SUSTAINABLE STRATEGY[A]

(12-27-16 Draft)

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[A] This book is built upon a template derived from Results Now for Nonprofits: Purpose, Strategy, Operations, and Governance (M. Light, 2011, p. 85). All content herein © Mark Light, 2016. Thanks to Dottie Bris-Bois for invaluable editing, clarifying insights, and sharing examples of her sustainable strategy work.

GET READY

FOREWORD

Same bed, different dreams.
Chinese Proverb

Leading a public service agency is hard work. This shows in the median tenure for an executive director of four years or less, the 65 percent who are first timers in the job, and the fact that less than half of all new executives want to play the role again.[1] Working in the sector often results in a mixed bag of feelings for executive directors who “enjoy their jobs as a means of addressing important community needs (mission) but don’t want to do it again because of the high stress involved (burnout).”[2]

Though some experts on nonprofit management bemoan the state of the field,[3] there is much to celebrate when it comes to leading service organizations. Most executives take the jobs because of the “mission of their agencies as well as their own desire to help others and to give back to their communities.”[4] As a result, almost all experience a high level of enjoyment in their work.[5]

Executive directors are not alone. Nonprofit employees are “highly motivated, hardworking, and deeply committed [and are] motivated primarily by the chance to accomplish something worthwhile.”[6] Perhaps this is why paychecks only motivate 16 percent of the nonprofit workforce compared to stimulating nearly half of those who work in the private sector.[7]

More than money, a recent report on what people earn sheds light on what really counts: “In any economy, the best jobs provide emotional as well as financial rewards.”[8] This statement reflects what workers in the nonprofit sector already know: almost all who work in the industry experience a high level of enjoyment in their work.[9] Another survey found that **the number one attribute of a dream job was making a difference in people’s lives.**[10]

If it is true that “in our hearts, we would all like to find a purpose bigger than ourselves.”[11] Where better to find it than the nonprofit sector?

ABOUT THIS BOOK

Good things only happen when planned;
bad things happen on their own.
Philip B. Crosby

St. Vincent de Paul says, “It is not enough to do good. It must be done well,” which in contemporized words is “Do good great.” This book shows you how to do just that by bringing your organization’s purpose to life using sustainable strategy.

In the first section, **Great Start**, you will investigate what your organization *is doing* now by looking at your purpose and current strategies. In the next section, **Great Ideas**, you generate ideas about what your organization *could do* next and develop them into a new vision statement and new strategies. The third section, **Great Strategies**, pulls everything together about what you *should do* next. The final section, **Strategic Plan,** is what you *will do* next.

This book will show you how to develop a unique sustainable strategic plan for your organization. To do that, the late Peter Drucker advises, “you don't start out with people—you start out with the job. You ask: What are we trying to do?”[12] To get to the answer, **the process must be quick, simple, and make a difference.**

Quick

Since stakeholders, board members, and staff members do not have much time to give to developing a sustainable strategic plan, the process must be quick. Although rapidly made strategies will be less refined than those developed over longer periods, you can balance this by polishing, reforming, and/or discarding them later.

Quicker installations can be better than drawn-out ones for another reason. Because of the modest investment in time, your strategies become a home that no one will feel sad about renovating, selling, or rebuilding from scratch. After all, and in the adapted words of Prussian General Helmuth von Moltke: “No business plan ever survived its first encounter with the market.”[13]

On the other hand, as the late John Wooden warns, “be quick, but don’t hurry.”[14] Begin with what you’re doing now and not with what you’re doing next. Deciding what’s next – formulating strategy – is both a science and an art; it can take a lot of time or be a lucky break.

Finding a balance is essential, as Henry Mintzberg notes: “few if any, strategies are purely deliberate, just as few are purely emergent. One means no learning, the other means no control. All real-world strategies need to mix these in some way: to exercise control while fostering learning.”[15]

Simple

Experience is going to vary within any given professional staff, and so whatever approach you use must be friendly for a wide variety of users. In the words of Albert Einstein, “Everything should be made as simple as possible, but not simpler.”[16]

Gone should be the long-winded mission statements and impossibly complicated documents that few can understand. Less is more; simple is better—the focus is on the critical few rather than the trivial many. This is all in keeping with what Tom Peters and Robert Waterman observed in the early eighties in their project that studied excellent companies:

> “The project showed, more clearly than could have been hoped for, that the excellent companies were, above all, brilliant on the basics. Tools didn’t substitute for thinking. Intellect didn’t overpower wisdom. Analysis didn’t impede action. Rather, these companies worked hard to keep things simple in a complex world.”[17]

Sustainable strategy gets much of its simplicity by using the 80/20 rule, formally known as the Pareto Principle. Vilfredo Pareto was an economist who declared that in any group of objects, 20 percent would account for 80 percent of the group’s entire value. For example, 20 percent of donors contribute 80 percent of the funds in an annual campaign. In the process of building sustainable strategy, **it is important to focus on those issues that will have the most significant impact**.

Make a Difference

Everything should ultimately make a difference in the work that people do in the here and now; nothing should be included unless it informs the work that you must do today. For example, instead of an operating plan that contains every goal and action, including what are essentially job duties (the 95 percent of tasks that we all do every day), you should include only material goals (the 5 percent of new or improved things that we have a motivating shot at getting done).

Sustainable strategies are not just for organizations already strong. In fact, sustainable strategy can be extremely valuable for those in dire circumstances. After all, climbing out of a hole can actually be easier with a plan of action than fighting your way out without any idea of where to go next. For new and seasoned executive directors, no matter what shape your organization is in, step one is having a clear strategy for where you are going in the future.

PLANNING RULES

The essence of strategy is
choosing what not to do.
Michael Porter

Along with opposable thumbs, planning is one of the essential characteristics of humanity. As opposed to simplistic behaviorism wherein we are slaves to the stimuli around us, planning governs our complex human behavior, from the mundane to the momentous.[18] David Lester goes even further to remind us “plans are being executed as long as we are alive. The question is not ‘Why are plans being executed?’ but ‘Which plans are being executed?’”[19]

No practitioner or scholar would disagree that the making of plans, the essence of which is goal setting, is a fundamental obligation of leadership. As James McGregor Burns says, “All leadership is goal-oriented.”[20] This is true whether you are looking for a solution to an intractable problem, making a goal, or dealing with things that need you need to do next.[21]

Clearly, leaders agree. Results from five surveys of top management tools used by global for-profit companies spanning five continents gave strategic planning the gold three times (2000, 2006, 2012) and the silver twice (2008, 2010).[22]

The nonprofit sector reflects the for-profit sensibility to plan, and high-performing executive directors wholeheartedly endorse the practice. When asked what below-average organizations could do to improve performance, strategic planning garnered the highest marks for what worked by these best-of-class executives.[23] And when researchers asked these same leaders what particular management tool had most improved the performance of their own organizations, strategic planning again received the highest marks. Furthermore, these high-performing executives walk their talk; 91 percent had strategic plans in place at their own organizations.

Strategic planning is not only a high-performer attribute; three out of five organizations do it. A study of 1,007 nonprofit organizations found that almost 60 percent of all nonprofits had strategic plans. Moreover, the bigger the organization, the more likely it is to have one; 52 percent of organizations with budgets under $250,000 have them compared to 80 percent of organizations with budgets of $10 million and over.[24]

Not only do nonprofits sanction the practice, but management services organizations surveyed by the Alliance for Nonprofit Management rank strategic planning as the number one item on the capacity-building menu. Independent Sector, a “nonprofit, nonpartisan coalition of more than 700 national organizations, foundations, and corporate philanthropy programs,” also recommends strategic planning. Doing so, it says, will help organizations “be more efficient and effective in mapping out a system for achieving organizational goals and making the best choices to fulfill their missions.”[25]

Yet before moving forward to examine the pros and cons, just what is strategic planning? This is a tough question given Mintzberg's assertion that "the literature of planning has offered literally hundreds of models of a process by which strategy could supposedly be formally developed and operationalized."[26] Fortunately, he goes on to write, "One single set of concepts underlies virtually all the proposals . . . Sometimes called the SWOT model (for *s*trengths and *w*eaknesses, *o*pportunities and *t*hreats)."[27] He then identifies six premises for what he calls the design school model:

1. Strategy formation should be a controlled, conscious process of thought.
2. Responsibility for the process must rest with the chief executive officer.
3. The model of strategy formation must be kept simple and informal.
4. Strategies should be unique: the best ones result from a process of creative design [and] build on *distinctive* (now called *core*) competencies.
5. Strategies must come of the design process fully developed.
6. The strategies should be made explicit and, if possible, articulated, which means that they have to be kept simple.
7. Finally, once these unique, full-blown, explicit, and simple strategies are fully formulated, they must then be implemented . . . structure must follow strategy.[28]

Just Say No

Boards and executive directors that are considering engaging in a planning process can understandably become concerned about the investment of time and resources. Questions will arise about whether there is value in having a framework at all. After all, to achieve its chosen destiny, organizations must be strong and stable while at the same time quick and innovative. The job is complicated and often contradictory:

> Organizations are supposed to be simultaneously loose (that is, decentralized into relatively autonomous units) and tight (strongly controlled from the top); big (possessing extra money for good ideas) and little (with everyone having a stake in the organization's success); young (characterized by new people and new ideas) and experienced (stocked with seasoned professionals who know what they are doing); highly specialized (with individual employees and units focused on narrow pieces of the organization's overall job) and unified (with everyone sharing in the mission).[29]

Building an organization that can achieve a chosen destiny is a perplexing challenge. The people we need to push the envelope for innovation chafe under the very structure required to support the innovation once born.

Despite the fact that three out of five organizations do strategic plans and the near unanimity of recommendations, there are a number of complaints people raise as justification for not joining the cause. **The first and most prevalent complaint is that few people actually use their strategic plans** and that they really do gather dust.

Here's how it all works according to balanced scorecard experts Robert Kaplan and David Norton:

> To formulate their strategic plans, senior executives go off-site annually and engage for several days in active discussion facilitated by senior planning and development managers or external consultants. The outcome of this exercise is a strategic plan articulating where the company expects (or hopes or prays) to be in three, five and ten years. Typically, such plans then sit on executives' bookshelves for the next 12 months.[30]

Unfortunately, a study of human service executives by Karen Hopkins and Cheryl Hyde lends support to this viewpoint. It found that only 27 percent reported using strategic planning as a way to address real agency problems.[31] The authors of the study suggest that the cause for this "may be that managers are overwhelmed with the problems with which they have to contend, and that may interfere with strategic problem-solving."[32] Or it could be that Henry Mintzberg is correct in stating that the "nature of managerial work favors action over reflection, the short run over the long run, soft data over hard, the oral over the written, getting information rapidly over getting it right."[33]

The second major complaint about planning is that the very organizations that need it most can least afford to do it from money and time perspectives. After all, 77 percent of nonprofits have expenses of less than $1 million, two out of three run at less than $500,000, and just 1 out of 10 are at or above $5 million.[34] These numbers cover only the 1.4 million public charities that filed form 990s with the IRS and do not include the other 1.6 million flying under the radar.[35]

Staffing, especially the paid full-time variety, is in short supply since half of all reporting nonprofits have five or fewer full-time employees and nearly 30 percent have one or none.[36] Hoping that the nonprofit executive director brings planning expertise to the table is wishful thinking since most are first-timers in the job.[37]

Juxtapose these realities against the lengthy time required by most planning processes, and things get tough. Bryson's highly respected nonprofit strategic planning model requires a meeting agenda of 18 to 20 hours over three months.[38] Allison and Kaye's approach requires a period of one to three months; the extensive method needs four to eight months.[39] Not including homework, Barry's compact protocol takes 18 to 20 hours over 5 months; his longer version requires 60 to 65 hours over 15 months.[40]

Looking to the private sector offers little hope for anything faster: The ironically titled *Simplified Strategic Planning: A No-Nonsense Guide for Busy People Who Want Results Fast* calls for a seven-day, 56-hour agenda spread out over three months.[41]

Yet it's not even the amount of time that gives one pause; it's what can happen during those long stretches. If you decided to use a three-month approach in the late summer of 2008 when the Standard & Poor's 500 stood at nearly 1,300, you would have been living in a decidedly different world than right before Thanksgiving when the S&P 500 tumbled down nearly 40 percent to about 750.

The third major reason that people give for avoiding planning at all costs is that it isn't fluid enough to allow for the unexpected. You cannot anticipate all of the opportunities in formal planning processes. A competitor loses its executive director and thus creates a chance for a merger. A foundation board changes its focus in a way that invites a new program. Why not just wait for these sorts of opportunities to come up and then seize upon them?

This is certainly the observation that gurus Jim Collins and Jerry Porras make:

Visionary companies make some of their best moves by experimentation, trial and error, opportunism, and – quite literally – accident. What looks *in retrospect* like brilliant foresight and preplanning was often the result of 'Let's just try a lot of stuff and keep what works.' In this sense, visionary companies mimic the biological evolution of species. We found the concept in Charles Darwin's *Origin of Species* to be more helpful for replicating the success of certain visionary companies than any textbook on corporate strategic planning.[42]

Adding more weight to a "fast and loose" approach to strategy is compelling evidence that planning doesn't make a lot of difference in smaller, entrepreneurial organizations that epitomize the nonprofit sector. Though the value of strategic planning on small firms with 100 or less employees was confirmed in one meta-analysis, "the effect sizes for most studies are small [and] it may be that the small improvement in performance is not worth the effort involved."[43]

Whether the organization is an entrepreneurial startup also matters. A National Federation of Independent Business study of nearly 3,000 startups "showed that founders who spent a long time in study, reflection, and planning were no more likely to survive their first three years than people who seized opportunities without planning."[44]

Those that believe that planning is a questionable use of time find validation in Mintzberg's recommendation that "conditions of stability, controllability, and predictability [are] necessary for effective planning."[45] As such, he acknowledges the significant impact that the environment can have on the organization. While the research on planning is not conclusive, there is reasonable evidence to suggest that planning is less appropriate in times of crisis:

> An organization may find itself in a stable environment for years, sometimes for decades with no need to reassess an appropriate strategy. Then, suddenly, the environment can become so turbulent that even the very best planning techniques are of no use.[46]

Compare the need for stability against the helter-skelter realities of most nonprofits and you come up with a resounding recommendation to say no. Choosing a strategy rooted in reacting is common, as John Kay explains in *Why Firms Succeed*:

> The notion that successful strategies are often opportunistic and adaptive, rather than calculated and planned, is a view as old as the subject of business strategy itself . . . firms are better seen as shifting coalitions, in which conflicting demands and objectives are constantly but imperfectly reconciled, and all change is necessarily incremental. In this framework, rationalist strategy – in which senior management chooses and imposes a pattern of behavior on the firm – denies the reality of organizational dynamics.[47]

The idea here is that you shouldn't try to control the world, but let the world control the organization.

Just Say Yes

Recall the earlier advice from Jerry Porras and Jim Collins about visionary companies? The one where they say firms make "some of their best moves by experimentation, trial and error, opportunism, and – quite literally – accident."[48] The problem with this statement is in the word "some" in the first sentence. If visionary companies only make some of their best moves by experimentation, what do they do about the rest of their moves?

The issue here isn't about where strategies come from; use peyote and a sweat lodge if that's what works for you. Try a bunch of things and see which one works. See what others are doing in your field, imitate, and improve. Don't try to control the world, let the world control the organization. Eventually, you will have to program those strategies into some workable protocol that allows you to execute. As Larry Bossidy and Ran Charan warn, "Strategies most often fail because they aren't executed well. Things that are supposed to happen don't happen."[49]

But why plan when we know that there's considerable debate and research? Brian Boyd's meta-analysis of 21 studies representing nearly 2,500 for-profit companies at first seemed to suggest that strategic planning had a very weak effect on performance. But when he took measurement errors into account, he found that the studies were guilty of "seriously underestimating the benefits of planning [because] many firms do report significant, quantifiable benefits."[50]

More evidence from a later analysis led to the striking conclusion that strategic planning "appears to double the longer term likelihood of survival as a corporate entity" as compared to non-planners.[51] A different review of 35 studies found "strategic planning to positively affect firm performance . . . equally in large and small and capital-intensive and labor-intensive firms."[52]

When it comes to nonprofits, Robert Herman and David Renz argue that the “evidence supports the view that strategic planning is related to effectiveness.”[53] Julie Siciliano looked at 240 YMCA organizations and found that “those organizations that used a formal approach to strategic planning had higher levels of financial and social performance than those with less formal processes.”[54] This particular study is notable because it linked planning and successful performance.[55]

According to Henry Mintzberg, at the most basic level there is only one reason to engage in planning and that is to “translate intended strategies into realized ones, by taking the first step that can lead to effective implementation.”[56] Put another way, “the very purpose of a plan or the action of planning is to prepare for future activity.”[57] Even though he says that “strategies can appear at all kinds of odd times, in all kinds of odd ways, from all kinds of odd places,”[58] we usually engage in planning because we want to implement the strategies that we already have in place or the new ones that we discovered or designed.

Allison and Kaye offer two reasons for nonprofits to plan: it helps leaders “be intentional about priorities and proactive in motivating others to achieve them.”[59] Bryson and Alston give seven reasons: Increased high performance, increased efficiency, improved understanding and better learning, better decision making, enhanced organizational capacities, improved communications and public relations, and increased political support.[60]

Bryson names four reasons that benefit the organization: “the promotion of strategic thought and action . . . improved decision making . . . enhanced organizational responsiveness and improved performance.”[61] Barry has seven advantages including improved results, momentum and focus, problem solving, teamwork-learning-commitment, communication and marketing, greater influence over circumstances, and a natural way to do business.[62]

If this is not enough to convince you, think about the fundamental responsibility of the board as argued by William Bowen, former President of the Andrew W. Mellon Foundation:

> Perhaps the overriding obligation of boards in both sectors is to require that a sensible plan of some kind be in place and that it be monitored carefully. It is surprising how frequently no real planning occurs, especially on the part of the nonprofit world. And it is even more surprising how frequently plans that were adopted are not tracked in even the most rudimentary fashion.[63]

Why should Bowen be surprised that no real planning occurs or that organizations do not track the plans adopted? Despite the efforts that boards make, there will be members who miss meetings and don’t read advance materials. There will be disruptive members, those who are too involved with the organization, and those who are disconnected. There will always be inexperienced members and members who ignore the organization’s annual fund appeal. There will be novice executive directors. That’s why well-designed planning processes have value, especially ones that are quick and practical with not too much and not too little.

The first point in W. Edwards Deming's Management Method, widely credited for turning around post-WWII Japanese Industry and restoring American quality to world leadership, is to create constancy of purpose. This constancy of purpose does not originate in a reactive environment: "It is easy to stay bound up in the tangled knots of the problems of today, become ever more and more efficient in them."[64] Just what is Dr. Deming's recommendation to deal with this? A plan for the future.

Show Me the Money

In Cameron Crowe's classic film *Jerry McGuire*, Cuba Gooding plays Rod Tidwell, an aspiring tight end who believes that he's worth a lot of recognition both financially and otherwise. Tidwell's mission is a four-word sentence, "Show me the money." In trying to convince Tidwell that it takes confidence plus performance with a touch of humility to win the game, Jerry McGuire's four-word mission is quite different: "Help me, help you." Forget all the other reasons for planning, especially when it comes to funding. If there's one thing that helps funders show you the contribution, it's planning.

First, using the plan as a communications tool has tremendous value because it tells the story of what the organization is trying to accomplish – the direction it is heading. If what Howard Gardner observes is true, that "the artful creation and articulation of stories constitutes a fundamental part of the leader's vocation,"[65] then at some point the leader must create the script for that story. As such, planning provides better communication by generating necessary information and data that is useful for things like the annual message, grant writing, sponsorship proposals, and the like.

Instead of an off-the-cuff approach that cobbles things together, an effective planning process improves internal communications by providing a means to stimulate meaningful conversation about what the organization is trying to accomplish. It brings people together by providing a common language and vocabulary concerning the organization's efforts.

More specifically, an organization doing a comprehensive job of planning will be able to raise money more effectively. After all, in order to be successful in fundraising, you always need to make a strong case statement. And that goes for both established and emerging agencies:

> When [established] nonprofits make a pitch for a donation, they describe their longest running programs, show how well they manage money, and tout their success stories. But when start-up organizations look for seed money, they can't point to their achievements. To compensate, they must have a well-thought-out plan, something in writing that they can show prospective funders.[66]

Evidence from studies of entrepreneurial pitches to venture capitalists supports this wholeheartedly, finding that preparation is positively related to funding decisions, whereas passion alone is statistically insignificant.[67]

As funds get tighter and funders become more concerned about organizational capacity, the nonprofit with a comprehensive plan can prove that it has all the elements in place to address any questions about strategy, operations, and governance. The inclusion of a well-executed plan in a funder packet engenders confidence. It is an impressive document, which shows the potential funder that the organization takes its business seriously.

In a world where general operating funds are increasingly difficult to identify - much less to secure - being able to build strong project-oriented proposals is necessary for garnering support. Unfortunately, a frequent claim from nonprofit executive directors is that their agencies are not project-oriented, especially in the human service area. It is often a surprise when they find that their organizations are in fact, much more programmatic - and thereby fundable - than they first imagine.

Program support gives a sense of ownership to the donor and it starts with a careful review of the organization’s lines of business – its key programs, services, or major products. These by themselves may merit sponsorship support. By breaking them into the various program components, most nonprofit organizations can create a sizable inventory of attractive funding opportunities.

Any organization can do the homework to develop a roster of sponsorship opportunities and the necessary case statements for general fundraising. The difference between fundraising in an organization that plans and one that doesn’t is that proposals, solicitations, and opportunities for giving come from a carefully considered process that answers the question that every donor wants explained: “Where will we go tomorrow?”

Moreover, all people who raise money face the inevitable funder inquiry about programs that receive support: “When did it happen?” Especially in the case of general operating support, funders often need an annual report outlining the results of operations for the fiscal year. Sponsors demand detailed reports about the funded project and government agencies require compliance summaries. Whatever you call it, accountability is the underpinning. Rather than waiting until the last minute to produce the report of accomplishments based on hastily assembled activity logs, data, and statistics, a good plan has the needed information readily accessible.

Second, enhanced legitimacy comes with planning. Remember that strategic planning is the top 2013 management tool for global business from a satisfaction standpoint.[68] Recall strategic planning garnered the highest marks for what worked by executives of high-performing nonprofits and that 91 percent of them had strategic plans in place at their own organizations.[69] Don’t forget that three out of five nonprofits do it and management services organizations make it their top field of concentration. Considering all this, it is hard to ignore the implications: If you want your nonprofit to grow into a high performing organization with a big budget (or get essential funding), you need to have a plan.[70]

Moreover, even those who don't plan at the onset eventually will "adopt formal planning when required to do so, suggesting that funders exert a form of coercive pressure on nonprofits."[71] Unsettling as it may be for those who don't plan and uplifting for those who do, is the news that nonprofits "appear to be rewarded for doing so through an increase in resources."[72]

Woody Allen once said, "Eighty percent of success is showing up."[73] That's what legitimacy is all about. In a study of 330 nonprofits, researchers found few significant relationships between formal planning and measures of performance, but they did find that "organizations in institutional environments will adopt elements of administrative practice and structure for their legitimating qualities, regardless of their effect on efficiency or performance."[74]

In a different study comparing churches that plan and those that didn't, no significant differences were found, but "a formal written plan appears important for convincing funding sources that church administrators know what needs to be done and how it should be done."[75] Put directly, planning quite literally shows you the money.

Bottom Lines

So, which way is best? Is it the "Just say no" reactive approach in which no planning is good planning? Or is it the "Just say yes" proactive approach?

There are those who will throw up their hands in the face of organizational complexity and the quickly changing world around them. They will complain about the plan that gathers dust on the bookshelf and they will strenuously avoid wasting time in any exercise that attempts to think about the future. Meanwhile, back at the ranch, real people are doing real work. Whether consciously or not, each one of those people is making assumptions about the future.

No matter what leaders may wish, actions today have impact on tomorrow. Denying this reality does little to help those people who must do the work. Either you make a choice about the organization's destiny or someone else will. As Stephen Covey says, "If you wait to be acted upon, you *will* be acted upon."[76] It may not be a board member or an executive director, but no matter what, someone or something is going to give the organization direction. This being the case, does the executive director or board president really want the marketing director to set the "vision du jour?" One way or another, direction is going to be given either by default or design.

Paul Light – my handsome identical twin brother – studied 26 nonprofit organizations as he searched for common characteristics that would make the sporadic act of innovating a regular occasion. He identified four broad characteristics including critical management systems that must serve the mission of the organization, not vice versa. About these management systems, he says:

> Rigorous management systems cannot be taken as a given and are essential for sound innovation. They also make the single act of innovation less an act of courageous defiance and much more a natural act central to achieving an organization's mission.[77]

Having a framework, any framework at all, that deals with these important questions instills discipline into an organization that provides a welcome infrastructure hospitable to opportunity. The Yogi Berra leadership school of "When you come to a fork in the road, take it"[78] clearly applies here. If you don't know what business you're in, how can you make effective decisions about that profession or new ones that you might enter?

Organizations are in some respects like long-distance runners that must build up muscle and endurance for the challenge of the race. That training, the mundane, day-to-day sweat and pain that prepares the athlete for the eventual marathon, is part and parcel of what it takes to win. Although not glamorous, it is necessary for success. An organization that uses a disciplined and comprehensive planning approach builds the essential organizational muscle to win.

As such, "success isn't measured by the number of breakthrough ideas it produces [but] by how well the review helps management forge a common understanding of its environment, challenges, opportunities, and economics, thus laying the groundwork for better real-time strategic decision making."[79] This framework assures the board and staff that essential systems will be in place that offer the organization a foundation for achieving its chosen destiny.

There will always be people who believe that planning of any sort is a waste of time. "The world changes so rapidly, all that can be done is react," these people claim. Faced with the question to act or to react, do both. Invest in a process that will give the security of direction, but don't invest so much time and effort that changing course as conditions warrant it becomes more difficult. Have a roof over your head that's flexible, one that invites addition, modification, or outright abandonment, but don't have a palace that you must worship and preserve because of its cost.

Here's the bottom line about planning: Even if you don't think you're ready to do it, don't think you need to do it, don't want to do it, don't care about it, or don't believe it matters - your stakeholders (and funders in particular) believe it matters greatly. Engaging in a planning process simply because your stakeholders believe it is important may appear to be the ultimate folly, but doing so is completely consistent in a world where stakeholders judge nonprofit effectiveness "in terms of response to the needs and expectations of their stakeholders."[80]

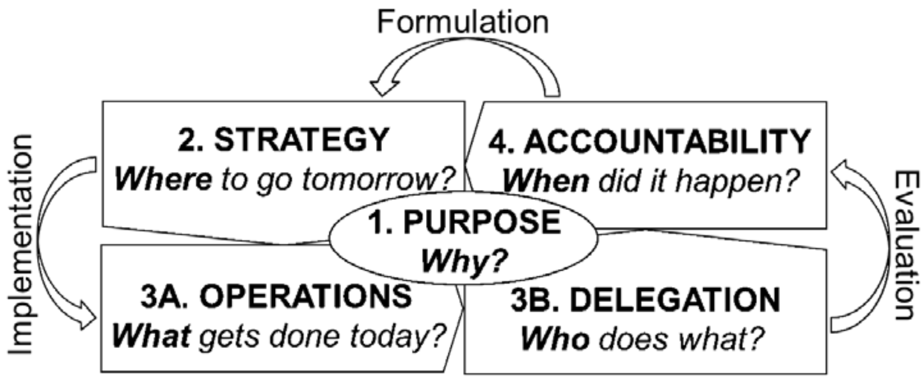
For those familiar with philosophy, this argument for planning is similar on a small scale to Pascal's Gambit where it is better to believe that God exists than not believe because you have so little to lose by believing and so much – both infinite and eternal – to gain. Henry Mintzberg puts it this way, “Too much planning may lead us to chaos, but so too would too little and more directly.”[81] As Michael Porter asserts: “**questions that good planning seeks to answer . . . will never lose their relevance.**”[82]

STRATEGIC MANAGEMENT

The essence of strategy is
choosing what not to do.
Michael Porter

What is strategic management? According to one major study that reviewed academic definitions within and across fields, “strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments.”[83] Bryson gets it tighter, “the reasonable integration of strategic planning and implementation across an organization.” Oster’s lays out three primary elements: setting the strategy, implementing the strategy, and evaluating the results.[84] This is how she envisions the process of putting it all together:[85]

A better definition of strategic management is “the formulation, implementation, and evaluation of managerial actions that enhance the value of a business enterprise.”[86] In sum, **the heart of strategic management is formulation of the strategy, its implementation, and then evaluation of the results.** They are the core of the sustainable strategy approach:



Because of the complex relationships and often-smaller scale for nonprofits – 77% have budgets of less than $1 million[87] - the sustainable strategy approach breaks operations into two pieces so that no one neglects delegation. In the sustainable strategy approach, the right answers come from the five questions that every organization must answer:

- Why?
- Where to go tomorrow?
- What gets done today?
- Who does what?
- When did it happen?

You can answer these five questions in many different ways, from informal to formal. Sustainable Strategy takes a moderate approach that strikes a balance between these two extremes by creating a unified frame – a classic approach to strategic management – to guide the work of the organization.

Governance experts John and Miriam Carver argue that the job of leadership is to ensure that "the organization produces what it should ... while avoiding situations and conduct that should not occur."[88] William Bowen, former president of the Mellon Foundation, says, "Perhaps the overriding obligation . . . is to require that a sensible plan of some kind be in place and that it be monitored carefully."[89]

For the Carvers, accomplishing the mission is the end; for Bowmen, the plan is the means to that end. For organizations looking for a quick and practical way to do both, the five questions are the key, and sustainable strategy offers a method for answering them.

In terms of the strategic plan, it is the combination of the purpose and the strategy. Purpose contains values that guide behavior and mission that describes the customer, the life-changing difference they experience because of being your client, and how your agency is different from its rivals – your competitive advantage as it were.

Strategy is where the high-impact decisions are made about how to bring the purpose to life. Strategy advances the organization's purpose. This is why gurus like Michael Porter often talk about competitive strategy.[90] After all, why would any organization undertake a strategy if it didn't advance its interests by serving its clients better, garnering greater resources to serve those clients better, or to serve even more clients? In other words, by being competitive.

Strategy in the for-profit sector is "an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage."[91] Strategies are not the competitive advantage; they're what establish it.

Michael Porter's definition is, "Strategy is the big picture of how an organization is going to win."[92] Nonprofit experts David La Piana and Michaela Hayes define strategy as a "pattern of thoughtful action through which an organization's leaders seek an increased share of limited resources, with the goal of advancing their mission."[93] James Phills says, "mission, no matter how clear, compelling, or poetic, won't ensure economic vitality. That is the job of strategy."[94] Add this all up for a simple definition that strategy brings purpose to life.

PLAN TO PLAN

We can't cross a bridge until we come to it;
but I always like to lay down a pontoon ahead of time.
Barnard Baruch

First Who

Choosing who will participate in strategic management decisions is a critical matter. Half of all decisions in organizations fail primarily because people "impose solutions, limit the search for alternatives, and use power to implement their plans."[95] Paul Nutt suggests that the leader "make the need for action clear at the outset, set objectives, carry out an unrestricted search for solutions, and get key people to participate."[96] **But which key people?**

Some boards, like smaller all-volunteer agencies, will obviously be very involved. Other boards with full-time staff may participate less. Some experts say "those who carry out strategy must also make it."[97] If the staff who will implement the strategy are missing from the room, you are doomed for failure. So, should the marketing director be in the room, the development officer? Or should you use a small, behind-the-scenes group of executive leadership to take the role?

The degree of involvement is fluid and depends upon a host of variables including the experience of the executive, the amount and depth of staff, and resources available. A grassroots organization with a budget of less than $100,000 and no full-time professional staff will answer the five questions differently than a $10 million foundation.

Some people use the need for acceptance and quality of decision as key factors in deciding who should be involved. Gary Yukl's modification of Victor Vroom and Phillip Yetton's model[98] has two variables – the decision quality and subordinate acceptance – and three decision making styles – directive, consultative, and group.

Generally simplified, if subordinates' acceptance is not important or everyone will agree with whatever you decide, you make the decision. If you need acceptance and the decision quality isn't quite as important, delegate the decision to the group. If you need acceptance and the decision quality is important, consult the group, but make the decision yourself.[99]

When it comes to directive versus participative, some people argue that the latter is the only way to go. Indeed, many nonprofit leaders avoid directive (also called autocratic) decision making on principal.[100] Wilfred Drath for example condemns the lone hero directive style, but he recognizes the difficulties of participative approaches, including the limitations of too many chefs in the kitchen and diffused accountability.[101] As the Chinese proverb goes, "A courtyard common to all will be swept by no one."

Not everyone thinks that participative approach is best in all situations. Gary Yukl, for example, warns that the lack of "consistent results about the effectiveness of participative leadership probably means that various forms of participation are effective in some situations but not in others."[102] Recognizing this explicitly is Henry Mintzberg who says that in times of crisis, people not only expect directive leadership, but demand it. Because the organization "must respond quickly and in an integrated fashion, it turns to its leader for direction."[103]

John Kotter and Leonard Schlesinger also use time as the key variable when offering their continuum that goes from "a very rapid implementation, a clear plan of action, and little involvement of others [to] a much slower change process, a less clear plan, and involvement on the part of many people other than the change initiators."[104] The bottom line is that **if you need lots of acceptance, go slower, if you don't need it, go as fast as you want.**

Equally important to the steps are the conditions for a successful planning process that Allison and Kaye advocate. These factors are affinity grouped in the table below:

Allison and Kaye's Specific Conditions[105]	Affinity Groups
• Commitment, support, and involvement of top leadership, especially the executive director and board president. • Commitment of organizational resources to complete the planning process as designed (including time of staff and board members, money for consultants, and needed research). • Commitment to tying the strategic planning process to the organization's annual planning and budgeting process.	Commitment
• Commitment to clarifying the roles of all participants in the planning process, including clarity about who will have input into the plan and who will be the decision makers. • Balanced mix of individuals on the planning committee, from big-picture visionaries to a detail-oriented thinkers group that is committed to full participation and is likely to be able to work well together (including the ability to disagree with each other). • Willingness to encourage participation of board, staff, and as appropriate, external stakeholders. • Board and staff who understand the purpose of planning and are clear about the desired process outcomes and issues to be addressed. • No serious conflict exists between key players with the organization.	Team
• A willingness to question the status quo and look at new ways of doing things, along with a willingness to ask the hard questions and face difficult choices. • Board and top management are willing to articulate constraints and non-negotiable issues up front.	Trust

Allison and Kaye's Specific Conditions[105]	Affinity Groups
• No high-impact decision (e.g. a major funding or policy decision is about to be made by an external source) that would dramatically change the course of the organization. • Organization is not in the middle of merger discussions.	Timing

Then What

In terms of the steps for planning, experts agree that you should follow a multi-step process. Here is Bryson's classic 10-step strategic planning process for nonprofits:

1. Initial Agreement
2. Mandates
3. Mission/Values
4. External and Internal Environment
5. Strategic Issues
6. Strategy Formation
7. Strategy and Plan Review and Adoption
8. Description of Organization in the Future
9. Implementation
10. Strategy and Planning Process Reassessment[106]

Allison and Kaye's nonprofit model is also 10 steps:

1. Set up for Success
2. Internal Stakeholder Engagement
3. Mission, Vision, Values
4. Environmental Scan
5. Theory of Change and Program Portfolio
6. Business Model
7. Organization Capacity
8. Leadership
9. Complete the Strategic Plan
10. Use Your Plan Successfully[107]

Nolan, Goodstein, and Goodstein's Applied Strategic Planning uses a nine-step protocol:

1. Planning to Plan
2. Values and Culture
3. Mission Formulation
4. Strategic Business Modeling
5. Performance Audit
6. Gap Analysis and Closure
7. Integrating Action Plans
8. Contingency Planning

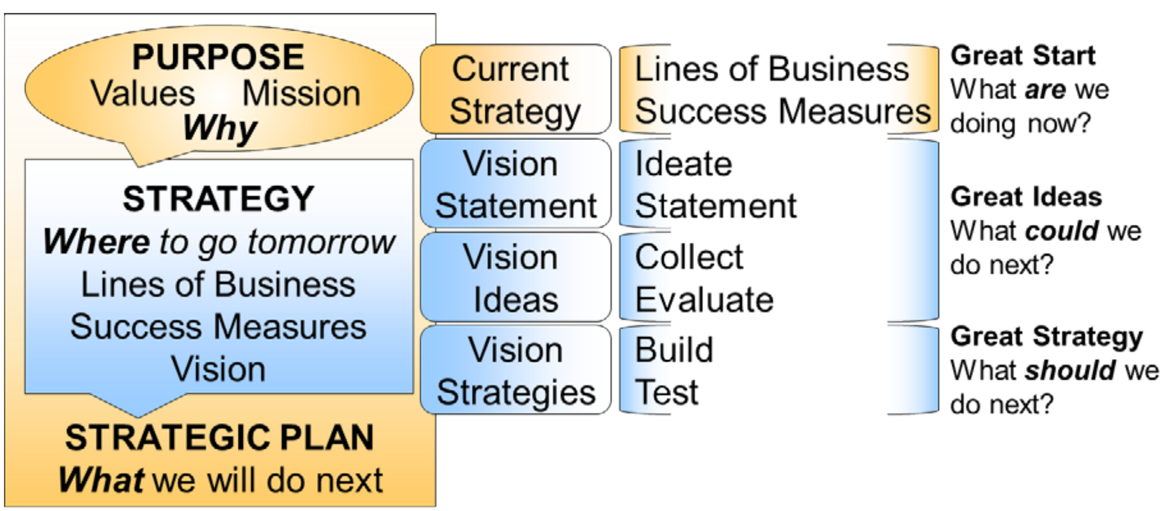
9. Implementing Your Plan[108]

Here are the eight steps for creating a sustainable strategy strategic plan:

1. Get Set: First Who, Then What
2. Purpose: Values and Mission
3. Current Strategy: Lines of Business, Success Measures, and Vision
4. Vision Statement: Ideate and Statement
5. Vision Ideas: Collect and Evaluate
6. Vision Strategies: Build and Test
7. Strategy: Lines of Business, Success Measures, and Vision
8. Strategic Plan

Michael Porter argues there are just three questions you must answer when building competitive strategy: "What is the business doing now? What is happening in the environment? What should the business be doing?"[109] As Burt Nanus observes, "vision starts with understanding the enterprise – or in other words, what you see depends on where you stand – you must be quite clear about the fundamentals of the business you are in."[110] After all, who would plan a trip without knowing the point of departure? Here then is the trip map for building a sustainable strategic plan:

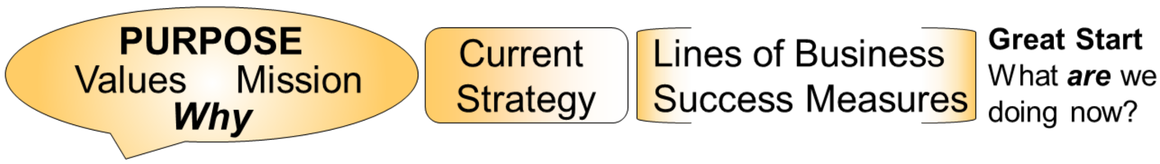
Michael Porter argues there are just three questions you must answer when building competitive strategy: "What is the business doing now? What is happening in the environment? What should the business be doing?"[111] As Burt Nanus observes, "vision starts with understanding the enterprise – or in other words, what you see depends on where you stand – you must be quite clear about the fundamentals of the business you are in."[112] After all, who would plan a trip without knowing the point of departure? Here then is the trip map for building a sustainable strategic plan:



SUSTAINABLE STRATEGY

GREAT START

He who has a why to live for
can bear almost any how.
– Nietzsche



Purpose

Purpose is who you are. It has two elements: values and mission.

There are many top managers and leaders in organizations who honestly believe that the key motivator in the workplace is pay. You may know some of these people. They say, “I remember when a person got a dollar for a dollar's work” or “My paycheck is enough motivation.” However, while money is a consideration, it is not as important for many. Daniel Pink, for example, says that it takes three things to motivate people in the workplace: “(1) *Autonomy* – the desire to direct our own lives; (2) *Mastery*: the urge to get better and better at something that matters; and (3) *Purpose* – the yearning to do what we do in service of something larger than ourselves.”[113]

What we may miss in all this is the obvious fact that purpose-driven people need a purpose. They need to have it reinforced on a regular basis. Most certainly, when you recruit new employees to the agency, you need to be clear about the agency’s purpose.

Purpose contains two distinct elements. The first is the values and seeable behaviors that guide conduct. The second is the mission that addresses customers, the difference they experience in their lives, and how the organization is different from its rivals.

Values

Values guide your conduct. They are the talk that you walk, they are how you do the work.

Walking your talk – living your values – is akin to authenticity, which means “owning one’s personal experiences, be they thoughts, emotions, needs, wants, preferences, or beliefs.”[114] Other descriptions of authenticity include “genuine, reliable, trustworthy, real, and veritable”[115] and “to know, accept, and be true to one’s self . . . they know who they are, what they believe and value, and they act upon those values and beliefs while transparently interacting with others.”[116]

Fred Luthans and Bruce Avolio observe that authentic managers “lead from the front, going in advance of others when there is risk for doing so . . . Such ‘walking the talk’ has been shown to be much more effective in influencing others than coercing or persuading."[117] Indeed, trust and performance are significantly related[118] and an important source of competitive advantage.[119] James Kouzes and Barry Posner make use of the phrase *model the way* and state, "Exemplary leaders go first. They go first by setting the example through daily actions that demonstrate they are deeply committed to their beliefs."[120]

Your talk ultimately refers to your values, which are like your car in that no matter where you are, what road you're on, where you're heading, or who's in the car with you, the car stays the same. Jim Collins and Jerry Porras define values in their best-selling *Built to Last* as the "organization's essential and enduring tenets, not to be compromised for financial gain or short-term expediency."[121]

Why should you care about having a clear set of values?

First, how can you test your actions against your values or those of your organization when you don't know what they are in the first place? How can you "walk your talk" if you don't know what the talk should be? How can you "lead by example" if you don't know the example you are trying to set?

Many conflicts between people occur because of value clashes. These differences not only happen with customers and clients, but also with employees and family members. It is all about the assumptions we make. I assume that my seventeen-year-old son has the very same perspective I have when it comes to taking responsibility. I assume that our marketing director shares my dedication to serving school audiences when, in fact, she may be dedicated to the customer who pays big bucks for a seat to the latest blockbuster, not the kids who come for free.

In reality, most of us have "values defaults" just like the word processing programs we use. I use margins set at one inch, Ariel font set at 12 point with page numbers at the top right. Anyone that uses my computer will get this document format because it is set as my default. Just like my monitor settings, I have particular values that govern my behavior. These values are mine and mine alone, not yours, not my organization. In the absence of direction from the organization, employees, volunteers, and board members will default to their particular values. Explicitly outlining values gives rise to the possibility that these people will adapt them, especially if leaders at the top model these beliefs.

Expecting people to know your values without espousing them is values by clairvoyance. This assumes that you know what my values are, that you respect my values, and that you care about them. Leadership frequently falls into this trap. They seem to believe that others can read their minds when it comes to their beliefs and preferences; that others should know that lending a hand without asking is important and you should do it. It just doesn't work this way. Employees are not mind readers. If the leaders of the nonprofit organization want certain values embraced in the workplace, they need to spell it out explicitly, promote it throughout the organization, model it themselves, and take action if people are not observing them.

The challenge to values is that people frequently give them lip service as a fad of the day. You'll come into the office one day and find that a manager has put up a framed picture of an eagle soaring in the mountains with a pithy saying about teams. That's not the same as clear and concretely articulated values.

Second, organizational values often contain your competitive advantage, which is what makes you different from your rivals. The important things to people in organizations likely are matters of the heart and these often give you the edge in an increasingly competitive nonprofit environment. If making your clients healthy is the hill you will die on, as the saying goes, consider it a value; it is an enduring tenet of how you do business and "not to be compromised for financial gain or short-term expediency."[122]

Third, because organizational values are so important to people, they offer you an immediate tool to judge the appropriateness of everything you do. A faith-based organization that believes in the sanctity of their house of worship may want to reconsider teen-night films with R ratings in the church basement.

Most organizations will have a good idea of the values that should govern behavior. But many do not specify the "seeable in action" behaviors that bring those values to life. This is a shame because most people have different things in mind when hearing a value like "trustworthy". For one person, trustworthy means keeping your promises; another will say telling the truth.

Clarifying values at the organization level is the first step in building the purpose. Making values even stronger is the addition of behaviors, which is uncommon in most planning protocols. By doing this, you have the chance to make expectations about behavior clear when recruiting new staff members, onboarding them effectively, and then managing performance. The table below lists organizational values and behaviors in action for an agency. The team generating these ideas and results did so in about 30 minutes using the BAM process (brainstorming, affinity grouping, and multi-voting) shown in Appendix A:

Ideas	Results
• collaboration, team players	1. Collaborative
• optimistic, excited, well-intentioned, positive, enthusiastic, energetic	a. Optimistic
• cooperative	b. Cooperative
• good communicators, open, effective communication, shared goals, share information, diverse, flexible	c. Effective communicators

Ideas	Results
• Customer-centered, service-oriented, user-friendly, community-oriented, concern for community, customer focused, asset to nonprofits • respectful, show you care, truthful • responsive to needs, attentive, listen to customer, timely • above and beyond, solution-driven, asking, solve problems, value adding, provide quality, provide added quality	2. Customer-centered a. Respectful b. Responsive c. Solution-driven
• professional, quality, competent, excellence • results-driven, execute effectively, have standards, results-oriented, provide value • thorough, dedicated, committed, hard work, loyal to mission • knowledge-based and experienced, resourceful, works with knowledge, committed to evidence-based practice, knowledgeable, know the business	3. Professional a. Results-driven b. Dedicated c. Fact-based
• accountable for actions, integrity, trustworthy • fair, consistent, objective • transparency, sharing information, positive, negative feedback, make problems known, honest • keep confidences, straightforward, keep commitments, above board, keep word	4. Trustworthy a. Fair b. Transparent c. Promise keepers

Mission

Mission focuses your action; it is what you do.

It's no debate that mission is a sine qua non of high-performing nonprofits; Peter Drucker, for example, says it is the first thing for-profits can learn from nonprofits.[123] Here's why:

> Mission focuses the organization on action. It defines the specific strategies needed to attain the crucial goals. It creates a disciplined organization. It alone can prevent the most common degenerative disease of organizations, especially large ones: splintering their always-limited resources on things that are "interesting" or look "profitable" rather than concentrating them on a very small number of productive efforts.[124]

Paul Light in his study of innovative nonprofit and government organizations also found this pragmatic nature of mission: "Without a strong sense of mission, nonprofit and government organizations cannot long sustain innovativeness. They will have no basis on which to say either yes or no."[125]

Take malfunctioning teams for example. When things go wrong, people often search for the root causes of the difficulties. Carl Larson and Frank LaFasto save you time with their analysis: "In every case, without exception, when an effectively functioning team was identified, it was described by the respondent as having a clear understanding of its objective . . . and the belief that the goal embodies a worthwhile or important result."[126]

Besides the benefit of giving focus, a well-constructed mission is the first step of the strategy stairway that ultimately ends in boots-on-the-ground programs.

Mission is also valuable as the "sex drive of organizations."[127] James Phills, director of the Center for Social Innovation at Stanford explains: "The function of a mission is to guide and inspire; to energize and give meaning; and to define a nonprofit and what it stands for."[128] Kasturi Rangan writes, "Most nonprofits have broad, inspiring mission statements – and they should . . . After all, the mission is what inspires founders to create the organization, and it draws board members, staff, donors, and volunteers to become involved."[129]

Another benefit of a well-crafted mission is to "distinguish one organization from other similar enterprises"[130] and "reveals the image the company seeks to project."[131] As such, it becomes a repository of what the organization sees as its competitive advantage.

A final benefit is for communications: "In just a few sentences, a mission statement should be able to communicate the essence of an organization to its stakeholders and to the public: one guiding set of ideas that is articulated, understood, and supported."[132]

Nonprofits aren't the only ones making good use of mission statements. Jim Collins and Jerry Porras assert that the mission, which they call a firm's core ideology, is an essential element of successful visionary companies.[133] Lending credence to this view is the news that mission statements are the number three management tool for two-thirds of global firms.[134] Little wonder this is true given the evidence of the relationship between mission statements and positive financial performance.[135]

A well-crafted mission addresses three questions:

1. Who do we serve (our customers, clients)?
2. What change do they experience in their lives?
3. How are we better than our rivals (our competitive advantage)?

Notice that the verbs in these questions are present tense. As such, the mission statement is about what you are doing in the here and now; it is not about where you're going in the future. In other words, a mission is not a strategy for the future. A mission is in the present tense and describes the why of the organization; strategy is future oriented, the where are we going.

As you review your mission with the three questions, you may decide that what you are actually doing now isn't exactly what you should be doing. This can have significant ramifications and can take real effort and time to achieve the present tense of a mission.

Who do we serve?

By beginning mission with the question of customers, you ensure that they are its focus. This is a basic foundation of successful businesses, as agencies often neglect and deprive their organizations of the focus needed to be successful. No organization can ever do wrong by concentrating first on its customers. As Harvey Mackay, the author of five business bestsellers, so aptly says:

> Successful organizations have one common central focus: customers. It doesn't matter if it's a business, a hospital, or a government agency, success comes to those, and only those, who are obsessed with looking after customers.

This wisdom isn't a secret. Mission statements, annual reports, posters on the wall, seminars, and even television programs all proclaim the supremacy of customers. But in the words of Shakespeare, this wisdom is "more honored in the breach than the observance." In fact, generally speaking, customer service, in a word, stinks.

What success I've enjoyed in business, with my books, my public speaking, and the many volunteer community organizations I've worked for, has been due to looking after customers – seeing them as individuals and trying to understand all their needs.[136]

Even with all the evidence, many worry that if they define a specific customer, it will be limiting to the scope of activity. Unfortunately, **no organization can be all things to all people and defining the customers makes it possible to concentrate effectively.** The key issue is to answer the question with authority and explicitness. "Youth and children" is a good start for a customer description at a Big Brothers – Big Sisters chapter, but "7 to 13-year-old children from at-risk, single parent households" is much better because it gives more usable information that will aid the organization to construct its lines of business in the near term and ensure accountability later on.

Peter Drucker's five-question protocol for evaluating "what you are doing, why you are doing it, and what *must* you do to improve"[137] begins with mission, which he immediately follows with "Who is our customer?"[138] He defines his two types of customers this way:

The *primary customer* is the person whose life is changed through your work. Effectiveness requires focus, and that means *one* response to the question . . . *Supporting customers* are volunteers, members, partners, funders, referral sources, employees, and others who must be satisfied.[139]

The most important aspect for Peter Drucker is defining the primary customer. He warns that it is "very tempting to say there is more than one primary customer, but effective organizations resist this temptation and keep to a focus."[140]

There are a great many ways to get at the answer, but the one I like the best is the BAM process (described in Appendix A). Whatever process you use, if you are going to work with a group of people, the only "no-matter-what" recommendation is to avoid perfecting words or phrases suggested. You should leave word-smithing to a capable person or small crew to present to others for review later.

Using BAM with a 23-person group including board and staff from a faith-based outdoor camping agency yielded the ideas and results shown in the table below in about 25 minutes:

Ideas	Results
• youth in our community, schools, other youth groups, future business leaders (63)[A]	Youth in our community
-------------- Ideas not chosen -------------- • adult leaders, counselors, volunteers, board (26) • donors, foundations, contributors (23) • parents, families (8) • mankind, stakeholders, society values, society, communities (4)	
• community organizations, community ambiance, churches, community at large, penal institutions (2) • character organizations (1) • national office (0) • local businesses (0)	

Notice in the table the demarcation line between the first and second grouping. Below that line are all of the groupings that were “left off the table” after a discussion about which of the groupings truly represented the customers for the agency.

What change do they experience?

The typical mission statement tells us all about the products and services provided by the organization. Its essence is about the agency and not the customer; “Here are the products we sell” is the key message. Instead, **the mission should state the change the customers experience in their lives because of the organization**. What’s changed in that person as a result of the interaction? What transformation occurs?

Whether it is health restored for a cancer patient or well-adjusted home lives for a family-service agency, the customer experience should contextualize how the constituent’s life is better because of the organization. The customer difference frequently describes why the organization exists; its reasons for being in business in the first place.

You should always construct the change in the context of the customer, not the organization. What changed in the life of the customer is the question, not what

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[A] Numbers in parenthesis are results of a multi-voting rating process where participants could vote with $3, $2, and $1 chips in any combination for their highest rated grouping of ideas; higher numbers = higher rating.

products you delivered. Your mission should focus on one change for the primary customer. Later on in the strategy process, you will articulate more detailed customer differences to form lines of business, which are the agency's products, services, and programs.

"Life at its fullest" is an example of a customer difference for a person affected with Multiple Sclerosis. A performing arts center could easily consider an "enriched life" as a viable customer difference. After all, the customer isn't going to the theatre to just see a play or hear a symphony. The performance itself is actually a means to an end.

I ran a performing arts center and the statement used to describe the difference our customers experienced was "standing-ovation experiences." As we sought to make the life transformation even clearer, we changed it to "you are the star." Our customers loved it and they often reminded us of our statement when we failed to meet that commitment or when we exceeded expectations. We even had peer-nominated *Star Awards* that recognized outstanding customer service by staff members.

A Multiple Sclerosis Society chapter will certainly produce a slew of programs to help the newly diagnosed, education to keep those afflicted up-to-date, fund new research, direct disbursements for those without means, and create support groups to help people network with each other. However, none of these services belongs in a mission statement. Therefore, the chapter settled on "Life at its fullest for people affected by Multiple Sclerosis."

Save the Children's difference is to make "lasting positive change in the lives of disadvantaged children." While this is very broad and some might prefer more definition, this clearly is a properly crafted difference statement and can give rise to significant strategies that can make it happen. Another example is A Big Brothers – Big Sisters chapter difference, which is "confident, competent, and caring young adults."

To reiterate once more - a mission statement should only include the life-changing change that its customers experience, as the results for the outdoor camping agency show in the table below:

Ideas	Results
• character, relationship with God, sense of honesty, values, value system, integrity (40) • skill set for life, success in life, experience, special skills, well rounded (30)	Character-centered Skills good for life
----- Ideas not chosen ----- • experience leadership at younger age, career path, learn to take initiative, structure, (20) • self-confidence, self-reliance, pride in yourself, confident in skills, higher self-esteem (15) • fun, sense of adventure, drug avoidance, travel (15)	

Ideas	Results
• personal accountability, take responsibility, maturity (3) • support network, friendship, teamwork, respect for others, get along with others, male role model (1) • accomplishment, planning skills, goal driven, recognition, motivation (0)	

How are we better than rivals?

The third question in designing the mission is about the advantage your organization has over its rivals. **What edge will the company have that other organizations cannot match?** As John Pearce II and Fred David recommend, the effective mission "defines the fundamental, unique purpose that sets a business from other firms of its type."[141]

A Girl Scout council might choose scouting for "all girls" as an answer, thereby defining inclusiveness as its core principle. An agency with the difference of putting the American dream of a home within reach for people with low to moderate incomes decided that being the "go-to organization" was its advantage. No other agency in the community would be able to match its position for one-stop shopping or for the breadth of its knowledge and services.

Every organization has a choice in what it becomes known for – its reputation, if you will. This choice is about the defining quality of its work and the edge that the organization will have over all others like it. What do we want to be known and respected for? A Big Brothers – Big Sisters chapter chose "professionally supported one-to-one matches that deliver results." While other mentoring programs exist in the community, no others state that they can match the professional support and the results that Big Brothers – Big Sisters delivers.

Ultimately, the question of how you are better than your rivals *is* your competitive advantage. Although improving the operations of your organization is essential, it is not enough to become high-performing.[142] Competitive advantage is the "presence of visible, obvious, and measurable ways in which your organization differs from and is better than its peers."[143] You want that advantage to be sustainable over time because your organization can "outperform rivals only if it can establish a difference that it can preserve."[144]

Why should you care about your advantage? Though you might believe you're special, your customers, stakeholders, and especially funders may respectfully disagree. When they review your appeal, they may perceive you to be a lot like your peers. If there's no discernible difference, you may end up on the short end of the stick. As painful as it may be to learn, and in the words of David La Piana and Michaela Hayes, "Foundations tend to see more proposals each year from nonprofits that, from their perspective, look alike . . . Unfortunately, if there is one belief that all funders share, it is that all nonprofits are the same."[145]

How do you find your competitive advantage – the difference that can set you apart from others? There are a number of approaches.

Freeform Method

Expert David La Piana recommends you go about it this way:

- Using a **unique asset** (such as a strength that no other similar organization in your geographic area has) and/or
- Having **outstanding execution** (such as being faster, less expensive, or having better service than other similar organizations in your geographic area)[146]

It's a bit like being in your own restaurant and deciding from the menu what dish will become your signature. Take inventory of what you have or what you can do; then make a decision and run with it.

Another freeform way to find your agency's competitive advantage is to think of the values that are most important to you – the ones that you would not forsake for any reason. For the performing arts center I helmed, it was making our customer the star; for you it might be delivering real results, lowest costs, or highest quality.

Although some organizations have multiple advantages, try to have as few as possible. It's hard enough for folks in your agency to remember the mission let alone how you're going to win. The table below shows the results from the outdoor camping organization built using the BAM process in Appendix A:

Ideas	Results
• delivers skills for life, everyone succeeds, strong rank, advance program, long-term relationships (34)	Everyone succeeds
----- Ideas not chosen ----- • for any kid, at-risk urban youth, urban activities, buddies, geographic diversity, wide range of ages, flexibility for kids, special needs (19) • values-driven programs, trust, history, reputation (19) • programs – programs – programs, order of the arrow, comprehensive, well-rounded (16) • strong leader training, real leadership program, only one, boy-run, active engaged adult leaders (15) • fun, opportunity for travel, excitement, summer camp (0) • experience, high adventure program (14) • financial stability, do all kinds of things, high annual giving (3) • well organized, recruiting methods, effective marketing (7) • strengthen programs of churches and sponsors (0)	

Four Questions

A linear approach to understanding your competitive advantage analyzes resources (tangible and intangible), capabilities, and core competencies (valuable, rare, costly to imitate, and non-substitutable). Using this method, "Resources are bundled to create organization capabilities. In turn capabilities are the source of a firm's core competencies, which are the basis of competitive advantages."[147] Once complete, you have an appreciation for what you're good at and what you're not. Typically, you want to play to your strengths and minimize your weaknesses.

First, what are your agency's **greatest resources**? There are two types: tangible (physical, financial, organizational, technological, etc.) and intangible (human resources, innovation, reputation, values, etc.). In essence, what does your agency have to work with? Pick the top two or three resources and list them as strengths.

Second, what are your agency's **capabilities**? Make a list of all the things that the agency is *pretty* good at doing. Usually these are not specific lines of business, but could be the way the agency designs, delivers, and/or manages a line or lines of business. It could also be customer service, reputation, location, your facilities, or human talent.

Third, what are your agency's **core competencies**? Look at the resources and the capabilities and decide which of them your agency is *really* good at doing. You should only have a few candidates for core competencies, which are "the activities that the company performs especially well compared with competitors and through which the firm adds unique value to its goods or services over a long period of time."[148]

How do you determine which of your capabilities deserve to be called core competencies? Sometimes the answer is so obvious that there is no need for any deliberation. But stepping back and testing your capabilities against the three criteria of sustainable competitive advantage is a good idea:

1. Valuable capabilities allow your agency to "exploit opportunities or neutralize threats in the external environment [to create] value for customers."[149]
2. Rare capabilities are those that "few, if any, competitors possess. A key question to be answered is, 'How many rival firms possess these valuable capabilities?'"[150]
3. Costly to imitate capabilities are those that others cannot easily develop. Sometimes it is simply impossible to imitate a capability because of the cost. Other reasons could be unique historical conditions, ambiguity about how the capability works, and social complexity including interpersonal relationships.
4. Non-substitutable, which means there are no substitutes for your core-competency.

Capabilities that pass these tests could be your **core competencies**.

Fourth, what are your agency's **competitive advantages**? This is less a science than an art. To determine your competitive advantages, first look at your core competencies and decide which one (or two at most) sets you apart from your rivals. Then briefly state it and discuss your conclusions. **Your competitive advantage should become a part of the *new mission statement* and *new simplified mission statement.*** Here is an example of an analysis for a theatre agency:[151]

	Theatre Inspired by History	Works with Chicago Actors	Engages Audiences	Art in Schools Programs
Valuable	Yes, unites audiences; increases self-awareness	Yes, champions Chicago talent	Yes, pre- and post-show activities spark dialogue	Yes, fosters learning
Rare	Yes, only theatre in Chicago devoted to this undertaking	No, many theatres only work with local artists	Somewhat, but immersive theatre is becoming more popular	No, many theatres offer art in classroom opportunities
Costly to Imitate	Somewhat, any theatre can produce plays about history	No, any theatre can use local artists	Yes, requires human and financial resources	No, most likely funding is available
Non-substitutable	Yes, the mission requires the theatre only do plays inspired by history	Yes, company members become integrated within the organization and must be local	Yes, engagement efforts have become part of its reputation	Yes, interacting with the next generation is a stated goal in the strategic plan

In this example, the core competency that became the company's competitive advantage is being "Chicago's only theatre company devoted to producing exceptional productions inspired by Chicago's shared history."[152]

A word of caution: the danger with this approach is that the competencies you have now may not be the ones that you need in the future. If that is the case, you may need to create a new strategy to develop those needed competencies. Be forewarned, a strategy to build a core competency is no walk in the park and can be of a scale equal to other major endeavors, as it often involves changing the culture of the agency. For example, the Victoria Theatre Association's core competency of making the customer the star took years of discipline. However, once established, it made a great difference.

Simplified Mission

In his popular book on motivation, Dan Pink uses the question "What's your sentence?" to clarify the need for succinct, yet powerful, mission statements:

> In 1962, Clare Booth Luce, one of the first women to serve in the U.S. Congress, offered some advice to President John F. Kennedy. 'A great man,' she told him,

> 'is one sentence.' Abraham Lincoln's sentence was: 'He preserved the union and freed the slaves.' Franklin Roosevelt's was: 'He lifted us out of a great depression and helped us win a world war.' Luce feared that Kennedy's attention was so splintered among different priorities that his sentence risked becoming a muddled paragraph.[153]

When you've answered the three mission questions, you can finally find the sweet spot that puts your mission statement together in a concise, inspiring, and memorable way – with just one sentence.

As simple as it sounds, constructing that one sentence is a matter of putting your answers to the three questions together in a way that works for you. The mission for the outdoor camping organization is "a place for youth in our community where everyone succeeds with character-centered skills good for life."

Notice in this statement that there is nothing tentative about "everyone succeeds"; it doesn't say that the agency helps, assists, or tries. John and Miriam Carver say that words like this "can be fulfilled while having absolutely no effect upon consumers. Be tough; allow yourselves and your CEO no points for supporting, assisting, or advocating; rather, hold yourselves to the discipline of requiring results for people."[154]

People working on the mission statement sometimes struggle with letting go of old sentiments. They like the feel of the words or the historical context. There is no issue with using previously created mission statements if the mission explicitly addresses the three questions with authority. However, the process of defining an acute mission often makes a difference. Take the comparison of before and after mission elements from a Big Brothers – Big Sisters chapter that is shown below:

Elements	Current Mission	New Mission
Who	Children and youth	7-13 year-old children from at-risk, single parent households
What change	Committed to making a positive difference, assist them in achieving their highest potential, grow to become confident, competent, and caring individuals	builds confident, competent, and caring young adults
Competitive advantage	primarily through a professionally supported one-to-one relationship	through professionally supported one-to-one matches that deliver results

Which of the two mission elements is better? The new mission has the edge because it offers more specific information to inform decisions. Less is more; definite is better than ambiguous.

Of course, most missions like the one for Big Brothers – Big Sisters are not short enough to easily remember. This is why you need to work on the simplified mission.

Even at 40 words, a mission statement is difficult to remember. The simplified mission takes the most important feature of the mission and distills it down into just a few words. It can become a rallying point for decision-making; it can be a constant reminder to board members, staff, and volunteers about the organization's mission.

My favorite approach to a simplified mission is constructing it as a Haiku. As Chris Finney explains, "Your organization's mission statement deserves to be elegant, precise, and even poetic because these words embody the reason your nonprofit exists."[155]

How do you know your mission is a good one? According to Peter Drucker, a well-articulated mission:

1. Is short and sharply focused.
2. Is clear and easily understood.
3. Defines why we do what we do, why the organization exists.
4. Does not prescribe means.
5. Is sufficiently broad.
6. Provides direction for doing the right things.
7. Addresses our opportunities.
8. Matches our competence.
9. Inspires our commitment.
10. Says what, in the end, we want to be remembered for.[156]

Remember, if you single out one advantage and work away at it, you might pull it off *and* people will remember it. The following shows two examples: one from a Big Brothers – Big Sisters agency and the other from a medical center serving the HIV Community:

Simplified Missions	
1-to-1 matches transform at-risk children into strong young adults	Client-centered care for the HIV community to have a life worth loving

Now it's your turn to build a new simplified mission (17-syllable, give or take a syllable or two, Haiku). Keep it short and simple, hammer it home, and it likely will come to life. As a core driver of decision-making, the complicated mission that no one can recall or understand serves little value to the organization. The simpler the mission, the better, and the more likely it will drive action on the front lines of work.

Current Strategy

Strategy expert Michael Porter suggests that you address three questions in the process of building competitive strategy: "What is the business doing now? What is happening in the environment? What should the business be doing?"[157] In other words, let's not worry about where we're going tomorrow until we understand where we are today. After all, who would plan a trip without knowing the point of departure? That's why we begin with a discussion of the lines of business followed by a review of the success measures.

Lines of Business

Though it's true that purpose is the heart of the agency, it only begins to beat in the strategy. More specifically - and to broaden the definition - strategy brings purpose to life through the lines of business. Those lines of business make their home in the strategic plan.

You can do a number of different things to maintain a competitive position with your lines of business. Michael Porter advocates three strategic approaches.[158] **First, you can be the low-cost leader that allows you to have above average profits or to charge less than your rivals**. **Second, you can differentiate your product and make it unique compared to your rivals.** Making the customer the star was a way to do this for the Victoria Theatre. **Third, you can choose which customers to focus on.** For example, you might be the only agency to serve clients with Downs Syndrome in a certain community or at a certain age.

Any of these approaches might be magical, but without lines of business that exchange something of value between you and your customers, you have nothing to make the magic visible. **Your lines of business are the, programs, products, or services of value for your customer.**

Lines of business are different from other activities within the organization because they are ends, not means. They must stand the customer-change test. First, there is a customer external to the organization. Second, there is a life-changing difference for that customer.

At first, many people have difficulty thinking about lines of business. It seems an acceptable idea for a manufacturer, but it's a foreign concept when it comes to a housing agency or mentoring organization. It doesn't take long, however, for people to get the hang of things when you ask the question in the context of core programs, services, and activities. In fact, the typical nonprofit has five or more lines of business compared to small for-profits that usually have just one.[159]

Because people naturally think first about products or services that are provided to the customers, they can lose sight of the life-changing difference they are trying to achieve. Consequently, lines of business often stray far from the purpose. This drifting, which is sometimes referred to as mission creep, is tacitly endorsed by funders who typically put new programs ahead of established ones and project funding over general operating support. Because funders commonly provide support for new programs as a three-year commitment, getting out of the program early is very hard to do. The customer-change test helps you stay true to your purpose.

Some people involved with the organization may profess little interest in seeing lines of business listed out. “We already know what we do,” they say. But board members and staff alike are often surprised to see that what they thought was a relatively simple operation may actually be much more dynamic. The benefit for the seasoned board member is to see the wide array of lines of business; the benefit for the new board member is to see them for the first time. In this process, some organizations decide that the array of lines of business is simply too broad to sustain; other organizations choose to expand.

An example from a local United Way identified 14 distinct lines of business:

Research	Eliminating abuse	Immunization Track
Resource development	Heartland	Preschool-Jump-Start
Nurturing children	Encouraging self-sufficiency	Links
Strengthening families	Baby Steps	Labor services
Building communities		Outcomers

Fourteen lines of business is common for an active organization such as a United Way that provides direct services, but this list is too broad to be memorable to most people – especially those pressed for time. After all, experts say that the maximum number of “chunks” of information we can easily retain in our short-term memory appears to lie between five and seven (plus-or-minus two).[160]

Organizing by theme allowed United Way to group its lines of business into four major categories that not only made its work more understandable to stakeholders, but also helped focus the organization:

1. Research
Problems identified and prioritized for others in need

2. Resource Development
Amplifying the impact of giving for donors who want to help others in need

3. Resource Distribution
Funding for high-impact problem-solvers who directly help others in need

Nurturing children
Strengthening families
Building communities
Eliminating abuse and neglect
Encouraging self-sufficiency

4. Initiatives
Leading solutions for others in need

Management Services
Incubating high-impact problem solvers
Baby Steps
Immunization Track
Pre-School-Jump-Start

Heartland
Fostering high-impact problem solvers in non-urban areas

Links
The web link to high-impact solutions for others in need

Outcomers
Teaching high-impact problem solvers how to use outcomes measurement

Labor and Community Services
High-impact solutions in the workplace

Some staff and board members may wonder why we don't show administrative activities as lines of business given their significance to the organization. No one would deny that marketing and bookkeeping is central to the success of most nonprofits, but these and other administrative duties usually directly support the lines of business; they are undoubtedly vital, but they also are a means to an end and simply do not pass the customer-change test.

On the other hand, many people treat fundraising as a line of business because of its importance to the organization. After all, most lines of business only break-even with the help of contributed income.[161] Especially with regard to general operating support, funds relate to all the activities of an organization, as opposed to one specific line of business. As such, it is quite possible to identify a credible customer-change statement. An example of how it might look follows:

Fundraising
The joy of giving to help others in need for those with a generous heart
Individuals
Corporations
Foundations
Special Events
Planned Giving

Another example of an activity that is a means to an end, but that you could consider a line of business, is selling Girl Scouts cookies. Representing as much as 60 percent of the revenue of some chapters, this is a major source of funds. Some chapters will see it as a line of business; others won't. One council that saw cookie sales as a line of business felt strongly that this activity built confidence for the girls; another council thought that the buyers of the cookies were the customers and the difference was both in helping build confidence for the girls as well as enjoying delicious cookies. In other words, Girl Scouts cookies feed the soul and the sweet tooth.

The level of detailing within lines of business – including how many lines you have – should stop when it becomes difficult to develop reasonable customer-change statements as shown in the following two tables:

Big Brothers – Big Sisters Chapter

Core Match *Building* *7-13-year-old Littles* *into confident –* *competent –* *caring young adults*	**High School Mentoring** *Building* *15-17-year-old Bigs* *into confident –* *competent –* *caring young adults*	**Teen Mothers** *Building pregnant* *and parenting teens* *into confident –* *competent –* *caring parents*

MS Chapter

Newly Diagnosed *You're not alone* *for those newly diagnosed* MS Peer Connection Moving Forward Knowledge Is Power	**Research** *Ending devastating effects* *for those living with MS*	**Support Groups** *The fullest life possible* *for those living with MS*
Direct Disbursements *Solutions for those* *without means* Equipment Direct Counseling Referral Counseling	**Update Education** *Staying current* *for those living with MS* Fall Education Conference National Television Conference	

As shown in the examples above, the preferred way to describe the lines of business is with brief customer-change statements of no more than six to eight words in length. Sometimes the statement includes the customer and the difference; sometimes organizations will use descriptions that are more about products or services as demonstrated in the fair housing agency below:

Housing Discrimination	Predatory Mortgage Lending
General Public Individuals are more aware and assert their fair housing rights	**General Public** Individuals are aware and avoid becoming victims
Housing Providers/Professionals Individuals and companies are better educated, and greater compliance is achieved	**Housing Providers/Professionals** Individuals and companies are better educated, and assist in protecting customers
Enforcement Meritorious complaints are identified and violations are challenged and proven	**Intervention for Victims** Residents' rights are asserted and remedies are achieved

Housing Discrimination	Predatory Mortgage Lending
Research/Advocacy Problems and barriers are identified, prioritized, and publicized	**Research/Advocacy** Problems are identified, prioritized, and publicized

Drafting a list of current lines of business takes very little time. You first generate a list of all the products, services, and programs that your agency delivers to the customers or clients of the organization. You then develop a customer-change statement for each. It's that simple.

It is usually the executive director's task to outline the lines of business. There is no best practice; some leaders will quickly list all the products, services, and programs that the organization is delivering and group them in a logical fashion. Others will involve key professional staff in a group setting and use brainstorming to develop the list of current lines of business. Once done, you are ready to work on the success measures.

Success Measures

As is the case with lines of business, you use success measures to answer Michael Porter's question: "What is the business doing now?"[162] Unlike the lines of business customer-change statements that represent a qualitative perspective, success measures look at this question from a quantitative viewpoint.

Like lines of business and their customer-change statements, success measures provide a powerful way to ensure that the purpose comes to life. After all, "what you measure is what you get."[163] Perhaps this explains why **more than four out of five nonprofits use program output measures to evaluate performance.**[164]

If a shareholder wants to know how a for-profit company is doing, she typically takes the measure at the bottom line. Whatever this bottom line is called - be it shareholder wealth, net profit, share price, or return on investment - for-profits depend on financial information as a fundamental measure of their success. Nonprofits, on the other hand, have no such single measure. As William Bowen, President Emeritus of The Andrew W. Mellon Foundation puts it, "There is no single measure of success, or even of progress, that is analogous to the proverbial bottom-line for a business."[165]

Jim Collins of *Good to Great* fame takes a similar view: "For a business, financial returns are a perfectly legitimate measure of performance. For a social sector organization, performance must be measured relative to mission, not financial returns."[166] Indeed, the idea that nonprofits are unable or incapable of paying attention to the bottom line is widely held.

Michael Porter and Mark Kramer assert that nonprofits "operate without the discipline of the bottom line in the delivery of services."[167] Regina Herzlinger says that nonprofits lack the "self-interest that comes from ownership . . . they often lack the competition that would force efficiency [along with] the ultimate barometer of business success, the profit measure."[168]

Yet, these viewpoints fall far short of the reality. Exemplary nonprofits depend upon measurable results to determine effectiveness, including financial results. Twenty years ago, Rosabeth Kanter and David Summers recognized that "nonprofits are increasingly setting more stringent financial goals, reporting 'operating income' as though it were 'profit.'"[169]

Peter Drucker asserts, "nonprofit enterprises are more money-conscious than business enterprises are. They talk and worry about money much of the time because it is so hard to raise and because they always have so much less of it than they need."[170] In other words, that nonprofits don't, shouldn't, or can't use financial returns to measure performance is as much a myth as the idea that nonprofits can't make a profit at all.[171]

To be fair, it's not that nonprofits don't have measures; it's just that many aren't financial or written down. Furthermore, nonprofits often have measures based on the quality of things, which is very challenging because it's softer in texture, "How much" is significantly easier to measure than "how good." Peter Goldmark, former President of the Rockefeller Foundation, describes it this way, "You don't have a central financial metric that is really central . . . You are dealing with squishier intangible issues of social change or public attitudes and behavior."[172]

In other words, it is one thing to measure how many people quit smoking at the weekly cessation class, but quite another to do it with "such subtle outputs as tender loving care in a nursing home, or appreciation of art and music in cultural values."[173] That said, many now see this viewpoint as a cop-out; it is possible to measure such things and the best nonprofits do it regularly. Take appreciation of art and music for example. A ballet company can easily count standing ovations after a performance, the number of tickets sold, and the number of intermission walk-outs; all are perfectly legitimate surrogates for customer enjoyment.

Effective success measures can contain a wide variety of components including outcome indicators, financial measures, and activity reports. Measures do not tell the reader whether the organization is doing a good job or is in need of corrective action. Measures are measures, nothing more, nothing less.

Most success measures have a clear activity linked to them, such as tickets sold, classes attended, grades achieved, number of customers, number of customers who return, number of customers that do not recidivate. This is not to diminish the value of measuring outcomes, but let's be realistic here: outcomes measurement is no walk in the park.

The United Way of America early on recognized the "tension between the need for technically sound methodologies, which can be expensive and time consuming, and the staffing, funding, and workload realities that constrain nearly all service agencies."[174]

Moreover, **measuring activity is the first step in any program to measure outcomes.**

When choosing criteria for success measures, an important condition is that the measures be easy to use. An indicator built around readily available information is often more preferable than building one from scratch. Furthermore, you should consider the cost of using the measure, as there is very little point in having brilliantly designed success measures that require a quarter-time staff member for tracking. A reasonably good success measure that you can use easily without cost is usually superior to a great performance gauge that is expensive.

In the process of building success measures that evaluate lines of business, there is a natural tendency to generate more ways than can possibly be managed. The number and permutation of success measures is surprisingly broad and you can forget that measuring performance takes time and effort - resources that are limited in most nonprofits. You are best to stick with the “less is more” approach and see how fruitful your results are.

Mission Success Measures

Success measures should always include the elements of your mission. Like the well-known blood pressure, pulse, and temperature at every visit to the doctor, these mission benchmarks are usually composed of no more than three or four success measures with a global texture. It is quite common to see success measures related to financial condition and total number of clients served. These indicators offer an effective way to quickly ascertain the overall performance and health of an economic development organization below:

(in thousands)	Year 1	Year 2	Year 3	Year 4
Attendance #	24	18		31
Total Revenue $	1,220	1,240	1,460	1,640
Earned $	450	521	797	970
Contributed $	770	718	664	671
Net Income $	(189)	(47)	65	(42)

Success measures tell a story. As shown by the example, attendance had a big jump a few years ago along with income. The earned-to contributed ratio seems to be improving, but shows dramatic change from year-to-year and net income has been consistently negative. Looking forward, the organization seems to anticipate continuing difficulties.

Like all success measures, the narrative told is always open to interpretation. Perhaps the organization is engaged in an effort to build its clients, which means planned deficit spending. Perhaps the organization is slowly sinking or maybe the organization’s growth is making it hard to concentrate on its core lines of business.

Is it reasonable to use IRS Form 990s in success measures? The good news is that they provide a good deal of information and are “a reliable source of information for basic income statement and balance sheet entries.”[175] They offer you a reasonable way to compare your agency to others, which is very useful. However, beyond these basic entries, beware.

Some may argue that there is too much financial information provided, but like all success measures, you want enough information to illustrate the organization’s performance. For the economic development organization, including four annual accounts was necessary because something quite worrisome was happening in the three most recent years. Had these success measures been in place, perhaps the board and executive director would have seen the challenge much earlier when the deficit was more manageable.

Lines of Business Success Measures

While the mission success measures offer a snapshot of the organization, they do not offer the full picture that comes from adding in the lines of business success measures. The table below illustrates selected success measures from a regional theatre. These particular indicators are ready for presentation to the board of directors at a meeting that will focus on developing a new strategic plan for the coming fiscal year. In this example, there are two primary categories for a theatre series. The first are the activities success measures that are mostly about counting; the second are the satisfaction success measures.

(In thousands)	Year 1	Year 2	Year 3
Activity: Attendance #	25.3	16.7	14.5
Subscriptions #	2.4	2.4	1.9
Single Tickets #	13.4	3.2	5.5
Income $	691	4	352
Net Income $	(143)	(155)	(177)
Satisfaction: Renewal %	70	73	56
Standing Ovations %	48	26	56
Intermission Walkouts %	7	16	8
Buy-to-Attend Ratio %	87	78	86

The success measures are neutral and offer the chance for interpretation and discussion. For example, what has caused the 46 percent drop in total attendance for the resident series from 25,300 in Year 1 to 14,500 in Year 3? How does this drop correlate to the improvement for series losses and improvement in renewal rate?

Notice in the second grouping of success measures that the criteria are about customer satisfaction. Renewal rate is the percentage of subscribers who renew from one season to the next. The way customers felt about the shows in Year 2 could be the cause of the steep drop from Year 2 to Year 3 because standing ovations were down, intermission walkouts were much higher, and the buy-to-attend rate – a measure of word of mouth –

was down. These are all indicators of satisfaction. The agency adjusted the repertory in Year 3 to a more pleasing mix, which shows in the results.

Though quantitative survey research might get at customer satisfaction in a way that is more generalizable and a qualitative interview study could yield more nuanced information, these are expensive and time consuming approaches. In the success measures above, the organization is taking advantage of readily available information; ushers can easily count standing ovations and intermission walkouts. The computerized ticket system can easily do the other two. In many respects, these success measures are actually measuring the outcome of a satisfied attendee.

What follows is another example of success measures built using the Excel Success Measures Template. This time the example comes from a health care agency:

Success Measures ($ in thousands)		2011-12	2012-13	2013-14	2014-15
Profit & Loss	Contributed Revenue $	5,057	5,451	5,368	5,675
	Non-contributed Revenue $	279	208	398	381
	Total Revenue $	5,336	5,659	5,765	6,056
	Total Expenses $	5,270	5,642	5,769	5,874
	Excess/(Deficit) $	66	18	(4)	182
Balance Sheet	Assets $	818	851	871	1,322
	Liabilities $	358	374	397	152
	Net Assets $	460	477	473	893
Capital Structure[A]	Total Margin $	0.01	0.00	(0.00)	0.03
	Current Ratio $	1.8	2.0	1.9	5.4
	Working Capital $	273	357	329	673
	Operating Reserves $	207	170	253	616
Lines of Business					
	Addiction Services: % Sobriety ≥ 90				60
	Clinic Services: # Clients				861
	Mental Health: # Clients				600
	Prevention Duluth: # Clients				2,315
	Prevention Midtown: # Clients				4,800
	Resources: $ Revenues				7,620

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (T. A. 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" (T. A. 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 & Notes

Note that the above success measures for the first three years of the lines of business are blank. This is because there is usually a paucity of information available when first starting to use the method. In the example below, the Victoria Theatre Association illustrates how its programming group works over a longer period:

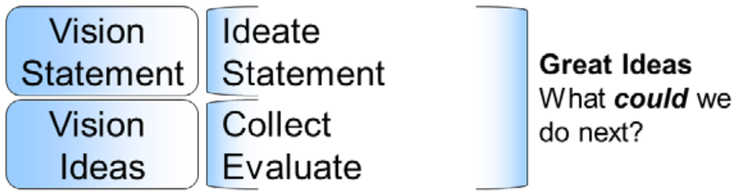
Success Measures	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Productions #	60	51	56	54	108	172
Performances #	378	330	345	324	468	470
Total Attendance #	311K	302K	311K	297K	462K	351K
By Brands: Broadway #	174K	179K	158K	151K	225K	179K
Community #	92.1K	70.2K	88.8K	90.2K	86.9K	106K
Select #	45.2K	52.6K	64.2K	56.2K	150K	66.5K
Total Income $	5.58M	5.89M	5.29M	5.41M	11.9M	8.47M
By Brands: Broadway $	4.82M	5M	4.32M	4.41M	8.7M	6.65M
Community $	172K	164K	191K	305K	261K	426K
Select $	592K	734K	777K	698K	2.9M	1.39M

Remember that there is an inclination to have too many success measures. So in the words of Albert Einstein, “Everything should be made as simple as possible, but not simpler.”[176]

GREAT IDEAS

What *could* we do next?

If you don't know where you're going,
you might wind up someplace else.
Yogi Berra



Vision Statement

Many writers in popular literature have long argued that vision is essential for effective leadership.[177] Says Peter Senge, it is "a force in people's hearts, a force of impressive power."[178] Scholars also give an equally strong vote of confidence to its importance.[179] As such it is now generally accepted that the "single defining quality of leaders is the capacity to create and realize a vision."[180] In other words, "leadership behavior that is not infused with vision is not truly leadership."[181]

The news that vision is the "essential *leadership* act"[182] would be cause for celebration if there were agreement on what it actually is. Gary Yukl says that vision is "a term used with many different meanings, and there is widespread confusion about it."[183] Multiple studies show that leaders have visions that vary widely from vague to concrete.[184]

Some like John Kotter define vision quite broadly as "a picture of the future."[185] Others like Henry Mintzberg take the view that it is simply strategy expanded:

> Vision sets the broad outlines of a strategy, while leaving the specific details to be worked out. In other words, the broad perspective may be deliberate but the specific positions can emerge. So when the unexpected happens, assuming the vision is sufficiently robust, the organization can adapt.[186]

Making sense of the differences are Jill Strange and Michael Mumford who reviewed a host of definitions and found the commonality that "vision may be conceived of a set of beliefs about how people should act, and interact, to attain some idealized future."[187] As Burt Nanus eloquently puts it, "vision always deals with the future. Indeed, vision is where tomorrow begins."[188] Put in the context of sustainable strategy, **your purpose is present tense – who you are; your vision is future tense – this is where you're going.**

Just how important is vision? According to John Kotter, underestimating the power of vision is one of the top three reasons why transformation efforts fail.[189] For Henry Mintzberg, "vision – expressed even in imagery, or metaphorically – may prove a greater incentive to action than a plan that is formally detailed, simply because it may be more attractive and less constraining."[190]

Leaders of organizations are paying attention. In 1989, 1,500 leaders from 20 different counties including 860 CEOs agreed that vision was crucial to success.[191] Popular writers then amplified the importance of vision, and by the mid-1990s, all top executives had visions of one sort or another.[192] The position that vision is essential has not abated in the new millennium.[193] In 2003, vision was the third most popular management tool used by 84 percent of the respondents from 708 companies on five continents. In 2011, vision remained a top three contender.[194]

Yet, not everyone is convinced of the power of vision. The venerable *Bass & Stogdill's Handbook of Leadership* barely makes note of vision in its 1,182 pages.[195] A study of 1,400 Australian public sector employees indicated, "articulating a vision does not always have a positive influence on followers."[196] Research on the Israeli Defense Forces show that a leader's vision is "not positively related to subordinate identification and trust, self-efficacy, and motivation and willingness to sacrifice."[197]

Even so, for many highly regarded practitioners, vision is specific enough to have a direct impact on the day-to-day efforts in the workplace:

> "A vision gives you a focal point . . . It tells people what's expected of them." Frederick Smith, Founder, Chairman, President, and CEO, FedEx
>
> "A vision provides a framework through which you view everything that goes on in the company and in the external environment." Raymond Gilmartin, former CEO, Merck & Co[198]

The vision referred to by these deans of corporate America is valuable "because an organization needs to know where it wants to be in order to act in a reasonably efficient manner to get there."[199] Experts define organizational aspirations by the drive to yield specific results.[200] This includes Ronald Heifetz's adaptive work where "a vision must track the contours of reality; it has to have accuracy, and not simply imagination and appeal."[201]

One common type of vision elevates the organization to someplace new.[202] It is "a new story, one not known to most individuals before."[203] Defined by idealism, these visions are "transcendent in the sense that they are ideological rather than pragmatic, and are laden with moral overtones."[204] These are the kind of visions that Walt Disney refers to in his often-quoted mantra, "If you can dream it, you can do it".[205]

Another common type of vision has an operational texture similar to formal planning, which "seems better suited to the tranquilities of peacetime than the disruptiveness of war, especially unforeseen war."[206] The visions that yield practical results are the type that Paul Valery referred to when he said, "The best way to make your dreams come true is to wake up."[207]

In all of this confusion, however, patterns develop. Scholar Gary Yukl developed a list of desirable characteristics from well-known experts. By grouping these characteristics around common themes, two major types of vision emerge:

Characteristics	Types
simple and idealistic; simple enough to be communicated clearly in five minutes or less; a picture of a desirable future; not a complex plan with quantitative objectives and detailed action steps; appeals to values, hopes, and ideals; emphasizes distant ideological objectives	Idealistic
challenging, but realistic; not wishful fantasy; an attainable future grounded in the present reality, addresses basic assumptions about what is important for the organization; focused enough to guide decisions and actions; general enough to allow initiative and creativity	Pragmatic

The belief that there are two primary types of vision is widespread among practitioners. Alan Guskin, former Chancellor of Antioch University, takes this point of view:

> I believe that one must be both idealistic and pragmatic. For, to be idealistic without being pragmatic leads to frustrated aspirations and unfulfilled promise; to be pragmatic without being idealistic leads one to be a hack and a bureaucrat. Being both idealistic and pragmatic leads to hope and optimism along with being realistic and focused.[208]

This paradoxical blend is also prevalent in strategic literature. For example, Glenn Rowe argues that strategic leaders show a "synergistic combination of managerial [pragmatic] and visionary leadership [idealistic]."[209] This is also consistent with Jim Collins and Jerry Porras' view that vision "consists of two parts: a 10-to-30 audacious goal plus vivid descriptions of what it will be like to achieve the goal."[210]

In summary, the vision statement is an overarching picture of the future while the vision strategies articulate how you're going make that future happen.

Ideate

Many characterize vision making as an almost mystical process with spiritual undertones. Says Po Bronson, "Most of us don't get epiphanies. We only get a whisper – a faint urge. That's it. That's the call."[211] Charlie Knight, a Ute medicine man, describes how he found his vision, "Everyone has a song. God gives us each a song. That's how we know who we are. Our song tells us who we are."[212] Jay Conger observes, "vision when articulated is surprisingly simple; yet when we examine the evolution of a specific leader's vision it appears to be a much more complex process. Events stretching as far back as childhood may influence its origins."[213]

Building the vision statement and strategies to achieve it begins with ideation. Ideation is what it sounds like – creating ideas - lots and lots of them. Along the way, you will ideate scores of possible ideas that you can then turn into the statement and strategies.

Stakeholders

The first method for ideating is listening to your stakeholders. Many agencies choose to advance their strategic planning process with a stakeholder analysis. This is because "the key to success in the public and nonprofit sectors – and the private sector, too, for that matter – is the satisfaction of key stakeholders."[214] Allison and Kaye declare there are two reasons to analyze your constituents: the benefit of outside perspective into opportunities or threats and the chance to build relationships.[215] In the sustainable strategy approach, your goal is to identify opportunities for taking the agency forward and ideas for addressing what holds the agency back.

The first step in a stakeholder analysis is to identify any and all entities that your organization impacts. A stakeholder is "any person, group, or organization that can place a claim on . . . attention, resources, or output . . . or is affected by that output."[216] For external stakeholders, Allison and Kaye suggest clients, funders, government regulators, individual donors, community leaders, competitors, potential collaborators, other agencies in related fields, previous staff, and board members.[217] Internal stakeholders will include paid and unpaid (volunteer) staff and suppliers.

Generally, you organize stakeholders into groups. Once differentiated, the analysis should ascertain their goals, their inclination to accomplish their goals, and their degree of power or influence to get their goals accomplished in the face of resistance. The following example comes from a theatre:[218]

Stakeholder	Principal Goals	Interest	Power
Theatre Patrons: 25,000 in the Chicago metropolitan area	Experience excellent and enlightening theatre	Mid	High
Staff: 13 nonprofit employees	Valuable work experience; Financial compensation	Mid	High
Company Artists: 40 actors, artisans, and directors	Enhanced artistic experience and stake in the organization	High	Low
Funders: foundation, corporate, government and individual donors	Return on investment	High	High
Board: 21 Chicago-area members	Ensure proper governing of the organization	Mid	High
Chicago Public School Students: 500	Become better students using drama-based strategies	Mid	Low
Partners: space rental	Generate a portion of revenue from the theatre's audience	Low	Low

There are two ways to ascertain stakeholder goals, interest, and power. First is make an informed guess. Second is to **reach out to a dozen or so members of each stakeholder group and ask them**. Most credible stakeholder analyses take the latter course of action.

External Stakeholders

One line of inquiry for external stakeholders is simply asking them about their goals for the agency and interest in seeing them accomplished. Allison and Kaye suggest the following topics that I have used successfully in my own practice:

1. Primary experience with the agency
2. Primary strengths
3. Primary weaknesses
4. Greatest challenges
5. Trends and developments in the field
6. Things to do more of, less of, or differently
7. Distinguishing characteristics compared to others doing similar work
8. How to increase awareness
9. How to better work with the stakeholder
10. Other issues to consider[219]

Bryson suggests that you ask your external stakeholders to "make a judgment about how well the organization performs against the stakeholder's criteria . . . Simply noting whether or not the organization does poorly, okay or very well against the criteria is enough to prompt a very useful discussion."[220]

Because influence is a recommended criterion for selecting stakeholders, funders and others with power often dominate the process while giving short shrift to the voice of the customer.

Fortunately, three out of four nonprofits use customer satisfaction surveys or focus groups for performance measurement.[221] It's quite possible that you can mine your most recent information if you have it. Looking at what's going on with those you serve doesn't mean looking at your customers or clients from a helicopter; it means seeing them eye-to-eye. This research typically requires either qualitative up-close-and-personal interviewing or quantitative broad-and-deep surveying.

Peter Drucker gets at the customer question by addressing the following three topics: "Who is our primary customer? Who are our supporting customers? How will our customers change?"[222]

If you didn't address these questions when you worked on the mission, you have a second opportunity to do so now. Even so, the issue of how your customers will change is different when referring to vision. Here, Peter Drucker is not referring to the life-changing difference that you make in their lives, but literally how they will transform:

> Customers are never static. There will be greater or lesser numbers in the groups you already serve. They will become more diverse. Their needs, wants, and aspirations will evolve. There may be entirely new customers you must satisfy to achieve results – individuals who really need the service, want the service, but

> not in the way in which it is available today. And there are customers you should *stop* serving because the organization has filled a need, because people can be better served elsewhere, or because you are not producing results.[223]

But even this doesn't quite get at customer voice. The most important advice Peter Drucker gives about customers is about staying close to them, which is what customer voice is all about, "Often the customer is one step ahead of you. So you must *know your customer* – or quickly get to know them. **Time and again you will have to ask, 'Who is our customer?' because customers constantly change**."[224]

Kristin Majeska, former executive director of Common Good: Investments in Nonprofit Solutions, calls this customer focus, which begins with identifying your customers and ends with researching what they value:

> *Identify your customers:* Separate your customers into distinct groups that you can picture, reach, and, above all, understand. Figure out what type of customers you serve most effectively, ask yourself why, and use that knowledge to serve your "best" customers exceptionally well and to improve your service for others...
>
> *Research: Don't assume you know what customers value.* Dig into information sources. Observe. Most important, ask your customers! Listen attentively to their answers and get to know the people who make up your market . . . and who will determine your success.[225]

One of the best ways to get close to your customers is to do exactly that. Yes, you can commission rich and rewarding research, but one of the most effective ways to understand your clients is to talk with them. I ran a performing arts center for 15 years, and though the work didn't require me at the theatre every night, that's where you'd generally find me – and not standing in the wings; I was in the lobby.

I knew what our customers liked about our organization and what they didn't like because I asked them. No wonder that the Victoria Theatre Association's customer base was the envy of much larger communities and that our renewal rate for subscriptions was regularly 20 basis points higher than most other practices. Our customers really were the stars.

Externally, I like to keep it simple. After introducing myself, explaining what I'm doing, and getting to know the customer a bit, **I begin by asking what he or she likes about the product, program, or service they are using**. This is a good icebreaker and the answers can inform your marketing strategies.

Second, I ask the customer what he or she doesn't like. Don't ask what he or she thinks you should do to improve this or that aspect of your services, products, or programs because this is hard to conceptualize. People have a tough time knowing how to improve things, but they definitely know what they don't like. Your customer's first response may be deferential as most people are uncomfortable giving honest criticism.

However, if you encourage the feedback authentically and persistently, you will prevail. Most of the time, a dozen or so interviews will give you a lot of information to work with.

If you are not getting thoughtful answers, the way you're asking the questions is likely flawed. I like to use open-ended questions, those that don't require a simple yes or no, when I'm trying to get at the customer experience. As you receive responses, be sure to probe answers to get more information and restate what you have heard to be sure you understand what the customer said *and* meant.

Third, I ask the customer what he or she would like. Unlike the question of what the customer didn't like, which is about the past, this question takes the customer into the future. For example, maybe she didn't like the ham sandwich lunch you served when you asked for dislikes, but here she responds that she would have liked a vegetarian selection.

Finally, I ask an "anything else" question around what I should have asked, but didn't, which usually yields a rich response. The four questions together generate a surprising amount of information if you are patient and listen carefully. A typical interview with a customer should take 20 minutes or so, maybe more if the customer is talkative, maybe less if they're not.

The identification and research of your customers is the first and most important thing you must do to prepare yourself for vision making. What Tom Peters and Robert Waterman say is as true for nonprofits as it is with for-profits, "Excellent companies *really are* close to their customers."[226]

Of course, you may not need to do hands-on surveying. You may already have done this or you may be able to have a discussion with your front-line programming staff and query them with the questions. Whatever your approach, take some time and summarize what you know.

There are other ways of getting a deeper understanding of your customers too. You can go to sources of information already available at your fingertips on the web, at your local chamber of commerce, and through other sources including the United States Census Bureau at www.census.gov and the Small Business Association at www.sba.gov. Moreover, you can talk to the best of the best agencies in your field to find out what they know.

You can also observe things. Take opening a restaurant for instance. You don't launch a restaurant just anywhere. You look for the volume of people who ordinarily will walk by your location especially at the times of day when you plan to be open. You look at the other business nearby and visit with the proprietors about how well they are doing. You are especially interested in whether there are any other restaurants nearby, what they charge, their menus, and the quality of the food. In addition, if there are no other restaurants nearby, you find out why because this may mean something about your probabilities for success.

It is important to conduct thorough research with your customers to develop a better understanding of your target market. In addition to direct conversations with clients, organizations should also consider focus groups, survey research, and test marketing. A focus group typically works this way:

> A focus group consists of eight to ten members of your target market (try to include both current customers and potential customers who don't know you at all) who are guided by a facilitator to answer open-ended questions about a specific topic. Focus groups are a low-cost means of conducting face-to-face interviews, with the additional benefit of interactions that occur within the group.[227]

Survey research is most often quantitative (although qualitative interviewing is gaining in popularity) and can range from a simple web-based protocol like SurveyMonkey to telephone surveys or direct mail. Research can be fast and cheap or slow and costly. The difference is usually in validity, reliability, and generalizability to the customer population. Quantitative research yields useful data that you can quickly analyze and is usually representative of your customers at large. On the other hand, qualitative interviewing generates more nuanced and granular information that may not represent the general views of your primary customer.

According to Kristen Majeska, "*Test marketing* is essentially performing an experiment. Rather than asking your customers what they think they'd do, you give them the opportunity, record the results, and if you're entrepreneurial, you figure out why they did what they did."[228] Because of its power to tell you what the customer will actually do, test marketing can be a powerful and very useful tool.

You'll also need to think about how you intend to promote your strategy to your intended market including sales, branding, and the like. Peter Brinckerhoff has a list of questions you can consider:

- How are you going to find out what your markets want and then give it to them?
- How are you going to let them know that you exist?
- How are you going to assure that they are happy and bring others back with them?
- Who are your target markets and who are your secondary markets?[229]

This often adds up to a marketing plan that, according to Christopher Lovelock, should include situation analysis, marketing program goals, marketing strategies, marketing budget, marketing action plan and schedule, and monitoring system. In particular, marketing strategies address the following:

- Positioning
- Target segments

- Competitive differentiation
- Value proposition: distinctive benefits
- Marketing mix
- Core product, supplementary services, and delivery systems
- Price and trade terms (if selling through intermediaries)
- Marketing communication: advertising, personal selling, promotion, and so on[230]

Because marketing is so important for the success of strategies related to your lines of business, it is a good idea to consider employing a marketing consultant. Most nonprofits do not have the expertise onboard to get to the heart of marketing strategies. Fortunately, many marketing firms offer a mix of pro bono and paid services.

The point here is that you have to get close enough to your stakeholders to get some great ideas for the future – and you don't have to go overboard and spend tons of money to do this.

Internal Stakeholders

Allison and Kaye suggest a survey of internal stakeholders to address the following general questions:

1. What is your vision for the future of our organization?
2. What are the major changes we may need to consider undertaking to achieve your vision?
3. What are our organization's key opportunities and threats – the political, economic, social, technological, demographic, and/or legal trends that may impact our organization's ability to achieve its mission?
4. What are our major internal strengths and weaknesses?[231]

Because many organizations are smaller relative to the number of staff, the staff is often involved directly in the process and a survey is unnecessary. In larger organizations, I have had good success with internal staff by gathering groups of 10-15 internal stakeholders for focus groups of 90 minutes.

Stakeholder Management

Once you've completed your analysis, you can work up a communication approach to your stakeholders using a very simple tool:

The influence versus interest grid helps determine the players, the people whose interests and influence that you *must* take into account in order to address the problem or issue at hand. It also highlights the coalitions to be encouraged or discouraged, the behavior that you should foster, and people whose buy-in you should seek or that you should co-opt. Finally, it provides some information on how to influence stakeholders to change their views.[232] The grid is quite easy to use as shown in the table below:

Influence	Keep Satisfied • theatre patrons • staff • board	Manage Closely • funders
	Monitor • students	Keep Informed • company artists • space-rental partner
	Interest	

Before wrapping up, summarize your four to six top Great Ideas in a table like the one below:

External Stakeholders	Internal Stakeholders
• Implement a box office and make exterior look more like a theatre (to ease patron confusion) • Provide annual reports to funders • Invite major funders to opening performances and rehearsals	• Increase administrative space • Search for new hires with diverse backgrounds • Invest in staff human resource benefits

BOBs

The third ideation tool, which investigates the best of the best (BOBs) in your field, is elemental according to Marcus Buckingham: “Conventional wisdom tells us that we learn from our mistakes [but] all we learn from mistakes are the characteristics of mistakes. If we want to learn about our successes, we must study successes.”[233] Leaders agree, as shown by a 2009 study of international executives where benchmarking was the most-used for-profit management tool. In 2015, it still held the number two spot.[234]

It’s likely that you are doing some of this already, as the number one way to learn about innovation in the nonprofit sector is from peer organizations.[235] The difference with the BOBs is in the choice of the peer – the BOBs are the best of the best in your field.

In terms of definitions, benchmarking is “a systematic, continuous process of measuring and comparing an organization’s business processes against leaders in *any* industry to gain insights that will help the organization take action to improve its performance.”[236] The idea here is that benchmarking *any* best process at *any* leading firm, nonprofit or for-profit, leads to specific practices that you can imitate.

Knowing the best of the best is different than benchmarking because you are looking at the best of the best *in your field only*. It is akin to survivor technique, which “draws upon the notion of survival of the fittest in a competitive environment.”[237] You seek out those firms in your field that have endured over the long haul and investigate the sources of their longevity. Then you drill down to find the reasons for their success including processes, structure, governance, everything and anything that might be the source for their *best-of-best-ness*. Oster defines this as "**those characteristics that are essential to successful performance** in that industry."[238]

In essence, you're trying to put yourself in the shoes of the people who work at your BOBs to see what they've done to achieve results. Amar Bhide's study found "many successful entrepreneurs spend little time researching and analyzing."[239] Four percent found ideas through systematic research for opportunities, five percent came from going with the flow of their industry, 20 percent found ideas serendipitously, and 71 percent came from an idea encountered at an earlier job.[240]

What do you do with all this wonderful information? Why imitate it, of course. After all, seven out of 10 ideas for new ventures in Amar Bhide's study of entrepreneur founders came from an earlier job.[241] This goes for nonprofits as well. A study on nonprofit innovation from Lester Salamon, Stephanie Geller, and Kasey Mengel surveyed 417 nonprofit organizations and found the most common way to learn about innovations was from peer organizations.[242]

I worked with an agency once that was all about finding the next killer application, that new venture that would take them to the next level. Money was a big issue and the dominating discussion was how best to amplify earned income. It turned out that the executive director had never looked at the best practices in her agency's field. In her first telephone call, she learned that she was charging 25 percent less than the best practice in her field for an identical service.

Most of the strategies that you'll come up with will not be killer applications. W. Chan Kim and Renée Mauborgne found that nearly all (86 percent) of new for-profit ventures were "line extensions – incremental improvements to existing industry offerings – and a mere 14 percent were aimed at creating new markets or industries."[243]

Even if you learn nothing in your investigation of best practices, you may at least temper the natural inclination to be overly optimistic. This happens because we tend to overstate our talents, misunderstand the real cause of events, inflate the degree of control we think we have over things, and discount the role luck plays, and thus fall prey to what Dan Lovallo and Daniel Kahneman call "delusions of success."[244] In other words, when "pessimistic opinions are suppressed, while optimistic ones are rewarded, an organization's ability to think critically is undermined."[245]

Begin by identifying two BOBs in your field and justify your choice. One of the best ways to identify these best of the best agencies is by asking the executive director which are superior in the field, which does he or she admire nationally, internationally, statewide, or even locally. You can also go to Charity Navigator and find ratings on organizations like yours; there is a small possibility that your agency might even be there already.

The first thing to do with your BOBs is to investigate their lines of business for commonalities. What programs are the BOBs doing that you are not? Are any of your programs unique? Knowing the LOBs for your BOBs may give you some ideas about what you should start or stop.

Below is a BOBs analysis of academic centers focused on nonprofit capacity. After gathering the information on lines of business, the agency affinity grouped the results:

Center One	Center Two	Center Three	Center Four
Research			
• Surveys and studies • New research	• Surveys and benchmarking • Research	• Practitioner-focused research	• Research and studies
Publications			
• Books • Reports and surveys • Op-ed articles • Proceedings	• Newsletters	• Papers • Reports and surveys • Case studies • Web-based simulations	• Information and reports
Executive Education			
• Business ethics faculty workshop • Graduate certificate	• Fellows program	• CEO seminar • Senior leadership-team seminar • Custom programs	• Partnership • Retreats • Presentations at member agencies
Resources			
• Links • Lists	• Toolkit • Articles • Links		
Convenings			
• Lectureships • Symposium			• Biennial conference
Student Education			
• Graduate and Undergraduate • Faculty education			
Other			
• Scholarships and prizes			• Consulting and public speaking

Notice that the agency arranged the LOBs across the columns to see what the BOBs had and didn't have compared to their agency. As you can see from analyzing the BOBs above, there are at least three things the agency had to seriously consider for further investigation: research, publications, and executive education. That is, if the agency wanted to be a best practice.

Next, study the competitive advantages of each of your BOBs to investigate possible ideas. What makes them better than their rivals? The table bellows shows what the academic center agency discovered:

<table>
<tr><th>Center One</th><th>Center Two</th><th>Center Three</th><th>Center Four</th></tr>
<tr><td colspan="4">Influential Leadership</td></tr>
<tr><td>• Advisory board
• Affiliation with the Nonprofit Academic Centers Council (NACC)</td><td>• Board of directors</td><td>• Academic advisors
• Advisory council</td><td>• Advisory board
• Senior-staff leadership</td></tr>
<tr><td colspan="4">Reporting Relationships</td></tr>
<tr><td>• Reporting relationship to university-level leadership</td><td></td><td></td><td>• Reporting relationship to university-level leadership</td></tr>
<tr><td colspan="4">Unique Products</td></tr>
<tr><td></td><td>• Annual national survey</td><td>• Practitioner-focused research</td><td></td></tr>
<tr><td colspan="4">Other</td></tr>
<tr><td>• Reputation as one of the early leaders in the field
• Founding member of NACC</td><td></td><td></td><td>• Interdisciplinary focus university-wide</td></tr>
</table>

In looking at the competitive advantages of the BOBs, the agency might find a potential idea for a vision strategy to strengthen its leadership capabilities.

Because competitive advantages are rarely stated, you have considerable latitude to discuss what makes the BOBs special. Try using the process you went through (strengths, resources, core competencies, competitive advantages). Is your competitive advantage different from those of the BOBs?

The final issue to consider are your BOBs' four basic financial items: revenue, expenses, net revenue, and net assets. These can tell you a bit about the strength of their bottom lines and generate ideas as you dig into the information. What follows is a study of three HIV sector agencies from their most recent IRS 990s posted on GuideStar ($ in thousands):

AIDS Resource Center WI	Fenway Health	Gay Men's Health Services
Revenue: 20,962	Revenue: 61,631	Revenue: 24,039
Expenses: 18,251	Expenses: 58,251	Expenses: 25,181
Net Revenue: 2,711	Net Revenue: 3,380	Net Revenue: (1,143)
Net Assets: 9,634	Net Assets: 43,197	Net Assets: 17,537

Investigating the best of the best (BOBs) in your industry reveals your competitors' strengths and stimulates ideas for your own organization.[246] A theatre company could have their pick of competitors, but the trick is choosing ones that truly excel at similar things that you're trying to accomplish and that are financially strong. Here's an example of a Chicago theatre's LOBs compared with two other theatres.

Chicago Theatre	BOB 1	BOB 2
Lines of Business		
Annual Season of 4 Plays	Annual Season of 8-9 Plays	Annual Season of 8-9 Plays
Flex Pass Subscribers	Subscribers	Subscribers
MyLine	Student Subscriptions	SCENE
New Work Reading Series	New Stages Readings	Act OUT
Living History Program	General Theatre Studies	Young Playwright Exchange
Sunday Scholar Program	Context	Talkbacks
Company Artists	The Artistic Collective	Acting Company
Research (Dramaturgy)	Creative Partners	Conservatory
Annual Fund	Annual Fund	Annual Fund
Special Events	Special Events	Special Events
Sponsorship	Sponsorship	Sponsorship
Foundation Support	Foundation Support	Foundation Support
	Planned Giving	Planned Giving
	Narrations	Capital Giving
	Youth Arts Council	Student Matinees (At theatre and touring to schools)
	Young Critics	Young Performers Studio
	Commissions of New Work	Play Makers (Camp)
	Playwrights Unit	Slam Poets
	Latino Theatre Festival	Staging STEM
	Presenting successful work from other theatres (From U.S. and abroad)	360º Workshops and Residencies
	Access Performances	Access Performances
		Rentals

Competitive Advantages		
• Chicago's only theatre devoted to work inspired by history	• One of the nation's largest and oldest nonprofit theatres • National and international recognition	• Texas's largest nonprofit theatre • Revenue generating education programs

Chicago Theatre	BOB 1	BOB 2
Financials		
Revenue: 1,360,995	Revenue: 23,291,558	Revenue: 15,388,217
Expenses: 1,371,786	Expenses: 23,107,444	Expenses: 15,338,000
Net Revenue: (10,791)	Net Revenue: 184,114	Net Revenue: 49,417
Net Assets: 632,951	Net Assets: 38,715,519	Net Assets: 43,375,356

Possible Ideas

Comparing the theatre company in Chicago to its BOBs illuminated several additional LOBs, which the Chicago theatre could replicate or revise to fit the organization's needs. Imperatively, both BOBs have twice as many annual productions supplementing their earned income. Additionally, both BOBs have built security, as evidenced by their net assets. Granted, both BOBs are older and established, but it's never too early to build an endowment and safeguard your efforts.

Furthermore, the majority of the BOBs' LOBs are low-cost, low-staff initiatives like programs for patrons under 35 or community blogs. Each BOB also is dedicated to education initiatives. Finally, each BOB has one or two high-risk, high-reward programs like the Latino Festival or conservatory. Considering all this, our theatre in Chicago has the following additional great ideas:

BOBs Great Ideas Possibilities	
• Increase season of work • Raise endowment funds • Create a festival	• Have teachers, students, subscribers and donors write entries for a monthly blog • Start a theatre camp

Stop Fix

The fifth ideation approach looks at your portfolio of programs. Although it may seem obvious that you should put everything on the table when working on your vision strategies, do not forget that stopping things you are currently doing is a very potent strategy itself - and this includes considering your lines of business. A strategy analysis I conducted recently for a very small agency identified 20 strategies including six current ones, eight in various stages of exploration, and 10 new ideas.

The board and staff evaluated all of these strategies and they made the decision to reduce the volume to 10 strategies total including scrapping four current lines of business. The process of reaching this decision included qualitative interviews with the key decision makers and quantitative rankings in person and through the web.

The specific lesson of this example is that every strategy you are currently doing, those you're investigating, and those slated for the future should be under consideration when deciding what goes forward.

In the last two years, 68 percent of the nonprofits in a study on innovation were unable to move their ideas forward. The four most salient fundraising obstacles included lack of funds, growth capital availability, narrowness of government funding streams, and foundations that encourage innovation but don't sustain it.[247]

When we want a ready source of funding, our eyes commonly look outside of the agency and toward our funders for support. Sometimes we'll also cut costs through things like negotiating for lower rent or cutting overhead. There's nothing wrong with this, but we often overlook a readily available source of funding (and a quick boost to operational effectiveness), which is to consider eliminating underperforming or inconsequential lines of business.

Beware of the sunk cost fallacy, also known as escalation of commitment. This counterproductive behavior occurs when people increase their investment in a lost cause because of the effort they've already put toward the initiative.[248] Be open to the idea of shutting down any fully developed or emerging strategies – you cannot be all things to all people.

It is certainly true that competitive advantage is all about how you are better than your rivals. Having more lines of business than any other agency may accomplish this, but it's not likely to be viable for the long term. The essence of strategy may indeed be "choosing to perform activities differently or to perform different activities than rivals." However, this doesn't mean doing everything for everyone. What then is the key to strategy? Remember the words of Michael Porter, "**The essence of strategy is choosing what *not* to do**."[249]

Before you make your decision about which – if any – of the strategies (including those you are currently doing and those you might want to do), take time for portfolio analysis. These tools include simple ones like the ubiquitous Growth-Share Matrix from the Boston Consulting Group shown below:[250]

		Relative Competitive Position (Market Share)	
		Low	High
Business Growth Rate	High	"Question Marks"	"Stars"
	Low	"Dogs"	"Cash Cows"

There are many variants to this simple four-quadrant matrix. One of the most useful is the similar Portfolio Analysis Matrix from Robert Gruber and Mary Mohr[251] that some people call the Double Bottom Line Matrix:

		Benefits (Social Value)	
		Low	High
	Positive	Sustaining (Necessary evil?)	Beneficial (Best of all possible worlds)

Business Growth Rate	Negative	Detrimental (No redeeming qualities)	Worthwhile (Satisfying, good for society)

A more nuanced and my go-to prescriptive three-step portfolio analysis tool is the MacMillan Product Matrix:[252]

<table>
<tr><td></td><td colspan="4">1. Program Attractiveness</td></tr>
<tr><td></td><td colspan="2">High</td><td colspan="2">Low</td></tr>
<tr><td></td><td colspan="4">2. Alternative Coverage</td></tr>
<tr><td></td><td>High</td><td>Low</td><td>High</td><td>Low</td></tr>
<tr><td>3. Strong Competitive Position</td><td>Aggressive Competition</td><td>Aggressive Growth</td><td>Build Up Best Competitor</td><td>Soul of the Agency</td></tr>
<tr><td>3. Weak Competitive Position</td><td>Aggressive Divestment</td><td>Build Strength or Bail Out</td><td>Orderly Divestment</td><td>Joint Venture – Foreign Aid</td></tr>
</table>

In step one, you determine program attractiveness on basis of internal fit (mission congruence, competencies, overhead sharing) and external fit (support group appeal, fundability and funding stability, size and concentration of client base, growth rate, volunteer appeal, measurability, prevention versus cure, exit barriers, client resistance, self-sufficiency orientation of client base).[253]

Step two is to determine alternative coverage, which simply means the number of agencies with similar programs.

In step three, you determine competitive position, which requires “some clear basis for declaring superiority over *all* competitors.”[254] Within each of the cells is the prescribed strategy to deal with the lines of business. In general, weak competitive position is the deciding factor.

By following these steps, you can generate opportunities for each of your current lines of business. The example below comes from a theatre company:[255]

<table>
<tr><td></td><td colspan="4">1. Program Attractiveness</td></tr>
<tr><td></td><td colspan="2">High</td><td colspan="2">Low</td></tr>
<tr><td></td><td>• Annual season
• Flex Pass Subs
• Fundraising</td><td>• Lobby Displays
• Research</td><td></td><td>• Company Artists</td></tr>
<tr><td></td><td colspan="4">2. Alternative Coverage</td></tr>
<tr><td></td><td>High</td><td>Low</td><td>High</td><td>Low</td></tr>
<tr><td rowspan="2">3. Strong Competitive Position</td><td>Aggressive Competition</td><td>Aggressive Growth</td><td>Build Up Best Competitor</td><td>Soul of the Agency</td></tr>
<tr><td>• Annual Season
• Flex Pass Subs
• Fundraising</td><td>• Lobby Displays
• Research</td><td></td><td>• Company Artists</td></tr>
</table>

	Aggressive Divestment	Build Strength or Sell Out	Orderly Divestment	Foreign Aid or Joint Venture
3. Weak Competitive Position		• Programming for Audiences Under 35 • Scholar Sessions	• New Work Reading Series	

As an example of how to generate possible ideas, consider the second cell to the right of the weak competitive position row. Here you have two ideas: build strength or sell out of programming for audiences under 35, and build strength or sell out of scholar sessions.

Using the MacMillan Product Matrix, make four to six conclusions about what you learn and show them as Great Ideas in a table like the one below:

Stop Fix Great Ideas Possibilities	
• Cut new work reading series • Ramp up education programs • Increase program of work to increase subscriptions • Improve strategies for scholar events	• Report dramaturgical research and audience impact findings to funders • Invite teachers and students to Sunday performances that feature scholars • Ramp up programming for audiences under 35

Great Questions

The fourth method is great questions, which begins with exploring questions from the earned income literature. J. Gregory Dees offers seven questions that can stimulate the process of finding opportunities:

1. How well are you serving your clients, customers, etc.?
2. Are you reaching all of the people you would like to reach?
3. Have the demographics (e.g. age, ethnicity, preferred language, educational levels, incomes, wealth) changed in the community you serve or want to serve?
4. Have social values, moods, perceptions, or politics changed in a way that hampers your effectiveness or creates new opportunities?
5. Are your staff members unhappy or frustrated in their work?
6. What kinds of innovations are working in other fields?
7. Do we have any new scientific knowledge or new technology that could improve the way you operate?[256]

Allison and Kaye propose answering ten questions as part of a visioning exercise:

1. How would the world be improved or changed if we were successful in achieving our purpose?
2. What are the most important services that we should continue to provide, change, or begin to offer in the next three years?

3. What staffing and benefits changes do we need to implement to better achieve our purpose?
4. What board of directors changes do we need to implement to better achieve our purpose?
5. What resource development (fundraising) changes do we need to implement to better achieve our purpose?
6. What facilities and technology changes do we need to implement to better achieve our purpose?
7. What infrastructure, systems, or communication changes do we need to implement to better achieve our purpose?
8. How could we more effectively or efficiently provide our services? If we could only make three changes that would significantly impact our ability to provide quality services to our clients/customers, what would those changes be?
9. What makes us unique (distinguishes us from our competition)?
10. What do our clients/customers consider most important in our provision of services? What do our customers need from us?[257]

The great Joseph Schumpeter[258] came up with five categories of questions:

1. Creating a new or improved product, service, or program
2. Introducing a new or improved strategy or method of operating
3. Reaching a new market, serving an unmet need
4. Tapping into a new source of supply or labor
5. Establishing a new industrial or organizational structure[259]

Richard Brewster also takes a five-question approach to help you find the “best match between what it does very well . . . and available financial resources and other forms of support:”[260]

1. Modify the nature of a program, particularly to improve quality
2. Add a new program
3. Withdraw from programs
4. Increase the number of people to whom programs are delivered
5. Secure more resources[261]

The easiest Great Question approach to use comes from Igor Ansoff:[262] “There are four basic growth alternatives open to a business. It can grow through increased market penetration, through market development, through product development, or through diversification.”[263] The table below illustrates the Ansoff Matrix:

	Current Products	New Products
Current Markets	**Market Penetration** current products to more customers like current customers	**Product Development** new products to current customers

New Markets	**Market Development** current products to new kinds of customers	**Diversification** new products to new kinds of customers

Although there are no hard and fast rules about which quadrant is better, diversification is the most difficult to pull off because you are doing something you have never done before. Market penetration is the least difficult because you are doing more of what you're already doing. In general, market penetration is the most preferred strategy followed in order by product development, market development, and diversification is the least preferred.[264] Here is an example from an arts agency:[265]

	Great Ideas from the Ansoff Matrix	
	Current products	New products
Current Markets	Market Penetration • Increase annual productions • Expand education programs • Apply for more funding/sponsorship • Expand MyLine programming	Product Development • Festival around historical holidays • Student matinees • Digital study guides and playbills • Resource center for further study
New Markets	Market Development • Build a larger theatre in a new neighborhood	Diversification • Partner with DePaul • Screen films inspired by history • Start a playwriting contest • Build neighborhood partnerships • Create student productions • Start a theatre camp • Sell vintage clothes

The vast majority of the strategies you will identify will not be killer applications. There is nothing wrong with this; most of your low hanging fruit is of the sustaining variety.[266] As Tom Peters and Robert Waterman observed nearly three decades ago, "Organizations that do branch out (whether by acquisition or internal diversification) but stick very close to their knitting outperform the others."[267]

Before moving to the next ideation tool, identify four to six Great Ideas in a table like the one below:

GQs Great Ideas Possibilities	
• Expand current programming (productions and education services) • A festival around a historical holiday • Partner with other social/health causes	• Perform student matinees • Screen films inspired by history • Build a larger theatre in a new area

SPOT

One of the often-used ideation tools is the SWOT model (strengths, weaknesses, opportunities, and threats) analysis. SPOT analysis is a slight variation that uses problems instead of weaknesses. We do this because weaknesses (causes) are much more difficult to identify than symptoms of weaknesses (problems).

The SPOT tool begins with the assumption that there are two contexts for every organization: internal and external. Great ideas possibilities come from finding internal strengths to build upon and problems to address, and external opportunities to seize and threats to mitigate.

Doing a SPOT analysis upfront can be a useful source of ideas with a few caveats.

First, strengths and problems analysis “may be unreliable, all bound up with aspirations, biases, and hopes . . . Who can tell without actually trying, if the strength will carry the organization through or the weakness will undermine its efforts”.[268] Because there is ample testing in the gap analysis at the end of the process, any ideas that arise from this ideation will have their day in court.

Second, the analysis may cause a focus on your problems, which is self-defeating:

> Few strategic concepts have taken hold of strategic planning quite so thoroughly as the SWOT model. It offers an appealing balanced approach – identify your strengths and weaknesses, and be aware of your threats and opportunities. But in practice it doesn’t deliver. In fact, it tends to divert attention to unproductive areas . . . like a kindly, well-meaning family doctor who inadvertently gets you thinking about disease when you should be thinking about health.[269]

Of course, the horse was out of the barn when you investigated competitive advantage in building your mission. Moreover, as the Fritz Perls says, “Self-awareness is curative.”[270] Thus, knowing that the possibility of focusing on problems cures you from that possibility. Even so, if you are worried about this, don’t use this tool and simply skip the problems question. This is quite all right as the question of problems will definitely come up in the testing of strategies later on.

Classic

There are a variety of ways to develop strengths and problems. First, you should refer back to the work you completed earlier in the Great Start report to find your competitive advantage. If you need more ideas, brainstorm.

Second, use the Organizational Capacity Assessment Tool (OCAT), which McKinsey & Company describes as:

> a free online tool that helps non profits assess their operational capacity and identify strengths and areas for improvement. The tool is free of charge. It is an in-depth, online survey that allows the Board, leadership and staff of a non-profit to measure how well their organization performs against best practices.[271]

Fully online and capable of easily accommodating multiple users whose answers are confidential, the following is an example of the basic output from an organization that had nine raters:

OCAT Summary Results		Avg.	Level
1	Aspirations	2.6	Moderate
2	Strategy	2.6	Basic
3	Leadership, Staff, and Volunteers	2.8	Moderate
4	Funding	2.6	Moderate
5	Values	2.8	Moderate
6	Learning and Innovation	2.9	Moderate
7	Marketing and Communication	2.8	Moderate
8	Managing Processes	2.8	Moderate
9	Organization, Infrastructure, and Technology	2.6	Basic

You can also use the OCAT to delve deeper to show the highest and lowest scores with high levels of consensus among participants:

OCAT Summary Results		Avg.	High/Low
1	Aspirations	2.6	
2	Strategy	2.5	
2.2	Aligning theory of change	2.1	Low
2.3	Logic model	2.0	Low
2.7	Specific goals aligned to mission and vision	2.0	Low
2.13	Use of strategic plan	1.9	Low
3	Leadership, Staff, and Volunteers	2.8	
3.6	CEO external recognition	3.8	High
3.18	Board contribution to the organization	2.2	Low
3.25	Board operations	3.5	High
3.29	Diversity of staff skills and experience	3.7	High
3.30	Staff quality	3.3	High
3.35	Pipeline of talent	1.9	Low
3.37	Incentive systems	1.8	Low
3.39	Talent management plan	1.8	Low
4	Funding	2.6	
4.1	Fundraising skills	2.1	Low
4.2	Fundraising systems	2.0	Low
4.3	Strategic funder base	3.3	High
4.4	Sustainable funder base	3.3	High
4.6	Financial management systems	2.1	Low
5	Values	2.8	
5.5	Orientation toward external stakeholders	3.8	High
5.7	Organizational impact	3.6	High
6	Learning and Innovation	2.9	
6.4	Research skills: data gathering	3.6	High

OCAT Summary Results		Avg.	High/Low
6.6	Monitoring of landscape	3.3	High
6.12	Identify new program opportunities or adjustments	3.3	High
7	Marketing and Communication	2.8	
8	Managing Processes	2.8	
8.4	Regulatory compliance	3.5	High
8.6	Financial controls	3.5	High
8.9	Insurance	4.0	High
8.10	Backup systems	3.4	High
8.11	Disaster preparedness	2.1	Low
9	Organization, Infrastructure, and Technology	2.5	
9.3	Cross-functional coordination	2.1	Low
9.6	Information technology (IT)	1.9	Low
9.8	Effective use of social media	2.1	Low

Now combine all of your ideas and narrow them down to no more than three or four strengths and three or four problems ranked in order of prominence.[272]

Internal Strengths	Internal Problems
1. The city's only theatre dedicated to plays inspired by history 2. Artistically driven administrators 3. Brings art and culture to local classrooms 4. Works with talented performers 5. Award-winning theatre 6. Easily accessible (public transportation, restaurants, etc.)	1. Capacity doesn't meet demand 2. Staff is spread too thin (worry of burnout) 3. Not enough foundation/corporate support 4. Programs are underdeveloped because of lack of resources (money and staff)

Agencies typically examine opportunities and threats external to the agency. Keep in mind that opportunities and threats are *not* themselves ideas, but trends or conditions in the external environment that you might seize upon to become great ideas. For example, a program for active aging baby boomers is not an opportunity; a trend in the rising number of baby boomers who want to be active is. A decline in the number of Millennials could be a threat to your current programs.

Opportunities are the favorable trends or conditions in the external environment that you might use to your advantage. Threats are external trends or factors that make the agency vulnerable. For example, an opportunity might be your state legislature moving slowly from one party to the other. However, it might be a threat if the move is not the one you want.

In the classic approach, you examine the general environment consisting of "seven environmental *segments*: demographic, economic, political/legal, sociocultural, technological, global, and physical."[273] Some people advocate a different set called the PEST approach, which covers political, economic, social, and technological segments.

It is a good idea to conduct a PEST analysis and discuss what is going on in the general environment that could affect your agency. The primary question you want to answer is straightforward: **What is going on out there (external) – good and bad – that could affect our agency in here (internal)?**

Be careful about misusing the terms: “An opportunity is a condition in the general environment that, if exploited effectively, helps a company [and] a threat is a condition in the general environment that may hinder a company’s efforts.”[274] Thus, an opportunity is something occurring outside of your agency that you might take advantage of; **it is not an internal goal**.

Take for example the trend of growing income equality. This could be an opportunity or a threat for your agency, but in either case, it is a trend external to your agency. Offering a new service for those negatively affected by the trend may be a great idea that comes from the analysis.

Again, the easiest tool to use to generate opportunities and threats is the BAM method in Appendix A. Ask the participants to do research about opportunities and threats before getting together. Then generate ideas, combine them, and narrow them down to no more than three or four opportunities and three or four threats ranked in order of prominence. Here is an example of the results:[275]

External Opportunities	External Threats
1. Resurgence in subscription/membership models (e.g. Netflix, Hulu) 2. Economic recovery 3. Majority groups shifting 4. New neighborhood restaurants/cafes	1. Funding for arts in schools 2. Competition among city’s cultural offerings (funding/leisure dollars) 3. Entertainment easily accessible (home/digital platforms) 4. Increase in nonprofits

Typically, you want to build on strengths, address problems, take advantage of opportunities, and minimize threats. The trick now is to convert the SPOT information into four to six usable ideas like in the example below:

SPOT Classic Great Ideas Possibilities	
• Add more shows to meet demand • Increase available seating • Expand student programs • Leverage reputation as the only theatre devoted to plays inspired by history	• Market subscriptions more • Partner with universities and city colleges to find interns, actors, volunteers (to relieve full-time staff)

BAM

The SPOT BAM is a two-question approach using a group of participants to generate ideas. How can we expect the average group of people often including board members who spend just 16 hours a year around the board table to engage constructively in a task that could have long-term consequences?[276] Finding a solution that invites the board's thoughtful input is important because one of the key ways that the board adds value is to "encourage experimentation, trying out new approaches and alternative ways of dealing with issues."[277]

Ultimately, it's all about the questions you ask. Bryson's first two questions of his five-question method are relevant:

1. What are the practical alternatives, dreams, or visions we might pursue to address this strategic issue, achieve this goal, or realize this scenario?
2. What are the barriers to the realization of these alternatives, dreams, or visions?[278]

Peter Drucker also uses a two-part method when he says "genuinely entrepreneurial businesses have two 'first pages' – a problem page and an opportunity page – and managers spend equal time on both."[279] **Put simply, *what holds you back* and *what takes you forward*?** These two questions also implicitly address Michael Porter's assertion that "operational effectiveness and strategy are both essential."[280] As noted earlier, if you have concerns about poisoning the well by focusing on problems, skip this question and only use the "what takes you forward" question.

The two-question approach usually employs the BAM process shown in Appendix A and generated the results shown below for a theatre company in Chicago. Before grouping, the participants generated 76 ideas; after grouping, there are 14 credible ideas worthy of further discussion. Not bad for a process that engaged a great many people and took roughly an hour to conduct. Now it's your turn![281]

SPOT BAM Ideas		
Ideas (Affinity Grouped)	Group Name	Voting
Increase administration space; make exterior look more like a theatre; generate a larger audience by having more seats to sell; increase season of work; add more shows to meet demand: increase available seating; implement a box office; obtain a liquor license; create a resource center for students/life-long learners; expand current programming; build a larger theatre in a new area; gain new donors through a capital campaign	A New Home	3
Go after a Regional Tony Award; increase advertising; strengthen branding; advertise Jeff Awards; promote strength of artistic staff; leverage reputation as the only theatre devoted to plays inspired by history; tour productions; report dramaturgical research and audience impact findings to funders	Strengthen Reputation	2
Create a festival of plays around a historical holiday; partner with other social/health causes; begin an annual playwriting competition	Extraordinary Events	1
Search for new hires with diverse backgrounds; cut new work reading series; Increase program of work to increase	Get in the Black	0

SPOT BAM Ideas		
Ideas (Affinity Grouped)	Group Name	Voting
subscriptions; identify additional funding opportunities; raise endowment funds; provide annual reports to funders; invite major funders to opening performances and rehearsals; ask bigger theatres for advice; partner with other storefront theatres on events to lessen financial burdens		
Cut unnecessary programs; implement staff incentives; create a structured volunteer program; hire additional interns; invest in HR, develop employee reviews	Prevent Staff Burnout	0
Partner with universities and city colleges to find interns, actors, volunteers; look at information on website to ensure it promotes equality; align season of work with diversity initiatives	Focus on Diversity	0
Have enough seats to accommodate growing audience; market subscriptions more; have teachers, students, subscribers and donors write entries for a monthly blog; survey audiences to find out their likes and dislikes	Gain Customer Loyalty	0
Late night historical satire; history trivia nights; screen movies inspired by historical events; develop a young professionals board; implement student matinees; start a theatre camp	Engage the Next Generation	0
Expand student programs; implement student matinees; develop teacher workshops; invite teachers and students to Sunday performances that feature scholars; improve strategies for scholar events; ramp up programming for audiences under 35	Program Development	0
Update website; increase use of videos; drive patrons to social media; create digital study guides and playbills	Strengthen Digital Assets	0

Vision Statement

You have used some or all of the six tools to generate dozens of strategy ideas, which will be very useful as you decide the best ones to use moving forward. Before doing this, however, you need to construct your vision statement. The vision statement is a “guidepost showing the way.”[282] It doesn’t have to be lengthy or particularly descriptive. Recall Henry Mintzberg’s advice, “vision – expressed even in imagery, or metaphorically – may prove a greater incentive to action than a plan that is formally detailed, simply because it may be more attractive and less constraining.”[283]
Sustainable strategy splits the vision into three elements:

1. The vision statement that is a clear picture of the future and is typically idealistic in texture. The vision statement usually has a three to five year timeframe give or take.
2. The vision strategies bring the picture to life and are typically pragmatic. Vision strategies usually have a shorter timeframe of one to two years.
3. The vision goals for each strategy have a timeframe of no more than a year. These goals become part of the operating plan.

In sum, the vision statement tells you what direction you're heading in; the vision strategies provide specific directions, and the vision goals tell how you will make progress towards achieving the strategies in the shorter term.

Like it or not, making a vision statement requires that you "*see* and *feel* . . . it requires a mental capacity for synthesis."[284] It is not so much a deductive process as it is an art. Sometimes you will find the vision statement in just one idea out of the dozens you generated. Sometimes you will step back and see a theme emerge from all of the ideas – the "**shared picture of the future**."[285]

Thinking back to the types of visions, you will recall that visions are often idealistic or pragmatic. Here are four **idealistic** vision statements:

- Be the best practice nationally that delivers comprehensive solutions
- To the next level of excellence through creativity and leadership
- The best of all
- Iconographic

Here are four **pragmatic** ones:

- Stabilize the core with diversified funding sources
- Consolidate operations to prepare for the next level
- Make effectiveness count
- More funding – more advocates

The **first step is to gather together all of your information** from the six tools: Stakeholders, Contexts, BOBs, Great Questions, Stop Fix, and BAM. Usually you do this immediately following the BAM using post-it notes.

Second, look for dominant themes by reviewing what you learned from the ideation tools. As you review the work, are there any prevailing ideas that arise? Perhaps you see a pattern of fixing things to ready your agency for the next level? Maybe you're actually at a point of going to that level?

A particularly good place to look for themes is the affinity-grouped BAM ideas. It could be that one or two of your affinity groups form the vision statement, or that there is a wild card within all of the ideas that adds up to the vision. For example, out of more than 60 ideas to the question of "what takes us forward," a housing agency focused on just one idea for its vision statement: *to be the model for fair housing*.

Third, ideate specifically for the vision statement. Come up with ideas to fill in the blanks for the following:

- In three years, our agency will be _________.
- The difference between our agency today and three years from now will be ____________.

Fourth, polish your best candidates and put them into statements of *no more than five words* give or take and make sure each has a definite *future tense*.

Fifth, test each statement against the following checklist from Jim Collins and Jerry Porras:

- Does it stimulate forward progress?
- Does it create momentum?
- Does it get people going?
- Does it get people's juices flowing?
- Do they find it stimulating, exciting, adventurous?
- Are they willing to throw their creative talents and human energies into it?[286]

Finally, if you're not satisfied with your choices, start over. If you are satisfied, choose the best one and move forward to your vision ideas. By no means should you discard any of the information you've collected – you will use it all shortly.

Vision Ideas

Collect

The first thing to do at this point is bring together all of the credible ideas from the ideation process including the six summary tables. Ask yourself the following questions:

- What ideas did you get from talking to your **stakeholders**?
- What about **contexts**? What external trends and conditions are opportunities or threats?
- What ideas did you get from your **BOBs**? Any things you're doing that the BOBs aren't doing? Anything your BOBs are doing that you're not?
- What ideas came from **Great Questions**?
- In terms of **Stop Fix**, what ideas did you find? Anything you should stop doing? Start doing? Fix?
- Look at the **BAM** group names and see if any are ideas. Then look at all of those delicious ideas that came from the affinity grouping. Any of them keepers on their own?

Here for example are 28 ideas culled from a theatrical agency:[287]

<table>
<tr><th colspan="2">All Ideas</th></tr>
<tr><td>• A new venue
• Advertise subscriptions
• Ask bigger theatres for advice
• Become part of the citywide cultural plan
• Cut reading series
• Cut unnecessary LOBs
• Festival around historical holiday
• History trivia nights
• Implement staff incentives
• Improve strategies for scholar events and programming for audiences under 35
• Increase season offerings
• Late night historical satire
• Look for more low-cost, low-staff LOBs
• Look for PR opportunities and capitalize on being the only theatre solely dedicated to presenting plays inspired by history
• Partner with other causes</td><td>• Partner with universities and city colleges (to recruit staff, volunteers, interns and performers)
• Apply for more funding
• Patron/student blog
• Revamp education program
• Seek additional sponsorships
• Set up a resource center for patrons to visit the theatre outside of scheduled performances to encourage further learning
• Start a theatre camp
• Start an administration volunteer program
• Strengthen reputation
• Student matinees
• Tour productions
• Update box office and ticketing system
• Update website</td></tr>
</table>

Evaluate

Decisions – Decisions

Once you have enough ideas identified you need to reduce the list to a manageable number that you can then consider more carefully. Just how do you choose?

The way in which vision statements and strategies are finalized and readied for feasibility studies can range from “Take it to Vegas” multi-voting style in the BAM process to more nuanced ranking matrixes, and from feasibility studies to full-blown business plans. Interestingly, the exemplars in my study of high-performing executives were quite informal about this matter. Just one method stood out for the participants: “You kick around a final draft of the vision with others including staff and board; it’s a way of floating trial balloons and building ownership.”[288]

All things being equal, we human beings prefer the intuitive to the analytic. An analytic approach greatly improves accuracy, but “the gain in precision which accompanies an analytic approach to decision-making strategy may be offset by the danger of extreme error.”[289] In other words, when we use an analytic approach, we are either perfectly right most of the time or we are utterly wrong. Intuitive decision makers, on the other hand, are approximately correct all of the time without the extreme errors. Perhaps this is why we only use analytic methods when we absolutely cannot use our intuition.

The idea that we’re one or the other, analytic or intuitive, is often referred to as left brain versus right brain. As Dorothy Leonard and Susan Straus describe, “An analytical, logical, and sequential approach to problem framing and solving (left-brained thinking) clearly differs from an intuitive, values-based, and nonlinear one (right brained thinking).”[290] Whatever you call it, left brained or right, intuitive or analytic, all decision-making– and research for that matter – are subject to misinterpretation and misperception:

We are predisposed to see order, pattern, and meaning in the world, and we find randomness, chaos, and meaninglessness unsatisfying. Human nature abhors a lack of predictability and the absence of meaning. Consequently, we tend to “see” order where there is none, and we spot meaningful patterns where only the vagaries of chance are operating.[291]

Though simple matters are best decided through conscious thinking, we should “delegate thinking about complex matters to the unconscious.”[292] In other words, let the decision simmer:

> Use your conscious mind to acquire all the information for making a decision – but don’t try to analyze the information. Instead, go on a holiday while your unconscious mind digests it for a day or two. Whatever your intuition then tells you is almost certainly going to be the best choice.[293]

Like so many things in life, the resolution to the question of analytical versus intuitive is paradoxical. It is both/and as opposed to either/or. Analysis and intuition go hand in hand. Dorothy Leonard and Susan Straus elaborate that, “Rightly harnessed, the energy released by the intersection of different thought processes will propel innovation.”[294] And Herbert Simon argues, **the effective manager must be capable in both decision-making approaches – the analytic and intuitive.**[295] The point is that you must use your head and your gut, but don’t trust either exclusively.

First Cut

Many decisions we make are characterized by a “ready, fire, aim” variety popular especially with entrepreneurs.[296] Why not? In his best-selling book, *Blink*, Malcolm Gladwell argues that our snap judgments can be every bit as good as those decisions we carefully deliberate. Much of this is due to thin slicing, which is the ability to size up a situation quickly with very little information.[297]

It turns out that snap judgments based on thin slices aren’t very astonishing. When studying chess masters, we see them simultaneously play many opponents, make split-second moves, and beat all comers. The experience and learning from a lifetime of playing makes this possible**. Intuition is simply another word for vast experience**, for “analyses frozen into habit.”[298]

The first cut is a vetting process to reduce the volume of strategies to a smaller number. In the first cut, winnow down all of your ideas to 12 or so using intuition as shown in the following example:[299]

First Cut	
• A new venue	• Look for PR opportunities
• Become part of the citywide cultural plan	• Obtain more funding
• Cut unnecessary LOBs	• Partner with other causes
• Festival around historical holiday	• Start an administration volunteer program
• Increase season offerings	• Strengthen reputation
• Late night historical satire	• Student matinees

Contenders

Ideas need to percolate, which is why time is one of the key situational variables when it comes to decision-making style. Herbert Simon offers two decision-making approaches that are temporal in texture: Logical decision-making is where “goals and alternatives are made explicit [while] judgmental decision making [is where] the response to the need for a decision is usually rapid, too rapid to allow for an orderly sequential analysis of the situation.”[300] Among the fast methods for deciding is the Payoff Matrix popularized at General Electric and shown below:[301]

	Tough to Implement	Easy to Implement
Big Payoff	Special Efforts	Quick Wins
Small Payoff	Time Wasters	Bonus Opportunities

Use the Payoff Matrix to reduce your ideas (six or so will do it). The following example highlights (bolded and italicized) the ideas that will move forward to finalists:[302]

	Tough to Implement	Easy to Implement
Big Payoff	• A new venue • Festival around historical holiday • Increase season offerings • Obtain more funding • Partner with other causes • Strengthen reputation	• Cut unnecessary LOBs • Student matinees • Start an administration volunteer program • Look for PR opportunities
Small Payoff	• None	• Late night historical satire • Work with the city to become part of the citywide cultural plan

Finalists

A slower and perhaps more nuanced method to rank strategies is one suggested by Burt Nanus.[303] Step one is to decide what decision criteria you'll use. Next, you can weigh the importance of each criterion. Third, you vote and tally. The table below is the output from ranking the lines of business against weighted selection criteria at an arts organization:[304]

		Finalists					
Criteria	WT	A New Home	Student Matinees	Increase PR	Cut needless LOBs	Admin. Volunteer Program	Festival Around Historical Holiday
Plays to competitive advantage	5	20	15	15	25	5	25
Brings vision statement to life	5	25	25	25	5	10	25
Mission fit	4	4	20	4	12	4	20
Profitable	3	15	9	12	15	15	15
Fundable	4	20	20	4	4	4	20
Achievable	3	12	12	12	15	12	12
Total		96	101	72	76	50	117

You can use a matrix like this and include your values, your mission (customers, difference, and advantage), and the results from the question *what holds you back*. The nice thing about this method is that it forces you to think about the criteria that matter, which may help prevent our altogether too human tendency to fit data to the decision we were going to make in the first place.

Whatever criteria you choose, the question is not so much about which idea is the best, as much as it is about which ideas are weakest. Remember, “The essence of strategy is choosing what *not* to do.”[305]

Step one is to decide what decision criteria you’ll use. Next, you can weigh the importance of each criterion. Third, you vote and tally. Winnow your ideas from six to three or so using the Excel Weighted Decision Matrix template.

GREAT STRATEGIES

What *should* we do next?

The chief limitations of humanity are in its visions,
not in its powers of achievement.
A. E. Morgan

Vision Strategies

Build

The Great Strategies process begins by developing a detailed description of the vision strategies you chose at the end of the Great Ideas activity. Peter Brinkerhoff uses a three-question approach for building strategy:

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?[306]

The sustainable strategy approach uses 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 your value proposition?
6. What is your plan for implementing the strategy?

The alliteration around the letter P evokes the marketing mix introduced in 1964 by Neil Borden.[307] 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.[308] By elaborating on this methodology, you can better understand the benefits of integrating the strategy into your organization.

Six Ps

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."[309]

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."[310] 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 specifically:

People	Young women at risk for pregnancy living in the urban core

Says Peter Drucker, "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,"[311] but they are not the primary customer. 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 the United States Census Bureau at www.census.gov and the Small Business Association at www.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[312]

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 plan.

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 having an on-site barista for your morning coffee probably won't.

Product

The second P to uncover is product. Product begins with what change the strategy will make to the primary customers. For 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:

People	Young women at risk for pregnancy living in the urban core
Product	Peer-to-peer mentoring

Place

The third P in the strategy 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.):

People	Young women at risk for pregnancy living in the urban core
Product	Peer-to-peer mentoring
Place	At our learning center after school

Price

Price comes in two flavors: price that you’re going to charge the client and price that you will pay to launch/implement the strategy.

Client

Not all strategies need to address this question. Unless your agency is very large, you will likely not charge your staff a per copy fee for using the office copier. Pricing questions therefore usually arise in conjunction with lines of business with direct relations to the client or intermediary.

Many organizations wait far too long before addressing service or product price. Yet cost is no trivial issue and it 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.[313]

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? The Union Rescue Mission (URM) in Los Angeles charges $210 for its 30-day Gateway Project for single men and women. The Mission says that the fee “helps pay for beds, meals, and other services [and] for three reasons:

1. Education: We want to help our guests be more accountable and take more responsibility for the services provided to them. Responsibility and accountability are a part of life.
2. Empowerment: Men and women who contribute to their own well-being gain a greater sense of control over their circumstances, as well as greater confidence that they can overcome their present circumstances. This is called empowerment.

3. Equipping: URM’s comprehensive services are designed to stabilize and equip men and women experiencing homelessness with the tools and resources they need to get back on their feet. Once they obtain stability in their lives, URM staff works with each individual to learn new life skills and set goals for employment and housing. [314]

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.

There are many ways to think about pricing, but Majeska lays out four common ones:

- Cost plus
- Break even
- Economic value to the customer
- Competition based [315]

Beyond this list, some agencies will use a type of pricing called mission based that is just that – what does the mission say the agency should charge if anything at all? However, if mission doesn’t preclude you from charging customers, the best method is competition, as the agency bases it upon what other agencies are charging for the same or similar services.

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.[316]

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.”[317]

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

People	Young women at risk for pregnancy living in the urban core
Product	Peer-to-peer mentoring
Place	At our learning center after school
Price (Client)	$2 per session

Startup

Here is where you take into account the startup costs of the strategy under consideration. Startup costs are what it takes to get the strategy going and include capital expenses like equipment purchases or facility rent and non-capital costs like licenses and consulting fees. The startup cost is a best guess at this point – you can use a low, medium, high or go deeper with a cash-flow budget:

People	Young women at risk for pregnancy living in the urban core
Product	Peer-to-peer mentoring
Place	At our learning center after school
Price (Client)	$2 per session
Price (Startup)	Low

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."[318] 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.**

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."[319]

Start with why you think your customers would buy or use your product or service. You should have a 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:

People	Young women at risk for pregnancy living in the urban core
Product	Peer-to-peer mentoring
Place	At our learning center after school
Price (Client)	$2 per session
Price (Startup)	Low
Proposition	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 into proper order.

How do you know you have an effective goal? Don Hellriegel and John Slocum say that effective goals should have three elements. **First, challenging goals have clarity,** which means the goal taker will “know what is expected and not have to guess.”[320] **Second, goals must be difficult**, meaning that they “should be challenging, but not impossible to achieve.”[321] 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).[322]

On way to get at this question of challenge is to use the AIM approach where A stands for *acceptable* minimum, I stands for *ideal*, and M stands for *middle*. Turns out that the middle is typically the most often utilized.

Self-confidence, 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."[323] 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."[324]

Setting clear and challenging goals that people believe they can achieve is just the beginning. The goal taker must be motivated to accomplish 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."[325] 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.

To make success more likely, involve the goal taker in the process because "positive goal acceptance is more likely if employees participate in setting goals."[326] That said, 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."[327]

Another popular (and perfectly usable) approach to test the effectiveness of a goal is the SMART method, which originally stood for specific, measurable, assignable, realistic, and time-related.[328] 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.

Once you've determined you have a solid goal, format it. Begin with an action verb followed by a noun describing the goal, measurable results, the person(s) responsible, and the completion due date. You can do this by building 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:

People	Young women at risk for pregnancy living in the urban core
Product	Peer-to-peer mentoring
Place	At our learning center after school
Price (Client)	$2 per session
Price (Startup)	Low
Proposition	Convenience, confidentiality, and companionship

Plan	1. Develop possible implementation alternatives including best practices (RL 6/1) 2. Decide best alternatives including determining what could go wrong (GG 8/1) 3. Draft an implementation plan (RL, GG 12/1)

Current Strategies

You're now in the wrap up phase, which requires outlining the strategies your agency currently has underway – if any. What follows is an example for a community health center serving the HIV community:

Strategy	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 (Client)	Income-based fees	Sliding-fee scale or insurance
Price (Startup)	Low	High
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:

Strategy	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 (Client)	Cost plus fee	Rate plus fee	Rate plus fee
Price (Startup)	High	Medium	Low

Strategy	In-house Pharmacy	Patient-Centered Medical Home (PCMH)	Broaden Client Payer Mix
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. However, 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:

Strategy	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 (Client)	Economic value; Flat	Competition based; Fair	Economic value; Premium
Price (Startup)	High	Low	Very High
Proposition	Low-cost and highly accessible	Uniquely aligning with high school history curriculum	A space worthy of the theatre's artistry

Strategy	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

Part performance audit and part gap analysis, **testing is an iterative process** for determining the agency's abilities to execute the strategies – new for sure and current if appropriate – and then adjusting them accordingly. Testing current strategies underway becomes applicable in cases where the external environment has changed radically or you have discovered a new strategy that makes a current one obsolete.

What should you do if the forthcoming test results don't support a new or current strategy? Dropping the strategy is certainly one option; adjusting it is another. Goodstein, Nolan, and Pfeiffer offer **four primary tactics for making adjustments**:

1. Lengthen the time frame for accomplishing the objective. This tactic should be considered if the current allocation of resources is appropriate and it will take more time to achieve these aggressive goals than initially planned.
2. Reduce the size or scope of the objective. This tactic applies when the vision was appropriate but lesser or somewhat modified objectives are more achievable and less risky.
3. Reallocate resources to achieve goals. This tactic is appropriate if the goals can be achieved only by rallying existing resources that have spread too thin.
4. Obtain new resources. This tactic should be considered when new talent, products, markets, or capital are necessary to achieve desired goals.[329]

Testing covers two contexts: the external environment evaluates the outside context in which the agency operates and the internal environment looks at the agency's operational effectiveness.

External Environment

Although you already explored the general external environment in the opportunities and threats section of the SPOTs, you can also use it to understand whether your strategies are doable within the forces outside of your operations. After all, according to the Old Testament, there is a "time for everything, and a season for every activity under Heaven."[330] Is this the right time for your strategies?

Industry

You may remember that the classic approach to understanding the external environment has three elements: general, industry, and competitors.[331] Because you already did the general environment in your earlier SPOT 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."[332]

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.[333]

Another method is Sharon Oster's six forces,[334] which she based on Michael Porter's classic five forces approach.[335] Oster begins with defining the market, describing the industry participants, and then analyzing six factors: relations among existing organizations, entry conditions, competition from substitute products, supply, the demand of users, and donor power. We'll use a somewhat simplified version adapted from Oster.

First, describe the industry in general 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?

Just how do you go about determining the industry for your strategy under consideration? The easiest way is to identify those agencies in your community that are doing something similar to your proposed strategy. Sometimes your BOBs will be doing it; sometimes you'll have to hunt deeper. Once you find three or four agencies, pull their IRS 990s for the two most recent years. Examine the revenue, expenses, net revenue, and net assets. What do you notice in terms of possible trends? If you see something interesting, go back a few more years with the 990s to confirm your hunches.

You can also Google your strategy and see what comes up. Charity Navigator is also a great place to find information on your possible strategy. So too is www.census.gov and the Small Business Administration at www.sba.gov.

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 stakeholder power for each of your strategies. Knowing that the power of your stakeholders increases with the amount of revenue each group of stakeholders supplies allows you to consider how much control the funder may exert on the agency with regard to the strategy. Concentrated stakeholder group power may make for a less attractive and riskier industry environment. For example, if you run a blood bank and you have one hospital purchasing all of your supply, a strategy to diversify to other hospitals is something you may want to consider carefully.

Once you have done this research, summarize your findings in a table like the one below and render an opinion about how good a fit the industry environment is for each strategy. Because internal strategies do not necessarily have competitors, this external analysis is usually not applicable:

Strategy	Festival	Student Matinees	Facility
Industry Description	Summer festivals for families with live entertainment	Field trips for students	NA
Participant Relations	Moderate	Moderate	NA
Stakeholder Power	Weak	Weak	NA
Fit to Strategy	Somewhat Attractive	Attractive	NA

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*[336]

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

Strategy	Festival	Student Matinees	Facility
Competitor	Music Institution	Another Theatre	NA
Lines of Business	• Classes • Concerts • Festival • Field trips • Music store	• 8-9 show season • Shakespeare in the Parks • Tours to schools • International work	NA
Competitive Advantages	• Entertainment by kids for kids • 17 years of experience	• Serve 40,000 students annually • 22 years of experience	NA
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	NA
Fit to Strategy	• Attractive	• Attractive	NA

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.”[337] 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.”[338]

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.”[339] 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.[340] 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.** Unrelated typically means that the lines of business do not relate tightly to the core mission. A franchise with a mission of helping disabled clients that boosts income by packaging light bulbs is unrelated; that same franchise that employs your disabled clients in the store is related.[341]

Of course, you can argue 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. 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.

Many different 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.[342] Many board members from the for-profit sector celebrate diversification because it is a popular tactic for growth. Indeed, it is common for a nonprofit executives to have 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 branches of the same parent organization or very closely tied affiliates."[343] Going to scale is always a hot topic because when you do so, you theoretically increase impact.[344]

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."[345]

In order to get a handle on the question of mission drift, 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.”[346] 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?

Second, revisit 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 Stop Fix and run any of your new strategies through that tool to consider impact on the others. Be careful of anything on that bottom row!

Capital

Capital structure in the for-profit sector is “how a firm finances its overall operations and growth by using different sources of funds.”[347] 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.[348]

Put simply, capital structure is figuratively “what’s in your wallet” and includes your credit cards, cash, 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 analyze 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.”[349]

It is likely that you already gave thought to this when you learned about the best of the 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.[350]

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.”[351] And that includes your agency compared to itself at another time.

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (T. A. 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” (T. A. 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

Capital structure is about knowing how much you have, how much you need, when you need it, and where you will get it. To answer the first three questions at a minimum, you will need a balance sheet, a profit and loss statement, and a cash-flow projection:

- ***Balance Sheet (statement of financial position)*: This is the window into a nonprofit's financial health. It lays out lots of good, cumulative information about the assets and liabilities of the organization and is the source for many of the components of the financial ratios.
- ***Profit and Loss Statement (statement of activities)*: On an agency basis, this statement should show the extent of an organization's profitability. Individual program statements of profit and loss do the same thing and should go to every manager whose program produces receivables.
- ***Cash-Flow Projection*: It's much easier to plan for a cash-flow disaster than to be surprised by one. Someone familiar with your nonprofit's operation should be putting together a cash-flow project stretching out one year in advance, or at the very least every quarter.[352]

These aren't the only reports you might consider and the ratios discussed earlier are not the complete universe. Nevertheless, these are the basic ones and you can always add more.

When it comes to where you'll get the money, think about sources both earned, unearned, and borrowed. The easiest place to find the money may be the operating reserves you've built up over the years through modest surpluses. Another place is those underperforming or inconsequential lines of business you can carefully jettison.

Your strategy, of course, may also be fundable through a variety of sources including donors or debt financing. No matter where you get the money, get it you must. Undertaking a strategy without having your sources identified up front is inviting disaster.

Once you have launched the strategy, you have immediately and dramatically reduced the case for funding. Thinking that the money will follow *after* you launch a strategy is wishful thinking at best. Your advantage is *before* the launch, not once it's up and running. Know how much you have, how much you need, when you need it, and where you will get it.

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.[353]

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,[354] it could be that your board and staff are more comfortable with expansion as opposed to improving operational effectiveness.

The second approach is to test your agency against some basic tests. Begin with 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[355]

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 should 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?[356]

Third, 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.

Fourth, 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?[357]

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.[358]

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."[359] 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 percent) than those that are not financially vulnerable (0.7421 percent)
- 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)[360]

The fifth approach to thinking about risk is to do some work around contingencies, for the inevitable mistakes. Moreover, something *will* go wrong, “You may as well accept it right up front, before you take another step toward implementation: reality will not follow your plan.”[361]

There is not a strategy on earth that didn’t somehow stumble during implementation. Don’t forget the words of Scott Anthony, borrowed from the great Prussian General Helmuth von Moltke: “No business plan ever survived its first encounter with the market.”[362] That’s why you need to think about contingencies up front. In the words of Donald Rumsfeld:

> There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.[363]

What can go wrong with your strategy? Plenty. Here are the reasons why business plans fail from Patricia Caesar and Thomas Baker:

> In some cases it is simply because the plan was based on a bad strategy in the first place – a product or service for which there is no market, a new venture that doesn’t fit with the organization’s brand or capabilities. Far more often, however, the idea and the strategy are good enough, but the organization fails to follow through on and execute the plan. . . These details of execution are not details at all – in many cases they make the difference between a plan’s success or failure.[364]

The checklist for anticipating these problems includes the following questions:

- Have you validated your idea in the marketplace?
- Are your pricing and revenue assumptions correct?
- Have you put the right performance metrics in place?
- Do you have the right team?
- Are expectations in your organization set at the right level?
- What if reality does not follow the plan?[365]

Here are Rosabeth Moss Kanter’s four classic traps for why innovations fail:

1. **Strategy Mistakes**: Hurdles Too High, Scope Too Narrow . . . in seeking the killer app, managers may reject opportunities that at first appear too small, and people who aren't involved in the big projects may feel marginalized.
2. **Process Mistakes**: Controls Too Tight . . . the impulse to strangle innovation with tight controls – the same planning, budgeting, and reviews applied to existing businesses.
3. **Structure Mistakes**: Connections Too Loose, Separations Too Sharp . . . companies must be careful how they structure . . . to avoid a clash of cultures or conflicting agendas. The most dramatic approach is to create a unit apart from the mainstream, which must still serve its embedded base.
4. **Skills Mistakes**: Leadership Too Weak, Communication Too Poor . . . Undervaluing and underinvesting in the human side of innovation.[366]

A different way to think about what can go wrong comes from BoardSource. Over 2,000 board and staff members put their most pressing organizational challenges in order of priority. **Number one was financial sustainability followed by fundraising, and then strategy.** Nevertheless, it is not a mutually exclusive choice of one over the other. Nor should it be. The combination of operational effectiveness and competitive strategy is essential to success.[367]

Operational effectiveness and competitive strategy go hand in hand. As Andy Grove of Intel fame puts it, "I don't think we should forget that there is more to running an enterprise, small or large, than strategy . . . Figuring out what to do is important . . . Doing [it] well is equally important."[368] Do not be seduced by the allure of the former at the expense of the latter. As Larry Bossidy and Ram Charan warn:

> When companies fail to deliver on their promises, the most frequent explanation is that the CEO's strategy was wrong. But the strategy itself is not often the cause. Strategies most often fail because they aren't executed well. Things that are supposed to happen don't happen. Either the organizations aren't capable of making them happen, or the leaders of the business misjudge the challenges their companies face in the business environment, or both.[369]

The sixth and final approach to gauging risk is to use the Ansoff Matrix again.[370] This time, however, instead of hunting for new ideas, put in all of your current and new strategies and follow the Z.[371] The current products/current markets are your safest followed by your new products/current markets and so on:

	Z-Model Test	
	Current Products	New Products
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

The seventh and final tool to ascertain risk is Pfeffer and Sutton's Change or Die Checklist.[372] You should use this tool because "Even presumably good changes carry substantial risks because of the disruption and uncertainty 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.'"[373] As the late David Packard once warned, "More businesses die from indigestion than starvation."[374] Here we see the checklist applied to a theatre's proposed strategies:

Strategy	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

Decide

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

Strategy	Festival	Student Matinees	New Facility
Industry Environment	Somewhat Attractive	Attractive	NA
Competitor Environment	Attractive	Attractive	NA
Fit to Strategy	Mostly Attractive	Attractive	NA

Now render a decision about how well your strategies fit to the internal environment:

Strategy	Festival	Student Matinees	New Facility
Mission	Mostly Attractive	Very Attractive	NA
Capacity	Unattractive	Attractive	Attractive
Capital	Unattractive	Attractive	Attractive
Risk	Unattractive	Attractive	Attractive
Fit to Strategy	Unattractive	Attractive	Attractive

Before dropping a strategy – new or current – do consider adjusting the tactics mentioned at the beginning of this test section from Goodstein, Nolan, and Pfeiffer:

1. Lengthen your timeline
2. Reduce the size or scope
3. Reallocate resources
4. Obtain new markets

Once you've decided on your strategies and addressed the plan to implement them, you're ready to go. In the case of our theatre example, the organization decided not to pursue the festival as a new strategy, but move forward with the other two new strategies.

STRATEGIC PLAN

What we *will* do next.

I always wanted to be somebody,
but I should have been more specific.
Lily Tomlin

Because you've already done the work on the individual elements, putting the strategic plan together is actually a simple task. Usually you follow the strategic plan with an appendix that contains the three reports. This way, people who want to see the backup can do so easily.

Some agencies will present the sections of the strategic plan—purpose (values and mission) and strategy (lines of business, success measures, and vision)—without any introductory material, but most others will provide plentiful guidance because they want to educate their readers as they go along. Please see the sample report in Appendix B on page 134 for an example of how to do this.

Because the Strategic is obviously a generally brief document, some agencies present it followed by an appendix containing three major reports – Great Start, Great Ideas, and Great Strategies.

Executive Summary

Even though you read the executive summary first, you actually write it last. It is not an introduction to say what's coming, or a diary of what you did. **It tells the reader *what you found*, not how you found it.**

The strategic plan itself takes up only three to five pages – not including the cover page, the table of contents, the strategic plan process section, and appendices (if any). Always KISS your writing (keep it short and sweet).

As you write your report, remember that people often read just the first sentence of paragraphs. That's why you should summarize the whole point of the paragraph in that sentence. Think of it as your headline. Then prove your headline with examples, quotes, and arguments in the next few sentences. Limit the length of each paragraph to about four sentences (approximately 75-100 words).

Begin your executive summary with a short introduction sentence that invites the reader into the report and follow with an overview of what you're going to accomplish. Because each of the three sustainable strategy reports contain summaries (Great Start, Great Ideas, and Great Strategies), simply cut, paste, and edit these to build your executive summary.

Purpose

Values

After a brief opening generally describing your agency's values are how you arrived at them, state your agency's values including the "seeable in action" behaviors for each value. Be sure to point your reader to the Great Start Report where you discuss the values in detail.

Mission

Again, after a brief introduction that includes pointing the reader to the Great Start Report where they can read more, state your chosen mission. Most people will use the new mission that they created during the process – the simplified mission is often quite powerful.

Strategy

The strategy section may need a bit more explanation because of the details. Again, short briefings and guidance will help the reader understand the big picture.

Lines of Business

Compose an introduction with a short discussion and then state the lines of business. Add to each the *succinct* customer-change tests just like you did in the Great Start Report.

Success Measures

The only difference between this version of the success measures and the one in the Great Start Report is that you add a column for the next fiscal year—including your lines of business—populated with your best estimates. Here, for example is are the success measures from a fair housing center:

Mission Success Measures	FYE 12-13	FYE 13-14	FYE 14-15	FYE 15-16	New Fiscal
Profit & Loss: Contrib Revenue $	963,477	1,164,283	1,082,978	696,760	837,500
Non-contributed Revenue $	171,761	1,601,466	123,182	63,120	180,733
Total Revenue $	1,135,238	2,765,749	1,206,160	759,880	1,018,233
Total Expenses $	1,341,319	1,866,192	1,906,056	1,611,193	1,093,488
Revenue less Expenses $	(206,081)	899,557	(699,896)	(851,313)	(75,255)
Balance Sheet: Assets $	3,960,293	5,257,346	4,240,572	3,401,608	3,310,032
Liabilities $	393,884	483,228	326,304	338,653	322,332
Net Assets $	3,566,409	4,774,118	3,914,268	3,062,955	2,987,700
Capital Structure:[A] Total Margin	(0.18)	0.33	(0.58)	(1.12)	(.08)
Current Ratio	5.58	3.21	9.32	2.67	2.51
Working Capital $	349,037	405,367	415,080	193,446	179,132
Operating Reserves $	3,094,530	4,187,802	3,210,742	2,231,500	2,150,889
Operating Reserves Ratio months	2.31	2.25	1.69	1.39	1.97

Lines of Business Success Measures	FYE 13-14	FYE 14-15	FYE 15-16	New Fiscal
1. Total Clients including referrals		615	887	950
2. Enforcement Investigations		259	190	150
Individual		209	155	110
Systemic		50	35	40
2. Education/Outreach total events		188	172	190
Trainings		39	55	50
Gen public/Housing industry events		872	2,738	2,500
Advertising impressions with digital		20,815,774	5,309,607	5,000,000
Social media average		288,000	345,600	350,000
Events		149	117	120
3. Public Policy				
Meetings, Hearings, and Presentations		422	320	350
Advocacy		7	46	30
Lead ordinance		5	40	15
Source of income		2	6	5
4. Research				
HMDA/CRA/Lending analysis		6	6	5
Business practice analysis all types		26	25	20
Mapping banks, lenders, etc.		75	75	75
5. Disability Assistance people helped		540	342	500
Reasonable accom/mod w/RRA/MA		24	23	25

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (T. A. 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" (T. A. 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 & Notes

Vision

After an introduction including the brief description of how you arrived at the statement and where the reader can find more information, state the new vision statement that you constructed and the table that you built around the six Ps from your Great Ideas Report. In other words, the reader can find the six Ps in the description of the Strategies. Finally, include the goals for each strategy. Here are the results from our theatre example:

Statement

A preeminent Chicago arts organization
and nationally recognized leader

Current Strategies			
Strategy	Better Space for Staff	Insightful Productions	Sustainable Growth
People	Employees	Educated Chicago theatregoers	All stakeholders
Product	Boost morale by creating a better workplace	Increase knowledge through deep cultural experiences	Strengthen all facets of the organization
Place	Onsite at the theatre	At our theatre	At our facility and around the city
Price (Client)	N/A	Competition based	N/A
Price (Startup)	Low	Medium	Medium
Proposition	Support productivity	Deliver entertaining ways to revisit history	Maintain the theatre’s place among great Chicago venues
Plan	Underway	Underway	Underway

Current Strategies		
Strategy	Student Matinees	New Facility
People	Students	Funders (Individuals, corporations, and foundations)
Product	Amplify teacher lesson plans through live storytelling	Making history through a worthwhile investment
Place	At our theatre during school hours	On Chicago’s north side
Price (Client)	Competition based	Economic value
Price (Startup)	Medium	Very High
Proposition	Uniquely aligning with CPS history curriculum	A space worthy of the theatre’s artistry

Current Strategies		
Strategy	Student Matinees	New Facility
Plan	• 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 CPS 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)

GOOD TO GO

What gets done *today*?

OPERATIONS

What gets measured gets done.
Maison Haire

OPERATIONS
***What** gets done today*

One of the best ways to illustrate the role of operations is through the film *Jerry Maguire*. When Bob Sugar fires Jerry from his job as an agent, Jerry loses all of his clients except for Rod Tidwell, a wide receiver for the Arizona Cardinals. As he scrambles for clients, he has a chance to get Frank Cushman, the college star quarterback, but loses him.

The biggest mistake Jerry makes is trying to get a quarterback instead of a linebacker: “You want to use a first-round draft pick on a player who will have an immediate impact on your team? Go with a linebacker. You want to use a first-round draft pick on a player who will promptly establish himself as a difference-maker? Go with a linebacker.”[375]

What does this have to do with your strategic plan? Simple: If the strategic plan is the quarterback, operations is the linebacker. Just like a linebacker, the operating plan is the difference-maker in a successful offence and the element that will make your quarterback (strategic plan) look good.

At its core, the operating plan is all about goals. Goals are “the future outcomes (results) that individuals, groups, and organization desire and strive to achieve.”[376] Goals can take a wide variety of forms; they can be “implicit or explicit, vaguely or clearly defined, and self-imposed or externally imposed. Whatever their form, they serve to structure employee time and effort.”[377]

The operating plan answers *what gets done today* through goals to be accomplished in the next 12 months. This is very different from the strategic plan, which addresses *where to go tomorrow* in the longer term. This is not an earth-shattering concept according to Goodstein, Nolan, and Pfeiffer, “Strategic planning, in and of itself, is an academic pursuit, of little direct use to any organization. The payoff of strategic planning is in its application, in the execution and implementation.”[378]

Call it what you will, be it a tactical plan, implementation plan, or operating plan, execution matters a lot. “No worthwhile strategy can be planned without taking into account the organization’s ability to execute it,”[379] say Larry Bossidy and Ram Charan. That said, you won’t find a lot of ink spent on operating plans in most books on planning. For example, in Michael Worth’s quite thorough text on nonprofit management, the operating plan merits just one lonely paragraph in a nearly 400-page book that largely focuses on the role of the executive director:

> This will include identifying specific tasks to be completed, establishing a timeline for their completion, assigning responsibility for each task, identifying the resources that will be needed – human and financial, determining the right organizational structure, identifying what information systems will be required, defining measures by which the competition or success will be determined, and other operational details.[380]

This is pretty much the same content that you will find in the for-profit sector. Here's how Larry Bossidy and Ram Charan describe the role of the chief executive:

> In the operating plan, the leader is primarily responsible for overseeing the seamless transition from strategy to operations. She has to set the goals, link the details of the operations process to the people and the strategy processes, and lead the operating reviews that bring people together around the operating plan. She has to make timely, incisive judgments and trade-offs in the face of myriad possibilities and uncertainties. She has to conduct robust dialogue that surfaces truth. And she must, all the while, be teaching her people how to do these things as well . . . It's not just the leader alone who has to be present and involved. All of the people accountable for executing the plan need to help construct it.[381]

One reason for the lack of attention is that the operating plan is a logical extension of the strategic plan where you've invested a lot of intellectual capital. "It's all over except for the shooting" as the old saying goes. You've decided *where to go tomorrow*, now it's a relatively simple matter of laying out the various things that need to be done (goals) and the price to do it (budget).

The operating plan certainly is the linebacker of sustainable strategy and accomplishes many of the same purposes. Yet the operating plan only goes to the line of scrimmage for major plays. Remember that the sustainable strategy gets much of its quickness and flexibility by paying attention to the Pareto Principle—the 80/20 rule where 80 percent of your results are delivered by 20 percent of your efforts.

What this means in sustainable strategy is that when it comes to operating plan goals, only the major ones that deliver high payback are included. None of the "continue to do this and that" stuff or job description-like elements that typically are part of operating plans.

Now, take a deep breath here, step away, and remember that nearly 30 percent of all nonprofit agencies have one full-time employee or none at all. Half of all nonprofits have five or fewer.[382] So forget about the 80/20 rule when it comes to available time and substitute the 95/5 rule where staff members have already committed 95 percent of their time to on-going activities and have only 5 percent of disposable time . . . if that. Only the major, high-impact goals are in the operating plan; if this means that there are only one or two goals (or none at all) for a particular department, so be it.

The operating plan is generally the work of the staff with the exception of goals that pertain to the board. As opposed to the highly creative process that characterizes the strategic plan, the operating plan is developed in a more mechanical, step-by-step approach to render the two sections of goals and budget.

Goals

Call it an objective, tactic, or target; an operating plan goal should do just one thing: achieve a meaningful result. That outcome is typically an improvement or innovation for the organization at the department level. Again, goals in the operating plan do not describe the on-going, day-to-day activities of the organization or the job duties of individuals. Put another way, goals are not a policies and procedures manual. When it comes to the *right* goals, simply choosing a clear and difficult goal is not enough; it must also achieve a significant result for the organization in general and the department specifically.

What does significant mean? Obviously this will depend upon the specific organization and its circumstances. In times of economic turbulence for instance, many nonprofits may have found a decline of 10 percent in fundraising results a significant accomplishment.

Though goals in the operating plan are not about continuing operations, they must respect the reality of the everyday work of employees. Almost all staff time is consumed by regular job duties or the unexpected (and inevitable) things that come up, so you must find time to implement a goal in the same workweek that you use to get your job done. That's why it is unusual for any department to have more than two or three meaningful goals in any given year. And when a department has new staff or has just concluded a major improvement project, it will likely have no goals at all that year.

The degree of involvement from the board in developing goals is usually very limited. In some nonprofits, the board never sees the goals; in others, the board receives this information as a matter of practice, but doesn't participate. I personally like to show the goals in all their glory as it can implicitly reassure the board that the staff is driven and focused.

In smaller organizations with limited employees, the board may be very involved in setting goals. In any case, the covenant to respect the chain of command between the board, the executive director, and the professional staff means that there needs to be careful consideration of the fine line between advice and instruction.

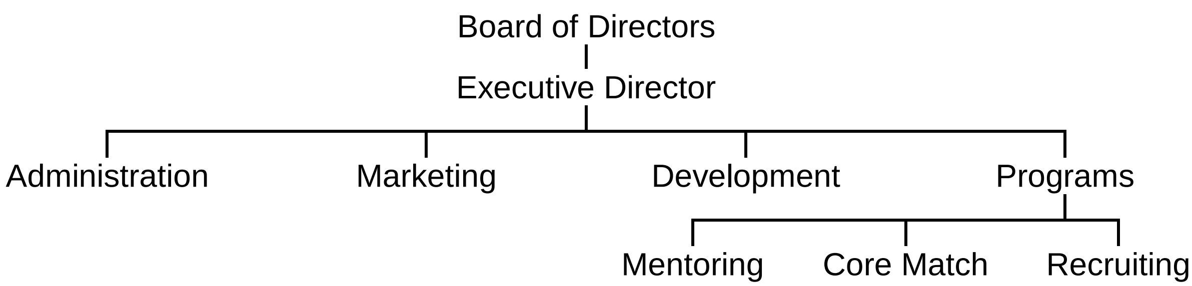
There are many ways to develop operating plan goals—just keep the following in mind: "Clear and challenging goals lead to higher performance than do vague or general goals . . . goals that are difficult, but not impossible lead to higher performance than do easy goals."[383]

Department Map

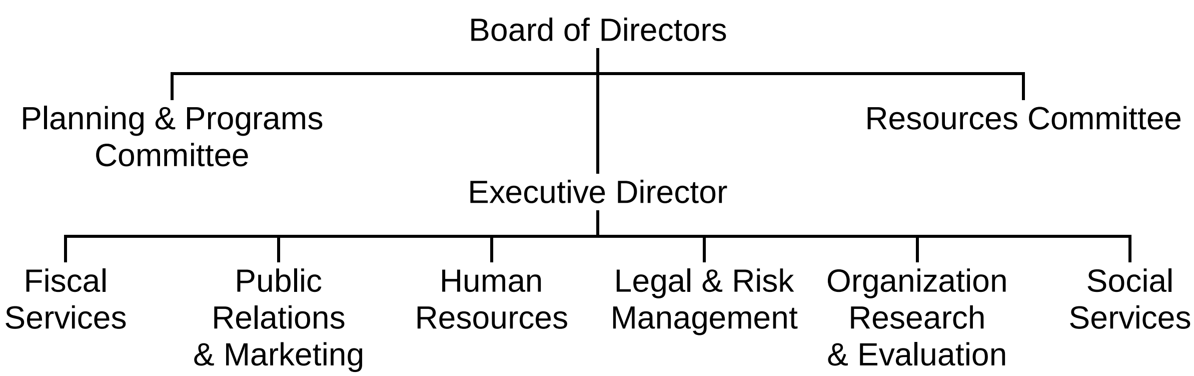
Step one in the process of developing goals is to understand the departments in your organization. Rather than building plans around job titles and specific people, as is usually the case with traditional approaches, sustainable strategy asks that you build the operating plan goals around departments that must exist for the organization to be successful—even if these departments do not have staff members or volunteers currently assigned to them.

Consequently, job titles and department boundaries have less meaning because people have job duties that often cross departments. Since most nonprofit organizations are lean in terms of hierarchy, it is common for people to do many different jobs. The finance person does the budgets and answers the phones; the executive director handles governance, fundraising, programming, and takes out the trash.

In many nonprofits, it is unlikely there will be a full-time development director on staff, but someone must still do the job. By making sure that there is a development department, you are much more likely to reduce "fall through cracks" failures. Whether the people who work in the department area are staff, board members, or volunteers, having each department identified makes it more likely that goals will be developed and that the department will move ahead. Below is a simple department map from a Big-Brothers, Big Sisters agency:



In contrast, below is a department map from a county children services agency with a budget in excess of $50 million:



The department map is a tool for determining the necessary departments of the organization that will guide goal setting. You can discard it after use or hold onto it and distribute it to the board. Either way, it should be kept as simple as possible, but not simpler.

Making Goals

When it comes to building goals, Bryson's final two questions of his five-question strategy-development process apply:

1. What major actions (with existing staff and within existing job descriptions) must be taken within the next year (or two) to implement the major proposals?
2. What specific steps must be taken within the next six months to implement the major proposals, and who is responsible?[384]

These two questions represent goals and action steps respectively. Not all goals have action steps, but many do and most should.

Generate Your Ideas

There are many ways to generate goals for a department. The first and best place to look for operating plan goals is the strategic plan in general and the success measures and vision strategies in particular. Indeed, if you've done it right, you've already finished much of the goal setting work. That's because success measures already come with goals built in. Remember that each success measure not only includes the past and the present, but also the future of at least one year. Take for example the following from a performing arts center development department:

	Year 4	Year 3	Year 2	Year 1	This Year		Next
($ in thousands)					Budget	Forecast	Year
Total Raised	1,576	1,701	1,759	1,689	1,740	1,760	1,956
Annual Fund	280	332	360	390	370	440	425
Government	258	279	391	385	363	290	345
Legacies	18	20	22	22	26	30	26
Sponsorship	1,020	1,070	986	892	981	1,000	1,160

The obvious choices for focus are sponsorship (set to rise 16 percent) and the annual fund (forecasted to rise by 19 percent). These two targets require clear action steps, as they are above the typical obtainable goal that Michael Tushman, William Newman, and David Nadler outline: "almost any organization can tolerate a 10 percent change."[385] Yet each organization's goals are unique and only the people close to the ground in that agency can determine what is significant and what isn't. For example, sponsorships for next year might already be in place, and therefore focus on that goal would be unnecessary.

Here is a different example from another Big Brothers - Big Sisters:

	Year 3	Year 2	Year 1	This Year	Next Year
Bigs – Inquiries	352	319	610	400	400
Applications Completed	120	176	229	200	200
Little Sisters: Inquiries	54	33	50	75	100
Applications Completed	33	42	42	60	85

Clearly, the 33 percent boost from 75 to 100 for Little Sisters inquiries could be a significant goal. Perhaps the effort expended to make that happen will be intense or maybe it will happen naturally due to board member connections. As noted earlier, sometimes just to stay even can represent a significant goal. The point is that success measures often contain important benchmarks that reveal themselves when you look for them. Even so, not all departments will find goals here. It is unlikely, for example, that the human resources department will have any relevant success measures.

The other place to look for readily available goals is in the vision strategies. Take a strategy from a housing agency to stabilize contributed income at $150,000 per year by 2013. In year one, you may need to enhance the infrastructure in the development department or make your first hire an administrative assistant. In year two, the development department might need to secure some percentage of funding and the finance department may need to determine how to invest those funds.

Another place to seek out goals is in obstacles - which is especially useful for departments that have difficulty finding possibilities in the success measures or vision strategies. Obstacles are everywhere and all organizations have a fair share of them. In fact, you may have already generated a list when you were working on the vision. Look at identifying obstacles as opportunities to finally get rid of them.

The department in search of obstacles should list as many of them as possible. Completing the following sentence is a good way to begin: “If there was just one thing I could fix that would make things work a lot better, it would be . . .” Once done, grouping the answers around common themes will help eliminate duplication. Once you have identified the obstacles, prioritize them by choosing the most actionable.

Not everyone is comfortable with the search for problems as it has a decidedly negative texture. In other words, some people become justifiably defensive. Instead, you can change the terminology to a review of best wishes. Instead of asking, “What is wrong with our department that we’d like to fix?” change it around a bit and ask, “If I had just three wishes for this department, what would they be?”

Make Your Goals

Making your goals begins with deciding which of the ideas generated are worthy of pursuit. Return to the Great Ideas section on evaluating ideas on page 78. Once you’ve decided what you’re going to do, put the goals into the proper format. Return to the plan section on page 88 in the Great Strategies section for information on how to do this.

Budget

There is great variety in the formats used to create the budget and there is no right or wrong one to use—except for one: a budget summary should not be longer than one or two pages (three at the very most). Frequently, the current budget format is a holdover from an executive director long since departed and needs revision to reflect the needs of the current readers. Be forewarned however, that asking too many people for their opinions can create a format that is too complicated; what should have been a simple three- or four-column presentation turns into something impossibly confusing. As a minimum rule of thumb, any budget summary presented to the board should give enough information to answer these questions:

1. What have you spent so far this fiscal year?
2. What is the approved budget for the current fiscal year?
3. What is the projection for how the current fiscal year will end?
4. What is the difference between budget and projection?

By having these four perspectives, the reader can understand the basic financial position. Of particular importance is the often-neglected forecast. The late General Dillman Rash, a wizened community volunteer and sought-after board member in Louisville, Kentucky, used to call the surplus or deficit the “southeast corner of the budget,” referring to the lower-right corner of the financial statement where he said, “The sun goes up or down on the executive director.” It was, he said, “about the only number that any board member worth his or her salt should care about”.

Regrettably, the most common format revolves around year-to-date comparisons complete with percentages and extensive detail. This approach has arisen primarily because publicly held corporations use quarter-to-quarter comparisons and for-profit oriented board members are comfortable with this. It could also be that software defaults to this format. In a nonprofit, however, such information can be largely distracting as shown below:

	$ Actual last year, January	$ Budget this year, January	$ Difference column 1 less column 2	$ Forecast this year, January	% Difference column 4 vs. column 2
Total Income	224,531	285,787	60,746	284,082	-0.6
Total Expense	200,490	248,909	48,419	316,510	127
Net Income	24,041	36,878	12,327	-32,428	-88

We know very little about what is going on in the above organization beyond the month under discussion. More importantly, the reader cannot get a clear picture of the anticipated surplus or deficit that will occur at the end of the fiscal year. The table below shows the better approach for a typical nonprofit:

($ in Thousands)	$ Actual year-to-date 6/30	$ Budget for year ending 12/31	$ Forecast for year ending 12/31	$ Difference column 3 less column 2
REVENUE				
Contributed	696	1,891	2,420	529
Earned	805	1,113	947	-166
REVENUE	1,501	3,005	3,367	362
EXPENSES				
Program Services	1,221	1,462	1,265	-197
Management and General	160	200	141	-59
Fundraising	224	217	514	
EXPENSES	1,605	1,879	1,920	41
EXCESS OR (DEFICIT)	-104	1,126	1,447	321

Generally, more information provides value to the reader—but there is always a limit. Where that fine line occurs is going to be different for every organization, but there is a line since people may not be able to wade through the details.

The best place to begin a discussion of the right format is at the absolute minimum, not the maximum. The four-column approach (year-to-date, budget, forecast, and variance) is generally all that is required.

Some organizations like to add a balance sheet to the financial presentation and there is no objection to doing so. Indeed, this can be very helpful. Even so, it is good to remember that balance sheets have become increasingly complex and difficult to understand. Keeping things simple is always a good idea and reducing the balance sheet down to its basic elements accomplishes this. Typically, the budget summary shows an abbreviated balance sheet at the bottom of the budget summary.

It is also good to remember that producing balance sheets regularly throughout the fiscal year can be a time-consuming activity that only delivers limited benefits (especially for smaller organizations). Most people who ask for a balance sheet are actually looking for answers about cash flow or solvency questions. You approximate this quite simply using the suggested format and adding the modifications that are useful for your organization:

	$ Actual year-to-date 6/30	$ Budget for year ending 12/30	$ Forecast for year ending 6/30	$ Difference column 3 minus 2
Total Revenue	186,449	300,000	320,000	20,000
Total Expenses	200,490	250,000	290,000	40,000
Net Income	-14,041	50,000	30,000	-20,000
Add Back Depreciation	16,000	32,000	31,000	-1,000
Estimated Cash Position	1,959	82,000	61,000	-21,000

Granted, for many nonprofits (and especially those that don't own real estate), depreciation is a negligible expense. As such, their net income is often essentially the same as their cash position. The challenge this example presents is that the organization has a surplus on a cash basis and a deficit on an accrual basis in the actual year-to-date column. Discussion about the value of depreciation and the like can occasionally enliven a dialog or present an opportunity to educate those unfamiliar with such financial matters.

As you continue to build your budget, one of the easiest ways is to use the categories from the IRS Form 990. It allows you to compare your organization to your peers easily and serves as a credible platform for communicating your financial position. Take for example an economic development agency:

($ in Thousands)	$ Actual year-to-date 6/30	$ Budget for year ending 6/30	$ Forecast for year ending 6/30	$ Difference column 3 minus 2
Profit & Loss				
Revenue				
Contributed	696	1,891	2,420	529
Earned	805	1,113	947	-166
Revenue	1,501	3,005	3,367	362
Expenses				
Program Services	1,221	1,462	1,265	-197
General Management	160	200	141	-59
Fundraising	224	217	514	
Expenses	1,605	1,879	1,920	41
Excess Or (Deficit)	(104)	1,126	1,447	321
Balance Sheet				
Assets				
Current	373	1,210	1,264	54
Long-Term	3,413	3,974	5,586	1,612
Assets	3,786	5,184	6,850	1,666
Liabilities				
Current	220	202	316	114
Long-Term	5	19	35	16
Liabilities	225	221	351	130
Net Assets				
Unrestricted	3,396	3,698	3,748	50
Temporarily Restricted	165	1,265	2,624	1,359
Permanently Restricted	0	0	128	128
Net Assets	3,560	4,963	6,499	1,536
Liabilities& Net Assets	3,786	5,184	6,850	1,666

At less than one page, the model above is perfectly adequate for use at the full board level, as it generates a comprehensive view and includes the balance sheet. Because agencies that are required to file the IRS Form 990 will have a methodology already in place for dealing with this, the budget format already exists. In short, it is convenient and readily available for most.

Do not let the brevity of this chapter understate the importance of the financials in general and the budget in particular. It bears repeating that about two-thirds of the nonprofits in a study on innovation were unable to move their ideas forward due to lack of funding caused by growth capital availability, narrowness of government funding streams, and foundations that encourage innovation but don't sustain it.[386] Neglect the financials at your peril.

Contingencies

The length of this section belies its importance. Contingency planning according to George Steiner is about making "preparations to take specific action when an event or condition not planned for in the formal planning process actually does take place."[387] Say Nolan, Goodstein, and Goodstein, contingency planning is "the single best way to ensure that organization has developed a process for rapidly identifying and then addressing unanticipated or less-likely events – an early warning system."[388]

The workaround to dealing with the known and unknown is to construct a four-point compass of key indicators that are vitally important to the success of your organization. Obviously, you could go very deep and broad with contingency compasses and that's not necessary. Having just a few is all that's necessary. Perhaps one for the external environment, one for total revenue and another for total expenses might be enough.

You might also consider using some of the tools from the section on risk. You could also develop compasses for any of your critically important departments or any of your strategies.

Once you have clarified these compasses, set trigger points for each of them - lines in the sand so to speak - and actions you will take if the line is crossed. These contingency plans should not be overly complicated, but should have enough structure to guide the first responders you deemed accountable for tracking each of the indicators.

PROMOTING STRATEGY

Preparedness

A vision gives you a focal point.
It tells people what's expected of them.
Frederick Smith

Promoting strategy is about presenting your strategic plan in general and your strategies in particular to your stakeholders. Sometimes promoting is in person; other times it is in writing. Two attributes of promoting strategy influence the actions of the recipients: passion and preparedness. According to Chen, Yao, and Kotha, "passion is often critical to convince the targeted individuals to invest their money, time, and effort."[389] Preparedness is about "the content of the script . . . how well prepared one is is as important as how enthusiastic one is in predicting whether a script will be successful or not."[390]

Your strategic plan may be enough for you relative to the cognitive aspects of promoting strategy. To fine tune a specific strategy quickly, consider building a case statement using questions 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?[391]

A more elaborate approach is a business plan specifically for the strategy. Although about half of all nonprofits launching ventures skip this step and move right to implementation, some find time to make one.[392]

Business plans are effective in that they provide a deep dive for each of the strategic plan's strategies. For some, a business plan is a mashup of an operational plan and marketing pitch for each of your strategies. According to Jeanne Rooney, "A business plan is not just one forecast about one program, one function, or one resource. Instead it is a blend of the expectations about multiple factors into one plan framing the future."[393]

Others see the business plan as a communication device used primarily to represent a specific strategy to funders, as well as for all stakeholders.[394] Overall, the business plan is both a pitch and a plan.

For William Sahlman, the most effective business plans focus on four factors: people, opportunity, context, risk, and reward.[395] According to Peter Brinkerhoff, the business plan should have the following contents:

- A title page identifying the business plan as the property of your organization

- A table of contents
- A summary of the plan
- A description of your organization and its business
- A description of the market for your product or service
- A marketing plan
- A financial plan
- Business plan goals and objectives with a time line
- An appendix (if needed)[396]

The Small Business Administration's template for a business plan contains the following table of contents:

The Business
- Description of business
- Marketing
- Competition
- Operating procedures
- Personnel
- Business insurance

Financial Data
- Loan applications
- Capital equipment and supply list
- Balance sheet
- Breakeven analysis
- Pro-forma income projections (profit & loss statements)
- Three-year summary
- Detail by month, first year
- Detail by quarters, second and third years
- Assumptions upon which projections were based
- Pro-forma cash flow

Supporting Documents
- Tax returns of principals for last three years personal financial statement (all banks have these forms)
- For franchised businesses, a copy of franchise contract and all supporting documents provided by the franchisor
- Copy of proposed lease or purchase agreement for building space
- Copy of licenses and other legal documents
- Copy of resumes of all principals
- Copies of letters of intent from suppliers, etc.[397]

You might also consider the many excellent software providers that deliver comprehensive tools for business planning. Among the most popular is Business Plan Pro from Palo Alto Software, which offers the user three different templates—simple, standard, and financials only—along with a plentiful database of sample for-profit and nonprofit business plans.

Because you dealt with many of these necessary issues earlier in your strategy deliberations, putting a business plan together should be somewhat easy to do. However, keep in mind William Sahlman's warning:

> Most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors. As every seasoned investor knows, financial projections for a new company – especially detailed, month-by-month projections that stretch out for more than a year – are an act of imagination.[398]

Passion

Whether you are using a short elevator pitch or the fully shaped strategy plan, Solas and Blumenthal advise the following:

> Whatever the format, all of the *information* you provide in your pitch, no matter how long or short it is, should be relevant to answering the investor's central question: Why should I invest in this venture? The pitch is not simply a compendium of information assembled so that investors can draw their own conclusion. Your job is to persuade prospective investors that your venture is the right investment for them.[399]

There is ample advice for promoting your strategy whether it's pragmatic or idealistic, plain vanilla fix or thrilling new opportunity. The most important thing is that you tap into people's emotions.[400] Jay Conger advises that an effective vision "will ensure emotional impact, particularly in terms of building a sense of confidence and excitement about the future."[401]

Why should it matter how you frame your strategy? Simply put, visions must compete for the attention of the listeners – convince them in their hearts and minds that this is *the* vision for them. As you observe reactions from the intended audience, you change and adapt the vision. One can think of this competition in biological terms as Richard Dawkins does when he compares this struggle for attention and survival to what genes do in the biological world.[402]

In essence, visions "undergo a kind of *emotional selection*—they are chosen and retained in the social environment often because of their ability to tap emotions that are common across individuals."[403] As Warren Bennis and Burt Nanus note, "Even the 'best' ideas are only as good as their ability to attract attention in the social environment."[404]

In the early days of my work at the performing arts center, I made many curtain speeches to implore our audiences to become subscribers. I liked to say that we deserved to have Broadway shows in our community, that we deserved better than driving to Cincinnati or Columbus to see these shows. This vision of having the best shows in our own theatre where our customers were the stars worked: subscriptions went up seven fold to over 25,000, the budget grew from $550,000 to over $21 million, and all attendance in our facilities grew 400 percent to 900,000.

The exemplars in my study of high-performing nonprofits had a two-step process for conveying their visions.[405] First, they legitimized the vision by conveying it through the strategic plan. All the passion in the world can replace the preparedness necessary to take on the project.[406] Passion is all about engaging emotions; preparedness shows that you've really thought hard about what you're presenting (the quality of your strategy).[407]

Second, these successful organizations were persuasive enough to get people involved. As one person said, "You can never remove the fact that people have to feel your love for what you're doing."[408]

Howard Gardner and Emma Laskin make two recommendations about constructing a powerful pitch. First, it is "stories of identity – narratives that help individuals think about and feel who they are, where they come from, and where they are headed – that constitutes the single most powerful weapon in the leader's literary arsenal."[409] Second, "those who fashion a more sophisticated account of identity are often bested by those whose identity stories are simpler, if not simplistic."[410]

In sum, the best pitches **connect emotionally** with your audience through simple stories of identity. They make people feel your love for what you're going to do and they are relatable. Moreover, be sure to make it clear that you **know what you're talking about**. Which is the most important? According to a study of venture capitalist, first things first – preparedness.[411]

LEADING CHANGE

Resistance is futile.
Locutus of Borg

Most major change efforts fail.[412] Larry Greiner observes that all “organizations appear to experience revolutionary difficulty and upheaval, and many of these organizations falter, plateau, fail, or get acquired rather than grow further.”[413] Change expert John Kotter studied more than 100 companies and found that few change efforts were successful and few were failures: “Most fall somewhere in between, with a distinct lean toward the lower end of the scale.”[414]

John Strebel found that “radical corporate reengineering . . . success rates in *Fortune* 100 companies are well below 50%; some say they are as low as 20%.”[415] A different study by Robert Tomasko of 1,000 U.S. companies that undertook downsizing as a change effort found that only 19 percent improved their competitive advantage.[416] The bottom line is that you might want to head back to your work in the Great Strategies Report and rerun the Change or Die checklist[417] to be sure you really want to go forward with any life-altering strategies.

Healthy Resistance

One of the fundamental reasons major transformation efforts fail is because people resist them.[418] Indeed, people in organizations “often resist change even when their environments threaten them with extinction.”[419] James O’Toole puts it directly saying, “In all instances of modern society, then, change is exceptional. When it comes about, it does so primarily as a response to outside forces.”[420]

It’s convenient to blame change failures on the people who resist differences, but many times, resistance is the right thing to do. When an organization looks major change in the eye, Clayton Christensen and Michael Overdorf say, “the worst possible approach may be to make drastic adjustments to the existing organization. In trying to transform an enterprise, managers can destroy the very capabilities that sustain it.”[421]

Adapting too quickly can also be unproductive because the periods leading up to a transformation can “provide the pressure, ideas, and awareness that afford a platform for change and the introduction of new practices.”[422] According to David Miller, sometimes the best thing for organizations is to “behave like sluggish thermostats. They must delay changing their structure until an important crisis develops. By then, quantum or revolutionary change may be required to re-establish harmony among the many aspects of structure and environment.”[423]

Embarking on a major change effort during a time of stability can be unrewarding. While making changes during crisis gets the executive director a lot of credit, during times of stability it can be dangerous because when “people do not perceive any crisis, attempts by the leader to make major changes are likely to be viewed as inappropriate, disruptive, and irresponsible.”[424] Ronald Heifetz goes even further, “Challenge people too fast, and they will push the authority figure over for failing their expectations for stability."[425] The lesson is that "frame-breaking change is quite dysfunctional if the organization is successful and the environment is stable."[426]

Unfortunately, sometimes the environment is stable and the agency successful, but a major change effort is necessary. Maybe you now understand your risk and have decided that some class-six rapids (the most dangerous level of whitewater) are just around the bend. Maybe your nonprofit agency has been the sole provider in the community for decades, but a for-profit heavyweight has just announced that they're coming next year. You have some choices: You can simply go with the flow and wait till you're over your head; you can leave the party early because you know what's coming; or you can take on the challenge and deal with the natural instinct to dig in your heels.

It is human nature to thwart change—some say that only 10 percent of the population is comfortable leading change and two-thirds will resist it outright.[427] Most experts advise that you must have the right level of dissatisfaction in order to achieve a tipping point that overcomes the resistance. The idea is that by creating enough urgency, you can create a scenario that forces people out of their comfort zone.

Necessary Urgency

The tipping point is language borrowed from epidemiologists to describe the point at which an ordinary, run-of-the-mill cold outbreak in a classroom inflects the entire school system and shuts it down. It is the "moment of critical mass, the threshold, the boiling point . . . where the unexpected becomes expected, where radical change is more than possibility. It is—contrary to all our expectations—a certainty."[428]

Crisis often sets off a tipping point. John Bryson says that crisis "occurs when a system is required or expected to handle a situation for which existing resources, procedures, laws, structures, and/or mechanisms, and so forth, are inadequate."[429] David Hurst calls crisis "far-from-equilibrium conditions,"[430] and Intel's former CEO Andy Grove calls it a "strategic inflection point", which is "a time in the life of a business when its fundamentals are about to change."[431] Whatever you call it - tipping point, crisis, far-from equilibrium - it can be one scary place.

Executive succession often sparks or finishes a tipping point. Michael Tushman and Elaine Romanelli found that such tipping points "occur most frequently after a sustained performance decline and will be most frequently initiated by outside successors."[432] The causes for sustained performance decline are numerous and can arise from "problems in achieving internal consistencies, from changes in the external environment, which rend prior patters of consistency no longer successful, or from changes in the internal environment which re-define current performance and/or strategic orientation as no longer appropriate."[433]

To be fair, tipping points also originate in the environment itself and are frequently out of the control of leaders.[434] Others suggest that whatever makes the organization successful today will be the cause of its crisis tomorrow.[435] Sometimes very small things lead to tipping points like the butterfly effect wherein "a small alteration in the initial conditions can amplify into wide-ranging effects throughout the system [like] the flap of a butterfly's wings in Beijing triggering a hurricane in Florida."[436]

Tipping points can also be quite exciting. New opportunities, going to the next level, going to scale, launching new lines of business, or major improvements in operational effectiveness are all very stimulating. The point here is that without a tipping point, it is very difficult to move people out of their comfort zones. If a tipping point is not going to occur naturally, you have to create one yourself; you have to boil the frog, as the saying goes.

Boil the frog is a powerful and widely used metaphor for tipping point change.[437] Al Gore, for example, made use of it in his film *An Inconvenient Truth*. Here is how it works: "Drop a frog in boiling water and it will jump out; slowly heat the water to a boil and the frog will remain in the water and die."[438] As the metaphor suggests, the way to get people out of their comfort zone is to turn up the heat fast.[439]

How important is urgency? Change expert John Kotter makes building urgency his first step (vision is step three) in his eight-stage change model. Kotter details the importance of urgency by listing nine ways to create it including: creating a crisis, eliminating obvious examples of excess, disseminating information about problems compared to the competition, cutting out management happy talk, and bombarding people with information on future opportunities.[440]

If you see that frame-breaking change is absolutely necessary, but the environment is stable and the organization is doing well, you can use Kotter's eight-stage model for creating major change:

1. Establishing a sense of urgency
2. Creating the guiding coalition
3. Developing a vision and strategy
4. Communicating the change vision
5. Empowering broad-based action
6. Generating short-term wins
7. Consolidating gains and producing more change
8. Anchoring new approaches in the culture[441]

When it comes to building urgency, Kotter warns that fact-based appeals won't cut it:

> Excellent information by itself, with the best data and logic, that may define new needs and new (probably ambitious) goals . . . Can win over the minds and thoughts of others, but will rarely win over the hearts and feelings sufficiently to increase needed urgency *(and this happens all the time).*

A logical case that is part of a heart-engaging experience, using tactics that communicate not only needs but emotionally compelling needs, that communicate not only new stretch goals, but goals that excite and arouse determination . . . Can win over the hearts and minds of others and sufficiently increase needed urgency.[442]

Jeffrey Pfeffer and Robert Sutton offer a more parsimonious four-step approach to leading change that requires the following ingredients:

1. People are *dissatisfied* with the status quo
2. The *direction* they need to go is clear (at least much of the time) and they stay focused on that direction
3. There is confidence conveyed to others – more accurately *overconfidence* – that it will succeed (so long as it is punctuated by reflective self-doubt and updating as new information rolls in)
4. They accept that change is a *messy process* marked by episodes of confusion and anxiety that people must endure.[443]

Nevertheless, of all these steps, the first is most salient: call it boil the frogs or burning the boats, you must have a satisfactory level of urgency. “Dissatisfaction proves people to question old ways of doing things and fuels motivation to find and install better new ways – especially when leaders can find ways to dampen fear and increase trust and psychological safety.”[444]

Though John Kotter’s focus on first creating enough urgency when undertaking a change effort is unassailable, it has always felt out of place to me. Create urgency for what? Where’s the rationale for the urgency? It’s a bit like Jim Collins’ “first who . . . then what” approach for leaders to take a company from good to great: “they *first* got the right people on the bus (and the wrong people off the bus) and *then* figured out where to drive it.”[445] How do you know who should be on the bus if you don’t know where you’re heading? Are you taking the team to play football or run at a track meet?

In for-profit companies, this is completely understandable because leaders already know the “what,” which is above-average returns on investment or the specific solution to whatever problem is causing urgency. And you know the “what” too – your strategy. Yet for a successful nonprofit organization, knowing your strategy, goals, action steps, and budget will inform the level of urgency and the needs involved.

CLOSING THOUGHTS

In a 2000 *Opera in Trust* article, Thomas P. Holland, an acknowledged expert on boards, commented about how to build the leadership team:

> Building a high-performing board team means building a team that is ready, willing, and able to focus on the main thing—a team that isn't hobbled by inefficient or unproductive procedures or distracted by trivial issues that will have little impact on your board's ability to achieve its vision for the organization.[446]

Ready, willing, and able to focus on what main thing? Which comes first: the main thing or the structure that helps you decide the main thing? In sustainable strategy, structure follows purpose and strategy. Paul Valery's "The best way to make your dreams come true is to wake up"[447] follows Walt Disney's "If you can dream it, you can do it." [448] As Holland noted in his article:

> The idea is to determine what the big ideas are, to find the whales in the pool and not be distracted by the paramecium, to ask yourself what is of such overwhelming imprint that it requires the board's attention for the foreseeable future.[449]

One way to fix problems within an organization is to yell at the people who cause them. Someone puts the letter in the wrong envelope or forgets to turn out the lights when leaving. Yelling can produce meaningful short-term results, but it fades over time. Wouldn't it be better to simply get window envelopes and install motion sensors to automatically turn off the lights? Wouldn't it be better to work on the system instead of the yelling? After all, as Deming says, "Workers are responsible for only 15 percent of the problems, the system for the other 85 percent."[450]

What then is the main thing? It is the chosen destiny, the combination of purpose and strategy. The problem is that in the hubbub of life, people in organizations usually don't know what that chosen destiny is because their agency never decided it. It's like walking into a completely dark room for the first time, given tools to do a job you know nothing about, told to work, and then changing the job every few minutes.

So what's the solution? Sustainable strategy of course! It's the best way to turn on the lights and give you the tools needed to do good great.[A]

[A] Saint Vincent de Paul said, "It is not enough to do good, it must be done well." The phrase "do good great" is a contemporized version of this saying.

APPENDICES

BAM

A brainstorming, affinity grouping, and multi-voting rating process (BAM) begins with brainstorming, which is a technique used to generate as many ideas as possible. There are five official steps to structuring this first step:

1. The central brainstorming question is stated, agreed on, and written down for everyone to see.
2. Each team member, in turn gives an idea. No idea is criticized. Ever!
3. As ideas are generated, write each one in large, visible letters on a flipchart or other writing surface [like Post-it® notes].
4. Ideas are generated in turn until each person passes, indicating that the ideas (or members) are exhausted.
5. Review the written list of ideas for clarity and to discard any duplicates.[451]

The wonderful thing about BAM is that it allows everyone to have a voice in the process, but no one can dominate it. The quiet members who never speak up finally have a chance to offer input because you directly ask them to do so; the overbearing members finally get a chance to listen—albeit, this is not necessarily of their choosing. To be sure, facilitating a brainstorming session takes practice, but most executive directors can become quite good at leading these sessions rather quickly. That said, bringing in a facilitator, or training someone in house to handle the process, can be helpful so that the executive director and senior staff can participate actively.

Here, for example, is a short list of 20 ideas from a question about board member duties answered by seven people:

advocate, ask questions, attend, attend events, be active, be ambassadors, be educated, contacts and resources, dedicated, do the work of the board, get money, give money, good representatives, make good decisions, participate, prepare, promote, provide tech expertise, recruit others, sit on subcommittees

When I do brainstorming, I like to go around the table at least twice and stop when the ideas get saturated. This usually occurs when members become exhausted and you start hearing lots of synonyms for things already up on the board, literal repeats, and passes. Keep in mind that for a group of 15 people, you might end up with 40-50 ideas—a full board of ideas.

With this many ideas, you need some way to manage them. A technique called **affinity grouping arranges the answers into common themes** that become the final board member duties. Here are the steps:

1. Phrase the issue under discussion in a full sentence.
2. Brainstorm at least 20 ideas or issues.

3. Without talking, sort ideas simultaneously into 5-10 related groupings.
4. For each grouping, create a summary or header cards using consensus.[452]

When using this technique, invite the participants to help sort the ideas, while the facilitator remains in control. This is a game of horseshoes where getting close is good enough, but being too far away is bad. In other words, you don't want to end up having just one or two groupings when 10 are actually present. Building an affinity diagram can be done quickly, but you want to practice this before going before a group. You have to be able to see the trees for the forest and that takes some practice.

Looking at the small group of ideas from above, start with one that seems like a root idea. Using advocate as an example, there are three other ideas that belong: be ambassadors, promote, and good representatives. The table below shows the results:

Ideas	Results
contacts and resources, get money	Raise money
recruit others, sit on subcommittees, do the work of the board	Do the board's work
be ambassadors, promote, good representatives, advocate	Champion the organization
prepare, be educated, dedicated, ask questions, make good decisions, attend, provide tech expertise, be active, participate, give money, attend events	Make good decisions

The final step in the BAM process is **multi-voting to prioritize or *rate* the final ideas**. The easiest tool is weighted multi-voting that I like to call "Take it to Vegas," where a blue dot equals $3, a red dot equals $2, and a green dot equals $1. Each person gets one dot of each color to distribute on any grouping of ideas. They can put all their dots on one grouping or spread the dots around. Adding up the money yields a strong sense of priority as shown in the following table:

Ideas	Results
prepare, be educated, dedicated, ask questions, make good decisions, attend, provide tech expertise, be active, participate, give money, attend events	Make good decisions (21)
contacts and resources, get money	Raise money (13)
be ambassadors, promote, good representatives, advocate	Champion the organization (8)
recruit others, sit on sub committees, do the work of the board	Do the board's work (0)

In the case of the last grouping that earned no points, you'd have a choice of whether to keep it in the mix. Remember that prioritization does not necessarily require discarding groupings; it's simply a method for establishing importance. **Indeed, perhaps less**

important than what is at the top of the list is what ends up at the bottom. Multi-voting is a good way to winnow out the things that you're not going to pursue further.

A word of caution: not every BAM process requires the multi-voting step. Sometimes the consensus of the group is so strong, it is not necessary. This is also true when time is at a premium or when prioritization is not necessary.

The supplies you'll need for a BAM process include four lightweight aluminum telescoping display easels, four packages (three boards per package) of 30" x 40" foam boards, magic markers, a role of clear packing tape, and 10 packages of 5" x 8" Post-it® notes. You should also get black magic markers and sticky dots in blue, red, and green colors.

Assemble the foam boards into six bigger 60" x 80" boards by taping the adjoining seams on both sides. Leave two boards blank and load the four other boards with Post-it® notes in vertical columns, seven notes to a column with seven columns to a board. Put the two blank boards abutting each other spanned across the four easels. Place the four loaded boards, one behind the other, in the middle of the two blank boards (leaving one-half of each blank board on each end).

Arrange the participants around a table set up in an open U shape with an equal number of comfortable chairs on the three outside sides. Put the easels at the head of the open U. You're now ready to go!

SAMPLE STRATEGIC PLAN

Executive Summary

The Strategic Plan for Community Health Centers (CHC) used the sustainable strategy platform wherein leadership focused its energy to ensure the agency got the job done and accomplished its purpose.

With sustainable strategy, the right answers come from the right questions. As shown in the illustration below, the strategic plan is composed of the elements in grey:

The strategic planning process had four distinct phases:

Great Start	**Great Ideas**	**Great Strategies**	**Strategic Plan**
What are we doing now?	*What could we do next?*	*What should we do next?*	*What we will do next.*

Great Start began with values and behaviors. One hundred and five people including 33 external stakeholders and 72 internal stakeholders had a voice in the process. The planning group of senior staff members worked on the lines of business and success measures. By the time they finished, there was a solid answer to the question of what CHC's current position was.

Great Ideas delivered a vision statement and generated many ideas for the future. More than 100 people participated in the ideation process and included 15 external stakeholders, 18 clients, and 72 board members and staff. All totaled, more than 335 ideas were produced. We used these ideas to guide the creation of a compelling vision that helped the planning group winnow the hundreds of ideas to a more manageable amount of 20 possibilities that could evolve into strategies. Another round of disciplined decision-making led to four finalists for the Great Strategies process.

Great Strategies is where we evaluated the four finalists to decide which of them should be included in the Strategic Plan. The analyses generally support the next step of implementation planning, after which time CHC should reevaluate each strategy to determine whether to go forward.

Purpose

Purpose has two elements: values and mission. Together these are a powerful combination – more powerful than the paycheck for many. Expert Daniel Pink, for example, says that it takes three things to motivate most people in the workplace: “(1) *Autonomy* – the desire to direct our own lives; (2) *Mastery*: the urge to get better and better at something that matters; and (3) *Purpose* – the yearning to do what we do in service of something larger than ourselves.”[453]

Values

Values	**Client-centered**	**Ethical**	**Competent**	**Team**
Behaviors	Culturally competent Compassionate Responsive Effective	Accountable Confidential Honest	Dependable Proactive Open to Learning Knowledgeable	Respectful Supportive Positive Communicative

Mission

Christopher Finny argues that an “organization’s mission statement deserves to be elegant, precise, and even poetic because these words embody the reason your nonprofit exists.”[454] Indeed, the very best mission statements are similar in texture to a Japanese haiku. Because the working mission should be the combination of three essential elements (clients, difference, and competitive advantage), the following is CHC’s working mission:

Client-centered care
for our Community
to have lives worth loving

Lines of Business

Lines of business are different from other activities within the organization because they are ends, not means. These are the services, products, and programs that are “the ‘face’ of an organization; the businesses that customers see as *being* the organization.”[455] Most importantly, they must stand the customer-change test: First, there is an external customer. Second, there is a life-changing difference for that customer.[456] CHC has the following lines of business that serve their customers:

Addiction Services
A Life Worth Loving in Recovery
Group
Housing
Individual Counseling
Peer Support

Clinic Services
On-going Access for Excellent Health
Case Management
Medical Care
Food Access
Housing
Retention and Adherence
Transportation

Mental Health
Living Longer and Better
Counseling
Internships
Medications
Peer Counseling
Psychiatry
Training

Prevention
Embracing Your Choices for a Healthier Life

County
Awareness
HIV Testing
Individual Risk Reduction
Peer Support
Risk Reduction Groups

Downtown
Awareness
Individual Risk Reduction
Navigation
Peer Support
Education & Screening
Testing & Vaccinations

Resources
Support that Matters
Events
Federal Grants
Foundation Grants
Individual Donors
Program Revenue
Support Services

Success Measures

Unlike the lines of business that describe what the agency is doing qualitatively, success measures look at this question quantitatively. The bottom line for success measures is quite simple: "What you measure is what you get."[457]

Success Measures ($ in thousands)		2011-12	2012-13	2013-14	2014-15	2015-16
Profit & Loss	Contributed Revenue $	5,057	5,451	5,368	5,675	6,326
	Non-contributed Revenue $	279	208	398	381	427
	Total Revenue $	5,336	5,659	5,765	6,056	6,753
	Total Expenses $	5,270	5,642	5,769	5,874	6,601
	Excess/(Deficit) $	66	18	(4)	182	152
Balance Sheet	Assets $	818	851	871	1,322	1,302
	Liabilities $	358	374	397	152	76
	Net Assets $	460	477	473	893	1,147
Capital Structure	Total Margin $	0.01	0.00	(0.00)	0.03	0.02
	Current Ratio $	1.8	2.0	1.9	5.4	12.5
	Working Capital $	273	357	329	673	870
	Operating Reserves $	207	170	253	616	814

[A]

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (T. A. 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" (T. A. McLaughlin, 2009, p. 75). Formula = Current Assets (lines 1-9) divided by Current Liabilities (lines 17 to 19)

Lines of Business Success Measures		2014-15	2015-16
Addiction Services %Sobriety≥90 Days		60	60
Clinic Services #		861	975
Mental Health #		600	660
Prevention Duluth #		2,315	1,650
Prevention Midtown #		4,800	5,000
Resources $		7,620	7,975

Vision

Many writers in popular literature have long argued that vision is essential for effective leadership.[458] Scholars also give an equally strong vote of confidence to its importance.[459] As such, it is now generally accepted that the "single defining quality of leaders is the capacity to create and realize a vision."[460] In other words, "leadership behavior that is not infused with vision is not truly leadership."[461]

When it comes to definitions, change master John Kotter defines vision quite broadly as "a picture of the future."[462] Burt Nanus says vision is "where tomorrow begins . . . a signpost pointing the way."[463] Thus, your purpose is in the present tense and the vision is in the future tense. Vision has three elements:

1. The statement is the clear picture of the future.
2. Strategies are the overarching actions that bring the vision to life.
3. Goals are the steps to achieve each of the strategies.[464] Because of the complexity of each of the strategies, CHC's planning group decided to craft a plan to plan implementation for each of the strategies.

Statement

Model Leader in Integrated Care
Those who need care, get care, feel better

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 & Notes

Strategies

Current Strategies

Downtown Housing	**Downtown Clinic**
Quality affordable housing through rental assistance for behavioral health clients for income-based fees with a low startup cost: *Stability* *Safety* *Recovery* Goals planned: finished Goals completed: 12/1/15	Primary care for newly diagnosed or out of care 6-12 months for a sliding fee scale or insurance with a high startup cost: *Excellent Convenient Care* *Many Services – One Place* Goals planned: finished Goals completed: 5/1/16

New Strategies

In-house Pharmacy	**Patient-Centered Medical Home** (PCMH)	**Broaden Client Payer Mix**
Medications for insured clients at all locations during established hours for a cost plus fee with a high startup cost: *Convenience* *Experienced Pharmacists* *Access to Payment Help* Goals planned: 12/1/16 Goals completed: 12/1/16	Comprehensive services in a unified process at all locations during established hours for a rate plus fee with a medium startup cost: *Comprehensive* *High Quality* *Accessible* Goals planned: 5/1/16 Goals completed: 5/1/18	Excellent care from client-centered practitioners for insured clients at all locations during convenient times for a rate plus fee with a low startup cost: *Confidential* *Convenient* *High Quality* Goals planned: 12/1/16 Goals completed: 12/1/16

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[340] This discussion of diversification is informed by the work of Michael Hitt, Duane Ireland, and Robert Hoskisson (Hitt et al., 2009)
[341] The Cuyahoga Board of Developmentally Disabled opened its first Just-A-Buck franchise in 2009 and its third franchise opened in 2013: http://www.cuyahogabdd.org/en-US/SYN/40664/PageTemplate.aspx
[342] (Salamon et al., 2010)
[343] (Taylor, Dees, & Emerson, 2002, p. 236)
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