

LEAP OF REASON

MANAGING TO OUTCOMES IN AN ERA OF SCARCITY

Board Package

The *Leap of Reason* board package provides informative and provocative material for boards and leadership teams. Although the package may be used on an individual basis, many organizations have used it to prepare for and sharpen the focus of board retreats, strategic planning efforts, visioning sessions, and even self-assessment or introspection exercises.

The package can be used to inform and encourage boards to examine and more effectively assert their governance and stewardship roles for their organizations with one purpose—to help the organization be the very best it can be in achieving meaningful, sustainable and measurable change in the lives of those served. More bluntly, boards should ensure that the organization is doing what it claims to do and that what it does works—and provides the information on a regular basis to prove it. And, even with the greatest management, boards exist to constructively nudge management “out of its comfort zone.” In doing so, boards should “walk the walk” themselves to ensure organizations live and exemplify their mission and guiding principles and be outcomes-oriented and information-based in their actions.

A single package consists of:

- A user guide
- A board package survey
- A complimentary print copy of the *Leap of Reason* book (we are happy to send as many as you need)
- A supplemental reading packet, available in digital (pdf) format. The packet includes columns from the Venture Philanthropy Partners Chairman’s Corner series by Chairman Mario Morino in its monthly *VPPNews*, “Don’t Check Your Courage at the Door” and “Saving the Ship by Rocking the Boat,” and a list of articles on “Strong Board Stewardship” from the *Leap of Reason* Compendium.

“Peter Drucker was always focused on outcomes, and not confusing real results with mere activity. As an institution that bears Drucker’s name, we do our very best to live up to his standards. Still, like every organization, we slip from time to time. Leap of Reason forced us to take a step back and helped us to think through how we could improve our performance management for each of our programs. It is a tremendous call to action.”

—Rick Wartzman, Executive Director of the Drucker Institute at Claremont Graduate University; columnist, *Bloomberg Businessweek*

User Guide—Process Recommendations

Personalizing the board package is recommended for achieving the greatest benefit for your organization. We suggest the following steps:

Produce the packages needed for participants involved.

- Email info@leapofreason.org to order the number of print copies you will need;
- Download the Supplemental Reading packet and produce copies to go with each book

Draft a note or cover letter to personally introduce the book, Supplemental Reading, and other of your own materials and your rationale for distributing them. A sample letter is attached for your customization. Ideally, both the CEO/Executive Director and Board Chair will sign the letter.

Send the package in advance of your convening or scheduled use, if possible. For a digital mailing you can provide the following links and then optionally distribute the print versions at the convening.

- *Leap of Reason* digital book PDF
<http://leapofreason.org/GetIt>
- Supplemental Readings PDF
<http://leapofreason.org/BoardSupplementalReadings>

Follow up. Make sure there is opportunity for ongoing discussion—especially dialogue that could lead to action. In the absence of such follow-up, board members will often conclude that the organization is not truly serious about managing to outcomes. Encourage your board members and staff to sign up for *Leap of Reason* updates at <http://leapofreason.org>.

We look forward to hearing what resulted from your sessions so please complete the attached survey.

“The release of Leap of Reason could not have come at a better time for Saint Luke’s Foundation... Leap of Reason and Tierney and Fleishman’s Give Smart have informed our practice and inspired us to redesign everything we do around a specific set of outcomes that will help us learn what works to improve the health and well-being of Cleveland’s most vulnerable citizens.”

—Denise San Antonio Zeman, President and CEO, Saint Luke’s Foundation

User Guide—Usage Scenarios

There are a number of ways that the Chair and/or CEO/Executive Director can effectively utilize the board package to spark action-oriented discussions about managing for greater impact.

Approach the core question of mission effectiveness. Use shared reading and discussion as an opportunity to ask, “Are we doing what we should be doing, producing the results we should be producing, for the people we should be serving—and how do we know for sure?”

Foster an ever-evolving organizational climate that embraces a performance culture. A growing number of organizations are promoting agency-wide reading of the book to foster an evolving climate that embraces a performance culture and focus on outcomes—even hosting staff discussion groups around the book. Since *Leap of Reason* is available in a free download version, it is easy to ensure that all staff have access to a copy.

Assess your organization’s readiness to act. *Leap of Reason* contains a section (p. 63) that allows the reader to “self-assess” the organization’s readiness to undertake some of the actions proposed in the book. A number of boards have used that basic self-assessment tool as a collective exercise to deepen discussion about the organization’s current state.

Promote a greater awareness of how and why your organization collects data—and how those data are used to make decisions and improve outcomes. As a result of discussions, some organizations have conducted internal reviews of data gathering and analysis to determine if current processes are meeting real needs.

Do a “deep dive” into other resources. Finally, some have finished a shared reading of *Leap of Reason* by doing a “deep dive” into the other resources mentioned in the book’s compendium—especially those related to board effectiveness, governance, and stewardship (that list is reprinted in this packet).

“I can say that without a doubt this book is the most useful, practical, down to the real-deal publication of this kind that I have come across in my decades of not-for-profit work.”

—Michael Bailin, former President, Edna McConnell Clark Foundation

User Guide—Sample Conveyance Letter

Date

Dear Colleague,

The enclosed package, which includes the book *Leap of Reason: Managing to Outcomes in an Era of Scarcity*, is my gift to you compliments of Venture Philanthropy Partners and its lead author, Mario Morino.

Leap of Reason presents both an impassioned plea and a logical plan for taking a leap forward in our ability to create meaningful, measurable good for those we serve. I believe it has relevance for our work and I look forward to the conversations the materials will no doubt spark in the weeks to come. You can learn more by visiting <http://leapofreason.org>.

The package also includes two columns written by Mario Morino and a list of other suggested readings that specifically focus on ways that we can prepare ourselves and our organization for the serious challenges ahead for the nonprofit sector. In response to those challenges, we must become even more impact-focused and outcomes-driven in our actions. These materials will likely push us out of our comfort zone, but I trust that you will join me to ensure that we are doing what we claim to do, and that what we do works.

Sincerely,

Name

Board Package—Survey

Our board package is free. Your feedback is priceless. After you've put the board package to use, please share your feedback on how you used the package, what resulted from your board session(s), and how we can improve the package and process. To fill out and submit this form electronically, please visit leapofreason.org/boardfeedback, or scan and email it to us at info@leapofreason.org.

1. Please describe how the board package was introduced to and used by your board.

2. To what extent did you find the board package useful? Please check one of the following boxes and then elaborate below.

- highly useful* *somewhat useful*
 not useful *I don't know*

3. During the board session(s) was the board able to gain greater clarity and understanding of your mission and outcomes? Please check one of the following boxes and elaborate below.

- yes* *not applicable*
 no *I don't know*

4. If you answered yes to question 3, did your use of the board package contribute to the board's thinking or actions? Please check one of the following boxes and then elaborate below.

- yes* *no* *I don't know*

5. In the board session(s), did the board commit to determining to what extent your programs work "as billed" and are making a material difference? Please check one of the following boxes and elaborate below.

- yes* *not applicable*
 no *I don't know*

6. If you answered yes to question 5, did your use of the board package contribute to the board's thinking or actions? Please check one of the following boxes and then elaborate below.

- yes* *no* *I don't know*

Board Package—Survey (con't)

7. In the board session(s), did the board decide or confirm/ratify a decision to build/enhance an outcomes-focused management approach? Please check one of the following boxes and elaborate below.

- yes* *not applicable*
 no *I don't know*

8. If you answered yes to question 7, did your use of the board package contribute to the board's thinking or actions? Please check one of the following boxes and then elaborate below.

- yes* *no* *I don't know*

9. What other—maybe unexpected—benefits, actions, or turns in direction/attitude resulted from the board's discussions?

10. Did your use of the board package contribute to these unexpected benefits, actions, or turns in direction? Please check one of the following boxes and then elaborate below.

- yes* *no* *I don't know*

11. How could we make the board package more useful or actionable for organizations like yours? What's missing? What did not resonate?

Please tell us about your role(s). Check all that apply.

- board chair* *CEO/Executive Director*
 facilitator *Other* _____

Please indicate the annual budget of your organization.

- less than \$500K* *\$500K–\$1M*
 \$1.1M–\$2.5M *\$2.6M–\$5M*
 \$5.1M–\$10M *\$10.1M–\$25M*
 more than \$25M

Name: _____

Email (optional): _____

Phone: _____

Thank you for your time and insights. Please return the survey to info@leapofreason.org.

LEAP OF REASON

MANAGING TO OUTCOMES IN AN ERA OF SCARCITY

Board Package Supplemental Reading

January 2012

Supplemental Reading Contents

This packet includes columns from the Venture Philanthropy Partners Chairman's Corner series by Chairman Mario Morino in its monthly *VPPNews*, as well as a list of articles on "Strong Board Stewardship" from the *Leap of Reason* Compendium.

Venture Philanthropy Partners Chairman's Corner series:

- ["Don't Check Your Courage at the Door"](#)
- ["Saving the Ship by Rocking the Boat"](#)

List of articles on Strong Board Stewardship

Don't Check Your Courage at the Door

September 2011

Mario Morino

“They check their brains at the door” is a complaint often heard about business leaders who serve on nonprofit boards. This complaint has merit. I regularly observe business leaders who are reluctant to apply the same rigor, objective questioning, performance expectations, and data-informed decision-making that serve them well in their day jobs.

I've been guilty of this myself. I remember, with great chagrin and embarrassment, how much difficulty I had finding my sea legs when I first joined a nonprofit board. I was appalled by the lack of information available to us, and the little information we did have told me that the organization and its charismatic leader were struggling mightily. Instead of speaking up and constructively demanding the level of stewardship and governance that I took for granted in my corporate board roles, I just got frustrated and said little.

I don't think I checked my brains at the door. But I sure as hell checked my courage.

As I reflect on why I didn't speak up, I suppose I just didn't know what my role “allowed” me to say or ask. I was the new guy from the business world without any real experience with the type of services the organization provided. I joined this board thinking it would be a “nice thing to do” and certainly not intending to ruffle feathers.

I know others from the business world have felt this same hesitation, as well as a related one: Friendships and social ties with the executive director and other board members can blur objectivity and a sense of accountability.

The net is that too many nonprofit boards are downright afraid to stir conflict, rock the boat with hard questions, challenge executive directors, and hold the organization accountable for its performance. We simply don't want to “hurt somebody's feelings” or, God forbid, introduce any aspect of conflict—even when it might spur constructive debate. Unfortunately, when we elevate “harmony” over mission and purpose, our clients/beneficiaries often pay a big price in terms of the quality of services they receive.

Timid, polite, “collegial” boards may eventually start asking the right questions, but often it's too late. The questioning finally comes when they're faced with a problem so severe that they have no choice but to tackle the real issues. By that time, they're in crisis mode, which, ironically, almost always results in broken glass and busted relationships as well as well as less-than-desired programmatic results.

A Caveat About Courage

In the 18 years since my initial nonprofit board experience, my internal pendulum has swung too far at times. I've gained my share of nonprofit scars by being too outspoken, too forceful, too hard-hitting. I strongly suggest that you use more tact and diplomacy than I have on occasion (but with no less resolve).

Some years back, in the middle of board meeting's droning drumbeat of committee reports, we heard a brief, perfunctory mention of an important capital campaign. Despite the happy talk by the presenter, all the board members knew the capital campaign was

badly off track. And yet no one spoke up. At the end of the meeting, the chair went around the room to ask for last comments. No one asked a single question, and some even said it was a “good meeting.” When it was my turn (for better or worse, I was last), I too emphatically shot back, “Doesn’t anyone want to talk about the 800-pound gorilla in the room? This capital campaign is dead in its tracks!”

I know I was right to raise the issue. But I was wrong to let my frustrations drive my reaction. I put the organization’s executives and those board members who did not know me well on the defensive. I wish I had found a more effective way to help the board live up to its responsibility of holding management accountable for what it agrees to do.

The White-Knuckle Decade Ahead

A huge problem in the sector is that boards get distorted into nothing more than fundraising machines. Nonprofit boards have to play a vital role in raising capital for their organizations, but board members should add much more value than that. As VPP CEO Carol Thompson Cole put it in her July [column](#), “Board members need to bring all their expertise to bear on behalf of the nonprofit.” Most of all, they must provide governance, stewardship, leadership, and ensure mission effectiveness.

Especially in these tough financial times, we nonprofit board members need to step up and summon the courage to help our organizations tackle the mission- or organization-threatening forces we could face. Let me be clear: If we fail to do so, we’re abrogating our fiduciary responsibility.

In the early ’90s, I presented corporate seminars across the US, Canada, the UK, and Continental Europe to illustrate the great challenges that businesses (and those employed in the private sector) would face in the decade ahead. I was conveying a difficult message to help leaders of corporate enterprises, especially IT executives, see the gut-wrenching change that lay

ahead as a result of globalization, technology innovation, process re-engineering, workforce pressures, and more. I made the case that preparing their organizations (in this case the IT units) with the right leadership, culture, and people, fortified with the right information—including performance-management systems—would be vital assets to help them navigate the storms ahead.

I opened these talks by reading striking, angst-provoking headlines I’d found that day about mergers, consolidations, layoffs, labor issues, disruptive technologies, security breaches, etc. I’d take a long pause to let the headlines sink in and then offer this 1990 quote from Jack Welch, then the heralded head of GE: “The 1990s will be a white-knuckle decade for global business.... Preparing for it won’t be easy. Change will be more wrenching than anything companies have confronted so far.”

Fast forward to our current era. As I sketched out in detail in [Leap of Reason](#), we’re clearly in such a white-knuckle decade for our social sector. Budget pressures at the local, state, and federal level are going to have a dramatic impact on nonprofits. “We’re going to see an environment I don’t think we’ve seen before,” lobbyist Perry Wasserman [recently told](#) the *Chronicle of Philanthropy*. “Everything’s on the table.”

Back in March, Professor Paul Light laid bare the realities of this new era of scarcity in [this Washington Post](#) blog. “There is growing evidence that many nonprofits closed their doors over the past three years, while others are about to do so. In 2008, I estimated that 100,000 of the nation’s 1 million tax-exempt nonprofits could go under during the recession,” he wrote. “Many of these nonprofits are still hoping for a miracle, even as they continue to hollow out their organizations with job cuts. But even if there is a miracle, it will not come soon enough to save them. The federal stimulus is gone, donors are still assessing the damage as they set their payout targets, angels are few and far to be found, and volunteering is still flat.”

In this fiscal environment, I offer the same advice to nonprofits that I offered to corporate executives in those seminars: To navigate the storms ahead, you must have the right leadership, culture, and people, fortified with the right information and systems.

In spite of the remarkable resiliency nonprofits have demonstrated over the years, the stark reality is that the social sector is nowhere near as prepared for what lies ahead as businesses were 20 years ago.

Preparing for the Unthinkable

In such volatile times a board has to be on top of what the organization is doing today to sustain itself and be effective in serving others. It must also look courageously at the bigger picture. How are the times—and expectations—changing for your organization? Does your organization have the leadership, capacity, and resiliency to deal with difficult times ahead? What previously unthinkable scenarios may you face?

Here are just a few macro forces shaping the world in which all nonprofits operate:

- *The unthinkable is not only possible; it is already happening.* Let's stop for a minute to reflect on all of the previously unthinkable events that have come to pass over the last decade: terrorists kill nearly 3,000 in suicide attacks on the nation's financial and political capitals; 290,000 die following a catastrophic tsunami in the Indian Ocean; Hurricane Katrina devastates the Gulf Coast; excessive risk and greed in the mortgage market triggers a massive financial meltdown and nearly triggers a global depression; US voters elect an African-American president; General Motors goes into bankruptcy. As Joshua Cooper Ramo writes in [The Age of the Unthinkable](#), "Change will be difficult.... It requires a psychological shift from being certain about our future to being uncertain, a transformation that is as stressful as it is productive. [We are not] architects of a system we can control and manage. [We must see ourselves as] gardeners in a living, shifting ecosystem."

- *The erosion of the American middle class is real—and accelerating.* I highly recommend Don Peck's September *Atlantic Monthly* cover story, "[Can the Middle Class Be Saved?](#)" Peck's argument, backed by a wealth of economic and demographic data, is that the Great Recession accelerated a profound economic transformation that was already in process—shifting even more power toward highly educated Americans with creative talents or analytic skills and away from everyone else, including formerly secure professionals with college degrees. "America's classes are separating and changing," says Peck. "A tiny elite continues to float up and away from everyone else." The American Dream of upward mobility is at grave risk, which has huge implications for our economy and, even more important, our society.

- *Reducing the US deficit and debt will result in huge strain on the nonprofit sector.* The country has racked up unsustainable debts. The burden of these debts—and of debt reduction—will not be shared equally. As always, those with the least voice and power are going to get hit the worst. And yet I am struck by how few organizations—from think tanks to large service-delivery nonprofits to the tens of thousands of foundations and nonprofits formed over the past 15 years—are studying these socioeconomic and fiscal changes to understand the implications for the social sector and, more important, those it serves. As much as I respect and cherish the entrepreneurial zeal of involved donors, social entrepreneurs, and other innovators, I am stunned by their seeming denial of the realities that Paul Light and a few others are calling out. Synthesizing inputs across the private, public, and social sectors, it is utterly clear that socioeconomic shifts, painful disruptions, and fiscal cuts will result in less public funding, heightened expectations of improved performance at lower cost, and a greater need for services.

What Can We Do?

Yes, these macro forces are abstract and in another galaxy for nonprofit leaders just trying to meet payroll this month. It is no wonder that the immediate, urgent needs they are serving keep them from thinking about what lies ahead. Yet if they don't envision and adapt for their future, their organizations may not survive.

This is where the board and leadership must summon the courage to face the music and prepare for the future, even if things are going swimmingly today.

Simply put, we have to step out of our comfort zone and think the unthinkable, the unimaginable, the impossible—and plan for what we would do if these things happened. Many who come from the commercial sector have faced similarly disruptive hits in their business lives, and their hard-won lessons could be valuable to nonprofits.

When leaders share these lessons with courage and tact, their insights often have a wonderful focusing effect on a board. In fact, I've often been in board meetings where one brave, incisive question immediately leads to others like it, raising the level of candor in the room and creating an opening for deeper introspection and more creative problem-solving. As the chairman of VPP, I have benefited from just this type of pragmatic questioning by fellow board members at critical junctures in VPP's evolution.

In my November column, I'll pose some key questions I believe every board should discuss in preparation for the troublesome times ahead. In the meantime, I'd encourage you to think about your own experiences with nonprofit boards. Are you taking your fiduciary responsibility seriously? Are you driving higher quality in your programs, given that quality is perhaps the most important prerequisite for sustainability? Is there an unthinkable scenario already on your horizon? What are you doing to move the board and organization as a whole out of their comfort zones to look at the hard issues? What are you doing to help create the right culture and people, fortified with the right information?

Don't be a tin man or a cowardly lion. Now's the time to summon all your brainpower and courage for the good of the organization and those it serves!

—Mario Morino

Saving the Ship by Rocking the Boat

November 2011

Mario Morino

In my September [column](#), I implored those who serve on nonprofit boards to “summon the courage to face the music and prepare for the future, even if things are going swimmingly today.” In this column, I will arm you with the six questions I believe every nonprofit board and executive team must ask to prepare for rough financial straits ahead.

Fair warning: The questions below are not a tame, staid checklist. Wrestling with these questions will require you to challenge long-held assumptions, stir conflict, and venture far from your comfort zone.

Before I share the questions, allow me to share a good example of the bold thinking that our times require. Shockingly, this story comes from the Ivory Tower of academia, a sector that is notoriously tradition-bound and change-averse.

Smith College, in Northampton, MA, has recently launched a [“Futures Initiative”](#) to take a hard look at some of the basic assumptions that have guided the college for well over a century. Under the leadership of its president, Carol Christ, the college is “reconsidering not only the financial model of the institution, but also the types of students the women’s college attracts, ways it can move beyond the residential campus model, and how it goes about delivering instruction,” according to [Inside Higher Ed](#).

The fact that an institution like Smith is undertaking this initiative is an important harbinger. Smith has faced budget cuts, but it’s under no imminent threat. It’s a thriving, highly selective college with a

billion-dollar endowment. Smith’s initiative is a great example of the proactive planning we all need to do in this disruptive new era.

The Critical Six

The tricky part is posing these important, tough questions to prepare for change ahead as you stay focused on the here and now—the management and day-to-day execution of your organization. Here’s one approach to consider: Create an ad hoc group made up of key board members, executives/managers, and outside advisors (six to nine people total) to answer these future-focused questions. The rest of the leadership team can maintain its focus on ensuring the organization continues to run well.

Question 1: *What conditions could change precipitously, endangering our mission and those we serve?*

In high school I played left field for a gifted baseball coach who taught us to be prepared for anything. He demanded that each of us “live the play before it happens.” Given that I was the only kid on the team whose IQ was higher than his batting average (and my IQ wasn’t that high!), I paid very close attention to anything that would improve my game. Between every pitch, I would see in my mind’s eye the batter singling to right; I’d imagine running in to back up a throw to second. Then I’d “see” the batter grounding to short; I imagined hustling in to be there in case of an error. And on and on.

In my professional life I drive folks crazy as I'm constantly asking, "If this happens, then what?" All I'm doing is trying to see the play before it unfolds.

The "play" that so many of us are watching develop is the decline in public funding. For organizations that are highly dependent on public dollars, these cuts can mean drastic cutbacks, even shutting the doors. If I'm a charter or parochial school and scholarships (read: vouchers) are cut, what percentage of my tuition revenue is hit? Are there alternative revenues to offset this loss? Can we continue?

Even if you're not the direct beneficiary of public funding, please don't assume that you don't need to think about public funding cuts. The competition for foundation grants, major gifts, and fee-based contracts will skyrocket as those whose public monies are cut look to other funding sources—like yours.

The loss of public funding is far from the only adverse thing that we could find at our doorstep one day. For instance, if you run an independent school, what would you do if a securely endowed, proprietary, competing school opened for business in your locale with a lower tuition? What if you work to reduce gang violence and your local government cuts the number of police officers, inadvertently placing a greater strain on the services you provide? What are the implications?

If you have outstanding debt, what protections have you put in place to guard against higher interest rates once inflation raises its ugly head? Could you withstand the increase in debt servicing costs? Should you consider doing something to "collar" the rate? Or better yet, should you try to clear or reduce the debt to lessen your vulnerability?

Can your endowment withstand a severe market hit, and at what cost in programs and services?

Question 2: *Within current constraints, what can we do to improve the outcomes of our programs?*

This sounds so basic, yet too many organizations give this subject little more than lip service. They dwell in long discussions of "process" and never actualize big, non-incremental improvements that can save more lives, enable more youth to graduate college, or help more unemployed workers get a living-wage job.

Some years back I was in a board retreat where we were trying to prioritize a set of strategic initiatives. I stressed that we needed to focus first and foremost on financing, because I was worried that the organization was in a precarious financial state. Another board member, the CEO of a major firm, respectfully but assertively took issue with my position. "I disagree with Mario on this," he said. "The quality of our product is number one. Not finances. If we don't get the quality right, finances won't matter." He was absolutely right.

I can't guarantee that quality will pull an organization through a crisis. But an organization doing great work and making a discernable difference will certainly have a better chance than others to compete for scarce resources and capitalize on disruptions in its space. So please don't curtail your creative thinking with the excuse "we don't have the money." You have a staff and advisors with a lot of knowledge. So tap them, free their thinking, create "improvement circles" where folks come together to brainstorm. Explore together how to increase quality, lower cost, and improve outcomes. Do the same with those you serve; you might be pleasantly surprised.

But, most of all, I urge you to consider undertaking a rigorous "theory of change" effort (not to be confused with strategic planning). David Hunter, the former director of evaluation and knowledge development at the Edna McConnell Clark Foundation, describes the approach very well in this [essay](#) from [Leap of Reason](#), the book Venture Philanthropy Partners published in May.

I've long believed that this kind of thoughtful (and emotionally challenging) review of your programs and services by experts with deep domain expertise is an essential practice, not a luxury. Done well, it leads to clearer focus, improved program alignment, pruning of programs with incremental or tangential value, and tangible improvements in how you deliver on your mission. I've seen this with the VPP investment partners who have gone through this process. I've also seen it on recent site visits to organizations outside VPP's portfolio, including [Congreso de Latinos Unidos](#) and [ROCA](#). Their redesigned, high-quality, high-performance efforts are a direct result of this investment in their theory of change. As one leader said, "Doing this helps save more lives."

Bottom-line: In times of crisis, improving quality is a way through. It's not a locked guarantee for success. But if you're not doing your job, you risk being toast when things really get tough.

Question 3: What is our organization's "baseline" budget for providing the minimum acceptable level of service to clients?

You don't want to be caught like a deer in the headlights should your organization incur a big cut in revenue (e.g., loss of funding from a patron funder), experience an unexpected disruption (e.g., an embezzlement or other scandal), and/or see your costs soar (e.g., the financial crisis-induced fee spikes on [credit default swaps](#) held by nonprofits and municipalities). These crises tend to come with little or no notice. Most organizations are forced to take extreme corrective action quickly, without the benefit of the thoughtful planning and deliberation that would ensure "smart actions."

Yet there is a way to prepare yourself for such unforeseen hits: Use [zero-based budgeting](#) as a way of analyzing the minimum funding you need to provide your core service with acceptable quality.

In the spring of 1988, my software and services firm recruited a young, talented businessman to join us as president. He had sped along the managerial fast track at GE and gone on to work as a senior executive in a major software firm. He brought strong business analytical skills into our rather loose managerial world. One of the valuable tools in his toolkit was the zero-based budget, which, after much initial reluctance, I eventually came to appreciate as an excellent way to look at activities and costs.

Unlike a traditional budget that uses the existing expense structure as its baseline, a zero-based budget assumes no history and starts with a baseline of zero—no activity, no costs. My firm used zero-based budgeting as a one-time exercise to find the critical set of activities we absolutely had to do to keep our doors open for business and the costs associated with this baseline. It made us evaluate each major component of our operation on its relative merit and cost. As you can guess, it was emotionally trying to do this. It was very hard, but necessary, to be highly objective and to keep history and allegiance from coloring our decisions.

With zero-based budgeting, organizations can create a doomsday-scenario plan for eliminating all the programs except those that are absolutely necessary for survival. For example, for a multi-facility organization, the first action might be to consolidate operations in one of the facilities and shut down or sell the others. A multi-service organization might cut back on programs that are not absolutely essential to its primary intervention model. A school might have to make the hard call of eliminating library services or the school nurse, or even look at higher student-to-teacher ratios.

The leader of a private school shared his experience with this approach: "I was guided through the process by one of our trustees, who was a retired CEO. We incorrectly started with the assumption that we would have all the same staff, which of course defeats the purpose of starting from scratch and trying to align staffing with mission. Having to justify each member of our team and program was an eye-opening process for me and the leadership staff at the school."

While the idea of bringing your expenses down to zero may be horrifying, there is tremendous value in this exercise. If your organization is able to clarify its priorities through a zero-based-budgeting exercise, your organization will do a better job of allocating resources around its core mission and knowing when to say no to less important efforts and projects. And when you hit those turbulent storms, your board, leadership, and key staff will already be “mentally there” and ready to move.

Question 4: *Who would be our “knight in shining armor” if we needed one? In other words, who could we turn to if we were at risk of having to fold our tent?*

In my corporate life, we strategically thought through which companies we would turn to if we had to sell the business for whatever reason. Please understand this was not something we wanted to do, but we felt it was necessary and prudent. When you engage in this kind of thinking, you take purposeful steps to get to know the potential “knights,” understand their leadership and culture, even do partnerships or joint ventures with them. Then if you find yourself in a situation in which you need to sell the firm to protect your shareholders, staff, and customers, you can approach your “knights.” This is far better than starting cold with someone you don’t know at all or, worse, sitting prey to a hostile takeover.

I’m sure this thinking sounds brutally corporate, but it is absolutely applicable to the world of nonprofits.

What organization or organizations would be your logical collaborators or merger partners? What synergies would exist? What value would you bring to them and they to you? And what would be the cost in dollars and mission?

How real is this thinking? This discussion is already underway in the world of private, independent schools, as demographic shifts are leading to lower student enrollment. It has unfortunately been the

bane of many Catholic Dioceses and independent Catholic schools, where there is a mandate to liquidate assets and decrease expenses, especially in older, poorer communities. It has been at play in an aggressive way in healthcare, as a result of a wave of hospital consolidations. Municipalities that have long protected their fiefdoms are increasingly looking to consolidate services across jurisdictions and, in extreme cases, even merge the jurisdictions—forced in most cases by declining revenues. And the beat goes on.

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Identify those organizations and leaders to which you could turn if you were faced with saving your organization by consolidation and some form of collaboration. Develop relationships with each organization. Enter into pilot collaborations to get to know them. And develop scenarios for what you would propose and the rationale to support it.

Question 5: *What are the “one-step away” opportunities? In other words, how can we change our prospects by building off what we already know?*

In the ’80s I got a chance to work with some top thinkers from McKinsey & Company, and that exposure helped me understand two related concepts better: the importance of exploring new opportunities that are directly tied to your mission and not more than one step away from your core competency; and the value in exploring whether your core products and services might be relevant in other areas (secondary markets), without the need to do a material revamping.

For example, if you run an independent or charter school for K-6 students, you may improve your outcomes and generate additional revenue by establishing an early childhood development program. Similarly, if you run a high school, you might offer a “preparatory year” to help students get a better foundation for college, both developmentally and academically.

Take this thinking further. Encourage (and incentivize) your staff and board to constantly be on

the lookout for new ideas that could open up new opportunities to improve on your current programs or expand and grow based on the “one-step away” principle. But don’t look only at your own niche and geography (e.g., healthcare in the U.S.). Keep your mind open to ideas from other sectors and industries and, especially, innovation occurring beyond our shores. I like futurist [Faith Popcorn](#)’s idea of reading a trade magazine or journal in a field other than your own in search of ideas and developments that may have transfer value.

Question 6: *What can we do to strengthen our revenue base?*

In these times, it is imperative that boards and leadership teams do all they can to protect the revenue sources they have, while starting the arduous process of finding new ones. The first and logical step is to take an in-depth look at your attitude toward fund development and the capacity you have to deliver the required dollars.

First of all, break down the myth that raising money is the responsibility of the fundraising team. Everyone can and should play a role. We need to accept the brutal reality that higher education came to grips with years ago: The president is the chief fundraiser for the organization, with all hands at the ready to help. Next to ensuring the quality and integrity of your programs, this is the most important priority. Michael Worth, a colleague and respected thought leader in the National Capital region, does a nice job in laying out the key fundraising issues that organizations should consider in threatening economic times with his column [“It’s the Economy.”](#)

Rather than just focusing on increasing your current funding base, how are you considering new sources of funding, perhaps tying back to “one-step away” opportunities? But please be careful not to launch new revenue-generating ventures without serious consideration. The highway to these ventures is littered with road kill! Instead of bringing in significant

revenues, they often lead to a loss of mission focus and a dilution of scarce internal resources.

That said, some nonprofits with strong leadership, mission focus, planning, and staff resources can do it well. My good friend Bob Templin, president of Northern Virginia Community College, has had good experiences. “I look for new lines of business that can be profitable for us,” Templin says. “For example, NOVA has been teaching immigrants and the children of embassy officials for more than 40 years. We’ve gotten to be very good at working with people from many different cultures, so it was not a big step from our core competency to launch a program to recruit international students. International students pay nearly two and one-half times the tuition that ‘in-state’ students do, and they enrich our collegiate environment by being here. In the last five years, our international student enrollment has grown by more than 70%, and these students now generate a ‘surplus’ of more than \$1 million annually after all expenses are paid.”

The Unthinkable Isn’t

In my last column I outlined a number of “unthinkable” events that have come to pass over the last decade—from 9/11 to the financial collapse. Since I wrote that column, the Occupy Wall Street protest has grown rapidly across the country and become a magnet for deep frustration and anxiety about what the future holds. MF Global, a huge securities firm run by former Goldman Sachs CEO and former New Jersey Governor Jon Corzine, collapsed when a potential “knight” found accounting irregularities and backed out of rescuing the company. The city of Harrisburg, PA, filed for bankruptcy. Only a week after euro zone leaders sparked euphoria in financial markets around the world with their announcement of a massive deal to reduce Greece’s debt, the crisis is once again threatening the global economy, and the Greek government is teetering on the edge of collapse.

I hope that the parade of “unthinkable” events shakes us up. If we look at the kind of questions I’ve posed in this column through a purely intellectual lens, it’s too easy to keep them at arm’s length. As a good friend told me recently, “We in the social and educational sector need to get a sharp punch to our solar plexus, forced into a skunk works, and kept there until we start coming up with some new ideas.” I’m afraid he’s right.

We desperately need to get past nice discussions. We need to rock the boat during board meetings and leadership sessions. This is not about self-reflection and introspection as a touchy, feely New Age exercise. It’s about ensuring our organizations’ continued ability to make a material difference in the lives of those we serve. That’s why these tough questions are worth asking.

—Mario Morino

Strong Board Stewardship

Resources that discuss the importance of strong boards, what defines them, and how they function, especially with respect to mission effectiveness and assessment. Our experts gave “The New Work of the Nonprofit Board,” “Mission-Driven Governance,” and “More Effective Boards: A Detailed Guide” the highest rankings. As the authors of “More Effective Boards” note, “Beyond *what* to do, *how* the board does its work is equally important.” All of the resources in this category can help spark good conversations in your organization.

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