CHAPTER 1

Introduction

In the five years since we wrote *Nonprofit Sustainability*, we've had the opportunity to share the book's core messages about strategy formation and the matrix map tool for nonprofit business model analysis with thousands of nonprofit leaders across the country and internationally.[1] So today, we have a much deeper understanding of how and why the tool is a powerful catalyst for change in an organization—how, for instance, it can support a staff and board in deciding to end the "untouchable" program that hasn't been relevant for years and bring leaders to acknowledge that their fundraising programs don't yield sufficient surplus to subsidize their government funding—and get them talking honestly about what to do about it. Indeed over the past five years, the matrix map process has ignited candid self-reflection and bold decision making in organizations of all types and sizes, from direct service, to advocacy, to the arts.

While the matrix map tool is meant for episodic analyses of the strengths and weaknesses of a nonprofit's current business model, the thinking that undergirds it is essential for leaders to promote every day across their staffs and boards. It is a mindset that examines both the mission impact and the economics of a given strategy or decision. It is a mindset that does not pit these two forces against one another but instead holds them as powerfully interdependent. It is a mindset we call the *sustainability mindset*.

Definition

"Sustainability encompasses both *financial sustainability* (the ability to generate resources to meet the needs of the present without compromising the future) and *programmatic sustainability* (the ability to develop, mature, and cycle out programs to be responsive to constituencies over time)."[2]

Defining Nonprofit Sustainability

The definition we offered in our previous book of *sustainability* for nonprofits as shown in the sidebar, holds true today.

This definition does not encompass two separate, complementary ideas. Rather, the two ideas are of one piece and are not independent of one another over time. Great organizations develop, mature, and innovate their mission-specific programs in concert with the continuous development, maturation, and innovation of their fund development programs. Leaders who deeply understand this are able to guide their organizations to achieve deep impact and modest profitability.

This harkens to Jim Collins's invaluable monograph, *Good to Great and the Social Sectors*, in which he argued that greatness is at the intersection of what we care deeply about, what we can be best in the world at, and what drives our resource engine.[3] In other words, for nonprofit organizations, being great at something includes being great at resourcing it through direct payment, such as contracts, restricted grants, or fees, or indirect payments by donors inspired to contribute because of a program's relevance and impact. Though times are changing, this idea—this integration of impact and how we resource it—remains a radical one in many parts of our sector. That's why the matrix map process, done thoughtfully and rigorously, is transformative for many leaders. It forces them to acknowledge that mission and resources cannot be separated in any useful or logical manner. Achieving great results requires great resources—time, money, partnerships, and community will—all of which must be intentionally and continuously cultivated.

In fact, this notion of continuous is central to our point of view on sustainability. While the matrix map process of assessing the impact and net financial return of each program in an organization's business model engages an organization's leadership in an intensive inquiry over several months, sustainability is an orientation, not a destination. It is not a one-time thing, not an episodic thing, not a senior management thing or a board of directors thing. It's really a mindset and way of organizational being. The way of thinking about two bottom lines in a holistic way, the sharp financial analysis, and the co-created language around impact all live on well past the creation of the matrix map. When we do this work well, they become inextricably woven into the fabric and culture of the organization.

The Context Today

Nonprofit Sustainability sought to contribute three core ideas to the discourse and practice of nonprofit strategy formation. First, we offered a definition of *sustainability* around which we believe all strategy should be created. Second, we added our voices to a growing choir questioning traditional approaches to nonprofit strategic planning, arguing for much greater emphasis on decision making, execution, and learning. And third, we offered the matrix map tool for analyzing the impact and financial return of a nonprofit's current business model. In the five years that we have been deploying these concepts and tools, the sector-wide discourse about strategy and sustainability has continued to deepen and evolve. We look next at five aspects of that discourse because we think they relate directly to the matrix map process. Leaders and capacity builders who draw on these linkages will be better poised to use our framework effectively.

On Strategy

The momentum of rethinking nonprofit strategy has only grown since we wrote *Nonprofit Sustainability* in 2010. Across all sectors, there is widespread sentiment that traditional strategic planning often does not respond effectively to the strategic questions organizations face now nor to the dynamic external context to which they must adapt and on which they must exert influence. The 2013 article by the

Monitor Institute's O'Donovan and Flower in *The Stanford Social Innovation Review* captures this thinking well and offers a very useful reframe of classic planning activities. The authors contrast classic strategy with the more current adaptive strategy. The former is characterized by "predictions, data collection, and execution from the top down," while the latter is characterized by "experiments, pattern recognition, and execution by the whole."[4] In this definition, the authors speak to a number of concurrent shifts in management and leadership thinking, including "failing fast" through experimentation and "shared leadership" to continuously refine strategies—concepts that deeply influence our thinking about strategy as well. For us, it is not a question of whether to call a given process "strategic planning" but, rather, of ensuring that any process fosters honest analysis and courageous decision making, leading to deeper relevance to our causes and the financial health to resource that relevance over time.

When leaders empower people across the whole organization with the opportunity and responsibility to act strategically in their everyday roles, strategies come to life and get refined as needed in real time.

In *Nonprofit Sustainability*, we expressed this idea that strategy is first and foremost about execution, not predictions (see figure 1.1), which continues to resonate deeply for us and our clients. When leaders empower people across the whole organization with the opportunity and responsibility to act strategically in their everyday roles, strategies come to life and get refined as needed in real time.

On the State of Nonprofit Financial Health

The Nonprofit Finance Fund's 2013 State of the Sector survey results confirmed exactly what we have been experiencing in our strategy and matrix map work with clients across the country: for many organizations, the business models that got them here are not going to get them where they need to go next.[5] Among the findings most salient to the question of strategy formation are these:

- Forty-two percent of organizations reported that they do not currently have the right mix of financial resources to thrive over the next three years.

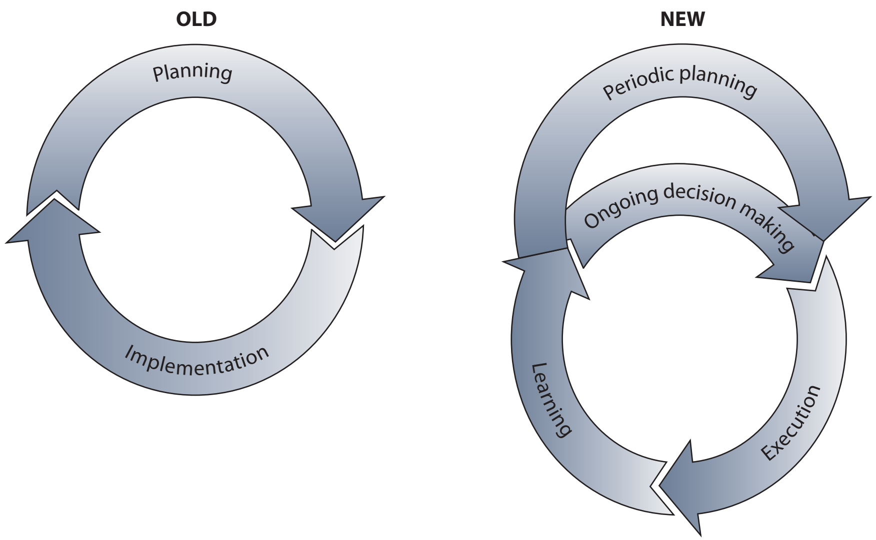

Figure 1.1 Nonprofit Strategy: From an Implementation Focus to an Execution and Decision Making Focus

- Thirty-nine percent of organizations plan to change the main ways they raise and spend money in the coming year.
- Fourteen percent of organizations that receive local or state contracts and 17 percent that receive federal contracts are paid full price for the programming they provide.

This degree of economic challenge and business model changes require the kind of adaptive strategy described earlier and the kind of systemwide reckoning with necessary change that the matrix map process engenders.

A second shift in the nonprofit financial health discourse relevant to nonprofit strategy and the matrix map process is the increasing nuance around income diversification. There is growing recognition that each distinct fundraising program requires distinct skills, systems, and leadership. For example, generating meaningful renewable income from an annual event requires different acumen from generating meaningful renewable income from foundation relationships, or from a social enterprise. As thought leader Clara Miller wrote in a 2010 article on the subject, "diversification is subject to the laws of diminishing returns." She further concluded that income diversification shouldn't be labeled a "best practice."[6] Recent work by the consulting firm Bridgespan on how nonprofits scale also points to strategic concentration rather than diversification. Indeed, its research points to three interrelated practices among nonprofits that have scaled. These organizations chose one primary funding stream, ensured that stream was aligned with their mission and approach to the work, and built their professional capacity to manage that funding stream well.[7] We shouldn't conflate changing our core revenue strategy with income diversification, the latter having a connotation of "the more the merrier." There are many groups that need to replace their current primary or secondary revenue stream because it is no longer working for the organization's desired impact or financial health. Most, though, will ultimately be funded by a primary and secondary source, with perhaps three streams at most comprising 95 percent or more of their total income. Revenue strategy is about identifying which revenue streams the organization can win in, not in how many an organization can possibly swim.

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Also in 2013, national research by CompassPoint on the endemic challenges facing nonprofit fundraising elevated the conversation about how many nonprofits are stuck in a vicious cycle of trying to hire their way out of the challenge of raising contributed income rather than embracing the profound and systemwide commitment this kind of fundraising requires. Its report *UnderDeveloped* found pervasive turnover in the development director role and that, moreover, 41 percent of nonprofits with a senior development position on staff nonetheless have no "culture of philanthropy" in their organizations (see the box).[8] In other words, many, many organizations are attempting to raise money from constituents—and no doubt approving annual budgets with associated giving assumptions—without incorporating the core, proven tenets of a successful individual giving program.

DEFINING THE CULTURE OF PHILANTHROPY

Fund development expert and author Simone Joyaux provides this definition:

> Some people define philanthropy as voluntary action for the common good. Many talk about fund development as the engine that drives philanthropy. Without charitable giving, most not-for-profits cannot survive. Philanthropy and fund development—inextricably entwined—belong to the entire organization. Every individual. Every department. All volunteers. This is the culture of philanthropy. An attitude. An understanding. A behavior. After the culture of philanthropy is firmly established, fund development is more effective.[9]

Expert Joan Galon King describes the culture of philanthropy as having these characteristics:

- Everyone behaves as an ambassador, helping to identify new friends and partners.
- The organization operates in a donor-centric fashion, making it easy and comfortable for donors and creating a dialogue.
- Everyone can articulate a case for giving and describe how contributions are used.
- Beneficiaries are viewed as the focus of the organization and invited to share their stories.
- The leadership of the organization is visibly involved in leading fundraising efforts.
- Board members are personally invested and contribute financially.[10]

For us, all of this points to these fundamental questions that nonprofit organizations need to answer:

- What income streams really work for us?
- Which ones are we committed to?
- Which ones will we build and sustain the staffing and systems to thrive in?

Through the matrix map analysis, board and staff are often analyzing together for the first time what it actually costs them to generate income of various types and what the real return on their investment of time, money, and social capital is for each one. This can lead to the strategic abandonment of a vestigial fundraising program or the renewed commitment to invest what it takes to make a funding stream meaningful and renewable over time.

On the Notion of Overhead

Among the most talked about issues since we wrote *Nonprofit Sustainability* has been nonprofit overhead. Dan Pallotta had nearly 3 million views of his TED talk on the subject, with many proclaiming that his message that nonprofits need significant overhead costs to attract talent and deliver high-impact programming transformed their thinking about nonprofit expenditures dramatically.[11] On the other end of the spectrum, Bill Schambra of the Hudson Institute argued that donors have every right to be concerned with overhead and that nonprofits that ignore the natural desire of donors for their dollars to go directly to the issue or constituency that matters to them do so at their peril.[12] Meanwhile, at the federal level, the Office of Management and Budget (OMB) proposed a number of refinements to nonprofit contracting principles, including a significant change to ensure that local and state governments passing through federal dollars to nonprofits in fact cover the full costs of the services they are purchasing.

As we support our clients in the financial analysis necessary to create and interpret their own matrix maps, we always encounter grappling with what constitutes a direct cost and what does not. Frankly, through the lens of achieving exceptional impact in a financially viable way—the core of nonprofit sustainability—debates about overhead ring hollow. The notion that expenses can or should be so neatly categorized is a certain kind of fiction. When a leadership team is assessing where to direct its resources, should it underinvest in program evaluation, storytelling to its constituents, or professional development? Aren't all of these essential to a healthy organization? It is freeing to put aside the complex and often contradictory overhead definitions of a nonprofit's funders, and instead analyze its actual cost to deliver against the actual income generated for each mission-specific and fund development program. This relationship between income and full cost is what every leader needs to know for strategic decision making, regardless of external reporting requirements.

On Impact

The movement and pressure to measure results was well underway when *Nonprofit Sustainability* was published and continues unabated today. The most germane aspect of this discussion to the matrix map process is the question of whether service programs and mainstream organizations contribute to social change. We routinely encounter leadership teams using the matrix map process to challenge themselves on the long-term impact of their programs. We see many fields—from domestic violence, to transitional age youth, to safety net, to arts, to membership organizations of all types—questioning whether their methods for engaging constituents in their programs and in the underlying issues and root causes that make them necessary are as relevant and transformative as they should be.

The Building Movement Project's 2013 monograph series, Advancing Community Level Impact, highlights this growing awareness and energy for change among nonprofit leaders. To engage constituent voices in programming and advocacy, the project encourages what its leaders call "5 percent shifts" in practice—in other words, shifts that don't require wholesale, overnight reinvention.[13] This is deeply aligned with the kind of thinking that the matrix map's impact assessment process fosters. Measuring results is well and good, but the more profound objective is to rethink what we should be measuring in the first place. For many of our strategy clients, that means creating their first-ever theory of change (see the box

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for a definition). It means leaving behind the hallowed mission statement as the organizing principle for our work, and instead focusing on the strategic selection and design of programs that contribute to a broader change beyond the four walls of the organization.

DEFINING THEORY OF CHANGE

Matthew Forti of Bridgespan defined a theory of change as "an articulation of the results an organization must achieve to be successful, and how it, working alone or with others, will achieve them."[14]

While many definitions abound, an organization's theory of change typically addresses the following questions:

- What is the issue the organization seeks to address?
- What change does the organization anticipate from its actions? We address this more in chapter 4 on articulating intended impact.
- Who is the focus of the organization's desired change?
- What are the primary strategies or interventions that the organization will undertake to either cause or influence the desired change?
- What assumptions about the process or interventions is the organization making?

On Organizational Forms

Perhaps the most existential aspect of the evolving strategy discourse is whether we should be committed to the nonprofit organizational form at all. For some years now, people have talked about sector agnosticism—that young people, for instance, just want to make a difference and don't care which sector they do it in, or that foundations should look for solutions wherever they arise and invest regardless of sector. But more recently, people are questioning the predominant notion that organizations are the primary unit of progressive social change. This is especially prevalent among network and movement strategists. Organizational agnosticism calls for prioritizing the health of a collective or movement as much as, if not more than, the health of each individual nonprofit organization. Management Assistance Group's (MAG) work is emblematic here. In its 2013 report, *Network Leadership Innovation Lab Insights*, the authors identify the structural challenges of being responsible for the sustainability of one's organization—its finances, its board, its staff—and sharing responsibility for the sustainability of the networks and movement of which it is a part.[15] Through this lens, focusing so intently on the sustainability of one's organization through an intensive process like the matrix map could seem like navel gazing or, worse, regressive in some way. In fact, however, rigorous analysis of the relevance and impact of each programmatic endeavor through the matrix map process is essential to reprioritizing how staff and volunteers spend their most precious and expensive resource: time. For leaders to move outside their own organizations to contribute to broader social change, they must first determine what to let go of, how to resource the move, and how to invest in their capacity to thrive in increasingly complex systems.

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About This Book

The operating environment has never been more complex for nonprofit organizations of all types and the need for our services, programs, and impact more compelling. This complexity, and its corresponding strategic challenges and opportunities, means that staff and board leaders must have a shared and ongoing analysis of their organization's performance on the dual bottom lines of impact and financial health. We have written this second guide to using the matrix map to facilitate that analysis and the strategic decision making of leaders on the front lines of healthy communities and social change.

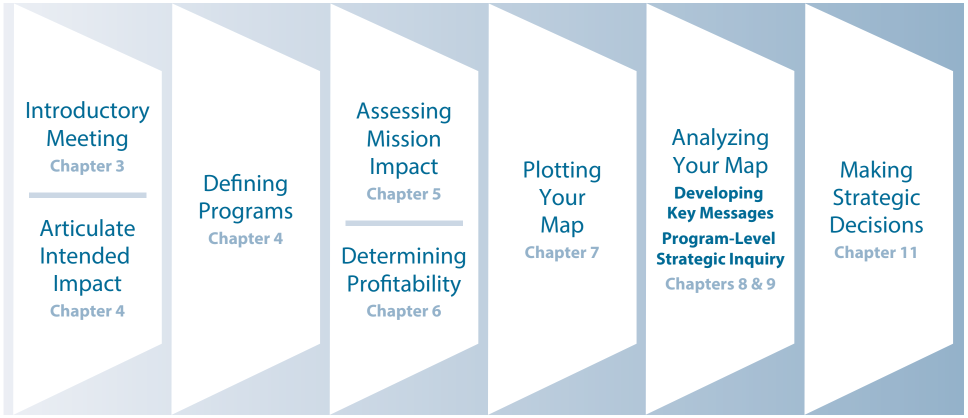

Figure 1.2 The Matrix Map Process

This book is intended as a field guide, inclusive of directions on implementing the matrix map and examples and perspectives from our five years of consulting with the tool. Each chapter is dedicated to an element of matrix map development and analysis, and then we conclude with final guidance to you on ensuring a meaningful and strategic effort (figure 1.2).

We have provided sample meeting agendas and templates for key moments in the matrix map process. As with the first book, our intent is that you can use this guide to self-administer the matrix map or, if you are a consultant, to partner with your clients on it. We begin by introducing you to the matrix map.