

Europa



# Business Support Programme

Phare Business Support Programme - SME-Excellence

**Improvement of financial management /  
financial viability of the organisations**

Including membership fees and other sources of income



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## I. Basic Principles

### 1. Introduction

The development of the private economy plays a decisive role in the preparation of the middle and east European countries for transition to a market economy. To facilitate this transition the European Union has supported a number of initiatives for promoting small and medium-sized companies.

A promotion program for Organisations for representing the companies has been established as a supplement to the national PHARE program. This is intended to contribute to a stronger presence of the commercial and industrial enterprise associations as well as improve the service offers for their member states. The objective of the **SME Excellence** project is to strengthen small and medium-sized companies in the specific countries by improving the work of the partner Organisations.

Within the scope of this work, attention will be given to improvement of the financial management, financial viability (survival capability) of the commercial associations. Here particular attention is to be paid to working out possible sources of income including membership dues.

Since the Organisations and associations in question are non-profit Organisations (NPO's), it will be necessary to take a closer look at the peculiarities of this sector in discussing this subject.

The science of business administration offers little information applicable specifically to non-profit Organisations. For this reason we will briefly discuss the target system and strategic planning in NPO's. This financial management is determined primarily by these performance targets and cannot be considered separately.

In addition a general summary of terms and financing possibilities, as worked out by the economic sciences, is offered. Moreover, the most important forms of financing non-profit Organisations in practice are discussed in detail. In addition to financing from membership dues this also includes fees for services, sponsoring and fund raising.

Separation into a financial economic and performance economic field within an Organisation, as is usual in traditional business administration, is not used below. All income flow oriented activities which lead to a non-profit Organisation being able to fulfil its purposes, are discussed under the subject of financial management of non-profit Organisations.

Regardless of the concrete financing instrument selected every non-profit Organisation is confronted with the problem of financial planning, financial strategies and financial diversification. These instruments are also discussed.

## 2. The Target System for Non-Profit Organisations (NPO's)

The target system of a non-profit Organisation is only comparable to that of a profit-oriented company to a limited extent. The purpose of their existence, which could also be called a mission, also gives NPO's a primary objective; however, in contrast to profit-oriented companies, this objective cannot usually be measured in terms of quantity and can be achieved in different ways. This mission includes a variety of bundled objectives, which will require optimisation when reached.

The **mission** for the Organisations in question is approximately: Fortification of small and medium-sized companies within the country by improving the work of the commercial associations (stronger presence and improvement of services offered). All activities should be then be focussed on this mission.

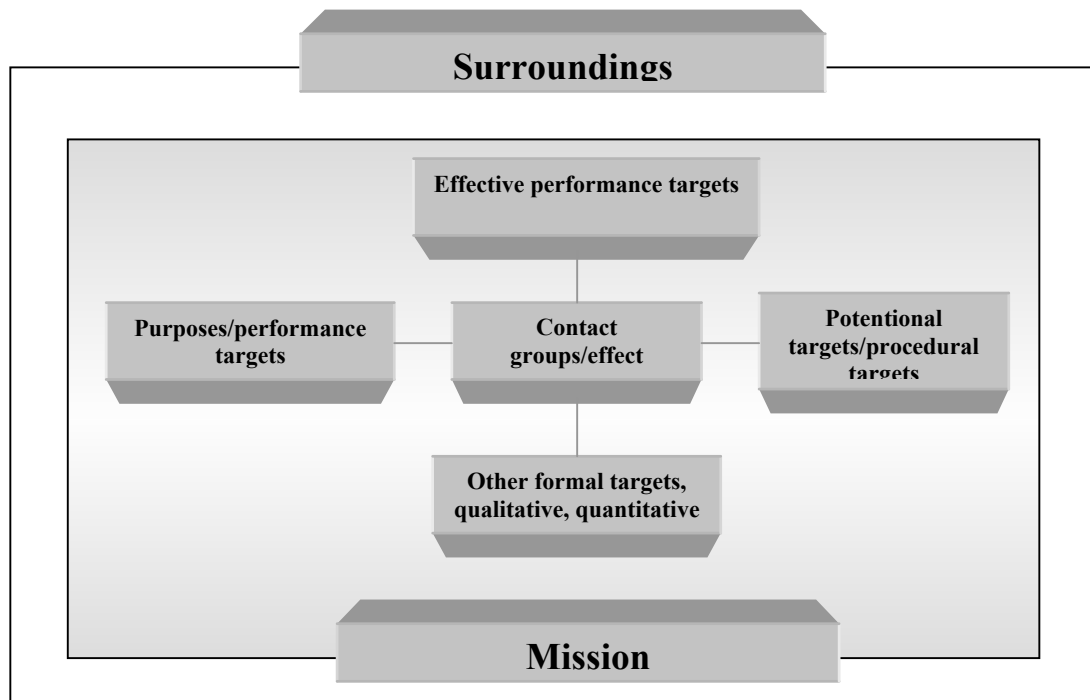
So-called **effective performance targets** are aimed directly at fulfilling the mission. In our case small and medium-sized companies are to be strengthened and induced to change their behaviour. **Influencing targets** depend on the question of which effects are to be achieved with whom and how. In this concrete instance small and medium-sized companies are to be motivated to thinking and acting in a manner favourable to a market economy by interest representation, counselling and other types of support. Different companies may have different ideas about achieving the objective as well as different interests upon reaching the target. Therefore there are different procedures for achieving the desired effect for different contact groups.

To achieve effects it is necessary to offer appropriate services defined by performance targets. This includes the various activities such as counselling discussions, concrete aids, education and training with the help of which certain problems placed on the Organisations by the small and medium-sized companies can be solved.

In order to provide services, potentials are required in the form of personnel, financial funds, etc. as well as procedures and processes for providing such services. Their target status is the object of the resource-oriented goals.

The **formal targets** below contain general values on the effectivity or performance of the Organisation. These include items such as the efficiency as a measuring rod for performance and power as the ability to influence other interest groups and assert the Organisation against such groups.

The following illustration is intended to clarify these relationships:

**Figure 1: Target system for NPO's**

The central position of the contact groups (small and medium-sized companies) in this system clarifies the importance of the different values for achieving the mission. The various target categories listed here can be considered to be constructive elements in a comprehensive system of targets. However, this is only a coarse structure, which requires further refinement depending on the specific Organisation.

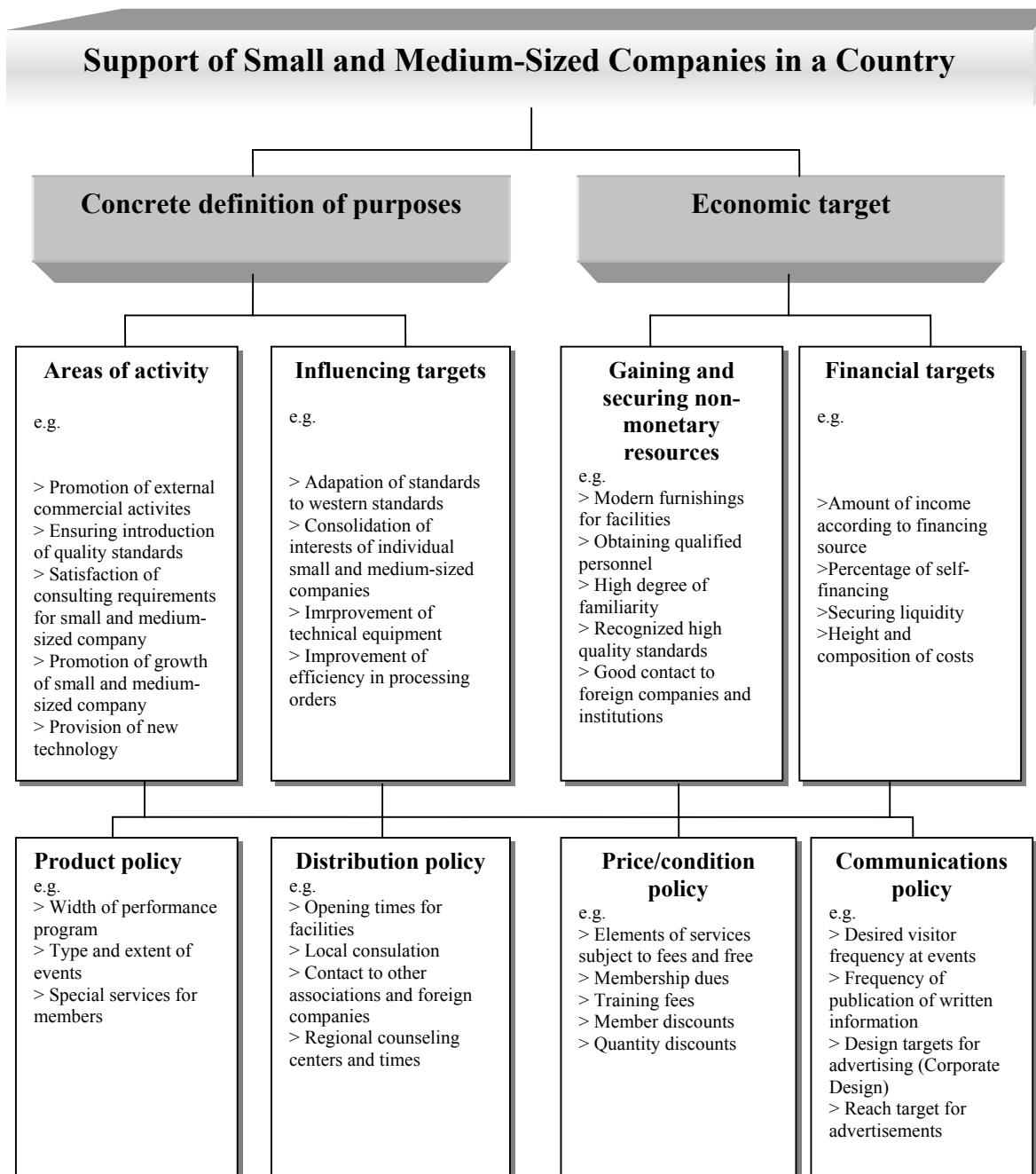
The development of targets is an important component for strategic and operative Organisation management. It is also necessary to apply these targets for augmented utilisation of new or present sources of income. It is necessary for a number of prerequisites to be fulfilled to establish a target system:

- The individually formatted targets must be **operational**, i.e. the targets must be illustrated in a form, which allows them to be checked and measured. Measurement of the success assumes that the output realised can be evaluated on the basis of operationalized targets.
- The various targets must be **complete**. Here it is particularly important to ensure that the economic and professional target elements are balanced.
- The various targets must be placed in relationship to one another and categorised in an **order of priority** (elaboration of target hierarchy).

A general target framework can be specified for all NPO's. Operationalized targets determined according to content, extent and time frame will always have to be defined for the specific Organisation. Here a number of peculiarities must be observed. The primary targets of an NPO are distinguished very highly by the presence of tangible targets. Provision of services is intended to cover the requirements of target persons. Since profit is eliminated as a primary target, a priority objective defined according to content, extent and time frame precisely is often not present. In spite of all the recognised necessity, formulation of qualitative targets and checking the degree to which they are realisable are rare procedures in such Organisations to date.

The following is an example of a target catalogue for an Organisation for support of small and medium-sized companies:

Figure 2: Example of target catalogue for an NPO



### 3. Strategic Planning

Strategies are the result of strategic planning which provide the directions in which an Organisation is to move. Strategies create success potentials as sources of future success. The selection of certain sources of income mentioned for monitoring resources is also such a strategic decision with long-term effects.

Strategies are more than just good intentions. They must be defined so concretely that they can be measured and checked. Here is a brief usable summary of the individual planning steps:

#### Information analysis as prerequisite for strategic planning

Analysis of the marginal conditions within the context of information analysis is the basis for all subsequent steps. Here a principal differentiation is made between environment analysis and internal analysis. The **environment analysis** includes the social environment (economical, legal-political, technological and social-cultural environment), the branch environment (branch is the immediate environment, in which the NPO provides its services) and transaction environment within the more narrow sense (position of an Organisation in a branch). The following checklist for the general environment indicates the criteria to be taken into consideration:

**Table 1: "General environment" checklist**

<b>Economy</b>	Economic situation, employment situation, purchasing power of potential customers or members, development of individual economic sectors, economic growth, unemployment rate, etc.
<b>Politics and law</b>	General trends of legislation and court decisions, specific legal standards, global political development, developments in labour and social law, developments in taxation and economic law, effects of EU membership, etc.
<b>Demography and social-cultural environment</b>	Population development, age structure, development of individual social levels, occupational structure, development of attractiveness of various NPO services.
<b>Technology</b>	New products in the relevant categories, development of computer technology in general, development of specific computer solutions
<b>Ecology</b>	Energy reserves, alternative energy sources, recycling, environmental consciousness
<b>Regional environment</b>	Specific regional developments, catchment area, etc.

This **internal analysis** is based on the situation determined externally and studies the possibilities for creating an Organisation. Similar to an external analysis it is first necessary to define the criteria required for evaluation. Resources, capabilities and process for achieving a certain output are analysed on the basis of the targets. The list below is a possible summary:

**Table 2: "Branch environment" checklist**

<b>Training market</b>	Development of overall markets, price (fee) development for various sectors (consulting, service, training, etc.), marketing activities
<b>Competition analysis</b>	Type and number of competitors representing small and medium-sized companies, consulting and service companies, competitive situation of competitors, market shares, regional peculiarities, differences in offers, strengths and weaknesses of competition, probable development of competitors, strategies of competitors
<b>Consumers</b> (Members, customers, etc.)	General structure, requirements and development, shifts in demand and expectations, categorisation according to size and branch groups
<b>Procurement market</b> (Suppliers in the widest sense)	Economic situation of suppliers (free-lance teachers, consultants, attorneys, specialists, sponsors, etc.), market power in relation to Organisation, use of capacity, quality standards
<b>Public authorities</b>	Responsibilities of authorities, general attitude of public authorities toward Organisation, new regulations or laws, regional peculiarities, contacts
<b>Sponsors</b>	Development of sponsor environment, interest for Organisation sponsoring, competition through cultural or sport sponsoring, general sponsoring trends, values of sponsor services
<b>Media</b>	Attitude of media toward Organisation, opinion of individual journalists, requirements for reporting, legal requirements, technical equipment

The results of the external and internal analysis as well as the values determined must be then being matched to one another and serve as the basis for further strategic planning.

### Business Field Strategies

Business field strategies are of decisive importance in this context. Business field strategies are related to the question regarding the products (services) with which an NPO is to be active in specific branches and markets. A so-called strategic field of business is a product/market combination, which can be separated from other service areas of the Organisation in terms of content and Organisation and for which an independent strategy is required.

Here it is necessary to clarify which services are to be offered in which quantity by the NPO in the future. For this purpose the individual services can be evaluated according to certain criteria using specific analysis methods and a complete service offer worked out.

The instrument used most frequently for working out business field strategies is portfolio analysis, which was originally developed for profit-oriented companies. The process of performing portfolio analysis is as follows:

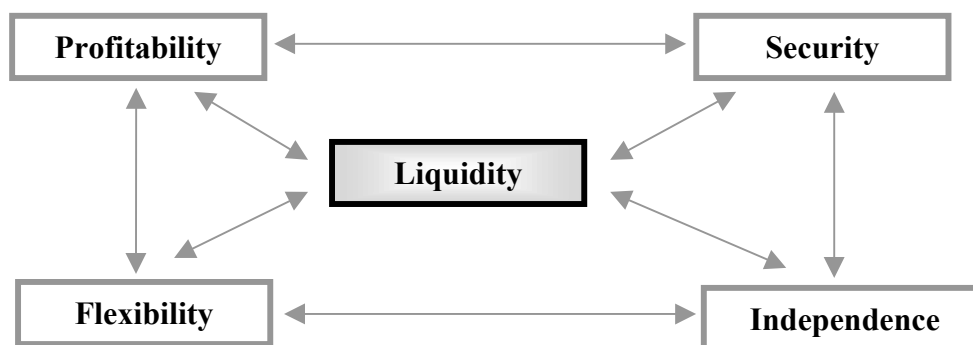
- List of services according to type of service (which services is the Organisation to provide as a matter of principle?)
- Derivation of strategic business fields (product/market combinations)
- Definition of criteria for evaluation of strategic business fields

## II. Financial Management in NPO's

## 1. Targets of Financial Management

Within the scope of the target system and strategic planning it is now possible to go into financial management. Every company, every Organisation, and therefore every non-profit Organisation as well, pursue more or less expressed financial targets. For profit-oriented companies it is possible to list the general targets of profitability, liquidity, security, flexibility and independence. For non-profit companies the target category of liquidity is of central importance.

**Figure 4: Targets of financial management**



In non-profit Organisations liquidity has a high priority as a positive level of cash funds and as permanent solvency. It is necessary to attempt to have sufficient financial funds available at all times to make required payments on time. If this requirement cannot be fulfilled the existence of the Organisation is endangered.

## 2. Purposes of Financial Management

The primary purpose of financial management is to ensure the financial continuity of the Organisation. This can only be ensured when financial management is used consistently by the Organisation management as well as its staff. Only few Organisations operate with instruments going beyond the accounting required by the country. Although many Organisations plan their costs, only few use ratio analysis or contribution costing. A form of controlling would also be more than justified in consideration of the frequently high sums to be managed.

## 3. Priority of Financing Questions

In contrast to profit oriented companies the specific purpose and value systems are of constitutive importance for non-profit Organisations. In such Organisations the focal point of thought, action and feeling is the achievement of goals for the public good, not achieving a financial surplus. This has direct consequences for the status and the significance given to financial questions. The spectrum of possible attributable ranges of significance stretches from financing as a necessary evil up to the opinion that permanent successful operation is not possible without professional financial management. Here we can differentiate three stages:

**Stage 1:** Financial questions as necessary evil

**Stage 2:** Financial questions as proven instrument for securing existence

**Stage 3:** Financial questions as strategic success and growth factor

Treatment of the subject of financing without emotion is an important prerequisite for successfully dealing with financial questions internally and financial accounting externally. One fact should be observed: In non-profit Organisation crises usually start or end with financial questions.

#### 4. "Classic" Financing Sources

Illustration of the "classic" financing possibilities requires a clarification of terms. Financing concepts of importance are initially those of external and internal financing.

##### Equity Capital and Borrowed Capital

Two financing terms of central importance are initially those of equity capital and borrowed capital of an Organisation.

**Table 3: Comparison of equity and borrowed capital**

Criteria	Equity capital	Borrowed capital
<b>Position and liability within NPO</b>	Establishes (co-) proprietorship in NPO and establishes right to share in decisions, liable for debts of NPO at least to the extent of the investment	Establishes debtorship of NPO, no rights of lenders to share in making decisions, no liability for (other) debts of NPO
<b>Earning shares (entitlement to payment)</b>	Full participation in profits and losses (if present)	As a rule establishes fixed interest payment for NPO, no share in profits and losses
<b>Rights to assets</b>	Quota share of NPO (participation in increase in assets and undisclosed reserves), when liquidation proceeds of NPO are greater than debts.	Legal demand for repayment of debt in nominal amount, no participation in increase in assets or undisclosed reserves of NPO
<b>Company management</b>	As a rule entitled to management of NPO	Excluded from management of NPO as a matter of principle
<b>Temporal availability</b>	Unlimited as a rule	Limited as a rule
<b>Encumbrances to liquidity</b>	As a rule improved liquidity of NPO	Interest and amortisation payments to be made for loans represent fixed encumbrances for liquidity of NPO
<b>Financing capacity</b>	Limited by financial situation of investors	Unlimited, dependent on presentation of security by NPO

The question as to which financial assets are to be regarded as equity capital of an NPO can only be clarified in the specific case. The criteria listed serve as guidelines.

##### External and Internal Financing

As a matter of principle the financing possibilities can be classified into external and internal financing. Some authors add a third category, which is of particular significance for NPO's: the formation of "**institutions**". These are measures, which can reduce the insecurity regarding expected future payments from external and internal financing. Particularly "insolvency buffers" such as guarantees or liability commitments, which can be issued in favour of the NPO's, are included in this term.

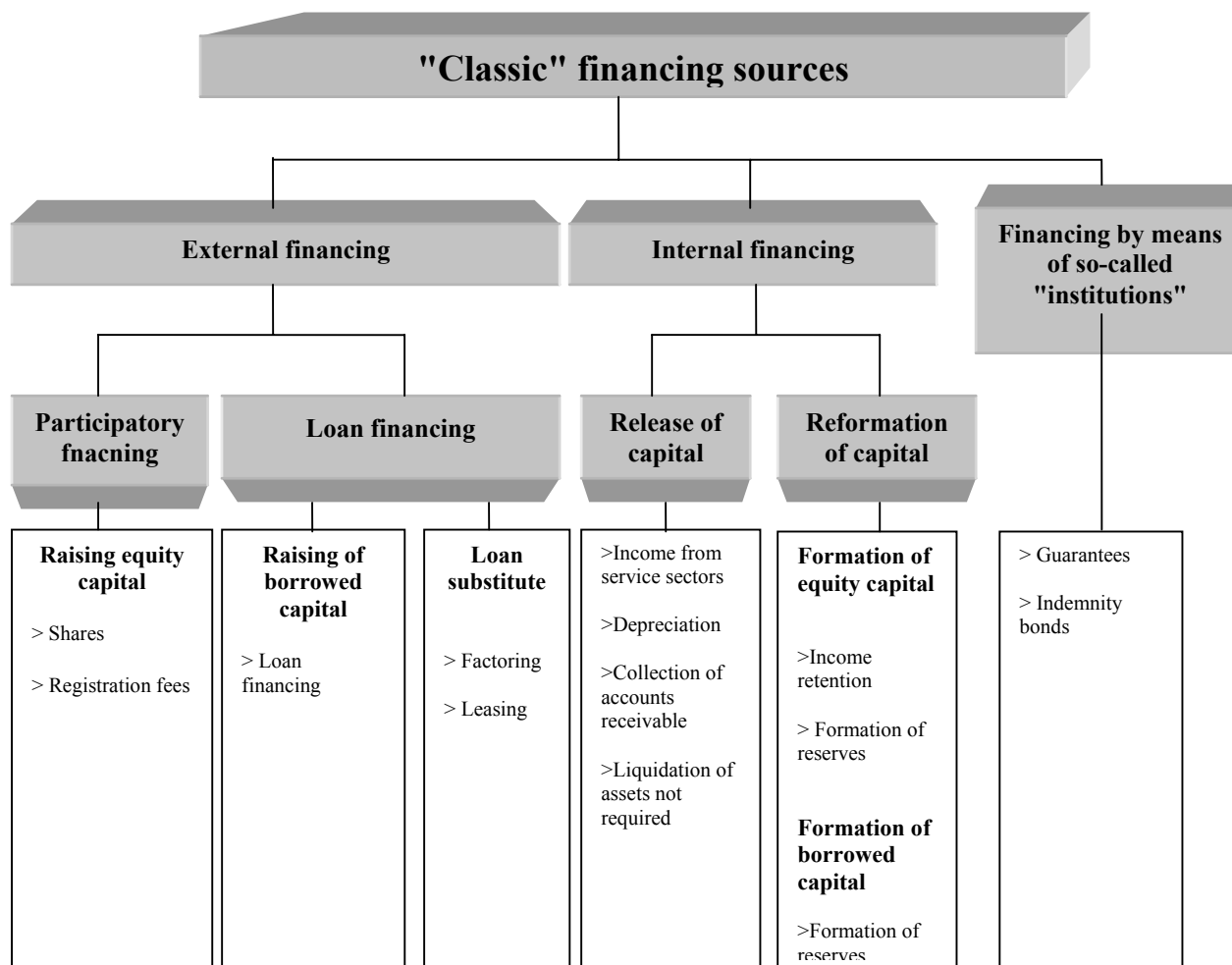
There are overlaps between the terms, external and internal financing and the terms, equity and borrowed capital. External financing means every appearance of an Organisation on the "financial markets", whereby the demand actions can focus on achieving participatory financing (formation of equity capital) or financing through borrowing. The focus is always on achieving income in the present, which will result in future payment demands of the investors. In the area of financing by borrowing the structural differences between NPO's and profit-oriented companies remain within limits in terms of the resulting interrelationships between the lender and Organisation. In terms of content a credit institute will check granting a loan to an NPO differently than for profit-oriented companies. The decision of a credit institution to grant a loan to an NPO will be independent of the branch developments and future prognoses of the Organisation in the branch, as is the case for commercial borrowers. On the other hand the question of the sponsorship of an NPO is used as a primary indicator for the credit worthiness or reputation.

The demand actions of NPO's focussing on **participatory financing** are usually different. In the commercial economy, participatory capital is provided with the expectation of future profits. If the expected profits are actually realised, the equity capital has a right to share in the profit. With NPO's this motivation for participation does not exist as a matter of definition.

**Internal financing** includes those financing measures aimed at moving income forward in time and/or postponing expenses without appearing as a demander on financial markets and without correcting planned activities. Internal financing always requires income from the service sector. This also means that not all-financing sources for NPO's available through internal financing can be considered without limitations. If no income is achieved directly by an NPO in the service sector, it is necessary to assume vague intellectual auxiliary constructions or a very wide definition of the NPO service sector to apply the concept at all.

In differentiating internal and external financing, in contrast to equity/borrowed financing the source of the available capital is decisive; not the type and the related legal consequences of the provision of the capital. The "classic" financing sources, described in detail here, provide, all totalled a wide range of possibilities, which are complied in the following illustration.

Figure 5: "Classic" financing sources



## 5. Financing Possibilities for Non-Profit Organisations

The analysis of the financing sources illustrated from the point of view of a non-profit Organisation indicates that particularly the scope of loan financing can be used for financial management in legal terms. Other sectors, such as participatory financing and elements of internal financing require more differentiated consideration in order to achieve financing concepts suitable for non-profit Organisations.

Moreover, the illustration of the classic forms of financing ignores a series of financing sources, which are particularly important for non-profit Organisations. It is therefore necessary to supplement the illustration in the previous section. Specific financing sources are mentioned preliminarily below:

- **(Membership) dues**
- **Fees for services**
- **Sponsoring**
- **Fund raising**

## 6. Evaluation Criteria for Financing Possibilities

Not all of the previously mentioned "classic" and specific financing forms are equally suitable for non-profit Organisations. It will be necessary for each Organisation to define for itself how activities can be financed. Initial predictions, made on the basis of the list of criteria below, allow evaluation of the advantages and adequacy of financing sources.

The catalogue of criteria consists of two parts. The first section contains objective, fixed evaluation criteria, the second section contains criteria which are not clearly definite or which cannot be estimated objectively from the beginning. Such indefinite evaluation criteria can be determined to such an extent that they can be used as a basis for making decisions only within the current decision-making process of the Organisation.

**Table 4: List of criteria for evaluation of forms of financing**

<b>List of criteria</b>
<b>"Hard" evaluation criteria (objective evaluation values)</b>
<ul style="list-style-type: none"> <li>• De-jure availability of financing form</li> <li>• Financing costs</li> <li>• Speed of financing form (availability of funds)</li> <li>• Duration of availability of financing forms</li> <li>• De-jure risk of financing form (question of liability)</li> <li>• De-jure or preliminarily required transparency (for checking financial situation of Organisation)</li> </ul>
<b>"Soft" evaluation criteria (evaluation values determinable within the course of negotiation processes)</b>
<p><b>1. Factors resulting from the form of prospective financing</b></p> <ul style="list-style-type: none"> <li>• Financial security</li> <li>• Financial flexibility</li> <li>• Influence by investors</li> <li>• Amount and time of payment-related precision/calculability/predictability/reliability of incoming funds</li> <li>• Dependency</li> </ul>
<p><b>2. Evaluation of financing form in terms of</b></p> <ul style="list-style-type: none"> <li>• De-facto availability (e.g. acceptance)</li> <li>• De-facto perceived risk (closely related with question of liability) de-facto requirement for transparency</li> </ul>

The financing form or combinations actually used will be dependent on the concrete requirements of the situation as well as the financial structural and legal conditions to which the Organisation is currently subject.

## 7. Financial plan

In the sector of the financial plan within the narrower sense, as a synonym for liquidity planning, there is a remarkable proximity between profit-oriented companies and non-profit Organisations. Both types of Organisations aim at identical goals in their financial planning (liquidity planning). They endeavour to ensure that the liquidity, the guarantee that the Organisation is capable of paying its debts, is present at all times. The financial balance of an NOP is therefore controllable through measures on the income and expenditure size. Consequently, every financial plan – or more applicable for NPO's: liquidity plans – is made up by comparing the income plan and expense plan. Income and expenses are listed regularly along the time axis to achieve a quickly calculable capital requirement budget. (see Appendix No. 1 for summary of NPO financial plan).

If a capital coverage requirement is present, the NPO has (at least theoretically) all of the financing possibilities listed previously for covering the deficit. If this not possible, the danger exists of continuous insolvency, which can result in opening of bankruptcy proceedings. However, if during the course of liquidity planning, it becomes obvious that surplus income is expected, it will be necessary to clarify the use for these surplus funds. Measures aimed at reducing unnecessarily high liquidity reserves through short-term assessments are discussed under the terms cash management or optimisation of cash balances. However, it can be assumed that NPO's will most probably not tend to assess unbudgeted funds available, but rather to use them immediately through increased action.

Use of a financial plan is a routine activity of financial management at established NPO's situated in a stable environment, which allows all knowledge and values gained through experience to be included. On the expenditure side, NOP's will not be confronted with any extreme planning problems under normal conditions and with appropriately good documentation of the payment flows. Particularly, personnel costs for the non-voluntary staff of an NPO and current operating costs are continuously recurring expenses, which can be determined precisely in terms of amount as well as time. Other activity-dependent expenditures should be determined as early as possible for reasons of financial planning.

The "iron" principle of all financial planning is so-called **deadline congruency**. This rule stipulates that every credit item binds capital for a certain period of time and that this capital tie-up should correspond to a capital sum on the debit side, which is available to the company for at least the same period of time. Therefore, an NPO should endeavour not to incur any obligations or other fixed encumbrances with a time horizon longer than that for which the financing is ensured. NPO's existing and established for a longer period of time will tend to accept longer periods than Organisations which have only existed for a short time and will have to adapt their financing framework annually. In extreme cases, application of this financing congruency rule could lead to a situation in which employment contracts between NPO's which allocate funds yearly and their employees which have a maximum duration of one year or less. In the closer sense, financial planning means a balancing act between security considerations and economic aspects in NPO's as well.

## 8. NPO financing portfolio for development of financing strategy

The descriptions in this chapter have shown that NPO's are confronted with particularly complex problems in the field of financial management. For this reason, instruments for development of a financing strategy are introduced below. Here, the portfolio technique described previously is used.

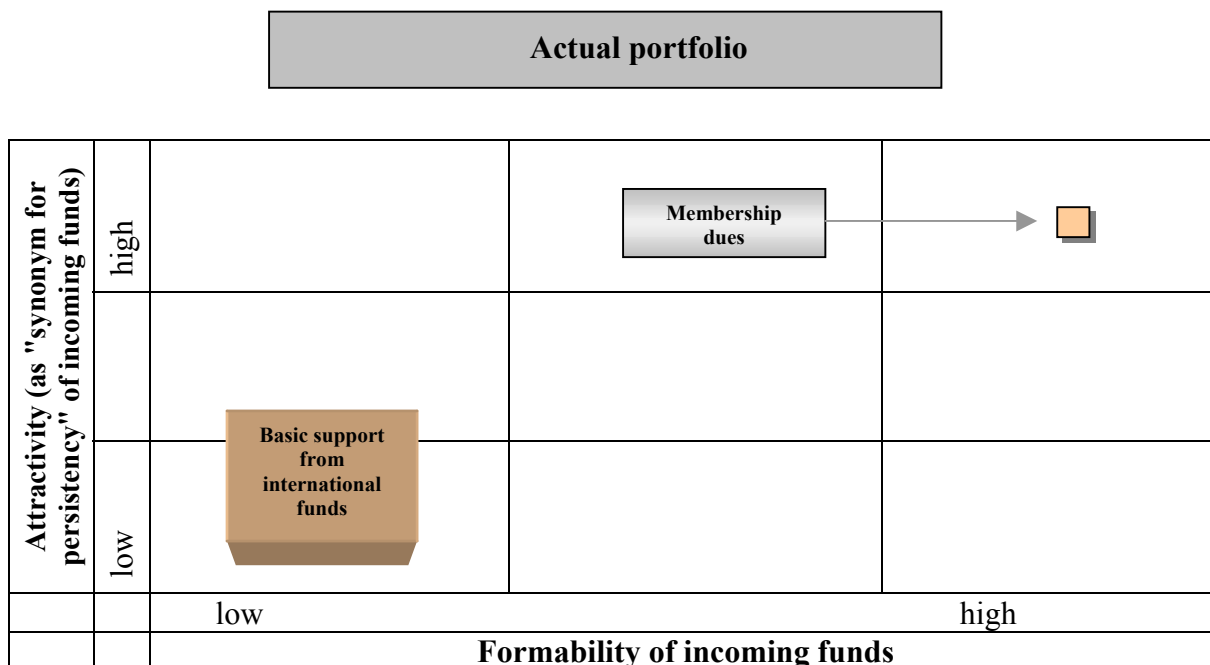
### Basic assumption for portfolio

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The "formability" of the incoming funds from the point of view of the NPO management on the one hand and the "attractivity" (as synonym for persistency) of the flow of funds on the other are used as dimensions for the portfolio - both with the values "low" and "high". The formability of the injection of new funds requires no further explanation; if it is high, the NPO management possesses instruments to constructively utilise the free play in raising funds. The management can make arrangements for the NPO at its own responsibility and is dependent only to a small extent on external decisions. The second dimension, the "attractivity of the incoming funds" can be related approximately to the future expectations for income. Within the scope of a benefit analysis, the central points such as speed of availability of the financing form, amount and time-related precision/exactness/ consistency of the incoming funds, security of the incoming funds, etc. can be evaluated and visualised.

Development of the financing strategy using the portfolio approach is comprised of two steps. In the first step, an item is defined in the target portfolio for each financing source presently used. Then, alternative financing constellations for existing or new financing sources are studied and also visualised - starting from a desirable strategic basic orientation. In many of the NOP's intended here, a target portfolio could be similar to that here. The Organisation is highly dependent on funds from international sponsors. The size of the square indicates the magnitude of financial payments. Usually, there are one or more other small sources of income, which, however, are of only minor significance in terms of their extent. Here, it is necessary to recognise that the Organisation is highly dependent upon financial support grants. Variations in payment lead to crisis, which can usually be mastered only by reducing the staff. In extreme cases, the result is dissolution of the Organisation.

**Figure 6: Examples of actual portfolio**



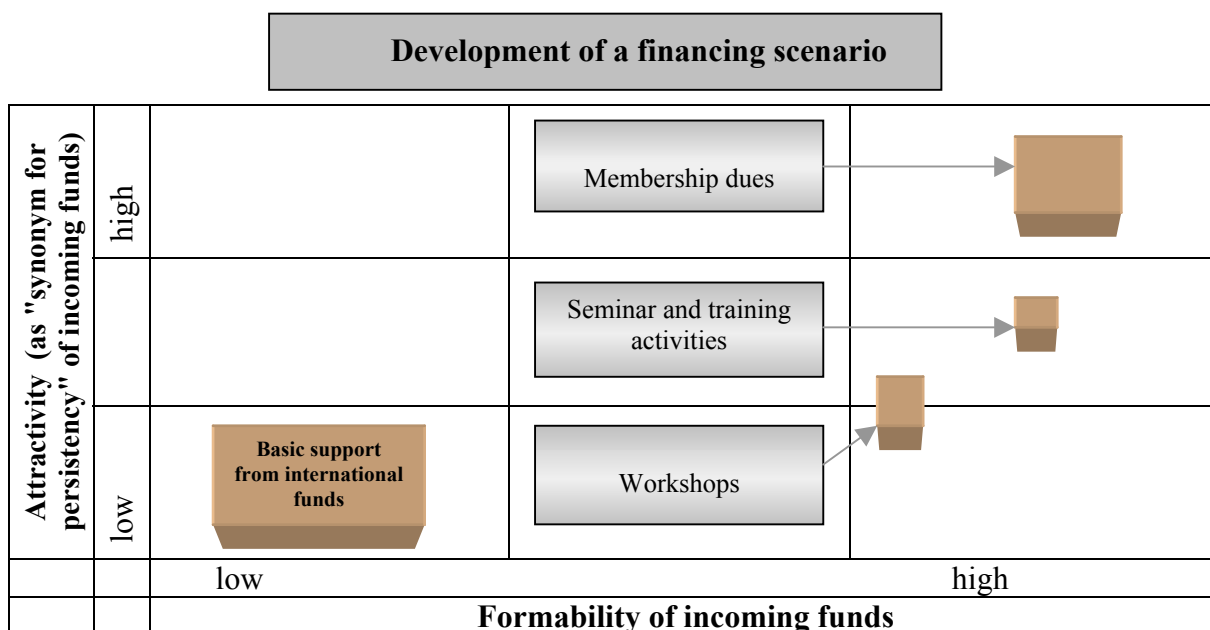
Which options are available to satisfy this situation? The following basic strategies can be listed as key words.

- Diversification
- Commercialisation
- Increasing steadiness of incoming funds through other Organisations
- Making output more flexible

- Establishment of strategic alliances

Definition of the actual portfolio is followed by the development of a financing scenario. How are financial funds to be earned in the future? This financing constellation which is far more attractive for the Organisation indicates a number of financing sources. For example, income surpluses in the sectors of seminar and training activities, workshops and membership dues make up approximately one half of the financial receipts. This strategy arises from the analysis of internal and external influential factors.

Figure 7: Example of target portfolio

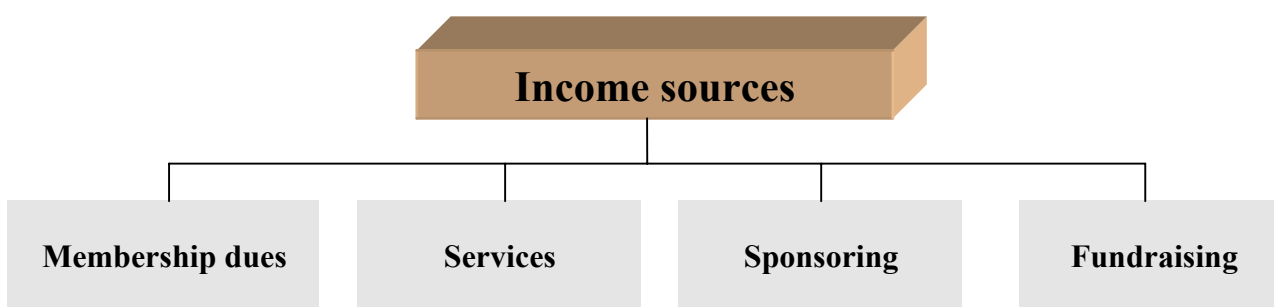


### III. Selected financing possibilities (income sources) for the Organisation

#### 1. Special financing possibilities

Although membership dues are important for the financial and political situation of the Organisation, self-financing cannot be achieved these alone. The financial situation of the Organisations can be stabilised only through the interaction of a number of components. It is necessary to establish a service sector, which pays for itself in the mid-term and provides a contribution to the income of the Organisation. In addition to the membership dues and services sponsoring and fundraising should also be taken into consideration as sources of income.

Figure 8: Summary of special financing possibilities (income sources)



The individual income sources are described in detail below.

## **2. Membership dues**

The membership figures for an Organisation are of central importance. They determine the financial as well as political basis. The more members an Organisation has, the less dependent it is on other sources of income. The higher the income from dues, the sooner it will be possible to offer services initially below the market price level in order to enter the market. National and international financial support is compensated in this manner and independent financing becomes possible.

The membership figures are, however, significant not only for financial security. Simultaneously, they form the legitimisation for an Organisation for representing the interests for the companies, here particularly in the small and medium-sized company sector, primarily with political decision-makers.

The more members an Organisation represents, the more credible it is in assuming its position for representing political interests. A strong representation of interests is therefore only possible with a wide membership basis. In order to achieve this goal, it is always necessary to place priority on gaining members. For this purpose "optimum" establishment of the membership dues is significant. The relationship between the services offered and the average income of the companies must coincide with one another.

The data on the members gained must be managed correctly from the very beginning so that the necessary information is available at any time.

### **2.1 Acquiring data on members**

Practical and detailed data on the members is decisive for the quality of all future work: Data on the members is required for highly varying reasons, and this data should be available as soon as a company is registered: The data obtained is also used for segmentation of the members in order to make special offers or for increased acquisition of members in a certain sector. General criteria according to which members can be segmented are listed below:

- Segmentation according to size or company (number of employees)
- Segmentation according to turnover
- Segmentation according to sector or economic branch
- Segmentation according to regions

In order to ensure this, a member questionnaire is important, which contains comprehensive required information while not requiring too much work or time to complete. A specimen questionnaire is shown in the appendix (see Appendix No. 3). This can be revised depending on the focal points.

Of importance here is that the significance as well as the benefit of the membership registration questionnaire is explained. This can be accomplished in a brief cover letter intended to explain to the companies the expected benefits. If such an explanation is not present, many companies will not provide the information. For many, filling out a questionnaire requires too much work and/or time, the information to be provided is considered to be "private" and not intended for the public. For this reason, it is also important to ensure the security of the data provided and to

communicate this. A specimen of a brief cover letter is included in the appendix (see Appendix No. 4). It is also good practice to include a posted return envelope.

## **2.2 Amount of dues**

The amount of the dues for the individual members is of decisive importance. If the dues are too high, many companies will not consider membership. Moreover, the expectations of the members are very high when the dues are at a high level, particularly in comparison to other Organisations.

On the other hand, the dues are a significant source of income for the Organisation and thereby determine its further development. In order to find an adequate level for the dues, it should first be ensured that the monthly amount does not represent a significant financial burden for the member and his daily business. On the other hand, however, extremely low dues are not recommendable. The dues for other Organisations provide important information here. These allow coarse guidelines to be defined. Another alternative approach for determining a realistic amount for the dues is based simply on experience. This is a rule of thumb whose usability has been noted repeatedly during consultation in numerous countries. According to this, the annual dues for a member of average size should be between one quarter and one third of the average monthly salary in the country in question.

The amount of the dues should also be differentiated according to the size of the member companies. The number of employees is a good reference here.

A one-time registration fee should just cover the administrative costs arising directly from registration of a new member company. For this reason, a uniform registration fee should apply for all new members.

## **2.3 Acquiring new members**

Acquiring new members for the Organisation should be accomplished on a permanent basis. As already mentioned previously, the financial as well as political position is fortified in this manner. Various incentives and campaigns can be used here. A few procedures are discussed below.

### **"Member-to-Member" system**

The so-called "Member-to-Member" system is just as simple as it is effective. Each member defines a price discount for his services, which is then granted for the other member. Non-members are excluded from this. This "closed shop" provides non-members with a considerable incentive to also join the Organisation. Here particularly the benefit for each member is obvious, so that in many cases the annual dues for the member can be amortised by taking advantage of the privileges!

A plan of activity is introduced as a guideline below for practical implementation of this idea. Here, the most important steps for realisation of this system are listed:

1. Making up an information sheet
2. Forwarding information to the members
3. Collecting replies and comparing recommended privileges
4. Working out a form of identification which identifies each company as a participant in the member to member system and entitling the company to utilise the privileges
5. Issue of a publication containing information on the individual privileges (in the form of loose sheets)
6. Forwarding to all members (cover letter, ID, loose sheet collection)
7. Intermediate check of results
8. Marketing using various media (e.g. articles in press, radio, direct mailing, etc.)
9. Regular updating

### **Members acquire members**

As a rule, there is an animated exchange of information between the individual companies. This is an important starting point for increasing the membership. If the Organisation is recommended by other companies and its benefits explained, non-members are more willing to register. Naturally, the members should be given a clear incentive for acquiring new members. The following financial incentives are imaginable: A certain percentage of the annual dues are remitted for the member (approx. 20% to 30%) or the financial incentive can be based on the dues paid by the new member acquired.

As a matter of principle, the reduction of the dues for the acquiring company should be granted only when the new member has been registered with the Organisation for a longer period of time (approximately one half year).

### **Open house**

Another effective instrument for obtaining new members consisting of holding an "**Open house**". The idea is to clearly demonstrate the daily work of the Organisation to all interested parties. For this purpose, they are invited to visit the "Open house". Extremely good contacts can be made during such events and anonymity eliminated through direct contact (see also Appendix No. 5).

### **Field representatives**

A traditional instrument in this area is also the use of field representatives. These usually work on a commission basis and are concerned exclusively with acquiring members. To a great extent, the success of this strategy is decisively dependent on the training and sales talent of the

representatives. Once again, the basis for evaluation of this instrument should be a factual cost/benefit analysis.

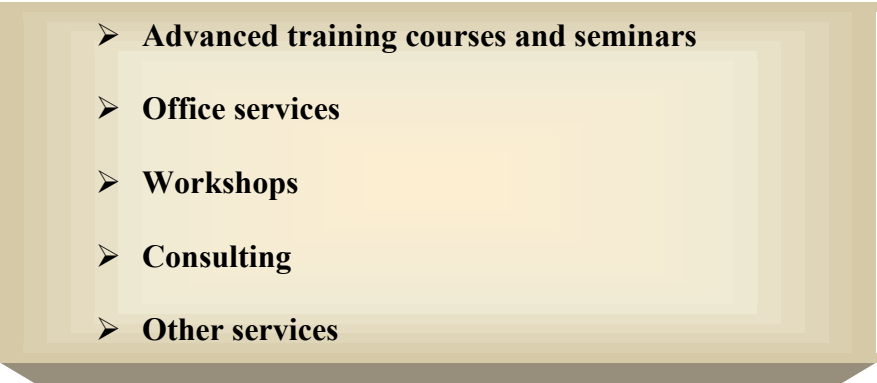
### 3. Services

The financial situation of an Organisation can be stabilised only through interactions of a number of components. The membership dues are an important pillar here. However, in the mid-term; the established service sector should pay for itself and provide a contribution to the income of the Organisation. Here, it is also necessary to consider that services aligned to the requirements of the members are a decisive factor for obtaining new members and binding them in the long term.

Moreover, even non-members can be obtained as customers with various services. To what extent the service program differs for non-members and members or even if a separate limited company is to be established is a decision for the Organisation. Comprehensive services are essential under all circumstances for the ongoing existence of the Organisation.

An Organisation should avoid offering services at market prices, which were previously offered at no cost. For this reason, they should attempt to develop "new" activities. The activities must be secured financially in the long term. Services connected with a fee must be of high quality. The basis for this is provided by good counselling and good employees. As a rule, it is better to offer no services at all than offer services of poor quality.

The following service sectors can be offered by the Organisation:

- 
- **Advanced training courses and seminars**
  - **Office services**
  - **Workshops**
  - **Consulting**
  - **Other services**

#### Advanced training courses and seminars

In the sector of advanced training courses and seminars, there is such a magnitude of possible offers that it is only impossible to mention a few categories. Of importance in evaluating a future offer for advanced training or seminars are the pre-requisites provided by the Organisation itself, the competition situation and the expectations for the future development of the sector.

The following courses and seminars could be offered:

- **Computer training** (user programs, programming, bookkeeping software, working with the Internet, etc.)
- **Commercial courses** (accounting, marketing, company management, material management, logistics, conversion to the European market, etc.)
- **Legal courses** (contract law, customs regulations, co-operation with foreign companies, etc.)

- **Language courses** (English for business purposes, German for beginners' etc.)
- **Quality management courses** (international standards (ISO) and their practical application, TQM, ISO certification, etc.)
- **Management courses** (time and deadline management, communications training, personality training, etc.)
- **Practical seminars** (various working techniques, advanced training for service technician, etc.)

All such courses must be checked for their implementability. A survey in Appendix No. 2 provides a possible schematic for this.

The evaluation of the individual criteria can be accomplished according to the school grading system. If there are no qualified teachers or if it is not possible to finance the required equipment, all other considerations can be ignored. In this case, it will be necessary to concentrate on other areas. Moreover, the costs should be calculated from the very beginning. A summary of the costs to be taken into consideration is given in Appendix No. 6.

### Office services

Services concerning the office can also be very versatile. Office activities as well as provision of facilities are of great significance particularly for small and medium-sized companies.

**Provision of office space:** When providing office and conference rooms, it is necessary to ensure that free capacities are available on the one hand and that the equipment and furnishings in the rooms corresponds to the appropriate level: This gives small and medium-sized companies the advantage of utilising prestigious surroundings for their conferences and meetings. Simultaneously, utilisation by foreign companies is also imaginable for launching their activities from this "base". The advantage is that this provides direct contact to the companies.

**Translation and contract consulting services:** Particularly for companies with contact to foreign companies, understanding correspondence and contracts may pose a problem. Failure to understand an offer or even a term in a contract can lead to conclusion of a negative contract. If the Organisation is capable of offering translation services too small and medium-sized companies for this purpose, many members as well as customers can be helped greatly. Translations are usually accomplished by free-lance translators and can be offered as a 24-hour service depending on the prerequisites.

An additional legal aid in completing contracts with foreign companies could complete such an offer. This provides the basis for problem-free business.

### Workshops

Particularly workshops provide a possibility for treating current topics and making them accessible for users. Workshops can be offered in the various sectors in a manner similar to advanced training seminars. National and international experts can lead these workshops and provide specialised knowledge at the highest level. This ensures that the topic treated can be utilised by the individual participants quickly.

### Consulting

Consulting can be offered in highly varying branches. Here it is necessary to differentiate whether the consulting services are to be offered at no cost for members and in combination with a fee only for non-members, or whether these services are to be offered at a fee for all

groups. Special rates for members provide an incentive for membership and long term binding of small and medium-sized companies.

**Consulting** can be accomplished in the following areas:

- Utilisation of computers in companies
- Information on taxation
- Foreign trade and customs regulations
- Opening up branch offices in a foreign country
- Application of international standards in the production of products
- Drawing up and concluding contracts
- Introduction of cost accounting in the company
- Training counselling
- Counselling regarding founding of a new business
- Making up offers for foreign companies
- Legal consultation in general, etc.

The consultation subjects are dependent on specialists available to the Organisation. Simultaneously, members should be polled regarding the subjects they consider important. This reveals best the focal points present for consulting.

#### **Other services**

The Organisation can offer other services to its members as well as to non-members. Here, the spectrum also covers a wide field. At this point, however, we only intend to provide a few ideas. The Organisation itself is responsible for checking the usability of individual ideas. Here are a few examples of services, which could also be offered:

- Planning fair participation for individual small and medium-sized companies
- Market research for individual companies
- Organisation of domestic and foreign company traineeships
- Planning and performing contact trips to potential foreign business partners
- Taking over publicity work for small and medium-sized companies
- Offer for company site in Internet
- Insurance services, etc.

A significant differentiation in prices for all services of the Organisation should be made between members and non-members. A significant financial incentive for membership is created by considerably higher fees for non-members.

## 4. Sponsoring

Sponsoring is a direct communication policy offer by an NPO to profit-oriented companies aimed either at selling a market product or used within the scope of a company-advertising concept (Public Relations). In contrast to donations made from selfless motives, it is necessary for the NPO to offer potential sponsors a more or less operative formulated cost/benefit calculation. The NPO offers the sponsoring company a platform for communication and receives funds in return. This form of financing is particularly widespread in the field of sports and is common place in many areas of public life.

Sponsoring therefore forms the basis for an interactive relationship between the NPO and sponsor providing a benefit for both sides. Not all NPO's have the same starting situations in order to secure income by means of sponsoring. Sponsoring can presently be used successfully as a financing possibility particularly for activities, which have a positive social benefit.

Sponsoring offers many forms of support by economic partners. This subject should be discussed calmly in acquisition meetings. The following forms can be differentiated depending on the type of benefit the sponsor offers to the sponsor Organisation:

1. The classic form, which is also the most popular with most institutions, consists of donations of financial funds by the sponsors.
2. Physical resources usually in the form of the sponsor's own products are donated. These can be equipment or furnishings (e.g. furniture, telecommunications system) or goods (e.g. foodstuffs, office materials) which are made available at no cost. Commercial companies prefer this form of sponsoring.
3. The provision of services and know-how by the sponsor is also a form of sponsoring. This form is recommendable when the Organisation requires support in Organisational and administrative or other problem solutions.

For practical applications, it is now important to discuss how sponsors can be found and which companies can be considered as partners at all. The first and most important step when an Organisation desires to expand its radius of action with sponsors is to communicate a clear project concept, work out a concrete offer (indicating the benefit and consideration in return) to the potential sponsor. Only then is it possible to select possible companies who could be considered as sponsors. Particular consideration must be given to the image transfer between the "business partners". A poor image on the part of the sponsor can easily negatively affect the supporting Organisation.

Possibilities for benefits are:

- Imprint of sponsor's name and logo, naturally slogan as well
- Presence of sponsored equipment at exhibitions, fairs and other events represented by the sponsors.
- Publication of the co-operation in press releases, at benefit events and other common events.
- Use of sponsor's products at events.
- Mentioning in interviews, speeches, etc.
- Separate events specially for the sponsor.

There are many possibilities. The more clever the ideas for providing benefits, the greater the chance of obtaining sponsors. At the moment, particularly events are very popular with sponsors.

The second step of finding a sponsor is very ticklish. With sponsoring, the co-operation is more closer, and also stipulated in a contract including the benefits to be provided by the Organisation. For this reason selection should be considered carefully to avoid negative connections. A reference should exist to the target group. The following criteria may help in selecting a sponsor:

- Regional relationship.
- Connection line image (image of contract partner should be advantageous for the sponsor and not contrary to his own image).
- Connection line exchange of know-how.
- Reference line age/jubilee (open ears for sponsoring activities can frequently be found on the occasion of a company jubilee or other round birthday).
- Starting point: Consternation (potential sponsor is affected by problems in his private or commercial surroundings, which can be tackled by the Organisation).
- Interests of potential sponsors.
- Personal contacts

The following steps are summarised only briefly at this point. It is necessary to develop a convincing concept as well as complete contracts and introductory letters before addressing sponsors. Addressing itself can be accomplished by letter as well as by telephone. Here, experience of other companies or NPO's should be used. Replies received must be processed immediately and negative reply should also be documented. A personal meeting should be held with potential sponsors as quickly as possible. The overall results of the first sponsor acquisition campaign should be evaluated for future campaigns. If the first campaign is not successful this does not necessarily mean that sponsoring is not possible for the sector. Other individual instruments such as the letter of introduction, the benefits offered, the selected target group or in extreme cases, even the time of year, may have had a negative effect on the success.

Cultivation of the sponsor is also very important in this area. They should feel at home in our Organisation. Here, smaller measures are often of great importance. The steps are listed again briefly below:

- Step 1: Project conception (establishment of concrete offer)
- Step 2: Definition of target group
- Step 3: Working out a contract and letter of introduction
- Step 4: Inquiry by telephone or mail
- Step 5: Receive replies and make contact as quickly as possible
- Step 6: Evaluation of entire action for further campaigns
- Step 7: Cultivation of sponsors
- Step 8: Further revised measures taking experience into consideration

## 5. Fundraising

Fundraising has quickly gained significance recently in the non-profit sector. However, it usually remains unclear as to how this term is to be interpreted from the financing perspective. Fundraising as a form of financing can be defined as "obtaining or acquiring donations for a good purpose". This definition of the term has been limited intentionally and is aimed at one decisive point. Donators are individuals and/or economic or social societies who want to support what they perceive as a good purpose and do not expect any direct benefit. An Organisation should decide whether it wants to become active in this area. If it decides in favour of fundraising, the following notes should be taken into consideration

The process of fundraising is considered below. A fundraising management process can be subdivided into nine steps:

- Step 1: Analysis of momentary situation
- Step 2: Definition of target group
- Step 3: Obtaining addresses for acquiring donators
- Step 4: Formulation of request letter
- Step 5: Compilation of mailing elements
- Step 6: Organisation of printing and mailing
- Step 7: Return and letter of thanks
- Step 8: Evaluation of results and planning of further campaigns
- Step 9: Cultivation of donators

In defining the target group, it should be taken into consideration that the persons or institutions addressed have some relationship to the objectives of the Organisation. In addition, an interest of the work of the Organisation should be present just as well as the financial capability of raising a certain sum.

There are highly differing methods for obtaining the addresses for acquiring donators. On the one hand, addresses can be purchased from professional address agencies. On the other, the Organisation can perform its own search in telephone books, address files, trade registers and member lists of associated clubs and Organisations.

Unfortunately, there is no patented method for laying out and formulating the letter of request; the contents are too highly dependent on the attitude of the receiver. In Step 5, value should be placed on consolidating the mailing elements. The mailing elements include the envelope, the letter of request and a payment form. A reply card should also be included.

Printing and mailing can be organised by a direct marketing corporation or address publisher. However, this requires some financial funds so that costs can be saved by the Organisation accomplishing this itself.

In Step 7, it is necessary to process the returns and send letters of thanks. Immediate reaction to a donation is one of the most important principles of donation marketing: The telephone is being used for this purpose to an increasing extent. The donator should not have to wait long for a personal letter of thanks and a receipt for the donation should be included if at all possible. This provides a direct reference as material and immaterial consideration for the donation.

When evaluating the results, evaluation of the fundraising activity should be accomplished at the same time. A critical review helps to perceive opportunities for improvement as such and take measures for increasing the efficiency and effectivity of the fundraising. Evaluation should be

accomplished in a constructive atmosphere emphasising the common objectives. From the financing point of view, the central values for evaluation is a check of the relationship between the funds spent (fundraising costs) and donations received.

Evaluation of the fundraising effect is based on a simple principle: The donations received are compared directly to costs incurred and the efficiency or effectivity determined. The following table contains an example with figures:

**Table 5: Example of calculation for fundraising effect**

<b>FUNDRAISING</b>		
	<b>NPO A</b>	<b>NPO B</b>
Donations received	400,000 GE	600,000 GE
Fundraising costs	100,000 GE	200,000 GE
Effectivity	300,000 GE	400,000 GE
Efficiency (costs)	0.25 / MU donated	0.33 / MU donated

(GE = Monetary unit)

In this example, NPO A was not as effective in its fundraising work as NPO B, however NPO A was more efficient than NPO B. Each donated monetary unit cost NPO A only 0.25 MU and therefore merely 0.08 MU less than NPO B:

In direct comparison between two NPO's, it is quickly clear, which operates more efficiently/effective in the area of donation acquisition. Moreover, lists are helpful which offer a measuring rod for evaluation of the relationship between costs and donations received on the basis of experience. After evaluation of the campaign is completed, it can be seen to what extent additional campaigns should be performed. Here, the time aspect must also be taken into consideration.

Cultivation of the donators should also be given consideration in a further step. Although the donators themselves were not promised any benefit for their financial support, we should still give them consideration by certain actions. This includes a card at Christmas or on birthdays or invitations to our open house or other events. Donators should recognise that they appreciate particular esteem.

**Appendix No. 1: NPO financial plan summary**

	<b>Month 1</b>			<b>Month 2</b>			<b>Month 3</b>		
	Decade			Decade			Decade		
	1.	2.	3.	1.	2.	3.	1.	2.	3.
Current income	50	50	120	350	320	350	300	300	250
-Current expenditures	50	50	50	60	60	60	60	80	80
- Investments	-	-	-	-	900	-	400	-	-
Productive balance	0	0	70	290	-640	290	-160	220	170
-Loan amortisation	60	-	-	60	-	-	100	100	-
+ New loans	-	-	-	-	300	-	-	-	-
- Interest	-	-	40	-	-	80	-	-	110
- Taxes	-	-	-	-	30	-	-	-	-
<b>Surplus income</b>	<b>-60</b>	<b>0</b>	<b>30</b>	<b>230</b>	<b>-370</b>	<b>210</b>	<b>-260</b>	<b>120</b>	<b>60</b>

**Appendix No. 2: Example of check list for future courses**

		<b>Computer</b>		<b>Commercial courses</b>	
		<b>Word 2000</b>	<b>PowerPoint</b>	<b>Accounting</b>	<b>Marketing</b>
<b>Own analysis</b>	Availability of teachers				
	Equipment (software, hardware, rooms, etc.)				
	Required investment				
	Suitable concept				
	Compatibility with mission				
	Special qualifications				
<b>Competitor analysis</b>	Competition situation				
	Expectations for future development				
	Degree of familiarity of competitors				
	Quality standards of competitors				
	Barriers to membership				
	Competitors' equipment				

## Appendix No. 3 -

**Questionnaire for Member Data**

Please return to:

&lt;Name of our Organisation&gt;

&lt;Street&gt;

&lt;City&gt;

&lt;Telephone/fax&gt;

**I. Basic company data**

1. Name: \_\_\_\_\_
2. Address: \_\_\_\_\_
3. Telephone/fax: \_\_\_\_\_
4. Legal form: \_\_\_\_\_
5. Year founded: \_\_\_\_\_
6. Today's date: \_\_\_\_\_

**II. Contact persons**

Name	Position	Telephone	Languages
1. _____			
2. _____			
3. _____			

**III. Spectrum of goods and services**

- Production, primarily of
1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
- Commerce, primarily with:
1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
- Services, primarily:
1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_

**IV. Size of company**

- 1 – 2 Employees
- 3 – 4 Employees
- 5 – 9 Employees
- 10 – 19 Employees
- > 20 Employees



- Appendix No. 4 -

Name of our Organisation

Name of signer

Street

City

Telephone/fax

Name of member company

Name of manager/director

Street

City

Location, date

Dear Mr. <Name of manager/director>,

You're made a good decision yesterday: You have become a member of <Name of our Organisation>!

To ensure that you receive the optimum benefit from your membership we request you to take approximately 15 minute to fill out the enclosed questionnaire and return or fax it back to us.

- With this data on your company (I – V) we can recognise which of our events and services are interesting for you. You will then receive appropriate invitations and announcements!
- If you inform us of your expectations (VI) we will be able to better co-ordinate our work to your desires and requirements..

We thank you for your co-operation and are at your disposal for personal informative discussions. Looking forward to successful co-operation we remain

Regards

NAME OF OUR ORGANISATION

<Signature>

Name of signer

<Name of our Organisation>

## Open House on 15 October 2001

1. What is your impression of <Name of our Organisation>?

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2. How did you like our open house in terms of

- the content

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---

---

- the practical implementability in everyday work

---

---

- the Organisation

---

---

---

3. Do you require additional information?

YES

NO

Please advise us when we can contact you to intensify the discussions?

\_\_\_\_\_  
Day

\_\_\_\_\_  
Month

2001  
Year

**THANK YOU FOR YOUR VISIT!**

## Calculation of course costs

<i>Cost summary</i>				<i>Individual costs</i>	<i>Total</i>
1	Labour costs (gross)	Employees 1 Employees 2 Employees 3 Employees 4	Hours Hours Hours Hours		
2	Material costs	Photo copies Invitations Event folder Paper Pens/pencils Other			
3	Travel costs	Taxi Passenger car	km km		
4	Communication	Telephone Fax E-Mail Internet			
5	Postal costs	Letters Registered mail			
6	Room rent		Hours		
7	Entertainment	Working time Meals Beverages			
8	Technical costs	PC Overhead projector Flip chart Blackboard TV Video Other			
9	Teachers	Fees Hotel Transport			
10	Subtotal				
11	Common costs	10 %			
<b>12</b>	<b>Grand total</b>				