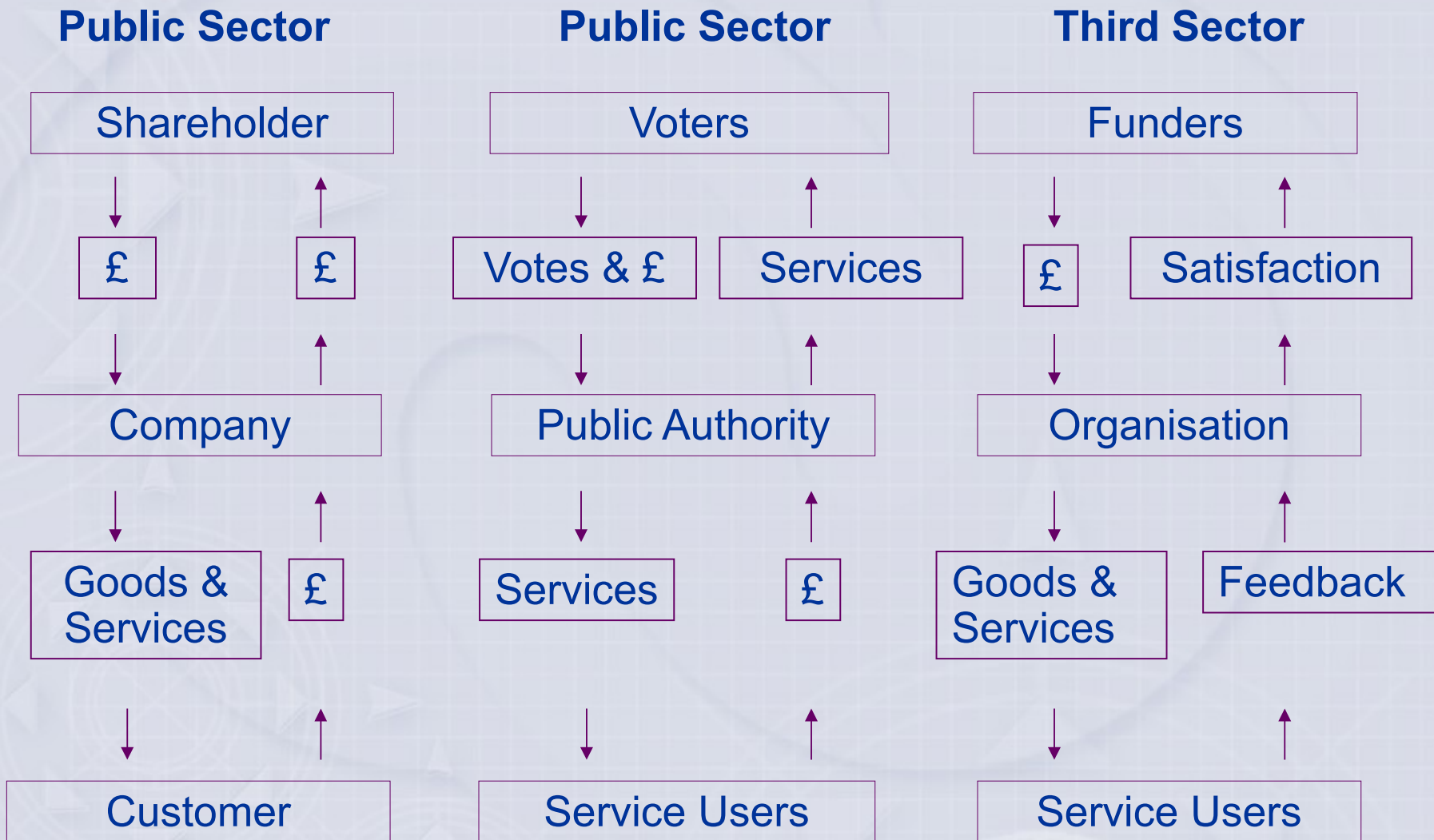


Strategy Formulation in the Third Sector

Lecture for London Business School

Mike Hudson

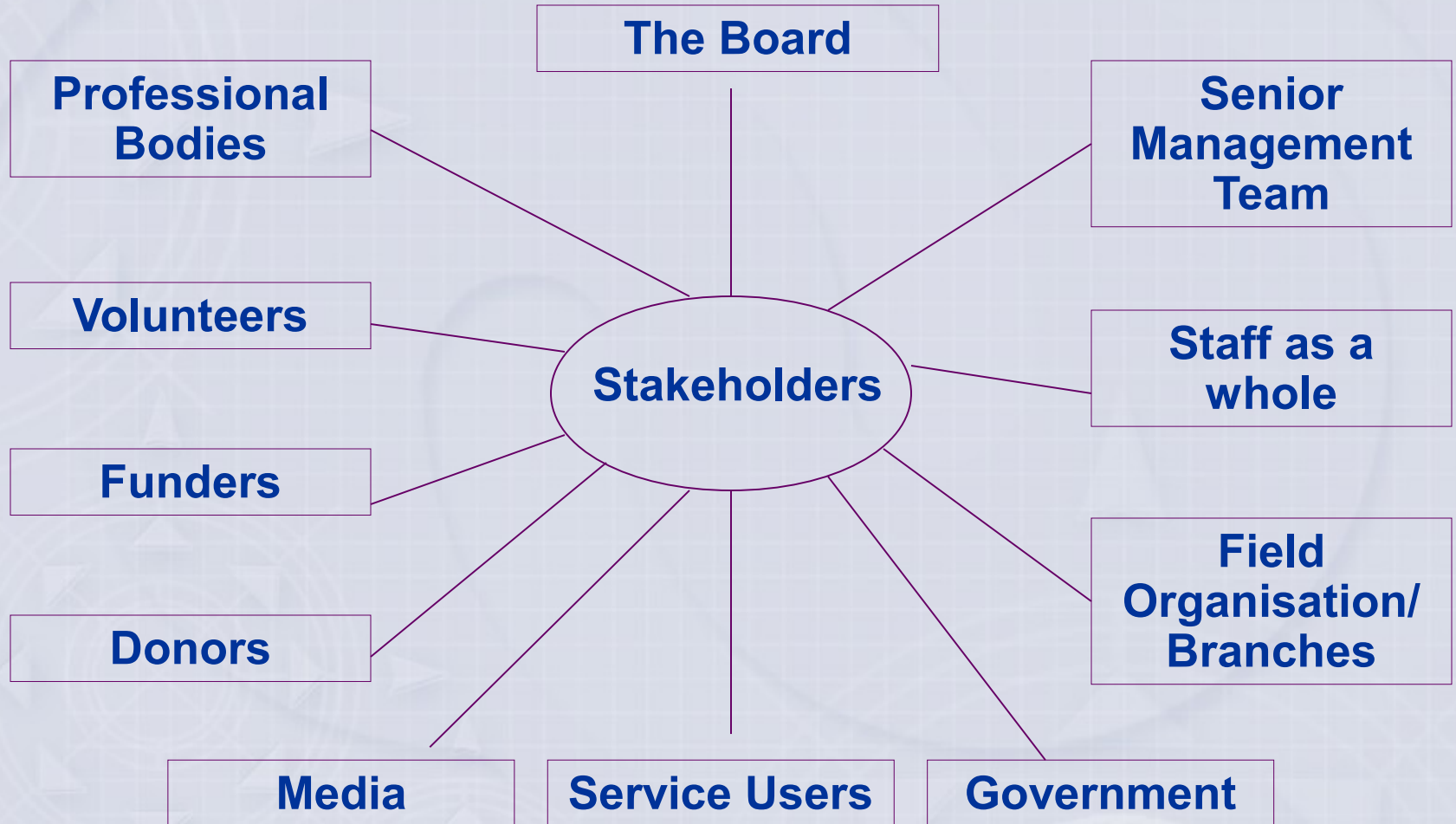
The Nature of transactions in different sectors



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**

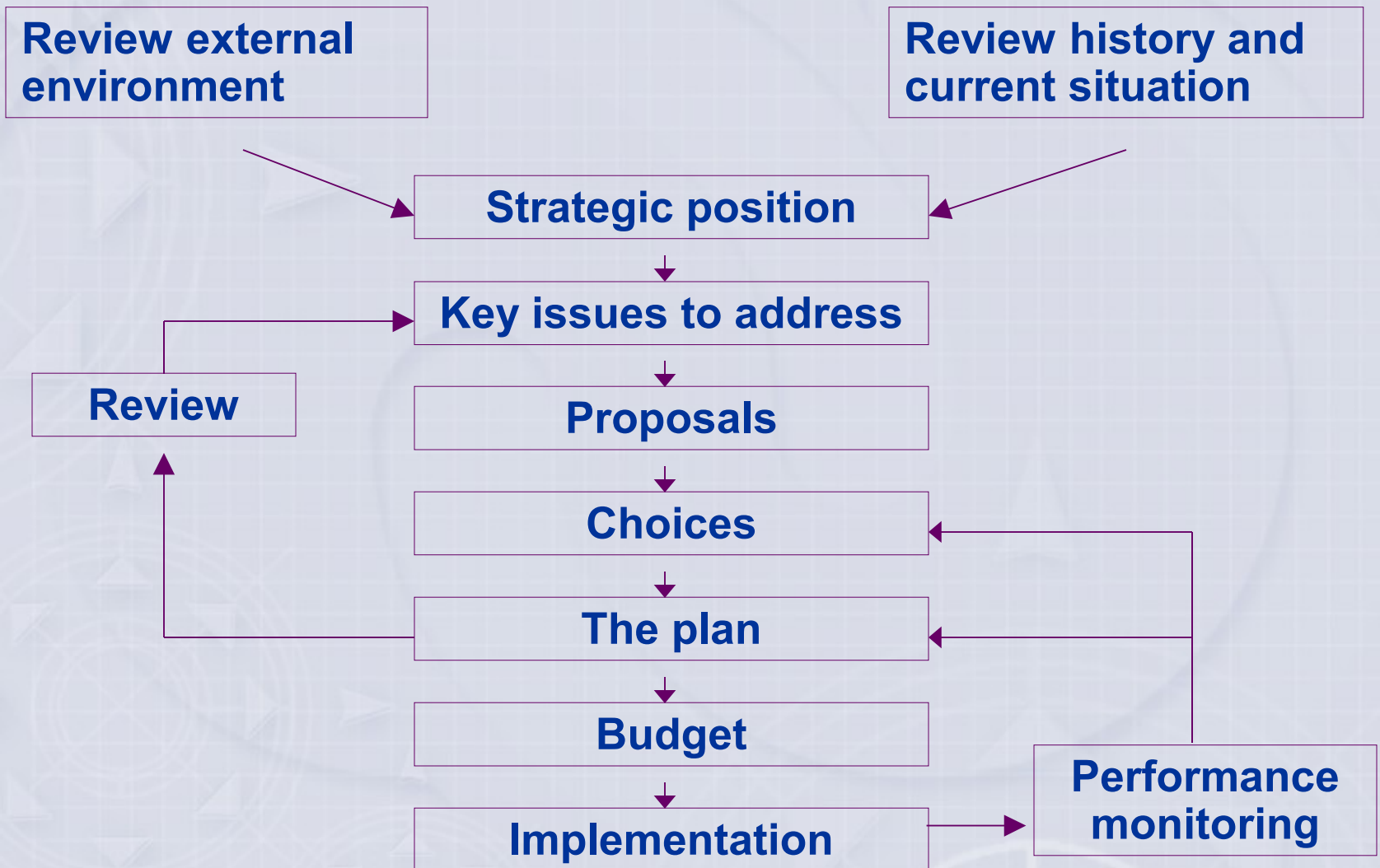
Strategy formulation has to take account of many stakeholders



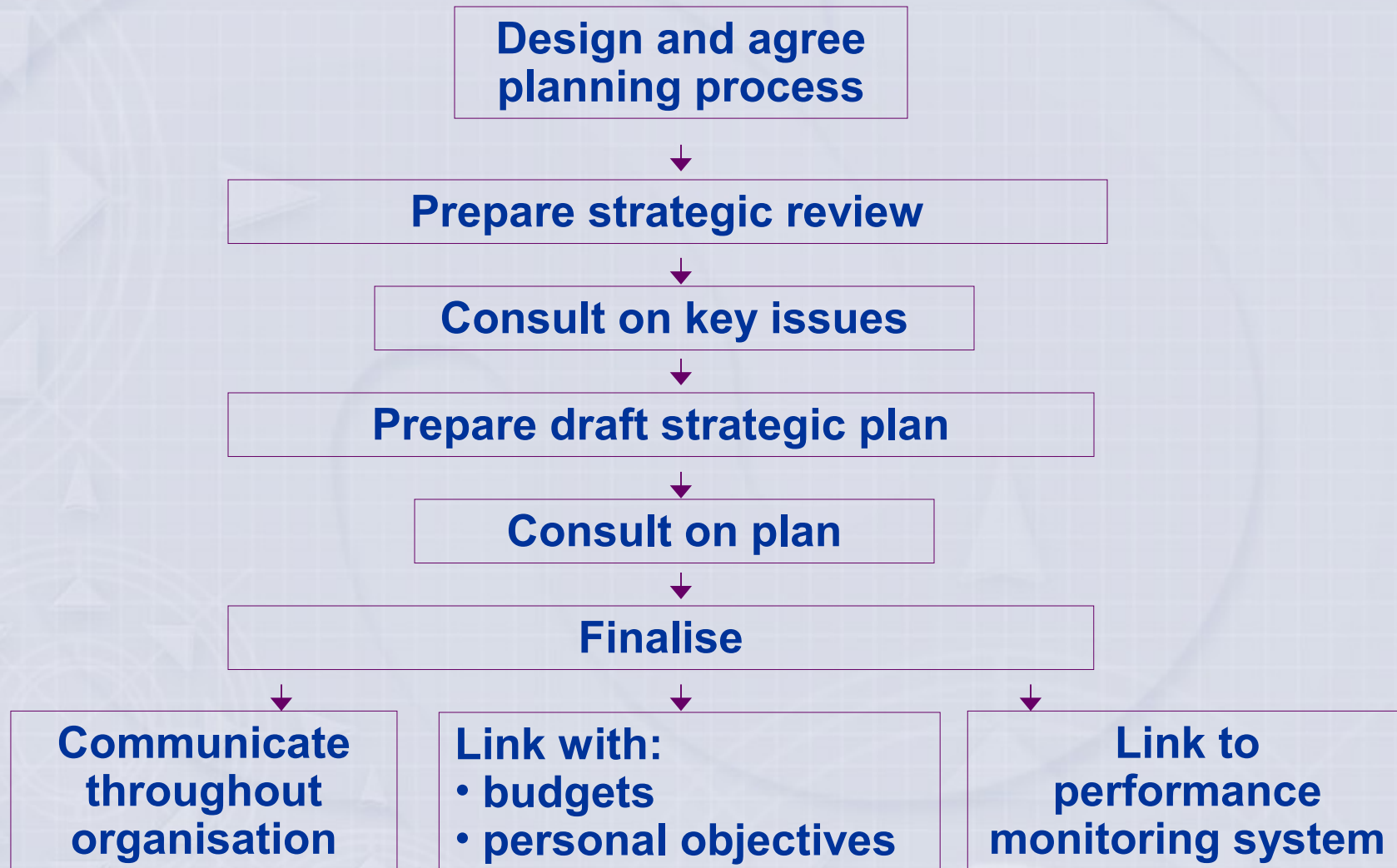
Three paradigms of strategy formulation

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

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>
Holiday Service	15	55	40	200	£200
Helpline	-	25	25	2500	£1
Residential care	100	120	20	10	£2000
Employment advice	50	60	10	400	£25
Equipment loan	10	25	15	500	£30

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.



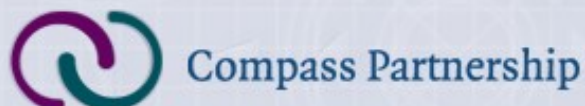
Mike was a Visiting Fellow at the London School of Economics from 2000 – 2003 and is currently a Visiting Fellow at Cass Business School in London.

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



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