

IN A DOWNTURN, INVEST FOR THE LONG TERM

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Nonprofit leaders can enhance sustainability by balancing focus and adaptability, managing financial predictability, and understanding their markets.

Most nonprofits are a response to a failure of economic markets or political will; if homeless people could pay for safe housing, then shelters would be hotels and soup kitchens would be restaurants. When economic markets fail, the need for nonprofits to bridge that gap is even greater.

As we all anxiously face the uncertainty produced by the current recession, one thing is certain: In the months and years ahead, the need for critical services provided by nonprofit organizations will grow. With government funding and corporate profits depressed for the foreseeable future, nonprofit leaders are faced with the urgent dilemma of balancing short-term and long-term priorities.

Leaders across the sector have the entrepreneurial spirit and intelligence that it takes to respond to the short term and ensure that their organizations are well-positioned for the long haul. However, because the current environment is more stressful than ever before, a focus on the long term often takes a back seat. Nonprofits are facing losses of major donors, long periods of negative cash flow, burned-out management and overwhelmed front-line staff, leaving many leaders feeling that their organizations' very existence is threatened. These concerns are real. Academics, researchers and donors talk about Darwinism and predict a winnowing of the sector in light of the recession. In this scenario, sustainability takes on new significance. This is why we at Community Wealth Ventures recently conducted research to enhance the sector's understanding of what it really takes for social change organizations to survive and thrive.

Ineffective Responses

To be a survivor, leaders need to take action to nurture sustainability. While popular opinion glibly advises leaders to make hard choices, some choices promote short-term relief at the expense of long-term impact. For example, consider the following:

The Sentimental Response

In light of the current environment, some leaders caught in the headlights are choosing to respond by not responding. They take a sentimental attitude, arguing that they have survived before and will survive again. They are deluded by sophisticated organizational infrastructures and lured into thinking that survival is a matter of waiting out the downturn. As a result, strategic decisions aren't made until it is too late.

The Silver-Lining Response

Other leaders, drawing upon the idealism that led them into the sector, see opportunity around every bend. Worst case scenarios don't exist. Economists' predictions are seen as too pessimistic. Options and planning are narrowly considered through a positive lens. Hope and desire dwarf preparedness, pragmatism and judiciousness. Consequently, the organization fails to take the action needed to create sustained impact.

The 10% Cut Response

Some leaders recognize the need for action, but rather than make strategic choices, they opt for modest, incremental action. Tactically focused, these leaders impose across-the-board cuts by reasoning that if everyone shares a little pain, the organization can make small adjustments to survive. In the end, high impact programs starve while low impact programs continue to consume resources.

The Code Red Response

Other leaders resort to desperate action. All new initiatives are eliminated. All spending is frozen. All funders are called with urgent pleas for emergency support. For these leaders, uncertainty and anxiety about the future drive all decision making. Morale and innovation take a nose dive, and the organization – and its impact in the community – is considerably weakened.

These responses may be appropriate for a few organizations with unique circumstances. Clearly, if a leader is encountering a dire situation such as the inability to meet payroll or the loss of significant revenue, immediate and drastic action is warranted. However, for most leaders, as they consider ways to position their organizations for the long term, there is a different path forward to consider.

The Oxygen Mask Response

At Community Wealth Ventures, we believe that the path to sustainability requires leaders to manage the short term while making strategic investments for the long term. When faced with the task of doing what it takes to survive, Bill Shore, the founder and executive director of Share Our Strength and chairman of Community Wealth Ventures, advises leaders to “put your own oxygen mask on first before trying to assist others.” This concept is counterintuitive; in order to support and assist those that depend on nonprofits, leaders need to invest in organizational capacity first. An organization can't help anyone if it doesn't continue to exist itself.

Nonprofits are not unique in the struggle to find a path to long-term sustainability. The call to focus on strategic measures that yield both short-term and long-term impact is audible in the nonprofit and for-profit sectors alike. “If you have a product you believe in, now is the time to make a bigger investment – not a smaller one,” says Richard S. Tedlow, a professor at Harvard Business School who was recently quoted in *Business Week*.

To add to our own experience in working within the sector, we surveyed and interviewed 35 nonprofit leaders selected from a cohort of child- and family-serving nonprofits that are recognized as high-performing by the Annie E. Casey Foundation. We asked these leaders, “How do you define sustainability and what are you doing to make your organization more sustainable?”

Nearly every leader agreed that a sustainable nonprofit is one that focuses on not only fostering organizational stability but also pursuing relevant social impact.

Three Myths about Sustainability

While our conversations with leaders underscored the fact that sustainability is equated with impact, they also shed light on three myths about nonprofit sustainability:

Myth #1: Sustainability is only about money.

Financial resources alone are not analogous with sustainability. Nonprofit leaders agree that financial health is critically important; however, it is only one ingredient that enables an organization to enhance its sustainability. Regardless of how much cash is in the bank or the number of active donors on its mailing list, an organization must invest in its core capacity and position itself to meet the needs of constituents in order to be sustainable.

Myth #2: Sustainability is an end point.

In fact, nonprofit leaders describe sustainability as a mindset and an approach to leading and managing an organization. Nancy Hard, the president and CEO of Family Service Association in San Antonio, said it best: “A nonprofit can never reach true sustainability; it will always have to maintain relevance.” For this reason, sustainability is something that needs constant attention, focus and evaluation.

Myth #3: Sustainability is achieved through growth.

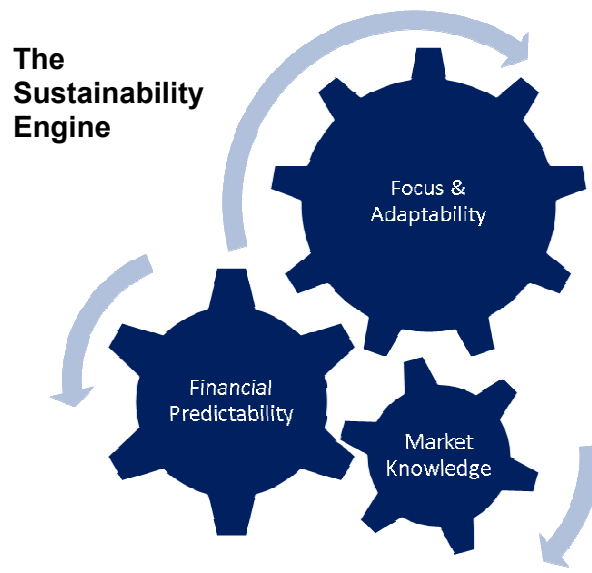
In truth, it depends. Scaling effective programs that are responsive to community needs and informed by results are clear signals that an organization is on the right path. However, size alone – whether it is the size of an organization’s budget, the number of donors, the geographic reach of its programs, or the number of staff – is not a measure of sustainability.

The Real Drivers of Sustainability

If sustainability is defined as having relevant social impact, where should nonprofit leaders focus their attention, in good times and bad, to achieve impact? Our research has informed the development of *The Sustainability Engine*, a framework to help nonprofit leaders take action to ensure sustainability and organizational vibrancy.

The Sustainability Engine has three critical activities that work in concert to shape an organization's culture and mindset. Together, these leadership priorities generate a powerful force that propels an organization forward and surfaces opportunities to achieve greater social impact. The drivers of the engine are as follows:

- Balance focus with adaptability,
- Manage financial predictability, and
- Know your market.



► *Balance Focus with Adaptability*

*You need to have a clear view of who you are and what it is you are doing.
You also need to be able to let go of programs that aren't relevant.*

– Brian Langdon, former President and CEO, FSW, Inc.

Given the scale of social need, some leaders are tempted to do everything – to be all things to all people. Other leaders like Brian Langdon balance a ruthless focus on the impact of their programs with a commitment to adapt to changes in the environment and among constituents. Often focus and adaptability can be at odds. A focus that is too narrow fosters rigidity, timidity and stagnation. Too much adaptability leads to mission drift and chasing dollars. Our research finds that those leaders who are successful in finding the right balance between focus and adaptability have a great deal of clarity around the mission and a passion for achieving impact. At the same time, they are successful at creating dynamic organizations where the people, systems and culture of the organization work in concert to provide flexibility and strategic agility. In essence, these leaders create a healthy tension between being ruthlessly focused and intentionally adaptable. The end result is an organization with greater relevance.

Here are a few questions leaders should ask to determine if they are creating a beneficial tension between focus and adaptability:

- How does the organization nurture tension between focus and adaptability?
- Are different pathways to fulfilling the organization's mission debated? Are the potential benefits of new opportunities and the merit of existing programs evaluated through the same lens?
- In what ways do internal processes, systems and people enable the organization to be dynamic?

► *Manage Financial Predictability*

Sustainability means anticipating change to assure the organization's continued funding, relevance and success. In operations this means building strong relationships with diverse funding sources and strategic planning to address shifts in the program environment.

– David Weber, Vice President of Programs and Operations,
Grace Hill Settlement House

Uncertainty about the future fosters a lack of confidence in an organization's financial standing. Our research indicates that despite the turbulence of the economy, nonprofit leaders can be more confident about their financial health by understanding their financial foundation and by analyzing the predictability of revenue streams and the strength of stakeholder relationships. Together, these points of analysis serve as a stress test that can reveal a path to shoring up financial footing.

In lean times, every dollar counts, and it is important to know how to count every dollar. Thus, the first exercise in the stress test is to understand how much cash is needed to sustain operations and how much cash is in the bank. Not surprisingly, savvy nonprofit leaders have these numbers imprinted on their brains. This includes accounting for the true cost of programs, which forms the financial foundation of an organization.

Next, consider the certainty of various revenue streams. Money you can count on is priceless. That is why it is paramount for leaders to understand revenue predictability. A key influencer of predictability is the strength of an organization's relationships with financial stakeholders. As identified in *The Future of Social Enterprise*, a 2008 article from Harvard Business School, stakeholder engagement is driven by emotional connections to the organization's cause or confidence in the organization's performance. In times like these, leaders need to effectively communicate about both drivers – emotional and performance – in order to cultivate deep engagement and trusted relationships with financial stakeholders. The transparent nature of these relationships will enable leaders to have confidence in various revenue streams.

An analysis of the financial foundation coupled with an understanding of the predictability of revenue streams helps leaders identify points of financial strength and stress. With this knowledge, leaders can develop revenue strategies that reflect the organization's true needs rather than going through the motions of implementing outdated plans. The result is increased confidence – internally and externally – in the organization's intrinsic financial strength. When armed with an understanding of their financial foundation and revenue predictability, leaders have an informed platform for assessing risks and evaluating and prioritizing investments as they seek to adapt and innovate in response to community needs.

Here are a few questions leaders should ask in anticipation of conducting a financial stress test:

- Can the leadership recite the numbers that comprise the organization's financial foundation?
- To what degree do leaders rely on hope when forecasting future revenue?
- How does the organization concurrently demonstrate performance and connect with the emotional values of financial stakeholders?

► *Know Your Market*

Organizations become complacent. An organization should be vibrant to be sustainable; if it doesn't respond to any shifts with its clientele it will not be addressing the core.

– Elaine Ng, Executive Director, Boston Chinatown Neighborhood Center

Opportunity in a down economy is not born from luck. Opportunity comes from a deep understanding of one's external context and environment, coupled with an understanding of how an organization can affect change in the community. What are the needs of the community and how are they evolving? In what ways can programs be improved to better respond to constituent needs? How are competitors and collaborators responding? Understanding the answers to questions like these can not only uncover opportunities but also help leaders ensure that organizational priorities are aligned with community needs.

At Community Wealth Ventures, we refer to this type of strategic outlook as “market facing.” In other words, leaders are attuned with the trends, gaps and needs in their social change market, which is comprised of constituents, collaborators, donors, government agencies and other entities that work in concert to affect social change. Information without action is just data. Thus, those leaders that are focused on sustainability are committed to acquiring, understanding and using market data to guide decision making. When coupled with data about organizational capabilities and impact, market knowledge gives leaders the courage and confidence needed to propel the other elements of *The Sustainability Engine*. Moira Carlstedt, the president of the Indianapolis Neighborhood Housing Partnership, sums up this learning when she stated: “We don't assume we're relevant because we exist, and we don't assume that we should have programs because someone is willing to fund them. We make decisions based on our mission and data that confirms the need for our programs.”

By recognizing their social change markets, leaders can also position themselves to compete. To the extent that a shrinking economy creates a more competitive nonprofit environment, then competitive advantage will be more dependent on having and demonstrating impact. This means investing in measuring and communicating impact at a time when many organizations are cutting costs and facing significant pressure to make cuts in these very activities.

Here are a few questions leaders should ask to find out if they have enough market knowledge to fuel their sustainability engines:

- Has the organization been caught off guard by changes in its social change market?
- Has the organization changed or recalibrated priorities in light of performance results?
- Is the organization's management informed enough to be decisive when it comes to evaluating new opportunities and existing programs?

To answer these questions and ignite the sustainability engine in an organization, it often takes a thought partner and strategic advisor to help find a path forward that positions the organization to achieve impact in the years ahead. It is important to have the right partner who brings a fresh perspective and enables leaders to step out of day-to-day operations and more clearly see the forest through the trees. Community Wealth Ventures can be that partner. For more than ten years, we have helped leaders think differently and take the necessary steps to transform their organizations. We realize that balancing focus and adaptability, managing financial predictability, and developing knowledge about the social change market are easier said than done. To find out how we can help you, contact Amy Celep at acelep@communitywealth.com or Heather Peeler at hpeeler@communitywealth.com.

About Community Wealth Ventures

Community Wealth Ventures (CWV) is the leading management consulting firm that emboldens and equips leadership teams to innovate, grow and sustain organizations that build a better world.

CWV offers strategy and implementation services to nonprofit organizations and philanthropic foundations, partnering with them to design and implement innovative approaches to growth and sustainability. CWV supports nonprofit sustainability through a variety of strategies, with core expertise in social enterprise and social franchising. CWV's collaborative approach to consulting focuses on equipping leadership teams with the skills needed to execute the strategy.

CWV is a wholly owned, for-profit subsidiary of Share Our Strength, one of the nation's leading anti-hunger and anti-poverty organizations. Profits generated from CWV's consulting services go back to support Share Our Strength's anti-hunger mission. Since its launch, CWV has worked with hundreds of nonprofit organizations across the country, representing a variety of nonprofit missions and organization sizes.