Financial Planning and Re-imagining the People's Function

Change Management and Financial Management

Learning Deck for Day 2

Supported By:

EdelGive Foundation
An Edelweiss Initiative

Facilitated By:

SOCIAL LENS

Change Management

Understanding change management

"As a Systematic Process change management is the formal process for organizational change, including a systematic approach and application of knowledge. Change management means defining and adopting corporate strategies, structures, procedures, and technologies to deal with change stemming from internal and external conditions."

- Society for Human Resources Management, 2007 Change Management Survey Report 5

"As a Means of Transitioning People Change management is a critical part of any project that leads, manages, and enables people to accept new processes, technologies, systems, structures, and values. It is the set of activities that helps people transition from their present way of working to the desired way of working."

- Lambeth Change Management Team, Change Management Toolkit

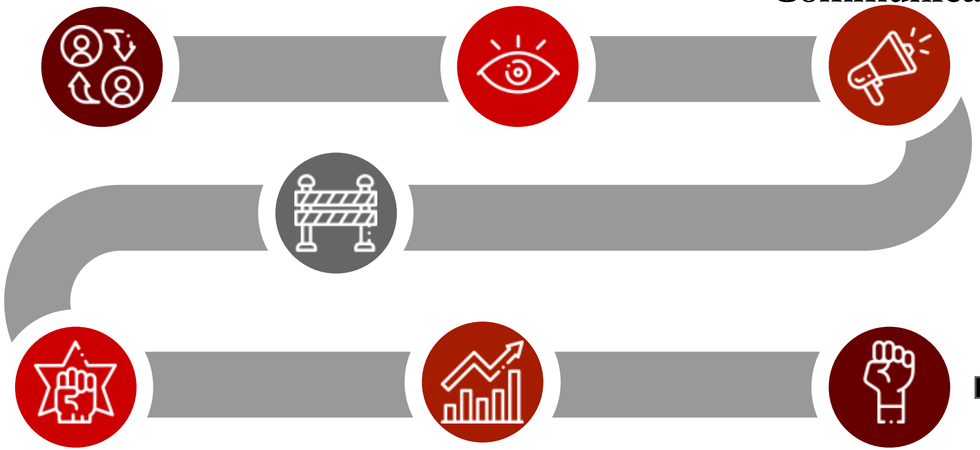
Effective Change Management

30% of organizational change initiatives are **successful**

01
Case for Change

02
Compelling Vision

03
Communication



04
Manage Barriers

05
Manage Resistance

06
Show progress

07
Reinforcement

→ Effective Change Management

Changes an Organisation might have to consider

- Change in organizational leadership - the CEO, president, or executive director;
- Change in board leadership due to term limits;
- Change in employee/volunteer leadership at the ground level as they move from one opportunity to another;
- Change in how employees/volunteers themselves see their roles in the organization;
- The need to make changes in "**the way we do things**" to avoid institutional inertia and dry rot.

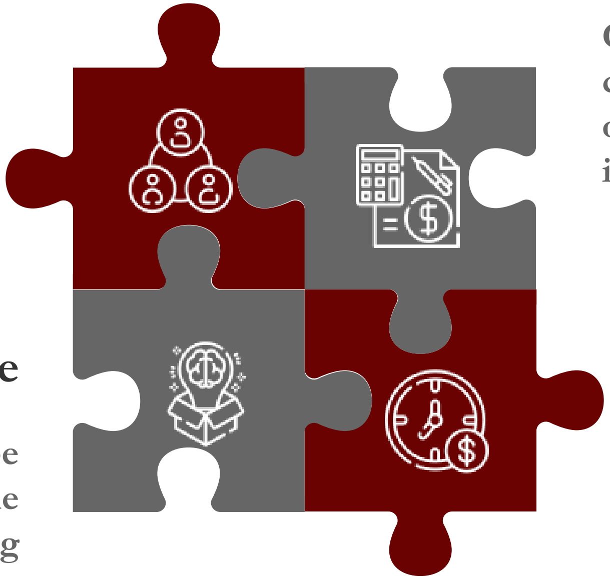
Possible concerns with respect to Change Management

Loss of senior team members

Senior members may not align with the shifts the organisation is making, or they might not like the implications of the changes

Increased project costs

Change management is expensive. It costs much more than what you would otherwise spend on your project when it's in business-as-usual mode.



Learning from failure

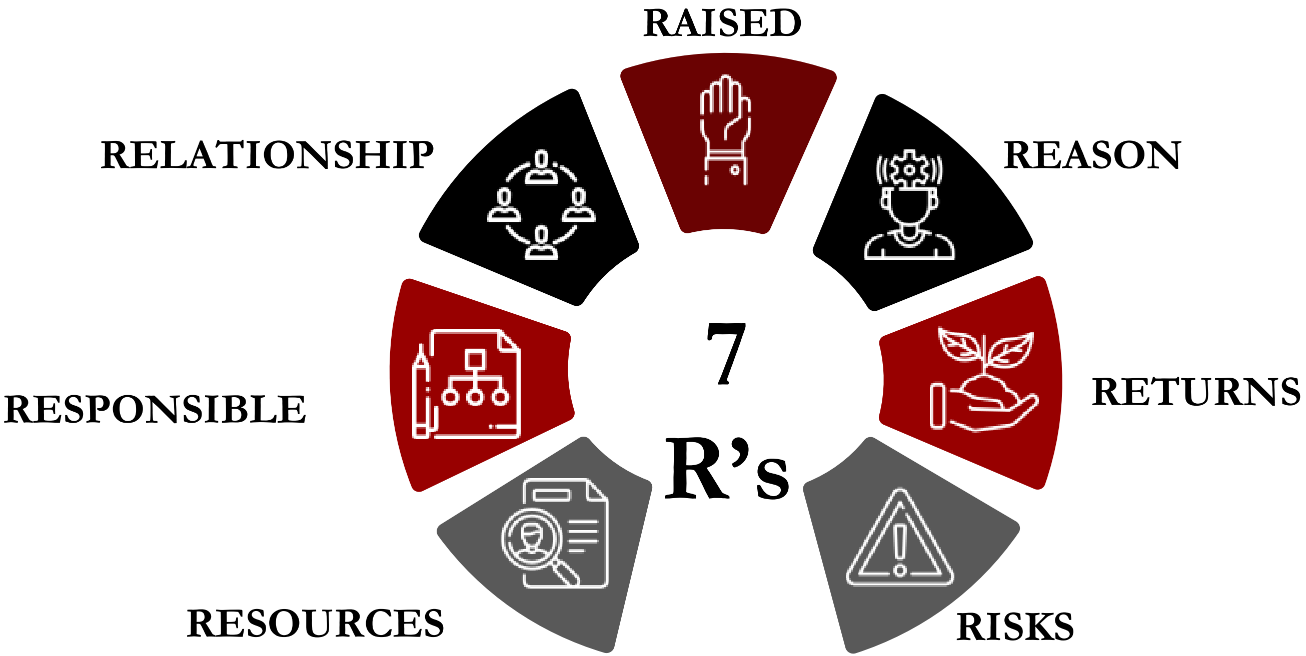
Do not accept failure at first, but be ready to move on when some initiative becomes a loss-making proposition

Increased human resources and time spent with team

Most implementation projects fail because they aren't able to manage teams. Doing it with your team takes both time and money, but is necessary

7 R's of Change Management

This a checklist of important points that need to be considered while raising a change request. This compiled list helps to minimize change rejection



How to identify change characteristics

Changes can be new projects / strategic initiatives or even small adjustments to how the organisation operates:

- How big is the change?
- Who will it affect?
- What is the timeline and does it compete with other initiatives?.
- What is the scope of the change?
- How many people will be impacted?
- Who is being impacted?
- Are people being impacted the same or are they experiencing the change differently?
- What is being changed (processes, systems, job roles, etc.)?
- What is the time frame for the change?

Organisation Resilience

The ability to tackle short term crises while working to optimize impact and better program delivery in the long run

Institutional Resilience

Building capacity within the organisation to survive and recover. Focussing on:

- **Financial and funding sustainability -** cash runway, innovative fundraising etc.
- **Organisational health** - mental health, remote working infrastructure,morale

Impact Optimization

Restructure or redirect program towards maximum impact

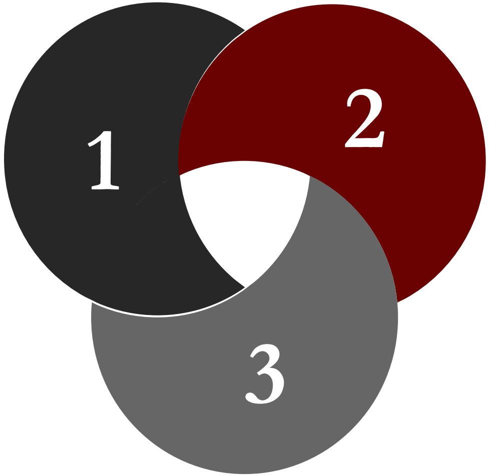
- **Immediate relief**
- **Restoration** of program delivery without interruption - measuring digital sensitivity, internal processes
- **Re-invent program** to meet needs

Source: Institutional Resilience and Impact Optimisation, Dasra

Cash Flow Management & Zero Based Budgeting

What is good Cash Flow Management?

Determining when, where and how your cash need will occur



Knowing the best sources to meet your additional cash requirements.

Being prepared to meet those needs when they occur through pre-determined and set approaches

Overall Purpose is to ensure there is enough cash available for program operations

What is Capital or Cash Runway?

Cash runway measures **how long your operating funds will last at the current spending rate** aka Cash Burn Rate. It is calculated as:

CASH RUNWAY = TOTAL CASH RESERVE/BURN RATE

where, Cash Burn Rate is the rate at which an organisation **uses up its cash reserves** or cash balances. It is calculated as:

CURRENT BURN RATE = CASH BALANCE IN PRIOR MONTH - CASH BALANCE IN CURRENT MONTH

MONTHLY BURN RATE = (CASH BALANCE BEGINNING OF PERIOD - CASH BALANCE END OF PERIOD)/No. OF MONTHS IN PERIOD

Checklist while developing a Cash flow statement

- ❑ Creating and maintain an annual budget along with monthly and weekly cash flow plans.
- ❑ Start with an accurate opening cash balance. Plot the inflows and outflows as per the expected timings.
- ❑ Estimate the timing when the funds in the pipelines are likely to realise. Plan for seasonal fluctuations in the organisation's support and expenses.
- ❑ Take care of any tax payments and other statutory payments.
- ❑ Plot the expected time for payment of staff incentives and increments and note any lump sum payments like any rent deposits/insurance payments etc.
- ❑ Reconcile the annual budget to cash flow plans to ensure the budget does not overlook small expenses that may have a large, unforeseen impact over time. Have a priority schedule for which bills should be paid first.

Strategies for Cash Management

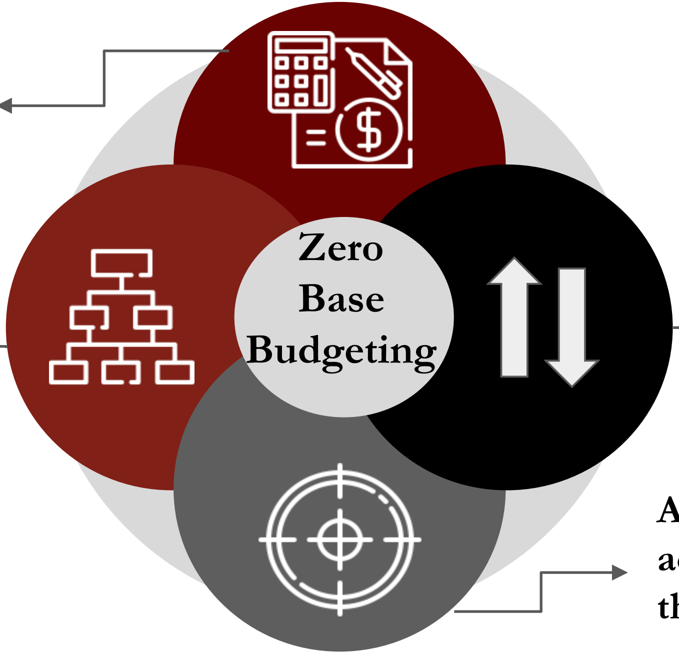
- Create different pools of cash
- Do a Scenario Analysis
- Create Operating budget surplus
- Use restricted funds appropriately
- Manage the timings of cash flows
- Monitor diligently & act promptly

Zero Based Budgeting

Zero-based budgeting (ZBB) is a management tool used to control the costs in an organization. It is a budgeting method where current year's budget is prepared from the scratch, i.e. taking the base as zero.

Budgets are not based on previous year's spending.

Spending increases are justified, necessary and drives saving.



Budgets are tied to specific programs.

Allocate funds to activities that align with the vision and mission.

5 steps of Zero Base Budgeting

Organisations can develop their own unique approaches to ZBB using the following five steps as a baseline for implementation.

Start. Begin at ground zero. Create a new annual budget from scratch without using last year's actuals as a baseline.

Evaluate. Evaluate every cost area. Eliminate and reduce unnecessary activities or services.

Justify. Account for all components of the budget. Identify areas that are cost-effective, relevant, and that drive cost savings.

Streamline. Determine what activities should be performed and how. Automate and standardize processes where possible.

Execute. Roll out comprehensive planning and execution processes. Communicate clear plans, roles and responsibilities.

How do you get started with ZBB?

Use ZBB to support the yearly budgeting process to roll out efficient and effective budgets and not as a stand alone activity

Focus ZBB activities on larger and more stable programs, selected areas of overheads/high cost line items in the budget/indirect expenses that are not clear and new service initiatives

Assemble a cross functional team across the organisation as it involves a scrutiny of the activities from all perspectives

Implement ZBB on certain areas/ costs/ activities and perform a pilot test to understand if it brings the cost discipline as intended.

Traditional Budgeting vs Zero Base Budgeting

Context	Traditional Budgeting	Zero Base Budgeting
Emphasis	Emphasis on "How Much" has been allotted to a particular item	Emphasis on "Why" make a particular expense
Orientation	Accounting oriented	Towards current and proposed projects is required based on Cost Benefit Analysis
Focus	It monitors previous level of expenditure.	To study the cost benefit analysis
Method	Current year's budget is based on extrapolation from historical data,	Allocation is divided into separate comprehensive decision packages and ranked

Pros and Cons of Zero Base Budgeting

ADVANTAGES

Aligned to the requirements of the organisation

Supports cost reduction

Improves effectiveness and efficiency in functioning

DISADVANTAGES

More time consuming than a traditional budget

Requires in-depth understanding of the needs of the organisation to justify the costs.