

### THE FAILURE OF STRATEGIC PLANNING PROCESSES IN AUSTRALIAN NONPROFIT, VOLUNTARY ORGANIZATIONS

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#### Abstract

Nonprofit organizations have slowly adopted strategic planning processes, often at the behest of their major stakeholders, and encouraged by academics and consultants, in order to be seen as professionally managed. Although there is a significant amount of research on strategic planning in business organizations, comparatively little data addresses the role of strategic planning in nonprofit organizations, and what exists suggests problems. This paper focuses on identifying the effectiveness of strategic planning in nonprofit voluntary associations in Australia and whether such processes are useful.

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## BACKGROUND

There is a tendency for organization and management researchers to see the nonprofit sector as homogeneous and to concentrate on the large bureaucratic nonprofits assuming that this research will be relevant for the whole sector (Harris, 1998). Yet, a large proportion of nonprofits are small, their purpose is to serve their stakeholders and they are grassroots organizations governed and run by volunteers (Smith, 1997). While the large service-delivering organizations, particularly the multinationals such as CARE, Red Cross and Save the Children, have had to respond to the challenges of globalisation by introducing modern business practices and becoming more competitive, little is known of volunteer associations' response to the challenges of 21<sup>st</sup> century management practices (Harris, 1998). Exploring strategic planning in volunteer associations represents an opportunity to discover if modern business practices are effective in nonprofits. The experiences of two Australian associations, who strategically planned over a number of years, are explored.

### Australian Nonprofit Organizations

Information about the Australian nonprofit sector is sparse, however, as part of an international study of nonprofits, it was identified that Australia has a \$19 billion industry, comprising 5.2% of gross domestic product, employing 7.2% of all non-agricultural workers and providing 15.3% of service employment (Lyons, Hocking, Hems and Salamon, 1999). Added to that is the volunteer input, with an estimated 9.3% of the Australian population contributing their time to nonprofits. When these volunteer workers are added, the nonprofit workforce is nearly 10.1% of all workers in Australia, making it one of the largest in the world. When paid workers and volunteers are combined the largest organizations are in the social services area followed by culture and recreation reflecting a tradition of involvement in community support and self-help associations (Lyons et al., 1999).

### Volunteer Associations

Voluntary associations, Harris (1998:145) suggests, "constitute the authentic roots or core of the nonprofit sector". They are distinguished "by their common purpose of defending and promoting functionally defined interests" (Streeck and Schmitter, 1991:231) or "in terms of participation, shared objects and resources, mutuality, and fairness" (Lohmann, 1992:vii). These volunteer associations include "local self-help groups, neighborhood associations, leisure groups, community groups, and local religious congregations but also supralocal groupings such as professional associations, trade association, and trade unions" (Harris, 1998:145).

While many volunteer associations do not employ staff, many do. Having employees increases the need for a formal organization structure and introduces an executive leadership whose role is to provide professional management (Harris, 1998). Such staff will strive to increase effectiveness by introducing contemporary business practices, such as visioning, total quality management, benchmarking and strategic planning (Herman and Renz, 1999). Such methods have become common in the large service-providing nonprofits where staff perform most operational work. However, Harris (1998:154) asserts that voluntary associations are "conceptually and organizationally distinguishable from the bureaucratic service-delivering agencies of the broader nonprofit sector" because their nature is essentially volunteer and they are designed to be of benefit to stakeholders rather than a wider public. Thus, the volunteers running associations are driven by the need to represent the interests and values of the key stakeholders and their communities (Jackson and Holland, 1998).

There are no Australian studies of nonprofit organizations and strategic planning, but Australia has a similar nonprofit sector to that of the United States where studies have found that most organizations have some level of strategic planning (Crittenden and Crittenden, 2000). Strong anecdotal evidence suggests that, for many Australian nonprofit organizations, strategic planning involves an event that takes place over one, two or more days, involves the Board, senior management and staff, other key stakeholders (internal and

external) and results in a document that is supposed to be the framework for future action, but attempts to implement these actions fail.

## **Strategic Planning**

Strategic planning is defined as "a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it" (Bryson and Einswell, 1988:5). Successful management, Bryson (1995) asserts, requires a systematic, cyclical process of planning actions, followed by implementation, then evaluation, all of which is part of strategic planning. Overall, a strategic plan is seen as a demonstration of effectiveness in nonprofit organizations (Lindenberg, 2001).

However, such business practices, where strategy and competitiveness are emphasised, immediately clash with nonprofit philanthropic values, where community and caring are stressed (Lindenberg, 2001). It is evident that the process used in the private sector is difficult to duplicate in nonprofit organizations (Beerel, 1997; Crittenden and Crittenden, 2000). This difficulty is caused by a number of factors, but the major issue appears to be the problems occurring because stakeholders are likely to be intensely distrustful of management techniques (Lindenberg, 2001). This problem is magnified because of the large number of stakeholders in nonprofit organizations, with strategic planning often being undertaken to placate one group, such as a major funding body, at the expense of others. In addition Salipante and Golden-Biddle (1995) suggest that environmental scanning can result in too frequent changes in the strategic direction of nonprofits, causing much instability. Overall, there is little evidence that strategic plans in nonprofit organizations are implemented successfully (Mintzberg, 1994; Mulhare, 1999). When strategic planning fails in nonprofits it is seen as an outcome of the lack of professional management. As Mulhare (1999:324) sees it strategic planning "has become a symbolic demonstration of managerial competence, whether or not planning benefited the NPO (Nonprofit Organization) in other ways".

There have been attempts in the literature of the 1990s to tailor strategic planning to better meet the needs of nonprofits (Bryson, 1995; Lindenberg, 2001; Mara, 2000). Bryson, Gibbons and Shaye (2001:271) believe that strategic planning has failed because it is not dynamic and does not produce continuous feedback. To introduce these elements, Bryson et al (2001) suggest organizations adopt "enterprise schemes" with nonprofits considering themselves as part of larger, open systems and using the tools of systems thinking to diagnose their environment and identify the needs of stakeholders. In common with other attempts to help nonprofits strategically plan they recognise the importance of stakeholders.

## **Stakeholders**

There is little research directed at stakeholders in nonprofits, which is surprising as it has long been recognised that a prime advantage of the strategic planning process is "to gain the involvement and commitment of those principal stakeholders affected by the plan" (Pearce, Freeman and Robinson, 1987:659). Freeman (1984:5) defined stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". The literature provides many different classification systems for stakeholders with most of these being developed as a duality: active and inactive participants (Freeman and Evan, 1990), resource dependent or independent (Pfeffer and Salancik, 1978) legitimate or illegitimate (Evan and Freeman, 1993; Suchman, 1995) and expectant of or no expectation of gain (Donaldson and Preston, 1995).

While these dual classifications may be useful in an understanding of stakeholders in for profit organizations, they are too simplistic for the complexities inherent in nonprofit organization relationships. Mitchell, Agle and Wood (1997) present a model with a dynamic view of stakeholders. They divide stakeholders into three areas based on the following attributes: "(1) the stakeholder's power to influence the firm, (2) the legitimacy of the stakeholder's relationship with the firm, and (3) the urgency of the stakeholder's claim on the firm" (Mitchell et al., 1997:854). Decisions, they assert, are usually made on the basis of the legitimacy of a stakeholder's claim on the organization combined with the amount of power they have. However, they then argue that the two attributes must be evaluated in light of the more compelling demands of urgency. This leads to a more dynamic model of stakeholders. This model, we believe, is more appropriate in the evaluation of stakeholders in nonprofit organizations, where, as Mitchell and colleagues (1997) maintain,

these attributes are variable and likely to change with circumstances. In doing so stakeholders are likely to form alliances with others leading to multiple, interdependent stakeholders' demands that cause major problems for organizations (Rowley, 1997).

### **Stakeholders in Nonprofit Organisations**

Drucker (1992) identifies that nonprofits have more stakeholders than for profit organizations. Nonprofits have been described as "multiple organizations" because of the multiple relationships between its many stakeholders (Anheier, 2000). Stakeholders include employees and, particularly in the volunteer associations, a large proportion of volunteers workers (Lyons et al., 1999). The stakeholders may be members, consumers, customers, clients or service users who often provide a limitless demand for the services of the organization, creating extreme pressure on the other stakeholders, such as management, employees and board. Hudson (1999) points out that these multiple stakeholders are even more confusing in some situations where services are part funded through grants or contracts from government or philanthropic groups, or donations from corporations or individuals, and by service users, through fees. Overall, nonprofit organizations are equally accountable to many stakeholders (Hudson, 1999) with Herman and Heimovics (1991:13) describing their environment as "a complex weave of patterns of influence".

Another major factor that differentiates profit and nonprofit organizations is that nonprofit management and governance structures are often intricate, with voluntarism an essential ingredient. Volunteers are usually driven by the organizational values, hence demand that these values be cherished. With this comes a dislike of managerial control, which often occurs in nonprofit organizations, combined with a rejection of management techniques (Mulhare, 1999; Young, Hollister, Hodgkinson and Associates, 1993).

Thus, we sought to investigate how nonprofit volunteer associations strategically planned. Research questions included what stakeholders were involved and how many? How successful or otherwise were the planning processes and were the organizations able to implement those plans?

### **METHODS**

The case study method was used as it allowed us to conduct an in-depth study into two organizations, their stakeholders and strategic planning. Case study methodology is an invaluable tool for conducting research in social and behavioural sciences and a traditional vehicle for nonprofit management research (Crittenden and Crittenden, 2000; Yin, 1994). We began our study by identifying two community-based, volunteer associations that had introduced strategic planning. This we did from our own knowledge of the sector and by asking consultants who advise nonprofit organizations. We contacted the Chief Executive Officers of the organizations and requested their participation in our study. In order to obtain a deeper understanding of the organizations we reviewed primary and secondary documents such as annual reports and newsletters as well as organizational histories, mission statements, organizational charts and descriptions of their programs. We then prepared a semi-structured interview schedule and interviewed the present President and the two immediate past Presidents, and the present CEO and the immediate past CEO of both organizations. These officials covered a period of the past seven years. The major benefit in selecting these organizations lies in the fact that they each undertook three different strategic planning events during that time.

We thus met Yin's (1994) requirements for construct validity by using multiple sources of evidence. Examining the findings against the initial theory that had been assembled ensured internal validity. Compiling a protocol for the cases that included set research questions and schedules as well as analysing the data collected using set criteria ensured reliability. We recognise the limitation of generalizability imposed on all case study research, but despite this feel confident that the results of these study have implications for other nonprofit organizations.

### **The Organizations**

The two organizations that participated in the study are Happy Times and Right Start (both pseudonyms). Happy Times is an umbrella association for approximately 3,000 small community self-help groups

operating throughout one of the larger Australian states. In 2000, over 30,000 families were members of the Association. It employs 28 staff, with a volunteer workforce of over 350 running most activities. The paid staff are either administrative or professionals in the field who work with the grassroots groups assisting with the running of their programs. A mixture of fees from member families and grants fund operations, with the Federal government providing some funding. Right Start is a national association of approximately 15,000 members all over Australia, with most services provided by volunteers in local areas who are supported by 18 administrative and professional staff. Its activities are funded by membership fees and by profits from sales of a range of products. Government funding is minimal.

Both associations are governed by an elected Board and administered by a Chief Executive Officer (CEO). The Boards meet regularly and the Chairperson of each board had almost daily contact with the CEO. In both organizations volunteers do most of the operational work. Both had attempted to devise and implement a strategic plan on three occasions over the past seven years. All planning events in both organizations had been disrupted by conflict, and the implementation of plans had been limited due to the resistance from various stakeholders.

## **RESULTS**

Strategic planning in these organizations was convened in response to operational drivers, such as the need to demonstrate professional management to satisfy government and other funding requirements, a response to financial crisis, and to provide direction to disgruntled staff. The CEO and staff, in response to the requirements of one or more stakeholders drove the planning and each planning session, or attempt to implement plans, saw the emergence of different stakeholders who influenced the process.

### **The First Strategic Plans**

In 1994, Happy Times, through its CEO, appealed to a minor funder, a government department, for extra funds. Previously a legitimate, but inactive stakeholder, the funder immediately became more powerful, and then added the attribute of urgency when it saw the full extent of the Happy Times' financial problems. The funder requested a strategic plan. Similarly, in 1995, Right Start had lost revenue because of the withdrawal of a major sponsor and the CEO saw a strategic planning process as a way of identifying alternative funding.

The CEOs, in both cases, were looking for solutions to the problems. However, the volunteers involved in the process, although paying lip service to the need for a plan, obstructed its development and implementation. Both volunteer boards approved the plans at the strategic planning sessions, but as attempts were made to implement them, it was the boards that rejected the plans as destructive to the aims of the organizations. The strategic planning process, in both instances, led to mission statements being developed, goals outlined and committees established to implement the goals. The committees, consisting mainly of Board members, were unable to proceed as they saw work on the plans as distracting them from the primary goals of the association. Both CEOs resigned within a year of the strategic planning process.

### **The Second Strategic Plans**

The next planning events for both organizations (in 1997) were genuine attempts by the boards (whose membership was almost totally new) and senior staff (new CEOs) to find a strategic direction for their organizations. Both planning events involved representatives of staff and all board members. However, the process was influenced by the emergence of different stakeholders who had not previously been considered. Happy Times found, that the professional staff, stakeholders with legitimate and urgent needs but little power, rejected the plans. The professional staff objected strongly, stating that the plans would destroy the "soul" of the organization. They used their influence with the board and grassroots members to gain power. They dominated the process and caused any attempts at implementation to cease. For Right Start, a previously inactive group of stakeholders, the founders, prevented implementation. The founders felt the organization was losing its value-base and to their legitimate needs were added urgency and power. Strategic planning ceased as the association concentrated on the conflict. Board members and senior staff resigned.

## **The Third Strategic Plan**

In 2000 Happy Times attempted again to plan strategically. The Board and senior staff (again with many new members) put together a team representing every stakeholder group they could identify. The process proceeded without conflict and was viewed as extremely positive by all participants. However, implementation was not possible after an accident at one of its activities led to a rash of negative publicity and to several local authorities removing permission to use their facilities. Previously inactive stakeholders, their landlords and the general community, now became very important and the subsequent negotiations, and efforts to re-establish a good public image, diverted the staff and board from any thought of implementing strategic plans. Preserving community respect for the organization and its aims was seen as vital. For Happy Times, once again, strategic planning, had achieved little, because of the intervention of stakeholders, who previously had not been considered as salient to the organization.

Right Start's third planning event in 2001, also attempted to avoid implementation problems by including every stakeholder who could be identified. Although the founders were again unhappy with one outcome of the process, their resistance did not carry much weight as most stakeholders approved. The strategic plan developed was innovative and forward thinking. It was passed by the Board unanimously and approved by the members, with subcommittees established to implement the plans and some were put into operation within a short time. However, six months later problems began to occur again. Some volunteers involved in the process had left the Association and some newcomers, unfamiliar with the strategic planning process, were objecting to the time spent on managerial activities, which they saw as distracting from its main objectives.

## **DISCUSSION**

In two different organizations, and over six different attempts, strategic planning has failed. In common with many nonprofits, these two organizations embraced strategic planning in order to be seen as professional (Young et al., 1993:3). As the cases show, different groups of key stakeholders tended to resist the pull from staff and funders to become more professional. We reviewed the cases in an attempt to see why the plans failed. Several themes emerged to help explain the failures. These themes, outlined below, are areas for future research.

### **Too Many Stakeholders**

This study suggests that nonprofit organizations have too many stakeholders, whose entrances and exits from active participation cannot be foreseen. Both cases support the views of Drucker (1992) and Anheier (2000) that there are multiple stakeholders and multiple relationships between the stakeholders. For example, at Right Start, founders, board, management and employees, members and volunteers are mixed in a intricate web of relationships that caused complex problems for the organization, as suggested by Rowley (1997).

### **Continual Change in Stakeholder Groups**

The case studies found that there was continual change in the personnel forming the stakeholder groups, which is not revealed in the literature. In order to integrate new stakeholders, the organizations had to constantly reinvent themselves, but the entrances and exits of long-term stakeholders from active participation was impossible to predict. Freeman and Evan (1990) identified active and inactive stakeholders and Mitchell et al (1997) that stakeholder's need change with their legitimacy, power and urgency. Integrating the needs of each new or re-activated group or individual was a significant challenge for the board and management.

### **Conflict Generated by Strategic Planning**

In both cases, CEOs and board members resigned as a result of conflict generated during the planning process. While the literature suggests that there is a dislike of managerial techniques in nonprofits (Herman and Heimovics, 1991; Mulhare, 1999; Young et al., 1993), it does not predict the level of conflict and the

resulting damage caused. Any process that generates such destructive outcomes could be considered inherently flawed.

### **Complexity of Strategic Planning**

Both associations made major investments of time and effort in order to produce strategic plans. The complexity of the process, meant many stakeholders involved over many days. Bryon et al (2001) suggest that more work should be done in developing an enterprise scheme as an adjunct to the strategic planning process. We suggest that this would add excessive complexity to an already difficult, and often unsuccessful process in nonprofits.

### **Dealing with the Unexpected**

Dealing with contingencies, include disasters, is not discussed in the literature, apart from Mintzberg (1994). Both organizations, but particularly Happy Times, had to deal with unexpected problems, which caused a major review of organizational values.

### **Values in Nonprofits**

There are many references in both case studies to the underlying values of the organizations. Terms used include “soul” of the organization, “primary goals of the organization”, and “aims of the organization”. Stakeholder concerns focussed on protecting these values. Volunteers felt that strategic planning diverted their attention from pursuing their basic work. We suggest that the strategic planning literature does not adequately reflect the importance of these values. Additionally preserving community respect for the organizations and their aims seems vital. The stakeholder and strategic planning literature does not adequately address the issue of the creation and maintenance of organizational legitimacy.

## **CONCLUSION**

We have reviewed the literature on strategic planning and stakeholders in nonprofits and applied it to two Australian nonprofit volunteer associations. Our findings, as detailed above, are supported by Salipante and Golden-Biddle (1995). They believe that it is important that nonprofits should pursue stability rather than constant change in response to environmental changes. Instead, they suggest nonprofits should focus on their underlying values. We agree, suggesting that nonprofits need to look at the value that they provide in an enduring sense to society and to look at ways key stakeholders understand value. The enduring values will provide legitimacy and with legitimacy comes the flow of resources needed for survival. We suggest that it may be more realistic for nonprofits to focus on underlying legitimacy and value rather than constant response to changing stakeholders and external environments. Further research in this area is needed.

Other areas that need to be considered include investigations into stakeholder distrust of management and management techniques, and why the number, type and dynamics of the stakeholders change so much. We found the strategic planning process resulted in significant damage to the two organizations studied. Further research into alternate processes may well assist in improving organizational effectiveness.

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