BOSTROM
SOLUTIONS
FOR ASSOCIATION PROFESSIONALS AND VOLUNTEERS

BOSTROM'S SOLUTIONS

Solutions, Bostrom Corporation's newsletter for association professionals and volunteers, provides leading-edge thinking on the trends, issues, and opportunities facing associations. Each of the featured articles draws on Bostrom's 70-year history of advising professionals on how to lead and manage successful associations.

ISSUE TWO

Sarbanes-Oxley Act	1
Outsourcing IT Programs	1
Strategic Management	2
Giving to Foundations	4
Member Lifetime Value	5
Don't Manage by E-mail	7

BOSTROM

For more information about Bostrom or any of the topics discussed in this newsletter, please contact us at:

230 East Ohio Street, Suite 400
Chicago, IL 60611-3265
Tel: 312.644.0828
Fax: 312.644.8557

1444 I Street NW, Suite 700
Washington DC 20005-6542
Tel: 202.216.9623
Fax: 202.216.9646

solutions@bostrom.com
www.bostrom.com

BOSTROM
CONSULTING ■ OUTSOURCING ■ MANAGEMENT

'Sarbanes-Oxley Act' Raises the Bar for Not-For-Profits

By John Dee

At first glance, The Sarbanes-Oxley Act passed by Congress in 2002 only affects publicly-traded companies. It establishes measures to help restore the public's confidence in corporate financial reporting and compliance with applicable laws and regulations. It also holds corporate officers personally accountable for their representation of the corporation to the outside world.

Closer study, however, reveals that The Sarbanes-Oxley Act is also having an effect on private companies and not-for-profits, and that forward looking associations are using the legislation as an opportunity to improve their organizations and become even more responsive to member needs.

See "Sarbanes-Oxley Act", page 6

Keys to Developing a Successful IT Outsourcing Relationship

By Chris McKeachie

Outsourcing projects with significant information technology (IT) components allows you to focus your energies and resources on your core competencies and strategic business goals. It can also enable you to gain access to technology and technical staff that your association might not be able to attract or afford on its own, and reduce the costs and risks associated with keeping up with the latest technological advances.

As with all outsourcing, you need to perform due diligence on potential partners and check references. In addition, gaining a thorough understanding of what you are purchasing, and obtaining as much detail as possible in writing before you sign a contract, are also key to a successful outsourcing partnership.

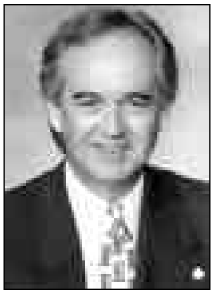
Beyond these general due diligence efforts, there are actions specific to IT outsourcing that you can take to further ensure the success of your project.

SIX GUIDELINES FOR IT OUTSOURCING

1. Expect relevant experience. Choose an outsource partner with staff that has successful and relevant experience to your project. Make sure the partner allows you to meet those individuals and you have assurances they will be heavily involved in designing and providing the services you receive. Technology people are usually good problem solvers; but technology people with experience in your outsource area will know how to steer clear of problems.

See "Successful IT Outsourcing", page 8

Association Directions—
The Importance of Strategic Management



By Ken Monroe

In the last issue of *Solutions*, I discussed the need for strong leadership if an organization is going to adapt to and benefit from change. In fact, there are three ways in which leaders play a critically important role in 'change management.'

First, leaders have to communicate to all stakeholders, both internally and externally, that change is welcome; that it provides opportunities for growth and leads to new value-added services that attract and retain members. Second, leaders have to demonstrate that the organization's response to change is dynamic; that the organization has to constantly anticipate change and think of ways to take advantage of it. And third, leaders have to show a track record of adapting their organizations to change; to reshape, restructure and create new organizational 'footprints' that are responsive to change.

So if the process of leading change is so critical to the success of an organization, how can the process be conducted so that it most effectively utilizes the time and talents of the board and staff? How can it create the best outcomes and benefits for members? The answer lies in an enhanced approach to planning that we call strategic management.

In contrast to strategic planning, which is more "event oriented," strategic management starts with a plan but then puts special emphasis on managing, monitoring and enhancing the plan throughout the entire year. As an ongoing process, it easily incorporates change and ties back all organizational decisions to it. Thus, through strategic management, the plan becomes a living document and part of the fabric of the organization.

Because of its "living" nature, strategic management is also far more inclusive than strategic planning. While strategic planning typically involves board members and staff leadership for a one or two-day planning meeting, strategic management involves everyone in the association—board and staff alike—throughout the year.

And unlike strategic planning, which represents a process and set of tasks, strategic management is based on translating already existing decision processes in order to make planning more focused and results oriented.

TEAMWORK IS KEY

Strategic management involves five overlapping phases throughout the year—some of which are board driven and some of which are staff driven. But while the board or the staff takes the lead in different phases of the process, it's key to note that a teamwork approach is critical to the process.

Everyone involved in the process (board and staff members) brings valuable thinking to the effort, based on their unique skills, knowledge and experience. Therefore we need to be flexible in deciding who from the board and staff will serve on the teams involved in the various phases of the process. When a teamwork approach is utilized in planning, you're more likely to capture the best ideas about the environment, your mission, and the strategies and tactics that are needed to provide the best overall value to your members.

An understanding of the difference between the roles of leadership and management, and how to balance responsibilities between the two roles, is also key to achieving maximum effectiveness within the organization. A good discussion of this important topic is presented in a related article, "Role Definitions: Leading vs. Managing," *Solutions* newsletter, Issue One.

DYNAMIC AND ONGOING

The five phases of strategic management are summarized below. The first year the new approach is used, the team spends more time on establishing a mission, objectives and strategies. The second year of the process (and beyond), the team is able to focus more on the changing environment and how they should adapt and implement the plan to make change work for the benefit of the organization and to better respond to members' needs.

1. Planning goals and preliminary research. In this first phase, which is driven by the board, the board-staff team sets preliminary goals and objectives for planning, conducts research to determine competencies, threats and needs, and

FIGURE 1—STRATEGIC MANAGEMENT

Strategic Planning	Strategic Management
Discrete activity.................	Ongoing process
Fixed point in time.............	Dynamic; incorporates change
Board focused	Involves entire association
Emphasis on goals and intent	Emphasis on results

performs an environmental scan. The team also develops an outline for the planning session.

2. Preliminary strategic direction. In this second board-driven phase, a team participates in a strategic planning session to review the preliminary research (competencies, needs, trends, etc.) and to set the association's vision and mission. Goals and objectives are agreed upon; strategic alternatives are created; success criteria are defined.

3. Strategic action plan. This is the first of two staff-driven phases. In this phase, tactics that are needed to implement the strategies are developed (i.e., action steps, responsibilities, costs, timing). The action plan is reviewed with the board and a plan summary is developed and communicated to the board and all staff.

4. Implement, manage, monitor plan. In this second staff-driven phase, resources and commitment to the plan are secured and the plan is implemented. The plan and performance are then tracked on a predetermined basis (i.e., accomplishments, problems, opportunities, etc.). Progress is reviewed with the board; concerns are addressed; the plan is revised as necessary. Links are also made between plan performance and individual performance.

5. Evaluate and enhance plan. This final phase is usually board driven and includes an annual review and update of the plan. Plan assumptions are challenged; the plan is evaluated and enhanced based upon new inputs received from the evaluation.

SUMMARY

Strategic management takes strategic planning to the 'next level of effectiveness' in enabling associations to adapt to change and respond to members' needs. It captures the upfront thinking that's necessary for creating a mission, objectives and strategic alternatives, and then puts strong emphasis on the ongoing process that manages, monitors and enhances the plan to deliver measurable results. Very importantly, this dynamic process of strategic management:

- Allows the organization to incorporate change throughout the year;
- Utilizes a teamwork approach that capitalizes on the 'best thinking' from across the organization; and
- Ensures that the organization is relating all of its actions and decisions back to the plan.

Ken Monroe is the President and Chief Executive Officer of Bostrom Corporation.

From One of Our Strategic Partners:
Focusing on Individual Giving

By Edith Falk

As discussed in the accompanying sidebar story, Annual Report on Philanthropy, individual giving represents a whopping 83.8% of all giving and is the sector where association foundations should focus their fundraising energies. But even though giving increased by .7% in that sector in 2002, it is important to note that the number of nonprofit organizations increased by 5.14% in the same period. Given a tough economy and intense competition from more nonprofits than ever before, how can we best position our association foundations to effectively maintain and increase contributions, particularly individual contributions?

LISTEN AND LEARN

The data shows that donors are continuing to give, but there are many more causes vying for their attention. It has never been more important to understand what drives them now. We need to listen to donors, especially major donors, many of whom have been living with uncertainty as their assets have eroded. Now is not the time to cut travel budgets. We must get out and meet with these donors, listen to what they have to say and figure out what motivates them to give. These efforts should not be limited only to the largest contributors, however. One organization's mid-level donor is surely another organization's major gift prospect. We need to ensure the loyalty of those mid-level individuals and work toward moving them up to the next tier of giving.

Listening to donors and understanding what is important to them is a key step toward focusing donor communications.Frequently, communications are too broad in their appeal to specific donor interests. An efficient alternative may be more targeted donor newsletters, and more focused communication via e-mail. It's key to stay in touch and help donors feel as if they are among an organization's valued stakeholders.

COMMUNICATE A STRONG CASE FOR SUPPORT

A clear and concise case for support is a foundation's greatest tool for effective fundraising, so reviewing your association's case for support frequently is critical, as well. Is the case as sharp as it can be? Does it clearly differentiate the association from others in the same space?

ANNUAL REPORT ON PHILANTHROPY

Earlier this summer, the AAFRC Trust for Philanthropy released Giving USA 2003—The Annual Report on Philanthropy for the year ending December 31, 2002. With all things considered, the news was good! Despite difficult economic conditions and other uncertainties, total charitable giving reached new levels at an estimated $240.92 billion in 2002. This growth of 1% in current dollars over the prior year is a testament to the strength of philanthropy in the US and demonstrates that, even in challenging times, donors will still support the causes that are important to them.

Corporate giving showed the greatest increase over 2001 levels at 10.5%, encouraging news considering a three-year decline in financial markets. The news on foundation giving was not as positive, unfortunately, with giving from that sector actually declining by 1.2%. In the broader context of overall philanthropy in the US, however, the sector that is most important to focus on is individual giving. This vital sector overshadows corporate and foundation contributions and represents a whopping 83.8% of all giving when bequests are taken into account. In total, individual giving increased .7%.

EXPAND THE GIVING MENU

With a dramatic decrease in gifts of appreciated securities, it's a good time to reevaluate and broaden giving options beyond cash and gifts of appreciated investments. Engaging donors in conversations about their long-term goals, objectives, plans and priorities will allow for tailoring the gift mechanism to the donor's needs. Refocusing planned giving efforts to be "top down" as well as "bottom up" and providing options to multi-year campaign commitments (i.e., single year or shorter term commitments, deferred gifts, etc.) may also prove to be effective strategies in today's uncertain environment.

Annual giving is actually up in many organizations, so analyzing annual giving programs vis-à-vis "best practices" and finding cost-effective ways to expand the base of support and upgrade lower-level donors is another timely strategy. A strengthened case for support will provide the basis for making the most effective "ask" when crafting annual giving appeals.

WORK EFFICIENTLY AND ENHANCE STAFF RETENTION

Finally, it has never been more important to work smart. Take the time to analyze the cost effectiveness of the various aspects of your development program, particularly in terms of the investment in staff resources. Are you spending your time and budget on those activities that promise the highest return on that investment? Focus on retaining good people by evaluating what can be done to reduce the level of staff turnover among professional development officers. Is poor staff retention a function of what development professionals are being asked to spend their time on? Would they find their work more fulfilling if they could spend more time with donors and prospects and would that not be in the best interest of the organization for them to do so?

SUMMARY

Today's philanthropic environment requires that organizations work more effectively than ever to advance their missions. Next year's Annual Report on Philanthropy will surely demonstrate, once again, that giving is driven by individuals. Will your association's foundation be among those getting their fair share of the giving pie?

Edith Falk, CFRE is the President of Campbell & Company (www.campbellcompany.com) and served as Chair of the Editorial Review Board for Giving USA 2003.

Something to Talk About: Member Lifetime Value (MLV)

IS IT TIME FOR ASSOCIATIONS TO START THINKING ABOUT MLV?

For-profit organizations have been working with CLV, or "customer lifetime value" for years. They use sophisticated software programs to track and measure the spending patterns of their customers. With this information, they determine the present value of the likely future income stream generated by individual customers. This allows for more targeted marketing efforts and increases the overall effectiveness of such efforts.

Do you know the value of your individual members? You might be surprised at what some associations are doing today to track the "value of their members." One national financial trade association, for example, annually tracks the value of each of its members. The metrics they track include spending on association materials, attendance at association meetings and conferences, participation on committees and contributions to the association foundation.

While metrics will vary by association and what is important to each, the purpose of MLV is universal. MLV enables associations to better meet member needs by tracking membership value and then crafting programs that target select segments.

THE EFFECT ON NOT-FOR-PROFITS

While the Act specifically targets publicly-traded companies, attorneys and advisors are recommending to their clients in the private and not-for-profit sectors that they comply with Sarbanes-Oxley. In fact, a recent survey by Robert Half Management Services found that nearly 60 percent of CFOs in privately-held companies are already implementing new procedures based on Sarbanes-Oxley regulations.

Why the rush to comply with legislation that doesn't even target you? Good business sense, that's why.

In the year since the legislation was passed, compliance with Sarbanes-Oxley has become viewed as "best practice." Not-for-profit board members are reasoning, "If that level of transparency and scrutiny of financial statements is expected in the corporate world, then it should be standard operating procedure in the private and not-for-profit sectors as well."

There's even some thought that states will begin to pass similar legislation focused on not-for-profits. Associations that make an effort today to improve the transparency of financial reporting and demonstrate compliance with applicable regulations will find it easier to comply with possible new state laws in the future.

AREAS OF IMPACT

Compliance with Sarbanes-Oxley involves five areas within an association. A brief description of each follows.

Internal controls

Controls are actually a process affected by an organization's board of directors and management to provide reasonable assurance that objectives are being achieved in the efficiency and effectiveness of operations, reliability of financial reporting, and compliance with laws and regulations.* Management must document and monitor the internal controls and procedures, and provide for independent review and auditor attestation on a periodic basis.

Associations that are too small to develop their own set of controls and procedures can work with a third party, such as an association management company, to obtain pre-developed internal controls. The third party should itself be accredited to demonstrate its qualifications. Both the American Society of Association Executives (ASAE) and the International Association of Association Management Companies (IAAMC) offer accreditation programs for association management companies.

Auditor independence

Conflict is avoided by prohibiting an auditor from performing non-audit services for the association (i.e., bookkeeping, IT design and implementation, etc.) Further, the audit firm partner serving the association should be rotated every five years and should report directly to the audit committee of the board. This level of independence can be expensive for an association—both in dollars and in lost advice from an auditor who also serves as an advisor.

Audit committee

The board's audit committee serves as the primary contact with the auditor, and may not include members of the association's management. To maintain its integrity, it must include at least one "financial expert" and none of its members can be compensated by the association for activities outside of the scope of the committee (e.g., banker used by the association.) For added insurance, audit committees may choose to seek their "financial expert" from outside the association's membership.

CEO and CFO Certification

In addition to making sure the association's internal controls are being implemented and monitored, officers also make sure violations are reported to the auditor and the audit committee. Officers also review the annual report and certify that it contains no material misstatements or omissions.

Disclosure

Sarbanes-Oxley requires that material changes to the financial position of a publicly-traded company must be disclosed to the shareholders on a "rapid and current basis." While disclosure is less of an issue in the private and not-for-profit sectors, it presents an opportunity for an association by decreasing the risk of material operational and financial problems. It also underscores the need for a code of ethics for officers and the importance of real-time information systems. In the absence of shareholders, an association has to decide which stakeholders it is disclosing to—board of directors, audit committee, membership?

SUMMARY

Compliance with The Sarbanes-Oxley Act is quickly becoming a 'best practice' in the not-for-profit sector. Many associations are using compliance as a method of improving their organizations and becoming even more responsive to their members' needs.

Active support for compliance is coming from board members who work for publicly-traded companies. They view compliance as standard operating procedure and are supportive of the changes needed for independent review of internal controls, auditor and audit committee independence, and disclosure.

John Dee, CPA is the Chief Financial Officer and General Manager of Bostrom Corporation.

FOOTNOTE

* Committee of Sponsoring Organizations of the Treadway Commission.

TIPS FOR STAYING ON TOP

SENDING THE WRONG MESSAGE: MANAGING BY E-MAIL

"Virtual" management is becoming rampant. According to a recent survey conducted by Accountemps, 92% of executives feel their managers are sending e-mails rather than meeting one-on-one; 67% of the executives said they are using e-mail as a substitute for face-to-face conversation. Is it a trend? Is it being lazy? Or is it cowardly?

Some feel managing-by-keyboard is the same as hiding your head in the sand. Here's three reasons they cite to support their claim.

1. It's incomplete communication. Without being able to register gestures, facial expression, and voice inflection—or engaging in a real-time exchange—employees can only guess at whether the boss is furious or expressing encouragement. What's the safe thing for the employee to do? Instead of responding openly and candidly, they send a censored response back via e-mail like: "OK—will do."
2. CC efficiency is an illusion. Instead of limiting CC lists to those who really need to know, many bosses CC everyone. The boss's e-mails are read like tea leaves, studied to figure out who's up and who's down in the organization. Instead of accelerating communication, CC lists slow everything down—especially when the CC'd employees feel compelled to respond to the boss's e-mail. Many times, a quick conference call or meeting is more effective for everyone involved!
3. E-mail can't do your job. The most important job managers have is coaching employees, and that can't be done with an "e-mail muzzle" clamped over your face. There's no substitute for human contact when you want to get people motivated. Conversely, you can't duck confrontation and unpleasant conversations forever.

More than 50% of the respondents to a Yahoo survey of e-mail users said they struggle to interpret the meaning of personal e-mails. If even a quarter of your employees have the same difficulty, it's too many.

So next time you find yourself coaching employees with your keyboard, do them a favor—change the subject line to: "Let's talk."

Source: *Fortune Small Business*

2. Know the impact on other systems. Understand how a technology-related outsource will impact other systems and staff and plan for any ramifications. For example, outsourcing hardcopy membership directory update and production is common; coordination of address changes between the group managing the directory update and the membership department requires thoughtful coordination.
3. Determine if customization is required. You need to know if significant customization of any software used or supplied by the partner will be required; then find out how much the customizations are likely to preclude upgrading of that software over time. Software solutions are developed on constantly evolving platforms provided by Microsoft, Oracle, IBM, etc. or, your particular implementation may be a modified version of a commercially available or off-the-shelf application software package.

   The above guideline is of particular interest if you expect the relationship with the partner to be long term. Over the long run, the partner may not be able to provide upgrade benefits of the underlying platform or application without significant additional expenditures by your organization, or may have trouble making further modifications as your organizational needs grow.
4. Evaluate where the technology platform is in its life cycle. It's important to evaluate the technology platform that underlies the solution being provided: is it potentially too near the beginning or the end of its life cycle? For example, a solid product heavily relying upon client/server technology tools developed in the 1990's might not be as adaptable to producing web browser-based applications.
5. Leave time to test the solution. Make sure the partner has a plan for testing your solution and that they follow the plan before the "go live" date or before formal acceptance by your organization. Testing and documentation are always the casualties of a slipping project schedule, but they have a big impact on the long-term success or failure of the project.
6. Begin with a clear requirements document. Manage your implementation risk by beginning with a clear requirements document. Don't surprise your potential partner with "requirements creep" as the relationship develops. Providing a partner with as much information as possible about the details of the work will allow them to right-size the outsource and avoid either asking for funds due to scope creep or shortchanging other areas in order to stretch the budget to cover previously unidentified requirements.

Two ways to get a clear requirements document are to hire an outside consultant or to pay your existing partner to produce one.

An outside consultant is best used to develop a requirements document or request for proposal, and assist you with contract development. This is especially important when you don't have the staff resources to spare or you don't have a technical expert on staff. Consider it 'success insurance' for the project and consider the organizational budget ramifications if the project should fail. You should also be prepared to keep that consultant involved as a liaison and your project manager if the scope of the project is large.

If you have a partner you are comfortable with, and the internal staff resources to devote to the project, you can use the partner to develop a phased approach that produces a project plan, including extensive process and solution prototypes that can be tied to the contract. This will lead to more accurate delivery dates as well as identification of opportunities and problems that would otherwise have been difficult to foresee. If you structure your agreement properly, your organization will be at risk for only a portion of the overall contract value if during this preliminary process you determine the partner's solution will not effectively address your goals.

SUMMARY

The benefits of IT outsourcing, which include an improved focus on core competencies, access to better technology and expertise, and reduced long-term costs, will be fully realized when careful due diligence of the partner and a solid understanding of what you are purchasing are obtained before you sign a contract. Then, the six guidelines for forming an IT outsourcing partnership can be considered to help you select the most experienced partner and make sure the technical solution you select is the most appropriate to your organization and its needs.

Chris McKeachie is the Vice President and Chief Information Officer of Bostrom Corporation.