Course 15: Creating Value in the Nonprofit Sector

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This course outlines how value based management can be applied to non-profit and non-governmental organizations. This course also attempts to highlight several "best practices" for creating value in the non-profit sector. This course is recommended for 2 hours of Continuing Professional Education. In order to receive credit, you will need to pass a multiple-choice exam, which is administered by installing the exe file version of this short course. The exe file can be downloaded over the internet at www.exinfm.com/training.

The Framework for Value Based Management

Many businesses have embraced a "value based" approach to managing since it is imperative to make decisions that enhance and improve value for all stakeholders:

1. Generating a return for investors in excess of the cost of capital (cost of borrowing money + cost of issuing stock to shareholders).
2. Empowering employees for getting the job done.
3. Giving customers a set of values that surpasses the competition.
4. Building long-term relationships with suppliers, vendors, partners, and others in the value chain.
5. Acting in a socially responsible manner for the benefit of external stakeholders.

Value Based Management recognizes that each stakeholder group has its own unique set of values and we need to manage in such a way that we create value for one group without destroying value to another group; i.e. we want a win-win situation. In order to accomplish this mandate, businesses often launch various initiatives, such as customer relation's management, business intelligence, knowledge management, balanced scorecards, and a host of other activities for ensuring that we follow the principles of value-based management. Additionally, we need a system of accountability to assess and measure how much value we are creating or destroying for various stakeholders.

> The basis for a Fortune 500 organization is 'Managing by Value.' It is an accepted business practice for motivating customers to keep coming back, inspiring employees to be their best every day, enabling owners to be both profitable and proud, and encouraging significant others to support their business commitments with you.
>
> – <u>Managing by Value</u> by Ken Blanchard and Michael O'Connor

Up until now, little if any information has been available on how we can apply this framework to the Nonprofit Sector. However, as the nonprofit sector becomes more business-like, the need for value-based management grows. In order to ensure that non-profits function within this value-based framework, we can do many things, such as making the organization more entrepreneurial in how it manages social programs, recognizing and measuring social value in the delivery of services and products, using logic models for assessment and measurement, and making the connection between emotional intelligence and effective leadership. To make matters simple, we will categorize value-based management into four dimensions of non-profit management:

1. Strategic Planning
2. Organizational Resources
3. Leadership
4. Accountability and Performance Measurement

This short course will describe specific practices that non-profit and non-governmental organizations can apply in these four dimensions. We will use this as our framework for value-based management. Additionally, many of the same techniques that have been used in the business world are adaptive to the non-profit sector; i.e. we do not have to reinvent the wheel. And the good news is that much of this information is well documented for businesses, although it has rarely been described for the Nonprofit Sector.

The Case for Value Based Management

Before we jump into value-based management, let's start by understanding the challenges confronting nonprofit organizations. First of all, the nonprofit sector is the fastest growing sector of the American economy, growing almost four times the rate of the U.S. economy since 1970. Secondly, the nonprofit sector is still evolving, taking shape within our system of democracy. And third, the challenges confronting the nonprofit sector are increasing, ranging from new regulatory pressures for certifications to new competition from faith-based organizations.
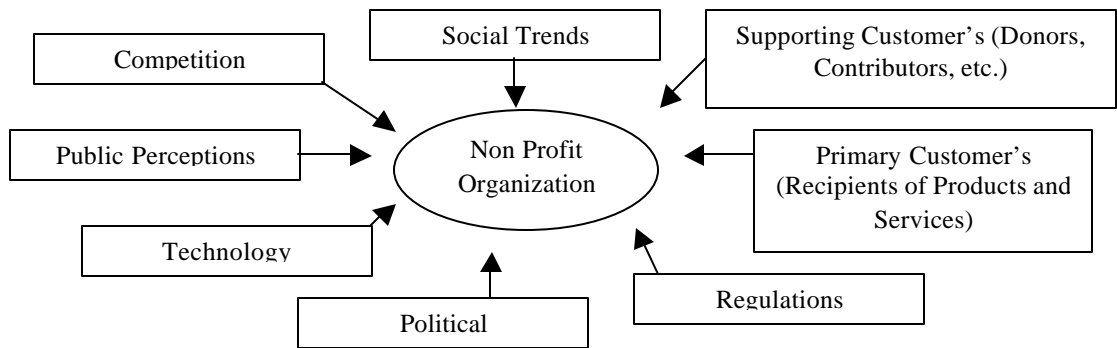
If you couple this enormous change and growth with the fact that resources are scarce for nonprofits, then the challenges facing a nonprofit organization are more daunting than any other type of organization. And to make matters worse, most people managing nonprofits fail to comprehend the "big picture" since they are pre-occupied with trying to sustain the organization in this incredibly hectic environment.

> Over the last three decades a variety of social, economic, and technological changes have rendered obsolete a significant stock of America's social capital. Television, two-career families, suburban sprawl, generational changes in values – these and other changes in American society have meant that fewer and fewer of us find that the League of Women Voters, or the United Way, or the Shriners, or the monthly bridge club, or even a Sunday picnic with friends fits the way we have come to live. Our growing social-capital deficit threatens educational performance, safe neighborhoods, equitable tax collection, democratic responsiveness, everyday honesty, and even our health and happiness.
>
> – <u>Bowling Alone: The Collapse and Revival of American Community</u> by Robert D. Putnam

In order to ensure that we create value within the nonprofit sector, we need a common framework for establishing how we will meet all of these challenges. This common framework is Value Based Management – making decisions that recognize value and benefits within a broader context, continuously seeking out performance standards commonly referred to as best practices, and threading high levels of accountability into all major activities of the nonprofit organization. In essence, value based management is about changing the mindset of people in such a way that they no longer make decisions within a narrow functional space, but have a sense of how decisions generate value and benefit for both the organization and its constituents. With that said, we can start our journey by first looking at Strategic Planning.

Strategic Planning

Before we can actually form a nonprofit organization, we must understand why the organization exists and who will be the constituents of the organization. Additionally, it is difficult to lead any organization unless there is some sense of direction. Therefore, a good starting point for value-based management is to have a well-thought out strategic plan that is factually based. The reason this is important is because nonprofit organizations are often too inward in how they see things, sometimes developing idealistic strategies that almost declare that the nonprofit organization will save the world. By having a fact-based strategic plan, we ground the organization in reality, setting the stage for value-based management to work.

We can do several things to ensure that our strategic plan is fact-based and grounded in reality:

1. Independent Sources of Information – Planning needs to be outward, looking at the customer, the marketplace, and other external drivers affecting organizational strategies. We can substantiate our planning efforts with customer surveys, market research, spending time with constituent groups, analyzing competing nonprofit organizations, and using other sources of knowledge to ensure that we are not too inward in our planning efforts.

2. Broad Involvement by Stakeholders – Strategic planning should involve various constituent groups that are impacted by the plan. We need to recognize the needs and capabilities of our primary customers, supporting customers, professional staff, board members, and others if we expect a realistic strategic plan. This helps ensure that the organization is properly aligned with its stakeholders, thereby improving our chances of success with implementing the plan.

3. Sufficient Organizational Capabilities – Nonprofit organizations must be capable of successfully executing strategic plans. Nonprofits usually have very limited resources and we need to make sure that we have the people, sources of funding, expertise, and other critical resources for implementing and executing the strategic plan; otherwise the planning effort is a non-value added activity – it fails to provide real benefits to the organization. Strategic plans can be very risky when they venture too far from the core capabilities of a nonprofit organization. If resources are too scarce, then the organization may have to focus much of its efforts on building up its capabilities.

The Logic Model

A typical first step to building a strategic plan is to assess the organization in terms of its strength's, weaknesses, opportunities, and threats; the so-called SWOT Analysis. However, many nonprofits, such as the United Way, rely heavily on logic models for assessment. Logic models tend to focus on the programs within the nonprofit organization. Programs are how nonprofits deliver their services and/or products in the marketplace. Programs cover all types of social services – drug rehabilitation programs, domestic violence programs, teen pregnancy programs, pollution prevention programs, health service programs, and the list goes on and on.

Since programs represent the value-chain (the flow of how products and services are created and delivered to customers), this is our focal point for very direct assessment and evaluation of what the organization is actually doing when it comes to creating social value. Logic models depict the conversion of inputs (resources such as funding, volunteers, and facilities) through activities into outputs (end product of the social program). The United Way uses the following format for its logic models:

Exhibit 1: Basic Structure of the Logic Model

Program Outcome Model – United Way			
INPUTS ➡ Resources dedicated or consumed by the Program	**ACTIVITIES ➡** What the program does with the inputs to fulfill its mission	**OUTPUTS ➡** The direct products of program activities	**OUTCOMES** Benefits for participants during and after program activities
Money	*Feed the hungry*	*Number of classes taught*	*New knowledge*
Staffing	*Shelter the homeless*	*Number of counseling sessions conducted*	*Increased skills*
Volunteers	*Provide job training*	*Number of educational manuals distributed*	*Easy to cope*
Facilities	*Educate the public about child abuse*	*Number of hours of service delivered*	*Improved condition*
Equipment	*Council pregnant teenagers*	*Number of participants served*	*Changed attitudes or values*

Source: Measuring Program Outcomes: A Practical Approach, United Way of America

The Logic Model neatly shows the cause-effect relationship between nonprofit resources, nonprofit actions, basic outcomes from the combination of resources and actions, and desired outcomes over the life of the program. Since programs have a life cycle with different levels of impact over time, we usually divide outcomes as follows:

1. Short Term or Initial: Immediate impact on the participant or target, usually related to learning, such as awareness, attitudes, knowledge, or motivation.
2. Medium or Intermediate: Mid point progress on participant or target, usually related to changes in action, such as changes in behavior or decision-making.
3. Long Term or End: The final or lasting impact on participants or target, such as conditional changes – economic, human, environmental, or civic.

Exhibit 2: Chain of Outcomes

Program Timeline		
Immediate Outcomes Short Term Learning	Intermediate Outcomes Medium Term Action	Final Outcomes Long Term Impact
Examples:		
Families know how to develop a spending plan	Families use a spending plan	Families increase savings and reduce debts
Community residents are more aware of childcare needs in community	Employers and residents discuss options and formulate joint plan	Families have child care needs met
Producers increase knowledge of water contamination risks	Unused wells are sealed	Improved water quality

Source: University of Wisconsin-Extension Cooperative Service

In order to build a logic model, we need to have a solid understanding of the program. For existing programs, you can start with program activities. Activities are the driver for producing an outcome and they require or consume resources. If you have numerous activities, you may want to group related activities together into components. If the program is new, work backwards from the long-term outcomes; i.e. what social impact are you trying to accomplish. As you work backwards, the logic model will help you design the program.

Make sure your outcomes are realistic; i.e. can we really impact or change a social issue in this way. If you have too many outcomes, focus on the most important outcomes – those that have the biggest benefit to the target. The wider the range of constituent targets you have, the more likely you will have more variation in outcomes. When outcomes have immediate impact on the entire target, the program will have more influence in achieving its overall mission. Likewise, the longer it takes the program to impact the target, the less social value the program has since outside forces tend to work against the target, making it hard for the program to have lasting impact.

Exhibit 3: Example of Actual Logic Model

United Way Logic Model – Southside Children's Agency Program: Teen Mother Parenting Education					
			Outcomes		
Inputs	Activities	Outputs	Initial	Intermediate	Long Term
Agency provides Program Manager, part-time RN Instructor, nationally certified manuals, videos, and other teaching tools. Identify pregnant teens to participate.	Program provides parenting classes on prenatal through infant nutrition, development safety, and care taking delivered in high schools twice a week for one hour to teen mothers from 3 months prior to one year after delivery of child	Pregnant teens attend program.	Teens are knowledgeable of prenatal nutrition and health guidelines. Teens are knowledgeable of proper care, feeding, and social interaction with infants.	Teens follow proper nutrition and health guidelines. Teen's delivery healthy babies. Teens provide proper care, feeding, and social interaction to their babies.	Babies achieve appropriate 12-month milestones for physical, motor, verbal, and social development.

Source: Measuring Program Outcomes: A Practical Approach, United Way of America

Logic models are used in strategic planning for evaluation and feedback. Evaluation takes place by using indicators or measurements of the outcomes (covered in Chapter 5 of this short course). This gives us feedback on program impact. Once the program has been evaluated based on these indicators or outcome measurements, we can plan future programs and organizational efforts. This is why logic models are important to the strategic planning process. They provide concrete feedback on the effectiveness of social programs and from this, we can do planning.

For overall organizational assessments, we can turn to tools like the Self-Assessment Tool from the Peter Drucker Foundation for Nonprofit Management. This type of assessment is much broader in scope, using a series of templates and critical questions to appraise the organization's mission, environment, customers, programs, and other critical attributes of performance. From this appraisal, we can build a complete strategic plan for the organization, consisting of:

1. Mission – Defines the purpose of the nonprofit organization.
2. Goals – Establishes long-term direction.
3. Objectives – Specific achievements required for meeting goals.
4. Action Steps – Detailed plans for meeting objectives.
5. Budgets – Allocation of resources for action steps.

> If Peter Drucker were to sit down with your nonprofit organization, he would ask, 'What is our mission? Who is our customer? What does the customer value? What are the results? And What is our plan?' He would ask these five questions because they go to the very heart of an organization, why it exists, and how it will make a difference. They are the five most important questions because they are the essential questions.
>
> – <u>The Drucker Foundation Self Assessment Tool</u> by The Drucker Foundation

Best Practice — Systematic Structure for Assessment

Nonprofit organizations have a well-thought out structure (such as the Logic Model) for systematically assessing the organization and its programs and flowing this assessment into continuous improvement and strategic planning.

Overall Process

As previously noted, the strategic planning process usually starts with some form of assessment. The assessment process gives us an opportunity to evaluate choices that determine the future of the nonprofit organization. Once we gain consensus of what best fits the organization, we can build the strategic plan. Once we understand where the organization is going, we can plan for its future through strategic planning.
Strategic planning is a dynamic process of identifying performance gaps in relation to the organization's mission and values. If the organization is failing to meet its mission, then a corrective plan must be developed and implemented to ensure that the organization is doing what it was formed to do.

Strategies should emerge and evolve over time and we need to continually test the strategy to see if it still fits with the organization and its external environment. Therefore, strategic planning is very iterative, always monitoring and detecting what changes we need to make for ensuring our survival and growth. Strategic Plans should also:

- Serve as a lever for building commitment from those who must execute on the plan.
- Challenge the organization to stretch itself.
- Improve overall organizational performance.
- Create opportunities for managers and board members to think strategically.

> The most effective way to set the future direction is to develop a shared vision of what the organization will be in the future, contrast it to the way the organization is now, and then create a plan for bridging the gap, or the Strategic Plan.
>
> – <u>Beyond Strategic Vision</u> by Michael Cowley and Ellen Domb

Mission and Vision

The first and foremost element of a strategic plan is the mission statement. The mission statement defines why the nonprofit organization exists. It should be short and to the point, matching up with the capabilities of the organization. If an organization's mission is too short and not clear, expand on the mission with some follow-up statements to remove any ambiguity. For nonprofits, missions should be publicly related and not narrowly focused on a special select group of people.

Best Practice — Missions are the Bottom Line

The bottom line for a nonprofit is its mission. Nonprofits are in the mission business and therefore, the mission must permeate every part of the organization – including mission-based management and mission-based programs. In order to execute on the mission (bottom line), a nonprofit organization must manage itself like a business.

Since missions deal with primary actions (the optimal goal) of the nonprofit organization, it is a good idea to supplement missions with vision statements. Vision statements are the long-term aspirations of the organization. Nonprofit leaders get their cues for directing the organization from both the mission and the vision. Generally speaking, mission and vision tend to be leadership issues while goals and objectives tend to be management issues.

Your mission statement should have two elements and only two elements:
    a) What you are going to do and
    b) For whom
That's all. Save the poetry for another document – like the annual report or that big fund raising proposal.

– Effective Nonprofit Management: Essential Lessons for Executive Directors by Robert L. Lewis

NOTE: Short Course 10: Strategic Planning provides more detail instructions on how to create a formal strategic plan. This course can be downloaded over the internet at www.exinfm.com/training

Watershed 2000
River Network's Strategic Plan for 1995 – 2000

Mission:

River Network's mission is to help people organize to protect and restore rivers and watersheds.

We support river and watershed advocates at the local, state and regional levels, help them build effective organizations, and promote our working together to build a nationwide movement for rivers and watersheds.

River Network also acquires and conserves river lands that are critical to the services that rivers perform for human communities: drinking water, supply, floodplain management, fish and wildlife habitat, recreation, and open space.

Vision:

River Network was founded in 1988 in the conviction that the solutions to river degradation, like the problems, are primarily local. They must be created by citizen activists, valley-by-valley and stream-by-stream. We saw even then that the "top-down" approach could only go so far, that rivers needed a stronger constituency at the grassroots level. We dedicated ourselves to the mission of building citizen groups to speak out for rivers in every watershed across the country. River Network's new Watershed 2000 campaign is an attempt to lay the foundation for river and watershed protection in this country.

Strategic Goals and Objectives:

>
> Strategic Goal – 2000 Citizen Watershed Councils by the Year 2020
> Five-Year Objectives:
>
> - Identify, state by state, the citizen groups in key watersheds that should definitely be included in a Watershed 2000 campaign.
> - Work to recruit 400 of these key citizen groups as Partners of River Network.
> - Give these groups a basic guide to watershed action, including principles of watershed science and watershed organizing.
> - Help these watershed councils develop a science-based strategy for stream protection and restoration.

Strategic Goal – Build our River Source Center to support watershed councils
Five-Year Objectives:

- Conduct a watershed message development project with focus groups and polling to develop a language that watershed groups can use to communicate with the public.
- Publish and distribute a national river conservation directory, updated every two years.
- Establish a Rivers On-Line Computer Network to give watershed groups better access to information.
- Conduct telephone outreach to Partner watershed councils to offer assistance.
- Develop objective standards for success so that watershed organizations can measure their effectiveness.

Strategic Goal – Campaign for Safe and Sustainable Watersheds
Five-Year Objectives:

- Support local and regional campaigns to dramatize the threat to drinking water from polluted rivers and degraded watersheds.
- Support campaigns to prevent flood destruction by restoring natural river floodplains.
- Support campaigns to dramatize the loss of recreation and tourism from dewatering of Western streams by agriculture.
- Support campaigns to dramatize what it costs taxpayers when rivers and watersheds deteriorate.

Strategic Goal – Building River Network's Capability
Five-Year Objectives:

- Build an active 20-member Board of Trustees that reflects our diverse constituency and gives us better access to resources.
- Increase revenues from grants and donations from roughly $ 500,000 in 1995 to $ 1,000,000 in 2000.
- Build internal management and governance systems to support a growing two-office organization.
- Ensure our "staying power" by maintaining a modest endowment.

Organizational Resources

Once we have a strategic plan in place, we need organizational resources to execute the plan. Organizational resources go beyond money and people; resources are rooted in organizational capabilities. And almost everything can represent an organizational capability:

- Visible board members who attract resources to the nonprofit.
- Highly skilled professionals who know how to organize fundraising campaigns.
- Formation of new partnerships to create social programs.
- Building a solid reputation in the eyes of the public.
- Creating and sharing the organization's mission and vision.
- Maintaining reliable systems of accountability.
- Understanding how other nonprofits work.

Therefore, before we can truly build organizational resources, we first need certain capabilities; this is the foundation we need to work from. One of the basic capabilities of any organization has to do with human resources (to be discussed below).

Best Practice — Build Capabilities to Build Resources

Nonprofit Organizations recognize the connection between capabilities and resources, focusing on those capabilities that help build resources – things like building a network of support and partnerships, quality leadership, soliciting expert advice from other nonprofits, publicizing successes to establish the organization's creditability, obtaining endorsements, and doing other things that enhance the social capital of the organization. This lays the groundwork for successful resource development.

Once we have a set of capabilities, we can identify resource needs and develop an action plan for acquiring the resources. We can turn to our logic models to help us identify resource needs:

1. What activities are required for the program?
2. Estimate resource needs for the activities.
3. Prepare a Program Budget.
4. Compare the Program Budget to existing organizational resources, identifying resource gaps.
5. Create a plan to close the resource gap.

Starting with programs and logic models is sometimes referred to as bottom-up budgeting, i.e. we let people close to the programs work out a budget plan and then roll up program budgets to organizational budgets. We can also work top-down, starting with the Strategic Plan and working our way down to Operating Plans that describe the major activities of the nonprofit organization.

Budgets outline the resource requirements of the organization and its programs. Besides using a master budget for organizational needs, we may need to include a capital expenditure budget to cover major purchases (such as computer equipment). Regardless of which budgets we use, we need to recognize that budgeting needs to be inclusive, involving staff, board members, prospective contributors, and other key players. Additionally, planning is a pre-requisite to budgeting. Therefore, budgets should be linked to operating plans, action plans, and other resource dependent type plans.

Exhibit 4: Example of Expenditure Budget by Program - Summary

Expense Category	Total Expenses	Child Health Program	Youth Training Program	Unwed Mothers Program
Personnel	185,085	83,025	45,927	56,133
Materials / Supplies	19,200	7,887	7,167	4,146
Facility Costs	48,900	30,328	12,765	5,807
Total	253,185	121,240	65,859	66,086

Exhibit 5: Example of Expenditure Budget by Program - Detail

Expense Category	Total Expenses	Child Health Program	Youth Training Program	Unwed Mothers Program
Personnel:				
Director	46,100	29,965	6,915	9,220
Program Manager	32,400	17,820	8,100	6,480
Bookkeeper	19,880	8,350	5,368	6,162
Secretary	16,500	5,528	4,868	6,104
Social Worker	14,350	2,152	10,763	1,435
Social Worker	12.788	0	4,476	8,312
Counselor	20,467	0	2,047	18,420
Child Psychologist	22,600	19,210	3,390	0
Total	185,085	83,025	45,927	56,133
Materials and Supplies:				
Office / Kitchen	6,800	4,382	2,002	416
Training	7,900	400	4,955	2,545
Medical	4,500	3,105	210	1,185
Total	19,200	7,887	7,167	4,146
Facility Costs:				
Rent	26,400	16,368	6,600	3,432
Depreciation	4,700	2,900	1,410	390
Utilities	8,900	5,420	2,670	810
Upkeep	5,100	3,165	1,235	700
Taxes	3,800	2,475	850	475
Total	48,900	30,328	12,765	5,807

Human Resources

The ultimate enabler or driver of performance for almost every type of organization resides in people. Without people, nothing can happen - design of social programs, delivery of social programs, building the organization, raising money, or anything else important to running the nonprofit organization.

> The most important determinant of the success of the leading nonprofits is their human resources – their volunteer leaders and professional staffs. Their quality and commitment, more than anything else, determines the strength and effectiveness of the organization. No nonprofit can be better than the people who comprise it and lead it. Their quality affects every element of the nonprofit.
>
> - Best Practices of Effective Nonprofit Organizations by Philip Bernstein

Recruiting the right people for a nonprofit is not easy since we need people who literally love what the nonprofit does. This helps us build commitment – a persistent dedication to the organization's strategy. Ideally, we want the values of the employees and the values of the organization to be essentially the same. This helps ensure that people will be involved, self-motivated, flexible, and open to change. Likewise, we need to make sure that the nonprofit organization is informal, allowing for social interaction and a sense of solidarity. In order to accomplish this, nonprofits need to have limited hierarchies, encourage collaboration and the sharing of information, and empower their people with the tools they need to get the job done; otherwise people will not reach their full potential.

Making all of this happen usually requires some form of Human Resource Management or HRM. HRM is not about establishing rules and policies, human resource management is more about becoming a strategic partner for building the social capital of the organization and developing the skills and competencies of the people so they can be more productive. Additionally, HRM can cover several important functions – recruitment, retention, compensation, and managing volunteers. Regardless of organizational size, someone within the nonprofit organization needs to address human resource management. A complete discussion of HRM is beyond the scope of this short course; but suffice it to say that HRM is a major driver behind value-based management within the nonprofit sector.

Best Practice — Linking HRM to Strategy

Nonprofits recognize that Human Resource Management (HRM) helps the organization achieve its strategy by addressing the personal needs of its human resources (staff, volunteers, and others). This in turn builds commitment and commitment is how we want our human resources to think about strategy.

One final point about human resources concerns volunteers. Nonprofits, unlike other types of organizations, use volunteers. When using volunteers, don't forget to:

- Provide volunteers with orientation and guidance; volunteers need to know what it is they are supposed to do.
- Allow volunteers to participate in decisions regarding their respective assignments.
- Use volunteers for appropriate assignments, avoiding paid staff assignments where possible. If volunteers are used for paid staff work, then volunteers are entitled to the same level of support and training that a paid staff person would receive.

Managerial Resources

Nonprofits often have major gaps in managerial talent since the majority of people working for a nonprofit will lack solid business type skills. Therefore, nonprofits need highly skilled management talent at the top for running the organization. Management can be broken down into two segments:

Executive Management – Executive Director or Chief Executive Officer and other senior professionals who are paid to manage the nonprofit organization.

Board of Directors – A group of highly qualified people who may or may not get paid, providing overall governance and strategic guidance for the nonprofit organization.

Executive Management requires a broad set of skills:

- Interpersonal Skills
- Ability to Manage Change
- Strategic Thinker
- Very supportive of others
- Creative
- Ethical
- Always trying to improve things
- Effective communication skills
- Ability to resolve conflicts

Perhaps one of the most critical skills has to do with leadership, a topic covered in the next chapter. At the same time, management must cover the basics of running the organization – building structure, organizing the resources, putting systems of accountability in place, resolving operating issues, and solving a host of functional problems in such areas as finance, marketing, and human resource management.

The Board of Directors plays a very active role in driving performance within the nonprofit organization. Boards perform several vital functions:

- Provides support in terms of planning, developing programs, and building organizational resources.
- Review and approve mission, vision, and strategic plan.

- Serve as principal representative before the public.
- Fill-in critical functional needs, such as Public Relations.
- Advocate for the nonprofit's mission and programs.
- Monitor the health of the nonprofit organization.
- Make sure the organization has competent management.

Boards must also possess several intangible qualities:

- Visible and accessible to various stakeholders
- Opportunistic and visionary about the future
- Informal management style that is inclusive
- Compelled to serve

Board development often follows the life cycle of the nonprofit organization:

Early Stage Board – Startup nonprofit uses board members with critical connections to secure resources and help build the organization. Boards are small in size, delegate operating decisions to staff, and tend to be very involved in fund raising activities.

Middle Stage Board – Larger in size than early stage and assumes more governance responsibility over the nonprofit. Mid-Stage boards are more concerned about sustaining the nonprofit over the long-term.

Mature Stage Board – Very large in number (20 to 30 members), very diverse in relation to their backgrounds, and rather prestigious. Nonprofit is well established and has significant staying power in the marketplace. Due to the complexity of the board, committees are often used for various governance functions.

Overall, board members need to focus on the bigger issues confronting a nonprofit, supporting the executive management team and determining strategy. Management must be charged with executing the strategy, ensuring that the nonprofit fulfills its mission.

> **Best Practice — Boards Assume Ownership**
>
> Boards take ownership of the nonprofit organization, elevating the organization to a business-like stature.

Financial Resources

Financial resources, such as money, are necessary for acquiring other resources. Financial resources are usually secured through fund raising activities and fund raising is one of the most dominant type activities for a nonprofit. If we follow a "value based" approach to fund raising, then we need to do a lot of up-front work before we launch a fund raising campaign:

1. Properly identifying funding sources through research.
2. Building relationships with prospects before we solicit their support.
3. Develop and test fund raising materials and methods before launching a major fund raising campaign.

Once we build these capabilities, we can proceed to implement fund raising efforts. Many nonprofits follow the ROPES Model of fundraising:

Research – Obtain knowledge about the marketplace through research. You must know something about your supporting customers before you can approach them.

Objectives – Establish a set of fund raising objectives based on your research. For example, two membership drives, one before Thanksgiving and one in the Spring may fit with your needs and the research.

Programming – Develop and implement a fund raising plan. Make sure everyone involved agrees to the plan before launch.

Evaluation – Assess the effectiveness of your fund raising efforts. How can it be improved? Did we meet our objectives?

Stewardship – Once you reach supporting customers (donors, contributors, etc.), you need to build relationships with these customers since they represent your long-term base of support. Relationships count in fund raising because most contributions come from existing supporting customers. Many nonprofits use the so-called Donor Bill of Rights as a guide for building relationships with their donors:

<u>A Donor Bill of Rights</u>

Philanthropy is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:

I. To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.
II. To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.
III. To have access to the organization's most recent financial statements.
IV. To be assured their gifts will be used for the purposes for which they were given.
V. To receive appropriate acknowledgement and recognition.
VI. To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by the law.
VII. To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.

VIII. To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.
IX. To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.
X. To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

Source: Association of Fundraising Professionals

Several factors can influence how much money people give to nonprofits:

- Economic Conditions – People give more when they are economically well off.

- Level of Trust – People must be convinced that a real need exists and the nonprofit is the best hope for addressing this need. There must be a compelling case for building trust between the donor and the nonprofit.

- Value Systems – What people value should be similar to what the nonprofit values. In order for this to happen, people must easily understand what the nonprofit is about, its mission and accomplishments.

When raising money, it is a good idea to try and match the fund raising sources to the life cycle of programs. Short-term programs need short-term sources of funds and continuous needs should match up against continuous sources of support. Likewise, larger needs should match up against significant sources of funding such as grants. If sources of funding are risky and unreliable, sources of funding should be diverse.

> **Best Practice — Diversified Sources of Funding Matched Against Increased Costs**
>
> Nonprofits protect against potential shortfalls in funding through diversification. At the same time, nonprofits balance this diversification against the increased costs associated with multiple sources of funding.

Overall, fund raising requires substantial commitment of time and resources from key participants (board members, volunteers, staff, and others). Fund raising must involve objectives and targets, measuring the results of the fund raising efforts to determine how best to use organizational capabilities.

Example of Measuring Fund Raising Performance:

Number of Donors Responding 55
Gross Contributions Received . . . . . $ 3,800
Fund Raising Costs . . . . $ 600
Profit Margin . . . . $ 3,200 or 84%
Profit per Donor . . . . $ 58 ($ 3,200 / 55)
Rate of Return . . . .   533 % ($ 3,200 / $ 600)

Social Entrepreneurship

One last important point about managing resources has to do with entrepreneurship. By following the principles of entrepreneurship, nonprofits become resource smart. Resource smart relates to leveraging social capital in the absence of funding – turning to things like knowledge, expertise, access to community leaders, and other intangibles that have little to do with hard assets. For example, entrepreneurs may outsource certain parts of a social program to other nonprofits since they are in a better position to generate desired outcomes. The main focus is on providing the right outcomes, not producing all outcomes internally.

Additionally, social entrepreneurs are more interested in building only one or two high quality programs as opposed to spreading resources too thin amongst several programs. Entrepreneurs work hard at perfecting their products and services so they can eventually find a niche in the marketplace. And this takes considerable time and patience, not to mention a high tolerance for failure.

> The business ventures being started by nonprofits today are therefore emerging directly from their core competencies and basic strengths – from their missions, the programs they have already perfected, and the assets they have developed in the process.
>
> - Eight Basic Principles for Nonprofit Entrepreneurs by Jerr Boschee, Nonprofit World, Volume 10, No. 4

One of the most profound entrepreneurial concepts confronting the nonprofit sector is generating earned income. Social entrepreneurs view earned income (or profits) as a primary goal of almost every social program. By charging a fee or price for the service, the program is more financially sustainable. This in turn enables the nonprofit to better fulfill its mission.

Example - Pricing of Social Services

Direct Variable Costs – Hourly Wage Rate for Social Trainer . . $ 22.00 per Hour
       10 6-hour training sessions for Program or 60 hours . . . . . x 60
                            Total Variable Costs . . . . $ 1,320
Indirect Fixed Costs are $ 1,200 to rent facility, $ 350 for supplies, and $ 200 allocated
      for administrative overhead. Total Fixed Costs   1,750
            Total Program Cost   3,070
            3% Markup for Profit   92
            Total Amount to Recover   3,162
            Expected Minimal Level of Participation   5
            Cost per Participant   632
            Round up or down for Pricing . . . . $ 635

Entrepreneurs realize that it may take ten years before a nonprofit makes a profit from its social programs. This is why entrepreneurs are very cautious and conservative in how they expend social capital. Finally, entrepreneurs are always looking to the market to validate assumptions, often times testing a social program through some form of feasibility before committing scarce resources.

> Social entrepreneurs are different from business entrepreneurs in many ways. The key difference is that social entrepreneurs set out with an explicit social mission in mind. Their main objective is to make the world a better place. This vision affects how they measure their success and how they structure their enterprises.
>
> - Enterprising Nonprofits: A Toolkit for Social Entrepreneurs by J. Gregory Dees, Jed Emerson and Peter Economy

Leadership

The destiny of a nonprofit organization is ultimately determined by its leadership. Having a great strategic plan and solid organizational resources lays the foundation for creating social value. However, without leadership we have no catalyst for making things happen. Therefore, value-based management recognizes how vitally important leaders are to organizational performance and value-creation.

> Leadership ability is the lid that determines a person's level of effectiveness. The lower an individual's ability to lead, the lower the lid on his potential. The higher the leadership, the greater the effectiveness. Your leadership ability – for better or worse – always determines your effectiveness and potential impact of your organization.
>
> –   The 21 Irrefutable Laws of Leadership by John C. Maxwell

Fortunately, there is a wealth of information on what constitutes effective leadership. For example, people with leadership potential usually exhibit the following attributes:

- Able to influence others
- Very people oriented
- Solid grasp of the big picture
- Works well in stressful situations
- Maintains a positive attitude
- Is modest and lacks ego
- Enjoys learning new things and sharing knowledge with others
- Self aware of what is going on
- Flexible to Change

> Character is the key to leadership – an observation confirmed by most people's experience, as it is in my 15 years of work with more than 15 leaders and in the other studies I've encountered. Research at Harvard University indicates that 85% of a leader's performance depends on personal character. Likewise, the work of Daniel Goleman makes clear that leadership success or failure is usually due to 'qualities of the heart.'
>
> –   The Leadership Advantage by Warren Bennis

Personal Characteristics

Leaders possess several important characteristics, such as:

- Listening and respecting the opinions of others
- Strong belief in seeing others succeed
- Accepting mistakes as part of learning and growing

In their book The Leadership Challenge: How to Keep Getting Extraordinary Things Done in Organizations, authors James M. Kouzes and Barry Z. Posner outline five important elements of exemplary leadership:

1. Challenge the Process – Leaders go outside the normal fence line of the organization, almost creating a new challenge for the organization that breaks away from old thinking. Therefore, leaders tend to be pioneering and innovative to the organizations they serve.
2. Inspire and Share the Vision – Leaders rally the troops around the cause, building enthusiasm around a vision of the future. Since leaders are not controlling, they must inspire people around their value systems, enlisting them and garnishing their commitment.
3. Getting People to Act – Leaders are able to build trust through their open and honest communication; they speak from the heart and not in terms of cold, hard numbers. This builds teamwork and cooperation within the organization. Everyone who is responsible for providing outcomes is part of the decision making process.
4. Leading by Example – Leaders often kick off a process by first doing it themselves, thereby demonstrating to others how things are suppose to work. This makes people feel capable and competent in knowing what it is they are suppose to do.
5. Leading from the Heart – Leaders have a genuine compassion for the people they serve, encouraging and helping them succeed. Leaders recognize that their success is highly dependent on the success of others.

> You don't inspire and energize people with memos, mission statements, data and analysis, Pereto charts, goals and objectives, measurements, systems, or processes. These are important factors in improving performance. But that's management, not leadership. People are inspired and aroused by exciting images of a preferred future, principles or values that ring true, and being part of a higher cause or purpose that helps them feel they're making a difference.
>
> – Pathways to Performance: A Guide to Transforming Yourself, Your Team, and Your Organization by Jim Clemmer

Emotional Intelligence

One of the principal drivers behind leadership is something called Emotional Intelligence. Emotional Intelligence is the combination of competencies and personal attributes that enables a person to effectively deal with other people. If you want to motivate or manage people, then you must reach them emotionally. Study after study has indicated that people with high levels of emotional intelligence are far more successful in leading and managing people than people with low levels of emotional intelligence. For example, highly effective leaders seem to know how to empathize with people regardless of their backgrounds.

> Emotional intelligence often predicts success better than any other performance measure. Despite its enormous potential, it has been largely ignored by the nonprofit sector. When hiring staff, nonprofit managers would do well to pay at least as much attention to attributes like trustworthiness as they do to competencies like conflict management. They should be aware of the importance of emotional intelligence – which stresses the need for both attributes and competencies in the workplace. They should also consider such factors when creating job descriptions and holding performance reviews.
>
> – <u>Study Shows Gaps in Nonprofit Management and Ways to Improve</u> by Lisa Wyatt Knowlton, Nonprofit World, Volume 19, No. 3

The Role of Leadership

Leaders seem to naturally find the right direction for an organization, clearing the way so people can reach strategic objectives. Leaders move and align the organization for success, positioning the organization for fulfilling its mission.

Leaders are always watching, observing, and learning. This is how leaders, in part, know how to position an organization for success. Leaders easily grasp the big picture so the rest of us can focus on the day-to-day operations of the organization.

Finally, great organizations with great people create great leaders. Therefore, the underlying layers of leadership reside in the organization's people. Leaders are only as good as the people they serve. And when an organization has great people, the organization has a tendency to attract the right kind of leadership.

Best Practice — Quality Leadership

The future of a nonprofit is in the hands of its leaders. Therefore, nonprofits understand the importance of leadership and the personal attributes, as well as the high levels of emotional intelligence, that are required for building quality leadership within the organization.

Accountability and Performance Measurement

We need to create a culture of accountability to ensure that the organization does in fact create value for its stakeholders. Without adequate feedback systems in place, we run the risk of destroying social value. Many of the components for driving accountability have already been discussed in this short course:

- Sound strategic planning, supported by external research.
- Building organizational capabilities.
- Having the Board of Directors assume ownership of the nonprofit.
- Understanding the importance of quality leadership.

All of these things reinforce accountability. However, accountability needs to transcend everything the organization does since accountability is a reflection of what an organization considers important. For example, continuously communicating with donors helps build important relationships. After all, when people give of their time and/or money, they are making a statement: I trust and believe in what the nonprofit is doing. The ability of a nonprofit to deliver on this trust requires transparency. Transparency allows the constituent to easily ascertain that the nonprofit is doing what it is suppose to do. Even simple forms of transparency can build trust, such as publishing the nonprofits financials (IRS Form 990) on a website such as www.guidestar.org. However, the best form of transparency is for the nonprofit to be brutally honest and open with itself and its stakeholders. For example, a nonprofit should be willing to open up program development, planning, and other aspects of its operations to others.

One of the best ways for a nonprofit to build trust is to become engrained in the local community. Nonprofits that are close to their constituents tend to have the best relationships. For example, religious organizations tend to be very close to their communities and their relationships are personal. As a result, these types of nonprofits have the most staying power in the nonprofit sector.

Best Practice — Close to the Community

Nonprofits build their organizations around local communities, establishing important relationship's that translates into trust. By having this "localized" trust, nonprofits are able to build and sustain their organizations.

Comprehensive Performance Measurement

Since accountability must transcend everything the organization does, we need some form of overall measurement for the entire organization. Additionally, accountability requires that the organization aggressively pursue excellence in everything it does and therefore, we need comprehensive performance measurement for managing our pursuit of excellence. Over the last several years, private companies have embraced the Balanced Scorecard as the framework for comprehensive performance measurement. However, balanced scorecards are designed specifically for businesses and not for nonprofits. And since nonprofits have very long-term outcomes that are very difficult to quantify, we need a much simpler framework that easily fits with the actual strategy of the nonprofit. Most nonprofits have opted for a Three Tiered Framework for Comprehensive Performance Measurement. This three-layered model places the mission at the top with activities fulfilling the mission and organizational capabilities driving the activities.

Exhibit 6: Framework for Performance Measurement at the Organizational Level

Comprehensive Performance Measurement – Three Tiers	
Tier 1 – Impact	Assess Mission Impact
Tier 2 – Outcomes ▲	Measure outcomes of activities
Tier 3 – Drivers ▲	Measure organizational capabilities

For example, the American Red Cross has the following mission: *The American Red Cross, a humanitarian organization led by volunteers and guided by its Congressional Charter and the Fundamental Principles of the International Red Cross Movement, will provide relief to victims of disasters and help people prevent, prepare for, and respond to emergencies*. In order to fulfill this mission, the American Red Cross must engage in various activities and each of these activities has an outcome that can be measured – Response time to disasters, number of victims served, and refugees placed into shelters. Likewise, activities cannot take place unless we have organizational capabilities – well-trained staff, sufficient funding, strategic partnerships, marketing, leadership, and various other resources for making the activities happen. Once again, we need to measure these capabilities to ensure that the right kinds of capabilities are in place for driving our activities. For example, in order to secure funding from donors, we must maintain great relationships with our donors. In order to ascertain the quality of donor relationships, we need some form of measurement in place. All three of these measurement layers – mission, activity outcomes, and organizational capabilities are connected and inter-related. Therefore, the Three Tiered Measurement Model follows the same logic as the Balanced Scorecard, providing a fully integrated approach to measuring the performance of the organization. And since the Three Tiered Model is aligned with the strategic plan, it provides valuable feedback for making adjustments to short-term and long-term goals – similar to the Balanced Scorecard.

> Performance in the non-profit institution must be planned. And this starts out with mission. Non-profits fail to perform unless they start out with their mission. For the mission defines what results are in this particular non-profit institution.
>
> – Managing the Non-Profit Organization by Peter F. Drucker

Assessing mission impact may relate to the programs or activities of the nonprofit organization. For example, the Nature Conservancy assesses mission impact using two measurements:

1) Biodiversity health (per existing scientific studies)
2) Threat abatement (reductions in the threats to biodiversity)

These two metrics can be applied to various programs of the Nature Conservancy and additionally, they fit nicely with the overall mission of the Nature Conservancy which is to conserve biodiversity. Therefore, a three-tiered approach will often overlap between the measurement tiers. Overall, the three-tiered approach is used as the organizational model for performance measurement. For social programs, we can fall back on Logic Models for performance measurement. As you may recall, we identified resources (inputs), outputs, and outcomes (short-term, medium term, and long-term) as our framework for managing social programs.

The key to performance measurement at the program level is to move away from measuring inputs and assess social program impact (long-term outcomes). For example, it is easy to measure inputs, things like cost per participant as opposed to the lasting impact of a program on society. However, the best forms of measurement are not input related, but outcome related and this is perhaps one of the most difficult challenges confronting the nonprofit sector when it comes to performance measurement. How do we quantify our impact on society? We will explore this issue under Financial Management. For now, we need to understand the overall framework for comprehensive performance measurement.

The two primary components for achieving comprehensive performance are Three Tiered Measurement Models and Logic Models. These two models are very complementary of one another and the combination of these two models is the roadmap to comprehensive performance measurement within the nonprofit sector.

> Performance measurements are one area in which not-for-profit organizations are particularly weak. Just as the corporate world needed to change how it measured and reported its activities, change was becoming increasingly important for not-for-profits. Stakeholders were asking questions such as: What does the charity really do? What is the cost of their activities? What value do their activities give to individuals and their communities, and what are the outcomes of these activities?
>
> – Making Measurement Work, Using the Balanced Scorecard in Nonprofit Organizations by Stephen Murgatroyd and Don Simpson

One last issue that deserves some attention is the Balanced Scorecard. For those nonprofits that have evolved into businesses (such as associations), balanced scorecards may provide the appropriate framework for performance measurement. Balanced Scorecards for nonprofits follow the same top down approach as the Three Tiered Model, always beginning with measuring the mission of the nonprofit. However, since most nonprofits do not function like a business, balanced scorecards are not the preferred approach to performance measurement.

Exhibit 7: Example of a Balanced Scorecard – Objectives and Measurements

Project Management Institute (Association)		
Financial	Ensure sufficient gross revenue to invest in added value to members and to fund adequate reserves.	Excess revenue over expenses Non-dues revenue as percent of total
	Expand the sources of new and existing revenue and the variety of revenue generating products offered.	Percentage of revenue generating products in each program area
	Increase market share in the markets PMI serves.	Number of customers in each segment as percentage of total
	Improve value to members to ensure renewal of membership	Retention Rate
	Optimize operations to ensure cost efficiencies	Net program revenue or overhead
Customer	Ensure that customer inquiries are handled in an attentive, timely, and effective manner.	Customer satisfaction - responsiveness
	Ensure that interactions with customers are personal and professional	Customer satisfaction - contact
	Ensure that products are conveniently accessible to customers	Customer satisfaction – convenience Percentage of total products offered online
	Ensure that customer needs drive product development	Customer satisfaction - value
	Continue to advocate globally on behalf of the profession	Number of official PMI speaking engagements
Internal	Create and expand products to meet customer segment needs	Number of new products per customer segment
	Improve understanding of customer segments	Money spent on customer market research Number of products targeted at distinct needs of customer segments
	Provide effective communication to customers	Number of communication vehicles provided and usage rates by customer segments
	Improve processes to develop, deliver, and retire products on time and within specifications.	Number of products with defined life cycles Product Portfolio Management Calendar
Learning & Growth	Foster a culture that promotes organizational, professional, and operational excellence	Employee retention rate Employee satisfaction survey
	Develop infrastructure to optimize resources to support global marketplace and expanded growth.	Compliance with technology plan Compliance with staffing plan
	Align individual performance and professional development goals with PMI goals.	Number of program areas with a balanced scorecard. Number of individuals with a personal balanced scorecard.

Source: Strategic Score Keeping by Jim Dalton, Association Management, Volume 54

Measurement Data

Now that we understand the framework for performance measurement, we need to gather and analyze the data required for performance measurement. Nonprofits use a variety of methods to collect measurement data – surveys, internal records, knowledge tests, physical sampling, and other techniques.

The most common method is the survey. For example, an Alzheimer's Program collected data from family members regarding conditional improvements in four areas – walking steady, interacting with others, agitation, and exhibiting anxiety. These attributes represent long-term outcomes. Levels of participation in the program represent mid-term outcomes and knowledge tests are used to ascertain if participants were able to comprehend basic concepts taught within the program. Surveys are commonly used to ask participants at the end of the program certain basic questions on program effectiveness.

In order to make surveys effective, keep in mind that a 50% response rate may be as good as you can get. Response rates are improved when follow-up calls and incentives are used. And don't forget to make the survey convenient and easy to complete.

Another major weapon in managing measurement data is the use of databases for capturing, maintaining, and analyzing internal records. Nonprofits need to maintain historical information for monitoring trends. For example, a conservation group will take water samples for measuring changes in water quality. All of this data needs to be maintained within a computerized database (such as Microsoft Access). Even basic internal records should be maintained within a database. This way we can monitor participation levels, graduation rates, wait times, demographic trends, conditional changes with participants and other measurement trends in various social programs. If significant problems are noted in the measurement trends, we can develop plans to improve the program and set targets for performance improvement.

Performance improvement depends upon making sure your measurements fit with program goals and objectives. One of the keys to using the right measurements is to have a clear and easy-to-understand strategy. The more ambiguous the strategy, the less likely you will be able to develop the right measurements. For example, a vague mission statement makes it hard to accurately measure and assess mission impact. Additionally, your mission statement may not be your primary concern until the nonprofit is well established. For example, start-up nonprofits will need to focus on building the organization – things like securing partnerships, fund raising success, and recruitment of volunteers before measuring mission impact. Nonprofits, just like any other type of organization, need to measure the right things to get the right results.

> While it may not be necessary to have a vision of success in order to improve organizational effectiveness, it is hard to imagine a truly high performing organization that does not have at least an implicit and widely shared conception of what success looks like and how it might be achieved.
>
> – Strategic Planning for Public and Nonprofit Organizations by John B. Bryson

Exhibit 8: Examples of Measurements for Associations

Financial Measurements
Membership market penetration in traditional segments
Growth in new membership segments
Account share of member spending by key products
Frequency, dollar value of cross selling
Output per employee or value-added
Contributions per donor
Grants by size, sources, number
Satisfaction Drivers
Relevance of publications to business or professional interests
Fitness of codes and standards to market practices
Online and in-person networking opportunities
Cooperation with related professions on significant issues
Impact on federal and state public policy decisions
Education opportunities that address verified needs
Process Measures
Time to fulfill an order, process a new member application, acknowledge a contribution
Press releases picked up by publications and members read
Member response rates to legislative alerts
General ledger errors
Frequency with which deadlines are met or not met
Innovation, Learning and Growth
Alignment of competencies with process requirements
Alignment of information system capabilities with process requirements
Annual investment in employee development
Employee satisfaction with: 1) Involvement in decisions affecting their work; 2) Recognition of good work; 3) Access to sufficient information to do the job; and 4) Active encouragement to be creative and use initiative

Source: Strategic Score Keeping by Jim Dalton, Association Management, Volume 54

Financial Management

One obvious area of performance measurement for any organization has to do with financial performance. Additionally, we will rely on financial management for measuring social value of nonprofit programs. Financial management usually starts with a complete set of financial statements:

- Statement of Activities (Changes in Net Assets from Revenues and Expenses)
- Statement of Financial Position (Balance Sheet)
- Statement of Cash Flows

From these financial statements, we can perform financial analysis for gauging performance. For example, we can measure the length of time required to convert receivables into cash:

Average Days to Collect Receivables – Grants, Gifts, Donations, etc.

	Receivable Balance	Revenue Balance
Grants	$ 36,000	$ 120,000
Gifts	7,500	18,000
Donations	6,500	12,000
Total	$ 50,000	$ 150,000

$ 50,000 / ($ 150,000 / 365 Days) = 122 Days

NOTE: Short Course 1: Evaluating Financial Performance provides more detail instructions on how to analyze financial statements. This course can be downloaded over the internet at www.exinfm.com/training.

We also need to have some basic benchmarks for monitoring the financial health of the nonprofit. This is important since nonprofits, unlike other types of organizations, are very susceptible to wide variations in financial condition. For example, trends in fund raising and changes in cash reserves can significantly impact the ability of a nonprofit to fulfill its mission.

Exhibit 9: Examples of Benchmarks for Monitoring Financial Health in the Nonprofit Sector

Four Measurable Indicators of Financial Health
1. The Nonprofit has more revenues than expenses in at least 7 out of 10 years.
2. The Nonprofit has a cash operating reserve of at least 90 days.
3. The Nonprofit gets at least 5% of its total income from endowments.
4. The Nonprofit has sources of revenues from non-traditional non-governmental sources; i.e. it has business related income.

Source: Financial Empowerment: More Money for More Mission by Peter C. Brinckerhoff

One of the principles behind Value-Based Management is to place less reliance on traditional accounting since accounting has a tendency to distort real performance. For example, financial statements tell us how much we have invested and spent for our social programs, but accounting tells us nothing about how much value we created in relation to our costs. This gets us back to a critical element within our Comprehensive Performance Model – measuring the social benefits provided by the nonprofit's social programs. Determining this long-term value is very subjective, but this is the single most important measurement for a nonprofit organization.

We can start by gauging the demand for a social program. For example, if the launch of a social program attracts heavy participation, then the program should have some degree of social value. Once we have established "demand" for a program, the next step is to try to measure the long-term outcomes or impact of the program. This usually requires some form of research. For example, the National Institute of Health (www.nih.gov) provides a wealth of information on health related issues and their impact on society. From this source, we can derive social costs associated with alcoholism, AIDS, and other health issues. If the long-term outcomes of the program are directly related to these issues, then we can assign a social value to our program based on the statistical analysis compiled by the National Institute of Health.

Exhibit 9: Approaches to Measuring the Benefits of Social Programs

Assigning Value to Long-term Outcomes of Social Programs		
Benefit / Outcome	**Approaches to Measurement**	**Key Issues**
Lives Saved	Estimate individual lost earnings Choose arbitrary value ($ 1 million) and test sensitivity of analysis to figure. View as an Intangible and weigh with other information.	Are individuals valued equally, or are the young and productive more valuable than the old and less productive? Where principal benefit is lives saved, cost-effectiveness analysis may be the superior analytical approach.
Time Saved	Multiply after-tax hourly wages by hours saved. Collect indications of users' willingness to pay tolls to save time.	Individuals value time differently. Not all individuals could convert time saved into earnings. Some individuals would pay more than others to save time.
Costs Saved or Avoided	Analyze costs before and after program action and measure differences. These include costs saved by individuals as well as government.	Other non-program factors may influence costs. Costs saved to some may be costs borne by others and thus may simply be a transfer rather than a net gain for society.
Increased Output	Measure increase units times unit value based where possible on "willingness to pay." Use private sector market price where available or price of similar private good or service.	Be aware of co-production and multi-causation problems. Public output may not have a similar private sector value. Survey data may not lead to accurate pricing.
Increased Productivity	Measure increased output or profits to firms. Measure increase in lifetime earnings for individuals.	Increased taxes collected by government are a transfer from individuals and firms and while important, cannot double count with broader benefits.
Increased Jobs	Measure gain in lifetime earning for residents of jurisdiction. Measure gain to jurisdiction from increased revenues as a result of in-migration of jobs.	Increased taxes paid by residents are a transfer; increased taxes paid by new workers as a result of in-migration must also offset the costs of providing services to new families.

Source: <u>Handbook of Practical Program Evaluation</u> by Joseph S. Wholey, Harry P. Hatry, and Kathryn E. Newcomer

Once we understand the social impact of a program, we can compare costs to benefits and calculate a Net Present Value for the program. Net Present Value is the total value of the program today. If the Net Present Value is positive, then the program creates and adds social value in relation to the investment we have made into the program. Likewise, if the Net Present Value is negative, then this implies that we should invest our resources differently or make changes in the program so it does in fact create positive social value. Keep in mind that the over-riding goal of financial management is to maximize social value from the investments we make in social programs.

Additionally, financial management recognizes that the funds we invest in social programs carry a cost. In the private sector, this is referred to as Cost of Capital. For nonprofits, the Cost of Capital or Funds can be a combination of several things:

- Minimum required rate of return the nonprofit desires on the funds it invests in various social programs.
- Risk premium for the specific social program; i.e. the program is new or carries more risk than past social programs.
- Opportunity costs associated with unrestricted resources; i.e. the nonprofit has several opportunities on how it can invest funds. This often gives rise to some form of minimum rate of return.

We will use the cost of funds as our discount rate for arriving at the Net Present Value of our social programs. We will discount both our costs and our social benefits to arrive at a present value. The combination of these two present values gives us Net Present Value.

EXAMPLE: We have successfully launched a Smoking Cessation Program. We are now considering a five-year investment in this program and the Board of Directors wants to know how much social value this program is projected to create over the five-year life of the program.

Referring to our logic model and projecting growth in the program, we have derived the following data:

Year	Cost	Number of Participants Expected to Quit Smoking	
1	$ 25,000	10	
2	$ 38,000	15	(the average age of participants is expected to be
3	$ 47,000	18	51 years old with a 12 year remaining life
4	$ 53,000	22	after completing the program)
5	$ 57,000	27	

Based on other social programs and returns, the nonprofit has a 5% minimum rate of return. Since the Smoking Cessation Program is successful, we will not add a risk premium to our 5% minimum rate of return. This is the rate we will use to discount future outflows (costs) and inflows (social value) so we can express values in terms of present value.

Research with the U.S. Centers for Disease Control (www.cdc.gov) indicates that social cost's from smoking is $ 3,391 per year per smoker. We will use this to estimate the positive social benefit from the program.

Step 1: Calculate the Present Value of Costs

Number of Years (n)	Discount Rate (i)	*Present Value Factor x	Costs =	Present Value
1	5%	.952	$ 25,000	$ 23,800
2	5%	.907	$ 38,000	$ 34,466
3	5%	.864	$ 47,000	$ 40,608
4	5%	.823	$ 53,000	$ 43,619
5	5%	.784	$ 57,000	$ 44,688
		Total Present Value Costs		**$187,181**

*Present Value Factors are derived by referring to present value tables where n = number of years and i = discount rate and the investment is assumed fully made at the end of the year.

Step 2: Calculate the Present Value of Benefits

Social Benefits accrue over the life expectancy of participants who successfully complete the Smoking Cessation Program. We will apply the benefit of $ 3,391 to each participant over his or her 12-year life expectancy.

Program Year	Annual Benefit Per Participant x	Number of Participants x	Total Benefit
1	$ 3,391	10	$ 33,910
2	$ 3,391	15	$ 50,865
3	$ 3,391	18	$ 61,038
4	$ 3,391	22	$ 74,602
5	$ 3,391	27	$ 91,557

Annual benefits accrue equally over several years and therefore we will apply the Present Value of Annuity to these equal annual amounts as follows:

Number of Years (n)	Discount Rate (i)	Present Value of Annuity ** x	Total Benefit =	Present Value
12	5%	8.863	$ 33,910	$ 300,544
12	5%	8.863	$ 50,865	$ 450,816
12	5%	8.863	$ 61,038	$ 540,980
12	5%	8.863	$ 74,602	$ 661,197
12	5%	8.863	$ 91,557	$ 811,470
		Total Present Value Benefits . . .		**$ 2,765,007**

** Present Value of Annuity Factors are derived from present value tables commonly used in financial management where n = number of years and i = discount rate and the benefit is assumed fully earned by the end of the year.

Step 3: Combine the Present Values from Steps 2 and 3 to arrive at Net Present Value

We will show costs or investments as outflows (negative values) and benefits will be expressed as the positive values created by our investment. The "net" of these two is Net Present Value.

Present Value of 5-Year Investment	$ (187,181)
Present Value of Social Benefits	$ 2,765,007
Net Present Value	**$ 2,577,826**

Our total investment of $ 187,181 creates an estimated $ 2,577,826 of social value. We can also express Net Present Value as a profitability index (sometimes referred as the cost / benefit ratio) by simply dividing our present value benefit by our prevent value investment. In our previous example, this would represent $ 2,765,007 / $ 187,181 = 14.77; i.e. for every $ 1.00 invested in the social program, we expect to create $ 14.77 of social value. This is one of the most powerful statements any nonprofit can make about its ability to fulfill its mission as well as proof positive that the program is adding value to society. Analytical measurements, such as Net Present Value and Profitability Index, are at the heart of value-based management since they tell us how much value we are creating based on the investments we make.

NOTE: Short Course 3: Capital Budgeting Analysis provides more detail instructions on how to calculate present values and Net Present Value. This course can be downloaded over the internet at www.exinfm.com/training.

Drivers of Performance

One final point concerning any performance measurement system has to do with stakeholders. Stakeholders represent the real drivers of performance behind any organization. Therefore, stakeholders should be part of every performance measurement system. Nonprofits need to understand and manage their stakeholders by including some form of measurement. For example, employees at Cook Children's Health Care are measured and evaluated by patients, co-workers, and people in other departments who interact with the employee. This is referred to as the 360 Degree Performance Evaluation. Connecting and evaluating relationships with stakeholders is critically important for driving performance. For nonprofits, this can include a wide range of stakeholders – donors, volunteers, paid staff, government agencies, primary customers, media, private sector companies, other nonprofits, local community, foundations, and the public at large. To some extent, stakeholder related measurements might get addressed within the "organizational capabilities" tier of our Three Tiered Model.

> The nonprofit of the future needs to create a balanced report card that focuses on five categories of performance:
>
> 1. Mission
> 2. Finances
> 3. User / Constituent Satisfaction
> 4. Administrative Processes (Programs and Organization)
> 5. Learning – Continuous improvement through innovation
>
> - Reengineering Your Nonprofit Organization: A Guide to Strategic Transformation by Alceste T. Pappas

Some Finer Points

Value Based Management can encompass numerous concepts and principles. We have covered some of the "basics" for making value based management work within the nonprofit sector. This final chapter will touch on a few additional concepts that can add value to the management of a nonprofit organization.

Customer Segmentation

One obvious element behind creating value within any organization has to do with the customer. Customers ultimately define how an organization must operate. However, not all customers create value. In business, the 80 / 20 rule often applies; i.e. 80% of the value comes from a mere 20% of our customers. Therefore, it is important to segment your customers. Nonprofits that are focused on the "bottom line" recognize that delivering social services to customers who provide a benefit below the costs of providing the service can destroy social capital. Nonprofits need to allocate the bulk of their social capital and resources to those customers with relatively low costs – this is where value is most likely to occur. For those customers that destroy social capital, nonprofits can refer the customer to other nonprofits with greater social capital. The key is to manage your customer base in relation to value for both the organization and the customer, not just the customer.

For those customers that do create value, we want to "personalize" our services so we can retain the customer. At the same time, value–based management recognizes that trying to provide customized service can be costly and thus, we must balance the costs of customized programs against the limited capabilities and resources of the organization. Therefore, providing a common set of values to all customers may be the most appropriate strategy where social capital is limited.

Marketing

Another common element behind value creation has to do with marketing. When you look at what a nonprofit does, almost everything has some relation to marketing – looking for new contributors, trying to expand social capital, recruiting volunteers, promoting social programs, and enhancing the organization's reputation with the public. In his book <u>Strategic Marketing for Nonprofit Organizations</u>, author Philip Kotler describes marketing as "the analysis, planning, implementation and control of carefully formulated programs designed to bring voluntary exchanges of values with target markets for the purpose of achieving organizational objectives." The analysis phase of marketing usually involves some form of research; i.e. we need to understand the customer. We can also test our social programs in the marketplace before devoting scarce resources.

Marketing helps us answer several critical questions:

1. Where is the best opportunity for delivery of social services?
2. Who is the customer?
3. What social services are they using?
4. Why do they use our services and why do they use services provided by other nonprofits?
5. What social program features work best with target market recipients?
6. What could cause the customer to change how they use our services?
7. What is the best way of promoting and reaching the target market?
8. Who are our supporting customers (donors)?
9. Why do they support us?
10. What could happen to make them change how they support us?

Knowledge Management

We need to go beyond marketing when it comes to obtaining knowledge. Many organizations have made knowledge management a key part of their strategy for growing the social capital of the organization. After all, knowledge is a major driver behind productivity and performance in every organization. Knowledge enables the organization to meet the demands of both internal (end-users within the organization) and external customers (customers, regulators, public, etc.). Knowledge should be viewed as an intangible asset, adding value to the social capital of the organization. Nonprofits should not exhaust every effort on building hard assets (such as cash), but instead devote some effort on building "intangible" type assets that often add more value than hard assets. For example, knowledge is invaluable to effective strategic planning and this in turn drives high levels of performance.

Competitive Intelligence

One of the principal components of knowledge management is something called competitive intelligence. Competitive intelligence is the process of transforming data and information into intelligence so the organization can easily make strategic decisions. In the private sector, competitive intelligence is critical since companies must compete for customers and resources. Nonprofits also compete for scarce resources and therefore, an understanding of other nonprofits can be extremely valuable. One of the benefits of competitive intelligence is maintaining or improving competitive advantages in the marketplace. For nonprofits, competitive advantages often take the form of attributes that distinguish a nonprofit's social program:

- Exceptional high quality of the program to the customer
- Pricing of the program is very reasonable to the customer
- Diversity of offering – nonprofit provides a wide selection of social services
- Reputation – nonprofit is highly regarded and recommended by others

Since the nonprofit sector tends to be very open, competitive intelligence can be relatively easy when compared to the private sector. For example, paid staff at one nonprofit can easily access another nonprofit – collaborating with others, finding out what works and what doesn't work, observing critical issues; such as how are they providing social services, how can we do it better, and what needs are not being met by other nonprofits.

Course Summary

We need to superimpose a discipline for overall management that ensures that social capital (which is extremely hard to come by) does in fact create value for our constituents. This discipline is rooted in something called value-based management. Value-based management is concerned with how we go about creating value for all stakeholders – how do we meet the needs of constituents in such a way that we do not destroy our social capital. We can apply this thinking in several dimensions of nonprofit management:

1. <u>Strategic Planning</u> – Creating a plan that is grounded in sufficient research and fact so as to direct the organization in ways that protect and enhance value for everyone.
2. <u>Organizational Resources</u> – Managing resources in such a way that we try to create a win-win situation for our stakeholders. Concepts such as human resource management, social entrepreneurship, and customer segmentation can help us manage our resources better.
3. <u>Leadership</u> – Fully comprehending the attributes of quality leadership and how it profoundly impacts the organization.
4. <u>Accountability</u> – Building a complete system of accountability, including a performance measurement system that covers three tiers: Mission Impact, Activity Outcomes, and Organizational Drivers.

One of the "tools of the trade" for nonprofit value-based management is the Logic Model. We rely heavily on logic models because logic models neatly capture cause-effect relationships within the value-chain of a nonprofit. We can use logic models for:
- Depicting the resources, activities, and outcomes of social programs.
- Measuring outcomes to assess social impact of the program.
- Assigning value to both the resources and the outcomes of a program so we can measure net social value.

We also recognized that many of those so-called "best practices" used in the private sector are applicable to the nonprofit organization. Best practices are the beliefs, values, and behavioral patterns that people are committed to within an organization that usually drives down costs and improves overall organizational performance.

Exhibit 10: Summarize Certain Best Practices for Nonprofits

Best Practices - Key Alphabet Reminders		
Strategic Plan	**Organizational Structure**	**Social Programs**
Action Oriented	Cooperative	Audience Focused
Balanced	Distributed	Content
Community Oriented	Flexible	Deep
Dynamic	Inter Connected	First Mover
Integrated	Knowledge Based	Inclusive
Multi Dimensional	Learning Organization	Organized
Relationships	Responsiveness	Partnerships
Targeted	Transparent	Touches
Working Together	Value Added	Valuable

Source: <u>The Nonprofit Handbook: Management</u> Edited by Tracy Daniel Connors

For high-performance organizations, the entire range of an organization's activities can be described as "value-added" – how does my decision impact the primary customer, the supporting customer, the organization, and others. And what must I do to make sure that I am creating value for these stakeholders? This is the essence of value-based decision making. And for too long, nonprofits have been off this "value-based" radar screen. It's high time for nonprofits to move towards value-based management so that the nonprofit organization can finally be considered on par with the best-managed companies in the private sector.

Recommended Reading:

Boards:
1. The Board Members Guide to Fund Raising: What Every Trustee Needs to Know About Raising Money by Fisher Howe
2. Boards That Make a Difference: A New Design for Leadership in Nonprofits and Public Organizations by John Carver
3. On Board Leadership by John Carver

Financial Management:
4. Economics for Nonprofit Managers by Dennis R. Young and Richard Steinberg
5. Effective Financial Management in Public and Nonprofit Agencies by Jerome B. McKinney
6. Financial Management for Nonprofit Organizations by John T. Zeitlow, Alan G. Seidner, and JoAnn Hankin
7. Activity Based Management for Service Industries, Government Entities, and Nonprofit Organizations by James A. Brimson and John Antos
8. Financial Planning for Nonprofit Organizations by Jody Blazek
9. The Cash Flow Management Book for Nonprofits by Murray Dropkin and Allyson Hayden

Fundraising:
10. Securing Your Organization's Future: A Complete Guide to Fundraising Strategies by Michael Seltzer
11. Successful Fundraising: A Complete Handbook for Volunteers and Professionals by Joan Flanagan
12. The Foundation Center's Guide to Proposal Writing by Jane C. Greever and Patricia McNeil
13. Proposal Checklist and Evaluation Form, The Grantsmanship Center
14. Winning Grants Step by Step: Support Centers of America's Complete Workbook for Planning, Developing, and Writing Successful Proposals by Mim Carlson
15. Conducting a Successful Fundraising Program: A Comprehensive Guide and Resource by Kent E. Dove
16. The Fundraising Planner: A Working Model for Raising the Dollars You Need by Terry and Doug Schaff

Leadership:
17. Lead: How Public and Nonprofit Managers Can Bring the Best in Themselves and Their Organizations by Richard Lynch
18. The Leader of the Future: New Visions, Strategies, and Practices for the New Era, Edited by Frances Hesselbein, Marshall Goldsmith, and Richard Beckhard
19. The Leadership Challenge: How to Keep Getting Extraordinary Things Done in Organizations by James M. Kouzes and Barry Z. Posner
20. Primal Leadership: Realizing the Power of Emotional Intelligence by Daniel Goleman, Richard, Boyatzes, and Annie McKee
21. The 21 Irrefutable Laws of Leadership by John C. Maxwell
22. Developing the Leader Within You by John Maxwell

23. <u>On Leading Change: A Leader to Leader Guide</u>, Edited by Frances Hesselbein and Rob Johnston
24. <u>On Mission and Leadership: A Leader to Leader Guide</u>, Edited by Frances Hesselbein and Rob Johnston

Management:

25. <u>Best Practices of Effective Nonprofit Organizations: A Practitioner's Manual</u> by Phillip Bernstein
26. <u>The Complete Guide to Nonprofit Management</u> by Robert H. Wilbur, Susan Kudla Finn, and Carolyn M. Freeland
27. <u>In Search of America's Best Nonprofits: A Guide to Excellence and Innovation</u> by Richard Steckel and Jennifer Lehman
28. <u>Innovative Nonprofit Management</u> by Christine W. Letts, Allen Grossman, and William P. Ryan
29. <u>The Jossey-Bass Handbook on Nonprofit Leadership and Management</u> by Robert D. Herman
30. <u>Managing the Non-Profit Organization: Practices and Principles</u> by Peter F. Drucker
31. <u>High Performance Nonprofit Organizations: Managing Upstream for Greater Impact</u> by Cristine W. Letts, William P. Ryan, and Allen Grossman
32. <u>Effective Nonprofit Management: Essential Lessons for Executive Directors</u> by Robert L. Lewis
33. <u>The Complete Guide to Nonprofit Management</u> by Smith, Bucklin and Associates.
34. <u>Enterprising Nonprofits: A Toolkit for Social Entrepreneurs</u> by J. Gregory Dees, Jed Emerson, and Peter Economy
35. <u>On High Performance Organizations: A Leader to Leader Guide</u>, Edited by Frances Hesselbein and Rob Johnston
36. <u>Reengineering Your Nonprofit Organization: A Guide to Strategic Transformation</u> by Alceste T. Pappas

Marketing:

37. <u>Marketing Workbook for Nonprofit Organizations</u> by Gary J. Stern
38. <u>Marketing Workbook for Nonprofit Organizations – Volume II</u> by Gary J. Stern
39. <u>Strategic Marketing for Nonprofit Organizations</u> by Phillip Kotter

Strategic Planning:

40. <u>The Drucker Foundation Self-Assessment Tool for Nonprofit Organizations</u> by Peter F. Drucker and Constance Rossum
41. <u>Creating and Implementing Your Strategic Plan: A Workbook for Public and Nonprofit Organizations</u> by John M. Bryson and Farnum K. Alston
42. <u>Strategic Planning for Public and Nonprofit Organizations</u> by John M. Bryson
43. <u>Strategic Planning Workbook for Nonprofit Organizations</u> by Bryan Barry

Recommended Journals:

1. <u>Fundraising Management</u>, 224 Seventh St, Garden City, NY 11530, Phone: (516) 746-6700, subscription is $ 58 per year.
2. <u>Advancing Philanthropy</u>, Association of Fundraising Professionals, 1101 King St, Suite 700, Alexandria, VA 22314, Phone: (703) 684-0410, www.afpnet.org
3. <u>Association Management</u>, 1575 I St NW, Washington D.C., Phone: (202) 371-0940, www.asaenet.org subscription is $ 50 nonmembers or $ 24 members.
4. <u>Foundation News and Commentary</u>, P. O. Box 96043, Washington D.C. 20090-6043, Phone: (800) 771-8187, www.foundationnews.org subscription is $ 48 per year.
5. <u>International Journal of Nonprofit and Voluntary Sector Marketing</u>, P. O. Box 10812, Birmingham, AL 38202-0812, Phone: (800) 633-4931, www.henrystewart.com

6. Nonprofit Management and Leadership, Jossey-Bass, 989 Market St, San Francisco, CA 94103-1741, www.josseybass.com subscription is $ 65 per year.
7. The Nonprofit Quarterly, 18 Tremont St, Suite 700, Boston, MA 02108, Phone: (800) 281-7770, www.nonprofitquarterly.org subscription is $ 39 per year.
8. Nonprofit World, Society of Nonprofit Organizations, 5820 Canton Center Rd, Suite 165, Canton, MI 48187, Phone: (800) 427-7367, www.snpo.org subs is $ 79 per year.
9. Board Member, 1828 L St NW, Suite 900, Washington D.C. 20036-5114, Phone: (202) 452-6262, www.boardsource.org membership is $ 88 per year.
10. Grassroots Fundraising Journal, 3781 Broadway, Oakland, CA 94611, Phone: (888) 458-8588, www.grassrootsfundraising.org subscription is $ 32 per year.
11. Nonprofit and Voluntary Sector Quarterly, Sage Publications, 2455 Teller Rd, Thousand Oaks, CA 91320, Phone: (800) 818-7243, www.sagepub.com $78 per yr.
12. Philanthropy, 1150 17th St NW, Suite 503, Washington D.C. 20036, Phone: (202) 822-8333, www.philanthropyroundtable.org
13. Volunteer Leadership, Points of Light Foundation, 1400 I St NW, Suite 800, Washington D.C. 20005, Phone: (202) 729-8000.

Recommended Web Sites:

1. www.cof.org (Council on Foundations)
2. www.fdncenter.org (The Foundation Center)
3. www.icnl.org (International Center for Nonprofit Law)
4. www.nptimes.org (Nonprofit Times)
5. www.allianceonline.org (Alliance for Nonprofit Management)
6. www.cen.org (Center for Excellence in Nonprofits)
7. www.pfdf.org (Peter Drucker Foundation)
8. www.iknow.org (Interactive Knowledge for Nonprofits)
9. www.genie.org (Nonprofit Genie)
10. www.guidestar.org (Nonprofit Directory)
11. www.ncnb.org (National Center for Nonprofit Boards)
12. www.nonprofitrisk.org (Nonprofit Risk Management Center)
13. www.philanthropysearch.com (Philanthropy Search Engine)
14. http://national.unitedway.org/outcomes (United Way Outcome Measurements)
15. www.compasspoint.org (Compasspoint Nonprofit Services)
16. www.handsnet.org (Human Community Building)
17. www.idealist.org (Nonprofit Ideas)
18. www.npower.org (National Network for Nonprofit Technology)
19. www.smartorg.com (Online Learning for Nonprofits)
20. www.technologyworks.org (Nonprofit Technology)
21. www.fundsnetservices.com (Fundsnet Online Services)
22. www.boardcafe.org (Nonprofit Board Newsletter)
23. www.socialent.org (Institute for Social Entrepreneurship)
24. www.tgci.com (Grantsmanship Center)
25. www.nsfre.org (Association of Fund Raising Professionals)

Review Questions

The following questions are for review purposes only. Answers appear at the end of this short course.

1. How can a nonprofit organization protect itself from being too inward when it comes to strategic planning?

2. Matching Question on Logic Models – Match the appropriate number 1 through 5 against the social program attribute listed below where 1 = Input; 2 = Output; 3 = Short-Term Outcome (Learning);
   4 = Medium-Term Outcome (Action); 5 = Long-Term Outcome (Final Benefit)

   ____ a. Four training programs were conducted last month
   ____ b. Recycling booklets were distributed to local residents
   ____ c. Three volunteers provided 16 hours of service for the program
   ____ d. The number of reported cases of child abuse declined
   ____ e. Three neighborhoods created plans for community gardens
   ____ f. Farmers learned about the importance of buffer strips along streams
   ____ g. Overall health costs declined within the community
   ____ h. Extension workers helped run two workshops
   ____ i. Three educational sessions were held for 100 participants
   ____ j. Students demonstrated increased knowledge about the long-term health
            effects of smoking.
   ____ k. Gardeners starting using more natural methods for gardening
   ____ l. Pregnant mothers from three counties attended the program
   ____ m. A new training module was developed
   ____ n. Over $ 10,000 was secured to fund the program
   ____ o. Animal shelters were able to reduce their workload and cut costs by 30%
   ____ p. Water quality standards were taught to community leaders

3. Nonprofits spend a lot of time and effort trying to build the organization through fund raising. What other ways can we build a nonprofit without having to raise money?

4. What is emotional intelligence and why is it important to the success and performance of a nonprofit organization?

5. How can a nonprofit organization monitor its financial health?

6. What are some of the ways we can measure long-term outcomes of social programs?

7. How can a nonprofit be transparent to its constituents?

8. Why is it important to segment customers?

Final Exam

Select the best answer for each question. Exams are graded and administered by downloading and installing the exe file version of this course. The exe file is located over the internet at www.exinfm.com/training.

1. Nonprofit organizations need to manage and direct themselves in relation to why the organization exists. Therefore, we need to express the overall purpose of the organization in a very short and concise statement known as the:

   a. Mission Statement
   b. Strategic Plan
   c. Programs
   d. Vision Statement

2. A Youth Mentoring Program is using Logic Models to help manage its program. The following attributes are related to the program:

   (1) = Teens volunteered 16 hours of service last month
   (2) = Teens are more aware of how their leadership skills can influence others
   (3) = Teens have setup a leadership board to police local schools
   (4) = Approximately 500 teens have joined the program

   Where should each of these attributes be placed within the Logic Model?

	Input	Output	Short – Term Outcome (Learning)	Medium – Term Outcome (Action)
a.	(1)	(3)	(2)	(4)
b.	(3)	(2)	(1)	(4)
c.	(3)	(4)	(2)	(1)
d.	(1)	(4)	(2)	(3)

3. Which of the following responsibilities is probably **not** associated with a nonprofit Board of Directors?

   a. Representing the nonprofit before the public
   b. Overall governance of the organization
   c. Managing social programs
   d. Securing funds and resources for the nonprofit

4. Several personal characteristics are associated with effective leadership. Which of the following is least important to effective leadership?

   a. Good listener
   b. Analytical problem solver
   c. Building trust
   d. Great people skills

5. The Girls Leadership Council has the following mission: Create teen girl leaders in local schools. Which of the following measurements would be most appropriate for assessing mission impact?

    a. Number of schools participating in the program
    b. Leadership roles assumed by teen girls
    c. Growth in girl leadership programs
    d. Leadership scores achieved by teen girls

6. One of the more common methods for collecting measurement data in the nonprofit sector is the use of:

    a. Government research reports
    b. Personal interviews
    c. Surveys
    d. Private sector data

7. The Perryville Drug Rehab Program has the following cost data for the most recent year:

Rent on Facility . . . . $ 7,800.00
Paid Staff for Program . . . . $ 17,500.00
Printing and Supplies . . . . $ 1,200.00
Indirect Costs Allocated to Program $ 2,600.00

Data related to participation for the year: 17 people went through the program. At the end of the program, all participants were drug tested and 15 of the 17 participants were drug free. It is estimated that each drug free participant in the program saves the town of Perryville $ 5,000.00 during the current year. Using current year data only, the net benefit of the Drug Rehab Program to the Town of Perryville is:

    a. $ 58,500.00
    b. $ 23,500.00
    c. $ 48,500.00
    d. $ 45,900.00

8. From an organization standpoint, the preferred model for performance measurement within the nonprofit sector is:

    a. Financial Matrix Model
    b. Three Tiered Model
    c. The Balanced Scorecard
    d. Program Input Model

9. Which of the following critical issues is best addressed through a deliberate marketing effort?

    a. Identifying best targets for social services
    b. Evaluating employee performance
    c. Measuring financial health of the organization
    d. Reporting direct costs of social programs

10. Which of the following initiatives can a nonprofit undertake for protecting the unique advantages of its social programs in a highly competitive market?

    a. Enterprise Resource Planning
    b. Competitive Intelligence
    c. Bottom Up Budgeting
    d. Time Management

Answers to Review Questions

1. Nonprofits can rely more on external sources of information, such as independent research and surveys. Additionally, nonprofits can involve outsiders in the strategic planning process, such as customers, foundations, and other nonprofits. Finally, nonprofits can focus more on organizational capabilities as opposed to idealistic strategies since strategic execution requires resources and resources are hard to come by in the nonprofit sector.

2.
a. 2	e. 4	i. 2	m. 2
b. 2	f. 3	j. 3	n. 1
c. 1	g. 5	k. 4	o. 5
d. 5	h. 1	l. 2	p. 3

3. Nonprofits can do numerous things to build up their organizations without raising money – recruiting volunteers, developing a Board of Directors, partnering with community leaders, working with other nonprofits, engaging in public relations, and other organization building activities. Additionally, the "social capital" of a nonprofit is highly dependent upon things like leadership, knowledge, and relationships with stakeholders. These are the bedrocks upon which an organization can sustain itself over the long-term as opposed to money.

4. Emotional intelligence has been linked to high levels of performance since the more intelligent a person is at dealing with the emotions of others, the more effective the person will be at leading and getting results. People are the real drivers of performance and knowing how to reach people emotionally is critically important to overall organization performance and success.

5. Nonprofits can use a set of financial benchmarks and ratios to monitor financial health. For example, a nonprofit can compare liquidity type ratios over time to spot unfavorable trends. Nonprofits can also use standard benchmarks to determine if financial health is eroding or improving. For example, the number of days of cash reserves can be used as a benchmark to monitor financial health.

6. There are several basic concepts we can apply to measure the social impact of a program. For example, saving lives or increasing the life expectancy of people will preserve earnings and sustain the local economy. Addressing health issues reduces social costs, training people with new skills improves local economic conditions, and improving the quality of life for disadvantaged people controls crime. We can do research to estimate the benefit to society and when compared to the costs of the service, we can estimate the social value created from the program.

7. Nonprofits should be very "open" about what they do, making it easy for stakeholders to ascertain what the nonprofit is doing, how does it use its resources, who are the board members, what are the nonprofits goals, and other aspects of operations. Nonprofits can reinforce relationships through direct and indirect communication, such as adhering to the Donor Bill of Rights or holding strategic meetings or board meetings in an open forum.

8. Value based management recognizes that not all customers create value. For example, some customers consume resources, draining the nonprofit of its limited social capital. Other customers are more willing to "pay" or work with a nonprofit, not draining the limited resources of the nonprofit. By segmenting our customers between those that are difficult to service vs. those that are relatively easy to service, we can preserve our social capital.