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SUSTAINABLE STRATEGY WORKBOOK[A]
Part 3
(2-21-16 Draft)

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[A] This report is built upon a template derived from Results Now for Nonprofits: Purpose, Strategy, Operations, and Governance (Light, 2011, p. 85). All content herein © Mark Light, 2015. Thanks to Dottie Bris-Bois for invaluable editing services and sharing examples of her work.

GREAT STRATEGIES

What *should* we do next?

Build

The Great Strategies process begins by developing a detailed description of the strategies you are investigating. Peter Brinkerhoff uses a three-question approach:

1. What precisely will the business idea do?
2. How will it benefit the organization?
3. What are the characteristics of businesses of this type?[1]

Because you are beginning to think about how to pitch the strategy to people outside of the organization, some people suggest using more elaborate questions to build your case statement like these suggested by Bernard Ross and Claire Segal:

- What is the need?
- What evidence is there that this is a pressing need?
- How are you uniquely qualified to tackle this need?
- What will be the benefits of your action?
- What are the negative consequences if you fail?[2]

I prefer answering six questions:

1. Who are the people you will serve?
2. What product you will deliver?
3. Where is the place of delivery?
4. How will you price the service or product?
5. What is the value proposition?
6. What is your plan for implementing the strategy?

This alliteration around the letter P evokes the marketing mix introduced in 1964 by Neil Borden.[3] Jerome McCarthy later grouped Borden’s marketing mix into four categories: product, price, place, and promotion, commonly known today as the 4 P's of marketing.[4] By elaborating on this methodology, you can better understand the benefits of integrating the strategy into your organization.

Six Questions

People

The first P in the process describes the people who will benefit from the strategy once implemented. Many experts call this customer segmentation. One such expert, Kristin Majeska, defines customer segmentation as “the identification of groups of customers with common needs, behaviors, and demographic characteristics that can help you target specific groups and tailor your offerings to them.”[5]

The goal is to specify your primary customer for each strategy, which Peter Drucker describes as "the person whose life is changed through your work."[6] Let's say that your clients are juvenile girls at risk for pregnancy and that your work in Great Ideas convinced you to improve user outcomes by 20 percent. Your first step would be to describe the client as reasonably as possible:

Juvenile girls at risk for pregnancy who live in the urban core.

It is perfectly acceptable to have a host of supporting customers, those volunteers, members, partners, funders, referral sources, employees, and others who must be satisfied,"[7] but they are never primary. And If your strategy does not have a defensible link to the primary customer, ask yourself why it's under consideration.

In addition to describing the beneficiary of the strategy, define their characteristics as much as you can. How old are they, where do they live, what is their income level, how many are there, how many do you serve? Use ready-made resources like census.gov and sba.gov to help you describe your market. David La Piana defines this as "market awareness" and recommends that it include four useful questions:

- What the organization's market is, whether that market is stable, shrinking, or growing, and who else is in the market
- Where the organization stands relative to other players in the market
- How the organization got to its current status relative to others
- Where the organization wants to go next within the market[8]

Strategies that address operational effectiveness (e.g. installing your agency-wide intranet to facilitate communications) may not appear to have primary customers or beneficiaries. Yet if the strategy allows staff members to better serve the primary customer, you likely have a defensible strategy.

If you cannot draw a defensible link to the primary customer, do not waste your time defending the strategy. You should not build new buildings or boost fundraising as ends unto themselves. Does this mean you should never implement these kinds of operational strategies? Not at all; comfortable and well-trained staff can make a huge difference in serving the primary customer; but whether you have an on-site barista for your morning coffee probably won't.

When we built our new performing arts center, I had the opportunity to move our offices from a very cramped space spread across three different floors to a roomier floor in the new performing arts center. It was a very tempting proposition. I had abandoned my corner office years earlier to accommodate three finance staff members and relocated to a very small space. In the new building, there would be room to spare—staff would be happier, and I'd get my office back with a wonderful view to boot.

Unfortunately, the build out of the new space would cost nearly $1 million. Overall, the direct link to our primary customers just wasn't strong enough to justify the expense. I didn't get my wonderful new space, but I did continue to get the view that mattered most: that of a full house of people in the theatre.

Product

The second P in the process is product. Product begins with what difference the strategy will make to the primary customers. For the juvenile girls at risk of pregnancy, the life-changing difference might simply be getting though their pre-teen and teenage years without becoming pregnant.

Just how you intend to make this difference is your next step in describing the product. Is it sex education? Distribution of contraceptives? What about peer mentoring or family counseling? In other words, **what product or service will the people you are serving receive**? In this example, the product is peer-to-peer mentoring:

Preventing pregnancy
for juvenile girls at risk in the urban core
through peer-to-peer mentoring.

Place

The third P in the process is place and typically refers to how the customer gains access to the product. People sometimes call this the distribution channel, which includes time of delivery or the way people gain access (e.g. in-person, online, etc.):

Preventing pregnancy
for juvenile girls at risk in the urban core
through peer-to-peer mentoring
based at our learning center after school.

Price

The fourth P in the process is price. Not all strategies need to address the question of pricing. You will likely not charge your staff for using the intranet in the office for better communications. Pricing questions usually arise in conjunction with lines of business with direct relations to the client or intermediary.

Many people address pricing the service or product too late. Yet pricing is no trivial issue and should be on the table at the earliest point possible—especially before you talk with customers. It's essential to outline your price in order to get an early indication of a customer's willingness to pay. As Patricia Caesar and Thomas Baker warn:

> Never show people the product or describe the service without the price, because that is not the way it is generally going be marketed in the real world.

> You may be reluctant to do this at an early phase of implementation; nevertheless, pick a number, put it down, and get a reaction. Price is an integral part of how any product or service is positioned in the marketplace, and yours, no matter what it is, cannot be evaluated without one.[9]

There are many different ways to think about pricing. The most common is the cost plus method followed closely by breakeven pricing. These approaches focus on what the provider must receive in order to achieve some objective, like breaking even. Instead, **you should first know what others in your field charge for the same products**. If your peer agency charges $225 per camping week in the northern part of the state and regularly reaches 90 percent capacity, perhaps your price of $435 is too high and explains why your capacity percentage is 55 percent and declining.

Regrettably, the typical mistake nonprofits make is not charging too much, but too little or not at all. Nonprofits regularly make the failed assumption that “free of charge” has great meaning. Whenever I see this message trumpeted as an attribute of a program, I wince. As counterintuitive as it may seem, charging nothing for something often conveys a value of nothing. After all, most customers are willing to pay something for what you’re offering. How can you justify not charging ones who have the means to pay? How can you pass up the chance to serve more people as a result?

Many executives have long known that paying something for a service is good for both the customer and the provider. At its most basic, **charging for services puts skin in the game for both parties.** The recipient of services is now a bona fide customer purchasing something of value and expecting a certain level of quality. The provider is now subject to the accountability that comes from having paying customers instead of take-it-or-leave-it charity cases.

As such, it could be a viable strategy to start charging for something that you have been giving away. You won’t be the first. Many nonprofits are beginning to charge for services that no one would have thought possible even a few years ago. Take the strategy of charging homeless people for space in shelters. What could be more unthinkable; homeless people are penniless, right? Yet that’s exactly what the City of New York rolled out in 2010.[10] This was hardly innovative, however. A homeless shelter in a Midwest rust-belt community has been charging $5 per night for some time now; those that don’t have cash sign IOUs.

To be sure, there may be people who cannot pay a thing for what you are providing. I ran a performing arts center that delivered a school-day educational program for 60,000 kids each year. About a third of the children attended free on scholarships that teachers could request. Instead of saying that everyone could attend free of charge, we said that we would turn no one away. This type of pricing allows you to set a fixed price for everyone, but use discounts or giveaways for those who need help.

If you are worried about whether this sort of price maximizing will hurt your organization, consider the results from Panera Bread’s nonprofit eateries:

> Its cashiers tell customers their orders' "suggested" price based on the menu. About 60 to 70 percent pay in full . . . About 15 percent leave a little more and another 15 percent pay less, or nothing at all. A handful of customers have left big donations, like $20 for a cup of coffee.[11]

Is it working? It is a slow and steady effort that currently has four stores in support of its mission "to raise the level of awareness about food insecurity in this country, while also being a catalyst for change in [its] communities."[12]

Using price to building upon our example of peer-to-peer mentoring for juvenile girls, we now have the following description:

Preventing pregnancy
for juvenile girls at risk in the urban core
through peer-to-peer mentoring
based at our learning center after school
for a fee of $2 per session.

Proposition

The fifth P in the process is proposition. This is at the core of marketing and is "the value of what you get relative to what you give in exchange for it."[13] Put directly, why would your customer write the check? **The value proposition is not about how you will sell this or that service or product, but *why* the customer would buy it.**

I talked to a man once who used existing information, talked to customers, and practiced the art of observation to construct his value proposition. He told me how he chose the location for his art gallery, why his pricing was so reasonable, and the art so accessible.

He first spent many hours walking the neighborhoods where he could locate his gallery. He talked to people who would eventually be his customers, visited proprietors in restaurants and shops, counted things like the number of people at certain times of the day, and talked to his artist and business friends. He decided where to locate his gallery because of this eye-to-eye research and his pricing reflected the brands of automobiles that he observed. He didn't have a Ford Focus gallery for sure, but he wasn't a Rolls Royce either; he called it a Honda Accord "kinda arts-and-crafty place that sells good art at a fair price."

Researching the value proposition does not require an MBA or a high-priced marketing consultant. You can get at this information in a variety of ways, but **the easiest is to ask your customers directly**. You may find out that the customer doesn't see the value, or that they would at the right price, or with a different product.

When getting ready to make the Vision Statement, you connected with some of your customers to understand what they liked and didn't like about their experience with your organization's services, programs, or products. With your strategy defined more specifically, it is now time to go back to your customers and understand the probabilities that your strategy will succeed. According to Peter Brinckerhoff, this requires "to start the process of delineating the difference between what you *think* people want and what you *know* they want. The only way to know is to ask."[14]

Start with why you think your customers would buy or use your product or service. You should have a pretty good idea by now what life changing difference you're supposed to be making for your clients. Maybe how you're different from your rivals is also part of the rationale. Make a list of all of the reasons you think are important. Prioritize the top three or four. Now ask your customer whether they would use or buy your service or product at the price you have tentatively established and test out your propositions with a half-dozen customers.

Armed with the information you gained from your research, you are now ready to write the value proposition for your strategy. Like your mission statement, it will be short and to the point:

Preventing pregnancy
for juvenile girls at risk in the urban core
through peer-to-peer mentoring
based at our learning center after school
for a fee of $2 per session
that delivers convenience, confidentiality, and companionship.

The value proposition – why the juvenile girls would write the check – is for the convenience, confidentiality and companionship.

Plan

The final P in the Sustainable Strategy splits the Vision into three elements to create your plan:

1. The Vision Statement is a clear picture of the future and is typically idealistic in texture.
2. The Vision Strategies bring the picture to life and are typically pragmatic.
3. The Vision Goals directly relate to each strategy and are how you will achieve that strategy.

An easy approach is to use a template related to improvement-oriented strategies:

1. Determine problems that you need to fix including the root causes.
2. Develop possible alternatives including best practices from other organizations.

3. Decide best alternatives including determining what could go wrong.
4. Draft an implementation plan including specific completion dates and people responsible.

To find the action steps for starting something new like a line of business or an endowment or capital campaign, you simply start with step 2—bringing pragmatic vision strategies to life. What follows are the goals and action steps for the development department of a performing arts center that has a strategy to boost fundraising significantly. The initials within the parentheses indicate the person or persons responsible for the goal or action steps:

1. Develop and implement a major gift strategy to raise at least $150,000 from at least 10 new members at the President's Circle level (WM/WB 6/30).
   a. Identify and solicit President's Circle prospects (WM 9/15).
   b. Write a specialized appeal letter for board members to encourage an increase in giving (WM 10/15).
   c. Hold at least two cultivation events for donors (WB/WM 6/30).
2. Develop Corporate Partner campaign to increase giving by $270,500 (WM 6/30).
   a. Send corporate partner mailing by 12/1 to current and lapsed donors (WM 12/1).
   b. Identify prospects from outside lists and Target Solutions data (WM/WB 12/1).
   c. Solicit and close prospects (WM 6/30).
3. Research and cultivate companies of new vendors and/or board members to raise at least $100,000 in new sponsorships (CP 6/30).
   a. Send letter to each company (CP 9/15).
   b. Schedule cultivation visits (CP 9/30).
   c. Meet, cultivate, and close prospects (CP/ML/WB 6/30).
4. Launch a planned giving program so that at least six individuals include the organization in their plans or make an outright gift with a similar intent (WB 6/30).
   a. Develop possible alternatives including best practices from other organizations (WB 8/30).
   b. Decide best alternatives including determining what could go wrong (WB 9/30).
   c. Draft an implementation plan including specific completion dates and people responsible (WB 10/30).
   d. Close six gifts (WB/ML 6/30).

My favorite approach to building goals is the BAM approach without the multi-voting. Simply ask what tasks are necessary to bring this strategy to life? Don't worry about the chronology of the ideas until after you brainstorm lots of ideas and then affinity group them.

Once you've decided what you're going to do, you need to put the goals into proper form. One popular (and perfectly usable) approach is the SMART method, which originally stood for specific, measurable, assignable, realistic, and time-related.[15] These days the permutations are almost limitless including simple or stretching; motivational, or meaningful; agreed upon, attainable or ambitious; relevant or rewarding; and trackable or tangible.

How ambitious should the goals be? Don Hellriegel and John Slocum say that aggressive goals have three elements. **First, challenging goals have clarity,** which means the goal taker will "know what is expected and not have to guess."[16] **Second, goals must be difficult**, meaning that they "should be challenging, but not impossible to achieve."[17] The implications of clarity and difficulty are clear:

> Employees with unclear goals or no goals are more prone to work slowly, perform poorly, exhibit a lack of interest, and accomplish less than employees whose goals are clear and challenging. In addition, employees with clearly defined goals appear to be more energetic and productive. They get things done on time and then move on to other activities (and goals).[18]

Self-efficacy, the third required element, refers to a person's "estimate of his or her own ability to perform a specific task in a specific situation."[19] This is not about ability, but about belief in yourself. Though self-efficacy begins with the self, the person you report to heavily influences it. As J. Sterling Livingston, the author of a classic on the subject of expectation effect puts it, "A manager's expectations are key to a subordinate's performance and development."[20]

Setting clear and challenging goals that people believe they can achieve is just the beginning. The goal taker must be motivated to achieve the goal, which depends upon whether he or she "believes that the behavior will lead to outcomes . . . that these outcomes have positive value for him or her [and] he or she is able to perform at the desired level."[21] In other words, **what's in it for me, do I care about it, and can I get it if I try?** Obviously, no amount of motivation is of any value if the goal taker doesn't have the abilities required to achieve the goal. In other words, attitude is no replacement for skill set.

Most certainly those who are tasked with achieving the goal must accept the challenge. One of the easiest ways to pull everything together for success is to involve the goal taker in the process because "positive goal acceptance is more likely if employees participate in setting goals."[22] Those executing goals will also exhibit better performance when set goals are within grasp, but outside of reach.

When there is time to set goals with those who will be accountable for achieving them, take the time. However, when the environment is unsteady and time is at a premium, it is sometimes necessary to assign tasks. Setting goals is always better than not setting them: "Even when it is necessary to assign goals without the participation of the

employees who must implement them, research suggests that more focused efforts and better performance will result than if no goals were set.”[23]

My approach to properly formatting a challenging goal is to **begin with an action verb followed by a noun describing the goal, measurable results, the person(s) responsible, and the completion date**. One way to address this is to simply build the measurable results right into the goal: Increase annual giving $150,000 (ML 5/1). An even better approach: increase annual giving 20 percent to $150,000 (ML 5/1).

Here is our example with the final plan for the implementation goals added:

Preventing pregnancy
for juvenile girls at risk in the urban core
through peer-to-peer mentoring
based at our learning center after school
for a fee of $2 per session
that delivers convenience, confidentiality, and companionship:

- Develop possible implementation alternatives including best practices (ML 6/1)
- Decide best alternatives including determining what could go wrong (ML 8/1)
- Draft an implementation plan (ML 12/1)

Strategies

Current Strategies

Building your strategies begins by outlining what strategies your agency currently has underway – if any – and as shown in the following example:

	Downtown housing	Downtown clinic
Product	Quality affordable housing through rental assistance	Primary care
People	Behavioral health clients	Newly diagnosed or out of care 6-12 months
Place	Downtown	Downtown
Price	Income-based fees	Sliding-fee scale or insurance
Proposition	Stability Safety Recovery	Excellent convenient care Many Services at one place
Plan	Goals planned: finished Goals completed: 2/1/16	Goals planned: finished Goals completed: 5/1/16

New Strategies

Once you have outlined your current plans, finish with the new strategies under consideration:

	In-house Pharmacy	Patient-Centered Medical Home (PCMH)	Broaden Client Payer Mix
Product	Medications	Comprehensive services in a unified process	Excellent care from client-centered practitioners
People	Insured clients	Insured clients	Insured clients
Place	All locations Established hours	All locations Established hours	All locations Established hours
Price	Cost plus fee	Rate plus fee	Rate plus fee
Proposition	Convenience Experienced Pharmacists Access to Payment Help	Comprehensive High Quality Accessible	Confidential Convenient High Quality
Plan	Goals planned: 12/1/16 Goals completed: 12/1/16	Goals planned: 5/1/16 Goals completed: 5/1/18	Goals planned: 12/1/16 Goals completed: 12/1/16

Notice in the implementation plans from the examples above that the agency took a plan to plan approach. Some might describe this as kicking the can down the road. But it is also true that planning the implementation is a demanding and time consuming process. In the example for a performing arts organization that follows, the agency displays a more robust approach, albeit without assignments for responsibility:

	Festival	Student Matinees	New Facility
People	Families and culture-seekers	Students	Funders (individuals, corporations, and foundations)
Product	Access to culture taking performances outdoors	Amplifying teacher lesson plans through live storytelling	Making history through a worthwhile investment
Place	At a city park on July 4th weekend	At our theatre during school hours	On Chicago's north side
Price	Economic value; Flat	Competition based; Fair	Economic value; Premium
Proposition	Low-cost and highly accessible	Uniquely aligning with high school history curriculum	A space worthy of the theatre's artistry

	Festival	Student Matinees	New Facility
Plan	• Partner with local Park District and Department of Cultural Affairs (By 1/1/2019) • Conduct site visits to determine space (By 4/1/2019) • Establish creative team to curate productions, events, and programming (By 3/1/2020) Create outreach team to build new family audience (By 3/1/2021) • Publicize through paid and free media outlets (By 4/1/2021)	• Develop a corporate sponsorship and foundation strategy (By 6/1/2015) • Formalize group sales practices (By 9/1/2015) • Create marketing materials for teacher mailings and eblasts (By 1/15/2016) • Build a larger network of teachers and referrals (By 4/1/2016)	• Hire a consultant to ensure success (By 6/1/2015) • Develop major gift, corporate, foundation, and planned giving strategy (By 8/1/2015) • Develop communication plans and marketing materials (By 11/1/2015) • Celebrate donors and keep stakeholders updated on progress (At least twice per year during campaign life - approx. 3 years)

Perhaps the key advantage for the more detailed approach is that it helps you see what might lie ahead and makes the testing stage more grounded.

Test

Testing is about the organization's ability to execute the strategies under consideration. This consists of two factors: External Environment, the context in which the agency operates; and Internal Environment, its operational effectiveness.

External Environment

Although environmental analysis is often used to predict what might happen and is a systematic hunt for opportunities and threats (the last two letters of the SWOT analysis), you can also use it to understand whether the opportunities are doable within the external context. After all, according to the Old Testament, there is a "time for everything, and a season for every activity under Heaven."[24]

Industry

You may remember that the classic approach to understanding the external environment has three elements: general, industry, and competitors.[25] Because you already did the general environment in your earlier SWOT analysis, it is time for industry analysis. What exactly is an industry? It is quite simply, "a group of firms producing products that are close substitutes."[26]

Once you've described the industry for your particular strategies, you can analyze them using Michael Porter's five forces model, which includes: threat of entry, power of suppliers, power of buyers, threat of substitutes, and rivalry among existing competitors.[27]

A better method is Sharon Oster's approach that begins with defining your market, describing the industry participants, and then analyzing five factors: relations among existing organizations, entry conditions, competition from substitute products, supply, and the demand of users and donor power.[28]

First, describe the industry and participants for each of your strategies. Some people will do this on a national scale; most will do it from a local perspective. A theatre in Chicago might find it unnecessary to do more than Chicagoland, however describe it you must. How old and big is it? What are its trends past, present, and future for growth and health?

Next, what about the industry's participants? Who are they and how do they participate in the market? This is important to catalogue because "market attractiveness decreases with the number of competitors."[29] **Now describe the relations among participants**—do the agencies collaborate for the betterment of the market? Or are they go-it-alone, winner-take-all competitors?

Finally, determine the degree of funding group power for each of your strategies. Knowing that the power of a funding group or entity increases with the amount of revenue it supplies, allows you to consider how much power (or control) the funder may exert on the agency with regard to the strategy. Concentrated funding group power may make for a less attractive and riskier industry environment.

Once you have done this research, summarize your findings in the table below and render an opinion about how good a fit the industry environment is for each strategy:

	Festival	Student Matinees	New Facility
Industry Description	Summer festivals for families with live entertainment	Field trips for students	Internal
Relations Among Existing Organizations	Moderate	Moderate	Internal
Funding Group Power	Weak	Weak	Internal
Fit to Strategy	Somewhat Attractive	Attractive	Internal

Competitors

Competitors are the agencies that you directly compete against. Many businesses will analyze competitors using the following four factors:

1. What drives the competitor, as shown by its *future objectives*
2. What the competitor is doing and can do, as revealed by its *current strategy*
3. What the competitor believes about the industry as evidenced by its *assumptions*
4. What the competitor's capabilities are, as shown by its *strengths* and *weaknesses*[30]

The table below uses a slightly different protocol to address these questions:

	Festival	Student Matinees	New Facility
Competitor	Old Town	Chicago Shakespeare	Internal
Lines of Business	• Classes • Concerts • Square Roots Festival • Field trips • Music store	• 8-9 show season • Shakespeare in the Parks • Tours to schools • International work	Internal
Competitive Advantages	• Entertainment by kids for kids • 17 years of experience	• Serve 40,000 students annually • 22 years of experience	Internal
Likely Response	• Not likely to respond. Their festival is music-centered and on a different weekend.	• Not likely to respond. Their network is massive and catered to English and Drama students.	Internal
Fit to Strategy	Attractive	Attractive	Internal

Internal Environment

When you get right down to it, internal environment is all about organizational capacity, which is "the ability of an organization to operate its business."[31] If external environment is about what is happening outside the agency, capacity is about the inside. I adapted a tool called the Iron Triangle to use when conducting an internal analysis.

The Iron Triangle is a phrase coined by Clara Miller formerly at the Nonprofit Finance Fund and describes "a fixed relationship between three elements: programs, capital structure, and organizational capacity, with any change in one inevitably having an impact, planned or unplanned, on the others."[32]

Mission

According to Clara Miller, an "organization's mission is usually comparable with a significantly larger range of programs than it has the resources to pursue."[33] As such, an excellent way to gauge the health of mission is to examine the scope of diversification in your lines of business. Some people call this degree of mission drift.

On the low side of the diversification spectrum is the single line of business that delivers 95 percent of revenues.[34] The single business nonprofit might be an agency that serves hot meals to the homeless in a single facility or a ballet company that only does classic ballets in the local performing arts center. Single lines of business organizations are typically highly mission-centered.

In the middle of the diversification spectrum are related-constrained lines of business. Typically, these organizations have less than 70 percent of revenue coming from one source, but there are tight links between all of the businesses. A ballet company that presents classic ballets like Swan Lake, operates a ballet school, and tours regionally to high schools; or an agency for the homeless that serves hot meals, provides space for recreation during the day, and makes referrals to overnight shelters. Because of the common link, organizations in the middle of the diversification continuum are also mission-centered.

At the far end of the continuum is unrelated diversification where less than 70 percent of revenue comes from a single business, but there are no common links. An example of this is the ballet company that presents classic ballets, rents its studios out for weddings, and sells bookkeeping services to neighborhood small businesses. All of these lines of business make use of excess capacity, but the only relationship is the common bond of providing revenue. Obviously, you would not see unrelated diversification as especially mission centered.

The healthiest place to be on the continuum is in the middle. In other words, **you're in a riskier position by having a single line of business or multiple unrelated lines of business.** You can make an argument that as long as all of the lines of business link together tightly, the number of businesses doesn't particularly matter. That is true if the organizational capacity is in place to handle the load, but at some point, too many businesses is truly just that.

The bottom line when it comes to degree of diversification is that **you should be more risk tolerant if you're running a single line of business agency and less risk tolerant if you have a lot of unrelated diversification**. You should consider moving toward mission-centered diversification in either situation. That said, the ability to succeed with new strategies when you have many unrelated businesses is much more likely to result in problems than if you have a single business. In the end, the question is not whether you have too few or too many business; the question is always whether your intended strategy is mission-centered or not.

A variety of things affect the degree of diversification. Funders typically support new programs as opposed to on-going ones or general operating support, which stimulates the demand for diversification.[35] Many board members from the for-profit sector celebrate diversification because it is a popular tactic for growth. Indeed, it is rare for a nonprofit executive to have never heard the ubiquitous axiom of *grow or die*.

Grow or die is synonymous with scaling up or going to scale, which "means creating new service sites in other geographic locations that operate under a common name, use common approaches, and are either branches of the same parent organization or very closely tied affiliates."[36] Going to scale is always a hot topic, as there is no dispute that when you go to scale (e.g. get bigger and serve more people), you raise your impact.[37]

But don't be seduced by the allure of going to scale. Keep Michael Porter's warning in mind that among "all other influences, the desire to grow has perhaps the most perverse effect on strategy . . . Too often, efforts to grow blur uniqueness, create compromises, reduce fit, and ultimately undermine competitive advantage."[38]

In order to get a handle on the question of mission, go back to the MacMillan Matrix that you used in Stop Fix. You have already run all of your current lines of business through the matrix. Now add any of your new strategies that are lines of business. What is the impact on your other programs as a result?

Capacity

Organizational capacity according to Clara Miller is "the short-hand term used for the sum of the resources an organization has at its disposal and the way in which they are organized – development skills, marketing skills, financial management skills, program delivery mechanisms, staff, etc."[39] In essence, **can you deliver on the promises you've made?**

First, return to the work that you did to develop your competitive advantage. Start with the Venture Philanthropy Partners Capacity Assessment Grid that you used when thinking about your competitive advantage. What have you done to address the areas that received lower scores? How will these areas affect your new strategies?

Now review the four questions: assets, capabilities, core competencies, and competitive advantages. Ask yourself whether your strategies build upon the answers to the four questions in general and especially whether you have the core competencies to pull it off.

Third, go back to your SWOT analysis with the same frame of mind about whether the results of that analysis match up with the demands of your strategies.

Capital

Capital structure in the for-profit sector is "how a firm finances its overall operations and growth by using different sources of funds."[40] The concept is quite similar for nonprofits as Clara Miller explains:

> Capital structure . . . is the distribution, nature and magnitude of an organization's assets, liabilities and net assets. Every nonprofit – no matter how small or young

– has a capital structure. There are many kinds of capital structure, and there is no such thing as one “correct” kind. It can be simple, with small amounts of cash supplemented by “sweat equity” and enthusiasm, or highly complex, with multiple reserves, investments and assets.[41]

Put simply, capital structure is figuratively “what’s in your wallet” including your credit cards, cash and checking accounts, the net value of your home and car, and your loans and other obligations; it’s about how you pay for your life.

When you add capital structure to organizational success measures, the reader gains a much deeper understanding of the overall health of the agency. The table below shows an agency in crisis. After three years of significant deficits, operating reserves are now negative and although working capital is still positive, it has fallen dramatically. In other words, the agency is running out of cash:

($ in thousands)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Profit & Loss: Contributed Revenue $	2,330	3,552	3,305	2,431	3,477	3,2
Earned Revenue $	177	74	121	140	295	131
Total Revenue $	2,507	3,626	3,426	2,571	3,772	3,542
Total Expenses $	2,072	1,998	2,868	2,962	4,065	3,877
Excess/(Deficit) $	435	1,628	558	(390)	(293)	(335)
Balance Sheet: Assets $	986	3,583	3,968	3,589	2,949	2,463
Liabilities $	554	1,519	1,344	1,349	999	864
Net Assets $	432	2,064	2,624	2,239	1,950	1,599
Capital Structure: Total Margin	0.17	0.45	0.16	(0.15)	(0.08)	(0.09)
Current Ratio	5.6	10.6	11.4	10.9	3.9	2.1
Working Capital $	784	1,477	1,681	1,403	789	382
Operating Reserves $	150	860	1,015	1,109	637	148

[A]

In order to consider your own capital structure, consider that high performance is always an issue of comparison. Sometimes you compare yourself to others as Michael Porter recommends in his definition of operational effectiveness as “performing similar activities *better* than rivals.”[42]

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (McLaughlin, 2009, p. 83). Formula = Revenue minus Expenses [line 19] divided by Revenue [line 12]
Current Ratio: "The most widely recognized measure of liquidity . . . the ratio should be at least 1” (McLaughlin, 2009, p. 75). Formula = Current Assets (lines 1-9) divided by Current Liabilities (lines 17 to 19)
Working Capital: "Determines how long a charity could sustain its level of spending using its net available assets, or working capital, as reported on its most recently filed Form 990” ("Glossary," 2010). Formula = Unrestricted plus Temporarily Restricted Net Assets
Operating Reserves: A more conservative view of working capital because you use unrestricted net assets and exclude land, building, and equipment, and temporarily restricted assets (Blackwood & Pollak, 2009, p. 9). Formula = Unrestricted Net Assets minus land, building, and equipment plus mortgages and notes

It is likely that you already gave thought to this when you learned about the best of best in your field, but in case you didn't compare your agency then, do it now. If you find anything troubling when looking at your financial analysis, drill a little deeper by using the Success Measures template. For more formulas to help you understand your financial condition, Thomas McLaughlin is the go-to source.[43]

However, you do it, do remember David Renz and Robert Herman's advice, "The comparison may be to the same organization at earlier times, or to similar organizations at the same time, or to some ideal model, but effectiveness assessments are always a matter of some kind of comparison."[44]

Risk

Peter Brinckerhoff explains why understanding your risk orientation has value:

> All of us have different genetics when it comes to risk. Some of us thrive on it, some avoid it so adamantly that our behavior becomes risky in itself. Since our organizations are really just groups of people making decisions, this wide variety of risk-taking thresholds extends to our not-for-profits. As a result, some organizations are cavalier in their approach to risk, and some avoid any risk *at all costs* (even to the expense of the mission) . . . Remember that there may be more risk in doing nothing.[45]

The first thing to do—and perhaps the most reliable—is to sit down and talk with knowledgeable people. Be sure to include a mix of staff members, board members, funders, and other stakeholders. I like to ask people who are influential enough to champion or obstruct ideas.

Discussing what your mission says about your strategies is also a quick test of your risk orientation. Although nonprofits are typically quite risk averse,[46] it could be that your board and staff are more comfortable with expansion as opposed to improving operational effectiveness.

Another approach is to test your agency against Lilya Wagner and Mark Hager's ten symptoms of a dysfunctional organization:

1. Lack of a strategic plan
2. A narrow fundraising base
3. Productivity slowdown
4. Staff-board breakdown
5. Fear of change
6. Poor communication
7. Declining morale
8. Financial instability
9. Unhappy customers
10. Loss of key people[47]

Depending upon how you stack up, you may be willing to take more or less risk and determine if your focus should be on operational effectiveness or on new lines of business. Ironically, sometimes the more dysfunctional an agency, the more willing it is to take risk with new ventures.

You can also consider Peter Brinkerhoff's Social Entrepreneurship Readiness Checklist categories:

- Mission – Has the idea been reviewed for fit to organization culture and mission?
- Risk – How much can you tolerate including capital and stress?
- Systems – Do you have the organizational infrastructure including people and systems?
- Skills – Does the team have the competencies to succeed?
- Space – Do you have the physical space?
- Finance – Do have the means to reach the ends?[48]

Because financial position tends to have an enormous impact on risk orientation, many often use it as a catalyst for discussions. For example, the following seven questions fall under Peter Brinckerhoff's finance category from the checklist:

1. Have you been profitable the past 3 years?
2. Do you have 90 days' cash on hand?
3. Do you a good relationship with a banker?
4. Do you have a line of credit?
5. Do you have a current ratio of 1 or higher?
6. Do you have a debt to net worth of 0.3 or less?
7. Will any funders penalize you for any net income?[49]

Alternatively, you might consider Howard Tuckman and Cyril Chang's four operational criteria of financial vulnerability:

1. **Inadequate Equity**: A nonprofit's ability to temporarily replace revenues is affected by its equity or net worth. Equity is the difference between a nonprofit's total assets and total liabilities . . . The assumption is that a nonprofit with a large net worth relative to revenues has a great ability to replace revenue than one with a smaller net worth.
2. **Revenue Concentration**: Revenue diversification is assumed to make a nonprofit less vulnerable . . . This is because access to multiple funding sources enhances an organization's chances of being able to balance a gain in one revenue source against a loss in another.
3. **Administrative Costs**: When a financial shock occurs, a third recourse available to nonprofits is to cut their administrative costs . . . This is because organizations that have low administrative costs are already operating at a

point where additional cutbacks are likely to affect the administration of their program. A consequence is that program output will suffer.

4. **Reduced Operating Margins**: A nonprofit's net operating margin (defined as it revenues less its expenditures divided by its revenues) shows the percentage that its profits represent of its revenues. The larger this percentage, the larger the net surpluses a nonprofit can draw down in the event of a financial shock.[50]

John Trussel's Quick Test is a must-have for determining your risk orientation: "a charity is financially vulnerable if it has more than a 20 percent reduction in its fund balance during a three-year period."[51] In his study of 94,002 charitable organizations, 17,112 were financially vulnerable (about one in five). He found that financially vulnerable agencies:

- Have more debt (44.52 percent) than those that are not financially vulnerable (31.58 percent)
- Have a higher concentration of revenues (0.7935) than those that are not financially vulnerable (0.7421)
- Have a lower surplus margin (3.46 percent) than charities that are not financially vulnerable (8.52 percent)
- Are smaller ($268,740 average total assets) than those that are not financially vulnerable ($477,443 average total assets)[52]

At the risk of stating the obvious, don't forget to review your lines of business for the possibility that you have too many or too few on your menu. Look at your success measures in general and the financial ones in the mission measures to give you a good sense of how much risk you can tolerate.

Come to closure about your risk orientation in two ways: First, decide whether your agency should be tolerant or intolerant and explain why using the Trussel Quick Test and whatever other tools you deem appropriate. Second, decide how much of your operating reserves you are willing to risk.

Great Strategies

Decide

Now that you've reviewed the industry and competitor environments, render a decision about how well your strategies fit to the external environment:

	Festival	Student Matinees	New Facility
Industry Environment	Somewhat Attractive	Attractive	N/A (internal)
Competitor Environment	Attractive	Attractive	N/A (internal)
Fit to Strategy	Mostly Attractive	Attractive	N/A (internal)

Next, summarize your findings for each strategy's fit to the internal environment in the table below:

	Festival	Student Matinees	New Facility
Mission Drift	Mostly Attractive	Very Attractive	N/A
Organization Capacity	Unattractive	Attractive	Attractive
Capital Structure	Unattractive	Attractive	Attractive
Risk Orientation	Unattractive	Attractive	Attractive
Fit to Strategy	Unattractive	Attractive	Attractive

The final task is to complete the Change or Die Checklist from Jeffrey Pfeffer and Robert Sutton for your new strategies only.[53] You do this because: "Even presumably good changes carry substantial risks because of the disruption and uncertainly that occur while the transformation is taking place. That's why the aphorism 'change or die' is empirically more likely to be 'change and die.'"[54] Or as late David Packard once warned, "More businesses die from indigestion than starvation."[55]

	Festival	Student Matinees	New Facility
Is the practice better than what you are doing now?	No, but would create visibility	Yes, it would expand programs	Yes, a facility is greatly needed
Is it really worth the time, disruption, and money?	No, lack of staff and capital resources	Yes, strategy is easy to implement	Yes
Is it best to make only symbolic changes instead of core changes?	No, core changes are more important	No, the theatre is committed to new initiatives	No, this core change would be positive
Is doing it good for you, but bad for the company?	Yes, the cost of a festival would likely exceed revenue	No, the expanded reach would benefit the organization	No, a new building would benefit all activities
Do you have enough power to make it happen?	No, resources spread too thin	Yes	Maybe, dependence on funders is very high
Are people already overwhelmed by too many changes?	Yes	No, it would not require huge staff resources	Maybe, but a new facility is expected to boost morale
Will people be able to learn and update as it unfolds?	Maybe, staff is smart, but overworked	Yes, staff would learn how to interact with students	Yes, clear planning would take place prior to launching
Will you be able to pull the plug?	Yes	Yes	No
Fit to Strategy	**Unattractive**	**Attractive**	**Attractive**

Great Strategies

Like your summaries for Great Start and Great Ideas, here is where you succinctly sum up what you learned in this report. Remember that this paragraph will eventually be copied to the Executive Summary of your strategic plan.

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ENDNOTES

[1] (Brinckerhoff, 2000, p. 66)
[2] (Ross & Segal, 2009, pp. 57-58)
[3] (Borden, 1964)
[4] (McCarthy, 1971)
[5] (Majeska, 2001, p. 202)
[6] (Drucker & Collins, 2008, p. 25)
[7] (Drucker & Collins, 2008, p. 25)
[8] (La Piana, 2008, p. 53)
[9] (Caesar & Baker, 2004, p. 214)
[10] (Kolker, 2010)
[11] (Leonard, 2010, p. A7)
[12] ("Panera cares: Our mission," 2014)
[13] (Majeska, 2001, p. 223)
[14] (Brinckerhoff, 2000, p. 61)
[15] (Doran, 1981, p. 35)
[16] (Hellriegel & Solcum, 2009, pp. 195, bolding added)

[17] (Hellriegel & Solcum, 2009, p. 195)
[18] (Hellriegel & Solcum, 2009, pp. 194-195)
[19] (Hellriegel & Solcum, 2009, p. 195)
[20] (Livingston, 1969, p. 81)
[21] (Nadler & III, 2006)
[22] (Hellriegel, Slocum, & Woodman, 1989, p. 408)
[23] (Hellriegel et al., 1989, p. 408)
[24] (Barker & Burdick, 1985, p. 994)
[25] (Hitt, Ireland, & Hoskisson, 2009, p. 36)
[26] (Hitt, Ireland, & Hoskisson, 2013, p. 50)
[27] (Michael E. Porter, 1979)
[28] (Oster, 1995)
[29] (Oster, 1995, p. 31)
[30] (Hitt et al., 2013, p. 61)
[31] (Miller, 2001, p. 6)
[32] (Miller, 2001, p. 3)
[33] (Miller, 2001, p. 5)
[34] This discussion of diversification is informed by the work of Michael Hitt, Duane Ireland, and Robert Hoskisson (Hitt et al., 2009)
[35] (Salamon, Geller, & Mengel, 2010)
[36] (Taylor, Dees, & Emerson, 2002, p. 236)
[37] For example, Leslie Crutchfield and Heather McLeod Grants' *Forces for good: The six practices of high-impact nonprofits* searched for exemplary agencies without regard to budget, but ended up finding 12 agencies with average revenues of $161.5 million (median $41.5 million) and purposely excluded agencies with "only local impact" (Crutchfield & Grant, 2008, p. 27).
[38] (Porter, 1996, pp. 76-77)
[39] (Miller, 2001, p. 6)
[40] ("Capital Structure," 2010)
[41] (Miller, 2003, p. 1)
[42] (Porter, 1996, p. 62)
[43] (McLaughlin, 2009)
[44] (Renz & Herman, 2004, p. 10)
[45] (Adapted from Brinckerhoff, 2000, p. 47)
[46] (Wedig, 1994)
[47] (Wagner & Hager, 1998)
[48] (Brinckerhoff, 2001, p. 13)
[49] (Brinckerhoff, 2001, p. 13)
[50] (Chang & Tuckman, 1991, pp. 560-561, bolding added)
[51] (Trussel, 2002, p. 28)
[52] (Trussel, 2002, pp. 23-24)
[53] (Pfeffer & Sutton, 2006, pp. 160-185)
[54] (Pfeffer & Sutton, 2006, p. 185)
[55] (Packard, Kirby, & Lewis, 1995, p. 142)