



Leadership Institute
Region Meeting

Running Your Chapter More Like a Business

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Agenda

- ✓ **What are you looking for?**
- ✓ **Characteristics of a well-run business**
- ✓ **What's different in a PMI chapter (& what's not)**
- ✓ **Issues**
- ✓ **Discussion – ideas that can help your chapter**

So, why do you want to be more like a business?

Profile of a Well Run Small Business

- Privately held – not public
- 1 or more owners
- 5 to 100 employees
- Revenues typically < \$20 million
- Profit margins > 10%
- Owners manage the business not the day to day operations

Characteristics of a Well-Run Business

- Legal entity subject to IRS & GAAP guidelines
- Profitability & creating value is the number 1 goal
 - Delivering products & services is secondary
- Stockholders (or members) are the owners & want a ROI
- Focus is always on growth & long term goals
- Staff are paid & turnover is low. Bonuses are important.
 - Staff members who don't perform are fired
- Plans, forecasts, and discipline guide decision making
- Processes are documented; financial controls monitored regularly
- Debt is used to leverage equity to obtain cash when needed
- Accrual accounting is used on cloud based systems
- Invest in marketing, technology, & outside professionals

How is a PMI Chapter Like a For-Profit?

- Chapters are also stand-alone legal entities
- Regulated by the IRS & GAAP & must file an annual tax return
- Officers have legal fiduciary responsibilities
- Must bring in more income than expenses to stay in business
- Growth is critical to success
- We have goals (usually short rather than long term)
- Like customers our members expect value for their dues
- We incur expenses and must be sure cash is adequate to meet obligations
- PMI chapters can also be victim of fraud & theft and go bankrupt

What's Different?

- A PMI chapter's primary goal is to provide the social services for which the IRS granted nonprofit status in the first place
 - The secondary goal is to ensure that income > expenses
- Chapters have no owners so there is no stock & no personal enrichment. No one gets paid.
- Building long term corporate value is not an issue since chapters are not owned by anyone and will never be sold
- Nonprofits have different reporting rules than for-profits. Many, like PMI chapters, use cash (not accrual) accounting
 - Customers are not invoiced
 - No short or long term payables or liabilities
 - Equipment is not capitalized & depreciated

More differences

- Chapters have no physical address.
- They also have no assets to use as collateral.
- Chapters have no lenders or investors to hold our feet to the fire.
- No leveraged inventory or 'Good Will' on the balance sheet
- Staff are volunteers and it is hard to fire and replace them
- Turnover of key management staff is high by design
 - Board positions are viewed as PMI leadership development
- Because of that, goals tend to be more short term in nature.
- Financial controls tend to be weaker because it is difficult to maintain consistency in processes when there is high turnover.

Some reason why you might want to be more like a business

- For-profit businesses continually strive to improve efficiency and productivity so they are constantly getting better at what they do
- Owners of for-profit businesses are very goal oriented and have just a few (1 or 2) long term goals (3 to 5 years)
- Because they are efficient, they enjoy great profit margins while meeting or exceeding their customers' expectations.
- Business owners are entrepreneurs; innovative & competitive.
- They know how to manage people using SMART goals and make employees accountable for performance

What are our Challenges?

- High turnover
- 100% volunteer participation so money can't be used to motivate performance
- Wrong people get in the wrong seats who can't or won't perform
- Can't borrow cash for any reason
- Ensuring positive cash flow and a solid reserve
- Providing value to our members & sponsors
- Striking the right balance between spending and saving
- Being innovative in finding new ways to help our members & corporate supporters keep up with changing market dynamics
- Financial discipline & decision making

What Can We Do to be More Like a Business

- Establish long term (3 year) goals for member count & reserves
Update those goals annually and pass them on to new leaders
- Document & map processes. Define job descriptions and financial controls. Practice continuous improvement.
- Pre-qualify candidates for board positions
- Use cloud based accounting system & outsource bookkeeping if you don't have those skills on the board. Use outside CPA for taxes though.
- Find a way to part ways with under-performing board members – they only drag you down
- Manage to your budget using regularly updated forecasts
- Dedicate more of your budget to marketing & technology



Other Ideas?