LEAP OF REASON

MANAGING TO OUTCOMES

IN AN ERA OF SCARCITY

Listening and Learning Before Leaping Forward

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In my last column, "The Inescapable Importance of Culture, Part II," I made a reference to my "Darth Vader years," when I was an intense, hard-charging CEO in the software and services industry. One of the ways I earned this moniker was my strong tendency to see what we accomplished as "yesterday's business." Instead of stopping to celebrate accomplishments, I was always very quick to pivot to how we could build on what we just did or move on to our next "big thing."

Therefore, it was no surprise that when the first nice reviews of *Leap of Reason: Managing to Outcomes in an Era of Scarcity* started coming in two weeks ago, a long-time member of my team cautioned the others, "Savor the moment. We'll be moving on soon!"

And yet, this time around, I'm not inclined to move on to specific actions and next programs right away. I'm going to use the summer months to pause, listen, and take stock of what you have to say. And in this column, I'm going to start that reflection by sharing some of the good questions and feedback that have surfaced since the book's launch.

Insightful Questions

On May 19, Venture Philanthropy Partners launched *Leap of Reason* in conjunction with our longtime strategic partner McKinsey & Company and a dozen social-sector leaders and practitioners who have practical experience with the successful management practices we highlight in the book. Approximately 12,000 leaders have received the book or soon will, either in electronic or softcover form, and many more are now aware of the book as a result of messages you and others have sent via social media. Because of unexpectedly strong demand, our printer is now producing another 10,000 copies of the softcover edition.

In the weeks since the launch, we've received some good questions from reporters, website visitors, and other colleagues which deserve good answers. I'd like to share some of those questions and responses here.

Q: What do you hope the book triggers?

Our goal for the book is to trigger a dramatic "reset" and fundamental mindset shift in how our sector approaches the issue of outcomes and managing for impact. Today, too many nonprofit leaders are forced to gather information based on what other people want rather than what they need to achieve the impact they seek.

We're looking to provoke a fundamental mindset shift toward helping nonprofits collect, use, and respond to information on a continuous basis to do their jobs well. External program evaluations and reporting requirements have their place, but they are not nearly as powerful or valuable for nonprofit leaders and managers as a steady flow of data tied to the mission of the organization. It's having the right data—financial, operational, and outcomes—at the right time that tells you whether you're doing what you claim you're doing, allows you to know when to course-correct, and helps you see areas in which you can improve your impact for those you serve. And when an organization collects and presents this information for its own use, there's a basis by which to convey impact to their boards and key stakeholders.

To bring this down to a more visceral level, we're hoping the book's essays will make leaders stop and reflect on their roles, their organizations, and those they support. Embolden that board member who has wanted to speak out about the organization's mission, management, effectiveness, or end impact but was too reticent or intimidated to do so. Jar that leader who knows he has to drive major change but has been reluctant to rock the boat. Provoke that foundation CEO who's had a nagging feeling she needs to do more to give grantees the tools to be highly effective. In a nutshell, we hope *Leap of Reason* will persuade people to speak out, get engaged, lead—with eyes firmly fixed on the prize of delivering greater benefits to those they serve.

One more thing. I hope each of you, regardless of your role, takes an objective look and asks the hard questions of your organization. What meaningful, systematic way exists today to collect the data vital to allowing you to know how you are performing to mission? And is this episodic data or a continuous flow that is built into the fabric of the

organization and used daily, weekly, and monthly by your staff and leadership?

Be intentionally tough-minded when asking these questions and seeking answers. Stories and vignettes are not the same as analytic information. Budget data alone don't suffice. Periodic reports aren't enough. Unless your organization is a complete outlier, you will quickly recognize there is much to do. I hope *Leap of Reason* can be an effective nudge for helping you move in the right direction.

Q: What has been the reaction so far?
As part of our own process of managing to outcomes, we're trying our best to track how well the book is reaching leaders inside and outside the social sector and whether these leaders are using the book to engage their stakeholders in mission-critical conversations like the ones above. We are clearly too early in the cycle to try to draw hard inferences or conclusions, but we are seeing some anecdotal signs that it is hitting a chord with quite a few readers and providing them with new impetus to take bold steps. Board chairs and executive directors are rush ordering additional copies as input to upcoming board retreats and strategic planning sessions. Other leaders—from foundation heads to university presidents to public servants—have ordered extra copies to share with their staffs, peers, and—in the greatest compliment of all—family members.

For example, here are a few heartening things we've heard in the past couple of weeks:

- "I just read it, and it has given me further affirmation of what I need to do next. I am preparing my call to action for my staff, and the ideas in the book provide the right framework for my messages."

- "I distributed the copies of your book you sent to my senior team and the response was terrific. At the risk of appearing greedy, is there any chance you might send me a copy for my entire staff? We are finishing up an engagement with a management consulting firm and your message is not only spot on but also really timely."

- "It also came at the perfect time as I'm working with colleagues to give birth to something that hasn't happened yet in the extraordinary but overly deliberate pace of academic medicine. The book has inspired me to forge ahead to make the change that is needed."

While this first wave of feedback has been quite positive, I'm sure we'll also hear tough criticisms in the coming weeks, especially given the candor that social media encourage and facilitate. We expect criticisms. And we welcome them. Without robust debate, we'll reach the choir—and not beyond. We need a wide range of smart leaders joining the conversation, and mixing it up, to have any chance of sparking real change in our sector.

Q: Why are you so alarmist about the impact of budget cuts?
In a public forum in May to discuss the book, a respected international journalist steeped in economics said he was quite surprised by the way I depicted the fiscal outlook for nonprofits in the United States. He wondered if I was perhaps a little too dramatic.

In truth, I sometimes fear I'm not being dramatic enough. I do have the sense that journalists are portraying on a daily basis the hard facts of what our local, state, and federal governments are facing. But I am worried that the media and leaders across our sectors, with a few notable exceptions, are not doing enough to translate what all of this means for the social sector and society as a whole. More than a third of the revenues that drive the social sector come from governments—far more in areas like education, healthcare, and human services. That pie slice, especially the part comes directly or indirectly from the federal discretionary budget, is going to shrink, perhaps dramatically—simultaneously and cruelly diminishing the supply of funding while increasing demand for our services. Private philanthropy can't come close to filling in for these cuts in any meaningful way.

Government grants and government payments for services far exceed the amount of revenues that charities receive from private contributions, particularly in fields like health, education, and

human services. As government budgets face increasing pressures—in no small part simply to pay rising interest costs on ever-larger debt—charities now dependent upon government funding will take a real hit. But that isn't the end of the story. The government's social-welfare spending—including money that does not currently transfer through the charitable sector—is more than ten-fold greater than private monetary contributions to charity. Given their relative size, there is no way that private charity can substitute for significant cuts in the government's social welfare function.

If we have hope of meeting our missions, we are simply going to have to do more with less. The authors of *Leap of Reason* believe managing to outcomes is the key to doing so.

Q: If the fiscal situation is as tough as you portray it, what can we do to prepare?
It is hard to prepare for the unknown, but to go on without considering various scenarios for a nonprofit's future would be a dereliction of duty for boards and management. For example, what should an urban Catholic school do if it's already facing declining attendance and then vouchers are eliminated or curtailed, or the debt taken on during the bubble becomes financially insurmountable for a nonprofit? These organization-threatening situations aren't hypothetical; we've faced them. When the prospect of shutting your doors rears its head, it's amazing how fast the small talk and b.s. disappear; stakeholders suddenly become willing to look at options they would never have considered otherwise.

My suggestion is to map out several possible scenarios in which funding (or some part of it) is materially reduced so that continuing as you have simply won't cut it. Here are a few basic questions you might consider as part of your scenario planning:

- Where can you eliminate or consolidate programs?
- How can you reinvent what you do to do it much better and/or at a lower cost?
- Is a merger with another like organization possible?

- How can you consolidate facilities?
- Are there prize assets to sell off?
- Should you downsize the programs and organization to better align to demographic changes?
- Are there ways to co-locate or share services with other organizations to reduce cost and improve effectiveness?
- What ways can you leverage technology for dramatic gains?

And then, just as important, you should think about the data you need to make decisions about which scenarios to pursue. Do you have the data to know which programs are working well, for how many, at what cost, and with what outcomes? If not, how will you decide where to invest, consolidate, downsize, cut, etc.? How will you be able to forecast the cost and outcomes implications? Without this "information arsenal," how would you fend off a bank workout unit? How would you make a compelling case to public funders forced to make impossible tradeoffs in this new budget environment? How will you solidify your relationships with existing stakeholders? When the going gets tough, having the right information is a tremendous advantage. It can make the difference between flourishing and closing up shop.

It is standard procedure for boards to develop a succession plan for its leadership, but what is the succession plan for the organization itself? In the midst of the financial crisis in Greece, one of our family's money managers made a drastic shift in their long/short holdings on a Friday morning, reversed the action by the following Monday, and came out performance neutral. As we monitored the firm's wild moves, we were alarmed because we assumed they were ill-considered, run-scared responses. Fortunately we were wrong. We soon learned that the firm had developed contingency plans for just the kind of sovereign debt crisis that was unfolding in Greece. And that dark Friday morning when it looked like Greece might default on its debt, the firm's criteria for this scenario was met, and managers were able to move swiftly and decisively to protect their clients. The point is that you, too, can think and plan for those unimaginable scenarios—the ones that seem to be happening with an alarming frequency of late—so you can

protect your organization and those you serve.

Engaging You

In the weeks and months ahead the question that will drive our team's focus is "To what end?" In other words, given the dramatic rethink we're trying to provoke with this book, what actions are most likely to help us get there?

We've already received a flurry of requests to speak at conferences, for which we are very grateful. But to make the progress this issue requires we have to "democratize" the *Leap of Reason* message so that many in the field—funders, practitioners, academics, advisors, journalists, and more—pick up this call to action in their own way.

Here is my ask, if you find *Leap of Reason* of value and its message worthy of being advanced.

- Help us spread the word so the book gets as wide a distribution as possible. We already have feedback from Ireland to Venezuela, but we have only scratched the surface of what could be. In every decision—from who would publish the book to how our copyright notice would read— we have designed this project to facilitate broad distribution of these messages. If you are willing to help, please visit the book's website to get easy instructions on how you can spread the word or share copies of the book for free or very low cost (depending on the format).

- Provide us feedback, pushback, suggestions, examples. The printed copy of *Leap of Reason* is an inanimate object, but our efforts to advance this message are a living work in progress. In writing the book, we reached out to learn from others; we now want to undertake this learning on a much larger scale. We very much welcome your input in the following areas, plus anything else you would like to comment on:

  - Let us know what you liked the most and the least in the book
  - Share when you disagreed and why
  - If you're finding it useful for helping you drive change in your organization, please let us know how

- Provide ideas that would help us improve and/or expand the messages and contents of *Leap of Reason*
- And, for those of you who have made progress, please share examples of what you've learned along the way—your successes, your "I wish someone had told me" insights, and the benefits you've reaped by managing to outcomes for greater impact.

Please forward your comments and examples to my colleague Cheryl Collins at ccollins@morino.com or info@leapofreason.org. From time to time, we will share what we are learning in various forms and distributions.

The day we launched *Leap of Reason*, I said I hoped the book "will help thousands of nonprofits prepare for and even thrive in this new era." As I look at those words on the computer screen, they look grandiose. And yet it's hard for me to fully convey the urgency I feel to make this grandiose vision come to pass. The social sector matters deeply to this country. It matters even more in an era of scarcity and disruption, when so many jobs have been lost, so many families thrown into turmoil, so many of our expectations turned on their heads.

So, yes, I will take time to pause and reflect—and be mindful of celebrating the invaluable contributions of dozens of people who contributed their time, energy, and insights to *Leap of Reason*. But my colleague was right: We will be moving on soon. We'll be moving on to do our small part in helping figure out how our sector can help turn hundreds of good conversations in individual organizations into a fire-in-the-belly movement of thousands of organizations. We hope you'll be among the Leapers who are leading the parade.

—Mario Morino