# Balanced Management for Nonprofit Organizations

**Written by Chris Dann**

## Foreword

On a Saturday afternoon thirty-six years ago, in an office building in Rosslyn, Virginia, the Chairman of The Nature Conservancy's Board of Governors emerged from a meeting of the Board and told the four of us who were responsible for each of the organization's four operating departments that, following the dismissal of the president, we had been elected vice presidents and were to share responsibility for running the organization until a new president was appointed. I became Vice President for Development.

This happened at a time when the competitive pressure on nonprofit organizations was nothing like what it has become ever since. And the four corners, as it were, of the organization were brought together in a way that rarely happens, forcing us to understand each other's realms of responsibility.

As a consultant to non profit organizations, I have looked for ways to explain what happened back then, because we didn't just maintain status for the organization, we moved it ahead dramatically. The concepts offered here are better grounded and responsible than the cavalier, "We did what we had to do."

This article is about preventing those disconnections. It borrows and analogizes a business model that I believe has more valuable application to nonprofit organizations than it does to private enterprise. The article is in two parts. The first part describes the model and how it applies to nonprofit enterprise. The second part elaborates on one of the four pillars of the model, resource development, the most complicated of the four when it comes to nonprofit management.

## Special Challenges to Nonprofit Management

It's commonly complained that nonprofit organizations don't act like businesses. Most of the time, the complaint is unfair or unfounded or both. Most of the time, those unfair or unfounded complaints would be more accurately expressed, "I wish it were a business, then [I think] I would understand it." In so many ways, commercial private enterprise is so much easier to understand!

But sometimes the complaint is fair and founded. And at its heart is concern about the disconnections between and among program, financial, resource development, and organization strategies that appear to come naturally to – and are frequently even fostered by – nonprofit managers.

If we polled senior managers of America's nonprofit organizations, we would likely find that a great majority of chief executive officers and chief program officers would say that a nonprofit organization's mission should be pursued independently of resource development and financial strategies. They would say that resource and financial strategies can and might as well be pursued independent of organization strategies. There is a belief strongly held by the majority on the program side of nonprofit work that connecting these strategies compromises the integrity of program mission and strategic program planning.

These are heart-felt convictions. "We simply cannot have funders determining our program decisions and direction," is the contention. Perhaps nowhere in the nonprofit world is that insistence more strongly held than it is by public media… nonprofit radio, television, and print. While the tenet of journalism that maintains the independence of publishing and editorial roles applies regardless of profit-making or nonprofit status, it is often applied in the extreme by nonprofits…to the insistence, for example, that the charitable motivations of individual public broadcasting donors should not be consulted in making program decisions lest they compromise the integrity of a station's mission.

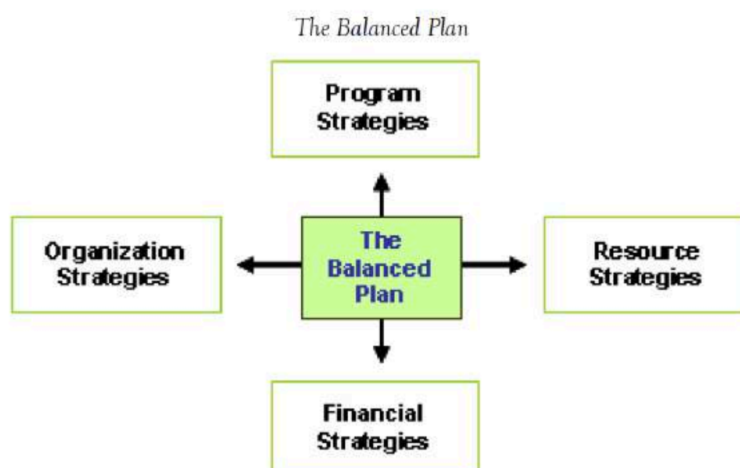
Well, if not exactly in fact, certainly in effect, funders do determine program decisions and direction by either endorsing them or ignoring them, by giving or by withholding their financial support. Leaving their funding decisions to chance ("Build it and they will come!") is wasteful and a sure prescription for destabilizing any organization; and yet that happens much more frequently than nonprofit managers and their boards realize. It happens because the interests of funders and strategies for responding to them – whether they are institutions like government or private foundations, or corporations or individuals – are not taken carefully into account in program planning.

While the idea of the need for some sort of firewall between funding and program may explain lack of coordinated strategies between these two sectors, the ubiquitous lack of collaborative planning between financial administration and funding development is inexcusable, even if explicable. It can be explained because nonprofit managers so rarely require their financial administrators to understand their organizations' funding models or strategies and rarely require their funding developers to understand how their organizations' finances work. And that is inexcusable.

The organization that doesn't insist that financial administrators understand funding strategy and fund developers understand financial strategy is one lacking organization competency. And, to come full circle, the most important measure of organization competency in the nonprofit is the quality of integration of program, financial, funding, and organization development and plans.

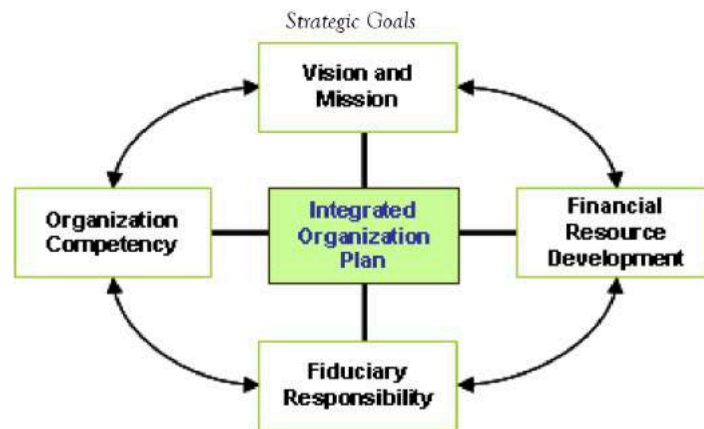
## The Balanced Plan Model

This is a concept of nonprofit organization management that is indebted to the wisdom of Robert Kaplan and David Putnam and manifest in their book, **The Balanced Scorecard**, published ten years ago by Harvard Business School Press. Readers of that book, or students of their concepts, will recognize that my application of their concepts is more metaphorical than analogical, but they will recognize in the charts here the point or points of departure.




First, the fundamentals. Managing a nonprofit like a business begins with recognizing that there are these four realms of the nonprofit enterprise whose strategies must be coordinated in the balanced plan. Any time we see a nonprofit organization in trouble, even if as fundraising consultants we always begin by looking at the resource development realm, we find at least two, and usually all four, of these realms out of sync with the others.

Each of the four realms has a simple and fundamental strategic goal.




The goal of the program strategic realm is to ensure the vision and carry out the mission of the organization. This is the one realm and goal best and most widely understood in the nonprofit world, not only because it is inherent and so fundamental, but also because it has received so much attention – arguably to a fault – by management consultants working with nonprofits.

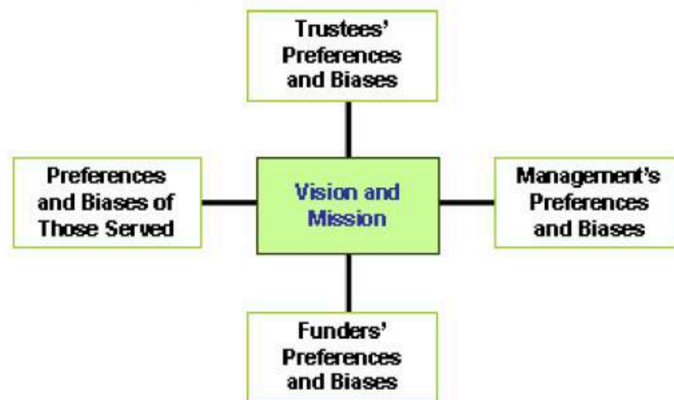
The goal of the resource strategic realm is to provide the organization the financial resources its plan – not just its program – requires. While the goal of this realm is generally accepted, it is not generally understood, most likely because it is the one of the four goals that, as we shall see, is the most complex to plan and difficult to achieve.

The goal of the financial strategic realm is to affect fiduciary responsibility for the organization. By fiduciary responsibility I mean ensuring responsible use of entrusted funds and assets in the service of the organization for as long as the organization requires.

In my experience as a board member, chief executive or senior staff member, and as a consultant I have found that fiduciary responsibility is not well attended to by most boards. That partly explains why it is not addressed as a strategic goal. But another part of the explanation is that most financial managers at nonprofits are not charged or encouraged to operate at a level of strategic financial management and fiduciary responsibility. If it's in their lexicon at all, it is crudely translated to mean for most of them simply budget control.

The goal of the organization strategic realm is to ensure organization competency, to make sure the organization can manage the balanced plan. Organization strategy is focused on human resources. Unfortunately, responsibility for human resources is usually administrative and not managerial. We can hope that some day soon some nonprofit organization somewhere might take to the revolutionary but appropriate idea of placing a Chief Competency Officer among its senior management group. Lacking that, it's the job of the CEO or at least COO. Organization competency is two-dimensional. On one dimension it is a matter of individuals' skills and abilities; and, on the other dimension, it is a matter of the integration of human resources to produce capacity that is greater than the sum of the individuals' skills and abilities.

## Vision and Mission




It can never be presumed that even the most precisely framed concepts of vision and mission are not subject to a degree of constant re-interpretation and re-consideration. There are four sets of stakeholders. While their preferences and biases cannot and should not have equal influence – Trustees ultimately have the last word – they must all be accounted for in a balanced program plan.

For those organizations serving people – and depending on how or why they are being served, from victims of disease to students matriculating in graduate school – the biases and preferences of those served weigh in at balance with the biases and preferences of management. It is a given that the preferences and biases of management are grounded in qualified expertise, judgment, and experience.

Funders' preferences and biases should weigh in last, but they weigh in nonetheless. It's relatively easy to assess the preferences and biases of sources of non-discretionary funding, government, foundation, and corporate grant-makers. They have each, themselves, set program goals; and to the degree their grant-making program goals and objectives align with those of the supplicant organization, the chance of funding is good.

But ascertaining the preferences and biases of providers of discretionary funding – individual donors, government general support (usually legislated), patrons – is more challenging, more costly, and therefore generally unattended. So it is ironic that it is a rare nonprofit that budgets for statistically reliable research of the preferences and biases of donors and patrons.

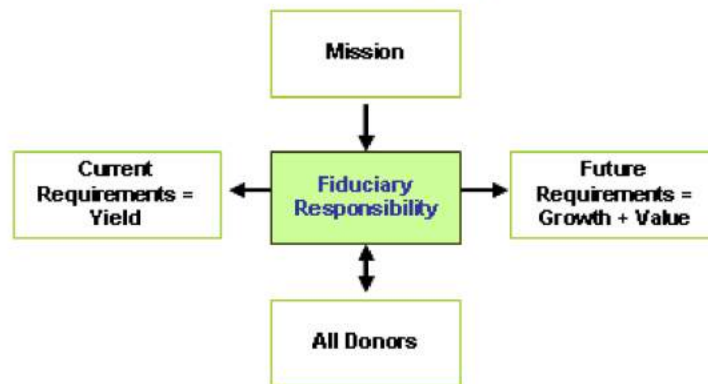
## Organization Competency

Achieving organization competency is a matter of maximizing capabilities and capacities in each of the four principal realms or divisions of professionalism – program, financial support, resource development, and management and leadership – while also maximizing collaboration within and among these areas. So it is a matter both of having the right human resources in terms of capability and capacity and being sure they are organized to work at greatest efficiency.

In the nonprofit, human resources means both salaried and voluntary human resources. When volunteers are accorded full citizenship in an organization and their skills and assets are thoroughly explored and when they take their places wherever in the organization they are best suited then the organizations they are working with can be said to understand the goal of organization competency.

We shouldn't move on from this topic without also considering the two facets of individual competency so important to the well-managed organization. One is professional skill and talent itself – capability and individual capacity – and the other is the skill and talent of collaboration. "Teamwork" grossly understates what I am referring to. What I am referring to is the knowledge, talent, and skill to collaborate on integrating strategy and developing integrated, balanced organization plans.

I have had the rare and enormously rewarding experience of working with an organization that focused its attention on achieving organization competency. Sadly, more often I have had the experience of working with CEOs who would rather not try – two retired early in the face of the challenge. But the one that made the commitment – sticking with a regimen of training over a year – not only solved problems its managers considered insurmountable at the start but has gone on to set new standards for others in its nonprofit sector.




## Fiduciary Responsibility

Planning and managing fiduciary responsibility is fundamentally a matter of ensuring donors (and their representatives, including their heirs) that the resources they provide, have provided, and may yet provide are used to achieve the organization's vision and mission with utmost efficiency and integrity. Fiduciary responsibility means donor advocacy and requires, therefore, knowing and understanding donors' interests.

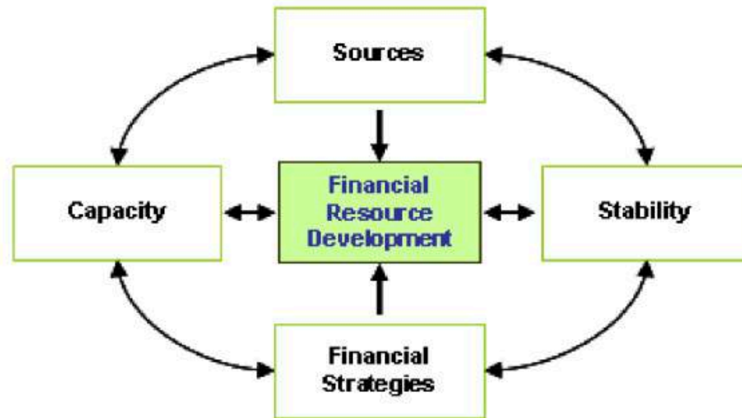
While there is inherent in planning and managing fiduciary responsibility balancing responsibilities to donors and program, there is also the requirement of balancing current and future financial requirements.

In almost all organizations there is perennial conflict between maximizing current yield and ensuring value and growth to provide maximized future yield. But in some – those organizations that take up the causes of presumably solvable problems like curing diseases and ending domestic animal overpopulation or enacting a specific piece of legislation – there is the additional challenge of determining how much of a future needs to be financed versus how much it takes to solve the problem sooner.

Most organizations – by a very wide margin – are under-endowed. Some, we are told by those who make such judgments, are over-endowed. But a few struggle with figuring out which they are, trying to balance pressing current need for financial resources – to find a cure for a disease, for instance – against the prospect of needing funding for the long haul – should, in the same case, the cure not be found. That is a dilemma inherent in managing fiduciary responsibility.

A final point on this topic: the donor base itself is a financial asset and one just as subject to fiduciary responsibility. For many and perhaps most organizations it is the single most valuable asset they have. Most boards of directors take their organizations' donor bases for granted because most organization managers do. Yet every gift is tantamount to a contract, and exercising fiduciary responsibility for the donor base asset begins, therefore, with knowing what the organization's implied contractual obligation is to its donors.

## Financial Resource Development




Planning and managing financial resource development has responsibilities somewhat parallel to planning and managing fiduciary responsibility. Those are the responsibility to balance objectives of financial capacity and financial stability and the responsibility to be stewards of the financial asset represented by the donor base. Financial capacity – the potential for greater financial resources achieved by amassing capital or developing sources of increasing income – is essential to accommodating required or desired program expansion. Financial stability is essential to ensuring sustained operations. At the same time, planning and managing financial resource development means supporting financial strategies for producing current yield as well as growth and value for the future.

Financial resource development is the most complicated of the four realms of balanced planning. While, like the other realms, it is a business within the business, unlike the others it very often is, in fact several businesses, all variously characterized by variations in the sources of support for which an organization is eligible.

For this reason, we turn now from the balanced plan model and look more closely at management of the realm of financial resource development.

Our approach recognizes two prerequisites to planning and managing an organization's financial resource development. The first of these is to look at all possible funding sources and assess their varying probabilities of – and therefore the roles they might play in – supporting the organization. We call this first process *program financial profiling*. The second prerequisite is to evaluate the economics of each source for which the organization is eligible. We call this second process *funding source valuation*.

*Program Financial Profiling*

| Organization | Government Support | Individual Support | Foundation Support | Corporate Support | Retail Revenue |
|---|---|---|---|---|---|
| Sierra Club | 1 | 5 | 3 | 2 | 2 |
| American Red Cross | 4 | 5 | 5 | 5 | 2 |
| university | 3 | 3 | 4 | 4 | 5 |
| nonprofit hospital | 3 | 4 | 3 | 3 | 5 |
| nonprofit theater | 2 | 4 | 3 | 4 | 5 |
| public broadcasting | 3 | 4 | 3 | 4 | 3 |

The table above offers a simplified representation of program financial profiling for two organizations and four types of organizations. In each case it is the mission of the organization and program that ensues which determine the organization's relative eligibility – in this illustration, on a five-point scale – for the source of funding. The simple scale assigns a 1 where there is no likelihood at all of securing funding from the source, and a 5 where the probability is highest.

Any one of these ratings is debatable, and debating them is an important part of the process. The illustration assumes, for example, that since the Sierra Club pursues as a primary objective the influencing of government policy it makes itself ineligible for government support. But government is a complex reality, and somewhere within the complexity of its programs might, in fact, be a small funding opportunity for the Sierra Club. "Retail revenue" is a generic term for income from products or services either inherent or ancillary to the organization's program.

The organization whose mission and program have been well and carefully founded doesn't want to chase money at the cost of sidetracking its objectives. On the other hand, arbitrary or casually considered missions or programs, or unfounded fear of untoward influence of a funding source, or simply unexplored opportunities might preclude funding opportunities.

Each of the sources of support or financing has diverse character and a spectrum of value to any given organization. Individual support can be broadly-based or relatively narrow and can range from very small to very large gifts. Some organizations are more eligible for estate gifts than others. Government can come from the administrative or legislative branches and that makes a difference, as we'll see shortly, in how dependable it is. Foundations give according to their own determinations of mission and program and may restrict their giving even to types of financing – program, operational, or capital. Corporations may be truly philanthropic or steadfastly marketing- oriented in their giving.

But overall, each funding source has its distinct economic characteristics which, in turn affect the character of the organization's financial operations.

The second step in planning and managing resource development is evaluating the funding sources available to the organization. We call this step *funding source valuation*. There are four aspects of economic characteristic to take into account:

- Source acquisition cost
- Potential for long-term return-on-investment
- Annuity value
- Program cost ratio

Acquisition cost refers to the return-on-investment of the first dollar spent. It ranges from a negative number for acquiring a new donor by mass media to a substantially positive number for most government and foundation support.

Potential for long-term ROI speaks for itself. Properly husbanded, individual donors have significant potential for long-term return-on-investment. But a foundation grant, restricted to a specific project, for example, has none.

Two sources, government administrative funding and most individual support have high potential for renewal and sustainability and thus high annuity value. Foundation support, on the other hand, does not.

Program cost ratio is the nonprofit equivalent to margin in commercial ventures. It's the answer to the question, "How much do I have to spend on program to receive a dollar in funding from this source?" Sometimes it's an easy calculation: the restricted project grant that allows no overhead has an income-to-cost ratio of 1:1. Often it is more difficult, particularly when the source is providing presumably discretionary funding. Individual support, in this case, is most challenging and is changing as donors become more and more demanding about specificity and accountability in the applications of their giving.

Funding Source Valuation Illustrated

| Funding Source | Acquisition Cost | Value Potential | Annuity Value | Program Cost |
|---|---|---|---|---|
| Government administrative | low | high | high | high |
| Government legislative | low | high | low | low |
| Foundations | low | medium | low | high |
| Corporations | medium | medium | medium | high |
| Altruist donors | high | medium | medium | low |
| Values donors | high | high | high | low |
| Transactors | medium | low | low | high |

Acquisition cost - First dollar return-on-investment
Value potential - Long term return-on-investment
Annuity value - Sustainability and retainability
Program cost - Income to program cost ratio

The table above illustrates the application of the four economic characteristics to funding source valuation on a simple, three-point scale.

We've removed retailing (everything from selling the ballet's tickets to the humane society's or the hospital's medical services) as a source here because it should be subjected to conventional business planning.

We distinguish between government *administrative* and government *legislative* sources precisely because they tend to have dichotomous annuity and program transaction value ratio values. Legislatively granted funding is much more subject to political whim and winds than money emanating from the administrative branch. Indeed, budget items that have been cast in the concrete of bureaucracy often need to be blasted away so long as they remain politically neutral.

And we distinguish between *altruist* and *values* donors[1] because research has taught us values donors have higher long term ROI and annuity values.

It may seem strange to assign low program costs to individual – either altruist or values – donors. While individual donors are discriminating when it comes to program value, they are not discriminating in the way a grant maker is when it comes to program cost, that is, how much it costs to achieve the organization's purposes.

It may also strike some readers as strange to ascribe a high program cost ratio to government administrative, foundation, and corporate sources. But the three have one important characteristic in common: if an organization doesn't do what it says it will do in applying for money, it may not be able to keep what it gets and it will surely not get any more from the same source.

Low annuity values apply to those sources that are least likely to renew their support or, in the case of government-legislative, are subject to politics. Long term return-on-investment is not necessarily consistent with annuity value. An organization can maintain a successful and income productive relationship with a foundation or a legislature but need, nonetheless, to reapply for support and not count on its being automatic, as the term annuity denotes.

Program financial profiling and source valuation provide assessments necessary to determine current and future financial stability and capacity. I distinguish here between the fiduciary objectives of stability and capacity and the financial management objectives. The latter lead, in turn, to framing financial management strategies either to achieve or sustain a stable financial course while building capacity to provide for future stability or to expand – if expansion is right – program operations.

The greater complexity of achieving balanced management for nonprofit organizations is caused by the natural and frequently exacerbated independence of program and financial source development operations. This, more than any other characteristic of nonprofit enterprise, explains why a nonprofit organization can't be run like a business. It isn't like a business. But both businesses and nonprofit organizations can be run well. For the nonprofit, balancing program, financial, resource development, and organization strategies through integrated plans is the key.

[1]We define altruist donors as those giving for the aid and comfort of humans or animals and values donors as those giving to organizations whose missions and programs embrace a set or sets of societal values that resonate with the donors. The donor is characterized by the case that prompts her or his giving.

## About NextGen

With offices outside of Philadelphia and San Francisco, NextGen is a premiere provider of strategic fundraising and direct response marketing services exclusively for the nonprofit sector. Our mission is simple: to help nonprofits better connect with their supporters so they may raise more money for their important mission.

NextGen's experienced team and partners help each organization address the many puzzle pieces that make up a fundraising program and fit them together in an effective and efficient way. Through multi-channel strategy and implementation, we aim to help nonprofits share their brand impact through smart, engaging communications.

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