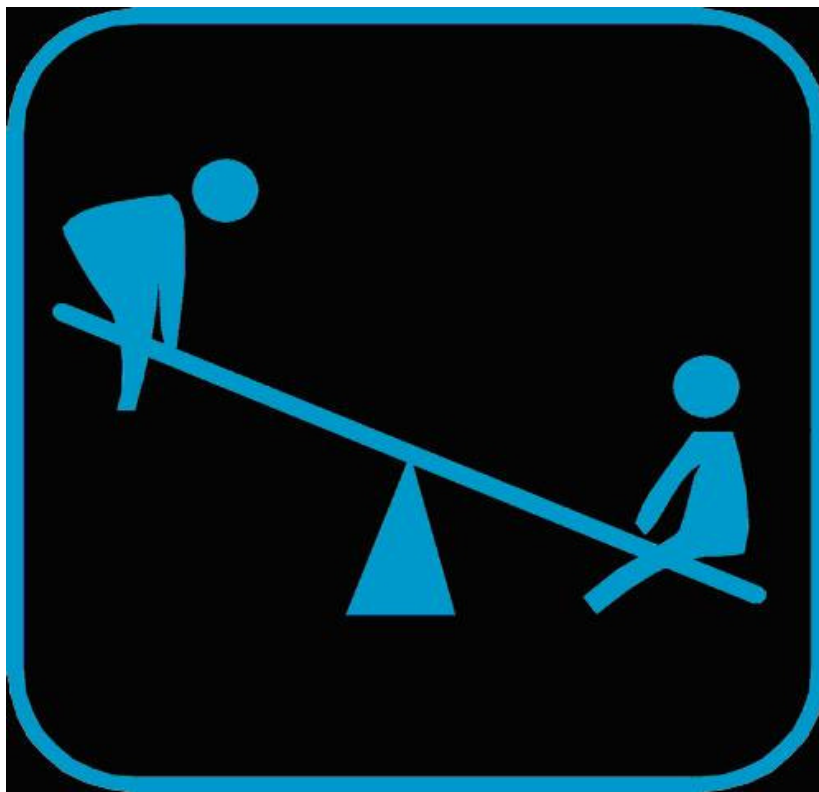


The Balancing Act



Balance between a focus on mission and financials isn't always what leaders of a mature commercial nonprofits need. Sometimes, success requires shifting focus to remaining relevant.

By Terrence D. Roche

Over the past three decades the environment in which nonprofit organizations operate has changed dramatically. The sector has seen major growth, increased economic pressures and greater scrutiny from various stakeholders. The IRS has reported that from 1988 to 2003, total net revenues of nonprofits increased from \$354 billion to over \$1 trillion. Not only have revenues increased, but the number of nonprofit organizations in that same time period has grown from 1.2 to 2.1 million. As a result, nonprofits are facing economic pressures due to competition for limited donations and grants by other nonprofits. Moreover, there has been increased rivalry from for-profit companies entering the social sector that now are offering products and services once provided solely by nonprofits. In some markets, where nonprofits had been the mainstay, for-profit companies have seized on the opportunity to make a profit. Thus the economic market, in many cases has become saturated by the entrance of for-profit enterprises.

As a result of the massive changes and economic pressures in the social sector, nonprofits are changing the way they operate. To deal with this new reality many nonprofit organizations are increasingly relying more on traditional business models to earn revenue for sustainability and there is now an acceptance within the industry to market-based approaches and businesslike or “commercial” methods. The changing landscape in the industry has undoubtedly caused nonprofit organizations to shift away from the heavy reliance on philanthropy and adopt the kinds of business methods seen in entrepreneurial private-sector organizations. The most common ways that nonprofits engage in these types of commercial activity is by charging user fees for service, creating commercial ventures and forming

business partnerships (Dees, Emerson & Economy, 2001; Young, 1998).

However, this shift has not come without consequences. Nonprofits that use commercial methods to help bolster their sustainability have received critical backlash from a host of stakeholders (Wilcox, 2006). For-profit companies are becoming more vocal about the unfair advantage of nonprofits when both compete for the same market (Wilcox, 2006). Donors are asking whether the increased program revenues are in fact being routinely distributed to staff in the form of generous compensation and benefit packages (Frumkin, 2002). Regulators, such as the IRS and other government tax boards, have revoked the tax exempt status of certain nonprofits not living up to their mission or displaying characteristics more associated with commercial activity (Smith, 2005; Juliante, 2001). It begs the question: are these enterprising organizations losing focus on their intended charitable activities?

Drawing from a study conducted in conjunction with the Center for Learning and Organizational Change at Northwestern University’s School of Education and Social Policy, I was able to discover fascinating dynamics the leaders of mature commercial nonprofits face while managing their organizations in the current context of the social sector. These dynamics led me to develop a framework for leaders to use to assess the situational context of their organization and, if after assessing their organization, leaders found they were faced with challenges, I suggest resources for them to strengthen their organization. Furthermore, the study led me to the conclusions that:

- For many mature commercial non-profits, there is a lack of

- balance between a focus on mission and financials,
- A nonprofit hierarchy of needs plays into the lack of balance between a focus on mission and financials,
- There are similarities between the lifecycle of mature commercial non-profit *and* for-profit organizations,
- Mature commercial nonprofits that are solely focused on lower level needs of the hierarchy need to make time and space to explore the relevance of the organization, and,
- The process of innovation can be an instrument to help an organization become more relevant.

I have refined these conclusions into five principles that, if understood, will help leaders of mature commercial nonprofits face some of the stark realities of the current state of the social sector. Furthermore, these principles will help leaders break free of the many factors that prevent an organization from achieving success; and, above all, help to ensure the organization remains relevant.

Principle One: Accept a lack of balance

Going into this study, I held a bias towards wanting leaders to find a balance between focusing on their organization’s financials and their organization’s mission. However, the reality is that *for many mature commercial non-profits, there is a lack of balance between a focus on mission and financials.*

Under the premise that what gets measured in an

organization is often what gets done (or at least focused on), I researched what leaders considered to be their top organizational measures of success. Five categories emerged: financial measures, staff measures, involvement/participation measures, leadership measures and direct mission measures.

I discovered that, in aggregate across all of the organizations, there was balance between mission-related measures and financial-related measures. However, what became apparent was that when looking at each organization on its own, there wasn’t much balance between mission-related measures and financial-related measures.

Therefore, I started to uncover the reasons why leaders choose the measures they reference and found that there were 10 factors that affect the selection of the five categories of measures of success. The factors identified fit along a continuum based on whether the factors were considered to be more cognitive or more situational (see figure below).

Cognitive factors were grounded by a belief, mindset or philosophy generated by the leader, where as *situational factors* originated from the environment within which the organization operates.

Top measurements of success for leaders of mature commercial nonprofits
Financial
Involvement/Participation
Staff
Leadership
Direct Mission

Cognitive factors affecting selection
Finances Precede Mission
Paradigm of Success
Combination factors affecting selection
Recruitment
Staff Competency
Situational factors affecting selection
Board Mandate
Community/Organizational Economics
Competition
Obtaining financial data
Obtaining mission data
Relevancy

Combination factors were in between; influenced both by the situational environment of the organization and by the cognitive processes of the leader.

It is important to note that these factors had either a negative, neutral or positive impact on whether the leader decided to choose the measures he did. For instance, if a leader mentioned that the economic status of his/her community was declining, then the factor (*Community/Organizational Economics*) had a negative influence on the decision to choose a measure. On the other hand, if the leader had said that the organization was doing fiscally well, then the factor had a positive impact on the decision to choose a measure.

Whether positive or negative, it was determined that the leaders in this study were three times more likely to be influenced by a situational factor than a cognitive factor when making a decision on what organizational measures to choose for his/her nonprofit organization. The situational factors often tipped the scale towards a focus on mission-related measures or financial-related measures.

Accordingly, the idea of balance becomes slightly irrelevant. For example, if the situational needs of an organization dictate that a leader needs to focus on financials because there is intense competition and a downward trending economy, then a leader should accept that the focus needs to be on that area. The point is that each organization is set in a different context and has different organizational needs. A leader must react to those needs in order to maintain a viable organization. This premise, although difficult for some nonprofit leaders, may require the acceptance that there may not be balance between a focus on financials and mission because the situational context of the organization may dictate otherwise.

Principle Two: A Nonprofit Hierarchy of Needs exists

Finding that the situational context of an organization can influence a leader heavily in his/her decision in choosing organizational measures led me to realize that *a nonprofit hierarchy of needs plays into the lack of balance between a focus on mission and financials*. Accordingly, I developed a framework based on the concept of Maslow's hierarchy of needs. I replaced the concepts from Maslow's influential paper titled *A Theory of Human Motivation* (1943) with the organizational measures the leaders in this study chose (financial, staff, involvement/participation, leadership and mission). By doing so, it demonstrated how a nonprofit organization may have a hierarchy of needs in a similar manner that humans may have a hierarchy of needs.

Maslow recognized that humans are motivated simultaneously by several needs, but behavior is mostly motivated by the lowest unsatisfied needs at the time. As the person satisfies a lower level need, the next higher need in the hierarchy becomes the primary motivator

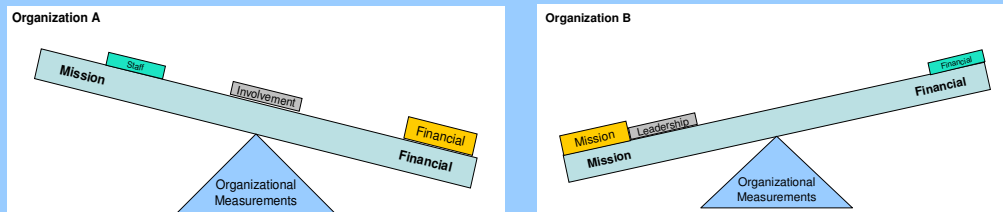
Nonprofit Hierarchy of Needs



(McShane and Von Glinow, 2005). Based on the results of this study, one might be able to draw a parallel between human needs and the needs of nonprofit organizations.

The Balancing Act: Examples from Research

The following examples from the study show a contrast between how two leaders of organizations (one I will call organization A and the other organization B) devote their focus on organizational measures related to mission and finances. In the images below, each organization is leaning towards a different end of the beam. Organization A is leaning more towards the financial end and organization B is leaning more towards the mission end. When you consider the factors that affect the decision of a leader to choose a particular measure, in this case Community/Organization Economics is the first factor that differs between the two organizations. Organization A, has the factor as having negative impact on the decision to choose a particular measure and Organization B, has the factor as having positive impact. For each leader, there is a different emphasis on what he decides to measure. So, for leader A, since there is economic trouble in his community, he needs to focus on financial measures; hence it being his number one choice. For, leader B, since the economic situation is positive, he does not have to focus on that measure as much and has decided to make it his # 3 measure of success.



Another example shows the contrast even more by viewing the selection of “staff measures” as a top measure of organizational success. For organization A, the leader chose staff measures as his second choice for his top measures. The leader of organization B did not choose staff measures at all. When you look at the factors affecting selection, one can see that the staff competency had a negative impact for the leader of organizational A. We know this by the critical comments he made about his staff. For the leader of organization B, staff competency had a positive impact on his decision not to choose “staff measures” as a top measurement of success. We know this because he made affirmative comments about his staff.

To demonstrate further the contrast between the two organizations, when asked “how might you change any of your organizational measures today or in the future?” the leader from Organization A responded: “We’re a small to mid-sized [organization]. We wear so many hats. Each of my professional staff members and myself wear so many hats that, you know, it's difficult to stop and measure sometimes.” By contrast the leader from Organization B responded: “It’s something that I’ve been putting some thought into...” and after providing one example continued: “I want to give you another one. Can I do that?” The leaders of these two organizations are clearly managing organizations facing different situations and accordingly are focusing on different measures that are appropriate for the situation they find their organization in. In organization A the leader is working hard to maintain its finances and staff because those needs have not been met. In organization B, there is not quite the same concern around finances and staff because those needs have been met. Therefore the opportunity to focus on the higher level needs of the organization and explore different possibilities of measurement becomes a reality for the leader of organization B.

In this adaptation, an organization must first meet its financial needs. Then an organization can focus on meeting its staff needs, followed by involvement/participation leadership and finally, mission. The bottom level needs are to be satisfied in order for the top level needs to even come into focus.

I believe that this framework could generally hold true for most nonprofit organizations, however, one could argue that involvement comes before staff, or leadership comes before involvement, etc. Similar to Maslow's original paper, I do not claim that this hierarchy is completely rigid, but rather, it is more a framework for how one might look at the different needs of a nonprofit organization.

This model could have implications for how leaders decide to choose their top organizational measures of success. So, for an organization that has strong finances, a solid staff and a high level of participation, a leader may be more apt to choose leadership and mission measures as the primary focus for success. However, for an organization that is struggling financially and doesn't have a strong staff in place, measuring the mission may not even be something that a leader has the capacity to focus on.

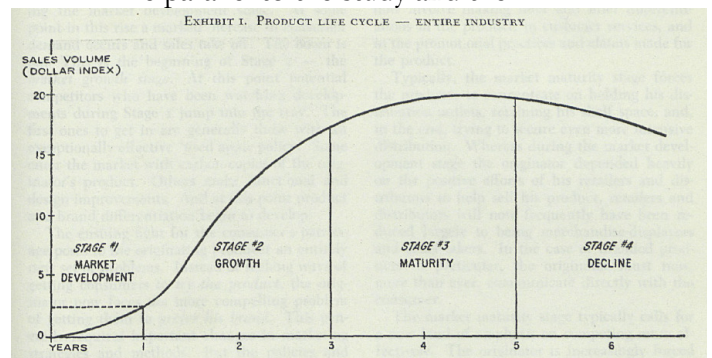
If this concept holds true, then an organization's situation, and where it falls along the nonprofit hierarchy of needs, could dictate the balance, or lack thereof, between mission-related and financial-related organizational measures. Following this model would allow a leader to focus on fulfilling the more urgent needs of the organization.

Principle Three: Understand the lifecycle of organizations

The nonprofit hierarchy of needs concept has implications to leaders

because I've found that *there are similarities between the lifecycle of mature commercial non-profit and for-profit organizations*. Many mature commercial nonprofits in this study face the product lifecycle phenomena found in the for-profit sector. Depicted in the figure below is the typical lifecycle of a product or service. As defined by Levitt (1965), the life cycle stages are *market development, growth, maturity and decline*. Between mature commercial nonprofit and for-profit organizations, the parallel begins during the time when the organizations reach the maturity stage of the cycle. At this stage, there is often the presence of market saturation, intense price competition, minor differentiations in the product and customer services, and the use of promotional practices made for the product or service. Following the maturity stage is the decline stage, which is characterized by a decline in demand, proposed mergers, reduction in staff, price cuts, slimmer margins and a lack of interest by consumers. It would seem that mature commercial nonprofits have the propensity to react similarly to a for-profit organization because when they engage in commercial activity, they are also subject to market conditions.

The parallel to the study and the

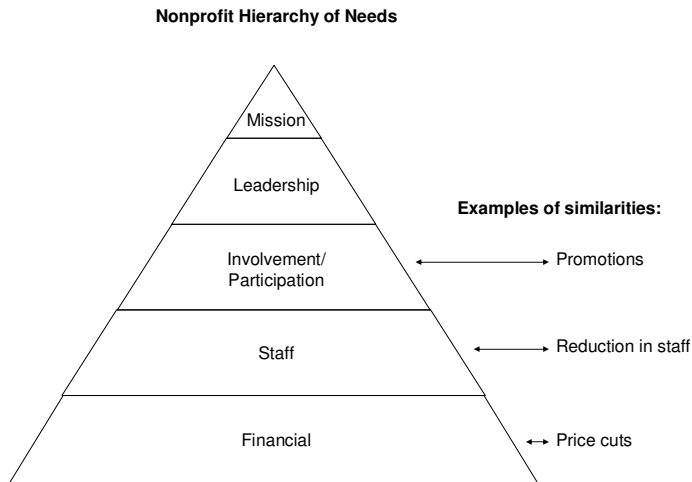


product lifecycle phenomenon is displayed by the similarity between:

1. The focus of an organization operating within a mature market, and

2. The focus of an organization that struggles to meet its lower level hierarchy of needs

An example of this parallel is demonstrated in the following figure:



The organizations within this study face many of the factors identified in the maturity stage of the product lifecycle, such as market saturation and intense price competition. Some of the organizations are following typical patterns in which organizations react to mature markets. These same organizations were often focused on the lower level needs of their organization.

Drawing on the parallel between the dynamics of a mature market and the nonprofit hierarchy of needs, a leader that is solely focused on the lower level needs of their organization risks moving his/her organization into the next stage of the lifecycle, which is decline. This stage can ultimately lead to obsolescence.

Consequently, it is imperative for a leader of a mature commercial nonprofit to understand the lifecycle of organizations, realize when they are in the maturity lifecycle stage and recognize when and how they are reacting to the dynamics of a mature market. This

understanding also has implications to the fourth principle.

Principle Four: Your organization must remaining relevant

Building on the previous three principles, it should be noted that because a nonprofit hierarchy of needs exists, and that mature commercial nonprofits face many of the dynamics in the maturity stage of the lifecycle of organizations, there is often a lack of balance toward mission for some organization and financials for others. Recognizing that situational factors play into this and that leaders need to respond to their lower level needs first, *mature commercial nonprofits that are solely focused on lower level needs of the hierarchy need to make space and time to explore the relevance of the organization.*

One cannot ignore the new reality of the social sector, the situational factors that face an organization, and the natural lifecycle of organizations. This is why the principle, accept a lack of balance exists. For organizations that are facing some of the difficult challenges of hard economic times, a weary staff, and dwindling participation, a leader cannot ignore those brutal facts. He/she must face and deal with them and accept that there will be a lack of balance until those lower level needs are met. However, if the leader of an organization were to *solely* focus on these needs, the question becomes, what makes that organization different than a for-profit organization? Aren't for-profit organizations focusing on financials, their staff and getting people to buy their product or service too?

To combat this accusation, leaders of mature commercial nonprofits must remain relevant. The issue of relevance was one of the factors discussed by some

of the leaders in this study. One leader mentioned that “mechanisms that can measure the community impact have to be developed and maintained and sustained. Because if we don’t, I think our tax exempt status will be continually questioned. And if we cannot defend and measure our impact, then we deserve to lose it.” Managers of nonprofits organizations are now faced with large and difficult questions about the purposes their organizations are to serve (Hodgkinson and Lyman, 1989). For organizations that are facing some of the challenges of the mature product lifecycle phenomenon, it becomes imperative for these organizations to search for new ways to be relevant. For the leaders of these organizations, this means finding the space and time to explore ways to be relevant. Instead of spending the vast majority of time focusing on competition with for-profit organizations in a saturated market, or even focusing on developing staff, or trying to retain participants; finding the time to devote to assessing the relevance of the organization becomes an imperative. Faced with all of the challenges in the social sector today, such as the saturation of the market by for-profit organizations, unfavorable tax laws, and the scrutiny of your existence by stakeholders, a leader may start to realize that without making time to explore the organization’s relevance, his/her organization may start to push the limits of the curve on the lifecycle of organizations and could put the organization into decline.

Although the description above seems bleak, each of the organizations in this study, and those in similar circumstances, has a lot going for them already. By the nature of the study, each of the organizations were *mature* nonprofits. Inherently, that means the mission and the model for operating have withstood the test of time and have been

relevant over the years. In some cases, the solution to many of the challenges may be on the horizon and all that a leader needs to do is to devote the space and time to find new ways to reclaim the organization’s relevance.

Principle Five: Use innovation to reclaim your relevance

“A company’s capacity to innovate determines its capacity to survive.” Ray Strata

In order for leaders to reclaim their organization’s relevance, I propose they turn to concept of innovation. *The process of innovation can be an instrument to help an organization become more relevant* by exploring the possibilities of *what could be* in terms of matching the organization’s core purpose and mission to the needs of the individuals it serves or should serve. To help frame the innovation process, I turn to the work of such authors as Christensen, Strata, Sawhney, Wolcott and Arroniz. They detail some of the challenges and rewards that organizations can face when embarking on the process of innovation.

Christensen (2003) states that good management was the most powerful reason well-managed firms failed to stay atop their industries. Precisely because these firms listened to their customers, invested aggressively in new technologies that would provide their customers more and better products of the sort they wanted, and because they carefully studied market trends and systematically allocated investment capital to innovations that promised the best returns, they lost their positions of leadership. What this implies at a deeper level is that many of what now are widely accepted principles of good management are, in fact, only situationally appropriate. Christensen’s research appears to be congruent with the findings

in this study. When leaders are focused and working very hard on the lower level needs of the organization (finance, staff, involvement/ participation), and there are other factors outside that are forcing the product, service or market into or beyond maturity, then managing better and working harder is not the answer (Christensen, 2003). Finding new opportunities to ensure the organization's relevance is of utmost importance.

It should be noted that neither I, nor Christensen, are implying that organizations must throw out the capabilities, organizational structures, and decision-making processes that have made them successful. Leaders simply need to recognize that these capabilities, cultures, and practices are valuable only in certain conditions. So, the leader of a mature commercial nonprofit that does not have its lower level needs met should not neglect the lower level needs. As the leaders participating in the study stated, "well, without money, there's no mission" and "staff satisfaction... we're only going to deliver quality services if our staff are satisfied." I certainly can't disagree with these arguments. However, if the majority of the focus and energy is on things not *directly* related to the mission, *and*, the market the organization is operating in is mature, then a leader should reassess the status of the organization, its purpose for existence and the relevance to the people it serves or should serve. The leader can

do this by using innovation as a process to measure the relevance of his/her organization. For organizations in this situation, this should, in my opinion, become one of the top organizational measures of success. Furthermore, time and space should be allotted by the leader in order to make this a reality.

But, how does one measure innovation? One solution is to use the innovation radar, which measures 12

different ways for organizations to innovate. This tool was developed by Sawhney, Wolcott and Arroniz (2006) to measure the different dimensions an organization could innovate upon. Their research suggests that by using this tool managers can think holistically in terms of all possible dimensions

through which their organizations can innovate. It can also help leaders create new value for customers or constituents and the organization by creatively changing one or more dimensions of the operating system. In addition, the tool can help an organization determine how its current innovation strategy stacks up against its competitors.

But, probably even more important than measuring innovation, is ensuring the focus on the current organizational measures does not impede or get in the way of the innovation process. Similar to Christensen, Strata (2004) notes that constraint on the process of innovation often has more to do with managerial capabilities than

The Innovation Radar

The innovation radar displays the 12 dimensions of business innovation, anchored by the offerings a company creates, the customers it serves, the processes it employs and the points of presence it uses to take its offerings to market.



technological or creative capabilities. A leader of a nonprofit should use caution in utilizing organizational measures related to the lower level needs in the hierarchy to evaluate the success or failure of a new opportunity. This could lead to the premature extinction of a promising new product or service. The way in which innovation is evaluated becomes an important factor in the success of a new opportunity. Most important in the process of innovation is giving people permission to experiment and learn from experience. Allowing this, and de-emphasizing financial outcomes in favor more qualitative trends at first is critical. Later, one can revisit the assumptions underlying the financial outcomes. The challenge for leaders is to balance a culture of accountability in established organizations with a culture of learning. When financial results fall short of forecasts, the culturally ingrained conclusion within established organizations is that the managers underperformed (Strata 2004). Within the process of innovation, permission to experiment, fail and learn becomes central, and a core competency of the organization.

Leaders of mature commercial nonprofits, especially those that are in need of assessing their relevance, must hold back from placing premature judgment on new ideas and rather embrace the possibilities those ideas could bring. Every idea has the possibility to be the catalyst to reclaim a more relevant organization.

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Although many leaders of mature commercial nonprofits may face the dilemma of trying to balance a focus between mission and financials, *balance* isn't always what the organization needs. The situational context of the organization plays a large role in defining

what the needs of the organization are. Awareness and understanding of the lifecycle of organizations and the nonprofit hierarchy of needs will help leaders assess the state of their organization. What should not be overlooked by leaders is that when they find themselves focusing solely on the lower level needs of an organization and operating in a mature market, success requires making space and time for shifting focus to remaining relevant, and using the process of innovation as a tool to make it a reality.

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