Dr. Wieselhuber & Partner GmbH
Unternehmensberatung

NGOs in the 21st Century

The Opportunities Presented by Digitalization and Globalization

Foreword

In the past few decades, countless NGOs and nonprofit organizations have been established – based on the charity concept of America's post-World War II CARE packages. This relief work began with the U.N. and NGOs redistributing superfluous items and surplus agricultural products – the overstock of an affluent society. However, in the meantime NGOs have added social and environmental components to their work. All of these activities are commensurate with the responsible commitment and values of an informed and civilized society.

NGOs have become a key stakeholder in a system that often cannot really cope with the immense tasks of an increasingly networked world – afflicted by complex conflicts, rapid climate change, and galloping urbanization. On top of this, 3 billion people currently live below or at poverty level; 1.2 billion are without access to energy, and more and more people even in affluent societies are unemployed or even homeless.

The question is whether current organizations and structures that are called to solve these gigantic tasks are truly equipped to do so, or whether it might be necessary to restructure them. Why is this vitally important?

- In charitable organizations, "business models" based on donations are often no longer competitive and are thus no longer viable.

- In recent years, while many organizations have rapidly grown and have often multiplied their "business volume," their capacity has not kept pace, nor have they been able to keep up with the trends of digitalization and networking.

- Internal / external reporting and evaluation systems designed to meet the requirements of financial institutions have ballooned into administrational "monsters" – with many organizations now expending more energy on producing reports than on fulfilling their mission statements and thus impacting the world around them.

Successfully transforming NGOs to meet the needs of the 21st century means developing up-to-date and cooperative networks, adopting the Internet-of-things (IoT) as a concept, enabling decentralized and direct collaboration with units of competence, and developing synergies with partners. There is no reason that NGOs and social agencies cannot develop and implement new management structures, technologies, and innovative financial structures. However, charitable organizations need to realize this and have the courage and willpower to embrace new paradigms and invest in the future.

Daniel Emmrich
Dr. Wieselhuber & Partner GmbH

Kilian Kleinschmidt
IPA | switxboard

Table of Contents

Management
Summary

Management Summary

The external parameters for NGOs are changing as never before. Yet if an NGO is viewed and developed correctly, changing parameters can yield enormous opportunities. On the other hand, ignoring these shifting parameters and clinging to the past will open the NGO up to fundamental risks that can threaten its very existence. This publication takes a close look at three key dimensions of the fundamentally different parameters affecting charitable organizations today:

Digitalization and globalization are changing the parameters of NGOs

- **Donors** and the holistic social environment of the NGO. We will discuss the changes within this social environment, how this affects how donors communicate, and in what way this impacts their need for information.

- We will also discuss the increase in **"formal" requirements** for the organization, especially regarding transparency and compliance, and will consider today's need for proof regarding how the NGO deals with money, and the respective decisions resulting therefrom.

- Finally, we will consider how international organizations these days are **thinking about development policies in a brand-new way** and what they are doing to prevent the negative aspects of global developments from increasing.

The extent to which NGOs will be affected by these three trends will, of course, vary. This depends on the purpose, region, degree of organization and, finally, also the age and thus maturity of the NGO. In order to make the trends for necessary changes transparent, in this publication we identify various types of organizations, which enables us to allocate NGOs to a certain schema, and also to possibly identify causes and to formulate specific goals for each type of NGO.

The twin opportunities of digital communication and mobility are triggering these trends and changing parameters – and thus globalizing the issues at hand. As such, mechanisms that had been tried and true for decades – especially tools for providing relief for refugees and the victims of natural disasters – are now losing their punch. As a result, disaster relief now has to be deployed for longer periods of time and more intensely, which is making it increasingly cost prohibitive.

NGOs and the corporate sector need better collaboration

As such, in 2015 the United Nations drew up its Agenda 2030 for sustainable developmental aid, which fundamentally rejects tenets that until recently had been standard. This yields two consequences for NGOs: agencies can now implement more local activities, in contrast to the former method of simply distributing "alms". At the same time, NGOs now have to deal with privately owned businesses. As such, organizations will have to tolerate being compared with the corporate world regarding their degree of organization, processes, and efficiency.

At the same time, Agenda 2030 is also changing the setting for third-party donors – by expanding the parameters for making donations, increasing the complexity of the tender process, and requiring greater transparency for the results and efficiency of the tools used in the donation process.

These days, social media and ad-hoc posts are replacing celebrity figureheads and sponsors

Also, private donors are less trusting than they used to be. Individual social media posts are increasingly replacing sponsors, patrons, and other celebrity figureheads who once acted "drive belts of trust" or "symbols of trust." In addition, today people want to know – online and even in real-time – how their donations are being utilized.

The third dimension of increasingly formal requirements and standards of transparency for compliance and financial controlling is directly correlated to the first two dimensions. Questions regarding the reliability of information and the accuracy of numbers and statements will undoubtedly lead to closer scrutiny of respective decisions by executives and committees – even to the scope of their responsibility and the extent of their commitment. These days, "honest," that is, "atypical" persons will have to consent to formal scrutiny of themselves and their actions. Sadly, today even doing the right things the wrong way can lead to liability issues or accusations of criminal behavior.

For a long time, liability risks have been underestimated; today they are on everyone's radar

If they wish to prepare for the future, NGOs will have to take these shifting parameters into account and take the following actions:

- **Improve efficiency** by making their internal workflow more professional. Clearly defining the necessary processes and their documentation will reduce the workload of staff and minimize redundancies.

- **Impose rigorous standards of performance** by optimizing the executive and organizational structure. Define the workflow, and restructure the executive and organizational structure regarding their competencies and process responsibilities.

- **Improve compliance** by reducing liability risks for executives. Not only will thoroughly reworking all compliance relevant aspects make the liability risk more manageable, it will also ensure the viability of the organization.

- **Create transparency** by implementing flexible systems. To optimally communicate the improved efficiency of their internal work processes and of their new rigorous standards of organizational performance, NGOs will have to model these improvements in their IT systems as well.

NGOs that transform themselves by using these four methods will enhance their professionalism without surrendering their values and ideals. The NGO's classic values will simply be transferred into a corporate-like structure and into the digital and global age – while staying intact. Expanding the scope of their values and visions will thus make the NGOs' mission more robust and viable.

This publication makes clear that NGOs cannot avoid the impact of these sea changes all around them. In particular, formal requirements to adhere to compliance and enforce guidelines will lead to personal liability risks, and can threaten the very existence of the NGO, as donation scandals in the past have demonstrated. At the same time, we will demonstrate that there is no need to toss the NGO's cherished visions and values overboard. Rather, NGOs need to preserve them. However, this needs to be communicated and explained in a way that is relevant to today's world. By leveraging these new parameters, NGOs can become better and more successful than in the past.

A typical transformation process will analyze the initial situation by analyzing components (including donors and third-party donations, executive liability, and compliance). Mining this information, the next step is to create a holistic concept tailored to that particular organization. Next, detailed corrective actions for concrete operational implementation are drawn up (see Chapter 5).

We believe that the time has never been better to prepare NGOs for the future. However, we also know from experience that it is important to prepare and walk alongside the people within the NGO and its entire surroundings. If some employees' concerns – that the NGO might lose its values and that unknown changes might occur – are not taken seriously, the new concepts will not have any impact and these people will not truly appreciate the improvements that have been achieved.

**It's now or never …
Take advantage of the
new parameters to ensure
a successful transformation.**

1 Globalization and Digitalization – Creating New Parameters

Globalization and Digitalization – Creating New Parameters   1

Globalization and digitalization are part and parcel of everyday life, impacting the way we act and changing what we expect from third parties.

Today people can access any news item and piece of information – everywhere and anytime, even in real time; online access to information is front and center in every-day life. Social media are becoming increasingly crucial as well, serving as information sources that at times even supplant professional news portals – and they are polarizing society, too. Conversely, traditional information channels such as newspapers and news broadcasts have become less significant. These factors are even impacting the corporate world, as when occasional negative social media posts cause large corporations' stock market values to take a nosedive.

Providing information beyond traditional and new information channels, almost global access to the internet on mobile end devices now allows people to communicate across the globe. Instant messaging enhances the flow of instant information, with people able to send live reports from all over the world.

As a spin-off of globalization, the polarization mentioned above is triggering fear and skepticism in society, causing people to turn away from a more international point of view in favor of regional and more radical points of view or actions.

Permanent availability changes expectations regarding information flow and its availability
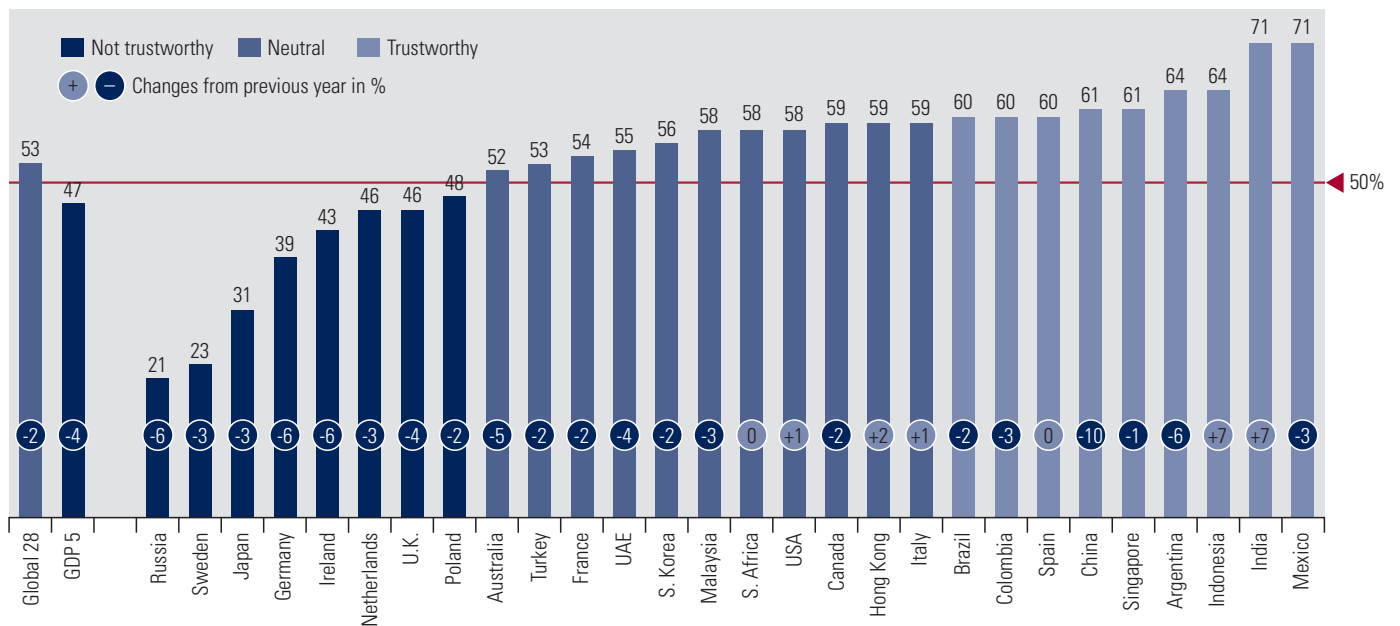
Fig. 1: Survey regarding the trustworthiness of NGOs, 2016-2017

Fig. 2: Number of NGOs with a consultative status in the ECOSOC (United Nations Economic and Social Council) from 1948 to 2014
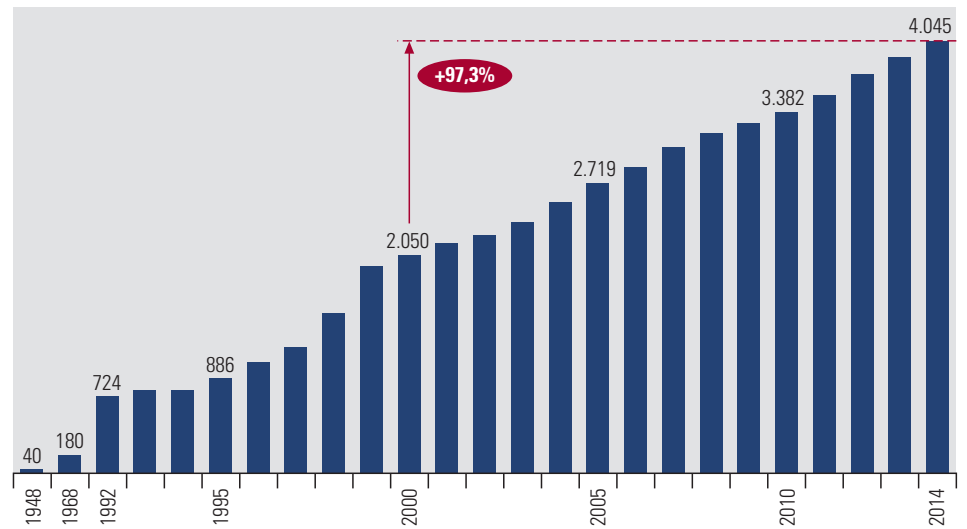
Not only are these global developments impacting politics and the corporate sector, they also play a key role for NGOs:

Traditional aid to developing countries combats symptoms, not causes

Traditionally, private donors are the most important source of income for classic NGOs. At the same time, this segment of donors is also affected by the fear of globalization. More and more, this concern is leading to an explicit distrust of NGOs that operate internationally – a factor exacerbated by the scandals of recent years.

In addition, current geopolitical events indicate that traditional development aid in regions affected by crises only reduces symptoms but does not address the core issues. This realization increases the political pressure on the NGOs active in these areas.

Fig. 3: Percentage of official development aid (ODA) compared to gross national income (GNI), 2015
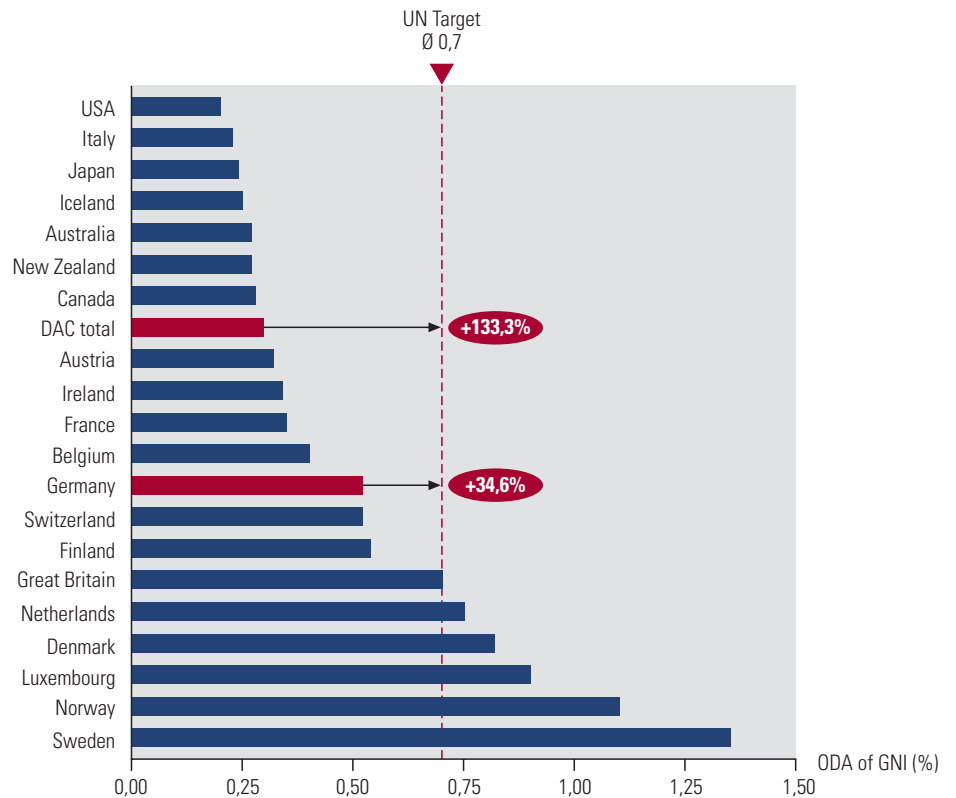
Fig. 4: Select negative headlines in recent years

Recognizing these geopolitical developments, the United Nations has drastically changed the parameters for international development aid with its "2030 Agenda for Sustainable Development." As such, distancing itself from its decades-old quest for "subsidies" for developing countries, the UN is now focusing on "help for self help."

Overall, NGOs are facing the challenge of regaining the trust of donors and institutions, now that polarization and various developments in society have prompted direct competition among organizations.

In light of this competitive environment, it is absolutely essential for organizations to adapt to the current challenges and requirements, since traditional fundraising tools are no longer sufficient. In fact, NGOs that do not evaluate their structures and initiate the necessary changes will cease to exist in the short or medium term.

UN leads the way: Only organizations that change will survive

2

2030 Agenda – the Impact on International NGOs

2030 Agenda – the Impact on International NGOs   2

In 2015, the United Nations adopted the "2030 Agenda for Sustainable Development."

This Agenda represents a sea change for current development aid and takes the current political and societal developments into account.

It includes a total of 17 sustainable and integrated development goals that are indivisible. Addressing economic, social, and environmental issues, the Agenda has three equal dimensions.

Building on and complementing the Millennium Development Goals of the United Nations, these goals aim to bring the world onto a sustainable and resilient path.

The UN is challenging every segment of society to fulfill the 2030 Agenda

Adopted by all 193 member states, the 2030 Agenda calls for adjustments not only in threshold countries and developing countries but also in industrial nations. The signers agree irreversibly that all three respective dimensions are integrated with one another and thus need to be changed together.

Implementing the 2030 Agenda is a global challenge that requires a contribution from all UN member states. Implementing these changes is a national challenge for each country and must not be limited to individual political subgroups.

Providing suggestions as to how to implement these changes, the UN stresses a partnership approach. Implementation should thus not be carried out at only a political level but should encompass every segment of society.

Since the Agenda is not limited to developing countries but is characterized by a holistic approach, every institution, organization, and part of society in every country is called to contribute.

Since 2015, member states of the United Nations have developed plans to implement the Agenda and address the defined goals. Supporting organizations must implement plans to:

1.	No poverty
2.	Zero hunger
3.	Good health and well-being
4.	Quality education
5.	Gender equality
6.	Clean water and sanitation
7.	Affordable and clean energy
8.	Decent work and economic growth
9.	Industry, innovation and infrastructure
10.	Reduced inequalities
11.	Sustainable cities and communities
12.	Responsible consumption and production
13.	Climate action
14.	Life below water
15.	Life on land
16.	Peace, justice and strong institutions
17.	Partnerships for the goals

Fig 5: The 17 sustainable development goals (SDG) of the UN. The UN is calling on every part of society to fulfill the 2030 Agenda.

In this context, Austrian NGOs in particular have served as good role models by proactively contributing to the development of an Austrian implementation plan.

In order to implement the 17 development goals, the member states adopted an implementation plan and financial budget to take action in these particular areas.

Because the UN's development goals no longer include providing indirect development aid – especially international development aid – there is now a strong focus on local, on-site implementation.

Additional subsidies are available

As such, NGOs wishing to contribute to the 2030 Agenda on an international scale will need much more on-site implementation than has been the case up to now. Third-party funds for this purpose are available. At the same time, NGOs also have to develop the necessary structures in order to implement the development goals.

Furthermore, international NGOs are not the only organizations being challenged here – national and regional NGOs are as well. In light of the UN's holistic and global approach, its sustainability goals call for improvements in every country in the world.

In accordance with the UN's SDGs, every organization is entitled to financial support, which must be applied for with the United Nations and used in accordance with the 2030 Agenda. Therefore, the United Nations demands a formal request for financial support in a call for tenders, which concludes with a detailed report on the progress of the project. In order for the funds to be allocated, organizations must ensure that both formal hurdles have been completed.

According to the 2030 Agenda, every segment of the population is responsible for supporting these goals and working towards them. This will lead to greater competition for the various financial resources. In addition to the NGOs, also for-profit organizations, investors, and institutions are called to act in accordance with the 2030 Agenda. Not only does this increase competition for the subsidies, it also opens up opportunities for sustainable partnerships between the nonprofit and for-profit sectors. In addition, since the United Nations explicitly demands and supports partnerships in its sustainability goals, the opportunity to forge partnerships will meet a key central requirement of the 2030 Agenda.

Thus, while the 2030 Agenda poses NGOs with the challenge of formal requirements and of increasing competition across sectors, it also offers the opportunity for long-term and sustainable partnerships. It is now up to NGOs and the corporate sector to overcome these challenges and to take advantage of these opportunities in a focused manner.

SUMMARY:

**The 2030 Agenda poses the following opportunities
and challenges for NGOs:**

1. Member states are offering new subsidies for targeted activities and projects.

2. Individual organizations have the opportunity to actively participate in the implementation of these activities and projects.

3. By focusing on implementing tasks on-site, either on-site presence or close partnerships are now at the core of international development aid.

4. The 2030 Agenda offers opportunities to open up the NGO sector for further long-term partnerships – beyond traditional NGO networks. In this context, business partnerships are becoming increasingly important.

3

What People Expect of NGOs in Today's World

What People Expect of NGOs   3
in Today's World

Based on the UN's 2030 Agenda and in light of the changes triggered by globalization and digitalization, what people expect of NGOs has changed drastically.

Since NGOs cover a wide and varied range, it makes sense to categorize and sort them. There are various dimensions of charitable organizations. The first way to categorize them is according to their degree of organization and internationalization. We can view their degree of organization in the following developmental stages:

■ **Individual persons and visionaries:** Stage 1 of an NGO's development is based on one or several individuals who develop a vision and follow it. At this point, the NGO does not yet have any staff and consists only of the visionaries.

■ **Mutual support groups:** Moving on from Stage 1, the visionaries attract persons who share the vision and its values. Their staff is characterized by a high degree of volunteerism and intrinsic motivation.

■ **Organization:** Attracting funds and garnering success in their operations, these mutual support groups evolve into organizations that develop organizational structures and substantially change regulatory parameters.

The path from an individual to an organization documents a dimension of an NGO's maturity. As the organization matures, the need to develop professional work processes and structures is often underestimated.

An NGO's degree of internationalization can be categorized as follows:

■ **Regional NGOs** focus on implementation in their home region or country.

■ **International NGOs** operate mainly in another country or outside of their home region, financing their activities mainly with funds from their country of origin.

■ **Global NGOs** use their funds in various countries outside of their home region, usually financing their activities with funds from a variety of countries.
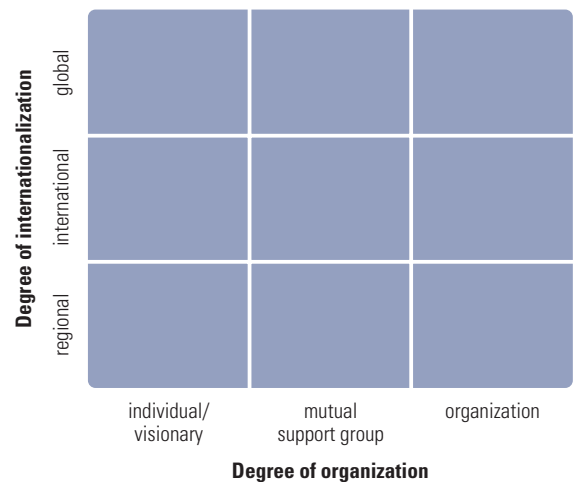
Fig. 6: Stage 1 of an NGO typology

While Stage 1 of the typology allows for clear delimitations, there is a fluid transition in Stage 2 of the typology. This is because Stage 2 addresses the donation structure and also the degree of implementation of the NGOs. In this context, the donor structure delimits two key areas of funding:

■ **Private donors:** Financed primarily by private donors and corporate cooperation, the NGO focuses on traditional fundraising and takes a great interest in targeted public relations.

■ **Public funding:** The NGO is primarily supported by public funds; private donors play only a minor role. The NGO focuses on keeping close relations to third parties in politics and society, which are the main source of its funding.
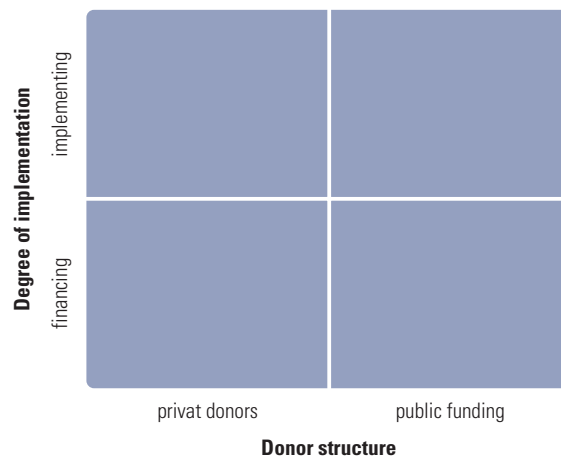
Fig. 7: Stage 2 of the NGO typology

The second dimension of the degree of implementation distinguishes between the following:

■ **Financing NGO:** This type of NGO focuses on raising its own funds. Funds raised are passed on to another NGO to finance the implementation of specific activities.

■ **Self-implementing NGO:** This NGO collects funds and uses them to implement specific activities. It has a large staff in the various target regions and covers the entire value chain from receipt of funding to final utilization of funds.

Based on this typology, we will now discuss in detail what private donors and third-party donors (public funding) expect of NGOs. Finally, we will elaborate the paradigm shift in development aid, which is opening up new opportunities for today's NGOs.

3.1 Private Donors – Real-Time Information Is the Standard

Traditionally, private donors provide the lion's share of the annual donations of an NGO. Especially in German-speaking countries, over the decades private individuals have traditionally been active in funding charitable projects. They tend to support social services and organizations, which finance social projects all around the world on behalf of the donors.

However, as noted above, private donors are becoming increasingly skeptical of globalization, which has led to a decrease in donations – especially for NGOs operating internationally and globally. Similarly, we are noticing a trend toward regionalization among private donors, a move exacerbated by scandals in large NGOs, as reported by the media. Rather, private donors are now focusing on the "tried and true" and in increasing measure are turning away from international development aid. Questions such as, "Will my money really reach the poor?" or "How much of my money will disappear on its way to the target country?" are typical of the skepticism of traditional private donors.

Skepticism and distrust are typical of the behavior of private donors

A combination of skepticism toward globalization and people now used to always being able access the desired information – is changing what private donors expect of NGOs. This is posing two key challenges for NGOs:

The "Transparent NGO" – a Standard of the Future

In an age when people can – even on the way to work – get on their smartphones and check their bank statements and see whether their paycheck has been deposited, there is an increased expectation to also track their social involvement "live". This means that charitable organizations more than ever will need to create maximum transparency regarding financial transactions and their effect. In this day and age, the average private donor wants to experience his or her charity work "live" and in real-time.

Making the "live donation experience" standard will reduce skepticism and build trust

Donors want to be able to define their "live donation experience" individually. This is why, when communicating with their donors, NGOs need to include "soft information," such as images, written reports, and the technical background, as well as "hard numbers" on the utilization of funds which can stand up to financial controlling.

To ensure that these reports for donors are audit proof, rigorous standards for organizational processes and information management are necessary. As such, persons donating to an international or national organization must at all times be able to ascertain what the money they had donated is doing. Financial and material donations and also the progress of every single activity will have to be transparent and comprehensible.

This kind of "control" can reduce skepticism in donors because the organization is inviting them to become their "financial controllers," as it were. These NGOs are thus demonstrating that donations are being used the way the donors had intended.

Donors are themselves becoming financial controllers

In this way, NGOs can become a professional, digital interface between the place where the funds have been spent – and the donor. Put another way, even international development aid can now become a "live" experience.

The Competency Profile of the Respective NGO Has Become More Important than Ambassadors, Visionaries, and VIPs

The star power of ambassadors and visionaries is fading. Core competencies are now in the spotlight

Celebrity ambassadors, visionaries, and founders serving as figureheads of an NGO are increasingly losing their star power. Private donors these days are interested in a competency profile of the social projects and activities that the NGO carries out.

Thanks to the possibilities of the digital age, potential private donors are now able to research the activities of the NGO. Conversely, they are no longer relying on the star power of celebrity ambassadors and visionaries.

This is disrupting an old tradition in this sector: people are no longer interested in personalities. They want to see the organization's achievements. Whereas for years, organizations have often used celebrities as their trademark – someone who de facto personally vouched that donations to this organization were being utilized correctly – in light of recent scandals this approach is no longer tenable. Now the organization's work is in the spotlight.

Even though terms such as "product" and "performance" are usually unpopular with charitable organizations, we must note that today's private donors are keenly interested in knowing how their money is being used. No one cares anymore which celebrity is endorsing the use of the funds.

This development is also closely correlated to the communication channels of the 21st century. Traditionally, postal mailings – especially in the pre-Christmas season – have made up the bulk of fundraising activities of organizations. However, social networks are gaining ground and should not be ignored. Here too, the name of the game is that donors want to get a glimpse of their organization on their own – and in the blink of an eye. If organizations wish to provide such an experience for their donors, they need a good presence in social media.

SUMMARY:

It is vitally important for NGOs to be professional

In light of what private donors are now demanding, charitable organizations are between the proverbial rock and a hard place. On the one hand, NGOs are extremely value oriented and organized in a very "casual" manner. This is why – from an emotional point of view – they usually reject the kind of organizational structures used in the corporate world. On the other hand, the expectations of private donors make it vitally important that organizations embrace corporate-like structures. As such, management in charitable organizations must strike a balance between maintaining traditional values and adopting a professional approach in the digital world if they wish to ensure the funding of their social activities in the future.

3.2 Third-Party Donors – The Tender Process, Budgeting, and Reporting as Prerequisites for Receiving Subsidies

Not only have the expectations of private donors changed, so have the expectations and importance of institutional third-party donors.

How to Efficiently Participate in a Tender Process

Institutional third-party donors such as Germany's federal ministries, the World Bank, the International Monetary Fund, or the United Nations follow very strict and bureaucratic procedures for their tender processes. In accordance with compliance guidelines, these procedures ensure that funds are used the way the donors intend them to be utilized. On the other hand, the tender process poses a tremendous challenge for the bidding organizations. This is due to the enormous amount of additional manual effort to fulfill the formal criteria of the tender process. As such, organizational data is usually very one-dimensional, which makes it almost impossible to prepare a formal budget for the tender process.

The current data situation of NGOs is definitely a barrier for the tender process

In order to increase the possibility that an organization can compete in the tender process, it is necessary to administer project-related qualitative and quantitative data in a dynamic system. This allows the organization to fulfill the formal criteria of the tender process efficiently and in a goal-oriented manner.

Structured Budgeting and Project Reporting that Conforms to Standards

After an organization has successfully participated in the tender process, it must submit detailed and transparent reports regarding contents and cost of the project process. This report must conform to the formal criteria of the third-party donor regarding structure, depth of information, and reporting frequency. Although to date these formal criteria are not uniform, every third-party donor requires its own structure and project reporting revolves around a "budget-actual-cost comparison" structure. Key criteria are the successful project implementation and seamless reporting that meets the requirements. All of this determines the volume of future subsidies for the organization and whether the organization will be entrusted with carrying out further projects in the future.

Dynamic budget/actual comparisons ensure efficient project reporting

Because the requirements of the various third-party donors differ, the divergent budget and reporting requirements are major challenges for organizations – especially for NGOs that operate internationally. The various formal criteria for budget and reporting generate a lot extra manual work for organizations. This can also lead to NGOs limiting themselves as they apply for funds and focus on the necessary structures of select institutions, even though that NGO could also profit from other third-party donors.

SUMMARY:

Rigorous standards for work processes and a dynamic data foundation are the decisive factors in obtaining "subsidies"

If they wish to meet the expectations of third-party donors regarding the formal criteria for a tender process and also for project implementation, organizations will be challenged to optimize their internal processes and IT systems.

The central aspect is to provide detailed data and flexibly process or compile their existing data: every single project within the organization must be budgeted and traceable based on cost type. It must be possible to correlate the structure of the project with the existing structure of the third-party donor in a simple manner.

At the same time, organizations must optimize the internal processes of gathering information. Double data entry must be eliminated and there needs to be a central data system. This will significantly reduce the usual additional effort in tender processes, budget compilation, and project reporting.

Even though introducing a central bookkeeping and ERP system leads to significant costs, as far as third-party donations are concerned, it is the key to success.

Organizations that are able to efficiently and dynamically react to changes in the required formal criteria will have the potential for more subsidies from a variety of sources than before. This will enable these NGOs to substantially increase their donations from third-party donors in times when income from private donors is down. This will also ensure necessary flow subsidies in difficult times.

Furthermore, the formal requirements of third-party donors can serve as a "training ground" for the transparency requirements of private donors.

3.3 Private Project Development – The Paradigm Shift in Development Aid

In light of global climate change, the worldwide refugee situation, and demographic developments around the globe, private investors are increasingly discovering development aid. It has become apparent that the traditional method of financing is no longer sufficient to finance refugee camps in crisis regions, since "subsidizing" crisis regions rarely leads to sustainable improvement of the local situation.

As we can see by the tremendous popularity of populists in politics, increasing radicalization is causing private investors to be more open to "changing something" than ever before. For instance, it is noteworthy that infrastructure projects in regions of high risk are increasingly being financed by private business.

NGOs do not have a monopoly on development aid – private investors are now coming on the scene

At the same time, we should take into account that investors from the corporate sector do not view such projects as "no-profit investments." As such, their goal in infrastructure projects is to sustainably develop the structures in those regions, create jobs and business environments, and generate social and also financial profit.

At first glance, this development would seem to contradict the original or traditional concept of development aid. However, a closer look reveals that this concept of development is the same because private investors will primarily develop a basic level of wealth in a particular region in order to develop it into a promising economic region at a later point in time. With globalization even encompassing crisis regions, this opens up brand-new prospects for the local population. As such, the efforts of the corporate sector harmonize with the United Nations' Agenda 2030 for Sustainable Development.

What does this trend mean for charitable organizations that operate internationally and globally, and how can we make use of it?

Fig. 8: Positioning private project development relative to development aid

NGOs Handing Over the Reins

In traditional development aid, organizations directly or indirectly implement a defined project. The NGO is responsible for project management and successfully implementing the entire project. This means that the NGO has complete governance over implementation and basically operates like a prime contractor.

However, in a project financed by private business, the roles are switched. Here, the NGO is no longer the project manager but is responsible only for the implementation of a clearly defined component of the project. Overall project management or the position of the prime contractor now lies with the private investors. Nevertheless, when drawing up the project, the investors will seek support from the NGO for individual areas, even though the organization's support will be limited to an area of real competency of that particular NGO. For this reason, an organization wishing to play a supporting role in this environment will need to precisely define its competency profile and advertise these skills accordingly.

Core competencies are key-project management is shifting from the NGO to private investors

Project description:

Developing a sustainable economic region in a rural area of a developing country

▼

Goal:

Sustainable improvement of the standard of living of a rural population by securing income, education, health, and economic initiatives
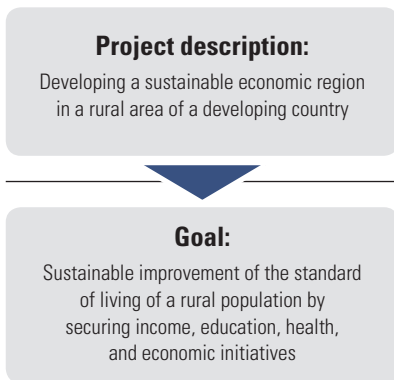
Fig: 9: Exemplary private project development and the role of NGOs

Project components	NGO	Private business
Building infrastructure – roads, electricity, and water		✔
Building schools and infirmaries		✔
Building training centers		✔
Educating the population to improve agricultural profit	✔	
Building factories to process agricultural products		✔
Training teachers (schools and training centers)	✔	
Training medical staff	✔	

NGOs Are Initiating Projects and Serving as Incubators for Integrated Development

Private project developers rely on people to initiate projects and provide project ideas that business developers will implement over the course of the project. This important role is a major opportunity for NGOs to substantially enhance traditional project activities. Even though the activity of the NGO is only one component in the larger project, this approach allows the organization to influence sustainability and development in the region much more significantly and quickly than with the traditional method of financing by donations. In addition, it allows the concept of integrated development aid to grow deeper roots. However, NGOs need to recognize this new opportunity and refrain from their often-skeptical attitude toward commercial and private project development.

Since all charitable organizations are bound by legal guidelines regarding their non-profit and "NGO status," it is imperative to scrutinize the parameters for any dealings of this kind. Also, since private project developers greatly support the "sustainable development aid" concept, every country offers opportunities for projects of this kind.

Strategic Change among NGOs

In addition to observing regulatory and organizational parameters, organizations must also make a strategic decision to this affect. In this context, the focus of the organization and the structure of the donors and the donating community play a decisive role. The organization needs to be able to answer the following question: Does our current traditional donor and donating community support interaction with private business and its projects – or not?

In this context, public relations play a key role if the organization wishes to be successful.

!

Internal core questions regarding this paradigm shift

An organization ready to take advantage of the opportunities of this paradigm shift should contemplate the following points before launching the project:

- How great is the culture shock for our donating community?

- Do we have "buy in" from our staff? How can we prepare our staff accordingly?

- Does our organization have the necessary skills?

- Do we have the necessary manpower and resources on-site to accept this project?

SUMMARY:

**The corporate sector and charitable organizations
are migrating towards each other.**

This is leading to a substantial paradigm shift because, up to now, traditional charitable organizations have disassociated themselves emotionally and also regarding content from profit and marketplace-oriented sectors. However, the trend toward a "paradigm shift in development aid" is largely removing these opposite poles. This indicates that current geopolitical developments – which triggered the 2030 Agenda for Sustainable Development in the first place – are moving the various economic sectors closer together. As such, it is necessary for all parties in these sectors to reach out to one another.

4

The Challenges for NGOs

The Challenges for NGOs 4

Based on the typology of NGOs, the various expectations posit a number of challenges that organizations must meet.

In order to determine which adaptations to make, the following steps are vitally important:

- Determine your NGO's strategic position.
- Define which target position you wish to achieve.
- Determine the values of your own staff.

After determining your current position and defining which target position you wish to achieve, you will be able to ascertain the scope and depth of the adaptation. Next, you must prioritize the challenges.

Independent of the typology of the NGO's position, competition among NGOs has substantially increased – especially in the recent past. It is noteworthy that, because of numerous variations in degree of internationality, structure of the donor, and degree of implementation, even individuals and visionaries are now competing with established, professional organizations.

In order to decide which challenges your organization is facing, defining the individual strategic target image of the organization is key. Not only does the target typology need to be determined, so do the desired future donating groups since they very much define the requirements of the NGO. Future target donating groups will also determine the direct competition of the organization.

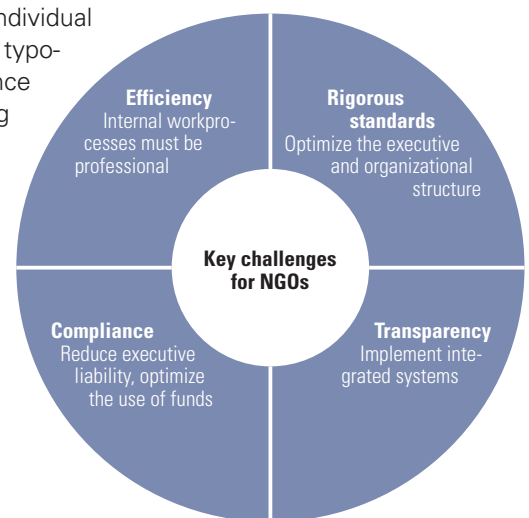Fig. 10: The four challenges of NGOs
in the 21st century

Efficiency
Internal workprocesses must be professional

Rigorous standards
Optimize the executive and organizational structure

Key challenges for NGOs

Compliance
Reduce executive liability, optimize the use of funds

Transparency
Implement integrated systems

4.1 Efficiency – Internal Work Processes Must Be Professional

Internal work processes are the key to an efficient and professional organization.

Transitioning from a "jack of all trades" to a structured process map is the key to efficiency

Based on their history, charitable organizations often have a "jack of all trades" structure. As such, especially long-time employees are used to working or assisting wherever necessary. What's more, over the years employees build up their own skill sets – without any particular training in that area. While this is not necessarily a negative thing, efficient organizations do need to clearly define and delineate their employees' tasks.

The key to optimizing internal processes is to have a clear process structure. It is of prime importance that all employees know what happens in the process step before or after their particular task.

NGO administration deals mainly with information processing. Let's look at an example from public relations.

Employees who are responsible for the public presence of the organization in social media focus on the latest trends in the online community. Depending on these trends, every day they will define how many short stories or images are necessary, and will distribute them on the respective platforms. Accordingly, these employees will pass on a need for information to their colleagues, requesting documentation for final processing. The colleagues responsible for documentation must know precisely how to format and design the posts, so as to minimize the need for picture or text editing. Efficiency in this process will also give those first employees more time to
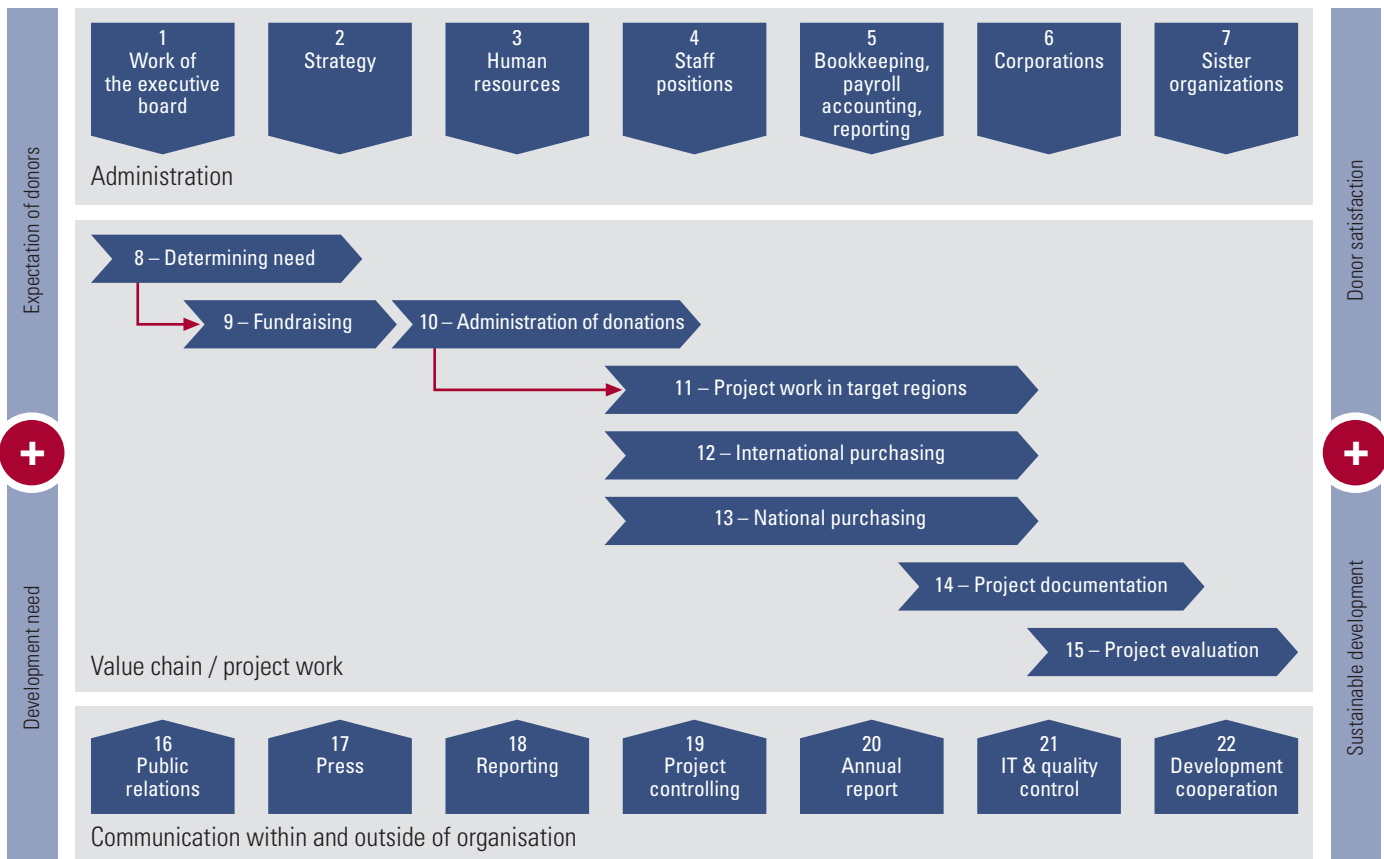

Fig. 11: Map of core processes in an NGO

display the organization on various online platforms, rather than having to edit the necessary information.

Thus, understanding the "supplier-customer" concept is key for optimizing work processes.

Specific characteristics of international and global NGOs

NGOs that operate internationally and globally have specific challenges regarding their internal work processes. This is due to the variety of possible international and global structures, and also due to cultural differences between the "mother country" and the "target countries" of the organization.

In order to ensure efficient and transparent implementation of the various projects in an international or global environment, creating local organizational structures is vitally important.

From a legal point of view, various constructs have a major impact on the work processes of the organization:

- **A sister organization in the target region:** A sister organization in a particular target region is a legally independent organization. The sister organization has its own executive and organizational structure as well as its own (independent) work processes. In order to make the work processes in the organization in the "mother country" efficient, necessary interfaces with the sister organization must be clearly defined. Since the sister organization is legally independent, it is also independent from the parent organization in disciplinary matters and regarding methods. All of this needs to be considered when optimizing and documenting vertical work steps and their interfaces.

  It is very difficult to thoroughly apply processes to a sister organization

- **A subsidiary in the target region:** Subsidiaries in the respective target region are also legally independent, although the parent organization has direct access to the executive and organizational structure of the local organization. This makes it possible to directly correlate internal work processes because the subsidiary answers to the parent organization regarding disciplinary action and also regarding methods. For this reason, as far as the process map is concerned, a subsidiary can be completely integrated within a parent organization.

  A subsidiary must be completely integrated in organization-wide processes – this makes corporate structures necessary

- **A permanent establishment in the target region:** As opposed to a sister organization or subsidiary in the target region, a permanent establishment is not legally independent of the parent organization. There is a much closer correlation between the home organization and the permanent establishment than between a sister organization and a subsidiary. Regarding executive and organizational structure, this leads to key differences. Regarding work processes and their interfaces, there is no difference between a permanent establishment and a subsidiary because disciplinary and method authority lie with the home organization.

  Permanent establishments must be completely integrated as well

- **A partner organization in the target region:** A partner organization in the target region is characterized by complete independence and locality over against the home organization. The only way the home organization can access work processes of a partner organization is via legal constructs, cooperation contracts, and legal agreements. Usually, the local partner organization has no connections with the home organization. Rather, local NGOs usually implement the respective projects as representatives of the home organization. At the same time, because it is independent, the local partner organization cannot be integrated into the processes of

  Due to their complete independence, partner organizations can only be integrated contractually

the home organization. Here it is most important that the necessary information and access are laid down in a contract that will stand up in a court of law. However, these contracts pertain only to disciplinary and methodological authority.

<div style="float: left; width: 30%; text-align: right; font-weight: bold; color: #1F3864;">
Direct project supervision is a key component of the process map
</div>

■ **Direct project supervision in the target country without local structures:** Especially individuals, solidarity communities, and small organizations do not need local structures. Rather, they support single projects that they supervise directly on their own. The organization supervises work processes on its own because the recipients of the support are not part of the process chain. However, direct project supervision without local structures is not possible for mature organizations due to their size and their many project activities.

In order to optimize the work processes in an international or global organization, other key factors besides the indicated legal constructs are for the employees in the home organization to understand in detail and consider the culture and work process of the local staff. This is the only way to successfully integrate the local staff, which is decisive for a successful transformation.

<div style="float: left; width: 30%; text-align: right; font-weight: bold; color: #1F3864;">
Take cultural differences into account
</div>

Needless to say, every employee wishing to demonstrate outside of the NGO the project work and thus the core skills of the organization must be extremely well informed about the process of the project work. This can only be ensured by regular visits to the target region. As such, staff in the home organization must be willing to travel.

<div style="float: left; width: 30%; text-align: right; font-weight: bold; color: #1F3864;">
Creating a matrix structure will grant you control of methods
</div>

In the case of subsidiaries, local permanent establishments, and local partner companies with cooperation contracts, staff in the home organization must keep in mind that they are in a position of leadership over the local staff – at least as far as the methodology goes.

This is especially true for the financial department of the home organization, since international or global structures sometimes have a tremendous impact on accounting.

How International Structures Impact Accounting

Organizations with subsidiaries or permanent establishments must consider the following for their accounting: According to international and also national accounting regulations, these organizations are required to consolidate their annual financial statements.

Furthermore, local organizational units must adhere to local accounting regulations in the target country, in that the organization must take into account different annual financial statements.

However, if the organizational structure is not set up properly, this can lead to much more effort for employees and can even cause managers to find themselves in a legal gray area. This is why, especially in financial matters, international or global process chains are indispensable.

It is therefore important to clearly define the areas of responsibility and the data to be compiled – with posting the receipts of funds and project expenses being a minor issue. Rather, depending on the target country, scrutinizing and recording the legal transfer of property from the home organization to the local organizational unit in accordance with local regulations and international accounting rules is the greater challenge.

As such, staff in the two finance departments must work closely together in order to ensure proper bookkeeping.

Furthermore, correctly posting all business transactions, including balancing fluid assets and fixed assets, is the backbone for the transparency required of an NGO. As such, the director of financing in the home organization is responsible for bookkeeping in the entire organization, including in all subsidiaries and permanent establishments.

In this aspect, NGOs operating internationally and globally – with a subsidiary or permanent establishment in the target region – have the greatest potential for improving their efficiency. In order to sustainably realize these potentials, they need uniform accounting structures across the organization. For instance, this means that organizations need a central account plan to correctly and efficiently consolidate their accounts. Organizational units must also be accounted for in the respective bookkeeping system. Fortunately, in light of the enhanced technology all over the world, having a uniform accounting system is no longer utopian. In fact, it is a basic requirement for creating sustainable transparency in financing.

Key issues in global accounting

- Who posts financial transfers to the organizational unit?

- Who posts project expenses?

- Who posts materials that were purchased internationally as supplies?

- When are the supplies recognized as assets of the local organizational unit?

- Who records warehouse additions and withdrawals and how are these recorded in accounting?

- How are buildings, vehicles, and machines in the target region evaluated and written off for tax purposes?

- Who is responsible for the correct recording of assets?

- When should annual financial statements be submitted?

- How are the annual financial statements (local and global) structured?

SUMMARY:

Easing staff workload and creating a foundation of transparency

Enabling staff to understand the process within the organization lays the foundation for future transparency. This significantly eases staff workload, so employees can concentrate on their respective core competencies. However, in contrast to a business, when an NGO optimizes its processes, the main focus is not to "optimize staff" in the sense of reducing HR costs. Rather, in an NGO the point is to efficiently use active employees within processes in order to create latitude for more growth in the organization.

An organization that is able to optimize internal processes – even in light of international and global specifics – will have a competitive advantage in the marketplace and also benefit from motivated staff that is not overburdened.

4.2 Rigorous Standards – Optimizing the Executive and Organizational Structure

Representation vs. liability – strictly distinguishing between committees and executives

The management structure of an NGO is primarily characterized by two key components. One component usually consists of committees representing the NGO to the outside world. In the other one, every NGO has executives that fulfill various tasks – from oversight to operational responsibility. The basic difference between these two components is their institutional liability, which only applies to the legal executives of the organization.
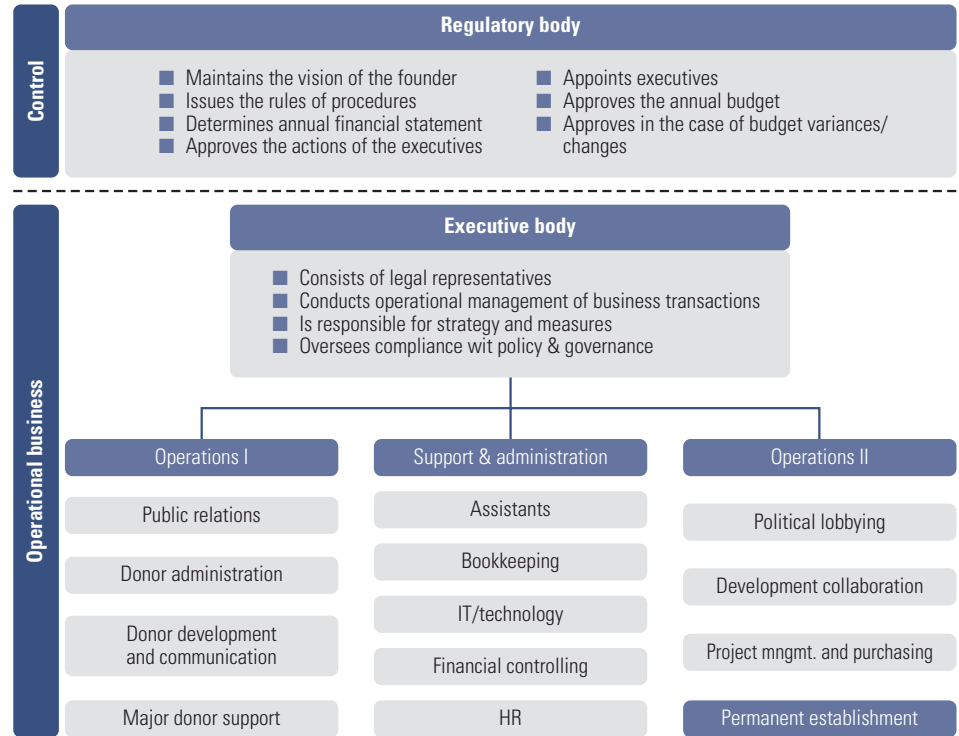
Control

Regulatory body

- Maintains the vision of the founder
- Issues the rules of procedures
- Determines annual financial statement
- Approves the actions of the executives

- Appoints executives
- Approves the annual budget
- Approves in the case of budget variances/ changes

Operational business

Executive body

- Consists of legal representatives
- Conducts operational management of business transactions
- Is responsible for strategy and measures
- Oversees compliance wit policy & governance

Operations I	Support & administration	Operations II
Public relations	Assistants	Political lobbying
Donor administration	Bookkeeping	Development collaboration
Donor development and communication	IT/technology	Project mngmt. and purchasing
Major donor support	Financial controlling	Permanent establishment
	HR	

Fig. 12: Exemplary illustration of the corporate structure of an NGO

Even though NGOs can take on different legal forms, they all have a regulatory body and an executive body – comparable to a board of directors and the executive board of a publicly held company.

The compliance point of view requires a clear line of separation between the tasks of the regulatory body and of the executive body

Especially large organizations that have grown historically are characterized by having these two central bodies that are not clearly separated from one another. Especially from a liability point of view, this can lead to difficult situations.

The regulatory body – governing by means of competence and dynamics

The distinct task of the regulatory body of a charitable organization is to govern day-to-day business by means of their competence, that is, maintaining the strategy and the direction of the organization.

As such, the regulatory body must ensure the skills necessary for assessing the day-to-day business of the organization.

Furthermore, members of the regulatory body must also adapt to the latest exter-nal parameters and ensure that the latest trends are considered in the corporation's strategy. This requires the regulatory body to be quite dynamic as it identifies and evaluates developments in society, politics, and technology.

A competent regulatory body will ensure that operational business is in line with the organization's strategic focus

Unfortunately, in reality NGOs usually operate quite differently: former operational managers transition directly from day-to-day operations into the regulatory body. In this way, the regulatory body does less governing and becomes more like a board of elders consisting of well-deserved former managers.

Quite often these regulatory bodies are characterized by unique attributes such as "co-option." Since by definition this means that existing members vote for new members, co-option will eventually lead to a closed, autonomous, and privileged community. New members in the regulatory body are selected as to how well they fit in with existing members, regardless of their competencies. Under these circum-stances it is very doubtful whether the regulatory body would ever be able to or prepared to change.

Co-option stymies renewal

The executive body – responsible for operational business

Operational management in a charitable organization is responsible for day-to-day business. The executives are personally responsible and as a body are also liable for the organization.

In particular, organizations often ignore the fact that their executives are respon-sible for complying with liability law. In order to fulfill this responsibility, executives in charitable organizations must therefore at all times stay well informed of the current status of operational business. This is where optimized work processes intersect with the management structure and – based on the work processes – clear internal reporting and financial controlling of the structure can be set up. This enables mana-gers to report to the internal regulatory body and also to third parties.

The executive body is liable for the organization

Organizational structure – ensuring compliance with liability law

Because the executive body is completely responsible for operational business, or-ganizational structure is very important – especially in international and global organ-izations. There is a wide range of possible organizational structures and they differ regarding their legal framework.

■ An **umbrella organization** unites various sister organizations and creates clear organizational structures. All existing systems organizations report to the umbrel-la organization, which is the legal parent. This model maintains existing structures – even in legal matters – and ensures improved compliance with the strategic focus, communication, and presence to the outside world.

■ A **holding organization** reorganizes a combination of the permanent establish-ment and various sister organizations, making the permanent establishment a subsidiary of all the sister organizations. The sister organizations have corporation agreements with one another, which defines their various responsibilities and transfers responsibility from the permanent establishment to the sister organi-zations and executives. According to this model, responsibility depends on the respective stake in the holding.

Fig. 13: Exemplary illustration of an
umbrella organization
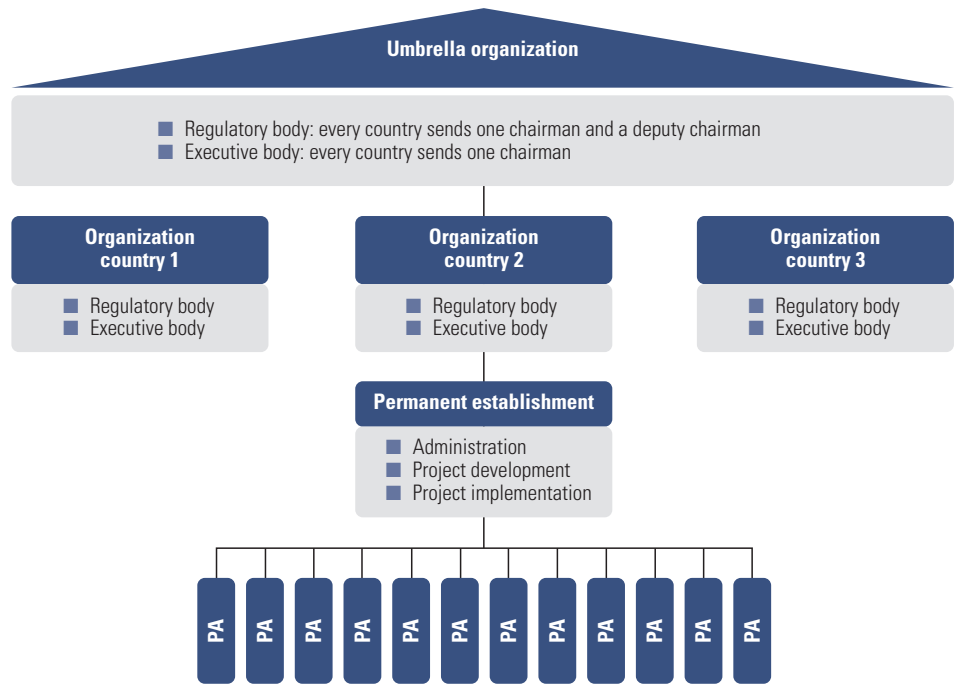
Corporate structures (subsidiaries): the third option is to terminate the actual sister organization and blend it with an international organization. This results in a classic corporate structure, with the permanent establishment becoming a classic subsidiary of the new international organization, which in the future will support the former sister organization. Thus, the executive body of the international organization is responsible for the entire operational business in the individual countries and in the permanent establishment.

Fig. 14: Exemplary illustration
of a holding organization
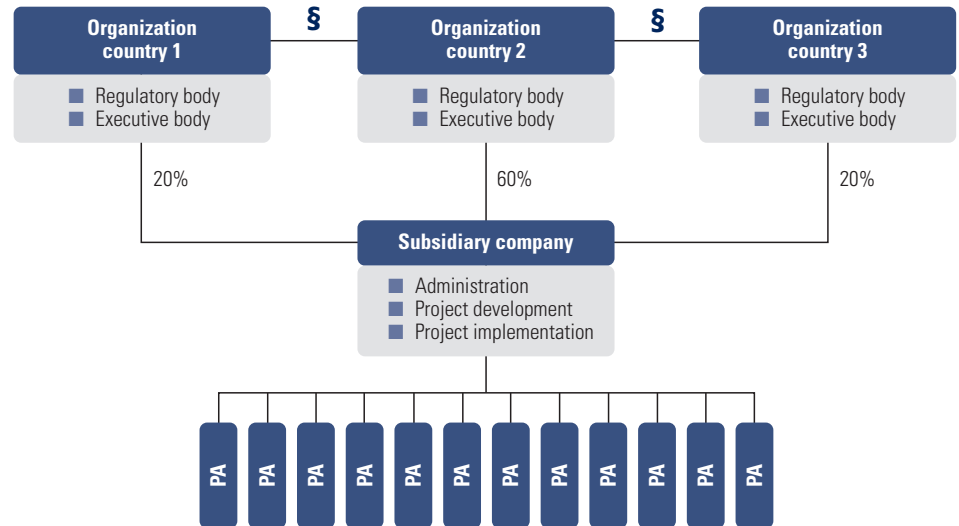
A matrix organizational structure ensures efficient work processes

In order to ensure the efficiency of the work processes, especially international or global organizations that have implemented one of the three organizational structures should implement a matrix organizational structure.

This approach distinguishes between disciplinary and methodological employee management. This is especially necessary for all work processes that interface with other organizational units, ensuring the desired efficiency regarding unity and correct implementation of the tasks.

International Organization
- Regulatory body: two members for each country
- Executive body: two members from each country

| Branch office country 1 | Branch office country 1 | Permanent establishment | Subsidiary country 3 |

PA PA PA PA PA PA PA PA PA PA PA PA
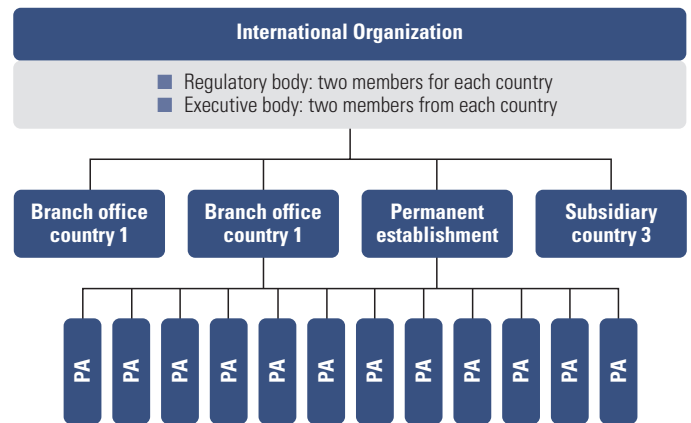
Fig.15: Exemplary illustration of a corporate structure

SUMMARY:

Assuming a leading role thanks to competent self-management and rigorous standards

Rigorous standards for executive and organizational structures transparently define the liability guidelines for executives. In addition, rigorous standards for the organizational structure ensure implementation of optimized work processes, especially in the international and global arena.

Furthermore, an organization that adapts its own management structures plays a leading and competitive role regarding its credibility, internal competencies, and self-management.

4.3 Compliance – Reducing Executive Liability and Optimizing the Use of Funds

Regaining trust – focusing on compliance

One of – if not the – central topic in charitable organizations is compliance. By definition, compliance deals with abiding by the laws, the rules of the organization, and respective action. As such, compliance guidelines of a charitable organization also reflect its internal value system. The distrust toward NGOs mentioned above needs to be reduced by introducing rigorous standards – and transparent and detailed compliance. Especially in the past few years, organizations worldwide have been rocked by numerous scandals. Regardless of the background of the scandals or whether there is any truth to them or not, the public perception of the entire NGO sector has suffered greatly.
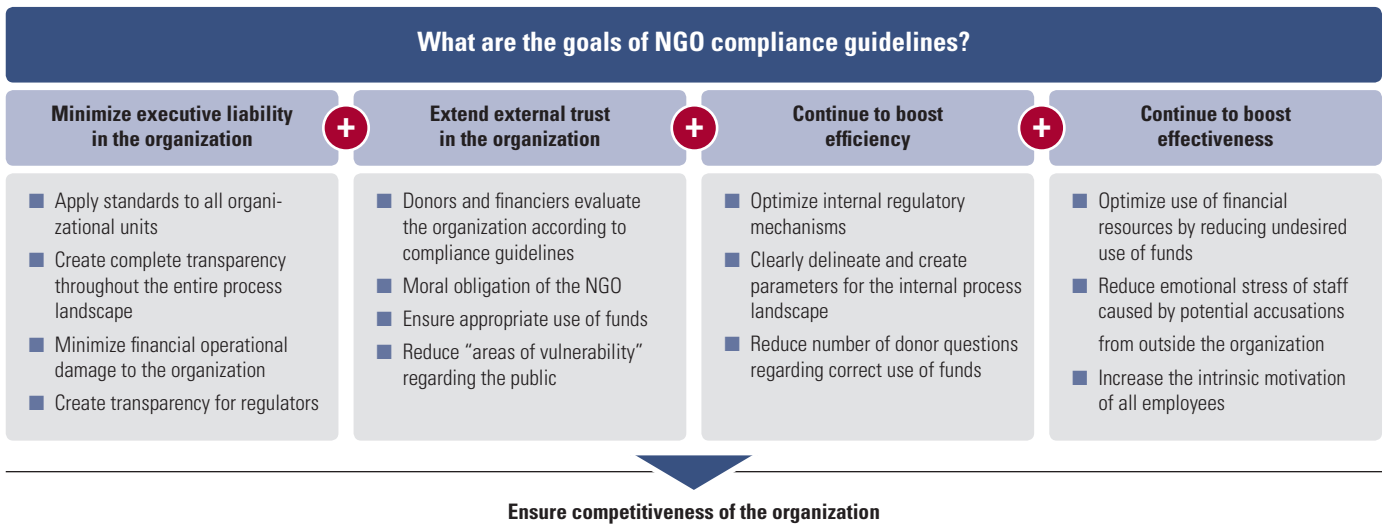
What are the goals of NGO compliance guidelines?			
Minimize executive liability in the organization	**Extend external trust in the organization**	**Continue to boost efficiency**	**Continue to boost effectiveness**
■ Apply standards to all organizational units ■ Create complete transparency throughout the entire process landscape ■ Minimize financial operational damage to the organization ■ Create transparency for regulators	■ Donors and financiers evaluate the organization according to compliance guidelines ■ Moral obligation of the NGO ■ Ensure appropriate use of funds ■ Reduce "areas of vulnerability" regarding the public	■ Optimize internal regulatory mechanisms ■ Clearly delineate and create parameters for the internal process landscape ■ Reduce number of donor questions regarding correct use of funds	■ Optimize use of financial resources by reducing undesired use of funds ■ Reduce emotional stress of staff caused by potential accusations from outside the organization ■ Increase the intrinsic motivation of all employees

Ensure competitiveness of the organization

Fig. 16: Compliance goals for NGOs

Reducing executive liability

Executive liability poses immense risks

In light of potential damage to an organization's image due to scandals and attacks from outside the organization, the number one issue for every kind of charitable organization is executive liability. Executives responsible for operations must ensure that the organization without question operates within legal bounds.

In order to defend the organization's ethical behavior before third parties, the responsible executives must at all times stay informed about the operational business.

This is why compliance guidelines are the foundation of internal and external reporting. Every activity in the organization must be assessed as to its compliance.

Not only does compliance include the internal values of an NGO, it also includes external regulations and legal requirements. These extend from the basics of orderly bookkeeping, to duties regarding annual financial reports, up to the requirement of executives to address the needs of their employees.

Infractions against external regulations and laws cause scandals and lead to work related consequences for the responsible executives. They often even lead to investigations by the district attorney, followed by prison sentences.

This is why executives should be most concerned about this topic in order to minimize the personal risks that can result from it.

Optimizing the use of funds

Legal parameters, compliance guidelines, and also the organization's particular value system impact an organization.

Especially its moral values are at the forefront of every organization. This varies from how employees deal with one another and even encompasses sustainable and correct implementation of the various activities.

Especially international and global organizations are often confronted with classic issues such as corruption, embezzlement, fraud, and questionable use of funds. As such, in order to develop adequate processes, it is often necessary to forensically analyze work processes, plus the people and business partners involved. Such forensic analysis is rarely successful without outside help, especially since external insight has two key advantages. For one thing, external analysts inspect every area of the organization in an unbiased manner. Secondly – independent of whether they work in the parent organization or in a subsidiary – employees can assume that the analysts are independent and are not possibly part of a "good ol' boy network". This analysis will yield an honest and transparent picture, which will enable the implementation of neutral and appropriate countermeasures.

Especially in an international context, it is important to understand and take into account the cultural background of the various countries and historic structures. In particular, forensic analysis must take into account local and national values and moral concepts, and should not be carried out, for instance, based on German concepts of right and wrong.

Using the forensic analysis, the organization will then be able to optimize the use of funds by minimizing any opportunities for people to use the funds in a dubious manner. The potential for animation should be determined by country and cannot be generalized.

On the other hand, forensic analysis can pose huge emotional challenges for an organization: employees who are not directly affected – especially in the homeland of the organization – are often not sufficiently aware of this topic. Especially for staff with a long tenure – regardless of whether in the homeland of the organization or abroad – it is hard to imagine and difficult to process that their colleagues would undermine

Fig. 17: The traditional flow of funds within NGOs

Fighting corruption in construction projects

Traditionally, there are many loopholes for corruption in construction projects. They can range from exaggerated material and transportation costs, to kickback commissions, to outright bribery.

How can one reduce these problems?

- Investigate the tender process (open tender process vs. limited tender process)
- Scrutinize partner companies
- Utilize transparent IT-supported selection processes with supervision instruments
- Collect data on the current construction projects for future benchmarking (cost comparison and cost control)

Especially in the area of construction projects, hiring a construction expert for financial controlling purposes is key, since this skill set is usually not available in organizations.

Executives are 100% liable for permanent establishments – therefore it is vitally important to create transparency in the organization and take appropriate actions

the values and social responsibility of the organization. Even before the beginning of the analysis, executives in an NGO should thus prepare long-time employees for the presentation of analysis results.

In order to prevent employees and partners from circumventing or undermining compliance guidelines, such guidelines must form the backbone for the entire process landscape – as applicable, customized for each country as well – and for the reporting structure of the organization. By establishing a detailed and transparent financial controlling process for project implementation, executives can ensure that compliance guidelines are met.

SUMMARY:

Compliance audits protect executives and ensure continuing viability of the organization

Organizations that maintain sustainable and detailed compliance guidelines and embed them in processes, structures, and every area of the organization, protect the executives responsible for operations by reducing liability risks. These organizations thus provide themselves with a substantial competitive advantage in a contested market environment.

If not already carried out, a compliance audit should investigate current organizational structures regarding the implementation or establishment of valid existing guidelines. Such an audit will expose any weaknesses in the organization, which should be changed in order to reduce executive liability.

4.4 Transparency – Implementing Integrated Systems

Efficiency, rigorous standards, and compliance are the foundations for an NGO to create transparency. However, they cannot be achieved until flexible and especially integrated systems are implemented.

Historically developed insular structures substantially increase liability risks

Traditionally, many individual IT solutions in organizations have grown historically. They are usually connected with one another by manual (Excel) interfaces. Data is generated externally and collected in a decentralized fashion in the organization's various IT systems. This sometimes leads to multiple entries of the same data. In addition, there is usually no system within the organization that contains "master data." This set-up substantially increases the workload for employees and results in some tasks being carried out multiple times, which would not be the case with an integrated system.

Historically developed data islands are typical of the IT landscape of NGOs

Furthermore, we know especially from international and global NGOs that worldwide structures are usually not transferred to local systems and that there is often no uniform system landscape or networking between systems. Especially for bookkeeping and procurement, this can lead to long delays when acquiring invoices. As such, invoices from the various target regions often have to be "snail-mailed" to the home organization and entered into the IT systems there.

Using the postal service leads to long delays, which increases the time until the IT system can provide up-to-date numbers. This increases risk for the responsible executives and the organization because they are not able to review operations in a timely and realistic manner.

Integrated IT systems ensure necessary transparency

In integrated IT systems, data is collected only once and can then be used in various places within the system. As such, data collection and maintenance is of supreme importance.

Data islands turn into "data atolls" – thanks to integrated systems

Furthermore, thanks to their modular design, integrated systems take the place of the previously isolated applications.

At a minimum, an integrated IT system will consist of a module for financial accounting (external accounting) and cost and performance accounting (external accounting). NGOs will also need an ERP module, which will significantly help to manage materials management, procurement, and qualitative project management.

Integrated financial accounting reduces the risks of executive liability

The financial accounting module models proper bookkeeping. The system posts all business transactions, which at any given moment clearly indicates income and expenses of the organization. The main difference with the prior accounting system is that an integrated system is implemented across the entire organization. As such, invoices are collected where they are created and the tedious mailing process can be avoided.

Improving the organization's data situation and reducing the risk of executive liability

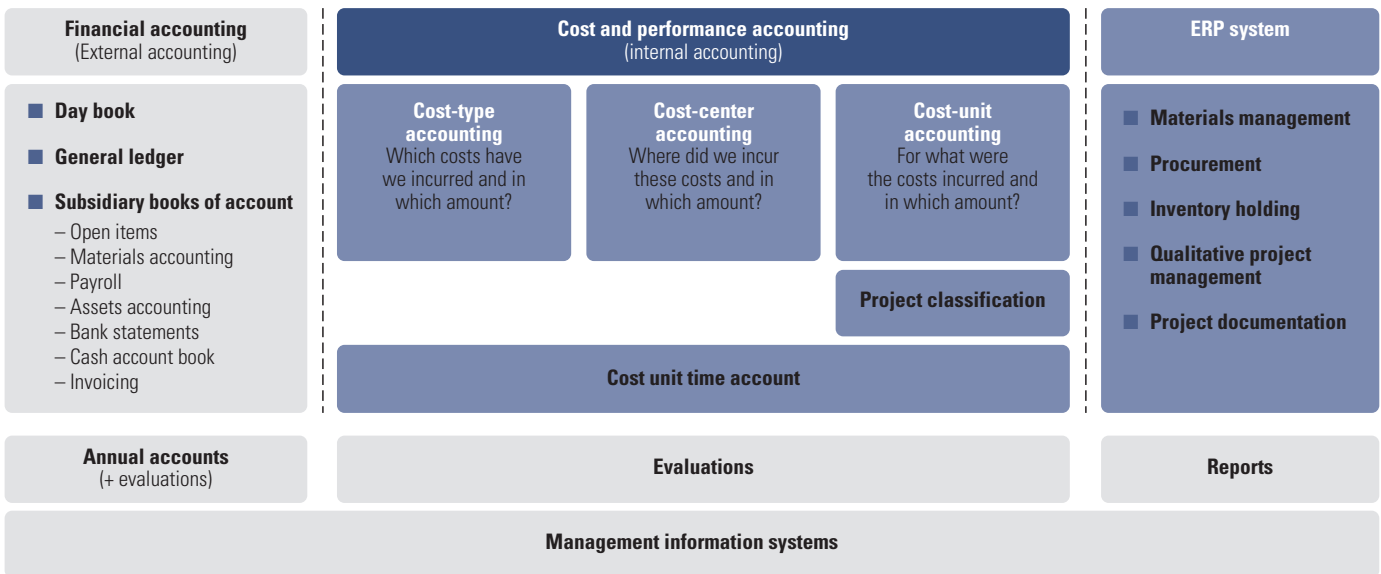| Financial accounting (External accounting)	Cost and performance accounting (internal accounting)			ERP system
■ Day book ■ General ledger ■ Subsidiary books of account – Open items – Materials accounting – Payroll – Assets accounting – Bank statements – Cash account book – Invoicing	**Cost-type accounting** Which costs have we incurred and in which amount?	**Cost-center accounting** Where did we incur these costs and in which amount?	**Cost-unit accounting** For what were the costs incurred and in which amount? **Project classification**	■ Materials management ■ Procurement ■ Inventory holding ■ Qualitative project management ■ Project documentation
	Cost unit time account			
Annual accounts (+ evaluations)	**Evaluations**			**Reports**
Management information systems				

Fig. 18: Elements of an integrated system

Especially useful for international and global NGOs, integrated systems model the various regulations and necessary invoicing, since it is possible to create various methods of balancing. This ensures local balancing in the various countries and lets accountants submit local figures to the home organization for consolidated balancing. This creates a maximum of transparency of income of funds and expenses for any regulatory agency.

Cost and performance accounting creates transparency for the donor

Internal accounting is the foundation for transparent communication with third parties

In addition to financial accounting, cost and performance accounting is another central element of an integrated IT system of an NGO. This application deals only with internal accounting and thus with internal financial controlling. However, it also creates transparency for donors and third-party donors.

Internal accounting is characterized by three basic elements: cost-type accounting, which addresses which costs were incurred and in which amount. Next, there is cost-center accounting, which shows in which department costs were incurred. The last element is cost-unit accounting, which allocates incurred costs to a "cost cause."

These three elements are able to allocate costs and profits to the respective organizational units and project activities. This makes it possible to do specific reporting for each project activity. Especially with third-party financed projects, this is the decisive key for transparent reporting that conforms to guidelines. It applies to third-party donors and also to dedicated donations, since it is possible to determine how much of these specific donations has already been used.

Furthermore, this cost-unit structure serves to create project-related budgets, enabling annual budget planning of the organization – based on individual projects. Especially for third-party donors, this significantly facilitates the tender process, since the necessary reporting always enables a cost comparison between budget and actual costs.

The finance department manages both modules centrally. Data collection occurs only once but can be viewed from various perspectives, depending on the respective requirements.

NGOs with an integrated system need an ERP module

While both accounting modules always look at monetary values, the ERP module analyzes and manages amounts and qualitative information, and provides reports on them. The system revolves around materials management, including warehousing and procurement. It collects information on warehouse levels and additions and subtractions relative to the project (cost units), and automatically evaluates them because it is integrated with accounting. It also allocates this information to the respective cost items. Collaborating with the accounting modules, the ERP module thus allows for seamless reconfiguration of funds and material flows.

Data collection in a system that is integrated across the organization

Categorically, when an integrated system is implemented across the organization (or corporation), all data is collected locally. Using a centralized system, the finance department in the home organization processes the work of employees wherever they are based. The system structures of the master data or basic must be standardized. This is especially true for their respective accounts code and cost center or cost unit structure. Also, in order to meet compliance guidelines, organizations should use the "four eyes principle." At the same time, access to administrative system work must be limited to very few people.
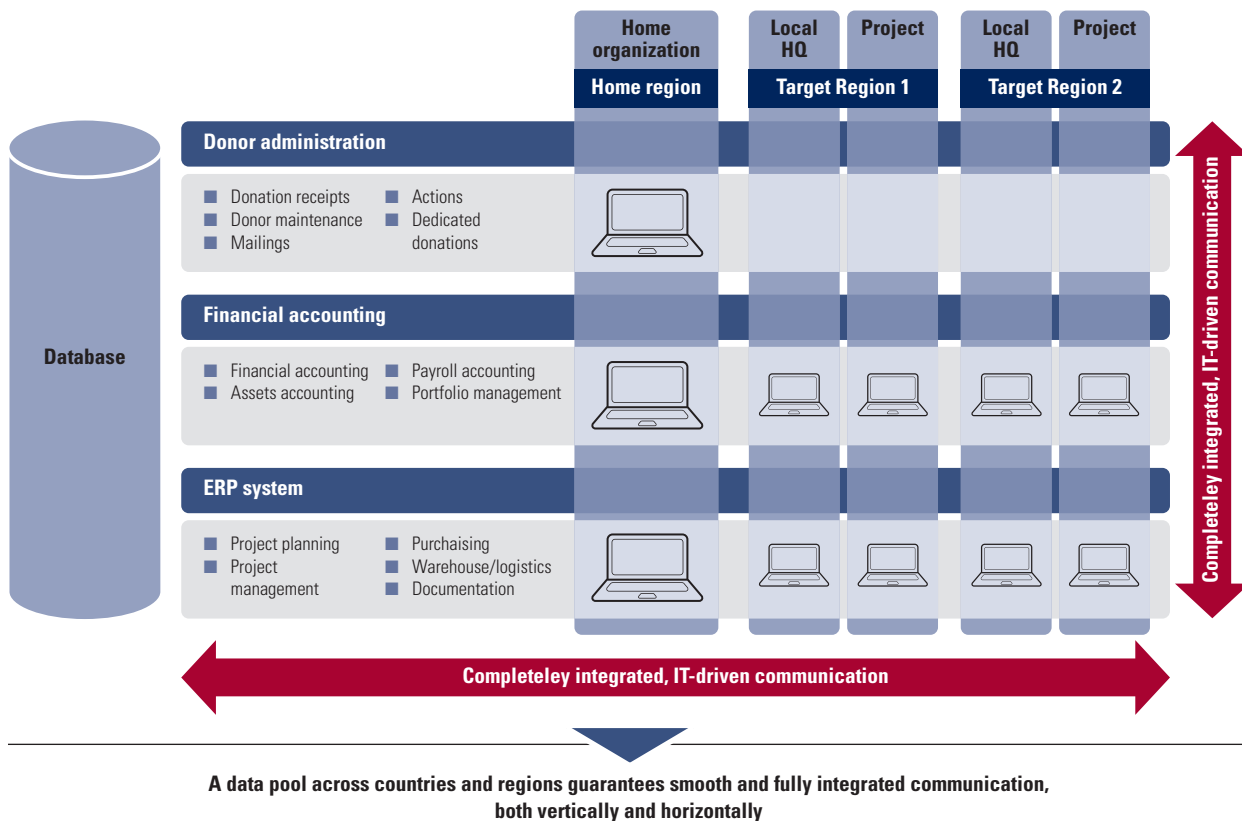

A data pool across countries and regions guarantees smooth and fully integrated communication, both vertically and horizontally

Fig. 19: Exemplary display of the integrated IT system of a global NGO

SUMMARY:

An integrated system connects all the elements of an NGO

The modules of an integrated system address the various challenges posed to an NGO. IT-driven correlation of the various elements enables implementation and enforcement of established compliance guidelines, thus reducing the risks of executive liability across the board.

Furthermore, integrated systems ensure donor and third-party donor management, since expectations and entitlements regarding transparency and efficiency are fulfilled. In addition, they make it possible to proficiently meet a number of requirements regarding donation and project reporting.

Optimized work processes make the organization look professional. In addition, by interacting with an IT-driven system they lower the workload for staff over the long run. This workload reduction increases motivation in employees, since it substantially reduces redundancies and the need for manual processing.

4.5 Summary: Maintaining Traditional Values
in a Digital and Global Age

If they wish to continue to live up to their traditional values and goals in light of shifting parameters, most NGOs will have to implement a paradigm shift in their organizational culture.

The name of the game is efficiency, rigorous standards, and transparency; also processes and financial controlling / reporting. In other words, this is a foundational transformation process for NGOs, with the goal of establishing more professional organizations – and not about a "tough efficiency program" which would result in cutting back staff.

NGOs often view themselves in contrast to traditional, profit-oriented companies, which is often reflected in their almost willful "lack of organization." In light of increasing existential risks for NGOs, such a self-view will have to change.

Attacks from the media can come suddenly and unexpectedly, and in social media seemingly harmless questions can escalate in a heartbeat. Traditional NGO structures have trouble dealing with such attacks since

- NGO employees are often "starry eyed idealists" and feel hurt and unjustly treated by such attacks that can shock the staff into inaction.

- NGO processes do not allow for a reasonable response nor are they documented, which makes it difficult to provide evidence to the contrary.

- Existing data are usually not sufficiently transparent and complete to quickly clarify the situation and to react to it.

These threats can hit NGOs via several channels – and even simultaneously. In addition, donors will want information and accusations will need to be defused. These blows alone can sink the organization. In the meantime, donations are plummeting, government authorities are threatening to initiate special investigations, are retracting their seals of approval, or discontinuing tax write-offs for donors. Finally, the NGO's executives are being confronted with personal liability – or even facing criminal charges.

Only bringing structures and processes up to a professional standard will acquit the executives, secure donations even from "questioning" donors, and protect the NGO across the board – without the organization having to give up or abandon its values.

5

Designing a Successful Transformation Process

Designing a Successful   5
Transformation Process

5.1 Internal Requirements for a Successful Transformation Process

In order to keep your organization successful in the future, make sure transformation and adaptation are transparent.

In order to maintain the respective culture and values typical for the NGO and for the transformation to be successful, every employee that will be affected by the transition needs to know from the outset that existing values and vision will be preserved, albeit in a fundamentally different environment.

Preserve and transform existing values – never abandon them

Very often it is not the employees and committees but the regulatory bodies that impede change since the latter frequently do not regard themselves as the guardians of the original vision but rather as the organization's result-oriented and critical conscience. As such, they might often accuse external or "new" employees of not sufficiently understanding the NGO culture or bringing enough NGO-specific competencies to the table. Diplomacy and skillful argumentation as well as clarity and rigorous standards are necessary. At the executive level, knowledge of executive liability is generally helpful as well.

Once a minimum amount of receptiveness has been achieved, the next step is to analyze the details of the new environmental conditions. This depends on the specific "type" of the NGO, which is based on its particular degree of organization, purpose, goals, values, and visions.

Every part of the organization must be "on board"

The result is a clear statement regarding the viability of the organization and also of the necessary changes that have to be made in order to ensure viability. The main issue, however, will be the goals of the NGO and whether these can be achieved with today's structures, processes, means of communication, and reasoning. This affects the donor side, the organization, and the use of donations.

Every employee may be affected by these changes, with external input and neutral moderation being crucial. In addition, experience has shown that, without the assistance of an external partner, major elements of the transformation will probably not be implemented.

5.2 Structuring a Successful Transformation Project

Introducing and implementing a transformation process is complex, and requires methodical know-how and tactfulness. When analyzing the as-is situation, evaluate not only the strengths and weaknesses of the organization but also the willingness of staff members to change.

In a classic project process, both of these areas should be modeled regarding future challenges. From there, the next step is to model a realistic concept. Do not forget to factor in the employees. Only if they "buy in" to the new processes and do not "backslide" into their old behaviors will the transformation be successful.
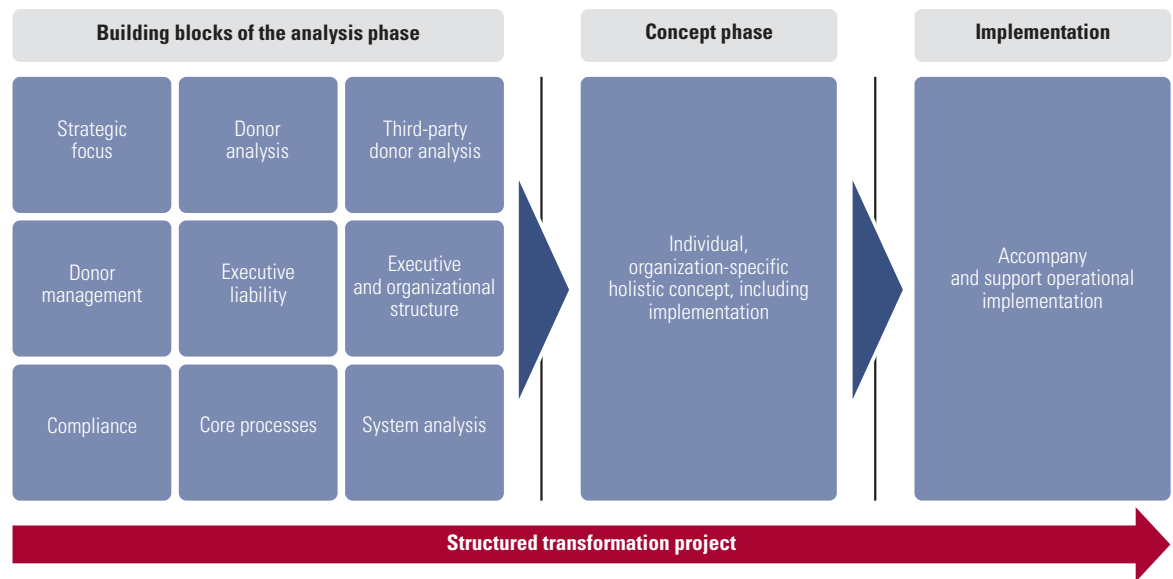

Fig. 20: Classic project process of a transformation

Analysis

Modular analysis using the building block principle ensures maximum customization and client benefit

Analyzing the as-is situation comprises the following nine modules, which can be individually prioritized:

1. **Strategic focus:** Based on the "type" of your NGO, its values, visions, goals, and current strengths/weaknesses, together we will map out alternative target scenarios. We will evaluate the potential for realization based on your organization's core competencies and skills but also taking risks and stumbling blocks into account. The target scenario appropriate for your organization will determine the next project modules and the necessary adaptation.

2. **Donor analysis:** Together we will analyze the current structure of your donors, evaluate possible donor potential, and discuss fundraising tools as well as target-group specific media and discussion requirements. We always evaluate the potential in comparison with your competitors, the "fitness" of your numbers, and your skills in dealing with projects, budgets, and dedicated donations.

3. **Third-party donor structure analysis:** As in Point 2, together we will analyze the current structure of third-party donors and evaluate their potential, tools and target-group specific media and discussion requirements.

4. **Donor management analysis:** Donor management and regular interaction with third-party donors are the "customer service" of your NGO. During the analysis phase we will determine whether the respective requirements are being sufficiently met – for each donation and support type. For instance, we will investigate whether it is really possible to provide proof for how funds and donations are being used. Here we will also review your communications with the various donors, check how often and what they inquired of your organization, and assess the quality of information that you provided.

5. **Analysis of executive liability:** The "type" of your NGO today and in the future will determine the risk spectrum of your executives. This analysis will demonstrate any current risks and deficits in your processes, structures, and documentation. We will suggest corrective actions and behavior standards to minimize risk, especially with regards to reporting and financial controlling.

6. **Analysis of the organization's executives:** Based on the risks posed to them, we will examine each of the organization's executives, clearly distinguishing between financial controlling executives and those responsible for operations. Other key factors will be to analyze how tightly central processes are correlated to the executive board, and the executives' authority to make decisions. We will assess your organization's bylaws, procedural rules, job descriptions, reporting schedule, and budgeting schedule as well, to ensure they are in alignment with the new focus.

7. **Compliance analysis:** Compliance analysis is based on the last two building blocks, revolving around compliance guidelines and processes, their enforcement, and on control loops to prevent irregularities.

8. **Core process analysis:** The operations module examines the entire process landscape. Criteria to examine in detail are transparency, thorough application of adjustments throughout the organization, modeling of the target scenario, fulfillment of donor requirements, and efficiency. Typically, transparency requirements are where most of the adjustments will need to be made.

9. **Systems analysis:** Existing systems play a central role in the modeling of processes. System integration replaces isolated solutions and manual interfaces. We will define the minimum requirements for the system architecture, as required by the processes and structures. We also offer support for the implementation of your new IT systems.

Concept phase

Together we will develop a customized concept, based on the modular analysis. Not only will we take the specifics and values of your organization end of the staff into account, we will also consider technical parameters. Leveraging W&P's mix of internal and external competencies, we are convinced that together we will develop a sustainable, robust, and customized concept for your organization, which will improve and ensure its future viability.

Implementation

Only rigorous implementation will ensure success

After the analysis and concept phases comes the implementation phase. In this stage it is vitally important to walk alongside employees as they get used to the new tasks, processes, and structures. This may require a high degree of individual consulting, which begins with an up-to-date understanding of the skills of your employees, addresses any concerns early on, shows how the transformation will benefit them and will produce added value, and will meet their individual requirements.

Standard consulting for NGOs and charitable organizations will not meet the mark, which is why at W&P we take traditional tools from the corporate world and transform and customize them to fit the values and cultural environment of the respective NGO.

5.3 Dr. Wieselhuber & Partner GmbH –
Your Competent Partner for Transformation

As we implement individual project modules, Dr. Wieselhuber & Partner GmbH (W&P) deploys experienced and specifically trained staff. Our superior competency is based on over 30 years of experience, providing consulting for family-owned and owner-run companies. We have decades of experience in working with individuals, continuing the vision of lifeworks, supporting the transition from one generation to the next, and securing values and visions – even amidst changing external parameters. These are all situations that apply to NGOs. Many family-owned businesses and entrepreneurs that are among W&P's clientele are themselves major donors to charitable organizations, are socially involved, and have established their own foundations.

W&P draws on years of consulting experience in the areas of process design, building sustainable financial controlling/ reporting systems, and optimizing business structures.

With three years of experience working with an international NGO – and with our own extensive project organization on-site – W&P has proven skills, not only in developing NGO concepts but also in implementing them in a different cultural environment.

Deploying experts from our international network as well as from our own staff on-site – both at headquarters and also locally – we were able to ensure that employees across the organization embraced the project and its implementation. Our network includes experts on legal matters, compliance, politics, security and operational project completion. We have contacts with UN organizations, such as UNHCR, and also with regional political decision-makers. We are thus able to support project teams according to their individual situations.

Yet at W&P we also understand the donor side. We know how domestic NGOs are organized and are also familiar with organizations that utilize donations in developing countries.

At W&P we leverage our own competencies in designing integrated IT systems. We have walked alongside companies as they have implemented their systems in various languages and currencies – integrating them across national boundaries and concluding projects in individual countries and with a consolidated financial statement. We also draw on years of support from partner companies in the areas of financial accounting and ERP systems.

We are convinced that we can walk alongside you in a competent and professional manner for any transformation that your NGO needs, helping you meet your future goals while preserving the values of your NGO. Together we will equip your NGO to be sustainable, robust, and viable for the future, meeting the requirements of the 21st-century.

Fig. 21: Core competencies of W&P for implementing transformation

NGO

Contacts

Contacts

Daniel Emmrich (author)
Restructuring – Head of NGO Expertise
(Languages: German, English, Spanish)

Phone: +49 89 28623 170
Cell: +49 160 745 18 62
E-mail: daniel.emmrich@wieselhuber.de

Daniel Emmrich holds a Master's degree in Business Mathematics (Diplom-Wirtschaftsmathematik; Ludwig-Maximilians-Universität, Munich, Germany) and a Master's degree in Accounting & Finance (Macquarie University Sydney, Australia). He has one year of experience working in a Colombian family-owned business in the food industry. Furthermore, he is an expert on cultural and political issues in South America. Working with Dr. Wieselhuber & Partner GmbH since mid-2013 in the area of Restructuring and Financing, his specialty is in process optimization, analysis, optimization of business structures, and the development of integrated system landscapes. Daniel Emmrich has over three years' experience with NGO restructuring projects in Germany and eastern Africa.

Matthias Müller
Restructuring – NGO Expertise
(Languages: German, English, Spanish, French)

Phone: +49 89 28623 263
Cell: +49 151 551 359 51
E-mail: mueller.matthias@wieselhuber.de

Matthias Müller holds a Bachelor's degree in Economics (Volkswirtschaft, Universität Konstanz, Germany) and a Master's degree in Finance and Information Management (Technische Universität München, Germany). He has work experience at the German embassy in Manila, Philippines, and in industry in Bolivia. Working with Dr. Wieselhuber & Partner GmbH since early 2013 in Restructuring and Financing, Matthias Müller's expertise is in financing, project management, and internal accounting.

Our Network

Kilian Kleinschmidt
Founder IPA | switxboard
Global Networking and Humanitarian Expertise
(Languages: German, English, French)

Kilian Kleinschmidt has twenty-five years of project experience with the United Nations and with UNHCR, UNDP, DPKO, DPA, and OCHA in Asia, Africa, southeastern Europe, and the Middle East. His projects have primarily been in extreme crisis regions. As such, Mr. Kleinschmidt has become one of the most competent consultants on the issues of flight and migration, developmental cooperation, crisis management, and disaster relief. Especially during his last project with the UNHCR – managing the Zataari refugee camp in Jordan – Mr. Kleinschmidt gained extreme experience in the areas of urban development, innovation, and technology transfer. Implementing projects around the world for the past 25 years, Mr. Kleinschmidt draws on a global, robust network in politics, high-level diplomacy, compliance, and security.

Carsten Stammeier
Freelance consultant in construction
and project implementation
(Languages: German, English)

Holding a Master's degree in Engineering (Technische Universität Braunschweig, Germany), Carsten Stammeier has been living and working in Ethiopia for the past 15 years. His professional experience includes financial controlling in large-scale building construction projects and city planning. In addition, he has extensive experience in the tender process, and in awarding and administering contracts. His expertise includes supervising construction on-site, including the adaptation of building planning and construction. In total, Carsten Stammeier has been responsible for a total project volume of 350 million euros in projects in Eastern Africa. Working as a freelance consultant since 2014, his clients include the University of Addis Ababa, KfW, GIZ, and UNHCR.

Dr. jur. Peter Flach
Managing Partner, TSB Treuhand GmbH,
Wirtschaftsprüfungsgesellschaft,
Steuerberatungsgesellschaft
(auditing, tax and management consultancy)
Munich, Germany
(Languages: German, English)

Peter Flach is an attorney, auditor, and tax consultant, serving German and international corporations in any tax and corporate law related issues. Dr. Flach assists companies in restructuring projects, and provides assistance for corporate buy-outs and for succession solutions. Another specialty of Peter Flach's is supporting and assisting charitable organizations – both as a consultant and also actively as a member of a board of executives (for instance, in the administration of foundation funds, especially real estate and stocks). Thanks to a variety of professional networks, Dr. Flach has worldwide professional contacts.

Dr. Klaus Matzen
Partner / Attorney
Solicitor firm M&P Dr. Matzen & Partner mbB
(Languages: German, English)

Dr. Klaus Matzen is a founding partner of M&P Dr. Matzen & Partner, a solicitor firm based in Hamburg, Germany. For over 20 years, he has worked in Germany and internationally as a corporate attorney. His consulting expertise includes providing consulting for structured project and corporate financing and in providing legal assistance for corporate transactions and restructuring. After working abroad in Germany's embassies in Washington DC, USA, and Tokyo, Japan, Dr. Matzen initially worked in a large international legal firm, focusing on international financing of infrastructure projects. He then concentrated on re-organization and restructuring consulting. Since 2003, he and his team of 15 attorneys have been providing assistance for complex corporate law issues for select midsize entrepreneurs and companies.

Sources

Bachert Robert, Vahs Dietmar
Change Management in Nonprofit-Organisationen
2007 – Schäffer-Poeschel Verlag

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
http://www.bmz.de/de/ministerium/ziele/2030_agenda/index.html

Daniel J. Edelman Holdings, Inc.
https://www.slideshare.net/EdelmanInsights/2017-edelman-trust-barometer-global-results-71035413

DeMars E. William, Dijkzeul Dennis
The NGO Challenge for International Relations Theory
2015 – Routledge

Globale Verantwortung: Arbeitsgemeinschaft für Entwicklung und Humanitäre Hilfe
http://www.globaleverantwortung.at/images/doku/sdg-umsetzung_bundesregierung_dez2015.pdf

Helmig Bernd, Boenigk Silke
Nonprofit Management
2012 – Vahlens Handbücher

Hempel Kevin
Erfolgskontrolle in der deutschen Entwicklungszusammenarbeit
2006 – ibidem

Meier Andreas
Informationsmanagment für NPO's, NGO's et al.
2006 – Springer Verlag

OECD – Organisation for Economic, Co-operation and Development
ODA Preliminary Data 2015 – Press Release
http://www2.compareyourcountry.org/oda?cr=oecd&lg=en

Simsa Ruth, Patak Michael
Leadership in Nonprofit-Organisationen
2008 – Linde international

Statista GmbH
https://de.statista.com/statistik/daten/studie/158268/umfrage/entwicklung-der-anzahl-von-ngos-weltweit-seit-1948/

Verein humanrights.ch
http://www.humanrights.ch/de/menschenrechte-schweiz/aussenpolitik/aussenpolitik-diverses/entwicklung/agenda-2030

Dr. Wieselhuber & Partner GmbH
Unternehmensberatung

info@wieselhuber.de
www.wieselhuber.de