	Adminis-tration
Volume of services (visits; lab tests)		5,267	539	1,510	
Number of CYPs		11,943			
INCOME	**209,450**	**97,750**	**51,200**	**60,500**	
EXPENDITURES					
Service provider salaries	91,819	66,516	20,694	1,439	3,170
Supplies used	26,543	5,013	13,117	8,413	
Incentives	2,789	2,020	629	44	96
Other operating costs – maintenance	340				340
Non-service provider salaries	51,733	–	–	16,781	34,952
Training	9,187				9,187
Rent	27,000				27,000
Travel and vehicle costs	16,627				16,627
Marketing and promotion	25,875				25,875
Professional fees	1,987				1,987
Interest and bank charges	244				244
Depreciation	63,177				63,177
Other overhead	72,449				72,449
Total costs	**389,770**	**218,877**	**99,680**	**77,213**	**–**
Gross Surplus (Deficit)	**(180,320)**	**24,200**	**16,760**	**33,823**	**(255,104)**

Management can analyze such data and obtain detailed information about each center. For example, the clinic management can see that the service delivery cost centers yield surpluses. Note, however, that there are indirect costs currently included in the administration cost center, such as the driver's salary. Expenditures for items such as this, which are used by various cost centers within the same clinic (e.g., family planning also uses vehicles and drivers for its outreach activities), must be appropriately allocated to each cost center, rather than being left under administration. (Allocation is described in more detail below.)

Key Terms

Cost Objects

A cost object is any activity for which cost(s) are measured separately. For example, the clinic manager may want to know how much it costs to provide a tubal ligation or to provide treatment for malaria. Tracking information for cost objects requires that the organization keep good records of costs and statistics for all services delivered.

A basic cost accounting system should be able to compare the most significant costs and the associated revenues. For example, a clinic that provides curative, MCH, and FP services should know how much revenue is earned in each cost center (how much MCH service revenue was gained versus how much the curative services gained) and also what proportion of the major costs (such as medical supplies and staff) are attributable to each cost center. For example, the costs of contraceptives would be allocated to family planning, while chloroquine is allocated to curative.

Cost objects are used to facilitate decisions. Therefore, the cost objects you choose from each center for a costing exercise should be the ones that provide the most useful information. Examples of cost objects are:

> ▶ Products (malaria tablets, contraceptive pills, etc.)
> ▶ Services (consultation and treatment of an illness, family planning counseling)
> ▶ Procedures/activities (surgery, sutures, IUD insertion)
> ▶ Patient days
> ▶ Patient visits
> ▶ Laboratory tests.

Management may not need detailed information from each cost center. For example, in one clinic, the management did not need specific information for each MCH service; the average cost per MCH visit was adequate.

The Nature of Costs

Developing an understanding of the nature of costs is important to learning the methodologies of costing, which are introduced in the remaining sections of this chapter. Costs can be divided into the following two categories:

> ▶ **Direct Costs**: These costs are directly related to a cost object. For example, when costing a family planning session for Norplant insertion, materials or supply costs like surgical blades, needles, syringes, antiseptics, and medicines are considered direct material costs. Labor costs for the doctor or nurse who provides these services are direct labor costs.

Cost objects are used to facilitate decisions; therefore, cost objects should be chosen on the basis of whether they provide useful information.

▶ **Indirect Costs**: These costs are not directly related to a specific cost object. They include all administrative costs such as insurance, rent of premises, administrative staff costs, office supplies, etc.

Direct costs can be traced to a cost object. Indirect costs cannot be traced and are therefore allocated to cost objects. Allocation of these costs is discussed in detail below. The example shows indirect and direct costs for a Norplant insertion.

Direct costs relate directly to a cost object; indirect costs cannot be traced to a particular cost object and therefore must be allocated.

Example: Direct and Indirect Costs — Norplant Insertion

Direct Costs	Indirect Costs
Syringe	Manager's time/salary
Needle	Rent of premises
Medicine	Insurance for equipment and vehicles
Gloves	Electricity
Nurse/doctor time costs	Telephone

Exercise 7.1

1. Define the cost objects that would be useful for gathering cost information in your organization.

2. List the direct costs associated with each cost object you selected. Identify your clinic's indirect cost items.

Allocation of Overhead Costs

Another term for indirect costs is overhead costs, and these two terms are used interchangeably in this manual. The word **overhead** is generally used to describe indirect costs that are not easily linked with a cost object. For example, an NGO operates several clinics that are supervised from its head office by a program manager. The cost of employing the program manager is an overhead cost as far as each of the clinics is concerned because the program manager is not directly involved with any one clinic, although he or she provides necessary supervision. Each clinic also has its own internal overhead costs, including, for example, a clinic manager's salary; rent of premises; salaries of guards, cleaners, and messengers, etc.

Cost Allocation

One goal of the cost accounting function is to associate all of the organization's costs (direct and indirect) with a cost object. Associating indirect costs with a cost object requires allocating or assigning these costs using some sort of methodical calculation.

> One goal of cost accounting is to associate all of the organization's costs (direct and indirect) with a cost object.

Indirect costs are allocated using an **allocation base**, a systematic means of relating a given cost with a cost object**.**

Example: Commonly Used Allocation Bases

Indirect Costs	Allocation Base
Building Maintenance	Square meters
Employee benefits	Gross salary
Laundry services	Kilos of laundry

The following sections introduce three methods of allocating or distributing overhead. There are other, more accurate methods, but they are not covered in this manual because of their complexity. The three approaches described below are the **Grouped Method**, the **Direct Apportionment Method**, and the **Step-Down Method**.

Grouped Method

This method combines all indirect costs, from every department, to arrive at a total overhead cost, which is then distributed. We can show this by using the indirect costs from the previous example, which were allocated to the administration cost center:

Example: Indirect Costs

INCOME	Administration
Service provider salaries	3,170
Supplies used	0
Incentives	96
Other operating costs – maintenance	340
Non-service provider salaries	34,952
Training	9,187
Rent	27,000
Travel and vehicle costs	16,627
Marketing and promotion	25,875
Professional fees	1,987
Interest and bank charges	244
Depreciation	63,177
Other overhead	72,449
Total Indirect Costs	**255,104**

The next step is to choose an allocation base for distributing these indirect costs to the direct cost objects (or departments). The clinic in this example allocates indirect costs on the basis of the proportions of direct costs attributable to each cost center (e.g., the direct costs of the laboratory cost center, which include lab equipment, lab staff salaries, etc.), as shown in the example on the next page.

Example: Allocating Indirect Costs by Cost Center

EXPENDITURES	Total	Family Planning	Non-Family Planning	Laboratory
Service provider salaries	88,649	66,516	20,694	1,439
Supplies used	26,543	5,013	13,117	8,413
Incentives	2,693	2,020	629	44
Total costs	**117,885**	**73,549**	**34,440**	**9,896**
Proportion of Direct Cost	**100%**	**62.4%**	**29.2%**	**8.4%**
Allocation of Indirect Costs ($255,104 X % of Direct Costs)	**255,104**	**159,185**	**74,490**	**21,429**

These costs are then added to the direct costs of each cost center to arrive at the total (full) costs assigned to the final cost objects to determine the cost per unit.

Example: Total (Full) Costs by Cost Center

EXPENDITURES	Total	Family Planning	Non-Family Planning	Laboratory
Direct Costs	117,885	73,549	34,440	9,896
Allocate Indirect Costs	255,104	159,185	74,490	21,429
Total Costs	**372,989**	**232,734**	**108,930**	**31,325**

The advantage of the Grouped Method is that it is simple to apply. The disadvantage is that it does not produce very accurate results. Some of the indirect costs could have been allocated more accurately, which is what the Direct Apportionment Method attempts to do, as described below.

Direct Apportionment

Under this method, overhead costs are allocated using different allocation bases. For example, the rent paid for the clinic premises would best be allocated on the basis of the space occupied by each cost center. This method is widely used in costing health care services, as shown in the example.

Example: Allocating Costs by Direct Apportionment

Indirect Costs to Be Allocated	Total	Family Planning	Non-Family Planning	Laboratory
Building-Related Costs				
Clinic space used (square feet)	1,000	450	250	300
Proportion of clinic space	100%	45%	25%	30%
Rent	10,000	4,500	2,500	3,000
Maintenance of buildings	5,000	2,250	1,250	1,500
Allocated Building-Related Costs	**15,000**	**6,750**	**3,750**	**4,500**
Other Overhead Costs				
Number of staff members	10	5	3	2
Proportion of staff	100%	50%	30%	2%
Allocated Overhead Costs	**8,000**	**4,000**	**2,400**	**1,600**
Total Allocated Overhead Costs	**23,000**	**10,750**	**6,150**	**6,100**

Several tips for using the direct allocation method:

▶ Before you attempt to allocate overhead costs, classify your organization into cost centers.

▶ Identify the direct costs that each cost center incurs. All costs that cannot be identified with any specific cost center should be put under "administration."

▶ Determine the most reasonable basis for allocating the indirect costs to each cost center. Select measures that are easy to get and use; you can refine them later as you become more familiar with the costing process. Overhead allocations often involve assumptions based on your best judgment.

There are usually three types of cost centers in large health care institutions: overhead costs centers, intermediate cost centers, and final cost centers.

Step-Down Method of Allocating Costs

In large health care institutions, there are usually three types of cost centers:

▶ **Overhead** cost centers: These cost centers produce only services that are consumed by other cost centers, not by patients. Examples include administration, maintenance, and utilities.

▶ **Intermediate** cost centers: These cost centers produce services that are used by other departments, but also provide services directly to patients. Examples include laboratory, x-ray, and operating theater.

▶ **Final** cost centers: These cost centers provide services directly to patients, not to other departments. Examples are inpatient (further separated into specific wards) and outpatient (which may also be further separated into specific departments such as family planning, curative, MCH).

The step-down method for allocating costs among these centers is implemented as follows:

1. Once identified, assign all direct costs of the health facility to one of the three types of cost centers (overhead, intermediate, and final).

2. Allocate the costs of the overhead cost center to the intermediate and final cost centers. The overhead costs using the selected basis for allocation — for example, you could use the proportions of each cost center's direct costs (from step 1 above) as your basis for allocating overhead costs.

3. Apply all the intermediate costs (including the share of overhead costs) to final cost centers. The basis for allocating specific portions of each intermediate cost center's costs to final cost centers should be the consumption of the source department resources by the receiving department. As an example, the distribution of laboratory costs (source) among final cost centers (receiving) would typically be based on the proportion of tests performed by the laboratory for each of the final cost centers.

4. After all costs are fully allocated to each of the final cost centers, average costs can be calculated by comparing fully allocated costs to the relevant service volumes. For example, if the only final cost centers are simply inpatient and outpatient, statistics on total patient days and discharges can be compared with fully allocated inpatient costs to generate measures of the average cost per day and per discharge. In a similar manner, the average outpatient cost per visit can be calculated. Average costs of intermediate services can also be calculated if service statistics are available.

Exercise 7.2

Collect/obtain statistical information on each cost object (service) of your clinic and calculate the direct cost amounts for each. Calculate the indirect costs for the clinic.

This example is for a hospital rather than a clinic in order to demonstrate more clearly the step-down method of allocating costs:

Example: Allocating Costs by the Step-Down Method

A partial cost analysis was done for ABC Hospital and all direct costs were charged to the cost centers, as outlined below. The overhead costs of administration were allocated on the basis of the proportions of direct costs as shown in Step 1. The laboratory costs were allocated as shown in Step 2: the total output of the laboratory was 4,000 tests of which 50% were for outpatients, 40% for inpatients, and 10% for theatre. The costs for the theatre were allocated between inpatient (major) surgery (80% of the total) and outpatient cases (20%), as shown in Step 3.

	Administration (Overhead)	Laboratory (Intermediate)	Theatre (Intermediate)	Outpatient (final)	Wards (final)	Total
Direct Costs	**$12,000,000**	**$2,000,000**	**$3,000,000**	**$10,000,000**	**$35,000,000**	**$62,000,000**
Step 1: Allocate costs of the overhead department that serves the most number of other departments.	To be allocated = $12,000,000	3.2% of direct costs	4.8% of direct costs	16.1% of direct costs	56.5% of direct costs	Overhead Costs allocated =
		$480,000	**$720,000**	**$2,400,000**	**$8,400,000**	**$12,000,000**
Step 2: Allocate intermediate cost centers' costs to final users of services. Start with one that serves most centers.		To be allocated = $2,480,000	10% of lab output	50% of lab output	40% of lab output	Lab costs allocated =
			$248,000	**$1,240,000**	**$992,000**	**$2,480,000**
Step 3: Allocate the next intermediate cost center – Theatre – on basis of usage.			To be allocated = $3,968,000	20% of operations	80% of operations	Theatre costs allocated =
				$793,600	**$3,174,400**	**$3,968,000**
TOTAL COST				**$14,433,600**	**$47,566,400**	**$62,000,000**
Number of services				**50,000**	**20,000**	
Unit costs (rounded)				$289	$2,378	

Cost Behavior — Fixed and Variable

Another way of classifying costs (in addition to describing them as either direct or indirect) is in terms of how the costs behave with changes in the level of activity. Three terms are used for classifying costs by their behavior:

▶ **Fixed costs**: These costs do not change as activity level changes. An example is rent. Whether the number of patients attended is 10 or 50, the rent cost remains the same, or "fixed."

▶ **Variable costs**: These costs vary directly with the level of activity, such as medical supplies. When more patients attend a clinic, more medical supplies are used, and vice versa.

▶ **Semi-variable costs**: These costs show both fixed and variable behavior; that is, a specific cost can have both a fixed element and a variable part. One example is a telephone bill; there is a fixed charge for having a telephone line and a variable charge that depends on the number of calls.

The examples illustrate the nature of these costs.

Example: Fixed and Variable Costs
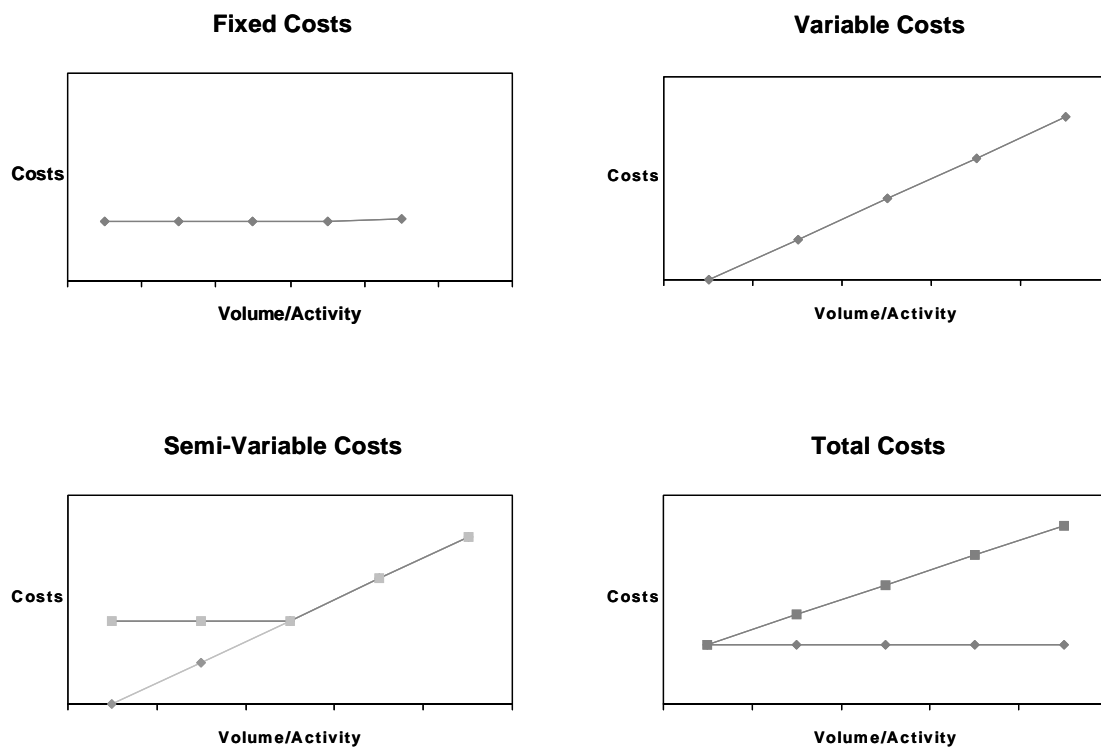
Understanding how costs change as volume fluctuates provides the basis for managing expenses under varying levels of health care activity. For example, as the volume of patients increases, variable costs such as drugs and medical supplies increase, while fixed costs such as staff salaries remain the same. An organization must generate enough money from the volume of services to cover its fixed costs, but, to cover fixed costs, the organization must first cover the variable costs associated with the services provided. This is an important point to grasp, especially when setting fees for services. In other words, if your fees do not cover your variable costs, then it is impossible for you to cover your fixed costs.

If your fees do not cover your variable costs, then it is impossible for you to cover your fixed costs.

Exercise 7.3

Determine which of your organization's costs are fixed, variable, or semi-variable.

Break-Even Analysis

A common application of cost accounting is setting prices, especially using information on fixed and variable costs. One method is the break-even analysis, or cost-volume-profit analysis. The **break-even point** is the point at which total revenue equals total expenses. This is also the point of no loss or profit.

The break-even point is computed as a mathematical equation or as a break-even chart, which shows the relation between the total of fixed and variable costs for the health facility and the revenues earned in exchange for those services.

> The break-even point is the point at which total revenue equals total expenses; this is also the point of no loss or profit.

Example: Break-Even Analysis

Total costs = Fixed costs + Variable costs

Variable costs = Variable cost per unit x Volume (Q)
$$= 5 \times Q = 5Q$$
Total costs = \$5,000 + 5Q

Total revenue = price per unit x Volume (Q)
$$= 10 \times Q = 10Q$$

At break-even point, Total costs = Total revenue
$$5,000 + 5Q = 10Q$$
$$5,000 = (10Q - 5Q) = 5Q$$
$$Q = 1,000$$

The example shows the break-even point for a clinic that sells a unit of service at \$10, for which variable costs are \$5 per unit and fixed costs are \$5,000. The example shows that the clinic must sell (or receive revenue for) 1,000 units of the service per year in order to break even. The cost of the 1,000 units at the break-even point is \$10,000, at which point total revenue is also \$10,000.

If an organization does not reach the break-even point, total costs exceed total revenues, which results in a loss or a deficit. After reaching the break-even point total revenue exceeds total cost, which results in a profit or surplus (as shown in the chart on the next page).

Exercise 7.4

Chose a cost center in your organization and perform a break-even analysis. How many units of service must you provide to break-even?

Example: Break-Even Chart

| Fixed Costs —◇— Total Costs —✕— Revenues |
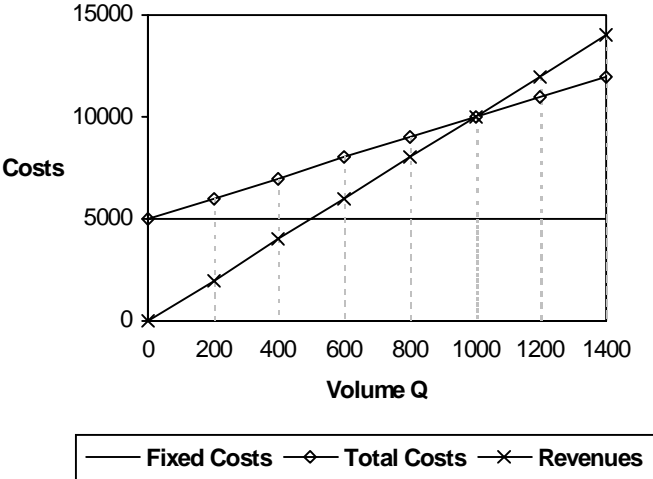
Approaches to Costing

There are a number of different types of costing systems. Two types are described below.

Process Costing

For an organization that produces only one type of service or product, the task of costing is somewhat simplified. In a hypothetical example, a small clinic provides only one service, delivering Hepatitis B vaccinations. The cost per vaccination is very simple to calculate, as shown below:

> Cost per vaccine = Total clinic costs divided by Total number of vaccinations

This method is called **process costing**, and is used when there is only one product or service. This is not suitable for most health care organizations, which typically deliver a wide variety of services.

Job-Order Costing

The method commonly used for costing health services is **job-order costing**. This method can be used when there is a variety of products or services with different unit costs that must be costed, either individually or in a group of similar services. The method is implemented as follows.

Job-order costing is the method commonly used for costing health services.

Step 1. Divide the total costs of the facility among the different cost centers, identifying them as:

- ► Direct — attributable to the service delivery departments (involved in the provision of care to the client or patient) such as a ward or outpatient department
- ► Ancillary — used to provide "extra" services as required by the direct departments, such the laboratory or x-ray
- ► Overhead — such as for the administration department.

Step 2. Allocate the overhead department costs to the direct and ancillary departments.

Step 3. Identify the cost objects within each of the ancillary and direct departments.

Step 4. Calculate unit costs for each cost object.

There are several methods that can be used to carry out Step 4, calculating the unit cost for each cost object. The following section outlines the recommended method for identifying and assigning costs to cost objectives, **Relative Value Unit (RVU) costing**. This method is recommended over other options, such as the Ratio of Costs to Charges (RCC), Microcosting (MC), and Activity-Based Costing (ABC) methods, which are not covered in this manual.

RVU Costing

The RVU method is a mathematical method of assigning costs to cost objects. It uses a procedure of determining the **relative values** attributable to each cost object. A relative value is a measure of how much cost a particular object consumes, in relation to all the others. This is usually stated as a numerical value, with a higher number indicating more consumption.

The RVU method of costing gauges how much cost a particular object consumer, in relation to all others.

Two methods are used to develop the relative values:

▶ Ranking method
▶ Objective data method.

Most RVU costing efforts begin with the ranking method, which enables managers to participate in the ranking exercise and gives them a sense of ownership in the accuracy of the costs being calculated. As these managers use the costs over time for decision-making, they will come to better understand the reliability and appropriateness of using these costs in different decision-making environments. Then, the objective data method can easily be adopted, if desired.

The Ranking Method

The ranking method sequences each cost object in order of its relative consumption of resources. Typically, the ranking is established by considering the most relevant costs, for example, salaries, drugs and supplies, equipment use, travel, utilities, etc. After the ranking, the manager estimates the RVU after considering the rankings and any other factors judged to be relevant.

Step 1. List all relevant costs.
Step 2. Assign a rank/number to each object that indicates your estimated consumption. To do this, ask "if…then…" types of questions (based on available data and your experience). For example:

> If salary costs for a new family planning client are 1, then, salary costs for a repeat client are 0.5.

> If supplies costs for a new family planning client are 1, then, supplies costs for a repeat client are 0.1.

In the first example, the RVU ranking shows that a new family planning client takes more time to serve (twice the time) as a repeat client. Similarly, the new client takes 10 times more supplies than a repeat client does, as seen in the second example. You can have different RVUs for different

costs. It is not necessary to compute RVU for costs that you do not consider significant. If you look at the cost structure of the clinic, you may discover that only three or four cost items account for up to 80 percent of all costs, and you may decide to compute RVUs for only those major cost items. The rest of the costs can be allocated to the cost objects on any simple basis.

Ranking requires experienced staff members who can use their professional judgment to estimate the relative consumption of costs. Most experienced staff can provide quite accurate estimates. The example shows a RVU costing exercise for the services available in a family planning clinic.

Example: Relative Value Unit Costing Using the Ranking Method

The clinic manager ranked the services (as shown in column A) and determined the actual volume of services (column B). The accountant was given this information and asked to calculate the cost per unit of service based on total clinic costs of $100,000.

Cost Object	RVU	Actual Volume of Services	Relative Volume of Services	% of Total Costs	Allocated Costs ($)	Cost per Unit
	A	B	C (A x B)	D (C/Total of column C) = (C/1,000)	E (D x $100,000)	F (E/B)
Pill – 1st visit	3	60	180	18%	$18,000	300
Pill – revisit	1	140	140	14%	14,000	100
Condom – 1st visit	2	10	20	2%	2,000	200
Condom – revisit	0.5	20	10	1%	1,000	50
Injection – 1st visit	3	70	210	21%	21,000	300
Injection – revisit	1	210	210	21%	21,000	100
IUD – insertion	2	40	80	8%	8,000	200
IUD – removal	1.5	50	75	7.5%	7,500	150
Sexually Transmitted Disease (STD) treatment	3	25	75	7.5%	7,500	300
TOTAL		**625**	**1,000**	**100%**	**100,000**	

The Objective Data Method

The ranking method is easy to apply, as the example above shows, but is not as accurate as the Objective Data Method, which uses a more objective procedure for estimating the RVU. Rather than ranking and estimating the RVU based on judgment and experience, this method uses use more tangible data, specifically, estimates of the materials and staff time consumed by each service. The example uses the cost data used in the last example.

Example: Relative Value Unit Costing for Staff Time Using the Objective Data Method

<table>
<tr><td colspan="4">The accountant develops RVUs for allocating staff costs by looking at the the amount of staff time required to serve clients who come for various services. The RVU for staff costs is calculated by time for each service, with the average time taken for all services. The average time per service is 180 divided by the number of services, or 180/9 = 20.</td></tr>
<tr>
<td></td>
<td>Staff Time (Minutes)</td>
<td>Average Time per Service</td>
<td>RVU</td>
</tr>
<tr>
<td>Cost Object</td>
<td>A</td>
<td>B
(Total staff time / # of services)
180/9</td>
<td>C
(A / B)</td>
</tr>
<tr><td>Pill – 1st visit</td><td>30</td><td>20</td><td>1.5</td></tr>
<tr><td>Pill – revisit</td><td>10</td><td>20</td><td>0.5</td></tr>
<tr><td>Condom – 1st visit</td><td>20</td><td>20</td><td>1.0</td></tr>
<tr><td>Condom – revisit</td><td>5</td><td>20</td><td>0.25</td></tr>
<tr><td>Injection – 1st visit</td><td>30</td><td>20</td><td>1.5</td></tr>
<tr><td>Injection – revisit</td><td>10</td><td>20</td><td>0.5</td></tr>
<tr><td>IUD – insertion</td><td>30</td><td>20</td><td>1.5</td></tr>
<tr><td>IUD – removal</td><td>20</td><td>20</td><td>1.0</td></tr>
<tr><td>Sexually Transmitted Disease (STD) treatment</td><td>25</td><td>20</td><td>1.25</td></tr>
<tr><td>TOTAL</td><td>180</td><td>180</td><td></td></tr>
</table>

These figures indicate that when allocating staff costs to the various services, Pill 1st visit would be charged with 1.5 times more than a Condom 1st visit. The same can be done with the cost of materials (drugs and other medical supplies), using the same procedure. First, calculate the cost of

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Exercise 7.5

1. For each of your cost categories, develop RVUs for each cost object.

2. Determine what allocation base is most appropriate for each indirect cost.

3. Calculate total costs for each cost object.

4. Calculate the unit cost for each cost object.

5. Describe how you would use the 80/20 rule to help you in deciding how much time to spend allocating different categories of cost.

medicines and supplies expended in serving each type of client. These values will go in the column used for staff time in the example above. Then, calculate the average cost of medicines and supplies per service. For each service (cost object), calculate the RVU as:

Cost of medicines or supplies divided by the average cost of medicines or supplies for each service

The cost of medicines and supplies as calculated is shown in the first example below, and the results are used to allocate total staff costs and the cost of drugs and supplies, as shown in the second example below.

Example: Relative Value Unit Costing for Medicines Using the Objective Data Method

The accountant calculated the RVUs for medicines and supplies by discussing with the clinical staff what supplies and/or drugs are used to serve each type of client. The costs do not include cost of contraceptives at this clinic, as these are provided free of charge and their value has not been included in the clinic's accounts. The RVU for staff costs is calculated by time for each service, with the average time taken for all services. The average cost of drugs and supplies is 315 divided by the number of services, or 315/9 = 35.

Cost Object	Cost of Drugs and Supplies ($)	Average Cost of Drugs and Supplies	RVU
	A	B (Total costs / # of objects) 315/9	C (A / B)
Pill – 1st visit	55	35	1.6
Pill – revisit	0	35	0
Condom – 1st visit	0	35	0
Condom – revisit	0	35	0
Injection – 1st visit	60	35	1.7
Injection – revisit	10	35	0.3
IUD – insertion	55	35	1.6
IUD – removal	40	35	1.1
Sexually Transmitted Disease (STD) treatment	95	35	2.7
TOTAL	315	315	

Example: Allocating Costs Using the Objective Data Method

The total staff costs were $50,000 and the cost of drugs/supplies was $30,000. To allocate the above costs, it is necessary to calculate the cost per unit of service for the clinic using the Relative Value Units.

Cost Object	RVU	Actual Volume	Relative Volume	% of Total Costs	Allocated Costs ($)	Cost per Unit
	A	B	C (A x B)	D (C/Total of column C)	E (D x total costs)	F (E/B)
Staff Costs			A x B	C/526.25	D x $50,000	E/B
Pill – 1st visit	1.5	60	90	17.1%	$8,550	142.5
Pill – revisit	0.5	140	70	13.3%	6,650	47.5
Condom – 1st visit	1	10	10	1.9%	950	95.0
Condom – revisit	0.25	20	5	0.9%	450	22.5
Injection – 1st visit	1.5	70	105	20.0%	10,000	142.86
Injection – revisit	0.5	210	105	20.0%	10,000	47.62
IUD – insertion	1.5	40	60	11.4%	5,700	142.5
IUD – removal	1	50	50	9.5%	4,750	95.0
Sexually Transmitted Disease (STD) treatment	1.25	25	31.25	5.9%	2,950	118.0
Total Staff Costs	–	625	526.25	100%	50,000	–
Drugs and Medical Supplies			A x B	C/464.5	D x $30,000	E/B
Pill – 1st visit	1.6	60	96	20.7%	$6,210	103.50
Pill – revisit	0	140	0	0%	0	0
Condom – 1st visit	0	10	0	0%	0	0
Condom – revisit	0	20	0	0%	0	0
Injection – 1st visit	1.7	70	119	25.6%	7,680	109.71
Injection – revisit	0.3	210	63	13.6%	4,080	19.42
IUD – insertion	1.6	40	64	13.8%	4,140	103.5
IUD – removal	1.1	50	55	11.8%	3,540	70.80
STD treatment	2.7	25	67.5	14.5%	4,350	174.00
Total Staff Costs	–	625	464.5	100%	30,000	–

TOTAL COST PER UNIT	Actual Volume A	Staff Cost per Unit B	Drugs/Supply Cost per Unit C	Total Cost per Unit (Staff and Supplies only) B + C
Pill – 1st visit	60	142.5	103.5	245.00
Pill – revisit	140	47.5	0	47.50
Condom – 1st visit	10	95.0	0	95.00
Condom – revisit	20	22.5	0	22.50
Injection – 1st visit	70	142.86	109.71	252.57
Injection – revisit	210	47.62	19.42	67.04
IUD – insertion	40	142.5	103.50	246.00
IUD – removal	50	95.0	70.80	165.80
STD treatment	25	118.0	174.00	292.00

Marketing Planning

Purpose
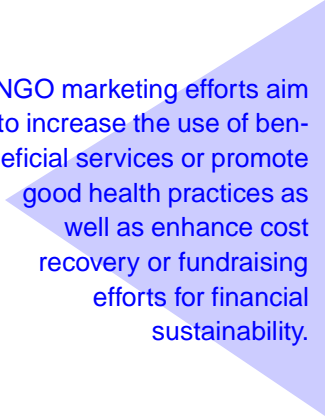
Describe the components of a marketing and communications strategy, and outline the steps involved in developing a marketing and communications plan for your health service delivery organization.

Target Skills

4. Describe the five main components of a marketing program.

5. Develop a marketing strategy.

6. Develop a marketing plan.

7. Select messages and media.

8. Establish monitoring and evaluation.

9. Explain the importance of sound program management.

Marketing Planning

For nongovernmental health services organizations, marketing means adapting the discipline and techniques of business marketing to create "demand" for health services by raising awareness and influencing the way people seek health care. In other words, NGO marketing efforts aim to increase the use of beneficial services or promote good health practices, as well as enhance cost recovery or fundraising efforts for financial sustainability. Marketing and related communications activities therefore contribute to achieving the social benefits and health outcomes envisioned in the organization's mission. The mission statement, program goals, and objectives provide the general framework from which the marketing strategy and plan are developed.

NGO marketing efforts aim to increase the use of beneficial services or promote good health practices as well as enhance cost recovery or fundraising efforts for financial sustainability.

What Is Marketing?

Marketing is a plan to ensure the success of your organization's mission. It
includes many elements aimed at:

- ▶ Getting the attention of potential clients
- ▶ Letting them know about your health services
- ▶ Making your health services or commodities accessible or available
  in the right places and at the right times
- ▶ Making your services attractive to clients
- ▶ Distinguishing your services from those offered by others
- ▶ Setting appropriate fees — fees that people can pay so they will help
  ensure they use the services and fees that help ensure you will even-
  tually recover all or some of your costs with enough margin to invest
  in improvements and expansion.

The process for preparing a marketing strategy and plan requires plan-
ning and research. There are five main components to any marketing pro-
gram (see Figure 8.1):

1. Formative research
2. Strategy development
3. Message and media development and implementation
4. Monitoring and evaluation
5. Program management.

The remainder of this chapter outlines how to effectively include each
of these elements in your marketing strategy and plan.

Figure 8.1. Components of a Marketing Plan
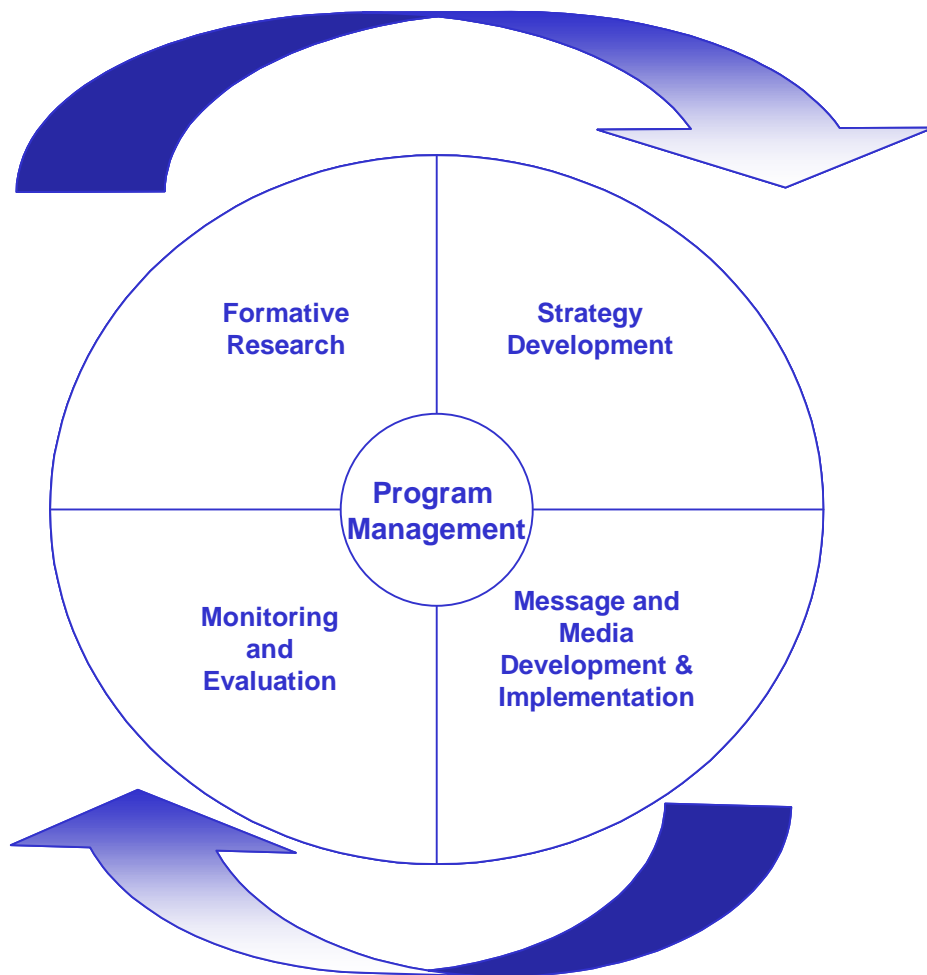
Formative Research

Marketing research can support an organization's strategic planning and assist in the development of a marketing strategy and communications plan. Formative research looks at the community in an attempt to understand factors that influence community members' decisions and actions. These factors can include the environment, social structures, preferences and needs, patterns of behavior, and more.

Formative research should focus on your competition (if any) and on the customs, attitudes, and preferences of your clients. Consider the following factors:

▶ Organizational **mission** and health program **vision** for the target population or communities — What are our guiding principles and programmatic priorities? Whom do we want to reach?

▶ **Competitive strengths and weaknesses** vis-à-vis other organizations offering similar services; if there is no competition, the competitive edge is the articulation of specific services that would benefit the community where the services will be offered — What makes our organization unique? What financial, social, geographic, or cultural factors work for or against our objectives?

▶ **Client or patient satisfaction**, which is a measure of the quality of your services and your success in meeting the real or perceived needs of the communities — Are current patients aware of all our services? What do current and potential clients like and dislike? What other services do they want? Who or what influences their health care-seeking behavior? What can they afford?

Formative research attempts to understand factors that influence the decisions and actions of community members.

Research Methods

There are several tools you can use to investigate the "market" for your organization's health services and commodities, including the situational assessment and Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis discussed in Chapter 2. Quantitative and qualitative (formative) research methods are used for distinct but complementary purposes in marketing efforts:

▶ **Quantitative research** measures consumer responses by making statistical calculations (for example, how many or how often).

▶ **Qualitative research** allows you to gain deeper understanding (why) of the motives, customs, attitudes, or behavior of a particular category of people.

Quantitative research measures consumer responses by making statistical calculations; qualitative research yields a deeper understanding of behavior.

The information collected during your research helps verify the assumptions on which you base your marketing strategy and helps ensure that your communications messages are appropriate for the target audiences. These research tools can also provide you with valuable feedback as you implement marketing and communications activities, allowing you to make adjustments and identify new opportunities to strengthen the impact of your marketing efforts. After you establish the indicators for monitoring and evaluating your organizational marketing effort, these methods can be used to collect the data on the indicators or to validate them.

Literature Review

Documented research may already be available from international or national organizations, academic institutions, or other development agencies and projects. Such research may offer insight into your targeted populations (for example, an entire community, or specific groups such as children under age 5). The research may also describe the activities and services of other health organizations operating in your area, which can help identify gaps in essential services. The document review may provide some pointers for site visits and follow-up interviews. Furthermore, a literature review will show what has been done by other groups operating in the country, potentially saving you time and resources by giving you a sense of what works and what doesn't before you invest in developing your marketing strategy.

Surveys

Patient satisfaction questionnaires (in the local language) can be used where there is a high literacy rate, or trained surveyors can interview patients at the clinic, at home, or at a community center, as described in the next section.

Developing surveys can be complex. Survey instruments must be designed carefully, taking into account many factors, such as which questions to ask, how to ask them (wording and ordering), how respondents will answer (e.g., closed-ended, by circling an answer, or open-ended, allowing respondents to answer as they choose). Survey questions must be clear and comprehensive to ensure that respondents understand fully how to answer the question and ensure that the questions do not guide or lead respondents to answer in a particular way.

Surveys also must be implemented carefully. A sufficient number of surveys must be administered to make the sample representative of the target population (presenting an unbiased interpretation). Surveys are used for quantifiable responses, and these responses must be recorded appropriately so that analyses of the results are valid. Many resources are available on survey design and implementation through universities, research organizations, and donors.

Interviews

In-depth interviews with community or religious leaders, patients or potential patients, or providers from the areas served by your clinic can provide insight into attitudes and practices and allow the kind of exchange and commentary that is not possible with a survey. Interviews are also appropriate to address topics that respondents would be reluctant to address in a group discussion, such as sexual practices.

Interviews, like surveys, must be designed and implemented carefully. Questions must be clear so that the respondent understands what is being asked, and they must not lead the respondent to answer in any particular way. The example highlights the importance of careful question design.

Interviews and surveys must be designed and implemented carefully. Questions must be clear and must not lead respondents to answer in any particular way.

Example: Designing Interview and Survey Questions

Differences in the wording of an interview or survey question can affect the way the respondent will understand the question. Consider these two questions:

> You do not think that the clinic should expand its family planning services, do you?

> Do you think that the clinic should expand its family planning services?

The first question may make the respondent feel like he or she is not supposed to think services should be expanded, because the interviewer suggests this response in the question. In other words, the respondent is first given an answer and then asked whether he or she agrees.

The second question leaves the respondent with a choice to answer "yes" or "no," because the question does not lead him or her to think there is a "right" answer.

Interviewers must be trained to carry out the interviews in ways that do not influence respondents' answers. The interviewer must be careful not to make negative tones, use negative body language, or answer respondents' questions in ways that make the respondent feel they should respond in a certain way or make them feel uncomfortable about answering truthfully. The following example demonstrates why interviewers must be adequately trained.

Example: Implementing Interviews

Dr. Rafiki was assigned to perform interviews for a health clinic. Mrs. Chulinda and her children, who live in the community, are new patients. Dr. Rafiki asked Mrs. Chulinda, "Why did you come to the clinic last week?" Mrs. Chulinda replied that her infant son was sick. The interview questions were supposed to prompt the doctor to ask, "What kind of symptoms did the patient have?" Instead, he asked very specific questions, using medical terms. He asked, "Did your son have an ARI?" but did not explain that an ARI is an acute respiratory infection. Mrs. Chulinda replied, "No," because she did not know what an ARI was, and it sounded like a bad thing. In fact, her son had been diagnosed with ARI. She did not want the doctor to think her son had a bad illness, and she did not want to admit that she did not understand his question.

Mrs. Chulinda felt uncomfortable that she did not know what the doctor was talking about and was intimidated by him. If Dr. Rafiki had proceeded according to the interview outline, Mrs. Chulinda may have responded that her son had a very bad cough and a fever. And, for this interview, that answer would have been sufficient.

In this example, the interviewer influenced the response of the interviewee. The interviewer wanted to show off his knowledge and therefore did not follow the structure of the interview as it was designed.

Focus Groups

Focus group discussions among five to ten members of a peer group provide rapid feedback on preferences, attitudes, practices, or beliefs. Although the results of focus groups cannot be generalized to larger population groups or segments, focus groups are an important tool for uncovering the perceived needs of potential clients. Focus groups can probe patients about their preferences for services, facilities, and operations; their perceptions of quality; and their reaction to promotional ideas, logos, or messages. These discussions can be used to test concepts for new services or commodities and to determine what messages test well with members of your target group. You can also use focus groups to ask patients what they like or do not like about the competition!

The language respondents use in focus group discussions also can help in developing and using surveys. For example, when responses to a particular survey question are ambivalent or conflict with other responses, focus groups can be used to clarify the matter.

The focus group is run by a moderator, usually someone with no direct vested interest in the responses or formal authority over the respondents.

> Focus group discussions provide rapid feedback on preferences, attitudes, practices, or beliefs.

The moderator asks questions and guides the discussion in a way that allows all respondents to participate and feel comfortable in giving frank answers. The moderator is sufficiently briefed about the topics for discussion so that he or she can ask questions to follow up on responses and to probe a specific topic or issue in depth. The moderator can tape the sessions or have the help of a notetaker, who can also observe respondents' nonverbal reactions. Focus groups can be held anywhere the respondents feel at ease.

Visits to Other Clinics

The prime focus of any marketing strategy is the customer. Even so, it is important to assess the competition for that customer to determine your organization's comparative advantage. What services do other organizations provide? What don't they provide? What are the clinic's operating hours? Fees? What problems do they encounter in delivering services? Do they have a good image? If so, why?

In areas where there is no competition, visits to clinics in other areas may uncover successful and innovative ideas that can be used in your own operation and may also help you avoid pitfalls. For your site visits, select large and small clinics, as well as those most similar to yours in type or size.

It is important to assess the competition for your customers in order to determine your organization's comparative advantage.

Understanding the Health Care Market

The fundamental first step toward achieving sustainability in any area is developing an organizational capacity to assess, analyze, and respond to the environment in which health services are being provided. This includes an analysis of the oragnization's stakeholders — individuals or groups that may have an impact on the organization's ability to successfully carry out its mission. It also includes analysis of what is often termed the "health care market."

The concept of a health care "market" is often a new one for health care professionals working with NGOs. However, nonprofit and social enterprises are affected as much by the laws of supply and demand as any for-profit business. In order to have deep and lasting social impact on health care outcomes, NGOs and other nonprofit organizations must begin to understand and effectively utilize innovative management and business techniques for improving the social well-being of the communities they serve.

▶ **Supply** refers to all the health services and products offered and available in a designated area, including by the public sector/government, NGOs/not-for-profit organizations, private for-profit pro-

viders and institutions, and pharmacies, as well as any type of traditional healer/practitioner.

▶ **Demand** refers to the number of requests for health services and products by consumers.

Both the supply of and demand for health services change constantly. In some settings the changes occur more rapidly than in others. For example, urban populations are becoming less dependent on public services, while the private sector is rapidly expanding in these areas (a situation of increased supply of private services and decreased supply and quality of public services). The demand for curative care, expensive technologies, and drugs is growing as consumers become more aware of the availability of these options, even if they do not have the resources to pay for them. In general, there is little demand for preventive and primary health care services, including family planning and reproductive health services.

In order to improve health outcomes and become sustainable, health organizations must improve the supply of and increase the demand for essential health care services such as family planning and reproductive health services.

Exercise 8.1
1. Why is it important to do research before designing a marketing plan for your organization?
2. Develop three sample questions for a patient survey to assess patient satisfaction with your organization's services.

Figure 8.2. Health Care Market

Empower Providers
✓ Expand products and services
✓ Build capacity
✓ Improve quality

Empower Consumers
✓ Improve awareness and attitudes
✓ Improve access to quality services

Institutional Resources

Increase Demand

Improve Supply

(services) Resources

(requests) Products

Networks

Products

Services
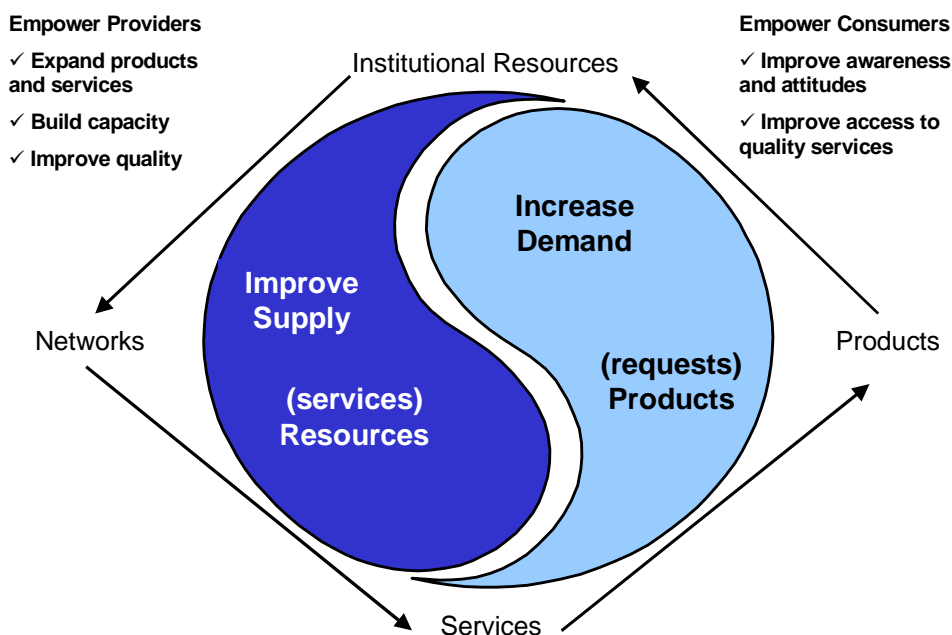
Strategy Development

Marketing Strategy

A marketing strategy defines your goals and approach and sets targets. To begin the process of developing a strategy, review the problems and opportunities your strategy must address. These can be listed in order of priority — for example, low willingness to pay by clients, a narrow market for the service or product, low patient awareness, distance to the clinic. Opportunities can include community or religious leadership, central location of the clinic, a popular service or product the clinic offers, the good reputation of the staff.

There are six steps involved in developing a marketing strategy, which are described in turn.

Step 1. Identify your target group(s) or population segment(s).

Step 2. Identify how to position or present your service or commodity.
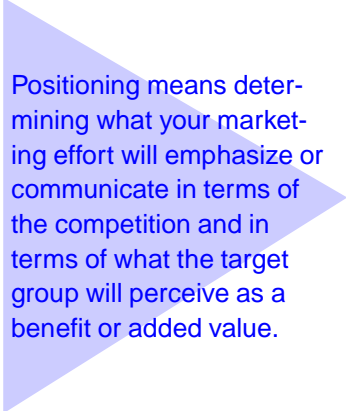
Review the situational assessment or SWOT analysis done as part of the strategic planning process (see Chapter 2) and the results of your formative research on the competition, patient preferences, and satisfaction. The target group's needs and requirements, as indicated by your research, will help you determine how to position your organization. **Positioning** means determining what your marketing effort will emphasize or communicate in terms of the competition (what makes your service better or unique) and in terms of what the target group will perceive as a benefit or added value. Care must be taken to identify both the real needs and the perceived needs of the target group and to take both into account when determining your marketing position.

Step 3. Establish medium- to long-term marketing objectives.

Specify which target group or population segment will be the focus of each marketing effort. Some examples include expand services for men, open new sites in a neighboring community, or increase use of specific services by a certain segment of the population.

Step 4. Establish short-term objectives.

These will help you achieve your medium- to long-term objectives. For example, your short-term objectives could include raising community awareness about a health issue and new service, increasing the volume of patients, or recruiting fundraising volunteers.

> Positioning means determining what your marketing effort will emphasize or communicate in terms of the competition and in terms of what the target group will perceive as a benefit or added value.

Step 5. Set measurable targets within a timeframe.

Such targets could include, for example, the amount of revenue or patients to increase, how many and what type of services to expand, or how many new sites will begin operation and where will they be located.

Step 6. Plan to invest in measuring the results of your services early in the implementation phase.

Utilization figures alone will not provide complete information, and you may succeed or fail for reasons you did not take into account. This process is called "closing the feedback loop" — which means getting an accurate picture of the outcome of the services or commodities provided, fees charged, delivery, and promotion campaign.

> Note: A sample marketing strategy for an NGO family planning and reproductive health clinic is provided at the end of this chapter.

Closing the feedback loop means getting an accurate picture of the outcome of the services or commodities provided, fees charged, delivery, and promotion campaign.

Marketing Plan

When your marketing strategy is complete, you must plan how to implement it. Preparing the marketing plan involves deciding on the right mix of the four components of marketing: service or commodity, fee, delivery, and promotion. Your marketing plan is created by assessing how to develop or improve each of these components, as outlined below. A marketing plan therefore covers these four areas, as well as the need to close the feedback loop and to improve the organization's management.

▶ **Service or commodity**: Answering the following questions can help you develop or improve your service or commodity: Why do people come/do not come to our clinic? What do current patients like/do not like? What do potential patients say they would like? Should we increase some services and cut back on others? What additional services or activities can we provide to add value to patient visits or to attract new patients? Would it be possible for public providers to begin referring patients to our clinic? How can we increase patients without overwhelming the staff's capacity?

Focus group discussions provide rapid feedback on preferences, attitudes, practices, or beliefs.

▶ **Fee**: Answering the following questions can help you determine fees to charge for service: What are the costs of providing services? How can we reduce costs? What do other clinics charge for services or drugs? Should some services be free? Should we package different services and commodities for a fee? Who should be exempt from fees? What are people willing to pay? What incentives can we provide to encourage traditional birth attendants and midwives to cooperate with our program?

▶ **Delivery**: Answering the following questions can help you improve your delivery of services or products: How can we improve quality as perceived by the patients? Should we extend operating hours or days? Are there other places to deliver services or products? How can we reduce waiting time? Can we offer more services or cooperate with others who do (e.g., a mobile clinic) to save patients time and transportation costs? Can we perform diagnostic services or rent examination rooms for other specialists? How can we diversify our services to serve more health needs of our target group or their family members? Are nurses and midwives used effectively? Should we invest in transportation to increase access to safe delivery and emergency services? Is there sufficient interpersonal counseling to be reinforced by marketing messages? How can we improve the facility (waiting rooms, patient flow, examination rooms, bathrooms, or exterior)?

▶ **Promotion**: Answering the following questions can help you determine how to promote your service or commodity: What are the best ways to deliver our message, and what kind of media should we use? Where are the best places to distribute our messages? When are the best times to reach our target group(s)? Should we develop a logo for our site(s) and promotional materials? Should we sell vitamins and micronutrients or hard-to-find items on the local market related to the health and hygiene of our target group? Is our staff fully briefed on our marketing objectives and messages? Are consumers aware of existing services? Instead of a logo, could we invent an appealing, entertaining local character to speak for our clinic and the services in our promotional materials?

▶ Obtaining feedback by **monitoring and measuring results**. Answering the following questions can help you determine how to obtain feedback and measure results: What required data can be readily collected in the course of ongoing operations and compiled on a periodic basis? What are good indicators of our progress toward each of our marketing objectives? What information can the receptionist or nurses collect? Should we use patient exit interviews or a survey? Should we hold a focus group every quarter? Should we have a test period and then reevaluate specific promotional activities or messages? How often should we assess our marketing effort and adjust the program according to the results?

▶ **Management**: Answering the following questions can help you develop or improve management: Who is responsible for coordinating

and monitoring the marketing effort? What are the risks? Who are the people responsible and accountable for specific activities or tasks (including volunteers)? What are the resources in terms of personnel, time, and budget? Do we have steady access to drugs and supplies? Is the staff prepared to receive more patients? Have all staff, from medical personnel to administrative and support services, been adequately briefed on the purpose and use of messages and materials?

▶ **Timing**: Are there seasonal fluctuations in income or population? When are religious feasts, elections, tax collection, harvest, or any other activities that could positively or negatively impact our marketing initiative?

▶ **Budget**: What are the expected revenues and the costs for marketing?

Figure 8.3. The Components of Effective Marketing

▷ Knowing who your potential patients are and why they use or do not use your services or commodities.

▷ Developing a large number of satisfied patients who will return and recommend your services to others.

▷ Increasing awareness among residents of the surrounding area about the clinic and its services.

▷ Focusing on a special group of patients (e.g., adolescents) and providing special services or products to appeal to them, including testing messages through focus groups.

▷ Having a marketing plan that is flexible, reviewed regularly, and adjusted or changed to address new conditions.

Exercise 8.2

1. Identify a service or commodity provided by your organization that you would like to market or promote.

2. Develop a marketing strategy, following the six steps described above.

3. Develop a detailed marketing plan with a timeline, clear roles and responsibilities for the people involved, and defined objectives.

Message and Media Development and Implementation

Marketing communications are focused on what patients need or want. Research on patient satisfaction and on the preferences of your target group helps you create messages that get their attention, attract them to your clinic, or persuade them to try a new service or product.

Marketing communications focus on what patients need or want.

Local Language

Marketing messages must be presented in the appropriate local language understood by the majority of the target population. All materials and translations should be reviewed by a native speaker, ideally someone with health care and marketing knowledge or experience. This applies to all media used for marketing, including newspapers, brochures, billboards, radio, etc. In addition, local terminology should be used (e.g., local terms for diseases or medical conditions).

Benefit to the Patient

Every marketing message should convey information about the potential benefits to the patient rather than just information about the service or commodity. Compare the messages in the example below. When creating your message, remember to ask, How does the service or product benefit the patient?

Example: Conveying the Benefits to Patients

Our safe delivery service operates 24 hours a day.

> **Better:** Our safe delivery service keeps you and your baby safe and sound.

Our new prepayment plan covers delivery at our clinic and ambulance services.

> **Better:** Our new prepayment plan lets you have your baby safely with expert care, comfort, and cleanliness.

Timing

Message Reinforcement

Messages need to be reiterated and presented in reinforcing ways. For example, a new flyer can be distributed, a billboard raised, a talk given at the school, and a patient interviewed on a popular local radio program over the course of a week or a month. The reaction or response to each of these methods, as well as their combined impact, then informs a future round of promotion. What did not work is discarded or improved, and what did work is strengthened or expanded. It is not enough to use one way of doing things or to use publicity only one time. Plan your communications activities to create and sustain momentum for the marketing effort. People tend to hear and act on marketing messages when they need, or feel they need, what is being advertised. A reinforced effort is likely to catch a potential patient's attention sooner or later.

Supply and Demand

Where there is strong demand for the service you are offering, the issue becomes how to manage the demand and ensure client satisfaction through the right marketing mix. For example, you may focus less on promotion and use fees to deter overuse, or you may extend operating hours to meet demand. Beware of creating demand prematurely. You should not promote a service unless the required staff, supplies, equipment, or drugs are in place or are sure to be in place in the near future.

Local Calendar

When planning promotional events, remember to review the local calendar for religious or other holidays, festivals, market days, and seasonal events that may present marketing opportunities or may compete with your plans.

Community Involvement

There is a role in the marketing effort for the organization's local board of directors or a management committee that includes representatives of the community. Community leaders can use their influence and local knowledge to help develop your marketing plan and to help promote the clinic. They can help organize patient volunteers to distribute information and organize promotional events. Marketing, and specifically promotion and publicity, involves everyone — the entire staff, board members, and community members — and not just the marketing coordinator. The more involved the staff and the target group(s), the more successful the marketing effort.

Promotion

Here are some typical methods for promoting and publicizing your clinic or a specific service. This is an illustrative list from which you should select the most appropriate methods given your target group, your objectives, and your available resources. Use imagination and innovation — there is no right way to create and deliver marketing messages. Just ensure that your messages do not violate your mission statement and guiding principles or the professional ethics and image of your organization. In addition, you should keep the marketing objectives and the health benefits to the consumer in mind.

Influential Spokespeople and Endorsements

Word of Mouth: One of the most powerful ways to attract new patients is through the recommendation of your current, satisfied patients.

Spokespeople: Advocacy and endorsements by respected members of the town or community can influence potential patients, particularly when dealing with sensitive issues like family planning or HIV/AIDS. A patient who benefited from the service you are promoting could be asked to recount his or her experience at group events.

Family Members: In many societies, the people with the most influence and authority over the people in your target group are relatives, heads of households, inlaws, and elders. Remember that whether or not they are in your target group, the heads of families are influential in determining the health practices of all members of the family. They should be included in marketing research and engaged in direct outreach and promotion as well.

Community Outreach

Religious or Community Centers: Visit the head of religious or community-focused institutions in your area, and arrange to speak to their members. Religous leaders and community leaders can also deliver messages to the community.

Schools: In schools that have health education programs, teachers and health education workers can convey information about new services that are beneficial to students and their families.

Social or Cultural Activities: Locations where your target group usually congregates, such as markets, wells, or river banks, religious services, schools or shopping malls in urban areas, cafes, or sports events are good places to promote your messages.

Community Fairs: Your organization could sponsor a health fair with games, prizes, skits, or puppet shows to present your health messages and raise

awareness of the audience. Or, you could organize a booth at a community festival to distribute flyers that highlight your clinic or maps showing your clinic's location.

Print and Broadcast Publicity

Radio: Radio programs can distribute your messages to a large number of people. You could ask an articulate patient who benefited from the service you are promoting to describe the experience on a local radio program. Or you could arrange for the clinic director or one of the staff members to be a featured guest on a popular program that broadcasts when your target group is likely to hear the interview.

Brochures, Flyers, and Posters: The use of print materials depends on the literacy level of your target group. In some cultures, more weight is given to information in print; in others, the preference is to hear or see information on the TV or on a video. If you are targeting teenagers with access to the Web in school, a Web page could be the most effective medium to reach them! Regardless, simple flyers or brochures with attractive graphics and useful health tips can project a positive image of your clinic and be a good reminder of the services you offer.

You could put up appealing posters in the reception area of your clinic, at referral sites such as hospitals and local pharmacies, and anywhere your target group is likely to see them. Or, have a contest to design the poster and involve the community from the start.

Newsletters: If local religious or community groups have a newsletter, you can place an advertisement in it and monitor the response. If appropriate, place an ad in the local newspaper and monitor the response.

Banners and Billboards: If your location is hard to find or you are targeting potential patients from outlying areas, roadside billboards or banners on buildings and public transport can help publicize your clinic at a glance. In general, banners and billboards are useful to reinforce other publicity your potential patients may see or hear elsewhere.

Logo: It is usually helpful to develop a "graphic identity" for your clinic. You should maintain consistency in the colors and style, or "the look," of your promotional materials. Your audiences will begin to recognize your messages and remember your services. In areas where there is a lot of competition, a logo can help distinguish your clinic from other services. Over time, the logo may become recognized as a symbol of quality and trust.

The clinic shown in the picture lacks signs or banners.

Public Relations

Patient-Customer Relations: Because word of mouth is so important in creating a favorable image of your clinic and its services, patient complaints should be addressed promptly when they arise. You should refer unhappy patients to a designated person who is prepared to deal with the complaints in a polite, respectful, and efficient manner. Retaining current patients is as important as attracting new ones, and so it is important to follow up on complaints or problems until they are resolved.

Mission Statement: You should display your mission statement in a prominent area such as the reception or waiting area, and orient all staff, from janitors to doctors, about how to handle complaints. You should reinforce the patient focus of each staff member's job, providing incentives and recognizing outstanding efforts for patient satisfaction.

Open House Events: In addition to inaugurating a new clinic, your organization can schedule regular events at the clinic that are both educational and fun, with door prizes and refreshments and activities for all members of the family. In addition to the mission statement, be sure to display any promotional materials.

Health Awareness and Promotiom: Promote the clinic and its services in any health education or health awareness and promotion activity conducted in the clinic or at other places, such as schools. Your clinic earns the goodwill and trust of the community by demonstrating involvement in promoting the health and well-being of the patients, their families, and the community. Raising awareness among your target group(s) about the specific health issues addressed by the services your clinic offers helps you achieve your marketing objectives — the best health customer is an informed health consumer.

Note: Many of the same formats and methods used to deliver health education messages and carry out health promotion activities can also be used to promote your clinic and its services. Ask public health promoters in your area what works best for your target groups, and research the types of health issues your service intends to address.

Cooperative Marketing or Promotion

If your clinic is affiliated with similar clinics in other areas, consider defraying marketing costs by preparing materials in cooperation with the other clinics. Ask clinics in your area with non-competing specialties or referral sites to conduct some complementary joint marketing. Print materials, radio, or even TV spots may be cost-effective if they are covering much broader areas than just your own.

Exercise 8.3

1. Identify the key messages to be communicated about the service or commodity targeted by your marketing plan.
2. Select the appropriate media to use for communicating each of the messages you have developed.

Monitoring and Evaluation

As mentioned previously, the research methods used to study the market for your services — observations, focus groups, client interviews, surveys — can be used to monitor and measure the results of marketing campaigns and activities. In fact, marketing research provides a baseline against which to measure any changes. Data can be collected in-service, but you should ensure that busy clinicians and staff members are not overwhelmed with data collection. In addition, and when possible, use independent consultants to conduct exit interviews with clients or household surveys to complement in-service statistics. Set up a realistic, periodic schedule for monitoring and include marketing in overall evaluations.

What to Monitor?

Your indicators will vary according to your specific marketing objectives. Nevertheless, there are some aspects of any marketing effort that should be tracked:

▶ **Client utilization** of marketed services or commodities before and after the campaign
▶ **Client awareness** of specific publicity campaigns and media used in order to determine the most cost-effective means of outreach
▶ Client **impressions of quality** and accessibility of promoted services
▶ **Staff feedback** on operations of the promoted services and ability to cope with increased demand
▶ Marketing **expenses**
▶ Clinic **revenues** for specific services.

Program Management

Effectively managing the marketing activities is essential to success. You must ensure that roles and responsibilities are clear, that reporting systems are in place, that the reporting systems include specific plans for gathering feedback and guaranteeing follow-up, and that client input is consistently sought and used to improve program operations. Sound management also helps ensure that all systems operate efficiently and effectively and that program outcomes can be achieved.

> **Exercise 8.4**
>
> Identify the specific methods you will use to monitor and evalute the marketing of your service or commodity. Indicate who will be responsible for monitoring and evaluation.

Example: An NGO Marketing Plan

An NGO established and sponsored by an international nonprofit organization is preparing to become a local, independent NGO responsible for its fundraising and self-sufficiency. An agreement with an international donor that will provide institutional support to the organization is conditional upon the NGO's demonstrated capacity to increase recovery of its operating expenses from 50 percent to 60 percent in the first year of its new autonomy.

The NGO's management team has produced a business plan that incorporates some methods to improve efficiency and reduce operating costs. The plan also calls for a slight increase in user fees among current clientele. However, a gap remains to be filled by an increase in revenue from new patient fees. The NGO wants to test a prepayment plan that extends coverage for the family planning and reproductive health needs of adolescent and adult patients. If successful, this could help stabilize its revenue flow. However, the notion of prepayment is relatively new to its client base, which is accustomed to "pay-as-you-go."

The NGO clinic is situated in a low-income, peri-urban area where half of its clients have salaried jobs in factories and services and the other half work on farms or agriculture-based industry. Those families who are awarded exemptions by the local government do not have to pay any user fees. The social worker at the clinic also seeks sponsors for those clients unable to pay in order to help the clinic recover those costs.

HIV/AIDS and unwanted pregnancies have been on the rise and impact the well-being of the whole family. The NGO's goal is to address this situation and expand coverage, as well as to strengthen the sustainability of its operations to address these needs.

The majority of its clients are married females of reproductive age. Typically, most educational outreach by government and other NGO clinics in the area has targeted women. Recent focus groups with the husbands of the clinic's female patients indicated their interest in "learning what their wives learn" at various women's club meetings sponsored by the clinic. The media attention given to HIV/AIDS has also raised the men's concern about educating their young adult sons about the disease and how to avoid it. However, the men also express reluctance to discuss sexual matters in groups. Based on this information, the NGO has decided to target males for its family-oriented campaign. Furthermore, because most males are wage earners, they are able to pay. (Household surveys conducted by the regional health authority indicate high out-of-pocket expenditure paid to private providers as a percentage of household income for health services by salaried employees.)

Marketing Objective

Increase annual revenue from user fees by 15 percent through increased use of family planning and reproductive health services by couples and their adolescent or young adult children.

Strategy

Focus on male heads of families and young men and women of marital age. Introduce reproductive health as a family health issue. Introduce prepayment family plan with incentives for family enrollment. Arrange with local health district and individual private practitioners for referrals for screening and for certain services the clinic is not equipped to provide. Cooperate with local public health campaigns to distribute materials and provide speakers.

New Expanded Services

HIV/AIDS and sexually transmitted disease (STD) screening and treatment; male counseling; sale of family planning commodities and drugs; expansion of women's club activities to enable women to help with counseling and prevention for youth; counseling for families with an HIV-infected member; transportation to referral sites; round-the-clock ambulance for deliveries; visiting specialist, such as a urologist, on a periodic basis.

Fee

Institute family discounts including grandparents, parents, and children; for the first three months, provide extra discounts to any married patient who brings his or her spouse to the clinic for a service; test pre-payment plan to include basic package of services including safe delivery (antenatal, newborn, and post-natal care); pregnancy, STD and HIV/AIDS screening; family planning commodities and medicines, in addition to other standard services. Offer alternative payment schedules to accommodate seasonal fluctuations in income.

Delivery

Institute an appointment system to allow those who work to come to the clinic at convenient or low-traffic times, such as in the evening after work; arrange transportation to referral sites and ambulance service for deliveries for plan members. Cooperate with government-sponsored programs on

HIV/AIDS awareness, particularly at secondary schools and universities; recruit student volunteers to test a telephone hotline concept; ensure that all staff understands and respects each patient's right to privacy; train staff in counseling approaches and techniques for adult males and unmarried youth; ensure the facility's examination rooms and counseling rooms are sufficiently soundproof to guarantee a patient's privacy.

Promotion

Messages need to emphasize safety and privacy on two tracks:

> ▶ Track one appeals to males as fathers and heads of households
> ▶ Track two appeals to young men and women.

Promotional Activities

> ▶ Organize a family health fair at the clinic with door prizes, and hold games favored by men such as dominoes. Use the occasion to publicize new services and distribute educational flyers. Target young women by opening a booth with information on skin care, and introduce them at the same time to information on nutrition and reproductive health. Attempt to organize the health fair at the same time as the annual immunization campaign or religious festival.
> ▶ Distribute pens, bags, or pocket mirrors with the name and location of the clinic on it (to be distributed year-round).
> ▶ Prepare a billboard advertisement near the central market and bus station.
> ▶ Prepare, with help from the clinic's women's club and staff volunteers, periodic radio spots to raise awareness of different health risks and publicize the related services offered by the clinic. Make sure to broadcast when sports news is broadcast or before, during, and after soccer games (1 per month, repeated once weekly).
> ▶ Get the local TV station to broadcast videos prepared by international organizations or set up a TV in the clinic waiting room and broadcast entertaining, educational spots, and videos (ongoing).
> ▶ Visit local community, religious, and sports leaders and enlist their support.
> ▶ Have a local sports hero record various health messages for the radio and appear on a local talk show. Have a female news personality

host a broadcast on the topic of reproductive health, and seek support from a commercial sponsor of feminine hygiene products.

▶ Organize a soccer match to raise funds for the clinic, and distribute educational materials at the match.

▶ Arrange local radio and press interviews for representatives of families who have members who suffered the consequences of HIV infection or unwanted pregnancy. (This is important to encourage people not to fear the stigma and avoid seeking care.)

Management and Monitoring

The clinic's social worker is responsible for overall management of marketing activities. Two teams composed of a clinician and a male community volunteer each are responsible for in-clinic educational activities and for publicity and outreach. The clinic director reviews their efforts in a quarterly report that has a pre-established format to collect data on utilization, expenses, revenue, and patient satisfaction from exit and household interviews. New patients will be interviewed on their awareness of distinct media and outreach efforts. Repeat clients will be interviewed on quality and satisfaction with staff, services, and operations.

Two students from the university who are studying business and marketing will conduct exit interviews with patients. A team of surveyors from the local public health office will share relevant data from household interviews with the clinic. The questionnaire for the exit interviews was developed with the help of a private consultant who will also conduct annual reviews of the marketing effort and conduct focus groups.

Budget for Marketing Activities

Expenses

Percent of staff time allotted to marketing

Volunteer transportation expenses

Printing

Distribution

Billboard advertisement

Special events: Clinic fair (refreshments, publicity, supplies)

Consultant

Revenue

User fees

Prepayment plan enrollments

Drugs

Commodities

Cash donations

In-kind donations

Example: Monitoring and Evaluation Worksheet

Objective and Activities	Indicators (Direct and Indirect)	Information Source	Baseline Needed	Who Is Involved	Tools/Methods	Frequency	Resources
Objective: Increase number of male patients							
	No. of males examined for first time	Medical record	No. of male patients prior to campaign; HH survey data	Reception/nurse	Computer tally or manual review of records	Quarterly	Revised medical records for appropriate details
			Data from baseline focus group or interviews				
Activities:							
Billboard Religious center talk Flyer Sports events, radio	Awareness indicated and source of information	Interviews		Social worker		Semi-annual; annual review	
Objective: Awareness of HIV/AIDS prevention among non-married females aged 16-20							
Activities:							
Radio talk show	No. of target group tested	Medical record	No. of females tested prior to campaign	Reception/Nurse	Counseling	Quarterly report	
Women's club	No. in attendance at women's club session	Sign-up sheet	No. attending mother/daughter days	Social worker		Quarterly report	
Flyers	Correct responses from exit interviews	Baseline exit interview results; focus group responses	"Don't know" or incorrect responses	Surveyor	Response from focus groups; exit interview; anecdotal indicating source of information	Quarterly; semi-annual; annual focus groups	Consultant

Board Roles and Responsibilities

Purpose

Introduce guiding principles about boards and their roles and responsibilities in your organization.

Target Skills

1. Describe the roles and responsibilities of a board.
2. Explain the relationship between the board and senior management.

Board Roles and Responsibilities

The board is ultimately responsible for governing the organization and holds legal responsibility for the organization and its operations.

A board is a group of external people who collaborate to provide technical, managerial, and financial support to an organization. The board is ultimately responsible for governing the organization and holds legal responsibility for the organization and its operations. The board helps develop, support, and defend the organization's mission. Board members ensure that the organization is responsive to the needs of its stakeholders. It is important that both the organization and the board members themselves have a clear understanding of the board's roles and responsibilities and the nature of its interactions with senior management.

The board should comprise individuals who are willing to dedicate time and resources to the organization. Members should have a broad range of qualities and expertise, including professional skills, management experience, and recognition among the public. The board members should complement each other and the organization's staff.

The Board and Senior Management

No single relationship in the organization is as important as that between the board and its chief executive officer. That relationship, well conceived, can set the stage for effective governance and management.

— John Carver, Boards that Make a Difference,1990

The board is intended to complement and support the management structure of the organization. Partnership and collaboration between the executive director[1] and the board enhances the successful implementation of policies, service delivery, administrative tasks, and financial management.

The executive director and the members of the board must have distinct, well-defined responsibilities. The lines of authority among different people within the organization must be clearly defined. These roles are built upon the mission of the organization. However, while both the executive director and the board share responsibility for helping the organization fulfill its mission and goals, their responsibilities differ in the following specific ways:

> The **executive director** is responsible for implementing programmatic activities and for overall management of the organization to meet its goals. In other words, the organization's senior management directs.

> The **board**, on the other hand, makes policies, assists in setting the strategic direction of the organization, and provides oversight and supervision to ensure that the management and operations of the organization are legal, effective, and appropriate (fair and ethical). The board governs and is legally responsible for the organization.

The executive director and the members of the board must have distinct, well-defined responsibilities.

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1. The term "executive director" is used throughout this chapter to refer to the leader of the organization. Titles will vary in different organizations and may include senior manager, chief executive, or president.

The Primary Functions of the Board
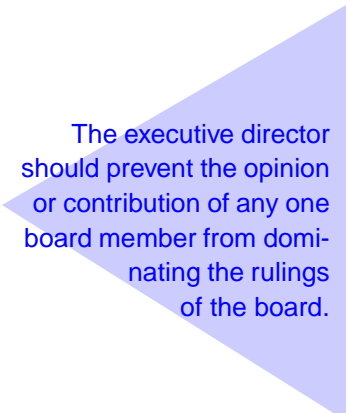
Governance

The board's primary function is **governance**, or serving as a supervisory and complementary body in the structure and operation of an organization, with legal responsibility for its performance. The board's governance responsibilities protect the interests of the organization and its stakeholders. Governance activities can include policy decision-making and oversight of the organization's financial and administrative operations.

The board presides over the establishment and implementation of organizational policy, strategic planning, budgeting (including the approval of annual budgets), and the preparation of business plans and other important administrative resolutions. The board helps set strategy and policy objectives, provides feedback on the manner in which the organization's staff intends to meet these objectives (in terms of planned activities, programs, etc.), and evaluates the organization's performance (both financially and in terms of its impact in the community). The board also ensures compliance with laws and regulations, including regulations set by donors. The board is not intended to manage an organization but rather to guide it to achieve its mission through sound strategic plans and rational policies.

The board's governance function is collective in nature, and decisions should ideally reflect the contributions of all board members. The executive director should prevent the opinion or contribution of any one board member from dominating the rulings of the board; no board member should be given special consideration or privileges. Board members should bear in mind that their decisions are to be objective and that personal interests are not to be advanced by their membership on the board.

> Governance activities can include policy decision-making and oversight of the organization's financial and administrative operations.

> The executive director should prevent the opinion or contribution of any one board member from dominating the rulings of the board.

Support

The board also supports the organization, working to guarantee its overall success. The board seeks to strengthen the organization by using, for example, the expertise of individual board members or connections in the community. The supportive functions of the board also include:

▶ Encouraging, facilitating, and promoting fundraising efforts: For example, the board may help the organization hold a fund drive each year or arrange for high-profile speakers to appear at benefit events.

▶ Advising management and providing technical input according to the board members' individual experience and professional capabilities: For example, an accountant on the board may suggest certain types of financial management reports to better inform donors about the organization's performance.

▶ Performing tasks related to the organization's mission, including advocacy activities to promote the organization to stakeholders and the general public: For example, an influential board member may assist in recruiting a popular musician to give a concert at the organization's health fair.

Responsibilities of the Board

In addition to the roles and functions described above, the board also has a number of obligations and responsibilities. These range from participating in meetings to providing fundamental support for the organization's mission. The most important are to support the organization and ensure that its presence in the community is positive and influential. (The responsibilities of individual board members are discussed later.) Figure 9.1 shows ten basic responsibilities of a board, each of which is described below.

> The most important responsibilities of the board are to support the organization and ensure that it is a positive and influential presence in the community.

Figure 9.1. Ten Basic Responsibilities of Nonprofit Boards

1. Determine the organization's mission and purposes
2. Select the executive director
3. Support the executive director and assess his/her performance
4. Ensure effective organizational planning
5. Ensure adequate resources
6. Manage resources effectively
7. Determine, monitor, and strengthen the organization's programs and services
8. Enhance the organization's public standing
9. Ensure legal and ethical integrity and maintain accountability
10. Recruit and orient new board members and assess the board's own performance

Source: Richard Ingram. Ten Basic Responsibilities of Nonprofit Boards. Washington, DC: National Center for Nonprofit Boards, 1996.

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1. Determine the Mission and Purpose

The board is ultimately responsible for ensuring that the organization is responsive to its stakeholders and that its mission is focused on the needs of the community. As noted in Chapter 2, the board should be involved in the strategic planning process, especially in developing the organization's mission statement, which expresses its overall purpose. In the case of nonprofit providers of health services, this means the board protects the interests of the organization's patients and members of the community it serves.

2. Select the Executive Director

The board is responsible for selecting and evaluating the executive director of the organization. The board must make certain that the executive director can effectively and efficiently direct the organization and manage the organization's staff in implementing programs and activities.

3. Evaluate the Executive Director

The board is obligated to evaluate the performance of the executive director. The board should carry out an annual performance review to assess the accomplishments of the organization's director (see Chapter 3 on Human Resource Management).

4. Ensure Effective Organizational Planning
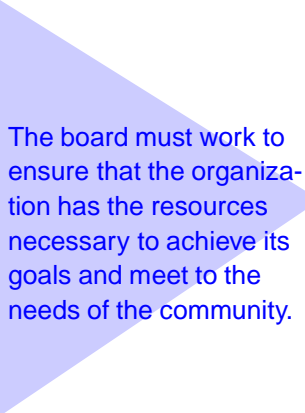
The board must be involved not only in strategic planning to establish a mission and strategic objectives, but also in developing work plans and program design. The board should have final approval over all of the organization's strategic plans and work plans.

5. Ensure Adequate Resources

The board must work to ensure that the organization has the resources necessary to achieve its goals and meet to the needs of the community.

Another important responsibility of the board is fundraising. The board must work to ensure that the organization has the resources necessary to achieve its goals and meet the needs of its community. The board is responsible for assisting the organization in securing this funding.

6. Manage Resources Effectively

The board is involved in financial decision-making and must approve all annual operating budgets or multi-year budgets. The board must reinforce policies and procedures that guarantee the appropriate use of money, including the establishment of internal controls (see Chapter 10 on Internal Controls). It also regulates the use of large amounts of money and often approves large capital purchases in advance. For example, a clinic would likely need the board's consent before buying new vehicles for its outreach services. The board also enforces compliance with local laws and with regulations set by donors (for example, requiring separate bank accounts for restricted donor funds).

The executive director submits financial reports to the board on a regular basis, preferably each quarter. The board reviews the reports and discusses any problems with the director (for example, discrepancies in the budget). In addition, the board should insist on an annual audit of the organization's finances by an external party and should meet with the auditor and director to discuss the results. The audit reports should be addressed to the board.

7. Determine, Monitor, and Strengthen Programs and Services

The board works with the executive director to develop programs that are consistent with the organization's mission and strategic objectives. It also provides oversight to the implementation of these programs, not in terms of program management (which is done by the executive director and the staff), but in terms of effectiveness. The board should evaluate whether the organization's programs are carried out as effectively and efficiently as possible. The board is responsible for collaborating with the executive director to seek and enforce solutions to problems of poor program performance, waste, and mismanagement.

8. Enhance the Organization's Public Standing

The board members serve as representatives of the organization on a higher level — in the eyes of the community, the business community, the donor community, the government, and elsewhere. The board supports and promotes the organization and seeks to communicate the organization's mission to the public.

9. Ensure Legal and Ethical Integrity and Maintain Accountability

As mentioned, the board works to develop organizational policies and internal controls to protect against fraud and abuse, ensures that the organization follows local laws and complies with regulations set by donors, and requires regular financial reporting and annual audits. These responsibilities help maintain the organization's accountability.

The board also maintains the organization's ethical integrity by encouraging fair practices and moral decision-making by the executive director. Issues of moral concern should be presented to the board for reso-

lution (for example, if the executive determines that a doctor is mistreating patients).

10. Recruit and Orient New Board Members

The board must sustain itself by recruiting new members as needed. When new members join the board, the group works together to communicate to the new members the organization's mission, strategy, and work plan, and to orient them to the responsibilities of the board.
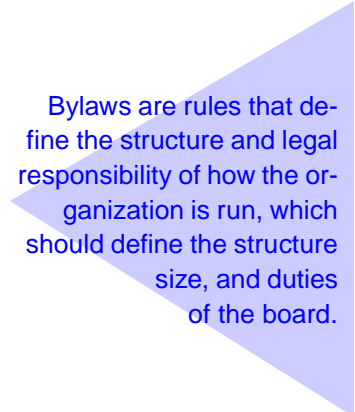
A Note on Problem-Solving

Boards have an ongoing responsibility for helping the executive director deal with major problems. These could include complex personnel problems, addressing audit recommendations, lawsuits, etc.

The Structure and Size of the Board

The structure and size of the board depend on the structure and size of the organization. Larger organizations have large and more complex boards; smaller organizations have smaller boards. When a nonprofit organization is formed, it should develop a set of **bylaws** — rules that define the structure and legal responsibility of how the organization is run. The bylaws should include a section that defines the structure, size, and duties of the board. These bylaws serve as the framework for the broader policies governing the board (board policies are discussed in more detail later in this chapter).

In larger boards, committees are often formed to carry out certain tasks or make certain types of decisions. For example, there might be a fundraising committee (to recommend strategies for securing external funding), a finance committee (to participate directly in solving financial concerns), or an audit committee (that meets with external auditors after the annual audit to discuss findings). In smaller boards, having multiple committees may be neither feasible nor necessary.

A board should have leadership, generally a chairperson who organizes the board and provides guidance to members (see Figure 9.2). The chairperson also works directly with the executive director to ensure that the relationship between the board and the organization's staff remains positive and strong. The board chairperson is elected, preferably by a majority vote of the board members. Other board positions can also be created (as appropriate for the size of your organization and board), such as vice-president, secretary, treasurer, or others.

> Bylaws are rules that define the structure and legal responsibility of how the organization is run, which should define the structure, size, and duties of the board.

Figure 9.2. Sample Duties for Chairperson of the Board

✓   Oversee board and executive committee meetings

✓   Serve as ex-officio member of all committees

✓   Work in partnership with the executive director to make sure board resolutions are carried out

✓   Call special meetings as necessary

✓   Appoint all committee chairs and, with the executive director, recommend who will serve on committees

✓   Assist executive director in preparing agenda for board meetings

✓   Assist executive director in conducting new board member orientation

✓   Oversee searches for a new executive director

✓   Coordinate executive director's annual performance evaluation

✓   Work with the nominating committee to recruit new board members

✓   Coordinate periodic board assessment with the executive director

✓   Act as an alternate spokesperson for the organization

✓   Periodically consult with board members on their roles and help them assess their performance

Source: The Role of the Board Chairperson. Washington, DC: National Center for Nonprofit Boards, 1990.

Board Activities

In order to achieve its responsibilities and duties as described, the board schedules regular **meetings** (at which the executive director is generally also present). The meetings should be held as often as needed, but should not be too frequent, as board members are volunteers with other jobs and responsibilities. A meeting agenda and any documents supporting specific agenda items should be distributed prior to each session to allow board members to prepare. In addition, minutes should be taken at every meeting to document the proceedings and any decisions made. If appropriate, the board secretary should ensure that minutes are taken and distributed to all members.

Minutes should be taken at every board meeting to document the proceedings and any decisions made.

The board should also participate, as much as possible, in the organization's **special events** (such as health fairs) and **fundraising** activities. Often, board members also volunteer their time to the organization to assist with administrative matters.

The executive director is responsible for providing ongoing feedback to the staff about the board's recommendations and decisions.

Managing the Board

The board is responsible for managing itself, under the leadership of its elected chairperson, and for assessing its own performance. The board's effectiveness depends both on its composition and on members' conduct.

> The board's effectiveness depends both on its composition and on members' conduct.

Desired Characteristics of Board Members

The members of the board should have the following characteristics:

▶ They should be **supportive** and willing to stand up for the organization and its mission.

▶ They should be able to **volunteer** time to serve on the board and to participate in the organization's activities.

▶ They should have professional **skills or experience** that will be valuable to the organization and/or a respected public standing with a high capacity to be influential. (For example, the members can range from senior accountants and lawyers, to village elders or religious leaders who are well-respected and supported, to local celebrities.)

In addition to these characteristics, board members are responsible for their personal conduct and for working in the best interest of the organization they serve. They should:

▶ Serve the needs of the organization first: Each board member must serve the needs of the organization before any personal or business interests. For example, a board member should not invest in or own a private clinic near the nonprofit clinic on whose board he or she serves.

▶ Be objective: Related to the above statements, a board member must make objective decisions that are in the best interest of the organization's mission and future. He or she must be impartial to personal preferences and must analyze issues in the organization's point of view.

Board Policies

The board should develop policies to serve as guidelines for its conduct. These policies are grounded in and expand the regulations set forth in the organization's bylaws (see the example on page 9-16). The following are

some examples of important policies a board should adopt, though the list is not exhaustive:

▶ **Conflicts of interest**: Conflicts of interest occur when the personal or professional interests of a board member are incompatible with the best interests of the organization. For example, a board member suggests to the executive director that a family member be hired for a senior management position within the organization. While this may not be illegal, these types of circumstances must be dealt with carefully — this type of "favor granting" may be looked at poorly by other candidates for the position and by the community as a whole. The reputation and well-being of the organization must take priority when conflicts of interest arise.

> Conflict of interest policies typically require that board members disclose all activities and information that could be considered a conflict. Board members also refrain from voting on matters facing the board when there is a conflict of interest.

▶ **Attendance and participation**: Policies should be in place to require board members to attend meetings and board activities. Some boards have policies that remove members from their positions if they are continually absent from meetings. A standard should be developed, agreed upon, and enforced. For example, the policy may state that if a member misses three consecutive meetings, he or she must defend his or her situation to the board and the board must then vote whether or not to dismiss the member.

▶ **Confidentiality**: Policies should exist to protect sensitive information from being released. Board members have access to important financial, personnel, and strategic information about the organization. For example, members could be required to sign confidentiality agreements, banning them from sharing any learned information with outside parties.

▶ **Term lengths**: There is no standard length of commitment for board members. Some boards choose to limit the time a member can serve on a board, for example, to two three-year terms. If a time threshold is desired, a clear policy should be established.

▶ **Compensation**: Board members are volunteers and often are not compensated for their services, although they are quite often reimbursed for expenses related to their service. For example, an organization may give their board members a stipend for all-day events or may reimburse them for travel to and from annual meetings.

> Conflict of interest policies typically require that board members disclose all activities and information that could be incompatible with the interests of the organization.

Exercise 9.1

1. Describe how a board offers governance and support to the organization it serves.

2. Name at least five responsibilities of a board to its organization.

3. Explain the relationship between a board and the senior management of an organization.

Example: Board Member Duties

General Expectations
- ✓ Know and support the organization's mission, purposes, goals, policies, programs, services, strengths, weaknesses, and needs.
- ✓ Perform duties of board membership responsibly, and conform to the level of competence expected from the board.
- ✓ Suggest possible nominees to assist the organization who are clearly women and men of achievement and distinction and who can make significant contributions to the work of the organization.
- ✓ Serve in leadership positions and accept special assignments willingly and enthusiastically.

Meetings
- ✓ Prepare for and participate in board (and committee, if applicable) meetings, including appropriate organizational activities.
- ✓ Ask timely and substantive questions at board/committee meetings consistent with your principles and convictions.
- ✓ Maintain confidentiality of the board's agenda and any decisions made.
- ✓ Suggest agenda items periodically for board/committee meetings to ensure that significant, policy-related matters are addressed.

Relationship with the Staff
- ✓ Counsel the executive director as appropriate, and support him/her through difficult relationships with groups or individuals if needed.
- ✓ Avoid asking for special favors of the staff.

Avoiding Conflicts
- ✓ Serve the organization first, not special interest groups.
- ✓ Avoid conflicts of interest that could harm the organization (financially, legally, or in terms of reputation). Disclose possible conflicts before they occur.
- ✓ Maintain objectivity and serve with a sense of fairness, ethics, and personal integrity.

Financial Responsibilities
- ✓ Review and make decisions based upon the organization's financial statements.
- ✓ Implement fundraising activities, including the development of strategies that maximize personal influence with others.

Source: Adapted from National Council of Nonprofit Boards, Washington, DC.

Internal Controls

Purpose

Examine the policies and procedures adopted by management to ensure that the organization's business is conducted in an orderly and efficient manner.

Target Skills

1. Explain the importance of internal controls in achieving your organization's goals.
2. Evaluate the internal control system in your organization using the questionnaires included in this chapter.
3. Suggest specific changes that can be made to improve the internal control structure of your organization.

Internal Controls

Internal controls are the policies and procedures adopted by management to ensure that the organization conducts business in an orderly and efficient manner. They provide the framework through which management uses the resources at its disposal to achieve the organization's goals. These policies and procedures are designed to ensure that:

- ▶ Assets are safeguarded.
- ▶ Fraud and error are prevented and detected.
- ▶ The organization's operations are efficient and cost-effective.
- ▶ Accounting records are complete and accurate.
- ▶ Management information is timely and reliable.
- ▶ Staff is protected.
- ▶ Patients/clients are protected from dishonest or unethical staff.
- ▶ The organization's resources are used to benefit the community it serves.

> Internal controls provide the framework through which management uses the resources at its disposal to achieve the organization's goals.

The Elements of Internal Control

An internal control system comprises the **control environment** and the **control procedures** that management puts in place to safeguard its assets, control operations, and ensure that information generated from its activities is timely and accurate.

Control Environment

The control environment is the extent to which people involved in the organization are aware of the importance of internal controls and the extent to which their actions provide a sense of organizational discipline and structure to the control system. This consciousness is a foundation for all other aspects of control. The following are indicators of a favorable, supportive control environment:

▶ The organization has clearly defined goals.

▶ There is evidence that management takes corrective actions whenever there are departures from policy.

▶ There are independent periodic investigations of, remedies for, and, where necessary, prosecution of fraud.

▶ There is an internal audit department (in larger organizations).

▶ Employees receive training to improve their competence in carrying out their duties.

▶ There is performance monitoring for staff.

▶ There are written procedures manuals.

The control environment is the extent to which people are conscious of the importance of internal controls and act in a way that provides discipline and structure to the control system.

Control Procedures

Control procedures are the specific policies and systems management puts in place to ensure that the organization achieves its objectives. These include:
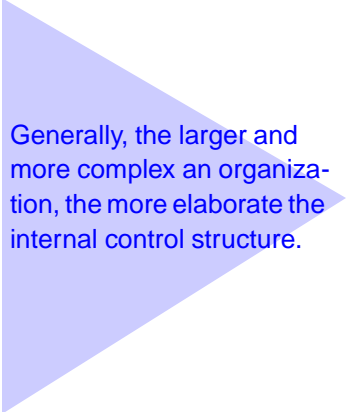
▶ **Accounting controls**, which usually involve comparing information from different sources, for example:

　▶ Comparing cash receipts as recorded by the cashier with information on numbers of patients from patient registers.

　▶ Comparing total receipts with the amount deposited in the bank.

　▶ Cash count to check that the cash on hand agrees with the cash balance recorded in the cash book.

Control procedures are the specific policies and systems management puts in place to ensure that the organization achieves its objectives.

▶ Bank reconciliation to compare cash book entries with entries in the bank statement.

▶ Stock (inventory) controls by comparing physical stock with accounting records.

▶ Comparing actual expenditures and revenue with budgets.

▶ **Segregation of duties** so that the work of one person is checked by another. In particular, there are three functions that should be handled by different people when possible:

▶ Custody: physical responsibility for cash, stores, vehicles, etc.

▶ Recording: entry of data in the main accounts/ledgers from which reports are made.

▶ Authorization for purchases and other uses of resources.

▶ **Managerial supervision**, including reviewing reports and ensuring that proper internal control procedures are being observed.

Creating an Internal Control Structure

Creating an effective control structure is a primary focus of health care organizations that seek to improve their operations. Establishing an effective internal control structure involves:

▶ Creating an environment that is supportive of internal controls. The attitude of management has a significant impact on the effectiveness of an organization's internal control structure. A management team must demonstrate by example its commitment to internal controls in order to establish an enforceable and working system of internal control.

▶ Assessing potential risk and minimizing the possibility of losses. For example, management may identify those cash management activities that present the greatest risk of fraud — say, from the time the cashiers collect payments from patients to the time they hand over the daily revenue to their supervisor for safekeeping prior to banking.

▶ Establishing activities and procedures that enhance internal control. For example, management should institute appropriate measures to document cash received from user fees. Setting targets for revenue collection and comparing them to actual performance is also a useful internal control.

The management of any health organization must also consider the size, complexity, and diversity of their services and staff when designing internal controls. Generally, the larger and more complex an organization, the more elaborate the internal control structure.

Generally, the larger and more complex an organization, the more elaborate the internal control structure.

Control Procedures

Management should follow five main procedures when establishing internal controls.

1. Establish a **system for authorizing transactions** and activities. This is normally accomplished through a written policy that has the approval of senior managers.

2. **Segregate (separate) duties** by assigning different people responsibility for authorizing transactions and holding custody of assets. This reduces the opportunity for any one person to perpetrate fraud or conceal errors or irregularities. For example, if the person collecting cash is

also responsible for writing up the cash book, he or she can misappropriate money and cover it up by recording less than what was collected from patients.

This type of separation is not always feasible with a small staff. In those cases, the people in positions that present more opportunities for fraud should be supervised more closely. In particular, their work should be checked against data from different sources. For example, cash collections can be checked by reviewing the patient registers kept by nurses to assess the volume of services; calculating estimated receipts by multiplying the number of services by the average fee per service; and comparing this estimate against the amount of money actually collected.

3. Maintain **documents and records** to help ensure that transactions and events are properly recorded. Controls should be put in writing whenever possible. For example, payment vouchers should clearly indicate who prepared and who authorized the payment.

4. Establish adequate **safeguards** over access to and use of assets and records. For example, access to cash and medicine inventories should be restricted to a few authorized staff. Accounting and other important records — for example, receipt books, purchase order books, and other official stationery — should be kept secure.

5. Carry out **independent checks** on the internal control process(es). Also, perform periodic validation through auditing to ensure the accuracy of records and to strengthen the internal control system.

In small organizations, where separating duties is not always possible, people in positions that present more opportunities for fraud should be supervised more closely.

Warning Signs of Inadequate Internal Control

There are generally warning signs when internal control procedures or policies are poor or inadequate. The conditions that are indicative of poor internal control can be categorized into three groups: conditions related to the design of the internal control structure, conditions related to the operation of the internal control structure, and other conditions related primarily to the environment.

The warning signs that internal controls are inadequate can point out poor design of internal controls, deficient operation of existing controls, or an unfavorable control environment.

Poor Design

▶ No written policies or defined responsibilities for the management of cash

▶ Absence of appropriate segregation of duties: for example, the individual who collects cash also maintains the bookkeeping records and retains control over the deposits. This situation is common in small organizations (e.g., clinics), and extra care should be taken in supervising staff members in such positions, as mentioned above.

▶ Absence of appropriate review and approval of transactions or accounting or bookkeeping entries: for example, there are no periodic audits, minimal checks on bookkeeping accuracy, and/or poor reconciliation of actual cash with recorded cash amounts.

▶ Inadequate provisions for safeguarding assets: for example, cash is not secured on a daily basis in a safe place; the use of motor vehicles is not controlled.

Deficient Operation

▶ Evidence of failures of identified controls to prevent or detect misstatements of accounting or bookkeeping information

▶ Evidence that the internal control system is failing to safeguard assets from loss, damage, or misappropriation

▶ Evidence of the intentional override of the internal control system by those in authority to the detriment of the overall system of internal control

▶ Evidence of manipulation, falsification, or alteration of accounting records or supporting documents

▶ Evidence that employees or managers lack the qualifications and training to carry out their assigned functions.

Unfavorable Environment

▶ Absence of a sufficient level of control consciousness within the organization

▶ Failure to follow up and correct previously identified internal control structure deficiencies

▶ Failure to protect staff and the intended beneficiaries of the health services.

Internal Control Questionnaire

Exercise 10.1

1. Customize and complete the Internal Control Questionnaire for your organization.

2. Circle the answers in the questionnaire that signal a need for improvement in the internal controls of your organization.

3. For each area in need of improvement, explain what change(s) you would make to improve the internal controls of your organization. (Refer to the section on "Creating an Internal Control Structure.")

Below is a detailed example of an internal control questionnaire that is designed to provide managers of health care organizations with the necessary information to evaluate their organization's internal control structure. The measures and checklists provided are meant to be guides, not mandates; they represent a fairly comprehensive measure of internal control, which may not be appropriate for all organizations. Individual managers should adjust the questions to suit their own internal control environment and operating realities. The questionnaire is meant to be a catalyst to help managers evaluate their systems and make necessary improvements.

The majority of questions involve "yes" or "no" answers: negative answers are indicative of less-than-adequate control, and positive answers are generally indicative of adequate internal control. (A "not applicable" column is also included.)

There is also an observation column on the questionnaire to add comments and suggestions regarding the specific question being answered. Finally, there is space at the bottom of each set of questions to add the name of the reviewer and the date of the review and to make general suggestions.

Example: General Control Environment Questionnaire

Question	Answer			Observation
	Yes	No	N/A	
1. Does the organization have an organizational chart?				
2. Does the organization have a chart of accounts or an organized financial accounting system?				
3. Are there accounting and internal control manuals, and do they set forth accounting procedures?				
4. Does the organization have an internal auditor or equivalent person?				
5. If there is an internal auditor, is he or she independent from the internal control processes?				
6. If there is an internal auditor, are there internal audit reports available? Have they been reviewed recently?				
7. Is the general accounting and bookkeeping department completely separate from the cash receipts and cash disbursement function?				
8. Is the general accounting and bookkeeping department separate from the sales, purchasing, or operational departments?				
9. Are expenses and costs under budgeted control? In other words, is there a budget plan to which others can compare performance?				
10. Are key and material bookkeeping entries approved by senior management personnel?				
11. Are periodic financial statements prepared and submitted to management?				
12. If so, are they designed to alert management to significant fluctuations in costs, revenues, assets, etc.?				
13. List the names of those employees who exercise the following functions. Are any of these functions performed by the same people?				
Accountant				
Bookkeeper				
Cashier				
Internal Auditor				
Purchasing				
Payroll				
Department Head				

Based on all of the information above, comment on the adequacy of internal control. For all weaknesses indicated, recommend corrective action to be taken. Update this checklist to monitor the effectiveness of the corrective action.

Originally prepared by:	Date:
Reviewed in subsequent examination by:	Date:

Notes:

Example: Internal Control Questionnaire for Cash Management

Question	Answer			Observation
	Yes	No	N/A	
1. Is the accounting department separate from the cashier?				
2. Is there a ledger system of accounting?				
3. Is the accounting system maintained by a trained bookkeeper and/or accountant?				
4. Is there a safe location for cash deposits such as a bank or safe?				
5. Does the facility deposit each day's receipts without delay?				
6. Where is the deposit made (bank, safe, etc.)?				
7. Are deposits made by someone other than the cashier or bookkeeper?				
8. Does a responsible employee other than the cashier (depositor) investigate any cash taken out of the deposit location?				
9. Are the cashier's duties segregated from the recording of the cash receipts or accounts receivable?				
10. Does someone outside the cashier department make ledger entries?				
11. Does someone other than the cashier handle the petty cash fund?				
12. Does the cashier handle only one fund? If not, list others.				
13. Is there a withdrawal co-signature authority process?				
14. Does the cashier assume full responsibility for the receipts from the time they are received until the time they are handed over for the deposit?				
15. Is the cash adequately safeguarded (physically) within the facility?				
Cash Receipts				
1. Is an independent listing of cash receipts prepared before they are submitted to the cashier or bookkeeper?				
2. Are cash receipts deposited intact each day?				
3. When cash sales occur, are all receipts pre-numbered?				
4. Are all receipts accounted for daily and match with the cash collections?				
5. Are duplicates of the deposit slips retained and reconciled to the corresponding amounts in the cash receipts records?				
6. Does someone prepare a daily report of cash balances?				
7. Is the bank deposit made by someone other than the cashier or bookkeeper?				

Methods				
1. Are receipts recorded by cash registers or other mechanical device?				
2. If so, are machine totals independently verified by those outside the area?				
3. Does the facility use cash receipt books?				
4. If so, are the receipts pre-numbered?				
5. Does a person other than the cashier independently check the numerical sequence and daily totals?				
6. Are the receipts matched with the cash collections?				
7. Are the unused receipt books properly safeguarded?				
8. If none of the above is used, is an equivalent system used? Explain.				
9. Do adequate controls exist to prevent misappropriation of cash by the cashier, for example, by fictitious discounts, waivers, allowances, etc.?				

Based on all of the information above, comment on the adequacy of internal control. For all weaknesses indicated, recommend corrective action to be taken. Update this checklist to monitor the effectiveness of the corrective action.

Originally prepared by:	**Date:**
Reviewed in subsequent examination by:	**Date:**

Notes

Example: Internal Control Questionnaire: Medical Inventories and Supplies

Question	Answer			Observation
	Yes	No	N/A	
1. Are the following items kept under the strict control of a few designated employees? Medicines? Bandages? Topical ointments? Gases? Disposable and reusable medical instruments such as syringes and needles?				
2. If practical, are inventories recorded monthly in bookkeeping or other accounting records?				
3. Are receipts for issuance made for withdrawal of inventories?				
4. Are withdrawals allowed only under a specific system of designated authorizations?				
5. Are adequate inventory levels maintained?				
6. Are physical inventories taken at least yearly (or periodically throughout the year)?				
7. Is the inventory supervised by an independent manager or equivalent?				
8. Is the merchandise labeled and classified properly?				
9. During inventories of larger stores, are pre-numbered inventory tags or an equivalent system used?				
10. Is an overall review periodically made of slow-moving or obsolete inventory?				
11. Is adequate accounting control exercised over items kept in patient areas (e.g., near nursing areas)?				
12. If periodic inventories are maintained, are they annually reconciled to actual amounts by means of a complete physical inventory?				
13. Do all inventory records show quantities, unit costs, and aggregate values?				
14. Are the inventory records maintained by and accessible to individuals other than those who have access to the inventory?				
15. Are inventories maintained in more centralized storage areas (as opposed to being disbursed throughout the facility)?				

Based on all of the information above, comment on the adequacy of internal control. For all weaknesses indicated, recommend corrective action to be taken. Update this checklist to monitor the effectiveness of the corrective action.

Originally prepared by:	Date:
Reviewed in subsequent examination by:	Date:

Notes

Example: Internal Control Questionnaire: Payroll

Question	Answer			Observation
	Yes	No	N/A	
1. Are payroll duties effectively rotated?				
2. Are vacations of payroll clerks enforced?				
3. Are wage rates authorized in writing by the designated supervision manager?				
4. Is the payroll double-checked as to the hours worked, rates, payroll deductions, and taxes?				
5. If the payroll is delivered by check, are the checks pre-numbered?				
6. Are blank checks in a secure area?				
7. Are the workers identified by their supervisors or other system for validating employment?				
8. Are unclaimed wages relatively insignificant?				
9. Are audits of the payroll system periodically made by outside "independent" auditors?				
10. During disbursement of cash payrolls, is the area of disbursement secure?				
11. Have payrolls stayed relatively steady in all departments, without sudden fluctuations?				
12. Are payroll checks or cash disbursements only picked up by the employee?				
13. Is the process for adding an employee to the payroll in control and done through cross-authorization procedures (with more than one manager's signature)?				
Based on all of the information above, comment on the adequacy of internal control. For all weaknesses indicated, recommend corrective action to be taken. Update this checklist to monitor the effectiveness of the corrective action.				
Originally prepared by:	**Date:**			
Reviewed in subsequent examination by:	**Date:**			
Notes				

Example: Internal Control Questionnaire: Purchases and Expense Management

Question	Answer			Observation
	Yes	No	N/A	
1. Does the organization have a purchasing department?				
2. If so, is it independent of the accounting department?				
3. Is it independent of the receiving department?				
4. Are purchases made only after respective authorization signatures are made according to policy?				
5. Are all significant purchases channeled through the purchasing department?				
6. Are purchase order authorizations required of all significant purchases?				
7. Do certain items get purchased through competitive bidding?				
8. If so, is the review made of the bids independent and objective?				
9. Are purchase prices thoroughly reviewed and checked by a knowledgeable employee?				
10. At the time of receipt, are purchased quantities checked against actual receipt quantity?				
11. Is the receiving department denied access to the purchasing records?				
12. Does the receiving department fill out the receipt of goods documentation?				
13. Are copies of the receiving reports sent to the accounting or bookkeeping department? (If not, how are accounting records updated?)				
14. Are copies of the receiving reports sent to the purchasing department? (If not, how are purchasing orders reconciled to actual goods received?)				
15. When goods are returned to vendors, are credits obtained?				
16. Do safeguards exist for the proper accounting of partial shipments being received against orders?				
17. Does a responsible official approve payment of purchasing orders?				
18. If purchases are paid directly out of cash, is the system for purchase authorization, inventory receipt, quantity verification, and cash disbursement authorization intact, independent of each other, and capable of being tracked?				
Based on all of the information above, comment on the adequacy of internal control. For all weaknesses indicated, recommend corrective action to be taken. Update this checklist to monitor the effectiveness of the corrective action.				
Originally prepared by:	**Date:**			
Reviewed in subsequent examination by:	**Date:**			
Notes				

Example: Internal Control Questionnaire: Petty Cash Management

Question	Answer			Observation
	Yes	No	N/A	
1. Are the petty cash slips pre-numbered?				
2. Do different employees periodically take charge of the fund?				
3. Is the amount of the petty cash fund small enough so as to make replenishment a frequent occurrence?				
4. Is there a maximum amount that may be drawn from the petty cash fund? If so, state the amount.				
5. Are receipts/vouchers maintained for each expense?				
6. Do regulations prohibit the cashing of checks from the fund?				
7. Does an independent and responsible employee reconcile the total vouchers with the remaining cash amounts before the fund is replenished?				
8. Do the vouchers explain the nature of the expense?				
9. Are the amounts written out in words on the vouchers?				
10. Does only the custodian of the petty cash fund have authorization to sign receipts/vouchers and authorize disbursements?				
11. Are there surprise checks of the petty cash fund?				
12. Have steps been taken to address any past abuse of the petty cash funds?				

Based on all of the information above, comment on the adequacy of internal control. For all weaknesses indicated, recommend corrective action to be taken. Update this checklist to monitor the effectiveness of the corrective action.

Originally prepared by:	**Date:**
Reviewed in subsequent examination by:	**Date:**

Notes

Fraud Prevention

Purpose

Help you recognize instances of possible fraud in your organization and develop controls and procedures to help prevent fraud.
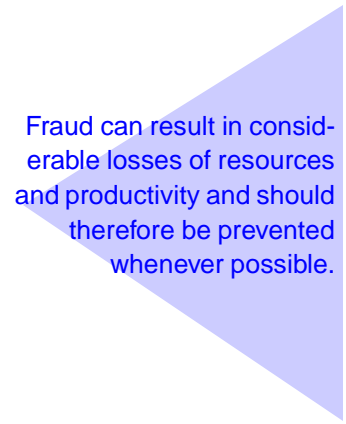
Target Skills

1. Identify fraud.
2. Understand why fraud occurs.
3. Take steps to prevent fraud.

Fraud Prevention

Fraud is the use of an organization's funds or resources for a purpose considered personal or for a purpose other than that intended by the organization. Fraud can result in considerable losses of resources and productivity and should therefore be prevented whenever possible. Fraud can range from the obvious, such as embezzling funds and using the organization's vehicle for personal reasons, to activities that seem innocent but which nevertheless drain the organization's resources. Diverting funds from their intended use or allocation is also considered fraud.

Some of the most common types of employee fraud are:

► Theft of cash
► Collusion with customers
► Diverting cash or check receipts
► Kickbacks
► Voiding cash registers
► Bid rigging
► Altering bank receipts
► Dummy suppliers
► Forgery
► Overstated prices
► Misusing pension funds
► Using company checks to pay for personal items
► Use of company resources
► Presenting fictional invoices or double payment of invoices
► Misstating benefits
► Fictitious billings
► Overstated billings
► False entries into accounts
► False claims
► Theft of inventory
► Travel reimbursement abuse
► Computer crimes
► Payroll crimes.

Reasons for Fraud

Fraud is most likely to occur when three factors operate in combination: **opportunity, rationalization,** and **pressure** (see Figure 11.1). The combination of a chance to commit fraud without being caught, of being able to justify the fraud to oneself, and of feeling the weight of need or insecurity increases the chance that an individual will commit fraud. Organizations must strive to monitor and limit the presence of these factors to diminish the possibility of fraud.

Figure 11.1. The Fraud Triangle

Pressure

Opportunity   Rationalization
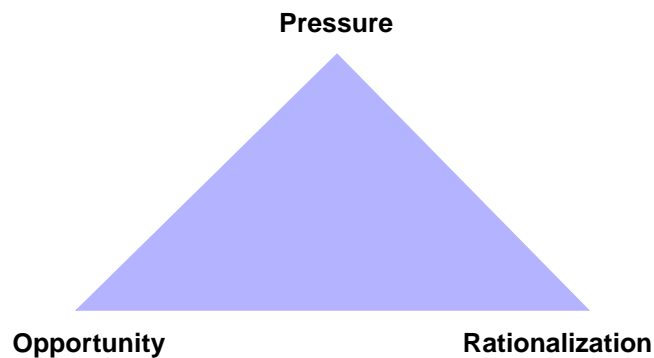
Opportunity

Opportunity occurs when the employee is presented with an occasion to commit fraud, and he or she perceives that there is little or no possibility of being caught. Some factors that increase the opportunity for fraud are:
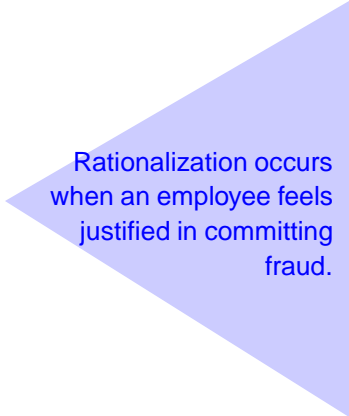
▶ Lack of effective internal controls
▶ Lack of effective external controls
▶ Disorganization within the management and accounting systems
▶ The frequent use of cash instead of checks.

Opportunity occurs when an employee is presented with an occasion to commit fraud, and he or she perceives that there is little or no possibility of being caught.

Rationalization

Rationalization occurs either when the employee feels justified in committing fraud, perhaps because of real or perceived slights, or when the employee can minimize in his or her mind the damage the fraud will inflict on the organization. Some factors that foster rationalization are:

▶ Staff members feel underpaid and overworked — fraud becomes a means for simply "topping up" to what they feel they should be paid.

▶ Staff members feel less guilty for stealing "donor funds."

▶ Staff members feel that they are only temporarily borrowing funds because they plan to pay them back as soon as the immediate "emergency" has passed.

▶ The organization's budgets are unrealistically inflated, which gives an impression that there are excess or surplus funds.
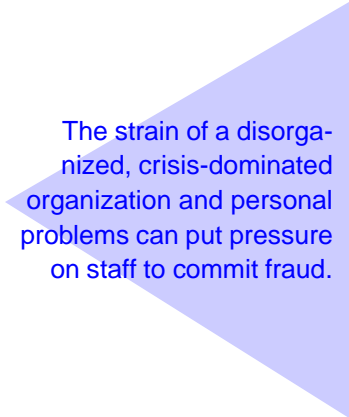
▶ Disciplinary action is absent or inconsistent.

Rationalization occurs when an employee feels justified in committing fraud.

Pressure

Pressure can come from various sources within an organization. The strain of a disorganized, crisis-dominated organization can exert pressure on staff, as can personal problems. Some other factors that lead to pressure are:

▶ High turnover among key staff

▶ An uncoordinated and unsupervised organization

▶ A constant situation of crisis within the organization

▶ Unfair and inconsistently applied personnel policies

▶ Unrealistically low budgets, which cause employees to cheat in order not to exceed the budgets

▶ Financial difficulties in the employee's personal life.

The strain of a disorganized, crisis-dominated organization and personal problems can put pressure on staff to commit fraud.

Exercise 11.1

1. Identify whether the "fraud triangle" factors — opportunity, rationalization, and pressure — are present in your organization.

2. If any of the factors are present, explain how you can reduce or eliminate them.

Symptoms of Fraud

Employee Symptoms of Fraud

▶ Accounting anomalies: large amounts/transactions, or endorsements by inappropriate persons

▶ Internal control weaknesses: no segregation of duties, poor daily/weekly/monthly reconciliation procedures

▶ Analytical anomalies: for example, why were 80 percent of all costs related to 20 percent of vendors?

▶ Extravagant lifestyle: for example, has an employee's lifestyle changed dramatically?

▶ Unusual behavior: for example, territorial behavior or inability to share work with others

▶ Moonlighting: employees with businesses on the side which may have links to the organization's procurement/expenditures.

Management Symptoms of Fraud

▶ Cash flow problems: management's estimates for monthly expenditures consistently too low

▶ Lack of effective internal audit group (in large organizations)

▶ Significant transactions by related parties

▶ Frequent changes in external auditors

▶ Use of several different banks

▶ Management and financial decisions dominated by one individual

▶ Managers with high personal debt or financial needs

▶ Changes in executives or directors

▶ Greater than usual involvement by non-executive board members.

Accounting Symptoms of Fraud

▶ Unexplained changes in financial statement balances

▶ Missing or altered documents

▶ Common names often repeated on payables

▶ Duplicate payments

▶ Increased past due accounts

▶ Document sequences that do not make sense

▶ Questionable handwriting

▶ Photocopied documents or lack of documentary support

▶ High amounts or high volumes of cash transactions

▶ Journal entries with unexplained adjustments

▶ Journal entries at the end of the period

▶ Significant increases and decreases in account balances

▶ Increased expenses over time unmatched by similar increases in revenue and outputs.

Investigating Possible Fraud

Remember that the above indicators are symptoms of fraud; they are not necessarily proof of fraud. Organizations should create systems and review boards to investigate the symptoms before reaching any conclusions. Some aspects of an effective fraud investigation system are:

▶ The system should involve more than one person, and people on the board should not supervise one another, if possible.

▶ The investigation should concentrate on factual evidence and on substantiated facts.

▶ Accusations by employees should be put in writing, and their identities should be protected.

▶ Any person investigated should be allowed to present his or her case.

Symptoms of fraud are not necessarily proof of fraud. Organizations should create systems to investigate potential fraud.

Exercise 11.2

1. Examine your organization for signs of any of the following:

▷ Employee symptoms of fraud

▷ Management symptoms of fraud

▷ Accounting symptoms of fraud

2. Create a system and a review board to investigate possible or suspected cases of fraud for your organization.

Fraud Prevention

Two types of controls can help prevent fraud: **internal controls** (processes and procedures within the organization), and **external controls** (independent audit and review).

> The warning signs that internal controls are inadequate can point out poor design of internal controls, deficient operation of existing controls, or an unfavorable control environment.

Establishment of Internal Controls

Internal controls serve to prevent fraud by segregation of work, sharing of responsibilities, and establishment of financial and administrative systems and procedures that document and support the management of funds and resources. Aspects of internal controls that prevent fraud include the following:

▶ Clear **division of responsibilities** and authority: This creates a system where only those with designated authority can approve the expenditure and use of resources, limiting the opportunities for misuse. For example, while a driver may use the organization's vehicle for activities, only an officer can approve that use.

▶ Clear **division of authority** in accounting for resources: This ensures that no one person is solely responsible for both accounting for and approving of expenditures. For example, an accountant may write the check or record the expense in the ledger, but only the manager may approve the purchase order and sign the check.

▶ Clear **organizational charts and job descriptions**: Eliminating ambiguity in responsibilities or authority, while clarifying which employees report to whom, decreases the opportunities for fraud. In addition, clearly defined and results-oriented job descriptions help ensure that management and financial systems designed to control fraud are well maintained and used to produce reports on a regular basis. For example, a stock-keeper's job description should contain instructions for complete and regular reporting on stock inventories.

▶ An appropriate and comprehensive **procedures manual**: This helps ensure that all staff members are aware of the procedures for managing funds and resources. All new staff members should be oriented to this manual when hired.

▶ A clear, easy-to-understand, and up-to-date **accounting system**: The accounting system should be readily accessible and understandable to the senior managers, who should make a point of learning and understanding the system. The more obscure and unclear the accounting system, the more opportunity there is to mask fraud.

The accounting system also should be up to date, with all expenses and credits entered on a daily basis.

▶ **Stock control/inventory** and limited access to stocks: Control over resources should be limited to those with the responsibility and authority for those stocks. Stocks should be kept locked whenever possible, with up-to-date inventory tracking and signing procedures for those using the resources.

▶ Useful **financial and technical reports**: Reports generated by the accounting and technical staff should allow management to compare spending and output trends over time, resource use against outputs, and supply/administrative costs over time.

▶ **Random checks** of accounting and administrative processes: Selected personnel should conduct random audits or checks on systems. Examples would be to confirm the prices on random quotes for purchases or to conduct a surprise cash count of the petty cash fund.

▶ **Management involvement/awareness**: Management should remain cognizant of the administrative and financial systems, be kept up to date on daily activities, and be aware of expenditures in their department. Department heads and officers should be ultimately responsible for all stocks and expenditures made in their areas.

▶ Application of a fair and consistent **personnel policy**: Regular and fair employee evaluations, as well as consistent punishment for those who commit fraud, helps to reduce the rationalizations employees may use for fraud.

▶ Realistic **financial planning**: Realistic budgets that adequately allow for expenditures will lessen the pressure on staff to produce falsified results to conform to the budget.

Periodic Use of External Controls

External controls are professional audits conducted on a regular basis to provide a well-founded opinion on the reliability and accuracy of financial systems and statements. Audits can also provide evaluations and recommendations on general administrative, personnel, and work standards for the organization. Aspects of external controls that prevent fraud include the following:

▶ **Verification of asset and liability value**: The auditor can check that the organization's assets are correctly and adequately valued and that the assets and liabilities are counted.

Exercise 11.3

1. Describe the internal controls you think should be established for your organization.

2. Describe the external controls you think should be established for your organization.

▶ Review of the accounting system: An **audit** can reveal whether the organization's accounting system is sound and readily apparent to an outsider. If not, perhaps the system can be made more transparent.

▶ **Verification of transactions** and quotations: Auditors with a sound understanding of costs and commodities can verify if quotes and bids for purchases are consistent and whether the transactions actually occurred by reviewing stock inventories records.

▶ **Evaluation of management**: External auditors can conduct management evaluations for both senior and junior staff, without fear of retaliation from the senior staff for critical reports.

Fundraising

Purpose

Help you develop your fundraising strategy.

Target Skills

1. Plan a fundraising process.
2. Write a funding proposal.

Fundraising

Fundraising is important for ensuring the financial sustainability of the organization and should be based on a sound fundraising strategy. The purpose of fundraising is to secure funds to meet your organizational goals and objectives. Fundraising, or obtaining funds from external sources, is required when a new program is initiated or when a current grant or contract ends. It should be undertaken only for programs or activities that are part of the organization's approved strategic plan. In other words, the fundraising strategy should support the organization's strategic plan. Obtaining funds for activities outside the strategic plan simply because the funds happen to be available threatens the mission and long-term sustainability of an organization.

Fundraising requires time and staff dedication. The fundraising process can be lengthy, taking up to a year (and even longer in some instances) from the initial discussion with a potential donor to the actual receipt of funds. Successful fundraising depends on an innovative, thorough, and carefully prepared proposal that addresses a demonstrated need and responds to community priorities.

Successful fundraising depends on an innovative, thorough, and carefully prepared proposal that addresses a demonstrate need.

Preparing to Apply for Funds

Internal Assessment

Step 1. Review strategic goals and objectives.

Before you begin the process of applying for outside funds, review your strategic plan's goals and objectives to ensure that the proposed activities are in line with your long-term goals. Be sure you clearly define what you intend to accomplish through your program, because you will need to articulate this to potential outside donors. The proposed program should respond to the community's needs in a creative and innovative manner.

Step 2. Assess organizational and technical capacity.

In preparing to apply for outside funds, carefully assess your organization's capacity to implement the proposed program. You will need to concretely demonstrate to outside donors that your organization has the **organizational and technical capacity** to successfully carry out the proposed activities. One useful tool for demonstrating this capacity is a document that lists the organization's present and past activities and lists the successful completion of other externally funded programs. This document should include quantitative information, such as the number of clients, the number of staff people involved, and budget amounts.

Step 3. Ensure administrative capacity.

Your organization will have to demonstrate to outside donors that it is financially sound and accountable. Outside donors need to know that an organization has not only the technical capacity to successfully implement a program, but also the **administrative capacity** to fully account for the use of its funds. Before approaching outside donors for funds, ensure that your financial accounting system is in order and that your accounting and internal controls are in place and fully functioning. Outside donors may request copies of any external or internal audit reports of your organization.

Step 4. Prepare the budget.

In planning and budgeting your proposed program, calculate the exact amount of funds required. When preparing the budget, calculate the amount of funds that can be internally generated by the organization, for example, through service or user fees, or calculate the percentage of cost recovery currently achieved. When requesting outside funding, the generation of fees should be calculated and deducted from the total cost of the program in order to calculate the amount of outside funding required.

Obtaining funds for activities outside the strategic plan simply because the funds happen to be available threatens the mission and long-term sustainability of an organization.

Exercise 12.1

1. Identify a program or activity you would like your organization to implement if it had sufficient funds/resources.
2. Carry out an assessment of your organization's readiness to undertake a fundraising process to enable you to carry out the program or activity you identified (following steps 1– 4 above).

External Assessment

Step 1. Identify potential donors.

The first step in the fundraising process is to identify potential donors. There are a number of potential funding sources, such as government ministries, multilateral organizations (UNICEF, UNDP, EU, and UNFPA), bilateral organizations (USAID, DFID, and CIDA), international nongovernmental organizations, and foundations. However, not every donor will provide funding in your particular programming area. Part of the fundraising process includes knowing the donor community and what programming areas they fund.

Not every donor will provide funding in your programming area.
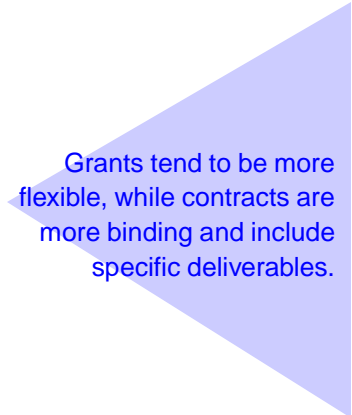
Step 2. Gather information.

Once you have identified which donors fund programs in your area, gather further information:

> ▶ Check the specific fields in which grants are offered.
> ▶ Check the purpose of grants offered.
> ▶ Check the size of grants offered.
> ▶ Check the geographical locations where grants are offered.

Step 3. Learn about potential donors.

After identifying the best potential donors, learn more about these organizations by obtaining their annual report and learning their strategic objectives. Request **proposal guidelines and formats**. Also request a copy of the narrative and financial reporting formats. Before applying for funding, be sure that your organization is capable of preparing a proposal with all the required information, and be sure you can meet all of the reporting and administrative requirements of the donor organization.

A note about grants and contracts: Donors provide funds either through grants or contracts. **Grants** tend to be more flexible than contracts, while contracts are more binding and include specific donor results or "deliverables." **Contracts** also have stricter regulations for procurement, travel, and finance procedures and authorizations.

Grants tend to be more flexible, while contracts are more binding and include specific deliverables.

Step 4. Investigate reporting and administrative requirements of the funding organizations.

It is important that you thoroughly understand the funding organization's reporting and administrative requirements before you begin the application process. The disbursement of funds is usually based upon narrative and financial reporting in a format required by the donor. If you know that your organization cannot meet some of these requirements, you should not apply for funding from that particular donor.

Exercise 12.2

1. Carry out an assessment of the external funding sources available to your organization to help you carry out the program or activity that you have identified (steps 1 – 4, above).

2. Based on your responses to Question 1, determine whether or not your organization will be able to meet the funding requirements of each funding source.

When reviewing the proposal guidelines and format, you may want to consider meeting with a representative of the funding organization to better understand the requirements of the donor and to ask any questions you have about the funding process. Some funding organizations may not meet with potential grantees, but may answer your questions over the telephone.

Writing a Funding Proposal

Presentation of Information

The **funding proposal** should comprehensively present the information in the format specified by the funding organization, including all required attachments. Your proposal should reflect all of your planning and vision and should clearly explain the need or problem your proposal addresses. Although this will vary somewhat according to the requirements of the donor, the most important elements to include in any proposal include:

▶ Problem statement
▶ Project purpose
▶ Goals and objectives
▶ Project feasibility
▶ Community need
▶ Community support
▶ Expected outcomes or results (project impact)
▶ Funds required
▶ Your organization's accountability and competence.

Coordination

Involve staff members with specific skills and knowledge (including programming, technical, and financial) in developing and writing the funding proposal. One person should be responsible for coordinating the writing of the proposal so that there is uniformity throughout the proposal.

A successful proposal allowed a clinic to fund the well shown in the picture below.

Learning from a Fundraising Process

Meeting with a representative from the funding organization to learn why your proposal was rejected may provide information valuable for preparing your next proposal.

If your proposal is rejected, request a meeting with a representative of the funding organization to learn why. The information from such a meeting can be valuable in preparing your next funding proposal. In fact, you should begin a dialogue with the donor after submitting your proposal in case the donor requires clarification or more information on a particular issue. Proposals are often rejected because they are not "responsive" to the requirements of the funding source, meaning the proposal lacked information required by the donor. Some additional reasons that proposals are rejected are listed below.

▶ Inadequate explanation of need
▶ Lack of justification for the program
▶ Lack of community support
▶ Poorly written proposal
▶ Lack of demonstrated capacity of the organization to implement the program
▶ Too much money requested
▶ Another proposal comes closer to the funder's priority.

As your organization gains experience in fundraising, you will learn more about the process of project design and proposal writing, as well as about donor expectations and requirements. This experience will assist you in building relationships with donor organizations and will improve your success in obtaining outside funding.

Fundraising is an important factor in ensuring your organization's long-term sustainability, but it is not an end in itself. Fundraising is a means to obtain the funds needed to carry out your strategic plan and ensure that your organization meets its strategic objectives. Keep in mind that fundraising for programs outside of your strategic plan will threaten your organization's sustainability.

Exercise 12.3

1. What does it mean when a proposal is not "responsive" to the requirements of a funding source?

2. How can management ensure that a proposal is "responsive" to the requirements of the funding source to increase the chance that the proposal is approved and funded?

Glossary

Accounting: The measuring, recording, and reporting in financial terms of the flow of resources in and out of an organization; accounting is part of an organization's information system.

Allocated indirect costs: Overhead costs that have been attached to cost objects by measures of allocation.

Allocation base: A systematic means of relating a given cost with a cost object; for example, building maintenance costs may be allocated according to the floor space used by each cost object.

Assets: Things a corporation, organization, or individual owns; includes fixed assets and current assets.

Average costs: Full costs divided by the number of units of the cost object.

Bad debt: A payment that is determined as unlikely to be paid by the organization.

Balance Sheet: The relationship between assets, liabilities, and fund balances at a specific point in time (on a specific date).

Break-even analysis: The determination of the minimum volume or frequency necessary in order for a cost object to be financially self-supporting.

Break-even point: The volume at which losses no longer occur and profit begins; the point at which total revenues equals total costs (fixed plus variable costs). After this point of volume, profits are made; below this point losses are incurred.

Capital budgeting: The process of planning expenditures on durable assets that last longer than one year.

Capital funds: the fixed assets of the organization; all movements in fixed assets (purchases, disposals, depreciation, revaluation, etc.) are accounted for through this fund.

Cash budget: A schedule showing cash flows (receipts, disbursements, and net cash) for an enterprise over a specified period of time.

Cash forecast: A detailed projection of the timing and amounts of cash inflows and outflows for a specified period of time.

Contribution margin: The difference between the rate or fee charged for a cost object and the variable costs required for providing that cost object. This residual amount, the difference, "contributes" toward covering the fixed costs. A related term often used in break-even analysis. Break-even point formula is (Fixed Costs/(price - variable costs)).

Controllable costs: Costs that are reasonably under the control of the manager in question. Controllability is a measure of influence over the use or consumption of costs (resources). Generally, an individual has more control over costs as he or she moves upward in a health care organization's management structure. Department managers generally have control over their direct costs and little, if any, control over the overhead costs that has been allocated to their area.

Controls: Regulations or procedures within an organization to: safeguard organizational assets, check the reliability and accuracy of accounting data, promote operational efficiency and effectiveness, and encourage the adherence to prescribed policies.

Cost allocation base: Factor (e.g., square meters, full-time equivalents, or FTEs) that is the common denominator for systematically apportioning a cost or group of costs to several cost objects such as department, activity or procedure.

Cost center: A unit or department within an organization for which a manager is responsible for costs (expenses) only.

Cost management: The performance by executives and others in monitoring and controlling the cost implications of the strategies they are following.

Cost object: The item for which the user is trying to establish a cost. This could be procedures, activities, services, or other items that use or consume resources and are a target of the costing effort. The term "cost object" is a more generic term and holds a greater applicability

across the many types of departments. For example, one department might want to cost a given clinical procedure, while another department might want to cost an activity. Both are cost objects.

Current assets: Assets that will likely be converted to cash within one year, including cash on hand, money in current and savings accounts, and money owed by customers ("accounts receivable" or "debtors").

Current liabilities: Obligations payable within a year.

Decentralization: The freedom to make decisions. Total decentralization in an organization means minimum constraints and maximum freedom for managers to make decisions at the lowest levels of an organization.

Direct costs: Costs clearly and directly associated, traced, or identified to a cost object. Generally, direct costs are the labor resources, medical supplies, equipment costs, and other expenses directly used to produce or deliver a cost object. Examples would include nursing time with a patient, medicines, and specific equipment.

Efficiency variance: Variance due to actual productivity differing from what was budgeted.

The 80/20 rule:A rule of thumb indicating that 80% of the resources are utilized in activities that produce only 20% of the procedures or output. Employing the 80/20 rule helps to focus the costing effort on those areas that have the highest impact on resource use.

Expenses: Costs that have been used or consumed in carrying on some activity.

Financial Accounting: Focuses on standard accounting techniques and how they are used to report to external decision-makers (e.g., government, donors). Methods follow legal and generally accepted accounting principles.

Fixed assets: assets that are not likely to be converted into cash during one year of normal operations; something necessary for the operation of a business, such as a vehicle, furniture, cash register, or computer.

Fixed budget: A budget that is not adjusted or altered after it is drawn up, regardless of changes in volume, cost drivers, or other conditions during the budget period.

Flexible budget: Budget that takes into account the fact that certain costs vary with the level of activity or volume and other costs remain fixed over a relevant range of activity. Flexible budgets anticipate the possibility of change and show planned revenues and planned expenses at various levels of volume.

Flexible budget variance: The difference between actual results and the flexible-budget amounts adjusted for the actual volume achieved.

Fixed costs: Those costs that do not vary with fluctuations in volume, frequency or activity; for example, the depreciation cost or fixed monthly rent of a building that houses varying volumes of patients does not change as the volume or frequency of patient visits fluctuates.

Fully absorbed costs: Includes all costs, direct and indirect and allocated overhead. A cost object that is fully costed is said to be one that has had all of these costs identified, attributed, or allocated to that cost object.

Fund balances: Split between capital funds, operating funds, and restricted funds.

Income and Expenditure Statement: A comparison of income and expenses on a monthly, quarterly, and/or yearly basis. The statement results in either a surplus or a deficit. In a for-profit organization, it shows the results of the period as a profit or a loss.

Incremental costs: Additional costs that will be incurred by selecting a course of action or making a decision.

Indirect costs: Those costs that cannot be directly traced, identified, linked or associated with a cost object, in a economically feasible way. Indirect costs are commonly referred to as all costs that are not direct and typically include office supplies and most management costs that are not direct (hands-on patient or direct activity), administrative time, general overhead, etc.

Indirect costs (allocated): Overhead costs that have been attached to cost objects by measures of allocation. Cost allocation refers to taking costs from one area or department such as administration costs and allocating them to another department or cost object.

Internal control: The plan of organization of all the coordinated methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, and promote operating efficiency.

Liabilities: The unpaid obligations of the organization. Those that are payable within a year are called "current liabilities" and include creditors or accounts payable (which are often comprised of unpaid invoices). Those that are payable over a period of more than a year are long-term liabilities, e.g., bank loans.

Long-term liabilities: Obligations payable over a period of more than one year.

Management: The process of creating an environment in which resources can be used to their best advantage to realize the organization's goals.

Management accounting (which is also known as **managerial accounting** and includes cost accounting): Focuses on internal use of information within the enterprise and is the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information that assists executives in fulfilling organizational goals.

Management by exception: The practice of concentrating on areas or processes within the organization that deserve attention and ignoring areas that are presumed to be running smoothly.

Management control system: A means of gathering data to aid and coordinate the process of making decisions throughout the organization.

Marginal costs: The change in costs related to a change in volume.

Operating funds: the resources available for the organization's operations, an amount represented by cash and other current assets.

Opportunity cost: The cost or rate of return of the best alternative investment that is available. Opportunity costs are considered when management decisions involve choosing between alternative courses of action.

Organizational sustainability: The ability of the organization to secure and manage sufficient resources to enable it to fulfill its mission effectively and consistently over time without excessive dependence on any single funding source.

Overhead costs: Indirect costs not easily associated with individual patients, procedures, activities, or services, which, by their very nature, cannot be specifically identified to a given output. Typical examples of overhead costs centers include such areas as accounting, human resources, administration, security, and facility/building maintenance, etc.

Payback method: Capital budgeting method that measures the time it will take to recoup, in the form of cash inflow from operations, the total dollars invested in a project (a form of break-even analysis).

Performance reports: Reports that measure activities and usually consist of comparisons of budgets with actual results and link them with volume and other productivity indicators.

Present value: The value today of a future payment, or stream of payments, discounted at the appropriate discount rate.

Profit center: Responsibility center in which a manager is accountable for revenues and costs.

Relative value: Index number assigned to a procedure based upon the relative amount of labor, supplies, and capital needed to perform the procedure; a measure of how much cost a particular object consumes, in relation to all the others. This is usually stated as a numerical value, with a higher number indicating more consumption.

Relevant costs: Expected future costs that directly result from the proposed new project or investment.

Relevant range: The expected range of volume or activity in which variable costs remain variable and fixed costs remain fixed.

Responsibility centers: Parts, segments, or subunits of an organization whose mangers are accountable for specified set of activities.

Restricted funds (also called **designated funds**): Funds that have been earmarked for specific purposes and may not be used for the general operations of the organization without specific approval of the donor or of the one who imposed the restriction.

Revenue center: Responsibility center in which a manager is accountable for revenues only.

RVU costs: An acronym for Relative Value Unit costs; a method of costing wherein the costs of one procedure, product, or service measured "relative" to another. By establishing the hierarchy of the relative consumption of resources among cost objects, total costs can be allocated to all cost objects according to their relative value adjusted for their frequency of occurrence.

Salvage value: The value of a capital asset at the end of its period of use as specified by the organization or donor.

Semi-variable costs: Costs that show both fixed and variable behavior, for example, a telephone bill, which has a fixed charge for having a telephone line and a variable charge dependent on the number of calls made. (Also referred to as **mixed costs**.)

Straight-line depreciation: Depreciation method in which an equal amount of depreciation is taken each year.

Sunk costs: Past costs that are unavoidable because they cannot be changed no matter what action is taken. They are not included in profitability analyses of future investments.

Sustainability of services: When the services provided and /or the health impact made by an organization continue long after the original or primary donor funding is withdrawn.

Unit cost (or **rate variance**): Difference (variance) due to the actual cost per unit or amount per unit differing from what was budgeted (or standards expected).

Variable costs: Those costs that vary directly or proportionally with changes in volume or activity. X-ray film consumed in taking chest X-rays is a variable supply cost: as more chest X-rays are taken, more film is consumed.

Variances: Difference between actual financial results and budgeted amounts.

Volume variance: Difference due to actual volume differing from what was originally budgeted. Flexible budgeting eliminates this variance from the budget.

Suggested Training Schedule

Suggested Financial Sustainability Training Agenda

Part 1 (Days 1, 2, and 3)

Day 1

8:30 - 9:30	Introduction — Project Background, Training Calendar, Agenda
9:30 - 10:30	Key Elements of Sustainability
10:30 - 10:45	Break
10:45 - 12:30	Key Elements of Sustainability (cont'd)
12:30 - 1:30	Lunch
1:30 - 3:30	Strategic Planning
3:30 – 3:45	Break
3:45 - 5:00	Strategic Planning and Exercises

Day 2

8:30 - 10:30	Report back of Strategic Planning Exercises
10:30 - 10:45	Break
10:45 - 1:00	Financial Accounting
1:00 - 2:00	Lunch
2:00 - 3:30	Management Accounting
3:30 - 3:45	Break
3:45 - 5:00	Human Resources Management

Day 3

8:30 - 10:30   Budgeting
10:30 - 10:45   Break
10:45 - 1:00   Budgeting and Exercises
1:00 - 2:00   Lunch
2:00 - 3:30   Cost Accounting
3:30 - 3:45   Break
3:45 - 5:00   Cost Accounting and Exercises

Part 2 (Days 4, 5, and 6)

Day 4

8:30 - 10:30   Introduction and Review of Interim Assignments
10:30 - 10:45   Break
10:45 - 1:00   Review and Presentation of Interim Assignments
1:00 - 2:00   Lunch
2:00 - 3:30   Marketing Planning
3:30 - 3:45   Break
3:45 - 5:00   Marketing Planning and exercises

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Day 5

8:30 - 10:30   Board Roles and Responsibilities
10:30 - 10:45   Break
10:45 - 1:00   Internal Controls
1:00 - 2:00   Lunch
2:00 - 3:30   Internal Controls and questionnaire
3:30 - 3:45   Break
2:45 - 5:00   Fraud Prevention

Day 6

8:30 - 10:30   Fundraising
10:30 - 10:45   Break
10:45 – 12:30   Questions, Self Assessment, and Wrap-up

Suggested Interim Exercises

As you return to your organizations over the next few weeks, please complete the following tasks. You are encouraged to continue to work as a team and involve the rest of your organization in the process. As a reminder, only about 25 percent of what you learn will come from "lecture." The majority of your development will originate from your personal and group efforts – reading, experimenting, and discussing the issues with your colleagues. Good luck, and please make note of your questions for review during the second session of training.

1. Perform a preliminary analysis of your organization's external environment. Collect information such as socioeconomic data, demographic and health indicators and others as suggested in Chapter 2.

2. Identify the SWOT for both your internal and external environment with your management staff.

3. Prioritize (rank) your SWOT analysis noting those items that are the greatest constraints or driving forces to your organization.

4. Draft a Mission Statement, and discuss it with your staff. If you already have a Mission Statement, discuss it with your staff to assess whether or not it is being achieved or needs to be modified.

5. Draft a Vision Statement, and discuss it with your staff. If you already have a Vision Statement, discuss it with your staff to assess whether it is being achieved or needs to be modified.

6. Identify the key processes in your organization that are implemented in order to achieve your strategies.

7. Identify the key outcomes monitored within your organization that tell you if you are fulfilling your mission and working toward achieving your vision.

8. Review your existing organizational chart, or the one you created in the exercise in Chapter 3. Does it reflect appropriately the intended structure of your organization?

9. Write two results-oriented job descriptions, one for the director position and one for the financial manager.

10. Review the past two years of financial statements (the income statement and the balance sheet), and calculate three or four key financial ratios that are indicative of your performance. Describe how these ratio indicators have changed over these two years and what these changes might mean to the organization.

11. Perform a budget variance analysis for last month. What is the variance, if any? If the variance is high, do you know the causes?

12. Identify the key cost objects in your organization, and establish a worksheet that calculates RVU costs (using overhead allocations and RVUs) for these cost objects. If you have numerous departments, determine the costs in only two of them.

RETURN TO THE SECOND SESSION WITH YOUR TRAINING MANUAL, THE LAST TWO YEARS OF FINANCIAL STATEMENTS, AND ANY CURRENT BUDGETS.

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