Financial Strategy

A guide for nonprofit organizations

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Our organization can only operate successfully and sustainably in the long term if we can align our professional goals with our available financial resources. The main purpose of our financial strategy is to enable the financial feasibility of our professional strategy. It serves as both an internal compass and an external document that we can share with our strategic partners and key supporters.

The role of financial strategy

In the internal functioning of the organization:

- **Compass:** clearly shows the financial direction we want to follow, thus facilitating the focused and conscious use of resources.
- **Reference point:** defines the milestones of implementation, thus helping to monitor and measure where we are in relation to the set goals.
- It **prepares you** for uncertainties and unfavorable developments of external factors.

Towards the world around us, a good financial strategy signals the organization's preparedness and conscious planning, thus **increasing the credibility of our organization** and the trust of our supporters.

Purpose of financial strategy

We can view the financial strategy as a framework and set of long-term, comprehensive financial plans for our organization. Its purpose is twofold:

- It defines **the financial conditions of our professional strategy**. That is, what do we need to achieve financially in order to ensure the implementation of the activities, organizational growth, and developments planned for the strategic cycle.
- It describes the how, that is, what **financial principles and frameworks** our organization will abide by operationally, what our main financial activities and processes will be.

Financial management or strategy?

Financial management encompasses the financial tasks necessary for day-to-day operations. Financial strategy, on the other hand, sets the long-term direction.

Financial management	Financial strategy
Short term: fiscal year, cycle.	Long term: several years, entire strategic cycle.
Detailed budget and cash flow plan.	Main revenue and cost directions.
Ensuring everyday operations: use of current support, control of costs.	Long term goals and sustainability: planning and setting stable revenue sources, spending priorities, and reserves.
Operational-technical implementation in accordance with the framework of the organization.	Fundamentals and frameworks.
Reacts and adapts quickly.	Stable, only reviewed periodically.
Supports internal operations.	Can be seen by a wider range of stakeholders (supporters, strategic partners).

Main elements of financial strategy

Our financial strategy should include the following points, while of course taking into account the specifics of our organization.

1. Principals and frameworks

...which are set by strategic decision makers. These may stem from our values, our organizational culture, or other relevant parts of our strategy. All further aspects of our financial strategy and our expectations and decisions related to financial management will be based on these principles and frameworks.

- Financial principles can include: transparency, accountability, sustainability, feasibility, risk minimization, etc.
- Basic expectations for financial management can be: responsible management, traceability of money, flexibility, cost-effectiveness, etc.

2. Financial goals

...which are formulated as a “translation” of strategic goals. These can be both qualitative and quantitative goals.

Qualitative goals

Building a reserve fund
Diversifying revenue structure
Establishing stable financial sources

Quantitative goals

Identifying key numbers and ratios for revenue and expenses
Quantifying planned growth

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Defining **cost priorities**: in the financial strategy, we record the main cost elements of programs, projects, and activities suitable for achieving our strategic goals, i.e. the areas where we would like to primarily concentrate our resources.

3. Main financial activities and processes

In the financial strategy, we should not detail the operational tasks as these are related to annual planning and financial management! At the same time, we should record the main processes that enables our organization’s ability to plan and stabilize finances and financial processes, such as:

- Annual financial planning and budgeting: when and how to do it.
- Monitoring and controlling: elements of regular reporting and control (for example: reports, inventories, audits).

4. Roles and responsibilities

Without clear responsibilities, our financial system cannot function stably; therefore, we must determine the responsibilities and tasks of the main professionals in relation to the processes.

- **Responsibilities**: for each professional, we must determine what they are responsible for in terms of planning, executing, approving, and accounting.
- **Financial management**: we need to designate who will perform the tasks of the financial manager: whether that be a financial manager, a financial team, or another manager (for example, the CEO); what tasks and responsibilities will belong to the financial manager.
- **Other internal stakeholders**: we need to record what financial responsibilities the professional leader(s), representative leaders, project managers, etc. will have: for example, who will be responsible for ensuring that our plan is realistic and feasible.
- **External actors**: we should also record which external partners will participate in our processes (for example: accountant, auditor, experts, etc.), how we will keep in touch with them, and what their tasks will be.

5. Risk analysis and scenario planning

Every organization, to varying degrees, is exposed to **external factors** over which it has no influence. For example, it depends on the results of grant applications, donor habits, and the broader economic environment. Therefore, it is essential to identify the external factors that may pose a risk to us and plan **how we can respond to them**. The goal of risk analysis and scenario planning is not to avoid all unexpected situations, but to ensure that our organization is prepared and able to respond quickly if the financial environment changes.

Developing a financial strategy

Since our professional goals guide the definition of financial goals, we prepare the financial strategy following and in close connection with the professional strategy. It is important that financial planning (neither short-term nor long-term) **does not limit our professional plans, but at the same time provides a realistic framework for their implementation**.

The main steps of the development process:

A Starting point - where are we now?

I. Let's review the organization's current financial situation! What are the current revenues and expenses of our organization, how much reserve do we have, and how stable are our existing resources?

II. Let's review the current financial operations: what processes do we have, what are the main aspects in their development (regularity, cost-effectiveness, speed, etc.), who participates in them, how do we plan, how do we monitor the implementation of the plan, how do we monitor the use of our resources?

B Establishing, strengthening or redefining principles and frameworks

(see above, point 1)

C Setting goals

Mapping our professional goals and translating our strategic goals into financial goals. What are the long-term financial conditions of planned activities, programs, and projects.

I. Long-term financial goals (for example: building reserves, diversifying the revenue structure), identifying key revenue and expense figures, and determining cost priorities.

II. Operational goals: what are the principles we need to develop financial operations, what are our basic expectations that we should strive for in terms of financial management (transparency, clear responsibilities, risk minimization, flexibility, etc.)?

D Operational conditions

I. What basic financial activities will we perform (for example: annual planning, monitoring, audits and controls, financial management tasks, etc.)? *(see above, point 3)*

II. What external and internal actors will we involve, and who will have what responsibility in these processes? *(see above, point 4)*

E Risks and scenarios

What alternative goals and scenarios do we have in case the external environment turns unfavorable?

- Map out potential financial risks (e.g.: missing grant funding, inflation, unexpected expenses)!
- Estimate the likelihood and impact of the risks.
- Determine which areas of the organization are most sensitive.
- Create alternative scenarios for different situations ("What if we do not win the grant?", "What if our costs increase by 20%?").

+ Implementation and monitoring

The financial manager is responsible for implementing the financial strategy, in cooperation with the professional and representative leaders. Just like our professional strategy, the financial strategy should be monitored at regular intervals (approximately every six months). If there is a significant change in our professional strategy, of course, the financial strategy should also be changed accordingly.

Practical tips for creating a financial strategy

- **Start simple** – a simple strategy is much better than no strategy at all. If we come back to it from time to time, we can continue to improve it.
- **Let's stay at the strategic level** – the purpose of the strategy is to provide guidance, so try not to cram every detail into it! Collect technical details and operational ideas that emerge during the strategy creation so that we can later write them into the appropriate action plan or policy.
- **Rely on data** – past financial statements and trends help you set realistic goals.
- **Make it measurable** – try to quantify your goals so you can measure your progress. For example: diversify your income sources → no single source of income should exceed 30% of your total income.
- **Communicate** – it is worth creating a condensed version of the completed strategy, which can be presented to strategic partners and supporters if necessary.