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Nonprofits Can Survive and Thrive in an Economic Drought

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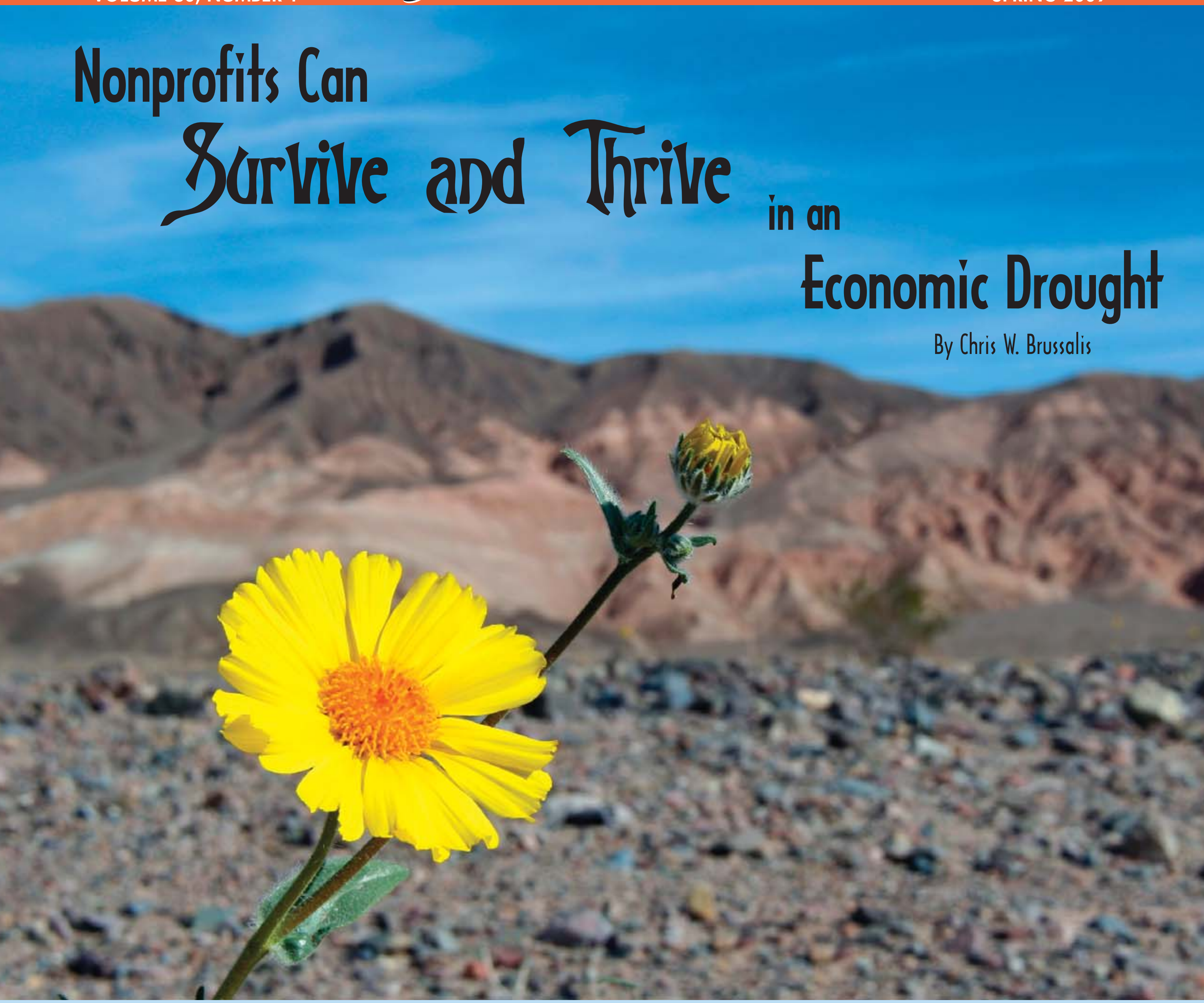


Tough times deplete already-scarce resources across the economy, and governments are increasingly asked to provide more and more assistance as tax revenues diminish. Should the government's wells dry up, this will shift the service burden to the nonprofit sector.

Nonprofits represent an important segment of Pennsylvania's economy. Statewide, nonprofit employees earned more than $21.1 billion in wages in 2003, or nearly 11 percent of Pennsylvania's total. In Philadelphia alone, nonprofits account for 27 percent of all private employment.[1] These entities have an economic impact beyond providing services for those in need.

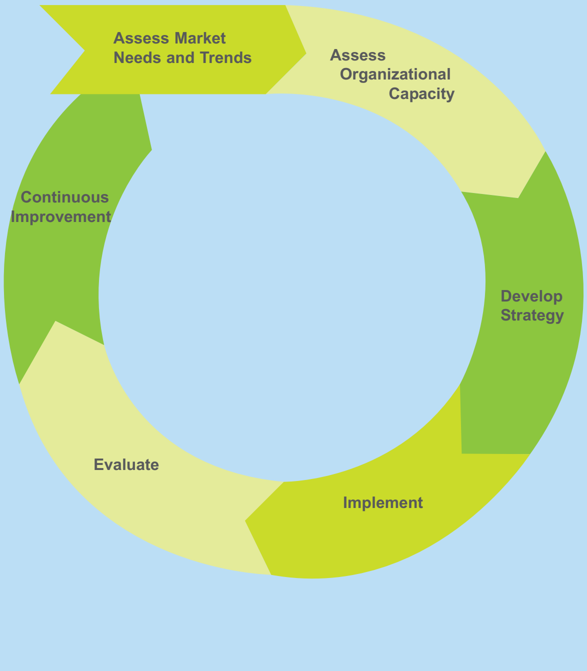
Like the government, nonprofits are faced with the dilemma of meeting an increased demand for services with declining revenue streams and strained capacity. To survive and succeed in this economy, organizations must find a way to turn challenges into opportunities and position themselves to capitalize on their strengths and distinctiveness.

Nonprofits stretched to do more with less must take an honest, introspective look at the needs that they are trying to satisfy compared with their ability to meet them. Assessing need in relation to the capacity to deliver is a critical step organizations must take to position themselves to weather turbulent times and to prepare for a rebounding economy. A strategy of using external market intelligence concomitant with an internal assessment of capacity will significantly strengthen any organization's ability to navigate an economic downturn and capitalize on robust periods of growth.

For nonprofit organizations to continue to provide high-quality services in a cost-efficient manner during economic uncertainty, they must follow a rigorous discipline focusing on capacity, planning, and improvement. Assessing market need and organizational capacity in order to plan strategically is especially important for CPAs who provide counsel to nonprofit organizations or serve on nonprofit boards.

A dynamic planning discipline and a cycle of assessment, planning, implementation, evaluation, and continuous improvement provide a general guide for long-term decision-making and the planning process. While the description of the dynamic planning process represents a decision-making model on an enterprisewide scale, the same approaches can be used in many situations and on many scales to achieve strategic goals.

A six-step, dynamic planning process can form comprehensive strategies that will position an organization to mitigate tough markets and optimize opportunities in good times.



Assess Market Needs and Trends

To stay competitive, organizations must understand the dynamics of their environment and marketplace. Market intelligence requires gathering data at multiple levels. For example, organizations must understand current events and future trends with respect to the economy, politics, society, their industry, and their competition.

Stakeholder involvement can enhance the assessment of needs and trend prediction. Those who have a stake in an organization can provide invaluable expertise and experience to this process. Like customers or funders, stakeholders can articulate needs and priorities from firsthand experience. Systematically identifying all those who can add value and engaging them in the assessment process will significantly enhance the data gathered and improve the final analysis.

It is also prudent to compare and contrast other organizations and industries in similar or parallel contexts. Identifying best practices and conducting benchmarking activities can augment an organization's intelligence on its markets and market trends.

Assess Organizational Capacity

An organization's ability to tap its people, processes, knowledge, and resources to deliver on its mission and fulfill its vision is dependent upon its capacity. Ideally, capacity should be adaptive to enable the organization's infrastructure to respond to dynamic markets.

Gaining a thorough understanding of an organization's abilities requires in-depth, objective review and analysis. By assessing capacity – how an organization's operational infrastructure enables or impedes effective and efficient service delivery – an organization can identify internal strengths and weaknesses. The assessment of processes, management, resources, and markets can help an organization to better position itself to mitigate external threats and take advantage of market opportunities.

Many methods and tools have been developed to assess capacity. For nonprofits, one good diagnostic tool to evaluate organizational capacity comes from McKinsey & Company. The McKinsey Capacity Assessment Grid uses 10 dimensions of an organization's capacity, including mission, vision, strategy, and planning; board governance; program design and evaluation; and financial management, among others. A four-level rating scale is then used to assess an organization across 10 dimensions of its enterprise.

Board governance and accountability is a critical dimension. Boards are responsible for leadership, stewardship, and governance. These functions should be scrutinized and should be aligned with the organization's vision, strategies, and actions of the board. Assessing board governance is a particularly important aspect of evaluating overall capacity for nonprofits. Good board governance and structure are more likely to result in high-functioning organizations that achieve their mission and vision.

An organization must leverage the results of the assessment to identify and prioritize challenges and build upon strengths. The findings must be accompanied by specific and realistic recommendations that can be implemented to improve the organization's ability to effectively and efficiently fulfill its mission. These recommendations can form the basis of a short, medium, and long-term action plan leading to sustainability.

Develop Strategy

Successfully delivering on a mission requires an understanding of today's needs and projecting what the needs will be in the future. A comprehensive strategic planning process typically includes three phases: situational analysis, strategy development, and strategy implementation.

Situational analysis involves the careful examination of the external market needs, the trends identified during the first step of the dynamic planning model, and the results of the capacity review. Using these data sets, the situational analysis culminates with defining a compelling vision that articulates the organization's desired future state. It validates core values to drive a common purpose and develops unity behind a single mission to clearly define a reason for existence.

Strategy development uses analytical methods to build a plan toward achieving the organization's vision. This step involves the creation of strategies that capitalize on opportunities while mitigating threats and leverage organizational infrastructure in the most effective and efficient manner. This will result in a number of priorities and strategy alternatives for the organization to consider. The outcome is development and adoption of a specific, forward-looking strategic plan that is in alignment with the organization's vision.

Strategy implementation sets the stage for the next three steps in the dynamic planning process – implementation, evaluation, and continuous improvement. During strategy implementation, tactical plans and methods of evaluation are developed. This requires an action plan and putting accountability in place. Successful implementation plans require prioritization of strategic goals and initiatives through short-, mid-, and long-term tactical planning. Without a detailed, realistic implementation plan, an organization's strategic plan is merely a shelf ornament.

> In a cycle where cash is tight, nonprofit organizations must critically assess their position and performance, and then plan accordingly.

Strategy development is the keystone of this six-step planning process. It uses information and understanding gathered through the first two phases – assess market needs and trends and assess organizational capacity. It sets the stage for success in the last three phases – implementation, evaluation, and continuous improvement.

Implement

Demand-driven strategies need a commitment that requires time and energy on the part of every stakeholder, from program staff and volunteers to the board of directors. Making a strategy part of ongoing operations requires gaining stakeholder buy-in within the strategic framework. Stakeholders must be onboard and operating with the same understanding of the strategy for it to be successful.

Strategy implementation is an extension of a foundation built through solid research, assessment of resources and capacity, and a sound, forward-thinking strategy and tactical plan. Using the tactical implementation plan developed in the previous phase, people and resources can be held accountable to accomplish strategic goals and initiatives.

Evaluate

Formative and summative evaluation is critical since it is impossible to manage what you do not measure. Specific, measurable, achievable, realistic, and time-sensitive objectives developed during the strategy phase become the metrics for evaluation and strategic control. A current and successful strategy, through objective and formative evaluation, enables the organization to be dynamic and responsive to changing conditions. By systematically evaluating strategy at predetermined milestones, using measurable goals, one can gauge the success or failure of strategies and make justifiable and evidenced-based changes. Retrospective analysis will assist in future planning endeavors.

Continuous Improvement

The data and information collected and analyzed through the evaluation process can be used to identify areas for continuous improvement. An organization must assess how recipients or customers value specific elements of their plan or initiative against their perceptions of the organization's ability to perform or deliver on those elements.

This knowledge enables the organization to shift attention to areas of high importance or relevance to customers. For example, an organization can reallocate overkill resources – little customer value and high level of performance – to areas of high value to the customer – opportunity improvement areas and areas of continuous improvement.

Evaluation data will reveal the success or failure of a strategy. Even failure is not failure if it is identified early enough to enable improvement. Evaluation and continuous improvement are important as they ensure that a bad strategy does not become worse and that a good strategy continues to be a success. Continually improving strategy will keep an organization relevant in a changing economy.

In a cycle when cash is tight, now is the time for organizations to critically assess their position and performance and to plan accordingly. The dynamic planning process utilizes a number of tools to help organizations survive challenging periods and even help catapult them to the next level. Ultimately, these steps help organizations get ahead and stay ahead. ■

[1] *L. Salamon and S. Geller, with S. Sokolowski (2005).* Pennsylvania Nonprofit Employment. *A joint product of The Johns Hopkins Center for Civil Society Studies and the Pennsylvania Association of Nonprofit Organizations.*

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