








PRINCIPLE 1

Purpose and strategy

The organisation has a clear purpose and a strategy that aligns its activities to its purpose

- 1.1 The organisation's purpose is clear, recorded in its governing documents and understood by the board
- 1.2 The board approves a strategy to carry out the organisation's purpose
- 1.3 Decisions by the board further the organisation's purpose and strategy
- 1.4 The board regularly devotes time to consider strategy
- 1.5 The board periodically reviews the purpose and strategy

Every organisation will have a purpose. For the organisation to be successful the purpose must be clear, and there must be a strategy that sets out how the organisation will work towards achieving its purpose. There are five critical questions relevant to determining purpose and strategy:

	<i>Why does this organisation exist?</i>
	<i>What does this organisation do?</i>
	<i>Who does this organisation benefit?</i>
	<i>How will this organisation achieve its goals?</i>
	<i>What does success look like for this organisation?</i>

What is a purpose?

An organisation's purpose is what it hopes to achieve. It is the reason the organisation exists, and all its activities should contribute to achieving its purpose in some way. It is the 'what' and the 'why' of an organisation's work. Purpose is the centrepiece of governance in the NFP sector.

NFPs are set up for many different purposes. For example, NFPs may have purposes such as:

- Promoting participation in a particular sport;
- Supporting the practice of a certain faith; or
- Providing accommodation and care to older Australians.

Some organisations may have more than one purpose. For example, a faith-based school might have the dual purposes of providing education and facilitating religious worship.

Some NFPs may have the same purpose for many years, while others may find themselves revising their purposes from time to time or creating new ones entirely. The role of the board in defining purpose will depend on several factors such as the maturity of the organisation or changes in its operational environment such as a cessation of funding.

Because purpose goes to the heart of an NFP's identity, any changes to it are often the product of a collaborative process involving considerable thought and debate.

Consideration of purpose will typically involve consultation between directors, staff, volunteers, members and other stakeholders such as clients and donors. It is important for an organisation's stakeholders to understand and support its purpose if it is to be successful in pursuing it.



Registered charities must only have 'charitable purposes' as are set out in the Charities Act 2013 (Cth). These include purposes such as: advancing health, promoting reconciliation and preventing the suffering of animals.

Understanding purpose

For an organisation to effectively and properly pursue its purpose, the people involved in the organisation must share a common understanding about the way that this is done. To do this, an organisation will have:

- Values that express what the organisation considers to be good; and
- Principles that express what the organisation considers to be right.

Together with purpose, these values and principles form the ethical framework of an organisation. This framework guides the decisions of the people involved in the organisation and should be reflected in its policies, systems and processes. The board should work to embed its ethical framework into all aspects of governance so that the organisation can pursue its purpose effectively and in the right way.

Organisational values are discussed in greater detail in *Principle 10: Culture*.

Communicating about purpose

An organisation's purpose should be communicated as clearly as possible so that it can be easily understood by everyone involved with the organisation. It is important that there is clarity about what an organisation aims to achieve and the way it does this.

There are many ways to communicate about purpose. Many organisations choose to express their purpose through a combination of mission and vision statements.

Mission statements describe what an organisation does to achieve its purpose. They are high-level statements and will generally aim to provide a clear and succinct summary of the reason the organisation exists.

For example:

- “To prevent cruelty to animals by actively promoting their care and protection” (RSPCA Australia);
- “To present opera that excites audiences and sustains and develops the art form” (Opera Australia); and
- “To support people who are blind or have low vision to live the life they choose” (Vision Australia).

Vision statements express what an organisation aims to achieve through its work by describing what the world would look like if they were successful in achieving their purpose. Vision statements are aspirational and should be something that inspires the people involved with the organisation.

For example:

- “All young Australians are supported to be mentally healthy and engaged in their communities” (headspace);
- “A world in which all children realise their full potential in societies that respect people’s rights and dignity” (Plan International Australia); and
- “For cricket to be Australia’s favourite sport, and a sport for all Australians” (Cricket Australia).

The way an NFP defines and expresses its purpose is a matter for the board, but careful consideration should be given to the way this is done so that any legal obligations are met. For example, changes to an organisation’s purpose may affect its eligibility to access certain tax concessions or registration as a charity.

It is common for an NFP’s purpose to be set out in its governing document, usually in the form of ‘objects’. Mission and vision statements are often used to develop the organisation’s objects so that they can be more easily communicated and understood.



In this document the term ‘governing documents’ refers to the documents that set out how an organisation must be run. These documents are usually known as the constitution, charter, rules or articles of association.

In some cases, an organisation’s purpose may be recorded in several different documents. An organisation might have relatively simple objects recorded in its constitution which are developed in greater detail through other sources such as its strategic plan.

Wherever an organisation’s purpose is recorded, it is important that it is clear and understood by everyone involved in the organisation, including the board.

Can an organisation’s purpose change?

An organisation’s purpose may change over time. For example, the organisation may have achieved its goal, or a new goal may have arisen. Boards should regularly review their purpose to make sure that it is still relevant and make changes if necessary.



An organisation’s governing documents and any laws that apply to it may set out requirements about how an organisation’s purpose can be changed, including any limits on what the purpose can be.

How often a purpose needs to be revisited will depend on the nature of the organisation and what its purpose is. Some purposes may last forever (for example, “to educate the children of Toowoomba”) whereas others may be time limited (for example, “to commemorate the centenary of the ANZAC”).

Sometimes, an NFP’s activities may drift away from its purpose over time because of a lack of control or because the relevance of the purpose has diminished. This is called ‘mission drift.’ This can give rise to significant problems and it is important that the board monitors alignment between the organisation’s activities and purposes, and takes steps to address misalignment if it occurs.

It is a good idea to seek legal advice before changing a purpose, as even small changes may have significant impacts, such as to an NFP’s entitlement to access certain tax concessions. Changes to purpose may also be constrained by other factors, such as the terms of grants and bequests

Having a not-for-profit purpose

Purpose is important for NFPs, but it is not what sets them apart from for-profit organisations (businesses). Many for-profit organisations also have a purpose (for example, Telstra’s purpose is “to create a brilliant connected future for everyone”). What sets NFPs apart is that their purposes are “not-for-profit”.

The ACNC provides the following definition of NFP:

MEANING OF NOT-FOR-PROFIT

Generally, a not-for-profit is an organisation that does not operate for the profit, personal gain or other benefit of particular people (for example, its members, the people who run it or their friends or relatives). The definition of not-for-profit applies both while the organisation is operating and if it ‘winds up’ (closes down) i.e. assets and income of the organisation shall be applied solely to further its objects and, no portion shall be distributed directly or indirectly to the members of the organisation, except as genuine compensation for services rendered, or expenses incurred on behalf of the organisation.

This definition does not mean that the people involved with an NFP cannot benefit from it, provided this benefit is consistent with the NFP’s purpose. For example, an NFP could provide aged care services to its members provided its purpose was to provide those services. By comparison, if an aged care service made a profit from its operations, it could not share these profits with their members. This would be private benefit and not consistent with being an NFP.

In most cases, NFPs are required by law to have clauses in their constitution requiring the organisation to operate as an NFP. These clauses should set out how an NFP’s assets and income are to be used when it is operating and if it winds up.

The ACNC provides example clauses that NFPs can use:

NOT FOR PROFIT CLAUSE

The assets and income of the organisation shall be applied solely to further its objects and no portion shall be distributed directly or indirectly to the members of the organisation except as genuine compensation for services rendered or expenses incurred on behalf of the organisation.

THE DISSOLUTION CLAUSE

In the event of the organisation being dissolved, all assets that remain after such dissolution and the satisfaction of all debts and liabilities shall be transferred to another organisation with similar purposes, which is charitable at law and which has rules prohibiting the distribution of its assets and income to its members.

What is strategy?

If an organisation’s purpose is the ‘what’ and the ‘why’ of its work, strategy is the ‘how.’ Strategy brings the organisation’s purpose to life by setting out the way by which it will be achieved.

“...If you don’t know where you’re going, any road will get you there, said the Cheshire Cat to Alice...”

Lewis Carroll, *Alice’s Adventures in Wonderland*, 1865

Strategy is the way an organisation defines its goals and aligns activities and resources with them. Strategy is also inherently linked with risk which is discussed in greater detail in *Principle 5: Risk management*.

Many organisations will develop a single document to express their strategy. This helps with communicating the strategy to the people involved in the organisation. Wherever a strategy is recorded, it is important that it is clear, understood by relevant stakeholders and that board decision-making processes are aligned to it.

Strategic planning

Many organisations use strategic plans to define how resources and activities will be aligned to a set of goals within a defined period. Strategic plans typically include several high-level goals which span several years and are reviewed at regular intervals.

Strategic plans make it easier to understand and communicate how an organisation is pursuing its purpose. Most strategic plans also include measures which are used to evaluate its performance. They can be useful tools to communicate with stakeholders about strategy, but they are not a strategy in and of themselves.

For many organisations, the process of strategic planning is as important as the plans that result from it. Strategic planning gives organisations the opportunity to reflect on their goals and to develop an understanding of their operational environment which assists in the development and execution of strategy.

The board's role in strategy

Strategy is a key responsibility of the board. How the board performs its role in developing strategy will vary depending on the organisation's characteristics.

Some boards will take an active role in strategy development, working with management and other stakeholders to define and communicate their short and long-term strategic direction. In other circumstances, the board may test and approve the strategy, but it will be substantively developed by management.



In this document the term 'management' is used to refer to an organisation's staff, typically, the CEO and executive staff. Not all NFPs employ staff, so in some circumstances this term may not be relevant.

Whatever the board's contribution to strategy development may be, its role in providing strategic thinking in decision-making is critical. Because directors are not generally involved in the day-to-day operations of a business, they are able to bring a more high-level perspective to their work. This is one of the most significant ways that boards can contribute to the effective governance of their organisations.

It is common in NFP organisations for directors to be more 'hands on', however care should be taken that this does not prevent them from bringing the necessary focus and attention to their role.

For example, boards might consider strategic questions such as:



What decisions do we need to make now to meet future financial needs?



To what extent are we prepared to tolerate failure in pursuit of innovation?



How does the community's perception of us impact our ability to achieve our objectives?

Boards should apply a strategic lens to their decision-making. This means that they should make their decisions in the context of the strategy, but also consider how their decisions may impact the organisation's strategy. For example, a decision they make could mean that the strategy needs to be amended.

Making time for strategy

There are many issues that demand boards' attention. Although boards should consider the organisation's strategy in all aspects of their work, they should also make time to consider the strategy directly.

Good strategy is designed to suit an organisation's operational environment. As a result, strategy must adapt to changes in the organisation's context to remain effective. Boards should review the strategy periodically and whenever a significant change might impact its execution.

It is common for boards to reserve time in their annual calendar dedicated to discuss and think about strategy. Some boards will do this by making strategy a standing agenda item while others may hold regular strategy days. Whatever the case, it is a good idea to create space to address strategy separately from other matters.



QUESTIONS FOR DIRECTORS



IS THE ORGANISATION'S PURPOSE CLEARLY ARTICULATED AND COMMUNICATED TO STAKEHOLDERS?



HOW DOES THE BOARD KNOW IF THE ORGANISATION'S ACTIVITIES ARE ALIGNED TO ITS PURPOSE?



HOW FREQUENTLY DO THE PURPOSE AND STRATEGY NEED TO BE REVIEWED?



HOW DOES THE BOARD ALIGN ITS DECISION-MAKING WITH THE STRATEGY?



IS TIME SET ASIDE IN THE BOARD'S AGENDA TO CONSIDER STRATEGY?



CASE STUDIES

HelpfulCare

HelpfulCare's purpose is recorded in its constitution as: "To support people in need through the provision of world-class services delivered with the care of a family." To bring their purpose to life, they have developed a policy document called 'Being HelpfulCare' which explains what their purpose is, what it means and how it is incorporated into their operations.

The board of HelpfulCare has approved a rolling five-year strategic plan which was developed by their Chief Executive Officer (CEO) under the supervision of the board who set expectations of timeframes and consultation. The strategic plan articulates five key goals which help give form to the organisation's purpose. The board reviews progress towards achieving their strategic goals annually and, as part of that, reflects on how effective its strategy has been. If necessary, the

strategy is refined or changed. It also formally reviews its strategic plan mid-way through its life.

To assist with making strategic decisions, the board of HelpfulCare requires management to provide at least a short explanation for any matter they are asking the board to make a decision on, describing how the issue relates to the achievement of their purposes. Agenda items and management reports are also categorised based on which strategic plan goal they relate to so that the board is always thinking about the relationship between their work and the strategy.

Strategy is a standing agenda item at every second board meeting and the board of HelpfulCare has a dedicated annual strategy day where directors meet for an extended period to discuss strategy, changes in their operational environment and 'big picture' ideas.

The Friendlies

The Friendlies' purpose is recorded in their constitution as "to facilitate and coordinate the goodwill and generosity of the local community." They have developed an 'organisational charter' that expands on this, describing the three main ways through which they aim to achieve this goal.

Every year in December the Friendlies hold a 'community planning day' where they identify three key goals for the year through a consultative process with their members. These goals are then

communicated to members and other stakeholders in their monthly newsletter and on their Facebook page. They are reported on at the end of the year in their annual report. This forms their strategic plan.

Twice a year the Friendlies' board holds a half-day meeting at which they meet with members to talk about their progress towards achieving their purpose and make any refinements necessary based on their consultation.