a state of change

Not-for-profit newsletter | April 2015

In this issue

Introduction

In today's competitive environment, successfully managing a not-for-profit organization increasingly requires benchmarking against similar not-for-profit organizations. In this edition of our NPO Newsletter, we include two articles on tools and insights that could be of significant benefit to not-for-profit leaders. The first article deals with the concept of predictive project analytics, and how it could enable NPOs to maximize donor value and deliver on external expectations through effective management of project costs. The second article provides key findings from our 2014 Global Survey on Reputation Risk, which serves as a reminder to not-for-profit executives as to the importance of protecting an NPO's reputation, and the dire repercussions if such risks are not properly managed.

Planning for success – Leveraging predictive project analytics to close the gaps

The not-for-profit ("NPO") sector is increasingly competitive, with scarcity of donor funding and rising stakeholder expectations becoming a regular issue facing NPO leaders today. With mounting external expectations comes heightened pressure on management to maximize donor value and better manage internal costs. Now more than ever, NPOs should consider less traditional, more creative methods of project and risk management to drive efficiency, minimize costs, and deliver on expectations. The following article presents a new approach to project planning – Predictive Project Analytics – which provides one solution to navigating through today's complex NPO landscape. Although written from the point of view of the for-profit sector, this methodology can also enable an NPO to achieve project success.

A major capital project may accelerate – or sidetrack – a leader's career. Does the completed project meet stakeholders' expectations? Come in on time and on budget? Add value to the organization? Unfortunately, research shows that more than 60% of organizations have experienced project failure. 21% are cancelled or never deployed and 42% of projects are challenged – late, over budget or fail to deliver to specifications. And those numbers are likely to increase as project complexity escalates with increased regulation, stakeholder scrutiny, globalization, technology leaps, and more.

With so much at stake, why do so many project leaders continue to rely on traditional project planning and risk assessment methods? If past projects consistently go beyond scope and over budget, yet we are using the same methodologies for current projects, how can we hope to realize different results?

Today's business environment demands a new project management model that accounts for project complexity, performance, and risk in a holistic way, regardless of industry. In this article, we review a new methodology that complements existing processes called Predictive Project Analytics ("PPA") and share with you a bit about how companies are using it to meet growth demands and manage ongoing projects successfully, regardless of where you are in the project lifecycle.

With so much at stake, why do so many project leaders continue to rely on traditional project planning and risk assessment methods?

A new approach to project planning

We know that 42% of projects are challenged (late, over budget or fail to deliver to specifications), 21% are cancelled or never deployed, and the average cost of project overages are 46% above the original budget. Therefore, to truly improve project success rates, it's time for organizations to consider a new approach to project planning. Rather than replacing existing project methodologies, PPA helps you adapt your methodologies to each project's level of complexity whether you have a new project or you are already managing a project that is going off track.

It also uncovers opportunities for improvement across seven areas, including governance, ownership, delivery, resourcing, business unit management, risk management, and contracting.

Think of it like a move from x-ray technology to an MRI. Instead of reviewing maybe 10 or 12 areas as part of your project analysis, PPA can expand your review to as many as 172 factors of execution, depending on your particular project's level of complexity and the level of risk management you want to apply.

PPA takes industry-specific factors into account, including elements such as relationships with local communities, geopolitical volatility, the impact of resource nationalism, operating in shifting tax regimes, and contending with talent shortages.

Common misconceptions about using predictive analytics

Despite the advantages of PPA, many organizations still hesitate to apply it. Analytics as a whole is still considered a relatively new approach. So let's take a look at some of the misconceptions about PPA:

By leveraging advanced analytics we are able to evaluate the likelihood that a project will be successful – followed with practical and actionable advice.

MYTH: PPA won't change your traditional review process.

REALITY: Some organizations hesitate to embrace PPA because they already conduct so many internal and contractor project reviews. Although these reviews remain critical, recent project meltdowns suggest that reviews alone are no longer sufficient. PPA augments these traditional subjective assessments by using analytics and quantitative data to analyze project success patterns. Instead of reviewing projects informally based on unstructured historical information, PPA examines leading indicators to deliver an objective assessment of your project's strengths and weaknesses – empowering executives to make project decisions based on foresight, rather than just hindsight.

MYTH: Analytics cost too much.

REALITY: Given today's economic climate, competitive landscape and pressures on executives to deliver immediate value from initiatives, organizations are very leery of over-spending. Organizations that engage in PPA have the potential to make back more than their initial investment. By improving decision analysis, PPA helps organizations rein in resource allocation and the cost of projects, while augmenting in-house capabilities and giving an organization visibility into the costs and activities of its external vendors and contractors.

MYTH: Analytics isn't right for us.

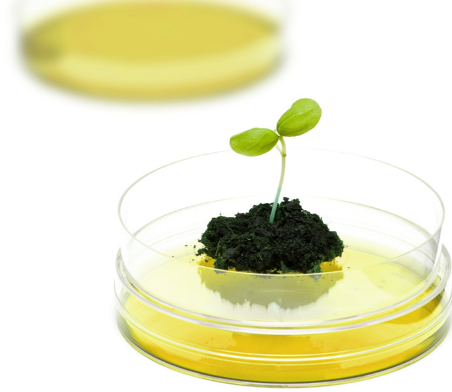
REALITY: Many organizations have strong project methodologies, and may not think PPA can help improve them. Conversely, they may have strong approaches to IT or business transformation projects that have proved successful. In practice, however, few organizations excel at both capital projects and IT/business transformation projects. PPA can help transfer existing skills in one area into the other—letting you scale your capital project or engineering methodology to your business transformation projects, or vice versa. PPA also delivers value for organizations undergoing any strategic transformation initiative, including expansion and integration, and portfolio reallocation. It can even help turn around existing projects that are already running over budget or struggling to meet project objectives.

Overcoming the uncertainties

Although organizations may hesitate to embrace analytics, the real fear in today's business environment is failing to rebuild stakeholder value by enhancing capital efficiency. Organizations that are ready to acknowledge the imperative of adopting new project management approaches will excel. By giving executives more meaningful insight into the level of project risk your organization is capable of handling given your current processes, Predictive Project Analytics can help you make more informed project management decisions—improving project outcomes across the board.

To learn more, check out the infographic. Visit www.deloitte.ca/analytics or contact Gabriel Rodriguez, Partner and Global and Canadian Leader of Predictive Project Analytics, for further information.

2014 Global Survey on Reputation Risk



What is your organization's reputation worth? According to a study by World Economics, on average more than 25 percent of an organization's market value is directly attributable to its reputation. And in a highly connected world where donors, funders, operations, supply chains, and internal and external stakeholders are scattered across the planet — and where reputations can be globally attacked with just a few keystrokes — that number is likely even higher today. In fact, if the executives who participated in our study on reputation risk are right, an organization's reputation should be managed like a priceless asset and protected as if it's a matter of life and death, because from a business and career perspective, that's exactly what it is.

Here are a few examples of ways in which reputations can be tarnished from a not-for-profit organization's perspective:

- Not-for-profits take big reputation hits and donations plummet after losing large amounts of donor and credit card data to cyberattacks
- Misappropriation of assets by employees in the form of stealing cash donations received, or contributed materials or other assets
- Using externally restricted funds for purposes other than those stipulated by the donor
- A not-for-profit organization or charity losing its charitable status as a result of violating Canada Revenue Agency requirements

In many cases, problems such as these can be prevented or contained if the organization actively manages reputation risk. But how?

In our 2013 global executive survey on strategic risk, we found that reputation damage was the No. 1 risk concern for business executives around the world. To dig deeper into what organizations around the world are doing to get in front of this critical issue, this year's survey hones in on the what, why, and how of reputation risk. For 2014, Forbes Insights, on behalf of Deloitte Touche Tohmatsu Limited, conducted an in-depth, global reputation risk survey of more than 300 executives from organizations representing every major industry and geographic region. While the survey was conducted amongst profit-oriented entities, the findings and observations obtained can be equally applied to a not-for-profit organization's environment.

Here's what we found:

Reputation risk is still a strategic business issue. Eighty-seven percent of the executives we surveyed rate reputation risk as "more important" or "much more important," and 88 percent say they are explicitly focusing on reputation risk as a key business challenge. A reputation risk that is not properly managed can quickly escalate into a major strategic crisis.

Customers are the most important stakeholders for managing reputation risk. Other key stakeholders include regulators, senior executives, employees, and investors. But in a world increasingly influenced by social media and instant global communications, managing customer expectations and perceptions is critical to success.

Organizations are least confident when it comes to risks that are beyond their direct control. Such risks include third-party ethics, competitive attacks, and hazard or other catastrophes. Organizations are most confident about managing reputation risk drivers for which they have direct control, such as risks related to regulatory compliance, employee and executive misconduct.

Reputation problems have the biggest impact on revenue and brand value. Respondents who had previously experienced a negative reputation event say the biggest impact areas were revenue (41 percent), loss of brand value (41 percent), followed by regulatory investigations (37 percent).

Organizations are investing to improve their capabilities for managing reputation risk. More than half of the surveyed organizations say they plan to address reputation risk by investing in technology such as analytical and brand monitoring tools. Crisis management and scenario planning are two other areas with significant room for improvement.

Ironically, it appears that organizations may be both overconfident and under confident when it comes to reputation risk. On the positive side, more than 76 percent of organizations believe their reputation is better than average — a statistical anomaly that suggests organizations might be overly optimistic about their current situation. On the contrary, 39 percent rate the maturity of their reputation risk programs as "average" or "below average" and only 19 percent give themselves an "A" grade for their capabilities at managing reputation risk. These figures suggest many organizations might not be fully aware of their exposure to reputation risk.

REPUTATION@RISK

In a highly connected world where a company's reputation can be attacked with just a few keystrokes, reputation risk has become the #1 strategic business risk. To manage it effectively, it's essential to see the complex connections behind the trend. Explore how more than 300 executives from aroundthe world manage reputation risk. www.deloitte.com/reputationrisksurvey

87%

of executives rate reputation risk as more important than other strategic risks

RESPONSIBILITY

Responsibility for reputation risk resides with the board and C-Suite

- 36% CEO
- 21% CRO
- 14% Board
- 11% CFO

HIGH IMPACT

Companies that experienced a negative reputation event were impacted in these areas†

- 41% Revenue/Earnings
- 41% Loss of brand value
- 37% Regulatory investigation

IMPORTANCE

The top three reputation risk drivers of concern†

- 55% **Ethics/ Integrity** (fraud, bribery, corruption)
- 45% **Security** (physical and/or cyber)
- 43% **Product/ Services** (product safety or services issue, health/environmental, controversial products)

Companies feel most prepared to manage risks within their direct control...

- 69% Regulatory compliance
- 68% Employee misconduct
- 66% Executive misconduct

..and least prepared for risks beyond their direct control†

- 47% Third-party/extended enterprise issue
- 44% Competitive attacks
- 44% Hazard or other catastrophe

CONFIDENCE

The paradox of confidence and capabilities

OVERCONFIDENT...

76%

Of companies believe their reputation is better than average

...OR UNDERCONFIDENT?

39% of companies rate the maturity of their reputation risk programs as "average" or "below average"

19% of companies give themselves an "A" grade for their capabilities at managing reputation risk

FUTURE

57% of companies surveyed plan to focus more attention on reputation risk in the future

Key areas of focus for the future†

- 63% Investing in technology
- 58% Investing in data
- 50% Investing in people (i.e., a reputation risk officer)
- 40% Developing reputational risk processes
- 37% Developing crisis management processes and capabilities

"Reputation@Risk," October 2014. This report is based on a global survey of more than 300 executives from majorcompanies around the world to understand how businesses are managing reputation risk – both now and in the future.

†Respondents could choose more than one answer; the top three to five are shown above.

Key contacts

Sam Persaud
Partner, Public Sector
416-601-6247
spersaud@deloitte.ca

Doreen Hume
Partner
613-751-5401
dhume@deloitte.ca

Dennis Alexander
Partner, Tax
416-601-5943
denalexander@deloitte.ca

Editors

Trisha Patel
Senior Manager, Public Sector
416-775-7104
tpatel@deloitte.ca

Lilian Cheung
Senior Manager, Public Sector
416-775-7356
licheung@deloitte.ca

www.deloitte.ca

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services. Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Designed and produced by the Deloitte Design Studio, Canada. 15-3007T