

# Strategy Formulation in the Third Sector

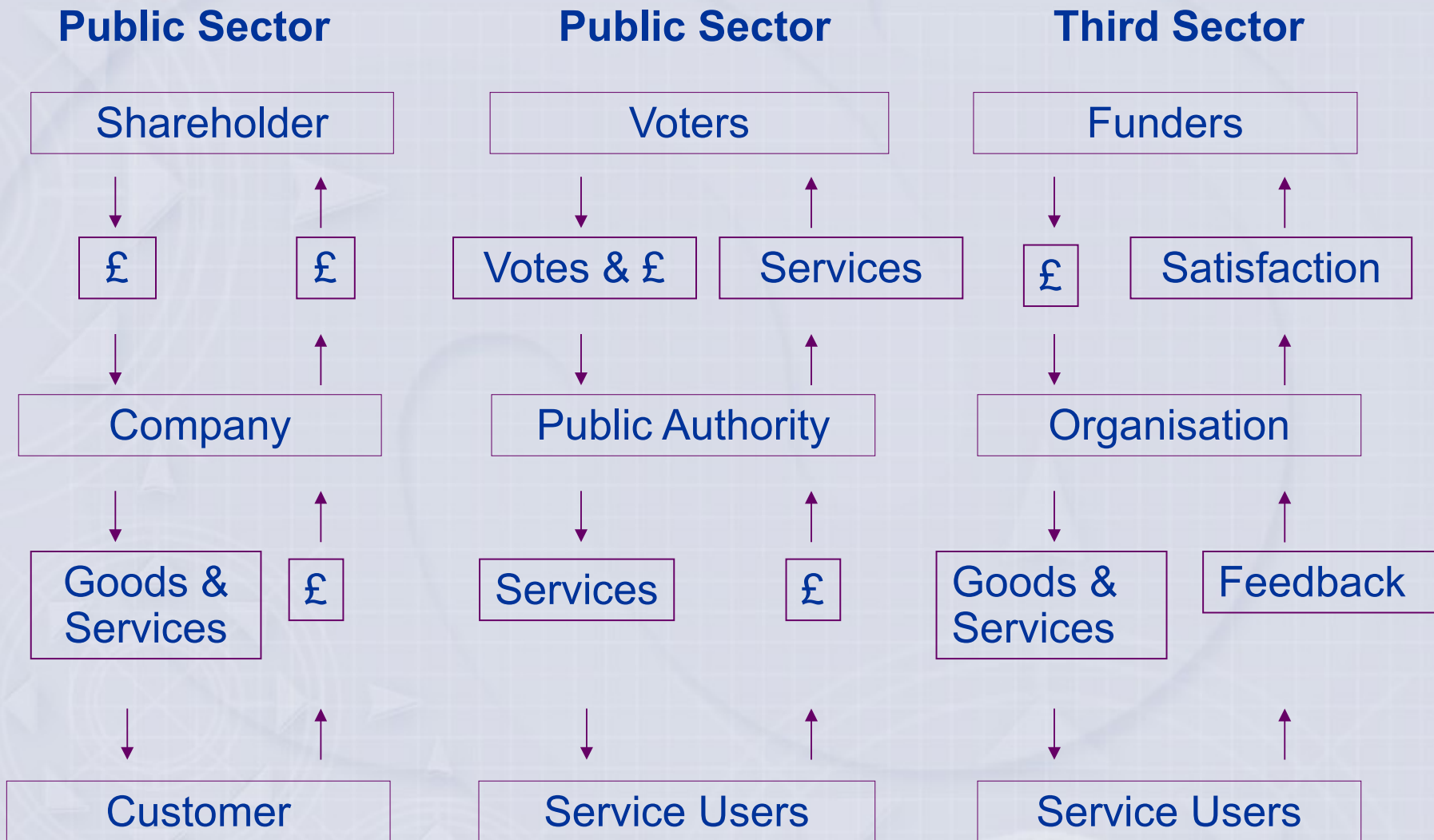
Lecture for London Business School

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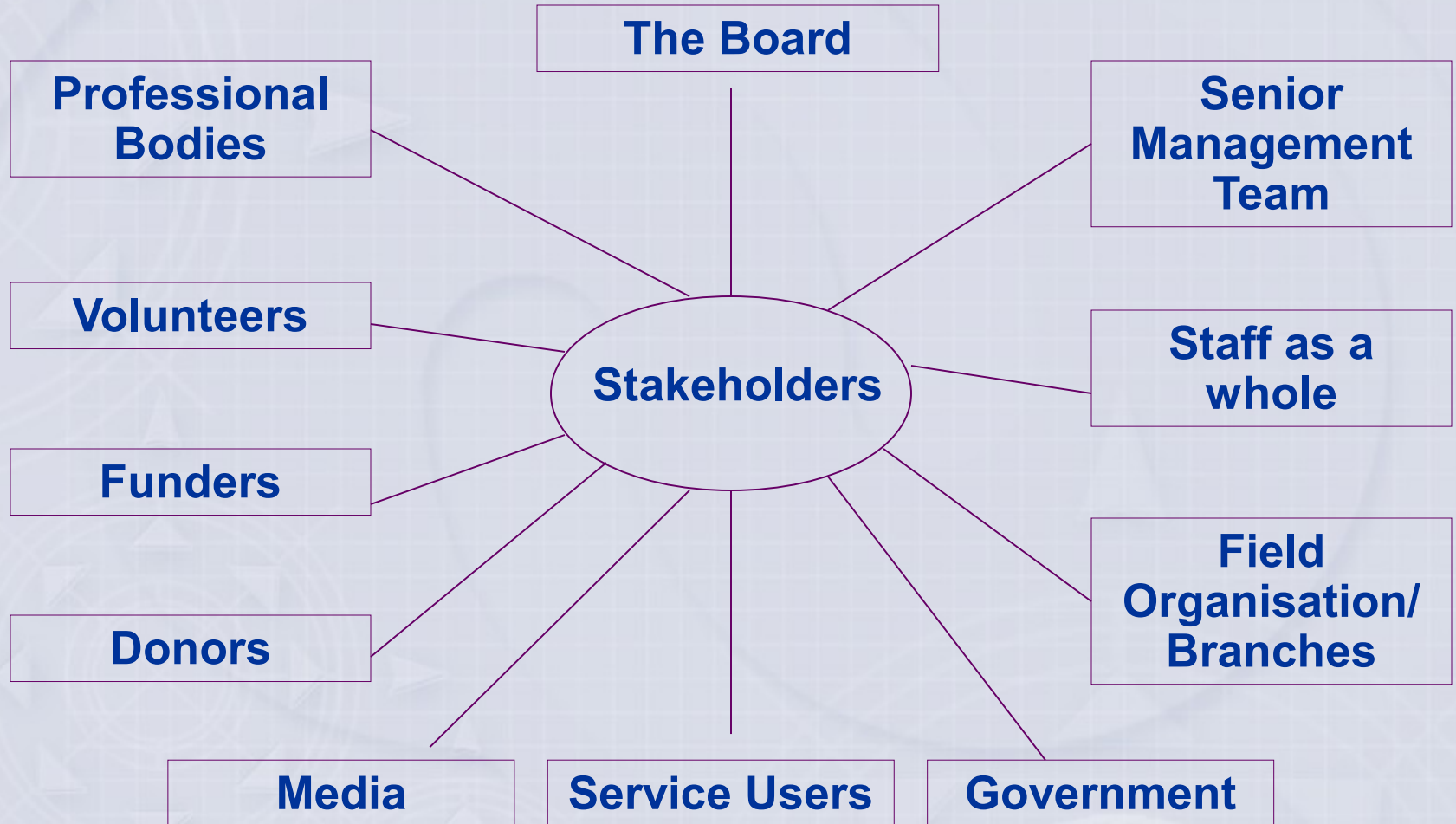
# The Nature of transactions in different sectors



# Strategy formulation has to take account of

- **Limitless demand for free services**
- **Different expectations of funders and users**
- **No direct accountability for services provided**
- **Critical importance of relationships with stakeholders**

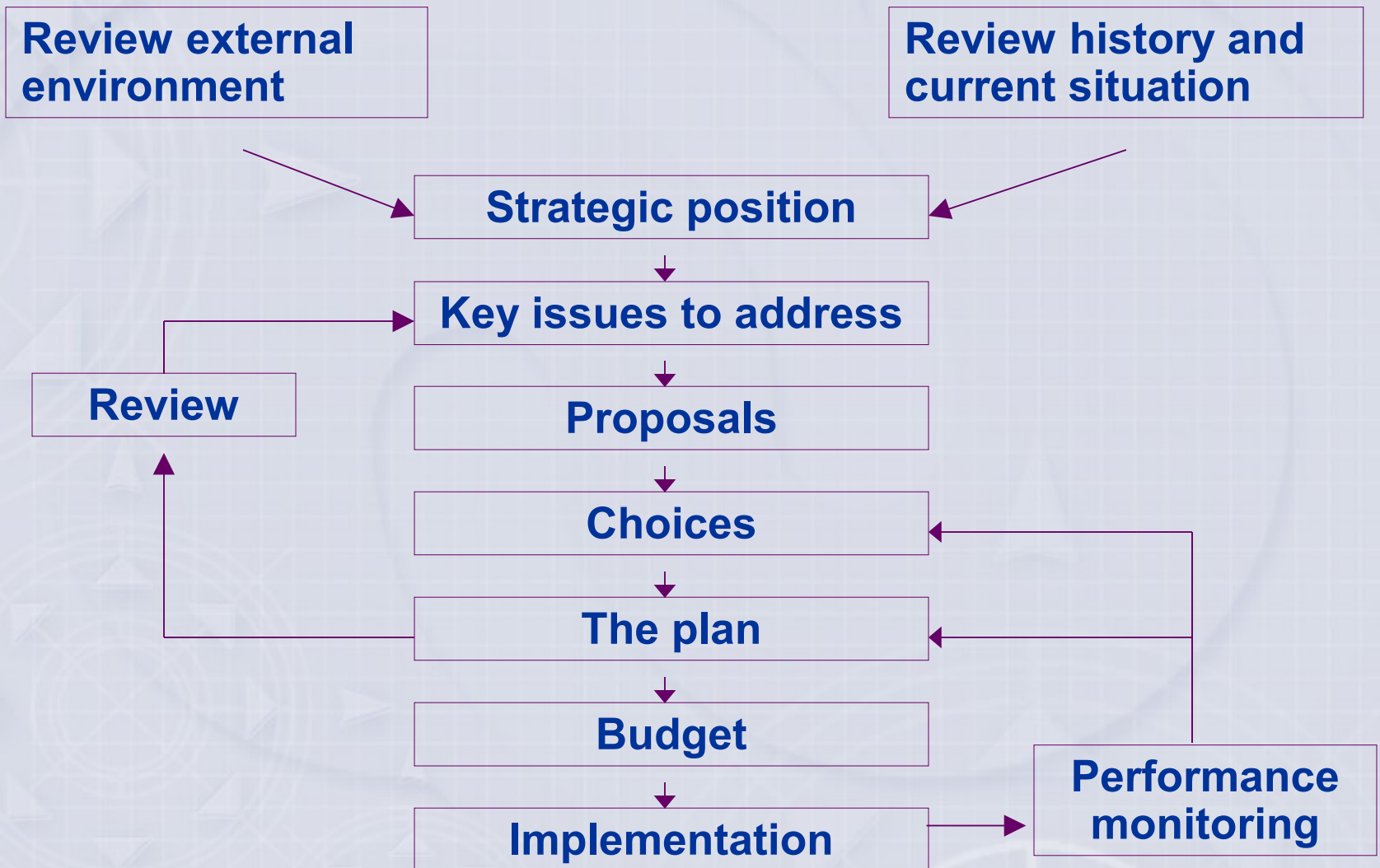
# Strategy formulation has to take account of many stakeholders



# Three paradigms of strategy formulation

<b>Paradigm</b>	<b>Characteristics</b>	<b>Assumptions</b>
<b>Evolutionary</b>	<b>Strategy is a process of random experimentation</b>	<b>Winning strategies can only be articulated in retrospect</b>
<b>Process</b>	<b>Act Reflect Theorise Test</b>	<b>Organisation learning is the key to long term success</b>
<b>Rationalist</b>	<b>Mission Objectives Strategy Action</b>	<b>One best solution Future can be forecast</b>

# Strategy formulation is an intellectual process



# Strategy formulation is a social process



# Three common types of plans

## Strategic plan

- Overall future of the organisation
- Broad objectives and strategies
- Concerned with mission and values
- 3-5 year time horizon

## Service unit or business Plan

- Future of a service or campaign
- Specific objectives, strategies and targets
- Markets, prices, volumes, competition
- 2-3 year time horizon

## Annual operating plan and budget

- 12 month work programme
- Actions, responsibilities, timetables
- Measurable performance indicators
- Close linkage with budget



## “Disability Services” – a mini case

	<i>Income</i> £'000	<i>Expend.</i> £'000	<i>Subsidy</i> £'000	<i>Users</i>	<i>Unit</i> <i>Subsidy</i>
<b>Holiday Service</b>	<b>15</b>	<b>55</b>	<b>40</b>	<b>200</b>	<b>£200</b>
<b>Helpline</b>	<b>-</b>	<b>25</b>	<b>25</b>	<b>2500</b>	<b>£1</b>
<b>Residential care</b>	<b>100</b>	<b>120</b>	<b>20</b>	<b>10</b>	<b>£2000</b>
<b>Employment advice</b>	<b>50</b>	<b>60</b>	<b>10</b>	<b>400</b>	<b>£25</b>
<b>Equipment loan</b>	<b>10</b>	<b>25</b>	<b>15</b>	<b>500</b>	<b>£30</b>

The Board agreed to:

- **Expand employment advice - excellent value for money**
- **Reduce the holiday service - similar holidays available at lower cost**
- **Negotiate increased fees from local authorities to reduce unit subsidy to the home**

# Five common strategic dilemmas

- **“Lots for a few” or “little for many”**
- **Treat symptoms or causes**
- **Provide services or campaign for change**
- **Focus or diversity services**
- **Hold to beliefs or deal with the devil**

**Mike Hudson is the Director of Compass Partnership. He was the Administrative Director of Friends of the Earth during its formative years. Following this, Mike worked in the UK and USA for a business strategy consultancy. He has worked as a consultant to not-for-profit organisations for 20 years leading teams that bring about major change in complex organisations. His clients include the Chairs and Chief Executives of a wide range of national and international organisations in the voluntary, housing, education and international aid sectors and their government and foundation funders.**



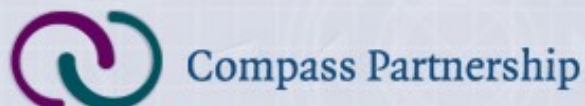
**Mike was a Visiting Fellow at the London School of Economics from 2000 – 2003 and is currently a Visiting Fellow at Cass Business School in London.**

### **Compass Partnership books**

**Managing Without Profit, Mike Hudson, (DSC, 2009) sets out the theory and practice of creating highly successful nonprofit organisations.**

**Managing at the Leading Edge, Mike Hudson, (DSC, 2003) describes what can be learned from the management and governance of nonprofit organisations in the USA.**

**Both are available from [www.dsc.org.uk](http://www.dsc.org.uk)**



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