

**STRATEGIC ANALYSIS OF THE FUNDING SUSTAINABILITY
FOR THE FRASER BASIN COUNCIL**

by

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Abstract

This paper analyzes the Fraser Basin Council (FBC), a non-profit organization, its current strategic position, core competencies in the sustainability consulting industry, and the impact of the external environment on its activities. The paper considers some core adjacencies of maintaining existing businesses, building emerging businesses and creating future viable options. Three strategic alternatives are provided to increase “fee-for-service” revenue: 1) expanding government contracts, 2) entering the private sector market segment, and 3) expanding “flow-through projects.” The recommended approach is to enter the private sector segment, as it satisfies two key objectives: 1) keeping FBC financially viable by increasing revenue and net surplus; and 2) maintaining FBC’s core mission. A detailed implementation plan is set out to help FBC put the recommendations and core adjacencies into action.

Keywords: non-profit; sustainability; core competencies; fee-for-service; core adjacencies; mission impact

Executive Summary

The purpose of the paper is to conduct a strategic analysis of a non-profit organization, the Fraser Basin Council (“FBC”), and its funding environment and provide recommendations on ways to increase “fee-for-service” revenue and net surplus.

Recommendations and the implementation plan are provided based on two key objectives: 1) keeping the organization financially viable by increasing the “fee-for-service” revenue stream and 2) fulfilling FBC’s core mission.

Formed in 1997 the FBC is committed to advancing sustainability for the Fraser River Basin and the province of British Columbia. FBC’s collaborative governance structure includes wide representation from four orders of government with private sector and civil society; and uses facilitation and mediation to bring multiple parties together to resolve complex sustainability issues. In its niche market FBC enjoys a competitive advantage not easily imitated by competitors. Meanwhile, an increasing number of for-profit organizations are taking an interest in sustainability issues, creating opportunities for FBC to expand into a new market segment.

On the flip side, the reduction in government funding due to the global economic recession has created new challenges in terms of the financial viability of the organization. Its compound annual growth rate (CAGR) of revenue has decreased from the highest rate of 11.35% (between 2006 and 2009) to minus 3.69% (between 2009 and 2011), and is projected to remain negative in the next two to three years. FBC

must review its current strategic position and its funding environment to identify creative ways to generate revenue, without sacrificing its vision and mandate.

The paper considers some core adjacencies in a Three Horizons framework: 1) maintaining existing businesses, 2) building emerging businesses and 3) creating future viable options. Within Horizon 2, three strategic alternatives are provided to increase “fee-for-service” revenue from 7% in 2011 to 15% by 2014: expand government contracts, enter the private sector market segment, and expand “flow-through projects.”

The recommended approach is to enter the private sector. This alternative satisfies both the objective of financial self-sustainability and preservation of key mission impact.

The main recommendations to increase “fee-for-service” consulting in the private sector market are as follows:

- Market research – Conduct research on this particular segment and understand customer needs.
- Financial management aspects – Conduct financial projections; set target KPIs and metrics to measure success in financial viability efforts – revenue and profitability; set ROI expectations.
- Resources allocation – Hire a new business development manager to focus on building relationships and partnerships with the private sector and obtaining new business. Connect with big consulting firms such as Stantec, KPMG and Deloitte for potential partnership opportunities.
- Risk analysis and contingency plan – Identify risks and mitigation factors.
- Marketing strategy – Direct the business development manager to work with the management team and the Board to set out a feasible marketing strategy.

A detailed implementation plan is also presented in the three horizons framework: 1) maintaining current government contracts, 2) entering private sector consulting market and 3) creating future strategic options such as the “Youth Leadership Program”.

Dedication

本文献给我的妈妈，许秀兰和我的爸爸，汪士彬。 你们的信任，不断地鼓励，支持，关怀和无条件的爱，让我能专注于我的人生旅途。 17年前，你们不顾一切送我到温哥华。 我自己提着两个手提箱开始求学。 这不是轻松的道路。 但你们传给我的专注，敬业，坚韧和谦卑，给了我力量坚持历经艰辛，并在取得诸多成绩后始终保持谦虚。

现在，我向你们献上 EMBA 这一重要成果，这标志着我的职业和个人生活中的一个里程碑。

我也想以本文献给我的弟弟，汪阳。他是中国家里的盘石，使我可以追求自己的梦想，不用担心年迈的父母。

This paper is dedicated to my mom, Xu Xiulan and my dad, Wang Shibin.

Your belief in me, your continuous encouragement, support, care and unconditional love keep me focused on my life journey. Seventeen years ago, against all odds, you sent me to Vancouver on my own, with two suitcases to pursue my education. It has not been an easy ride, to say the least. But the focus, strengths, resilience, dedication, tenacity and humility you passed on to me have given me the power to persevere through hardships, and to remain humble through numerous accomplishments.

Now I present to you another important achievement, the EMBA, which marks a milestone in my professional and personal life.

I also want to dedicate the paper to my brother, Wang Yang, who is holding down the fort in China so I can pursue my dreams, and not worry about looking after my aging parents.

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Glossary

CAGR	Compound annual growth rate—a business and investment specific term for the smoothed annualized gain of an investment over a given time period.
CIDA	Canadian International Development Agency, which administers foreign aid programs in developing countries, and operates in partnerships with Canadian and International organizations.
FBC	Fraser Basin Council
LEED	Leadership in Energy and Environmental Design principles.
LTSCDA	Long-term, sustainable, competitively differentiated advantage
NGO	Non-governmental organization refers to organizations that do not form part of the government and are not conventional for-profit businesses.
PEST	Political, economic, social and technological forces, the macro-environmental factors, which can show early warning signals about changes in the industry
RFP	Request for proposal is issued at an early stage in a procurement process, where an invitation is presented for suppliers, often through a bidding process, to submit a proposal on a specific commodity or service. The RFP process brings structure to the procurement decision and is meant to allow the risks and benefits to be identified clearly up front.
VRIO	Valuable, rare, costly to imitate, organized properly. The framework is a good tool to examine the internal environment of a firm.
KPI	Key Performance Indicator.
ROI	Return on investment

1: Introduction

According to the Public Policy Forum (2011), since the economic recession, non-profit organizations have experienced significant decreases in revenue due to shrinking government budgets and foundation endowments, as well as dwindling and less reliable individual and corporate donations. These factors, combined with other challenges, such as an aging population, staffing issues resulting from budget cuts, and the more stringent requirement to demonstrate impact, “22% of charities consider themselves to be ‘at risk’” (Public Policy Forum, 2011, p. 1).

The Fraser Basin Council (“FBC”) is no exception. Over 90% funded by governments, foundations and large corporations, FBC has experienced a steady revenue decline since 2009 (see Table 3-12). As some of the multi-year projects are winding down, projected revenue for the year ending in March 31, 2012 and for fiscal 2012/13 continues to decline. The organization recognizes the urgent need to find other revenue sources to become more financially self-sustainable. However, FBC does not want to sacrifice its core values and mission impact.

Although grants and donations are important income sources, the scope of this paper is concerned with the “fee-for-service” consulting revenue stream, to help FBC identify opportunities to increase earned income, while maintaining its core mission impact, vision and mandate. To stay competitive and sustainable in the long run, FBC must focus on sustaining financial health and mission impact concurrently in its future strategic direction.

2: The NGO

2.1 Organizational History and Overview

FBC (legal name: The Fraser Basin Council Society) was established in 1997 as a not-for-profit, non-governmental organization with a mandate to ensure that the decisions being made now about how humans live, work and play in the Fraser Basin (see Appendix 1 for a map of the Basin) will protect and advance sustainability into the future (Fraser Basin Council, 2012). The FBC was founded on the belief that sustainability priorities for the Fraser Basin cannot be effectively addressed by any one government agency with jurisdiction over the Fraser River Basin. The reason so many contentious issues have remained unresolved – in some cases for up to 50 years – is because leaders in different sectors have been working in isolation from each other (Fraser Basin Council, 2012).

As stated on FBC's website (2012), during the 1980's, it became evident that the Basin's health was in jeopardy due to exposure to industrial and agricultural pollutants, over-fishing and rapid urbanization. The Fraser Basin Management Program (FBMP), established in 1992, preceded FBC. FBMP was an innovative experiment in managing sustainability in a watershed. It implemented the Fraser River Action Plan (FRAP) by bringing together all four orders of Canadian government with the private sector and civil society to address some of the key river management issues identified by FRAP. The FBMP also developed a strategic plan for the sustainability of the entire Fraser

River Basin. That plan became FBC’s Charter for Sustainability. Figure 2-1 below shows the historical governance structure of FBMP and FBC.

Figure 2-1: FBC Governance Structure Prior to 2007

Year	1992 – 1997	1997 – Present	
Organization	The Fraser Basin Management Program	The Fraser Basin Council Society	
Governance Body	The Fraser Basin Management Board	The Fraser Basin Council Society	The Fraser Basin Council
Membership of Governance Body	<p>19 Directors</p> <ul style="list-style-type: none"> • Government of Canada (3) • Government of British Columbia (3) • Local Government (3) • First Nations (3) • Non-Governmental and Private Sectors (representing economic, environmental, and social interests) (7) 	<p>7 Members</p> <ul style="list-style-type: none"> • Government of Canada (1) • Government of British Columbia (1) • Local Government (1) • First Nations (1) • Economic Sector (1) • Social Sector (1) • Environmental Sector (1) 	<p>36 Directors</p> <p><u>Government (14)</u></p> <ul style="list-style-type: none"> • Government of Canada (3) • Government of British Columbia (3) • Local Government (regional districts) (8) <p><u>First Nations (8)</u></p> <ul style="list-style-type: none"> • First Nations (representing linguistic, geographic, and cultural interests) (8) <p><u>Non-Governmental and Private Sectors (14)</u></p> <ul style="list-style-type: none"> • Impartial Chair • Basin wide (3) • Regional (representing geographic and sectoral interests) (10) <ul style="list-style-type: none"> • Upper Fraser (2) • Cariboo-Chilcotin (2) • Thompson (2) • Fraser Valley (2) • Greater Vancouver (2)

Source: Case Study – The Fraser Basin Council (Unknown, 2007)

Since 1997, FBC has been governed by two bodies – the seven members that meet once a year, and the 36 (now 38) directors that meet three times a year. The 38 directors are

drawn from the four orders of government – federal, provincial, local and First Nations – and from the private sector and civil society (Fraser Basin Council, p. 4). As indicated on FBC’s website (2012): “Of the 38 directors, 22 are appointed by the four orders of government: three by the federal government, three by the provincial government, one by each of the eight regional districts in the Basin, and one by each of the Basin's eight First Nations language groups. The remaining Directors are non-governmental representatives appointed by FBC: two representatives from each of the Basin's five geographic regions and representing diverse sectors, three Basin-wide directors reflecting the three dimensions of sustainability (economic, social and environmental), a youth representative, a finance sector representative, and an impartial Chair.” The FBC Board of Directors work collaboratively and make decisions by consensus.

FBC emphasizes educating communities across British Columbia to manage social, economic and environmental challenges that confront the Basin. FBC has a presence in Vancouver, Mission, Kamloops, Williams Lake, Prince George, Cranbrook and Victoria. Moreover, FBC brings people together to find practical, common sense solutions to sustainability issues. In the last 15 years FBC has facilitated and worked on sustainability initiatives such as “smart planning” for communities, climate change action and adaptation, flood management, air quality, green fleets, healthy watersheds and fisheries, and sustainability reporting and education (Fraser Basin Council).

2.2 Current Strategic Positioning

2.2.1 Vision, Mission and Strategic Priorities

As stated in the Fraser Basin Council 2011-2016 Strategic Plan (Fraser Basin Council, p. 4 & 7), FBC has the following vision, mandate and strategic priorities:

Vision: FBC seeks to promote social well-being supported by a vibrant economy and sustained by a healthy environment.

Mandate: FBC seeks to advance sustainability in BC with a core focus on the Fraser River Basin.

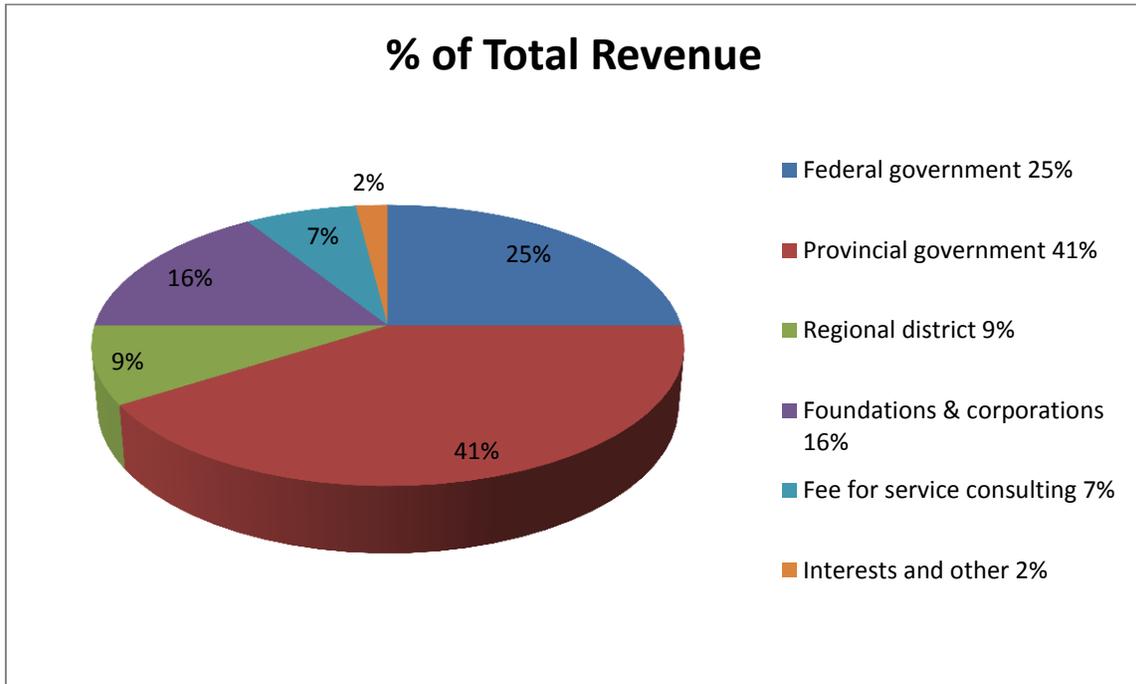
Strategic Priorities:

- Take action on climate change and air quality
- Support healthy watersheds and water resources
- Build sustainable and resilient regions and communities
- Increase organizational strength and resilience (internal)

2.2.2 Funding Model

Figure 2-2 shows the percentage of funding generated from various sources (Ruso, 2012). As a not-for-profit, charitable organization, FBC receives funding mainly from various levels of government and other NGO partnerships. The funding can be unrestricted, or in the form of government contracts or project funding via RFP processes. Since the economic recession, government funding, such as grant funding had to be reduced. FBC is looking for ways to become more financially self-sustainable, by increasing consulting-type revenue.

Figure 2-2: FBC's Current Funding Model



3: The Situation

In order to uncover the key strategic issues FBC is facing, analysis must be done to understand the industry structure and economics, the competitive environment, FBC's past performance and its current strategy. The following questions should be answered:

- How is value created, captured, sustained, and measured within the sustainability consulting industry?
- What are the key stakeholder groups and their relevant behaviour?
- What are the opportunities to create value?
- How is FBC positioned to exploit strategic opportunities?

3.1 Industry Economics

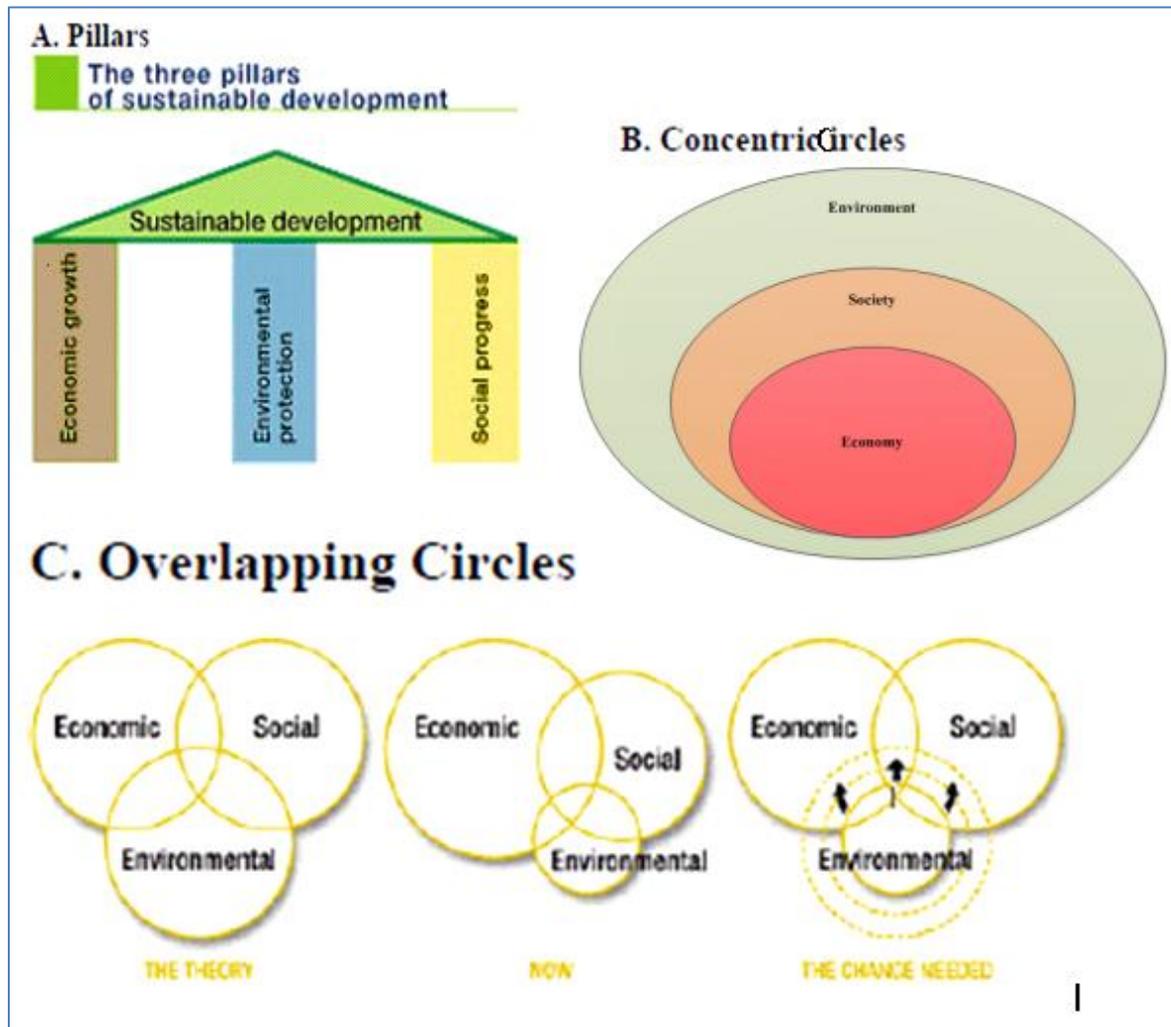
3.1.1 Industry Description

3.1.1.1 Definition of Sustainability

What is sustainability? Since the 1980s, sustainability has been used more in the sense of human sustainability on planet earth. Sustainable development is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (NGO Committee on Education of the Conference of NGOs, 1987).

According to FBC's 2011-2016 Strategic Plan (p.4), sustainability is defined as “living and managing activities in a way that balances social, economic, environmental and institutional considerations to meet our needs and those of future generations”.

Figure 3-1: Sustainability Diagrams



Source: Adapted from (Adams, 2006, p. 2)

Figure 3-1 shows three diagrams, as a variety of ways to demonstrate the three dimensions of sustainability – economy, society and environment. Diagram A shows the three dimensions as pillars that support sustainability development – without any one of the pillars, sustainability development would not be as stable. Diagram B is a concentric circle (Adams, 2006, p. 2), which portrays the fact that the economy and society are constrained by the environmental limits. Diagram C reflects the

interlocking connections among the three dimensions. Sustainability comes from the perfect balance of the three dimensions. The proportions of the circles are out of balance right now – the economy dimension is getting the most attention, with society being next, and environmental sustainability receiving the least consideration. It will take time to balance out the interlocking circles. This implies that sustainability is not a stand-alone environmental issue. In order to solve sustainability issues, all three dimensions must be addressed as a whole.

3.1.1.2 Industry Definition

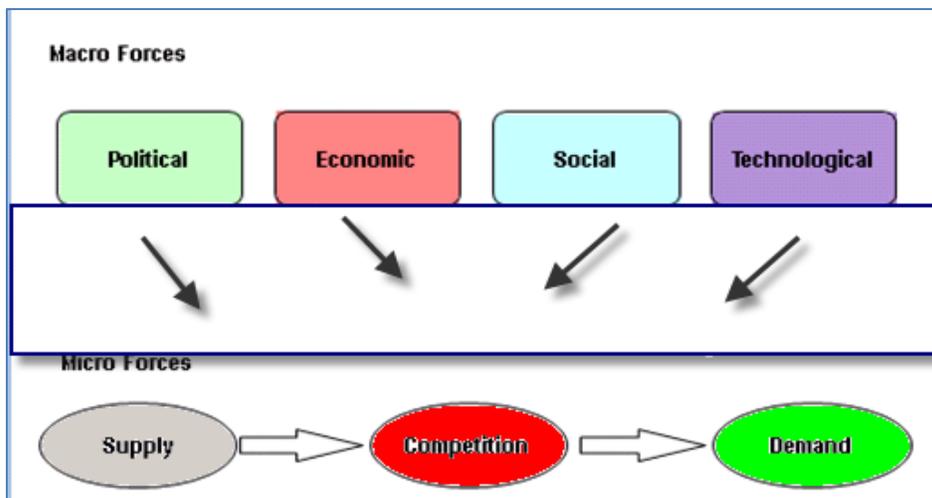
Based on the main functions and services the Fraser Basin Council delivers, the industry it operates within is one that uses facilitation, mediation, education and advocacy to work towards the social, economic and environmental sustainability of the communities. From the funding perspective, the industry is comprised of organizations that compete for funding from governments, foundations, corporations and individual donors to deliver sustainability solutions such as on flood hazard management, climate change mitigation and adaptation, clean energy, air quality, fish and fisheries and smart planning for communities. For instance, although FBC differs fundamentally from environmental NGOs, such as David Suzuki Foundation, which only deal with environmental issues, both types of organizations are categorized in the same industry, because they can potentially compete for the same funding/donors. Moreover, in terms of “fee-for-service” types of revenue, the industry does not distinguish between for-profit and not-for-profit organizations. For-profit companies, such as Stantec, KPMG or Deloitte (when consulting on climate change and/or sustainability issues), and small

consulting firms offering sustainability consulting services are considered to be in the same industry.

3.1.2 Business Environment: PEST

PEST analysis stands for political, economic, social and technological forces, the macro-environmental factors, which can show early warning signals about changes in the industry (Crossan, Rouse, Fry, & Peter Killing, 2009). As shown in Figure 3-1, the PEST forces have impact on supply, competition and demand.

Figure 3-2: PEST Forces



Source: Adapted from Strategic Analysis and Action (Crossan, Rouse, Fry, & Peter Killing, 2009)

The focus of this analysis is mostly at the provincial level, since FBC competes mostly in the BC and Fraser River Basin markets. For the sustainability consulting industry, PEST forces are unlikely to change drastically in the next few years.

3.1.2.1 Political Factors

Regarding the political force, the political party in power will determine the importance of sustainability issues on the political agenda, the funding that is allocated to sustainability development, and the regulations that can be imposed on the sustainability industry. For example, the Liberal Party currently in power has a main focus on the economy, and has cut regulatory requirements by 42 percent since 2001 (BC Ministry of Finance, 2011). But if the opposition party, NDP, wins the election next May, as forecasted in the Angus Reid Public Opinion Poll (2012), the regulatory requirements could change. Moreover, the political agenda will likely impact the ranking of sustainability issues amongst all the critical issues the BC province is facing. The NDP party has a vision of a “Sustainable BC” (BC NDP, 2012), which means the party will likely put more focus on sustainability development in the province. This will definitely benefit the sustainability industry.

3.1.2.2 Economic Factors

In terms of the economic force, the global economic recession since 2008 has had a downstream effect on supply and competition for this industry. Government funding and grants to NGOs across the board have been reduced, including those on sustainability programs. Some skilled labour groups have shifted to other industries. According to the economic forecast in the BC Budget and Fiscal Plan 2012/13 – 2014/15 (2012), the economic outlook is not promising at either the global, national, or provincial level. The projection of average economic growth rates for 2012 and 2013 has gone down from “3.0% and 2.8%”, to “2.2% and 2.5%” respectively, within a year (British Columbia Government, 2012, p. 97). Since a budget surplus is not expected

until at least 2013, the BC government will continue to contain the expenses. In addition, the challenge of providing expensive health care costs to an increasingly aging population will only provide more financial challenges to the province (British Columbia Government, 2012). For NGOs reliant on government funding, the pressure from the gloomy economic outlook should reinforce the need to seek ways to become more financially self-sustainable.

3.1.2.3 Social Factors

With regard to the social force, people are becoming more interested in sustainability issues and the demand for sustainable communities is growing, as people want to ensure future generations will not suffer due to today's human actions. According to the Angus Reid Public Opinion Poll (2012), environment issues have become number five on the important issues list, tied with the Tax Relief issue, with six percent of respondents believing it to be the most important issue. Similarly, the Mustel Group provided a graph of top issues in BC from 2008 to May, 2011 (see Appendix B) – environment is fifth on the list, with six percent of the people polled voting it as their top issue. The interesting trends on the graph relate to the global economic recession since 2008 – the economy has been considered the top issue until 2010 because it was stabilizing; environment dropped significantly during the same period; health was getting more attention as the economy slowly recovered; and the provincial HST tax controversy has taken many people's attention away from other important issues since 2010. These trends support the theory that social force has a strong influence over demand for action on important issues.

3.1.2.4 Technological Factors

Technology can influence competition in the sustainability industry in the long run, but will unlikely cause major changes in the next few years. For instance, “geo-engineering” is “the study and implementation of technical ways to change (and arguably improve) things like weather patterns, river paths, soils, climates and sea currents on Earth. Recently, geo-engineering has received special attention for efforts to combat global warming” (Carana, 2012) by removing greenhouse gases from the atmosphere or reflect incoming solar radiation back to space. Likewise, “green technology” encompasses a continuously evolving group of methods and materials, from techniques for generating energy, green building, to non-toxic cleaning products. “The present expectation is that this field will bring innovation and changes in daily life of similar magnitude to the ‘information technology’ explosion over the last two decades” (Green Technology, 2012).

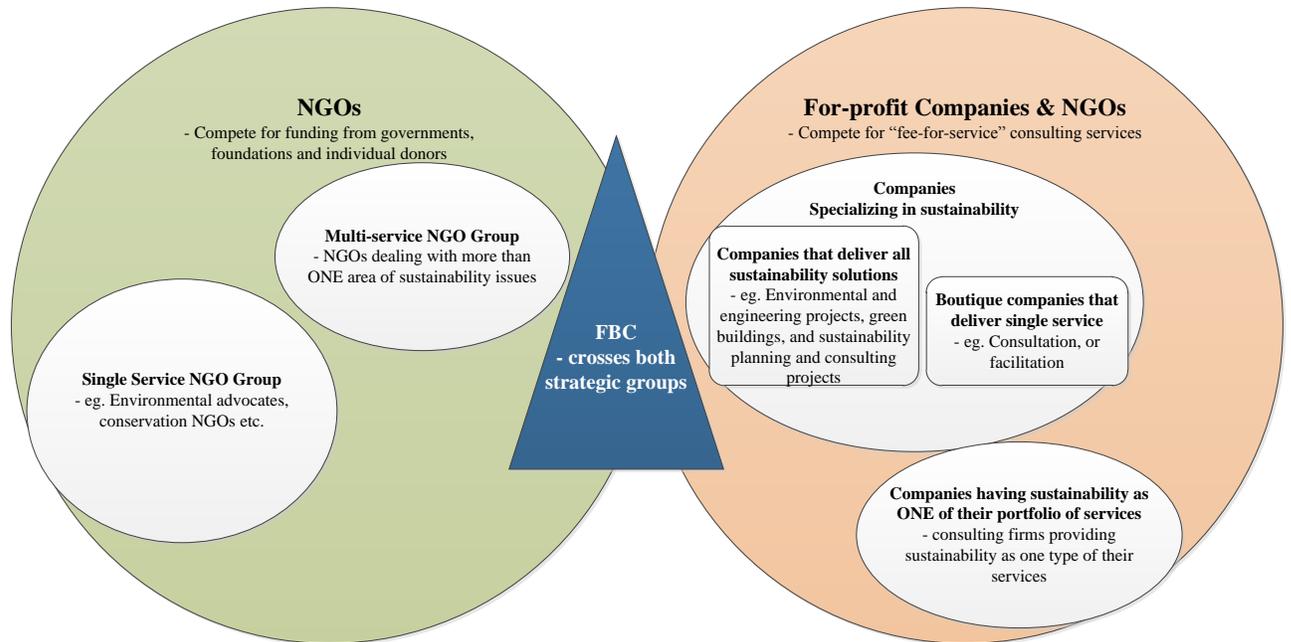
Moreover, the way social media is used as part of the marketing strategy for industry incumbents could potentially influence fund raising results and donor relationships. The organizations that are good at utilizing social media could attract funders and donors that are more technology savvy. Nevertheless, this macro force might not be strong enough to have considerable impact on competition in the industry.

3.1.3 Strategic Groups

As indicated in Figure 3-3, the industry comprises two main strategic groups – the NGOs that compete for funding from governments, foundation, corporations and individual donors and the for-profit companies that compete for “fee-for-service” types of consulting services. The set of characteristics which form the basis for competition

between the strategic groups includes revenue generation, service diversity and market segments.

Figure 3-3: Sustainability Consulting Industry Strategic Groups



Within the NGO strategic group, two subgroups exist. NGOs, like the Fraser Basin Council, that provide multiple types of services on sustainability make up a small percent of the industry. The majority of the NGOs focus on a single area of service, such as environmental advocacy, conservation, fishery preservation, watershed sustainability and so on. Within the for-profits, there are companies that specialize in sustainability solutions and those that include sustainability solutions as one part of their overall business portfolio. An NGO that operates under a “hybrid revenue strategy” that combines a traditional NGO funding model with earned income (Bell, Masaoka, & Zimmerman, 2010) will likely compete in both strategic groups. The

Fraser Basin Council is one of the hybrid organizations that crosses both strategic groups, in that it receives funding mostly from governments, foundations and corporations, but also engages in “fee-for-service” consulting.

For the purpose of this report, the scope will be contained in analyzing only the “fee-for-service” consulting of the sustainability consulting industry. The main reason for this approach is to strengthen the hybrid business model for the Fraser Basin Council, so that it can better position itself and achieve financial viability.

3.1.4 Key Performance Indicators/Strategies

Table 3-1 illustrates some important strategies and success factors in gaining competitive advantage in the “fee-for-service” sustainability consultation industry.

Table 3-1: Industry Key Performance Indicators

Key Performance Indicators (KPIs)
<i>Financial Sustainability</i>
<ul style="list-style-type: none"> - organization’s financial performance - percentage of long term contracts with existing customers - revenue from new customer base or new markets - efficient management of expenses (salary expenses and use of volunteers for NGOs)
<i>Established Network, Reputation & Relationships</i>
<ul style="list-style-type: none"> - network in the sustainability industry - company reputation in the community - partnership/relationship
<i>Transparency & Accountability</i>
<ul style="list-style-type: none"> - credibility built through transparency - trust built through accountability & impartiality
<i>Expert Knowledge of Sustainability Issues</i>
<ul style="list-style-type: none"> - keeping abreast with research on sustainability issues - staff knowledge and skill sets - education to the communities
<i>Expertise on Collaborative Facilitation</i>
<ul style="list-style-type: none"> - sharing the collaborative governance framework - sharing the format of facilitation

Regardless of the status of the organizations (for-profit or non-profit), financial sustainability is the most critical success factor. The organization's financial performance over a period of years or as compared with other industry incumbents demonstrates its success. Their ability to sustain long-term contracts with existing customers and generate revenue from new customers or new markets, and the ability to control expenses will contribute to increased net surplus. For NGOs the efficient use of volunteers will also help cut down salary expenses.

Networks, reputation and relationships are instrumental in business development of this industry. In order to retain those long-term contracts and get those new customers, a company must have a good track record of past success, a network of potential clients, relationships with potential clients or agencies offering sustainability consulting contracts.

Sustainability issues oftentimes are sensitive in nature, as different parties might have very different priorities. For instance, Aboriginal communities want to preserve land and heritage, but corporations might have economic gains at the forefront of their agenda when they embark on land development or mine explorations. Thus, it is critical to demonstrate transparency in the process of dealing with sustainability issues, to sustain trust from the community or customer base. The more transparent the process, the more credibility the organization will build. The more accountable and impartial the organization can portray itself, the more likely it will gain more business.

In order to succeed in the industry, the organizations must possess expert knowledge on sustainability issues and solutions. The staff should have complementary skill sets covering various areas of sustainability. They must keep up with current trends of

development of sustainability solutions, research feasibility, and offer education to the communities and customized solutions that fit with customers' needs. The organizations that have knowledge, but also know how to adapt to their customers' needs will be the most successful.

Sustainability issues can often bring debate and controversies, especially among environmental advocates and activists, and between environmental groups and big corporations. It can be difficult to handle them with the traditional consulting approach – the consultant tells the client the “right” way of doing things. For example, preservation of the salmon/fish habitat and watersheds cannot be done via simple consulting methods. Instead, it will be far more effective to use collaborative leadership to bring all parties to the table and work out the best solution that satisfies the needs of all parties involved. Therefore, although expertise on collaborative facilitation might not be necessary in the sustainability consultation process for the industry, the organizations that are familiar with the framework of collaborative governance and facilitation process will demonstrate a competitive advantage over those that are not.

3.1.5 Industry Attractiveness: Five Forces Analysis

Michael Porter's five forces analysis is used to analyze the industry, in that the forces and the industry structure drives profitability in the medium and long run (Porter, 1979). Understanding industry structure and the competitive forces are critical in strategy formulation, to ensure effective strategic positioning (Dunne & Beatty, 2011). The strongest competitive force or forces will have the utmost impact on industry profitability, and thus become the most imperative in strategy formulation (Dunne &

Beatty, 2011). Worksheets in Table 3-2, Table 3-3, Table 3-4, Table 3-5, and Table 3-6 below (provided by Dunne and Beatty) will be used to illustrate the strengths/impacts of the five forces. The more factors to the “Terrific” side of the scale, the stronger the industry profitability. Scope will be restricted to the “fee-for-service” subgroup of the sustainability consulting industry.

3.1.5.1 Threat of New Entrants

The threat of entry puts a cap on the profit potential of an industry – the lower the entry barriers, the higher the threat of entry, and the higher the impact on industry profitability. Potential new entrants can be NGOs, large-scale for-profit companies, or independent boutique firms who want to partake in providing sustainability solutions.

Table 3-2: Porter’s Five Forces Analysis – Threat of New Entrants

Threat of New Entrants (Barriers to Entry)		Very Ugly		Neutral		Terrific	
Economies of Scale	<i>Small</i>			√			<i>Large</i>
Product/Service Differentiation	<i>Little</i>					√	<i>Big</i>
Brand Identification	<i>Low</i>					√	<i>High</i>
Customer Switching Costs	<i>Low</i>					√	<i>High</i>
Capital Requirements	<i>Low</i>		√				<i>High</i>
Experience Effect	<i>Unimp’t</i>					√	<i>Important</i>

As illustrated in Table 3-2, the economies of scale factor is neutral, mainly because for services, the costs might not necessarily decrease with the expansion of services to clients. Services differentiation is big for this industry, as NGOs and for-profit firms have very different service delivery approaches. Boutique consulting firms also

provide different services than their large-scale counterparts. Brand identification is high – a company must have a great reputation and track record in its delivery of sustainability solutions. The appeal to the community to take action to make our planet sustainable can only resonate with people if it comes from companies with a known “brand” in sustainability issues. Moreover, customer switching costs are high due to the invested resources with the consulting firms on issues that need to be resolved. It is unlikely for customers to switch to new entrants lacking reputation and experience, when it will take time and resources to establish what is needed to obtain the solutions.

Capital requirements are relatively low. The capital includes the diverse and experienced human capital, as well as intangibles such as the knowledge and skills necessary for the extensive research and facilitation that need to be conducted.

Furthermore, experience is important in that the more knowledgeable the organization about sustainability issues, the better positioned it is in the industry to provide consulting services to clients. The partnerships and relationships with government agencies, foundations and organizations are built upon multiple dealings. In addition, the intricate networks built via these relationships take time and experience to foster and sustain.

In summary, most of the entry barriers are strong, making the threat of new entrants low for the industry. The industry incumbents can take advantage of their current position and focus on finding new opportunities and sustaining their competitive advantage.

3.1.5.2 Availability of Substitutes

Substitutes are firms outside of the industry which perform the same or similar functions via different means (Porter, 2008). Potential substitutes are in-house sustainability experts (e.g. Chief Sustainability Officer); government “think-tanks” that can provide sustainability solutions and online resources that provide research on feasible solutions for sustainability issues.

There are not a lot of readily available substitutes outside of the industry and the ones that exist are neither aggressive nor able to deliver comparable or better services at cheaper prices. In addition, the user switching costs can be significant if a client has to abandon established frameworks and networks, and pursue different channels for sustainability resolutions. For instance, to establish an “in-house” sustainability practice requires substantial investment in human capital, training and development, and on-going maintenance. Unless the sustainability mission is critical to an organization’s strategies, it is difficult to justify investments that cannot generate reasonable returns.

Table 3-3: Porter’s Five Forces Analysis – Availability of Substitutes

Availability of Substitutes		Very Ugly		Neutral		Terrific	
Available Close Subs	<i>Large</i>				√		<i>Small</i>
User Switching Costs	<i>Low</i>					√	<i>High</i>
Aggressiveness	<i>High</i>					√	<i>Low</i>
Price/Value	<i>High</i>				√		<i>Low</i>

Table 3-3 demonstrates low threat of substitutes, which is attractive for industry incumbents. Industry profitability is not threatened by potential substitutes.

3.1.5.3 Bargaining Power of Buyers

For the scope of this report, the buyers in this industry are defined as the customers who pay for consulting services. The buyers are government agencies and companies that need sustainability solutions, such as programs on climate change and air quality, community planning, environment conservation, carbon management, and corporate social responsibility.

Table 3-4: Porter’s Five Forces Analysis – Bargaining Power of Buyers

Bargaining Power of Buyers		Very Ugly		Neutral		Terrific	
Number of important Buyers	<i>Few</i>				√		<i>Many</i>
Substitute Availability	<i>Many</i>					√	<i>Few</i>
Switching Costs	<i>Low</i>				√		<i>High</i>
Threat of Backward Integration	<i>High</i>					√	<i>Low</i>
Contribution to Quality	<i>Small</i>			√			<i>Large</i>
Total Buyer Cost	<i>Large Bit</i>			√			<i>Small Bit</i>
Buyers’ Profitability	<i>Low</i>			√			<i>High</i>

As shown in Table 3-4, with the trends and social calling to build sustainable communities, corporations are pressured to act socially responsible in every way they can. More and more companies are seeking help in sustainable solutions and in becoming socially responsible. Thus, the number of buyers is growing, and reducing buyer power. Substitutes are not readily available, unless corporations are willing to invest in building sustainability teams in-house. Buyers will incur switching costs in changing vendors, as customized sustainability solutions take time and money to re-create. In addition, there is low threat of backward integration, because most of the

buyers are not technologically capable of entering the sustainability consultation industry.

The relationship between the quality of buyers' products or services and the industry services is neutral for most buyers. For instance, the adoption of methods to reduce greenhouse gas emission might not have an effect on the products or services of an organization. Likewise, adopting sustainability solutions might not help organizations reduce costs or increase profitability. Organizations that invest in sustainable solutions are unlikely to be short on cash, or else they would not be able to afford the consulting services.

From Table 3-4, it is evident that buyer power is low to medium. Consequently, customers in this industry do not have substantial power to pressure price reduction or drive down industry profitability (Porter, 2008).

3.1.5.4 Bargaining Power of Suppliers

Suppliers demonstrate high bargaining power when they can squeeze profitability from an industry by charging higher prices, limiting quality/services, or shifting costs to industry participants (Porter, 2008). Suppliers for this industry mainly consist of sustainability experts, researchers, consultants, and specialized volunteers for NGOs.

As shown in Table 3-5, the supplier group is not concentrated, since the number of experts and consultants are substantial. Some substitutes for the supplier group exist, in that organizations can rely on online research experts in finding sustainability solutions or create their own "in-house" expert teams. Switching costs are relatively low in changing suppliers. And the likelihood of supplier forward integration is low, except in

the case of the establishment of small independent consulting firms. In terms of differentiation of services, some suppliers could offer various services; but most will be specialized in certain aspects of sustainability issues. Lastly, suppliers that depend heavily on a single industry for revenues do not possess much power.

Table 3-5: Porter’s Five Forces Analysis – Bargaining Power of Suppliers

Bargaining Power of Suppliers		Very Ugly		Neutral		Terrific	
Number of Important Suppliers	<i>Few</i>				√		<i>Many</i>
Substitute Availability	<i>Few</i>			√			<i>Many</i>
Switching Costs	<i>High</i>				√		<i>Low</i>
Threat of Forward Integration	<i>High</i>				√		<i>Low</i>
Supplier Product/Service Differentiation	<i>Big</i>			√			<i>Small</i>
Number of Industries Suppliers Serve	<i>Many</i>					√	<i>Few</i>

In summary, bargaining power of the supplier group is low to medium. They lack the power to charge higher prices, control quality of services, or pass on costs to industry incumbents (Porter, 2008).

3.1.5.5 Rivalry among Competitors

Rivalry among existing competitors can take many different forms and high rivalry can limit industry profitability (Porter, 2008). Rivals for this industry (“fee-for-service” consulting service only) consist of for-profit companies that specialize or deliver sustainability solutions, and non-profits that also generate earned income from “fee-for-service” consulting.

Table 3-6: Porter’s Five Forces Analysis – Rivalry among Competitors

Rivalry among Competitors		Very Ugly		Neutral		Terrific	
Numbers of ‘Equals’	<i>Large</i>				√		<i>Small</i>
Industry Growth Rate	<i>Slow</i>				√		<i>Fast</i>
Fixed Costs	<i>High</i>				√		<i>Low</i>
Product Features	<i>Commodity</i>				√		<i>Specialty</i>
Capacity increases	<i>Large hunks</i>					√	<i>Small</i>
Diversity of Competitors	<i>High</i>		√				<i>Low</i>
Strategic Stakes	<i>High</i>		√				<i>Low</i>

As per Table 3-6, the number of “equals” is relatively small, as the industry is comprised of firms with different sizes and power. With increasing need in the Canadian market for an expanded variety of sustainability services across the country, revenue opportunities are also on the rise, reducing the need to fight for market share, and making rivalry lower. Fixed costs in delivering consulting services tend to be relatively low. Product feature is more “specialty” instead of “commodity.”

Differentiated services are provided, which are based on localized communities and the needs and preference of local people, or based on diverse needs of corporations.

Capacity does not need to be expanded in large chunks for companies to be efficient, so price cutting and overcapacity are not likely.

Two factors that make rivalry relatively high are the highly diverse competitors and their high strategic stakes. As indicated above, organizations in this industry cover a diverse range of services. They bring diverse visions, values, operational and management styles into their business. As Porter said, “some organizations have high

strategic stakes in that they have high commitment to their business, beyond purely economic performance” (Porter, 2008).

From Table 3-6, it is clear that rivalry for this industry is low to medium, mostly because competitors tend to offer diverse services to different customer segments. Such competition is called “positive sum” (Porter, 2008), which can bring higher average industry profitability and expand industry boundary with the addition of more customer segments (Porter, 2008).

3.1.5.6 Five Forces Analysis Summary

Based on the above analysis, the five forces are not very intense, which means the sustainability consultation industry is not particularly competitive at the moment. Industry incumbents do not have to worry about defending against substitutes, nor do they need to focus on creating entry barriers to deter potential new entrants. The winning firms of the industry would be those that choose to either truly understand and satisfy the needs of their existing customers, or to develop new markets where customers are underserved. On the other hand, successful firms must also invest in their human capital, even though supplier power is not high at present. With dwindling natural resources, heightened environmental consciousness among Canadians, and the slowly stabilizing economy, the demand for integrated sustainability solutions will likely increase. The rising demand will likely give the suppliers more power to choose who they would work with. The organizations that can retain their skilled work force will have a better chance of winning the next rounds of competition.

3.1.6 Insights and Implications

The business environment for the sustainability consultation industry is unlikely to change dramatically in the next few years. Therefore, industry incumbents should focus on other factors that drive profitability within the industry. Key performance indicators disclosed what would help the firms create, sustain and measure value. Five forces analysis revealed two competitive forces that are most critical in the strategy formulation process – understanding customer needs and utilizing sustainability experts to help deliver solutions. The “positive-sum” (Porter, 2008) competition in this industry is also advantageous for the incumbents, as firms can maintain or expand their profitability by exploiting their competitive advantage to target unique customer segments. The most important implication for a non-profit firm like FBC that relies heavily on government funding is to understand how to become “financially self-sustainable” by finding new ways to compete in the industry.

3.2 External Analysis

The Fraser Basin Council is in the business of advancing sustainability for the province of BC and the Fraser River Basin by providing facilitation, consultation and education on sustainability issues through a collaborative governance framework. The purpose of the external analysis is to understand the key stakeholder groups that are important to FBC. Specifically, customers and competitors are the main stakeholder groups. Their behaviours are analyzed to help FBC better understand how it can help its customers and how to compete with its rivals. The analysis will help identify opportunities for FBC to create value. The scope of the analysis will be confined to the consulting service sector.

3.2.1 Customer Segments and Key Attitudes, Behaviour and Customer Value

FBC operates by relying on government and foundation funding. In 2011, about 75% of its revenue came from governments, and 16% from foundations – see Figure 2-2.

The seven percent consulting revenue also comes from governments in the form of contracts. As displayed in Table 3-7, FBC has two main customer segments and a potential new segment that should be explored. Since the organization serves such a niche market, its main customer segment is the four orders of government. The other existing segment consists of organizations that seek help from FBC to obtain government contracts.

Table 3-7: FBC’s Customer Segments under Consulting Services

Customer Segment	Type of Service	Revenue Stream
<p>1. Government agencies</p> <ul style="list-style-type: none"> - Four orders of government - Agencies under government control (e.g. CIDA) 	<ul style="list-style-type: none"> - Government contracts/projects 	<ul style="list-style-type: none"> - Funding provided based on contracted amounts
<p>2. Organizations reliant on FBC to obtain government contracts</p> <ul style="list-style-type: none"> - Other NGOs - Boutique independent consulting firms - For-profit large consulting firms 	<ul style="list-style-type: none"> - “Flow-through projects” - Sub-contractor services 	<ul style="list-style-type: none"> - Management/admin fee negotiated based on each contract - Sub-contractor fees
<p>3. Potential new segment</p> <ul style="list-style-type: none"> - Crown corporations - Private sector corporations 	<ul style="list-style-type: none"> - Contracts/projects - Facilitation services - Sustainability education 	<ul style="list-style-type: none"> - Fee collected on services rendered

3.2.1.1 Government Agencies Segment

The types of services required by the governments can be within BC, the Fraser River Basin, or spanning local and regional communities. Provincial funding comes from several ministries, including the Ministry of Community, Sport and Cultural

Development, Ministry of Forests, Lands and Natural Resource Operations, Ministry of

Energy and Mines, Ministry of Environment, and Ministry of Health. For instance, BC Ministry of Health has awarded a contract for the first phase of a human risk assessment of oil and gas development in BC's northeast, which will help BC develop a better understanding of human health concerns and lead to future actions (BC Ministry of Health, 2012). Consulting services at the regional level can involve community planning, fish habitat preservation, environment issues and the like. Outreach programs refer to the ones delivered outside of the province – to bring the “proven formula” to other provinces or countries. One example is a potential three-year contract to be awarded by the Canadian International Development Agency (“CIDA”) through a Request for Proposal from a consultant able to work jointly with a Chinese agency to preserve language and culture for two of the minority nationalities in China's GuiZhou province. Specifically, government agencies will issue RFPs, and award contracts to the organization with the most suitable experience and skill sets. Finally, “fee-for-service” also involves sponsorship payments from governments for events conducted by FBC.

Key Customer Attitudes, Behaviour and Customer Value

Government agencies value proven reputation and technical expertise, good track records of past success, the understanding of government priorities and policies, long-term relationships, integrity, impartiality, consensus building and collaborative leadership, and low price (Vanderwal, 2012). Technical capability is but one aspect the government assesses during the RFP process, what is more important is the organization's ability to professionally carry out the contracts that represent government strategy and mandate. Moreover, it is extremely important to invest in

building, sustaining and cultivating the relationships with this customer segment.

Although political environment plays an important role in the sustainability industry, the relationships are not with the politicians in power, but with government employees, usually at the director's level, or technical experts who specialize in sustainability issues. It is crucial to gain confidence from key government employees, and maintain trusting relationships (Ruso, 2012). In addition, it is also critical to keep at the forefront of sustainability issues, to uphold an industry expert status, so that when opportunities arise, FBC will be ready to defeat rivals to win contracts and projects.

Furthermore, governments have become more cost conscious since the economic recession. With budget cuts and reduced funding, governments now seek ways to provide high-quality services with the most reasonable price. They want to demonstrate that value delivered to the communities outweighs the costs associated with a contract. FBC must utilize sound financial management practice to keep its costs down, to beat rivals in obtaining contracts. It will strengthen FBC's long-term sustainable competitive advantage if it can position itself as a cost leader that can also deliver value. Cost sensitivity also applies to sponsorships from Crown Corporations. As an example, it will become more challenging to obtain sponsorships from BC Hydro since two of the recommendations from the "Review of BC Hydro" are to drastically cut operating costs, and ensure sponsorships and donations are only given to those firms that fit within BC Hydro's community investment objectives (BC Government, 2011).

Finally, as typical with bureaucracies, it can take a substantial length of time to receive decisions from government agencies. At times, contracts are awarded very close to

government fiscal year end (March 31) as funding must be spent by then, and contracts must be completed within a very short time frame. It can be extremely challenging for an organization to deliver services within the tight time line. If FBC can plan to commit time and resources during fiscal year end to deliver on the awarded contracts, it will solidify its relationship and reputation with the various governments.

3.2.1.2 Segment for Organizations Receiving “Flow-Through Projects”

Another customer segment consists of organizations that pay management fees or administration fees to FBC, which obtains contracts or projects from governments, foundations or organizations on behalf of these firms. These are considered “flow-through projects” (Ruso, 2012) and can come in three forms:

- Trust funds – FBC acts as the Trustee and administers the in and out flows of the funds. The most current arrangement is a zero administration fee arrangement, which is not the best business decision, as the organization is losing money providing “Trustee” services without being paid.
- Contracts allocated by governments – Governments usually specify a percentage of the amount that is allowed to be used by FBC; the rest of the money must be paid out by issuing grants, or hiring other consulting firms or consultants, to ensure a bigger group of organizations participate in the assigned projects.
- Requests from smaller consulting firms – These firms rely on FBC to obtain government contracts for them. Currently, the arrangements vary on a case-by-case basis, as FBC charges management fees ranging from 2% to about 10% to 12% of the contract amounts.

Key Customer Attitudes, Behaviour and Customer Value

This segment of customers either lack experience in performing government contracts, or do not have the necessary networks and relationships with government agencies to

get the opportunity to be recognized for what they do. FBC acts as a perfect conduit in these circumstances, to leverage its established networks and connections to get the contracts for other consulting firms. The contracts are granted based on FBC's credentials, therefore, the chances of getting the contracts is significantly higher than if the firms go through the bidding process on their own. FBC should consider charging a standard percentage of the contract amount as management fee for the above mentioned flow-through projects. FBC should ensure that it achieves profitability after deducting administration costs. The constant percentage figure, instead of the current practice of negotiated management fee per contract, will help stabilize this revenue source.

3.2.1.3 New Segment

Lastly, the potential new customer segment refers to private sector corporations who have needs for sustainability development and consultation. There is a huge potential in expanding consulting services to corporations who would pay for consulting services that help them fulfill their corporate social responsibilities. According to the KPMG Corporate Sustainability Report (2011), businesses around the world are realizing the strategic imperative of sustainability, and creating strategies that center around sustainability to generate innovation, cut costs, increase efficiency, and ultimately strengthening their competitive advantage. Despite the economic downturn, 62% of the companies surveyed by KPMG have a corporate sustainability strategy, up from just over 50% in February, 2008 (KPMG, 2011). This is promising for FBC, as with 15 years of experience providing sustainability solutions, it is in a good position to bring its core strengths into the private sector.

Key Customer Attitudes, Behaviour and Customer Value

For customers from the new segment—private sector corporations—corporate social responsibility, sustainable procurement practices, clean energy, reduction of energy consumption and greenhouse gas emissions, green buildings, and sponsorship for community projects are usually at the forefront of their strategic priorities. Large corporations, such as Telus, set aggressive goals to be recognized as socially responsible corporations. For example, Telus committed to a 25% reduction of greenhouse gas emissions and 10% energy consumption reduction from 2009 to 2020 (Telus, 2012). The organization has also adopted the Leadership in Energy and Environmental Design (LEED) principles for green building design, construction and operation.

These types of organizations value proven success and reputation of the organizations they work with on sustainability solutions. They also tend to integrate sustainability into their strategy development, revenue growth, risk management, operational efficiencies, and corporate responsibility reporting. Providing consulting services to these corporations likely solidifies the status of the Fraser Basin Council as a leader in sustainability solutions, and helps strengthen its competitive advantage in the sustainability consulting industry. However, the challenges for FBC exist in that it cannot provide all the necessary sustainability consultation services required by these corporations. To be specific, FBC is more specialized in complex mediation, facilitation and public consultation of sustainability issues, and has expertise in regulatory and policy related solutions. It does not have the full-range capability to

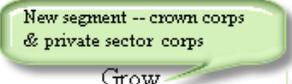
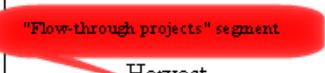
provide consulting services like the Big Four consulting firms, nor does it have all the engineering expertise to deliver engineering projects like Stantec Inc.

In addition, competing in this segment requires organizations to have more individual client-focus than dealing with governments. Customer value is created by understanding customer needs and providing products and services that satisfy those needs. Organizations are measured by the quality of services delivered, their ability to meet deadlines and customer retention.

3.2.1.4 Insights and Implications

The three customer segments present different attractiveness, which, when compared with FBC’s competitive advantage, can point out the strategic implications for the organization. This is portrayed by using an adaptation of the GE/McKinsey 9 Box tool (Dunne & Beatty, 2011, p. 15).

Table 3-8: Segment Attractiveness versus FBC’s Competitive Advantage

		Competitive Advantage		
		High	Medium	Low
Segment Attractiveness	High	Grow	Grow	Hold
	Medium	 Grow	Hold	Harvest
	Low	 Hold	Harvest	 Harvest

Source: Adapted from GE/McKinsey 9 Box tool (Dunne & Beatty, 2011, p. 15)

Table 3-8 presents the various strategic implications for the three customer segments in terms of “fee-for-service” consulting. Although FBC’s competitive advantage is fully utilized in the government agencies segment, it warrants low segment attractiveness, since government funding is unlikely to increase in the next few years. The strategic implication is “Hold” for this segment. The segment consisting of organizations that receive “flow-through projects” from FBC has low attractiveness as there is potential cannibalization when government contracts are passed onto other organizations. With the budget cuts, at a minimum, the opportunities presented by this segment will not grow very much. Moreover, passing on projects does not require FBC to use its full competitive advantage, except for its strengths in government relationships. Therefore, the strategic implication is “Harvest” for this segment. On the contrary, tapping into the new segment to offer consulting services to Crown Corporations and private sector corporations will allow FBC to exercise its full competitive advantage. It is a relatively new market, as even for-profit consulting firms are still exploring the various service potentials in this segment. Although segment attractiveness is at medium level at this point, due to FBC’s lack of knowledge of customer needs, the strategic implication is “Grow” for this segment.

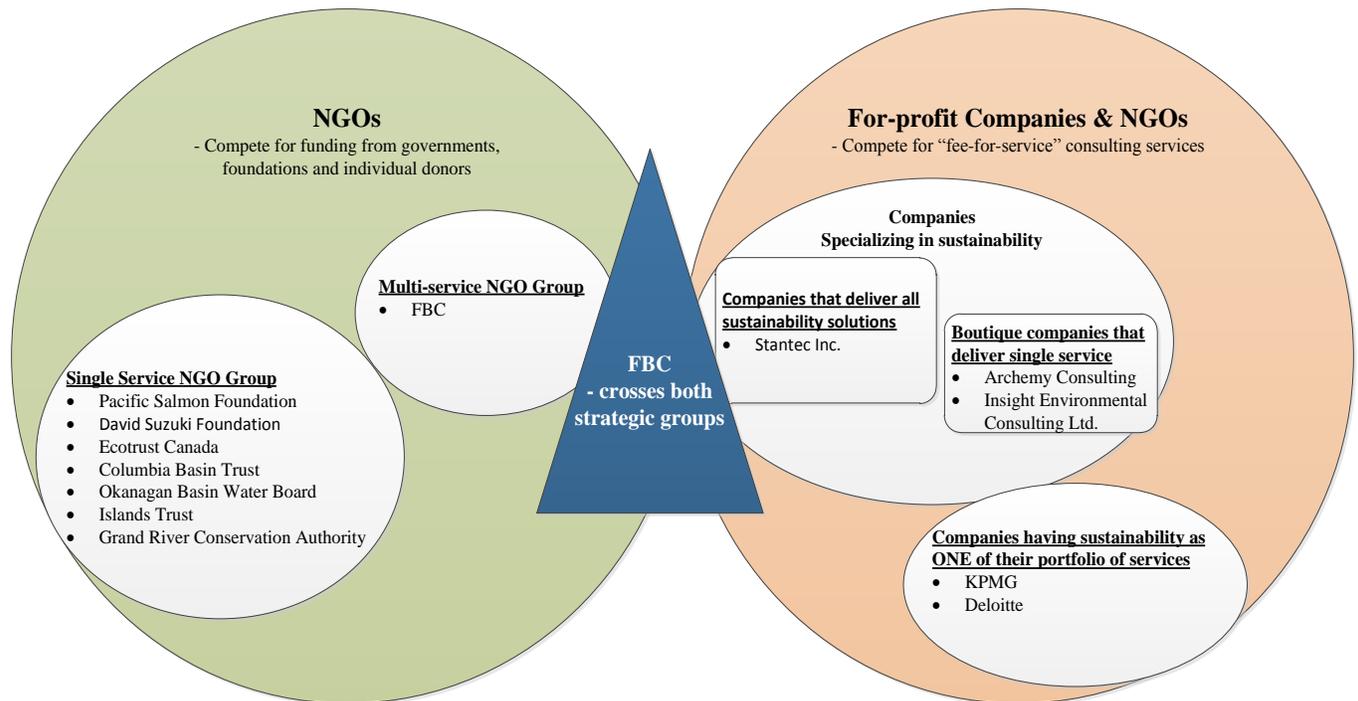
In summary, FBC should consider entering the new segment to gain new business of working with Crown corporations and private sector corporations. These new business opportunities will increase FBC’s earned income stream, thus, helping the organization achieve financial sustainability in the long run.

3.2.2 Competitor Goals, Strategies, Resources and Performance

According to the definitions about the sustainability consultation industry and strategic groups, competitors are categorized into for-profit and NGO rivals (see Figure 3-4).

The basis of competition is “fee-for-service” types of services in the sustainability consulting industry. Table 3-9, Table 3-10 and Table 3-11 provide an overview of the major competitors of FBC, their competition dimensions, their goals, strategies and resources, and their performance.

Figure 3-4: Strategic Groups with Competitors Identified



3.2.2.1 For-profit Competitors

Within the for-profit group, competition involves offering integrated solutions to existing clients (Deloitte, 2012) to provide better value, or in obtaining new clients that need sustainability solutions.

Table 3-9: Competitor Analysis Part 1 – For-Profit Firms

For-Profit Competitors	Competition Dimensions	Goals, Strategies & Resources	Performance
<p><i>Stantec Inc.</i> (Stantec Inc., 2012)</p>	<p>Engineering consulting/ integrated solutions to sustainability:</p> <ul style="list-style-type: none"> - Planning - Engineering projects - Green building design - Surveying - Environmental science - Project management - Project economics 	<ul style="list-style-type: none"> - <u>Vision</u>: “to become and remain a top 10 global design firm” - <u>Strategies</u>: combine internal growth with acquisition (product development and market penetration) - 11,000 employees (170 locations in N. America, 4 worldwide) 	<ul style="list-style-type: none"> - Achieved 57 consecutive years of profitability - Net income growth at compound annual growth rate of 22% - Share price has increased at 15% average annual growth rate since IPO in 1994
<p><i>KPMG Climate Change & Sustainability Services</i> (KPMG, 2012)</p>	<ul style="list-style-type: none"> - Audit - Tax - Advisory - Special Interests: Climate change & sustainability services 	<ul style="list-style-type: none"> - <u>Vision</u>: “cutting through complexity” - <u>Strategies</u>: combines multidisciplinary approach with deep, practical industry knowledge to help clients meet challenges and respond to opportunities - 145,000 employees in 152 countries 	<ul style="list-style-type: none"> - US \$22.7 billion revenue in 2011, a 10% increase from 2010
<p><i>Deloitte Sustainability & Climate Change Services</i> (Deloitte, 2012)</p>	<ul style="list-style-type: none"> - Audit & Enterprise Risk Services - Consulting - Financial advisory - Tax - Sustainability & climate change services 	<ul style="list-style-type: none"> - <u>Vision</u>: “aspire to be the Standard of Excellence, the first choice of the most sought-after clients and talent” - <u>Strategies</u>: work together across geographic, functional, and business borders to deliver excellence in all services provided - 182,000 employees in 150+ countries 	<ul style="list-style-type: none"> - US \$28.8 billion revenue in 2011 - Steady growth in the last 6 years
<p><i>Independent consulting firms</i></p>	<ul style="list-style-type: none"> - Specializing in either consultation or facilitation 	<ul style="list-style-type: none"> - Specialized services 	<ul style="list-style-type: none"> - Unknown

According to Stantec's 2010 Sustainability Report (2011), the organization competes on a much bigger scale than FBC, with close to \$1.6 billion in gross revenue (40% from Environment area, 22% from Buildings, 15% from Industrial, 12% from Transportation, and 11% from Urban Land). It is an engineering consulting firm, with 11,000 employees ready to perform all integrated solutions to sustainability issues. Its vision is to "become and remain a top 10 global design firm" and its strategies are to "combine internal growth with acquisition of firms that believe in and want to be part of its vision" (Stantec Inc., 2012). It uses strategies like product development by adding new services to existing regions and market penetration by obtaining new clients from the existing national and international markets. Stantec has had an outstanding performance record and can be a good organization for benchmarking in the sustainability consulting industry.

KPMG and Deloitte are consulting firms having climate change and sustainability as one type of service they provide. In other words, unlike Stantec, these two firms offer a range of services, such as audit, tax, financial advisory, enterprise applications, technological solutions, risk management, business analytics, mergers and acquisitions. Climate change and sustainability services at KPMG and Deloitte are currently a small piece of the pie in their overall portfolio of consulting services, as neither firms reported these as a separate revenue function on their annual review reports. Although they are not as specialized as Stantec, these firms have extensive corporate clients to whom they can target sustainability consulting. They usually market sustainability services as part of the integrated solutions corporations need in order to stay

competitive in the market place. As corporations demand more sustainability solutions, it is highly likely existing clients will hire these firms to help them with their needs.

According to KPMG's Website (2012), its Climate Change and Sustainability Services include:

- Conduct sustainability risk and opportunities evaluation
- Provide regulatory frameworks (eg. tax and carbon emission regimes) optimization
- Benchmark sustainability programs such as cost reduction targets
- Help evaluate and design critical business information streams (corporate social responsibility, carbon emissions and changes within commercial supply chain)
- Provide assurance on these business information streams

Similarly, on Deloitte's website (2012), sustainability and climate change services include:

- Human capital and stakeholder engagement
- Information technology that supports sustainability
- Strategy for sustainability and climate change
- Governance and risk management for sustainability
- Sustainable operations and supply chain
- Reporting, assurance and compliance of sustainability
- Energy and resource management

Small scale or boutique consulting firms are another group of for-profit competitors. Some of the independent or individually-run consulting firms cannot compete with FBC in scale. Services they provide are usually research, reports, project management, or smaller scale consultation/facilitation processes. Archemy Consulting (Archemy Consulting Ltd., 2012) and Insight Environmental Consulting Ltd. (Insight

Environmental Consulting Ltd., 2012) are just two examples of the small firms. They do not pose much threat to FBC, but rather, could be potential recipients of “flow-through projects.”

3.2.2.2 Non-profit Competitors

Table 3-10 and Table 3-11 list the NGOs that can offer specialized consulting services. Since these companies are very specialized, they pose little threat to FBC. In fact, they are only competitors when they compete with FBC for the same contracts or projects. On many occasions, these non-profits are actually partners with FBC, working together in addressing environmental issues and advancing sustainability in BC.

Table 3-10: Competitor Analysis Part 2 – NGOs

NGO Competitors	Competition Dimensions	Goals, Strategies & Resources	Performance
<i>Pacific Salmon Foundation</i> (Pacific Salmon Foundation, 2012)	- Preserves salmon habitat	- Preserve salmon and promote collaborative governance for natural resources - About 30 staff	- \$8 million in revenue, about 10% is other revenue, which includes consulting services
<i>David Suzuki Foundation</i> (David Suzuki Foundation, 2012)	- Environmental advocate	- <u>Goals:</u> protect climate, nature, build community, transform economy - <u>Strategies:</u> work with government, business and individuals to conserve the environment; act as a social change catalyst - 60 staff, & 1500 volunteers in Canada	- \$7.7 million in revenue, about 97% is from various sources of donations, which means the NGO is not reliant on consulting services
<i>Ecotrust Canada</i> (Ecotrust Canada, 2012)	- Conservation for fishery, forestry & energy	- <u>Purpose:</u> Builds the conservation economy - About 28 staff	- \$2.5 million in revenue, over 30% is from consulting services

Table 3-11: Competitor Analysis Part 2 – NGOs(Continued)			
NGO Competitors	Competition Dimensions	Goals, Strategies & Resources	Performance
<i>Columbia Basin Trust</i> (Columbia Basin Trust, 2012)	- Strengthen the well-being of Columbia Basin	- Invest endowment received from the Province and manage the assets of CBT - Spend the income earned from CBT's investments to deliver benefits to the Columbia Basin - 43 staff	- \$28.4 million in revenue, steady increase in the last five years
<i>Okanagan Basin Water Board</i> (Okanagan Basin Water Board, 2012)	- Long- term sustainable water supplies	- Provide leadership to protect and enhance quality of life in the Okanagan Basin through sustainable water resource management - Eight staff	- \$4.3 million in revenue, mainly from levies and government grants
<i>Islands Trust</i> (Islands Trust, 2012)	- Preservation of the local areas	- Preserve and protect the area and its environment for the benefit of residents and the province - A unique federation of independent local governments, with 26 trustees	- \$6.3 million in revenue, about 95% is from property taxes
<i>Grand River Conservation Authority, Ontario</i> (Grand River Conservation Authority, 2012)	- Sustainability at watershed level	- improve water quality, reduce flood damages, maintain a reliable water supply, facilitate watershed planning, protect natural areas and biodiversity, and provide environmental education - About 200 staff	- \$33.5 million in revenue, about 40% is from self-generated revenue, 28% from levies, 25% from government grants, 7% from reserves

Consequently, FBC should strive to cultivate various partnerships with these NGOs, to work collaboratively as a bigger and stronger group. As discussed in section 3.2.1.2, FBC can also act as a channel to obtain government funding for these organizations.

3.2.3 Insights and Implications

FBC's main customer segment (provincial governments) has had to adapt its business practices to the pressure of the economic recession in the last few years, which requires FBC to change its strategies to adapt as well. Assuming additional contract funding is available, one strategic direction of the organization can be to focus on serving this customer segment by expanding into all three dimensions of sustainability development (see Figure 3-1) – economic, social, and environmental. FBC's collaborative governance framework can be used to generate dialogues and discussions in other strategically important areas such as building a sustainable health care system, education system, or a sustainable economy.

Opportunities also exist in collaborating with other NGOs in the sustainability industry, which will reduce potential redundant services, cut costs and increase profitability for all parties. FBC can also expand “flow-through projects” to more organization, to create value by using its relationships and networks to obtain contracts and projects for more firms, without causing cannibalization.

Another strategic direction is to explore new markets to identify potential customers. The rivals in this industry compete on different scales and forms, which presents both challenges and opportunities for FBC. The challenges reside in the difficulty to benchmark with competitors. But opportunities exist for FBC to target new customer segments, especially the private sector corporations, with its own unique niche that stands out from rivals.

The bottom line is to adopt the strategic direction that generates the highest level of earned income, while still allowing FBC to stay true to its vision and mandate.

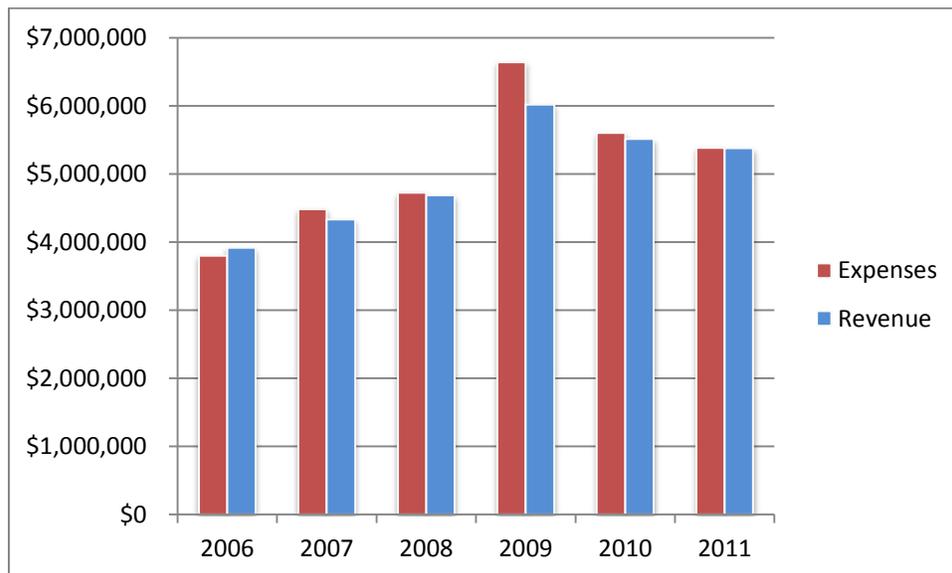
3.3 Internal Analysis

Internal analysis is used to evaluate FBC in terms of its historical financial performance, skills and resources, and past strategies, success, and failures. The purpose of the analysis is to understand the NGO's past and current strategic positioning.

3.3.1 Financial Performance: CAGR/Momentum Analysis

Analyzing FBC's revenue in the last six years (see Figure 3-5), the pattern is an upward increase from 2006 to 2008, with a substantial increase in the year ended in March 31, 2009. Unfortunately, however, due to the global economic recession, the revenue since then has been on a steady decline as government funding is reduced and FBC completes previously granted multi-year contracts.

Figure 3-5: FBC's Revenue and Expenses Trends (2006 to 2011)



Source: Created based on FBC's 2005/06 to 2010/11 financial statements and annual reports (Fraser Basin Council, 2012)

Many NGOs, especially the ones like FBC that rely heavily on government funding, experience the same challenge. According to Public Policy Forum and other research, one of the four challenges experienced by non-profits is the “pressure on revenues as government budgets are frozen or decline, foundation endowments and giving has decreased, and individual donors have become less stable, and subject to changing priorities” (Public Policy Forum, 2011). As mentioned in Figure 2-2, FBC is 75% funded by the four orders of governments. Therefore, its financial performance is more representative of the economic condition, than that of its own financial management practice. However, it is worth noting that expenses have been higher than revenue, albeit a small amount.

In Table 3-12, “Compounded Annual Growth Rate (“CAGR”) (Dunne & Beatty, 2011) is calculated on revenue over the last 6 years: CAGR was first calculated for 05/06 to 07/08 and 05/06 to 08/09, then for 08/09 to 10/11, and finally from 05/06 to 10/11, to show the effect of funding change in 08/09. Since 75% of FBC’s revenue comes from government, the changes in CAGR are mainly due to the tightening of grants funding after the recession. CAGR from 2006 to 2008 versus CAGR from 2006 to 2011 are close, at 6.16% and 5.43% respectively. These numbers are impossible to hold in the near future if FBC maintains its current strategic direction. CAGR of 11.35% from 2006 to 2009 is not likely to be replicated in the next few years, since the government is unlikely to provide the same level of funding as prior to the recession. Based on FBC’s projected revenue (\$5.2 million) for the year ending in March 31, 2012, and the budgeted revenue (\$4 million) for the year 2012/2013 (Ruso, 2012), CAGR will continue to be a negative number, which should raise alarm bells for FBC.

Table 3-12: CAGR Calculations

Year	Revenue	Expenses	CAGR 2006 - 2008	CAGR 2006 - 2009	CAGR 2009 - 2011	CAGR 2006 - 2011
2006	\$ 3,915,181	\$ 3,797,138				
2007	\$ 4,332,583	\$ 4,480,025				
2008	\$ 4,684,108	\$ 4,722,178	6.16% ⁱ			
2009	\$ 6,018,193	\$ 6,639,137		11.35% ⁱⁱ		
2010	\$ 5,510,563	\$ 5,603,444				
2011	\$ 5,376,003	\$ 5,381,111			-3.69% ⁱⁱⁱ	5.43% ^{iv}

Source: Created based on FBC's 2005/06 to 2010/11 financial statements and annual reports (Fraser Basin Council, 2012)

Also as evident in Figure 3-5 and Table 3-12, expenses have been higher than revenue in the last five years, especially in 2009, when revenue was at the highest level.

Although NGOs are not profit-seeking, sound financial management is still critical. In addition to finding ways to generate more revenue, reviewing some cost-cutting measures and controlling expenses will also contribute to FBC's financial sustainability.

3.3.2 Key Skills and Resources

FBC has dedicated staff members who are passionate about being part of a team that contributes to making a difference by advancing sustainability and protecting social well-being supported by the economy and environment (Fraser Basin Council). FBC's 30 staff members collectively have unique skills, and wide-ranging expertise in group facilitation, conflict resolution, life sciences, natural resource management, program

ⁱ CAGR = (Ending value / Beginning value)^(1/# of years) - 1

CAGR 2006 to 2008: (4,684,108/3,915,181)^(1/3) - 1 = 0.0616

ⁱⁱ CAGR 2006 to 2009: (6,018,193/3,915,181)^(1/4) - 1 = 0.1135

ⁱⁱⁱ CAGR 2009 to 2011: (5,376,003/6,018,193)^(1/3) - 1 = - 0.0369

^{iv} CAGR 2006 to 2011: (5,376,003/3,915,181)^(1/6) - 1 = 0.0543

administration, sustainability planning and education, outreach, and communications (Fraser Basin Council). The expertise is evident in its accomplishments in the last 15 years and the extensive programs it offers within BC, the Fraser River Basin, and across all five local regions. In order to better compete in sustainability consulting, it is crucial to adopt the best practices of for-profit consulting firms. Consulting firms often capture their skills and talent into inventory, so they know exactly who to assign to what contracts or projects. FBC should compile an inventory of skills and market/advertise these skills on the website, or via other types of publications, so that customers searching for sustainability solutions can easily identify FBC.

One unique resource FBC has is the innovative collaborative framework established in facilitating sensitive and challenging sustainability issues. This consensus-based governance model represents the first of its kind in Canada and has served as an example for other organizations in BC, Canada and internationally (Alexander, Seymoar, & Babicki, 2005). It transformed the traditional “top-down” governing approach and the silo effects of multi-jurisdiction operations into collaborative leadership. The 38-director board is instrumental in promoting consensus and collaboration. Alexander et al. (2005) found that the board has had representation from environmental advocates, mayors and regional district directors, senior federal and provincial government officials, First Nations leaders, business executives and individual residents. The diversity creates a shared understanding of widely differing perspectives and fosters cross-jurisdictional collaboration on issues that demand such collaboration in order to be resolved.

Furthermore, FBC has another unique resource – its Executive Director David Marshall, who has served in this capacity since 1993 when he led FBMG, FBC’s predecessor organization. He has been a pivotal force in FBC’s journey in the last 15 years. The relationships and networks David built with governments, corporations and foundations have contributed to the consistent funding from these revenue sources. His knowledge, experience, passion and conviction about advancing sustainability in BC and the Fraser River Basin have helped him attract talent to its staff. David is an invaluable resource for FBC, which is advantageous, but also challenging for the future of the organization. Succession planning is critical for FBC’s future success – finding the right fit to lead FBC, and transferring the wealth of knowledge to the successor.

3.3.3 Past Strategies, Successes and Failures

FBC has been successful in creating the collaborative governance model that is highly adaptive and flexible, and can be applied to almost any watershed management system in the world (Alexander, Seymoar, & Babicki, 2005). FBC has had opportunities to present its model to provinces outside of BC, and internationally in Russia, Philippines, Brazil, Indonesia, China, and other countries. FBC has brought people together in a collaborative manner, and has built a great reputation as an impartial and independent facilitator for multi-stakeholder processes. Some specific accomplishments are (Fraser Basin Council, p. 5):

- “Played a remediation role in the acid rock drainage problem at the former Britannia Mine
- Worked with 100 local governments and 26 First Nations on community sustainability planning and climate change
- Spearheaded Canada’s first Provincial Green Fleets program

- Improved Fraser Basin salmon habitat
- Helped BC communities take preventative action on flood hazard management
- Developed strategy for and created BC's first council on invasive plants, which has received national recognition
- Chaired the Board Advisory Committee on Sustainability Performance for the Vancouver 2010 Olympic games
- Published four Sustainability Snapshot reports"

What FBC has not been as successful is its financial management. Based on the data in the last six years, FBC has been operating under a deficit, with the worst deficit in fiscal 2008/2009, when the revenue was the highest (see Table 3-12). Although the projections for fiscal 2012 and 2013 show small surpluses, the current Chief Financial Officer has a tough challenge in keeping FBC financially viable.

Lessons Learned

Some specific lessons discussed by Alexander, Seymoar and Babicki (2005) can be carried forward into FBC's strategy as strengths or issues to be resolved.

- *Time and commitment for effective multi-stakeholder processes:*
Commitment should be required from key interests as early as possible, and FBC must devote time to cultivate the collaborative governance partnership. In the last 15 years, FBC has successfully created a forum for addressing the joint management of land and water, which can be adopted by more watersheds.
- *Adaptability to change:* the pursuit of sustainability is an on-going and cumulative process, which requires FBC to be flexible and adaptable in meeting its ever-shifting targets. One of the most significant current changes is the reduction of government funding. Given its suboptimal financial performance in the last few years, FBC hired the new CFO and it

has learned the importance of being resilient and the need to become more financially self-sustainable.

- *Funding challenges*: FBC's heavy reliance on government funding has posed a great challenge. Even though the organization recognizes the potential in the private sector, and possesses transferrable skills that can help it succeed in new market segments, FBC does not have a high external profile and has generally allowed the credit for successes to be given to other participating organizations. As a result, it may not be clear to private companies why their support is needed or how funding might generate returns for them. In order to overcome the funding challenge, FBC must rebuild its brand image in the private sector market segment, and demonstrate how it can provide services that will benefit this new customer segment.

3.3.4 New Challenges

Since the global economic recession, governments have had to cut funding to NGOs and have tried to award contracts so that spending is more rigorously justified. This poses challenges in determining what types of services are grants and what are truly consulting. Governments and corporations use a few criteria to make this determination. They are as follows:

- Types/use of service – Funding is considered a grant when the service provided becomes “a public good” defined by the government; funding is considered consulting when service delivery benefits the government. The end product can be public reports, workshops, training programs and so on.
- Restriction of the funds – Grants are highly restrictive, usually with maximum overhead at 10% of total funding; consulting services are more flexible, not usually with overhead limits imposed.
- Nature of the work – Historically, grants were paid for on-going programs and services that are available to the general public; consulting services

were usually offered one time or sporadically. The trend has been to define more long-term or multi-phase contracts as consulting services.

Adding to the complexity, even within consulting services, some contracts are considered HST taxable, and some are exempt. The HST office ruling overrides interpretations by an NGO, government agency or corporation.

This means FBC must become more adaptable to the changing government policy and regulations. It is also in the organization's best interest to become more creative, in portraying its flexibility and capability in satisfying agency needs, whether it is consulting work or providing a "public good."

3.3.5 Insights and Implications

FBC has a great staff led by an executive director who is passionate about contributing to advancing sustainability in BC. The organization has been recognized for its role in establishing the collaborative governance model, its impartiality and its facilitation skills. Unfortunately, with the decrease in funding from all sources, FBC recognizes that identifying new revenue opportunities and implementing cost-cutting measures are both important in achieving financial sustainability. However, it fears losing its focus on FBC's vision and mandate if the funding model is drastically changed. The organization wants to stay true to its values. FBC must re-assess its main programs, from the perspectives of mission impact and income to ascertain whether its business model -- what is being delivered and to whom - will ultimately solidify its long term sustainable competitive advantage. The challenge for FBC right now is to change from a traditional NGO management mindset to a hybrid business model by running its

consulting services more like a for-profit organization, while remaining guided by its key mission impact. It must also stay within the legal guidelines of a non-profit.

3.4 Summary

After examining how values are created in this sustainability consultation industry, the major competitive forces, the key stakeholder groups, their needs and characteristics, and FBC's internal operations, the main issues facing the organization can be summarized in three categories – financial viability, strategic position, and competition with for-profit consulting firms.

3.4.1.1 Financial Viability

Sustainability for non-profit organizations has gone from the historical financial goal of having “adequate working capital” to support its work in the long term, to its current meaning of relying on a more “diversified income base” to support long-term financial viability (Bell, Masaoka, & Zimmerman, 2010). In FBC's case, as seen in Figure 3-5, the organization is negatively impacted by the reduction in government funding. If it does not look for ways to diversify its revenue streams, it will not be able to survive in the long run. Furthermore, the ability to rely on earned income (such as “fee-for-service” income) rather than donations will give the NGO a competitive edge (Bell, Masaoka, & Zimmerman, 2010). Consequently, it is critical for FBC to focus on increasing its “fee-for-service” income stream, to make up for lost funding from governments, corporations, and foundations. The three sub-issues are:

- Government funding is on a steady decline, and CAGR percentage will continue to drop. FBC must act immediately to find alternative income sources to avoid major cutting of expenses and staff.

- Not enough “fee-for-service” revenue sources have been identified.
- Lack of clear understanding of the severity of the financial viability issue.

3.4.1.2 Strategic Positioning

Although FBC recognizes the urgency of becoming financially viable, it has not had the opportunity to strategize how to position itself in the sustainability industry’s consulting services sector. Strategic focus should be placed on defending against the strongest competitive forces or to position oneself in the industry where the forces are the weakest (Porter, 2008). As per the industry five forces analysis in section 3.1.5, the two most important competitive forces are buyer power and supplier power. For FBC, the positioning could be either to defend against buyer power and supplier power, or to pursue taking advantage of weaker forces, such as substitutes and rivalry. In short, FBC must have a clear strategic positioning in “fee-for-service” consulting in order to succeed. The three sub-issues are:

- Unclear strategy on how to compete in the “fee-for-service” sector.
- There are concerns of straying from FBC’s core values and mission impact programs if positioning the organization to compete with for-profit firms.
- The ED, David Marshall’s succession planning is critical – the successor might have completely different strategic views for FBC. Therefore, succession planning should start soon, so that the successor can take part in plotting the FBC’s future strategic position.

3.4.1.3 Competition with For-Profit Consulting Firms

Although FBC recognizes the need for financial viability, and to position itself to better compete with for-profit firms, it has not had the opportunity to formulate a marketing strategy to achieve this goal. The process of formulating the marketing strategy will help address the concerns the organization has about losing focus of its

mandate, and help identify the target market, the customer needs, and how FBC can create value for its customers by using its competitive advantage. It will be a valuable exercise to create a business model with “hybrid revenue strategies” (Bell, Masaoka, & Zimmerman, 2010) that integrate a “fee-for-service” revenue stream with the contributed income revenue streams in the context of financial goals and overall business strategy. It will map out how best to compete with for-profit firms. The three sub-issues are:

- The organization is stuck on the mindset that non-profits should not put their energy in making profits, which might impact its non-profit legal or tax status. Many of the staff does not see the value or urgency in becoming proactive in competing against for-profit firms.
- Lack of understanding of customer needs – in the sense of competing against for-profit firms for corporate customers.
- Lack of resources to create and implement the marketing strategy – time, expertise and funding are all scarce.

In summary, FBC is faced with some critical decisions about its future strategic direction. The organization must address its financial viability issue without losing focus of its core mission, find a position to best compete in the “fee-for-service” consulting sector of the sustainability industry, and strategize how to compete by using its unique competitive advantage and core competencies. In section 4, strategic implications of the identified issues will be analyzed to see what could have a major positive or negative impact on the organization, and to design a set of solution principles. Then in Section 5, strategic alternatives will be analyzed based on the solution principles to address the problems and issues identified in the current section.

4: Implications and Directions

The main issues facing the Fraser Basin Council have strategic implications.

Understanding the organization's competitive advantage, its core competences and existing markets will help clarify its future directions.

4.1 Competitive Advantage

4.1.1 Evidence of LTSCDA

CAGR calculations in Table 3-12 shows one piece of evidence that FBC was doing relatively well up until the economic recession, when government funding had to be drastically reduced. With the decreasing CAGR from 2009, it is clear that the reliance on government funding will not give FBC a long-term, sustainable, competitively differentiated advantage (LTSCDA). Other evidence of FBC's LTSCDA will be examined in the next subsection using the VRIO framework (Dunne & Beatty, 2011).

A summary of FBC's LTSCDA is as follows:

- FBC has an excellent reputation in the industry. It is known for its impartiality and transparency, and is well respected by governments, corporations, foundations, and peer NGOs, evidenced by their consistent funding support..
- Successful in raising funds from governments -- funding received from governments (Figure 2-2) is about 75% of the NGO's overall revenue of over \$5 million. In comparison, the Pacific Salmon Foundation receives "33% of its \$8 million revenue from governments" (Pacific Salmon Foundation, 2011, p. 23); Ecotrust Canada receives about "60% of its \$2.5

million revenue from corporations, governments and individual donors” (Ecotrust Canada, 2010, p. 13); David Suzuki Foundation is over “97% dependent on donations” (David Suzuki Foundation, 2010, p. 22 & 26) from individuals and businesses and grants from foundations.

- FBC has established networks and relationships with various governments, corporations, and foundations, and has impressive representation from four orders of government, private sectors and civil society on its board.
- FBC’s competitive advantage over the for-profit firms in sustainability consulting is the appeal of its vision and mandate – its focus on financial viability is not to increase its profit, but rather is a means to increase its working capital, and help support its mission and programmatic impact.

4.1.2 VRIO Framework

“VRIO” refers to value, rarity, imitability and organization, and the framework is useful in understanding an organization’s internal environment (Dunne & Beatty, 2011). The questions asked by the “VRIO” framework are all related to resources, which can be tangible, intangible, or related to organizational capabilities (Dunne & Beatty, 2011).

Specific to the Fraser Basin Council, the resources are listed in Table 4-1. It is evident that the organization possesses some key tangible and intangible resources that have allowed it to achieve incredible undertakings. Some of the resources are rare – the unique qualities of the ED, David Marshall, and the sustainability facilitation skills held by certain staff members. Some of the resources are difficult to imitate, such as the collaborative governance framework. In particular, the composition of the 38-director Board is both rare and hard to imitate. The directors are not paid, with 22 appointed by four orders of government and the rest nominated and appointed by FBC. Although the

directors come from diverse background, and represent diverse interests, they always overcome their differences and achieve consensus by collaboration.

Table 4-1: FBC’s Key Resources

Key Resources	
<i>Tangible Resources</i>	
Financial	<ul style="list-style-type: none"> - reserves at around \$0.5 million, which can only help the NGO survive for two months; need to find ways to increase reserve - firm’s borrowing capacity is low, which is common for all NGOs (line of credit at \$0.5 million limit)
Physical	<ul style="list-style-type: none"> - 5 regional offices - standard office equipment
Technological	<ul style="list-style-type: none"> - collaborative governance framework - innovative facilitation processes
Organizational	<ul style="list-style-type: none"> - effective strategic planning process - established networks and relationships with governments and funders
<i>Intangible Resources</i>	
Human	<ul style="list-style-type: none"> - composition of the Board of Directors (38 directors from four levels of governments, private sector and civil society) - unique qualities of the Executive Director - wide-range staff knowledge and skill sets - passion about sustainability, and how FBC can make a difference
Innovations and Creativity	<ul style="list-style-type: none"> - potential to create new “blue ocean” in the industry
Reputation	<ul style="list-style-type: none"> - reputation of impartiality and transparency - trust built through accountability & impartiality
<i>Organizational Capabilities</i>	
Firm’s ability to use its resources to transfer inputs to outputs	<ul style="list-style-type: none"> - ability to hire, motivate and retain human capital - ability to inspire communities, organizations and individuals to participate in advancing sustainability - ability to resolve complex issues with collaborative leadership - ability to increase collaboration between Aboriginals and Non-Aboriginals across communities

Moreover, not only will it take time and dedication to build the networks and relationships necessary for collaborative leadership, it also takes conviction and passion to influence and inspire others that want to be part of the collaborative governance

process. Furthermore, FBC conducts an effective strategic planning process that integrates its resources to fulfil its vision and mandate.

On the flip side, however, FBC does not have strong financial reserves, nor does it have high borrowing capacity due to its non-profit status. This situation calls for action to increase “fee-for-service” revenue stream to build up stronger financial reserves. In terms of innovation and creativity, more efforts should be spent on generating fresh ideas of how to grow and expand the organization in the dismal economy.

Table 4-2: FBC’s VRIO Implications

Summary of VRIO, Competitive Implications, & Economic Implications					
Valuable?	Rare?	Costly to Imitate?	Organized Properly?	Competitive Implications	Economic Implications
Yes	Yes	Yes	Yes	Sustained advantage	Above normal

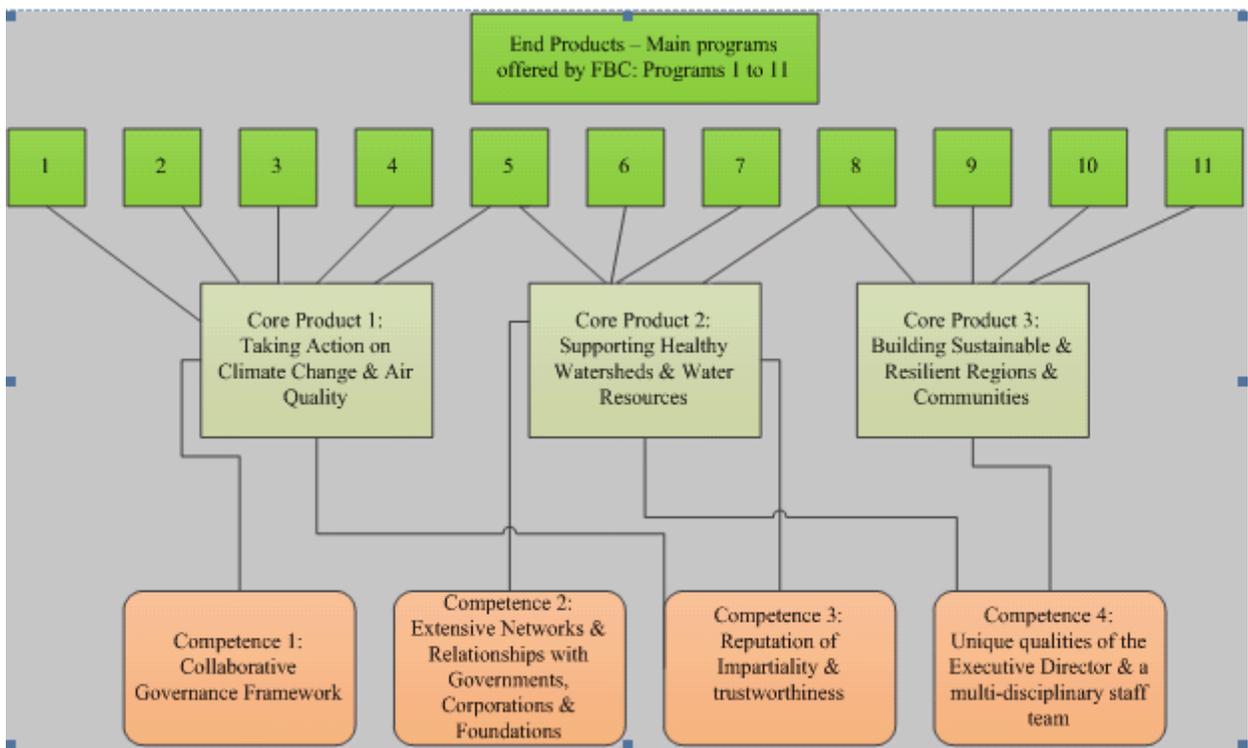
As presented in Table 4-2, overall FBC has had sustained competitive advantage and has shown above-average performance. Now the challenge is how to extend that sustained advantage into an almost new area of competition – the “fee-for-service” sector of the industry. Since the resources are stable, except for the ED, David Marshall’s succession plan, the most imperative step is to shift the organization’s mind-set, embrace new opportunities and challenges, and strive to create a new market niche.

4.2 Core Competence

“Core competence is the collective learning in the organization; it is about communication, involvement and a deep commitment to working across organizational boundaries” (Dunne & Beatty, 2011, p. 6). Prahalad and Hamel (1990) described core

competence as a “tree” (p.1): the roots are core competencies that nourish and stabilize everything; the tree trunk and major limbs are core products; smaller branches are business units; and leaves and fruits are end products. Figure 4-1 shows a visual effect of FBC’s core competencies and their contribution as the support system for the core products and end products.

Figure 4-1: FBC’s Core Competencies Diagram



These competencies have given FBC the competitive advantage to be successful in the last 15 years. Since the “roots” (core competencies) are firmly embedded, it would not be difficult to expand the core products by proposing other sustainability solutions, such as sustainable health care, education, or economy systems. Alternatively, FBC can offer its core products to a new market segment, such as private sector

corporations. In terms of the end products (FBC’s programs), the ones that flourish (high profitability) should remain and the ones that wither (low profitability or losing money) should be revived or cut.

4.3 Summary and Solution Principles

The analysis of FBC’s long-term sustainable competitive advantage, the mission impact of its various programs, and its core competencies summarizes the organization’s internal capabilities. From the analysis, a list of strengths, weaknesses, opportunities and threats (SWOT) will be derived and developed into a problem statement, with a set of solution principles based on management preferences and weighting, which will lead to potential solutions.

4.3.1 Smart SWOT

Table 4-3: FBC’s SWOT

SWOT Analysis	
<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> - Established networks and relationships - The collaborative governance framework - Reputation of impartiality and trustworthiness 	<ul style="list-style-type: none"> - Financial viability issue (eg. Decrease in CAGR since 2009) - The organization has not completed changed its mind-set to embrace the “fee-for-service” revenue stream - Unclear strategic position on competition with for-profit firms
<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> - Potentially untapped market in the private sector – the businesses and corporations that need sustainability solutions - The potential of expanding the “flow-through projects” services & better partnerships - The increased public awareness of the urgency of sustainability actions 	<ul style="list-style-type: none"> - The steady decline of government funding - The domino effect of reduced funding is the potential loss of scarce resources, such as the skilled human capital - The lack of private sector exposure – FBC is not as well-known to private sector corporations, which makes it difficult to entice them to become customers

A summary of FBC's SWOT is presented in Table 4-3. These strategic drivers have been derived from the situation analysis. Environmental forces such as the global economic downturn have posed big challenges that FBC cannot combat by using solely its existing strengths established in the last 15 years. The organization must deal with the effect of the funding cuts by trying to be creative in finding new ways and building new strengths to remain a viable business. On the other hand, the increased public awareness of sustainability issues and private sector corporations' needs of sustainability solutions presents opportunities for new strategic directions in which FBC can embark. However, to do so, FBC must expand its strategic capability to be ready to compete in the private sector market segment and alter its brand image or the lack thereof, to create the innovative platform for the new strategic initiatives.

In order to find ways to combat the external threats posed by the economic situation and FBC's lack of exposure in the private sector, the organization must first address its own internal weaknesses. Keeping the basis of upholding FBC's mission impact, agreement must happen at the senior management level regarding necessary mindset change in non-profits management practice, and the urgency of increasing "fee-for-service" consulting. Next, FBC can focus on determining its strategic position given its internal strengths, and the external opportunities. As stated before, there are two strategic directions FBC can explore. One is to use a market penetration strategy to expand its core competencies into new opportunities, such as facilitating dialogues and discussions to find long term social sustainability in health care, education and so on. Alternatively, FBC can enter into the new market segment to increase its consulting services revenue stream. It can achieve this by adopting a market development strategy

to bring its core competencies into the new market to win market share from rivals, or to partner with rivals to expand profitability potential.

4.3.2 Problem Statement

Faced with the steady decline of government funding, FBC must find creative ways to become financially self-sustainable, without losing its focus on core beliefs and values. This challenge should be regarded as an opportunity for FBC to position itself in “fee-for-service” consulting to generate more earned income; and solidify its competitive advantage and core competencies not only in the government segment, but also in the private sector market segment.

4.3.3 Management Preferences/Solution Principles

In order to find feasible solutions to the above problem statement, an understanding of management preferences will help develop the set of solution principles that must be used in evaluating different alternatives. Due to resource availability challenges and the EMBA project submission deadline, only two senior executives at FBC have been consulted about the criteria and weighting in Table 4-4. These should be validated by the ED, David Marshall, and all the senior directors, and used as a tool to assess future strategic alternatives facing the organization.

The first preference of alignment with vision, mandate and core mission acts as a screening criterion, as the understanding is that FBC will not attempt any “new ventures” unless they are aligned with its core values.

Table 4-4: Management Preferences and Weighting

Management Preferences	Weighting
* Alignment with vision, mandate and core mission	Screening criterion
1. Financially sound and viable – Increase “fee-for-service” revenue from 7% to 15% of total revenue in three years; Strategic option must be able to break-even right from the start.	30%
2. Technical expertise – Alternatives must fit with FBC’s expertise in facilitation, mediation, public consultation, collaborative governance framework, etc.	30%
3. Community impact must be positive; must help increase company branding and image across sectors.	25%
4. Resources permitting (time, funding, and human capital) – FBC has limited resources, so alternatives preferably will not put burden on existing resources; prefer to at least break-even: cost of resources will be covered by new businesses generated.	15%

Table 4-4 shows the relative importance of each management preference as a percentage of the whole. First of all, the recommended strategic alternative must satisfy the goal of increasing “fee-for-service” revenue from 7% to 15% of total revenue in three years. The alternative selected must be within FBC’s technical expertise, so that it can use its transferrable skills, instead of investing time and efforts in training and development. The alternative must also have positive impact on the communities, and help FBC establish its brand and image across all sectors. Finally, the alternative must generate enough revenue to cover related expenses, right from the beginning.

5: Potential Solutions

As briefly stated in section 3.3.1, according to a report done by Public Policy Forum (2011), non-profits in Canada are facing four major challenges:

- With the economic downturn, the aging population, and reduction of government services, there is increased demand for non-profit services.
- Non-profit revenue streams are declining as government budgets are shrinking or frozen, and funding from foundations, corporate and individual donors are decreasing.
- Funders are requesting clear demonstration of accountability, transparency and measurement of mission impact.
- Staffing is impacted due to retirement and budget cuts.

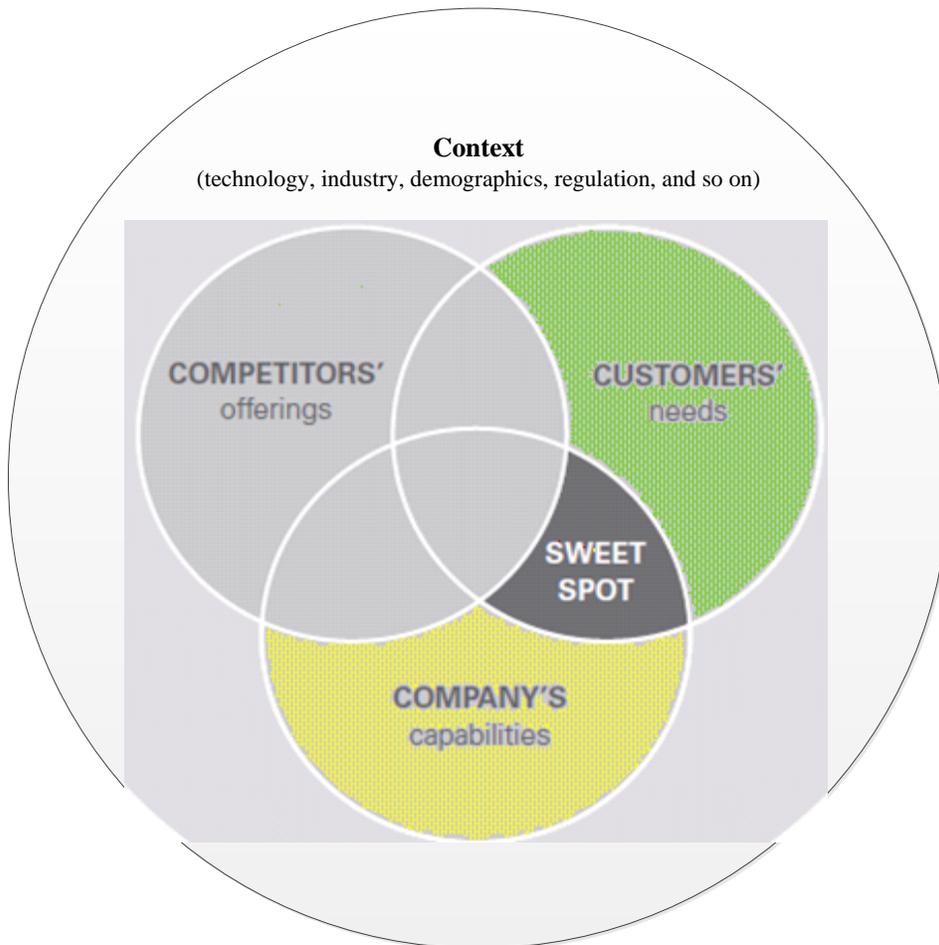
Those that can address these challenges are “adapting and thriving” and will remain strong in the long run (Public Policy Forum, 2011). The Fraser Basin Council has recognized and experienced some or all of the above challenges in the last few years. It is high time that the organization formulate strategies that will help strengthen its long-term sustainable competitive advantage and preserve the legacy it has established in the last 15 years.

Based on the analysis of FBC’s industry, external forces and internal capabilities, the threats of the economic downtown can be overcome by opportunities that exist in the increasing demand for sustainability solutions, and the heightened importance of sustainability on private sector corporations’ agendas. FBC can pursue a few different strategic directions, depending on their fit with FBC’s vision, mandate, and the trade-offs the organization is willing to endure. The bottom line is the ultimate solution must

not only address the financial viability issue, but also allow FBC to sustain its mission impact in the communities, and uphold its core values and beliefs.

The term “strategic sweet spot” is used by Collis and Rukstad (2008) to describe the perfect spot where a company aligns its core competencies with customer needs in a way that rivals cannot, given the changing external context. The following analysis will attempt to identify the “strategic sweet spot” for FBC, so that it can best utilize its core strengths to satisfy customers’ needs in a way no other competitors can emulate.

Figure 5-1: Strategic Sweet Spot Illustration



Source: Adapted from “Can You Say What Your Strategy Is?” (Collis & Rukstad, 2008, p. 7)

5.1 Target Market Selection

As mentioned in section 3.2.1, aside from the existing two customer segments – government agencies and companies requiring “flow-through projects,” a new target market in the private sector has emerged.

5.1.1 Target Market Evaluation

FBC’s core competencies provide a root system for growth and a frame of reference for determining which target market is the most attractive and can offer the highest potential for long-term sustainable competitive advantage. Table 5-1 illustrates the target markets and their relative attractiveness.

Table 5-1: Target Market Evaluation Matrix

Criteria to determine target market attractiveness	Target Market		
	Governments & agencies	Firms looking for “flow-through projects”	<i>Private sector corporations (New)</i>
1. Alignment with vision, mandate and core mission	High	Medium	Medium/High
2. Is there a need for FBC’s core products or core competencies?	Yes, potential to expand into other aspects of sustainability	Yes, the network and relationships with governments are valued	Yes, complements for-profit consulting firms’ competencies
3. Is there a gap between what the target market needs and what industry incumbents offer?	Yes, social and economic sustainability issues need more attention	Yes, lacking conduit type of roles to bridge the governments and consulting firms	Yes, complex facilitation and mediation skills, the collaborative governance framework
4. What is the best way to achieve profitability?	Direct competition – use core competencies to obtain contracts	Partnership, to create win/win for both parties	Partnership, rather than direct competition, is more effective

Governments and Agencies (Existing)

Since FBC has had 15 years of relationships with all levels of government and government contracts solidify FBC's mission impact, it makes perfect sense to retain this market regardless of the future strategic direction. Moreover, there are opportunities within this segment to expand FBC's portfolio from environmental and some social sustainability solutions, to more social and economic sustainable solutions. FBC can fully utilize its core competencies within this target market and has a lot of known competitive advantage over direct rivals.

"Flow-through Projects" Target Market (Existing)

FBC administers trust funds, hires subcontractors and consultants for some of its government contracts and collects management fees when obtaining contracts from governments for some consulting firms. Although FBC does not directly impact the results of some of these contracts, its role as a conduit provides a "bridge" that connects the governments with contract needs and the consulting firms that lack the exposure to win the competitive bids on their own. There are future opportunities to expand into an "agent" type of role, to actively search for opportunities and match needs and skills.

Private Sector Corporations (New)

According to research done by KPMG and Deloitte, an increasing number of private sector firms are putting sustainability as a strategic priority for the businesses (KPMG, 2011) (Deloitte, 2011). The needs for sustainability solutions for these organizations are different from what FBC delivers as "fee-for-service" government contracts.

Therefore, FBC must devote time and resources to understand the market, and its target customers' needs. For example, according to KPMG's sustainability report (2011), large companies are more likely to have corporate sustainability strategies: about 50% of the private companies (revenue < US\$500 million) surveyed and 80% of the public companies (revenue > US\$1 billion) surveyed have an all-encompassing strategy for corporate sustainability. This could be partially attributed to the fact that large companies have the financial resources and capacity to implement such strategies. This presents the opportunities to either target large companies to provide them with services required as per their strategic plan or, alternatively, target smaller companies that do not have sustainability on their corporate agenda to help them establish the strategies. In addition, Deloitte also offered research data from its 2011 sustainability report on "green investors" and "green consumers" to portray the growing public interest in sustainability issues (Deloitte, 2011, pp. 5-7, 9). Understanding socially responsible and sustainable investing and consumer spending on eco-friendly products and services can help FBC identify potential positioning for its core strategies.

5.2 Core Adjacencies

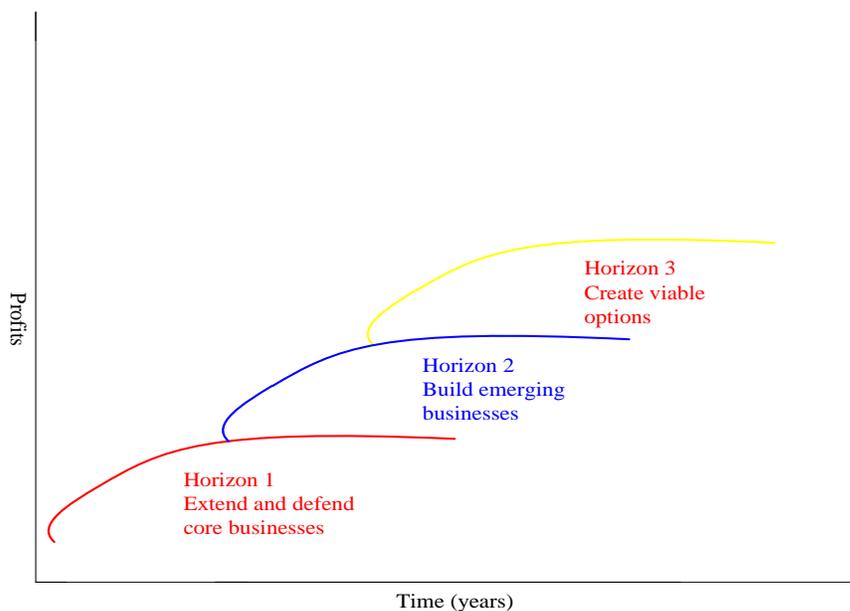
"Core adjacencies" refers to the brainstorming of growth possibilities from an organization's core strengths (Dunne & Beatty, 2011). Four core competencies were identified in section 4.2. FBC can map out different types of expansion strategies as in Figure 5-3, which has been adapted from Dunne & Beatty's article (2011, p. 19). As evident on the diagram, many opportunities exist for FBC's future growth in sustainability. The toughest task is to determine which path to follow or whether the path will be a "direct move into an immediate opportunity" or "sequential moves"

(Dunne & Beatty, 2011, p. 20). The “3 Horizons” tool below will help categorize the core adjacencies into three time horizons to achieve consistent levels of growth throughout the organizations’ lifetime (Dunne & Beatty, 2011, p. 21).

5.2.1 Three Horizons

The Three Horizons tool guides the organization to implement strategies in a disciplined way – what should be maintained immediately, what are the emerging businesses, and what are future options (Dunne & Beatty, 2011). As presented in Figure 5-2, in Horizon 1, the organization should maintain and defend its core business, as core competencies are the roots for future growths. In Horizon 2, the organization should build emerging businesses, to expand into the new market, to develop the new product, or to do both. In Horizon 3, the organization should plant seeds for its future strategic directions.

Figure 5-2: Three Horizons



Source: Adapted from “The Top Manager’s Top Ten” (Dunne & Beatty, 2011, p. 21)

The three horizons are not in separate silos, nor are they managed sequentially by moving from Horizon 1, to 2, then to 3. Instead, it can be a cyclical movement from Horizon 2 to 1, or 3 to 2. Organizations must strive to attend to all three Horizons concurrently, which helps formulate the practice of creating growth opportunities while maintaining core competencies (Dunne & Beatty, 2011). The application of this tool will be discussed in the next section.

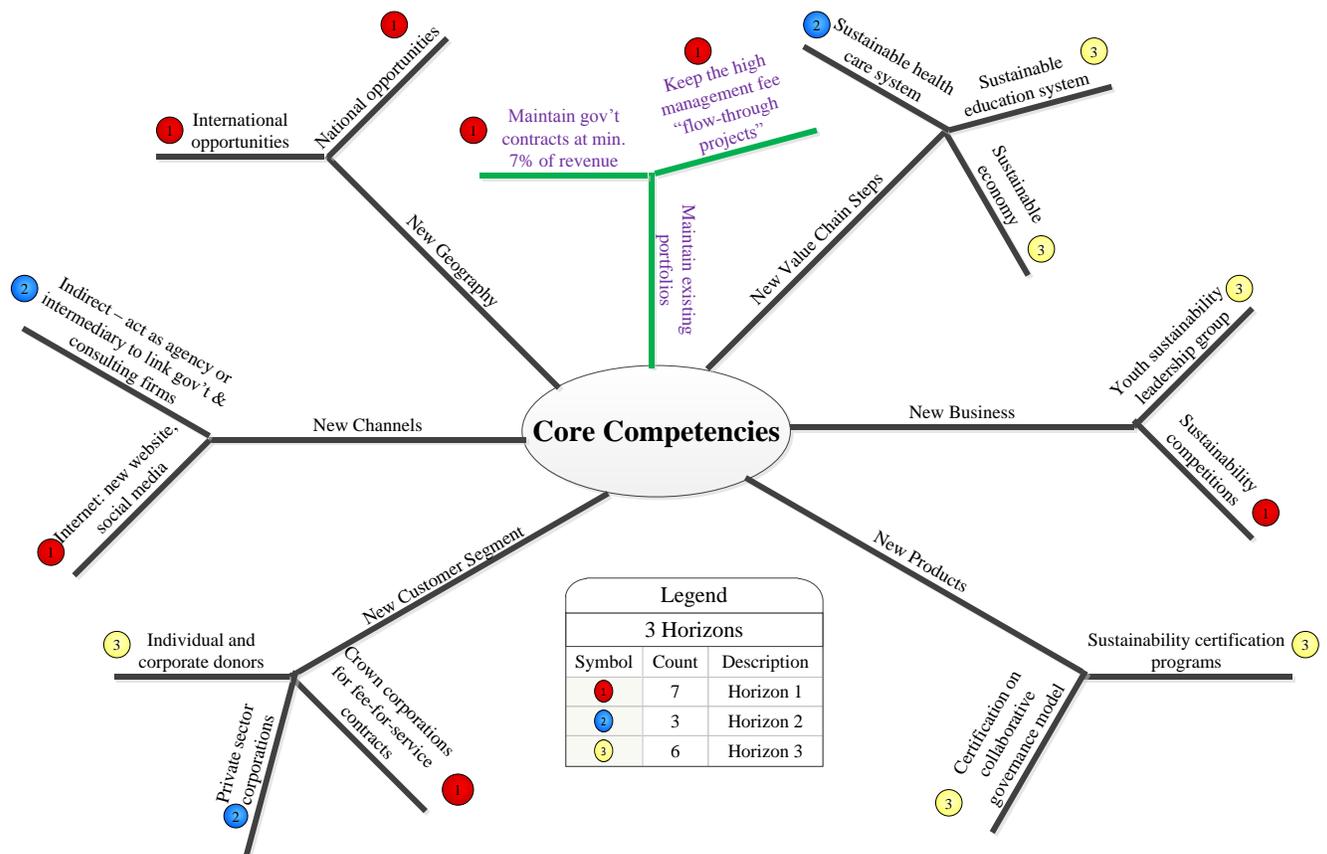
5.2.2 Core Adjacencies Analysis in the Context of Three Horizons

FBC has limited resources, which are already stretched quite sparingly to handle current businesses. Careful planning must be in place to re-assign or shift responsibilities, instead of adding responsibilities to staff, to ensure the lowest impact. Likewise, it will not be realistic to pursue all core adjacencies management has brainstormed. Doing so will increase the chance of failure. Core adjacencies identified in Figure 5-3 have been tagged with horizons.

Core Adjacencies in Horizon 1

In Horizon 1, efforts should be put towards maintaining current core businesses. For instance, existing “fee-for-service” government contracts should be maintained at current level, which means relationships with governments must be preserved and cultivated, contract quality must be upheld, and new opportunities must be captured. For the “flow-through projects”, only the ones paying high enough management fees should be kept, the rest should be phased out as the contract terms expire. FBC should also continue with the national and international outreach programs, as they utilize existing core strengths and generate revenue and positive publicity.

Figure 5-3: FBC Core Adjacencies Diagram



In terms of new opportunities, FBC can start exploring “fee-for-service” opportunities with Crown corporations, as they already have existing relationships from previous dealings in sponsorships. Under new businesses of sustainability competitions and new channels for increasing its internet presence, FBC can set up competition events to help build its marketing strategy, website, social media presence, online programs and so on. It will be a win-win for FBC and competitors.

Core Adjacencies in Horizon 2

In Horizon 2, FBC should focus on building emerging businesses based on recommendations in section 6 of this paper. Three different alternatives are presented

in Horizon 2 – explore more sustainability solutions for government agencies, such as the topic of “sustainable health care”; enter a new target market, the private sector; or expand FBC’s “flow-through projects.” This Horizon should be about re-branding and re-positioning, after a determination of the strategic direction.

To get ready for building emerging businesses, FBC must also change its mind-set about non-profits, and understand it is mission critical to compete or collaborate with for-profit firms.

Core Adjacencies in Horizon 3

In Horizon 3, future opportunities should be assessed to see whether they can be the next sets of “emerging businesses” to be built. Under the new value chain steps stream, FBC is well positioned to expand into other aspects of sustainability, to lend its expertise to facilitate collaboration to resolve issues around sustainable health care, education and economy. These adjacencies are only possible if governments have the budgets to address them. In other words, FBC should only attempt these if they are offered increased funding or government contracts. Under the new product stream, the certification program opportunities should be explored, to see if sustainability certification is a possibility, or if there is enough demand to be certified to use FBC’s collaborative governance framework.

Furthermore, the new business stream presents immense opportunities to target youth to ensure they are well positioned to become sustainability advocates. Currently, FBC runs a Basin-wide Youth & Sustainability program, which involves youth volunteers in several of its sustainability projects, including planning and hosting the 2009 BC Youth

Congress. Youths have a lot of influence over their peers, so the success of youth leadership programs will benefit our future. The challenge lies in getting government funding to support the initiative. Last but not least, FBC can target yet another new segment of customers. Historically, FBC has never been reliant on donations from individuals or corporations. New funding strategies should be built to explore fund-raising options that fit with FBC's vision, mandate and strategy.

5.3 Opportunity Identification and Comparison

Based on the core adjacency analysis, although there are many different expansions FBC can explore, the ones closest to its core competencies are three alternatives identified for Horizon 2. When there are changes in the external environment and internal strengths, the organization will have to conduct a new assessment in the future.

Three strategic alternatives for FBC are as follows:

1. Continue to focus on getting more government contracts and projects, but expand more into other aspects of sustainability, such as social and economic sustainability.

Value proposition: Create value by providing the integrated solutions on all aspects of sustainability development by working closely with government agencies.

2. Maintain current government contracts, but expand into the private sector market, to bring FBC's core competencies into helping private sector corporations. Instead of competing for existing market share, the focus will be placed on partnerships with competitors to complement existing services offered by competitors.

Value proposition: Create value by providing holistic service packages to private sector corporate clients with diverse needs for sustainability development solutions.

- Maintain current government contracts, but expand flow-through projects, to work with government agencies, NGOs and consulting firms to ensure the government contract needs are fulfilled by capable consulting agencies.

Value proposition: Create value by acting as a conduit to bridge government needs with NGOs’ and consulting firms’ capabilities.

In the following subsections, the three alternatives will be analyzed and evaluated against the management preferences criteria and weighting set out originally in Table 4-4. The total weighted scores for the three alternatives are presented in Table 5-2.

Table 5-2: Alternatives Evaluation

Management Preferences	Weighting	Alternative 1: Government Contracts	Alternative 2: Expand into Private Sector Corporations	Alternative 3: Expand “flow- through projects”
* Alignment with vision, mandate and core mission	Screening criterion	Yes	Yes	Yes
1. Financially sound and viable – increase “fee-for-service” revenue from 7% to 15% of total revenue in three years, strategic option must be able to break-even right from the start	30%	3	5	3
2. Technical expertise – alternatives must fit with FBC’s expertise in facilitation, mediation, public consultation, collaborative governance framework etc.	30%	5	5	3
3. Community impact must be positive; must help increase company branding and image across sectors	25%	4	4	3
4. Resources permitting (time, funding, human capital) – FBC has limited resources, so alternatives preferably will not put burden on existing resources; prefer to at least break-even: cost of resources will be covered by new businesses generated	15%	5	4	4
Total Weighted Score	100%	4.15	4.60	3.15
Scores of 1 to 5 are used to measure management preference – 1 lowest, 5 highest.				

5.3.1 Analysis for Alternative 1

One of the main reasons to pursue this alternative is FBC's established networks and relationships with the governments. The organization can easily transfer all its core competencies into other elements of sustainability, such as the social and economic aspects. The expansion fits perfectly with the existing vision, mandate and core mission of FBC. The learning curve for staff to adapt to new business processes is minimal. The time and resources needed to carry out the expansion will not take away from current focus, since the customer segment is the same – the governments.

Opportunities exist for FBC to bring its collaborative governance framework into other areas of sustainability issues. For instance, due to the changing demographics of an aging population, the health care cost for the governments is on a steady increase. FBC can partner and collaborate with stakeholder groups to identify potential solutions to rising health care costs and contribute to establishing a sustainable health care system, starting with BC. Another opportunity is education sustainability issues of teacher shortage, classroom size increase, and funding decrease and so on. FBC can help bring parties together to engage in dialogues and find solutions.

However, the sole reliance on a single customer segment will not satisfy the financial viability requirement to the full degree. Although government contracts come from all orders of governments – municipal, provincial, federal and First Nations, all governments seem to follow similar budget mandates. This means, in situations like economic downturns, all governments will likely reduce funding. The financial risk is not diversified. In addition, health care, education and economic situations are all supposed to be high on governments' agenda. But the reality is there are always budget

constraints, so the increase in funding for government contracts to tackle these issues might not be guaranteed. Moreover, although the community impact for these government contracts on sustainability are mostly positive, some create controversies. The current project to conduct the first phase of the three-phase Human Health Risk Assessment (HHRA), mandated by the Ministry of Health to determine the health impacts of oil and gas development in the province, has not been well received by all communities (Waterman, 2012). Furthermore, FBC has been perceived by some NGOs and the private sector as a government agency because of its close ties to governments, despite the reality of FBC's independence and impartiality. If the expansion proceeds, FBC will enforce the false perception that it is a government agency. This could hurt its expansion potential, if it plans to target the private sector at some point in the future.

5.3.2 Analysis for Alternative 2

As mentioned in section 5.1 on target market selection, more and more corporations from the private sector are putting sustainability as a strategic priority. Opportunities exist in that sector in delivering solutions to sustainability needs. FBC can review the research done by consulting firms like KPMG and Deloitte, and also conduct its own focused research to gain better understanding of this customer segment, as its needs will be very different from those of governments. The strategic positioning should be geared towards expanding the existing profit pie, rather than competing for existing market share. FBC is specialized in sustainability issues reliant on regulations and facilitation, and will not likely be able to deliver all areas of sustainability solutions needed by some of the large corporations. Therefore, the best approach would be to partner with for-profit consulting firms and provide complementing solutions to what

these firms already offer to their clients. The benefits for FBC are in the increase in profitability, and the accessibility to the existing client pool. The benefits for the consulting firms are FBC's core products – the collaborative governance framework, the facilitation and mediation skills for complex sustainability issues, and FBC's relationships with governments. Having FBC complement the consulting firms' services will also help retain their existing customers, as they can expect a holistic approach and an integrated package to fulfill their corporate sustainability needs.

The emphasis for this alternative is the expansion piece into the private sector, but it is worth mentioning that FBC will maintain existing government relationships. This alternative will help diversify the “fee-for-service” revenue stream to include a new target market.

The argument for pursuing this alternative is the ability to diversify financial viability risks. Even if government funding gets reduced again in the future, FBC will have another revenue stream established to provide it with a more consistent source of earned income. This will help FBC become more financially self-sustainable. In addition, FBC will increase its exposure in the private sector, and change its image and reputation as being only associated with government agencies. Working with the private sector corporations will broaden FBC's horizon of services. It will also have more community impact, as FBC can be a pivotal force to help establish or improve relationships between the communities and corporations in terms of sustainability issues.

On the other hand, FBC needs to maintain its reputation and integrity. It must be choosy as to which corporations to work with, to ensure alignment with its core vision

and mandate. Some of the for-profit firms only use sustainability as a public relations tool to glorify their efforts to protect the environment. FBC has mentioned that they do not want to be associated with any “greenwashing” activities (Greenpeace, 2012) when the true objective is not sustainability (Ruso, 2012). Furthermore, FBC must protect itself by adopting the mindset of a for-profit firm. For instance, it could try to patent its collaborative governance framework, to protect its intellectual property. Resources needed for this alternative will be more than alternative one, due to the upfront research needed, the investment in building the partnerships and relationships with the for-profit consulting firms, and the split of resources in fulfilling government contracts and private sector “fee-for-service” initiatives.

5.3.3 Analysis for Alternative 3

The essence of this alternative is to maintain current government contracts, but expand the existing services FBC provides to other consulting firms as “flow-through-projects.” Currently, FBC helps some of the NGOs, independent consulting firms and for-profit firms obtain contracts from the governments, as it can use its relationship to work the magic. To bring that one step further means to devote time and resources to expand this as a separate revenue stream. FBC will take on a new role almost like that of a “recruiting agency” to satisfy the needs of two customer segments – governments and the organizations looking for government contract opportunities. It will take away some resources that are needed to run high mission impact programs. This alternative also does not increase FBC’s mission impact, if FBC becomes branded as an “agency.”

In terms of financial viability, this alternative is also risky, as when government funding decreases, contract funding will also be reduced and FBC will be unlikely to

maintain a consistent revenue source. Another risk is in FBC's reputation with the government. If the firms deliver bad services, it will reflect on FBC. Lastly, the possibility of cannibalization should also be assessed. If bridging the gap between governments and other organizations leads to loss of government contracts for FBC, it will not be a wise approach. Therefore, this might not be a good alternative in the long run.

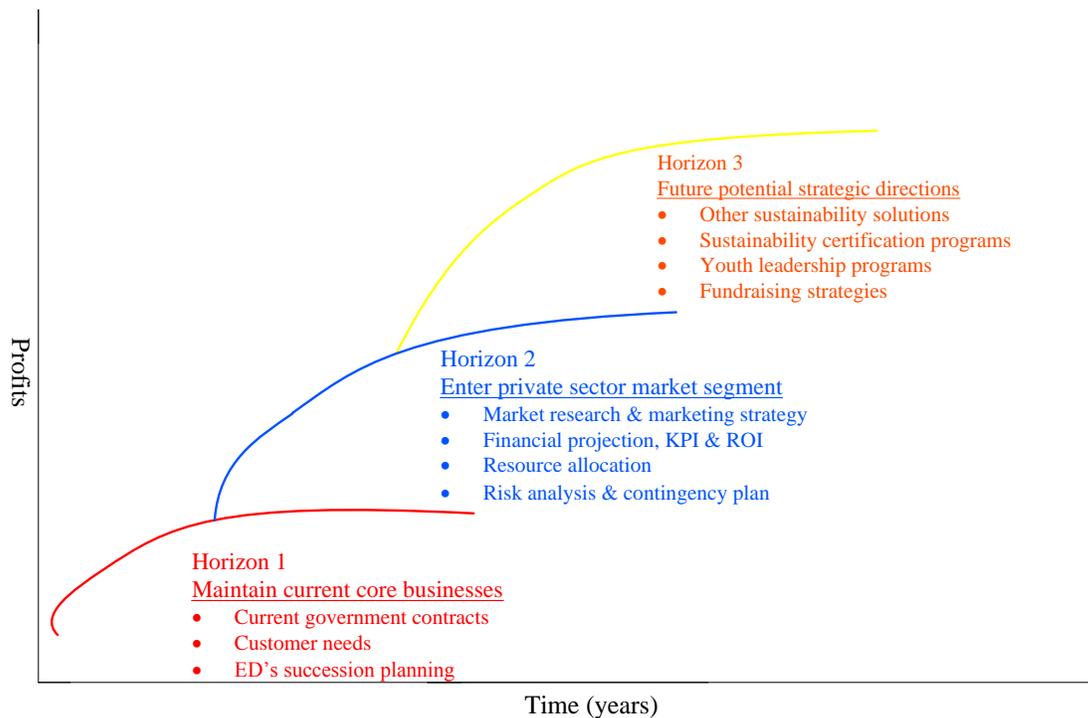
5.3.4 Summary

According to the weighted scores of management preferences criteria presented in Table 5-2, alternative two of expanding into the private sector market receives the highest score, and should be the strategic direction for FBC to proceed.

6: Recommendations

Alternative two presented in section 5.3—entering the private sector market segment—has been selected as the future strategic direction for FBC in terms of growing its “fee-for-service” consulting. The main reason for this approach is for FBC to become financially self-sufficient without giving up mission impact or losing focus of the vision and mandate. Maintaining current government contracts helps FBC protect its alignment with core missions. Partnering with private sector corporations helps FBC realize the most potential in terms of expanding customer base and increasing profitability. Key recommendations under Three Horizons are presented in Figure 6-1.

Figure 6-1: Recommendations under 3 Horizons



6.1 Horizon 1 – Maintain Current Core Businesses

In the immediate future, FBC must strengthen its core before building emerging businesses. Instead of trying to be all things to all people, FBC should focus on its core programs and major customers so that it can become financially healthy but still adhere to its vision and mandate. Making the efforts to strengthen the “root system” will help build and maintain FBC’s long-term sustainable competitive advantage, which will lead to long-term success. Key recommendations for this horizon are:

- Maintain current government contracts portfolios – Adopt models and matrix to do a full review of all programs (impact assessment and profitability assessment) with staff and board of directors.
- Understand customer (governments) needs -- Identify major customers and segment them in terms of contract revenue; keep up-to-date with government agencies’ specific mandate; find out how to add value to customers.
- Conduct succession planning for the ED – David Marshall is critical to FBC’s historical and current success. A suitable successor must be selected now, so that the transition can happen smoothly in the critical next few years.

6.2 Horizon 2 – Enter the Private Sector Market Segment

In Horizon 2 efforts will be focused on entering the new market segment. Instead of directing all its resources to the new segment, FBC should preserve its current portfolios and core strengths. FBC should hire some “new blood” to develop the business, while using existing resources to carry out the delivery of the businesses.

The recommendations for the Fraser Basin Council in terms of increasing “fee-for-service” consulting are as follows:

- Market research – Conduct research on this particular segment and understand customer needs.
- Financial management aspects – Conduct financial projections; set target KPIs and metrics to measure success in financial viability efforts – revenue and profitability; set ROI expectations.
- Resources allocation – Hire a new business development manager to focus on building relationships and partnerships with the private sector, and obtaining new business. Connect with big consulting firms such as Stantec, KPMG and Deloitte for potential partnership opportunities.
- Risk analysis and contingency plan – Identify risks and mitigation factors.
- Marketing strategy – Business development manager must work with the management team and the board to set out a feasible marketing strategy.

6.3 Horizon 3 – Future Potential Strategic Directions

In Horizon 3, the core adjacencies should be assessed for viability as potential business options. This exercise should be included in future strategic planning sessions with the staff and board of directors, to force everyone to think outside of the box and brainstorm opportunities the organization should pursue. Key recommendations are:

- Other sustainability solutions – If funding permits, FBC can use its core competencies and collaborative governance model to help the governments build sustainable health care, education systems and economy.
- Sustainability certification programs – Research the rules and regulations of registering certifications and offering programs to obtain the certifications.
- Youth leadership programs – Expand the Youth & Sustainability program to get more youths involved in building a sustainable future.
- Fundraising strategies – FBC has never relied on donations as a revenue stream, but should at least explore the potential and learn from other NGOs.

7: Implementation plan

The implementation plan follows the 3 Horizons set out in sections 5.2 and 6, and will list the detailed actions to take in each Horizon. The focus will be put on Horizon 2, when FBC will enter into the private sector segment. An implementation timeline, financial projections, KPI, ROI risks and contingencies and scenario analysis will be presented for Horizon 2.

7.1 Horizon 1 – Maintain Current Core Businesses

As mentioned in section 5.2, Horizon 1 is when FBC should focus on improving current performance and maximize existing value. The identified core adjacencies center around FBC’s core strengths and what can be done in the immediate future, using its core competencies. The subsections below specify how to carry out Horizon 1.

7.1.1 Business Model Development

FBC should adopt a hybrid business model in order to successfully implement the above business strategies. One aspect of the business model is the non-profit piece, where the organization continues its current relationships and funding arrangements with the governments and foundations. The other aspect is the earned income piece, where the organization protects current government contracts, and expands into the private sector to pursue more “fee-for-service” consulting opportunities. It is possible, and has even become a trend for non-profit firms to adopt this hybrid business model to

gain long term success (Bell, Masaoka, & Zimmerman, 2010). An impact assessment chart and a matrix map should be used jointly to help establish the business model, as they will provide a clear visual guide as to where FBC should direct its attention in terms of program impact on its core mission.

7.1.2 Impact Assessment

Assessment of the “mission impact” of programs offered by NGOs is critical in that it determines the strategic focus of the organization (Bell, Masaoka, & Zimmerman, 2010). A sample of impact assessment, adopted from Bell et al. (2010) is shown in Table 7-1; the actual ratings should be done by FBC management, staff and Board.

Impact assessment is done by using impact ratings, criteria for impact determination, and the relative weighting of the criteria to calculate the weighted average impact scoring for FBC’s major programs. Impact ratings are from 1 to 4, with 4 being the highest, as “exceptional impact.” Four criteria from the seven recommended by Bell, Masaoka, & Zimmerman (2010, p.49) are selected to determine impact.

- “Alignment with core mission: How closely does this activity align with our core mission?”
- “Excellence in execution: To what degree does this activity reflect the best work we do?”
- “Filling an important gap: To what extent is this activity important? Is it the only one of its kind available to the community?”
- “Community impact: To what degree does this activity build the movement in which our organization works?”

Lastly, weighting of each criterion out of 100% is assigned to provide further depth to the assessment process (Bell, Masaoka, & Zimmerman, 2010). Table 7-1 shows the

sample scores under each criterion, and the weighted average scores. It provides a bird’s eye view of the sample mission impact of all the major programs at FBC.

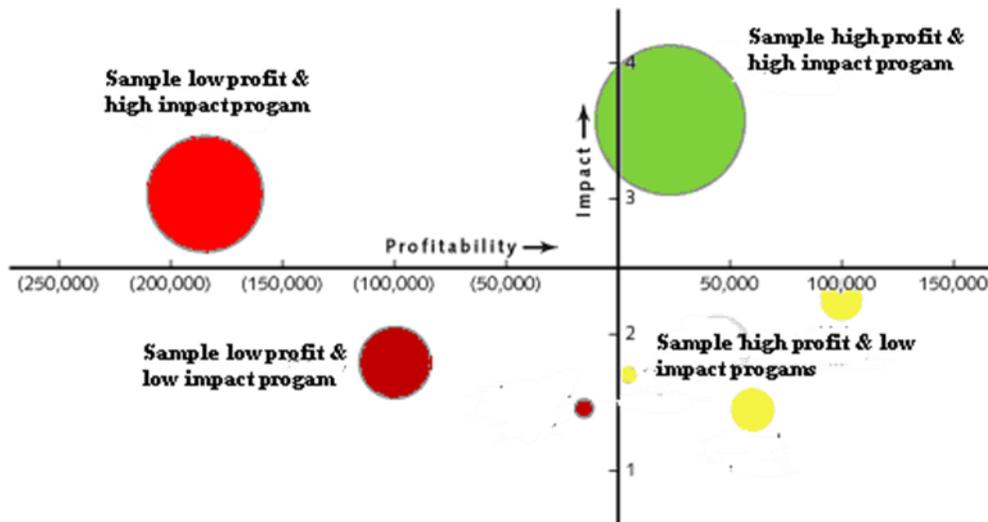
Table 7-1: Impact Assessment for FBC’s Programs (SAMPLE ONLY)

Impact Assessment Worksheet					
Criteria	1. Alignment with core mission	2. Excellence in execution	3. Filling an important gap	4. Community impact	
<i>Weighting</i>	<i>40%</i>	<i>25%</i>	<i>20%</i>	<i>15%</i>	<i>Weighted Average</i>
Invasive Plants Council	3	4	4	2	3.30
Flood Management	3	4	4	3	3.45
Sustainability Indicators	4	4	3	3	3.65
Youth Engagement	3	3	4	4	3.35
Water Management	3	3	1	3	2.60
Water Planning	3	3	2	4	2.95
Climate Change & Air Quality	4	4	2	4	3.60
Fisheries	4	3	1	3	3.00
Smart Planning	4	4	3	4	3.80
Sustainability Purchasing Network	2	3	3	2	2.45
Regional Programs	4	4	3	4	3.80
Outreach Programs (outside of BC)	2	4	4	3	3.05
International Programs	3	4	4	3	3.45
Criteria weighting and scoring must reflect FBC’s opinions					
Impact rating is between 1 & 4, with 4 being the highest:					
1. Not much impact 2. Some impact 3. Very strong impact 4. Exceptional impact					

7.1.3 Matrix Map for Program Assessment

Aside from impact assessment, another exercise should also be done to map out the profitability and impact of each program. Some samples of how the matrix map is done are shown below. Figure 7-1 is a sample bubble chart showing the positions of the programs based on the impact analysis scores from Table 7-1, and the profit/loss and expenses figures for each program that can be obtained from financial statements. This figure puts into perspective which programs contribute to the programmatic impact, financial bottom line or both. It also shows where resources are used.

Figure 7-1: Sample Matrix Map for Profitability and Impact

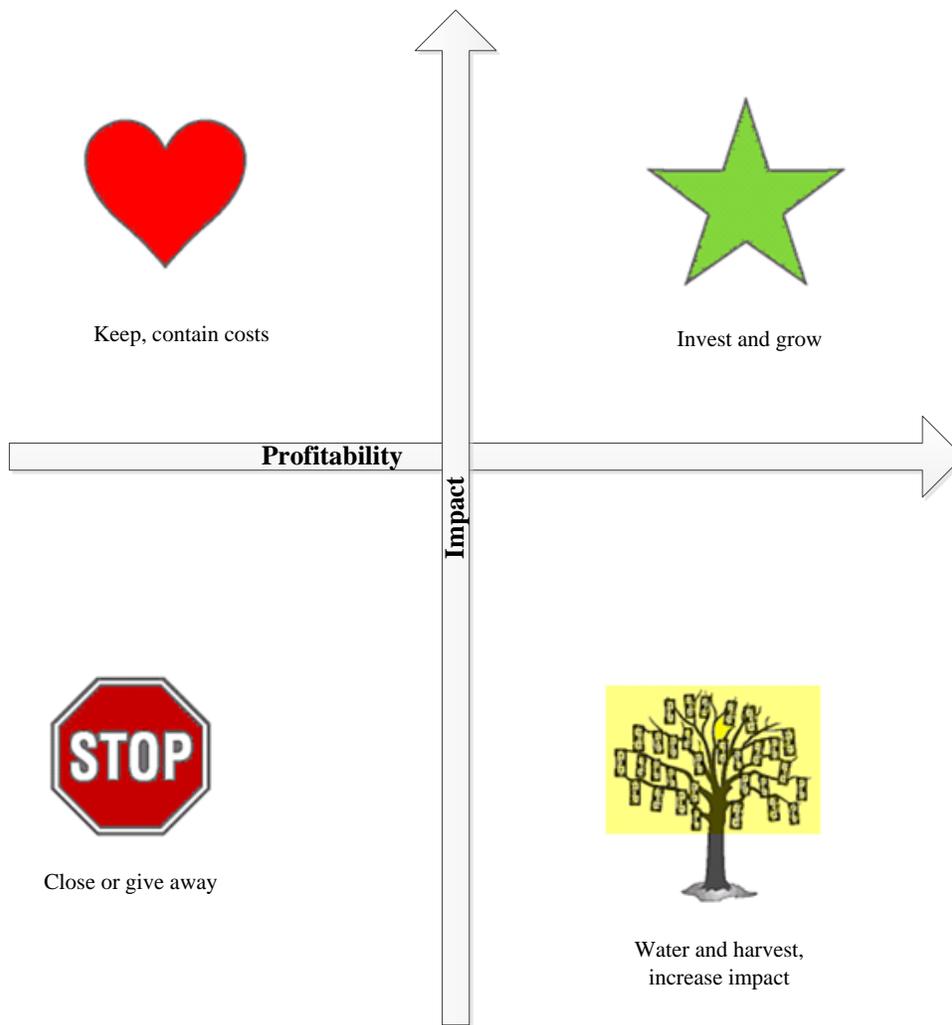


Source: Adapted from (Bell, Masaoka, & Zimmerman, 2010, p. 67)

Programs with high impact and high profitability are most ideal. For the programs with high mission impact and low profitability, the organization should make sure enough resources are devoted to the mission critical programs to generate success. Programs with low mission impact, but high profitability should continue, since they will bring in

needed working capital. Efforts should be made to increase impact for these programs. Programs with low mission impact and low profitability or already losing money should be abandoned. Figure 7-2 demonstrates the strategic imperatives associated with each quadrant of the matrix map.

Figure 7-2: Sample Strategic Imperatives for Each Quadrant of the Matrix Map



Source: Adapted from (Bell, Masaoka, & Zimmerman, 2010, p. 93)

Figure 7-3 shows another quick version of the program assessment without using specific numbers from financial statements. This is usually used for programs already making profits, to identify the ones requiring high efforts but having low impact and generating low profit.

Figure 7-3: Sample Quick Matrix Map without Quantitative Analysis

Event	Impact	Profit	Effort	Type	Action
Program 1	High	Low	Medium		Keep, contain costs
Program 2	Medium	Medium but growing	High		Grow, increase impact
Program 3	Low	Low	High		Give to church that also has one
Program 4	Low	High	High		Grow, increase impact

Source: Adapted from (Bell, Masaoka, & Zimmerman, 2010, p. 92)

7.1.4 Major Customer Identification Exercise

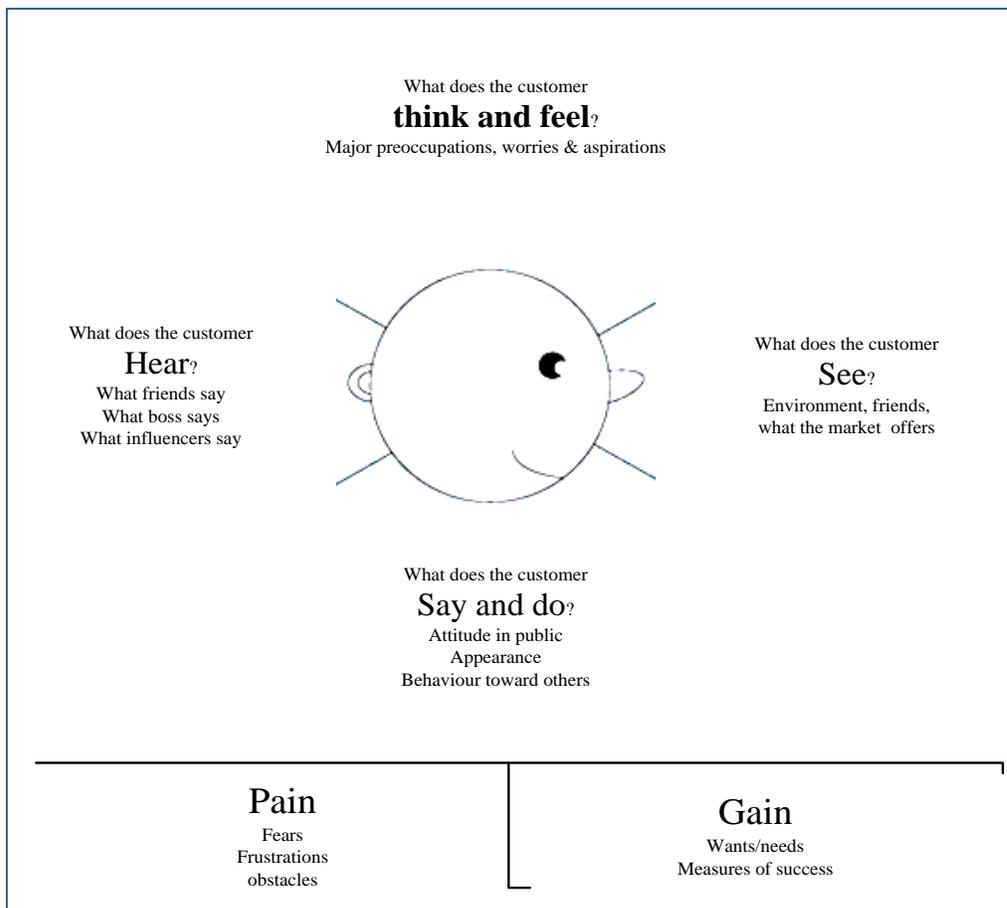
Although financial statements must be presented by programs, a different exercise can be done to identify FBC’s major customers, from the contract binders (Vanderwal, 2012). This provides a different way of segmenting customers and will be able to help the managers see who the major customers are that “pay the bills” for FBC. Once they are identified, efforts should be made to strengthen the relationships by attempting to understand customer needs, in this case, government agencies’ mandates, strategic

priorities, budget focus and so on. Periodic reviews should also be done to keep up-to-date with the changing environment.

7.1.5 Customer Empathy Map

It is not enough to understand the needs of existing customers, it is also important to identify untapped customer segments and find out how to create value for future customers. Osterwalder (2010) suggested brainstorming potential customer segments and using a customer empathy map (see Figure 7-4) to capture customer needs for each segment.

Figure 7-4: Customer Empathy Map



Source: Adapted from (Osterwalder, 2010, p. 130)

This exercise will shift the organization's thinking towards "the customers' perspective" and help FBC truly understand what the customers need. The shift towards a "customer-centric business model design" will help FBC answer a different set of questions:

- How can we help with what our customer needs done?
- Find out our customer's aspirations; and how can we help him/her live up to them?
- How do our customers prefer to be addressed? How does our organization best fit into their routines?
- What kind of relationships do our customers expect us to build with them?
- What values do our customers truly willing to pay?

7.1.6 ED's Succession Planning

The ED David Marshall has been an integral part of FBC's success in the last 15 years. He has personally established many of the crucial relationships with government agencies and is still at the forefront of running many high-profile government contracts. In order to ensure sustained organizational success, the succession planning process should start soon. Many tools and models are available. It is important to use what works for a relatively small non-profit firm – simple, efficient, easily customizable, and intuitive. The basic concept is to capture all the leadership qualities, competencies, skills and key success factors needed in the ED's role. Next is the identification of potential successors, which can be internal or external, depending on the fit. Once the most qualified successor is identified, mentoring will be the next important process to carry out. The successor should shadow the ED on all major occasions, be it decision making, relationship building, managing/leading the organization and so on. Tacit knowledge will be the toughest to transfer. But as long as succession planning is done

with a disciplined approach with time commitment from David Marshall, FBC will likely have a bright future.

7.2 Horizon 2 – Enter the Private Sector Market Segment

As mentioned in sections 5.2, businesses along the three horizons must be managed concurrently. Therefore, the recommended strategic direction of entering the private sector market segment should take place parallel to tasks set out for Horizon 1. The subsections below will illustrate the detailed implementation steps and feasibility of the implementation plan.

7.2.1 Timing and Resource Allocation

The time line for high-level major tasks in Horizon 2 is mapped out by MS Project in Figure 7-5. FBC must conduct market research on private sector segment for customer needs, trends and potentials. The research can be done by an MBA student or an undergraduate marketing major in the form of a report or presentation. The recommended strategic alternative should be presented to the Board of Directors at its meeting in June in order to get support from board members. During the summer, FBC management must review and confirm the practicality of the financial projections, ROI and KPI, and make adjustments as necessary. This will help clarify the key traits necessary for the new business development manager. Two months should be allotted for the hiring of this role, to ensure the right fit is recruited.

Figure 7-5: Major Tasks and Timing

Task Name	Duration	Start	Finish	Resource Names	2013				2014							
					Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	
Market research	25 days	Mon 5/14/12	Fri 6/15/12	MBA student[50%]												
Present strategic direction to board of directors	1 day	Thu 6/7/12	Thu 6/7/12	CFO,ED												
Board approval	1 day	Thu 6/7/12	Thu 6/7/12	FBC Board												
Confirm financial projection and ROI calculations	25 days	Mon 6/18/12	Fri 7/20/12	CFO,ED												
Build KPI and metrics for new strategic alternative	25 days	Mon 6/18/12	Fri 7/20/12	CFO,ED,FBC Management												
Hire new business development manager	43 days	Wed 8/1/12	Fri 9/28/12	CFO,ED,FBC Board,FBC												
New business development manager starts working		Mon 10/1/12		Business development manager												
Marketing strategy	130 days	Mon 10/1/12	Fri 3/29/13	Business developme												
Performance review for new business development manager	5 days	Thu 2/28/13	Wed 3/6/13	CFO,ED,FBC Board,FBC Management												
Business development manager contract renewal for 1 year		Fri 3/15/13		ED,FBC Board												
Change from contract to continuing position		Fri 3/14/14		ED,FBC Board												

The main rationale for the new hire is two-fold: firstly, FBC’s current resources will not have the time to invest in developing business in a new market segment; and secondly, the skill sets and relationship building required to compete or partner with private sector consulting firms and corporations are very different from that of the non-profit sector. To guarantee success, the hire should be on contract basis for the first six months, renewable for another 12 months. The message must be clear to the candidates that this is a self-funded position, in other words, they must bring in enough business to cover salary, benefits (starting in 2014) and business development costs right from the start. After 18 months, the position can become continuing with a benefits package, subject to performance review.

The business development manager will be responsible for formulating the marketing strategy and investing in relationship and network building with potential customers (corporations, independent consulting firms, etc.) to understand their needs and find ways to satisfy those needs. After strategy formulation, detailed work can be done creatively with help from volunteers, experts who believe in FBC's values, or MBA students (recruited through contacts with academic institutions). Similarly, business obtained as contracts or other consulting services agreements from the private sector segment will be carried out by existing FBC employees in their designated areas of expertise.

7.2.2 Financial Projections & ROI

The financial projections done in Table 7-2 are merely focused on the hiring of the new business development manager. The assumption is that the miscellaneous expenses such as the computer, telephone, and office rental are covered under general administrative expenses. The projections only deal with the extra revenue that will arise through "fee-for-service" contracts for the private sector and the salary and business development expenses associated with generating this revenue. Another assumption is that FBC will maintain the level of revenue projected at \$4 million (starting year 2012/13), by holding a constant percentage of existing "fee-for-service" government contracts at 9% of total revenue (a 2% increase from 2011/12). The incremental revenue is projected for the private sector, not government contracts.

Table 7-2: Three Year Financial Projections for Entering the Private Sector Market Segment

Financial Projections		2012	2013	2014
Revenue (overall)		4,000,000	4,050,000	4,171,500
Fee-for-service (government contracts)	9%	360,000	364,500	375,435
Fee-for-service (private sector contracts) percentage %		1.25%	3%	3%
Fee-for-service (private sector contracts)	Extra revenue	50,000	121,500	125,145
Expenses				
Salary & benefits		40,000	83,000	86,000
Business development Expenses		10,000	20,000	20,000
		50,000	103,000	106,000
Net surplus (deficit)		0	18,500	19,145
Profitability ratios				
<i>ROS (Net income/Sales)</i>		<i>0%</i>	<i>15.23%</i>	<i>15.30%</i>
<i>ROI (Rev - Exp / Exp)</i>		<i>0%</i>	<i>17.96%</i>	<i>18.06%</i>
Notes:				
i. for 2012, small projection 1.25%, 1/2 year only				

The projected percentage of revenue for private sector “fee-for-service” contracts is based on FBC’s financial goal to increase fee-for-service” contracts from 7% to 15% of total revenue in three years (Ruso, 2012). The projection for 2012/13 increased to 9% in the proposed budget, and will be kept at that level. For 2012/2013, the new business development manager will only be in place for 6 months of the fiscal year (from October to March). Therefore, the projected “fee-for-service” contracts percentage is only set to 1.25%, and the goal is to breakeven in the first six months. The annual salary level is set to \$80,000, with a \$3,000 increase annually, since the position is supposed to be self-funded. At the current projection, ROS and ROI are at about 15% and 18% respectively.

7.2.3 Key Performance Indicators

The metrics that can be used to measure success of entering the private sector market segment are presented in Table 7-3. The most critical indicator is the integration of the private sector business into the overall strategy for FBC. Since the organization is fairly small, and does not have idle resources, the strategic alternative of entering the private sector segment cannot be achieved by a spinoff or a separate enterprise, at least not at this point. Although financially the private sector business must be self-sustainable, operationally, strategy, planning and resource allocation are all done at the organization level. The financial goals are to achieve breakeven and generate 3% of total revenue annually.

Table 7-3: Major Performance Goals

Key Performance Indicators (KPIs)
<i>Integrated Strategy Formulation</i>
<ul style="list-style-type: none"> - adhere to FBC’s vision and mandate - good working relationship with FBC’s management team - marketing strategy is integrated into the overall strategy for FBC - resource planning is at the organization level
<i>Financial Performance Goals</i>
<ul style="list-style-type: none"> - achieve breakeven in the first six months - continue to be self-sufficient, and eventually direct profits to other programs - generate minimum 3% of total revenue annually
<i>Established Network, Reputation & Relationships in Private Sector</i>
<ul style="list-style-type: none"> - the number of partnerships established - FBC’s new brand in the private sector - benchmark with for-profit consulting firms - FBC’s reputation in the community is intact – not involved in “greenwashing”

Furthermore, the business development manager should adopt applicable strategies from for-profit consulting firms, such as establishing an inventory of services, key skills and expertise readily available for clients needing services. He or she is also measured by the number of partnerships and contracts established, and how the FBC brand is recognized in the private sector. That said, it is equally important to maintain FBC’s vision and mandate, without being associated with “greenwashing” activities that Greenpeace calls “the cynical use of environmental themes to whitewash corporate misbehaviour” (Greenpeace, 2012).

7.2.4 Risks and Contingencies and Scenario Analysis

The ideal scenario is for everything to follow the implementation plan. The recommendations and implementation plan have taken into consideration the limited resources, challenging financial situations and specialized skill sets at FBC. So what is left to consider is how to prevent risks and contingencies from falling into the high likelihood and high impact red danger zone as shown on Table 7-4.

Table 7-4: Risk Analysis

Risk Impact			
		High	Low
Risk Likelihood	High	N/A	- Lack of support from some managers
	Low	- Not able to generate the desired revenue to breakeven - Lack of resources to carry out the new contracts	- FBC is not well received in the private sector market segment

The worst case scenario should be that only breakeven can be achieved, no profit is generated as expected. If this continues for a pre-defined period of time, then FBC needs to reassess its strategic direction – maybe other identified core adjacencies need to be explored. Management and the Board will have to make that decision when the time comes. For the time being, risks and contingencies are identified as per Table 7-4, the organization must do everything in its power to mitigate them, to avoid the worst case scenario.

Since a conservative approach is recommended by hiring a “self-funded” business development manager on a contract basis to ensure breakeven, the financial risks have been minimized. The outstanding identifiable financial risk is the inability to generate the desired revenue. This risk can be mitigated during the hiring process. FBC should pose tough behavioural questions to see if candidates have succeeded in similar challenges; ensure the candidates can demonstrate existing relationships with consulting firms and private sector corporations; ensure candidates possess the right skill sets to be successful in this role.

Another low likelihood but high impact risk is not having enough resources to carry out new business. This could be due to a true lack of resources if FBC obtains more “fee-for-service” contracts from the governments or if the business development manager gets a lot more business than projected. Then, the solution will be to hire competent staff or contractors to fulfill the obligations. However, another possibility is a conflict of interest scenario, where managers fight for resources to get their own programs delivered. In this case, it is a matter of getting buy-in from all staff before entering the private sector segment and communicating the integrated strategy formulation approach

to ensure planning and resource allocation happen at the organization level. The same mitigation method applies to the risk of missing managers' support. Communications and reviewing research facts about non-profit firms' sustainability challenges will help change their mind-set.

A final unlikely risk is that FBC will not be well received by the private sector corporations. This can be mitigated by hiring the right business development manager who is capable of branding FBC in the new segment.

The best case scenario happens when revenue is much higher than projected, demand is high from private sector for FBC's expertise, and the business development manager is doing an amazing job of promoting FBC. In this circumstance, FBC should grow the private sector segment, by hiring more staff on contract basis to carry out the contracts and services for this sector, without sacrificing the rest of the business.

7.3 Horizon 3 – Future Potential Strategic Directions

In Horizon 3, the potential strategic directions identified on the core adjacencies diagram in Figure 5-3 should be explored to find out which ones can be implemented as the next emerging businesses. The following options are only suggestions, as FBC can and should conduct its own core adjacencies mapping exercise with its staff and the Board, to generate innovative and viable business options. This should be done as part of the strategic planning process, or as external environments change significantly or internal strengths evolve.

7.3.1 Other Sustainability Solutions

FBC should start communicating to government agencies, to assess the likelihood of budget increases in the future, and start planting seeds of future opportunities. At some point, sustainable health care, education systems and a sustainable economy will definitely be put on governments' agenda. Since FBC has the technical expertise, the established networks and relationships with the government agencies, and a proven track record, it is well positioned to enter this strategic direction when the time is right.

7.3.2 Sustainability Certification Programs

A lot more research is needed to find out what it takes to establish certification programs, and whether it is even a possibility for FBC to register a trademark for its collaborative governance framework. It is worth the efforts to contact the government ministries for potential options.

7.3.3 Youth Leadership Programs

The focus here is to expand the current Youth & Sustainability program, to attract more youths to partake in achieving future sustainability. Aside from involving youths in sustainability projects, more innovative approaches should be explored. For instance, create youth-led sustainability leadership groups to design future action plans; offer scholarships and grants for youth sustainability initiatives; and provide awards (e.g. "Top 20 under 20 Youth Leadership Award") to distinguished youth leaders in sustainability.

7.3.4 Fundraising Strategies

FBC should benchmark with organizations like David Suzuki Foundation which is 97% reliant on donations. Although the mandates of the two NGOs are different, there are similarities in the environmental sustainability issues both deal with. FBC does not have to aim for a high percentage of donation revenues. But if it put some effort into donations, it will help increase the revenue streams, thus increase its financial viability.

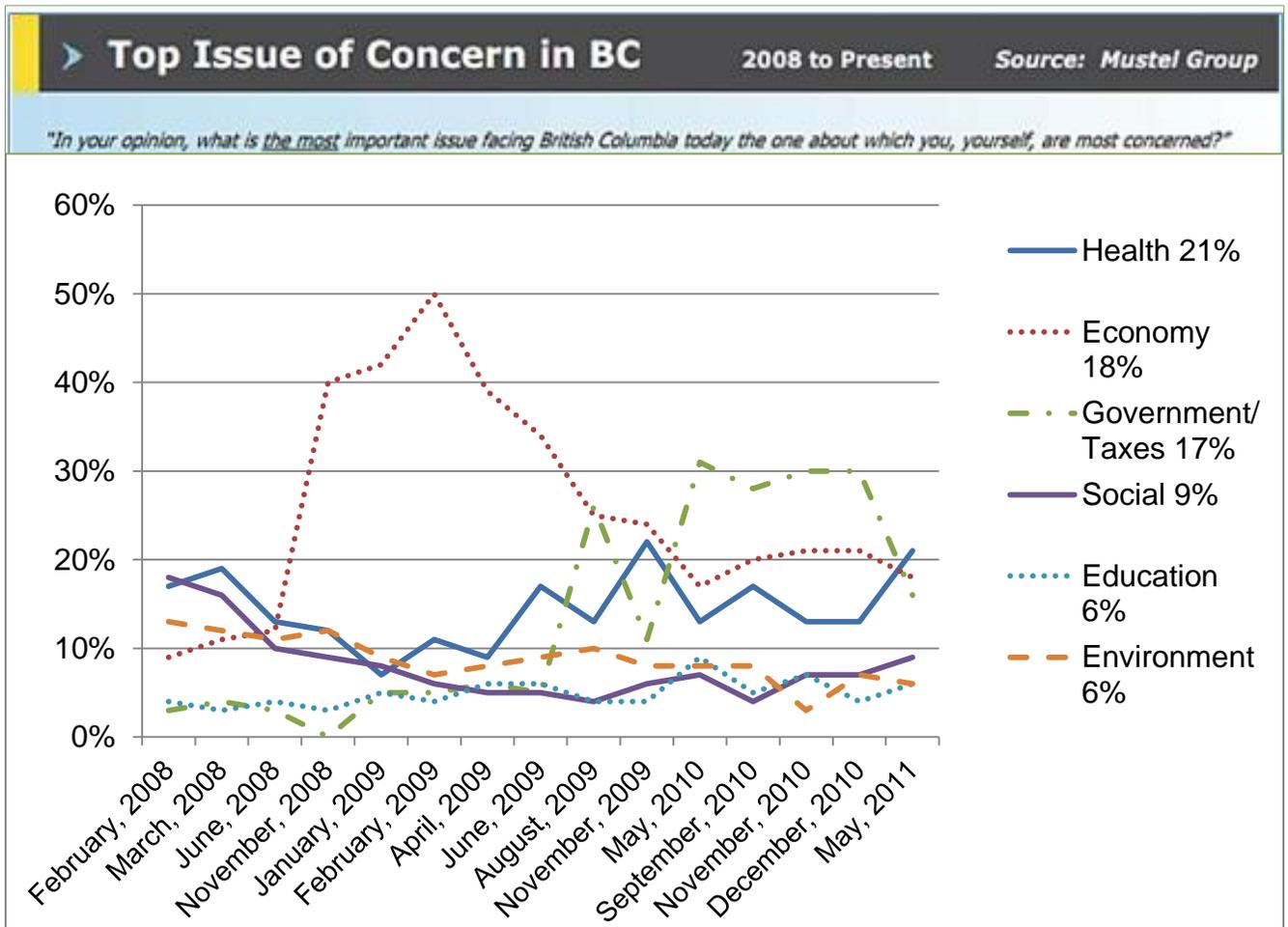
Appendices

Appendix A: Map of the Fraser Basin



Source: Fraser Basin Council Annual Report 2008-2009 (Fraser Basin Council, 2012)

Appendix B: Mustel Group's Top Issues in BC



Source: Adapted from (Mustel Group, 2012)

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