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Thomas Wolf's newly revised book *Managing a Nonprofit Organization in the 21st Century* — with a special chapter on leadership and sustainability — is available at major bookstores and online retailers. Copies are also available from Wolf, Keens & Company at our Cambridge office. Call us at 617.494.9300 or e-mail roundtable@wolfkeens.com for more information.

Working Paper

Staying Afloat – Three Windows on Nonprofit Sustainability

Thomas Wolf

Chairman and CEO, Wolf, Keens & Company

No aspect of our work in the past decade has required more attention than the related topics of sustainability and leadership in nonprofit organizations. Given the challenges of the post-Reagan years, there has been increasing interest in how to ensure the continuity of nonprofit organizations and how to nurture the leaders that manage and govern them. It was therefore not a surprise when, in January of 1998, my editor at Simon & Schuster decided that it was time for another update of my book on the management of nonprofit organizations and the decision was made to include a chapter on these topics.

The book had begun as a manuscript for my students at Harvard in the 1970s — developed because there was nothing available that provided the basic practical and theoretical information they required. In 1983, the material appeared for the first time as a book. It got updated in 1990. And now I was being asked to revise it again under a new title: *Managing A Nonprofit Organization in the 21st Century*.

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The Pace of Change

If nothing else, four versions of a book in a quarter century says something about the pace of change in the field of nonprofit management. Topics like sexual harassment and the internet weren't on the radar screen 25 years ago. Nor were people as focused on board liability in general or FASB's new accounting standards. These and other topics had to be addressed. But only sustainability and leadership received a totally new chapter in the new edition.

The various versions of the book encapsulate three distinct attitudes about sustainability and leadership.

Phase 1 —

Big is Beautiful: The Endowment Years

The period from 1950 until 1975 saw the greatest growth in nonprofit organizations in U. S. history. In many fields, more than half of the organizations that exist today were created during that period. In 1975, growth was the immediate goal and endowments were seen as a strategy. Contemporary wisdom said that stability could be assured by large endowments. The model was the university. If an organization could develop a large endowment, its survival problems would be solved. However, numerous high-profile problems in endowed institutions in the 1970s and 1980s called this concept into question and suggested that it might be a bit too simplistic.

Phase 2 —

Accountability and Constituencies

A crisis in public funding and a new generation of influential private sector funders in the 1980s changed much of the thinking about sustainability. Two important themes emerged. First, organizations were told to get their houses in order — to hire and train professional staffs, develop better boards, get costs under control, clean up financial management, undergo serious evaluation,

commission strategic plans, and operate like real businesses. At the same time, they were told to become “constituency driven.” This meant finding out who the customers were and what they wanted. Make constituents part of the organization. Growth was to be driven by demand.

Phase 3 —

Adaptability, Right Sizing, and the Era of Strong Leadership

Today a new 21st century view is emerging of sustainability, one that borrows from the previous phases and builds on them. It begins with the premise that change is ongoing in the nonprofit world and that adaptability is essential in addressing it. Nonprofit organizations should be responsive, well-managed, and flexible. They should build their assets (including endowments). But their size should be appropriate — large enough to be capable of delivering services and programs effectively but not so large as to be unsustainable.

As part of this new view, there is increasing attention paid to leadership. Nonprofit organizations must invest more in the individuals who manage and govern them — CEOs and board leaders especially. These individuals are increasingly seen as part of the asset pool that contributes to sustainability. Leadership and its development are critical to the nonprofit organization's success.

Organized Abandonment

In all of this, there still lurks the often unasked questions. Is long-term sustainability always a good thing? Might the world be better served if some organizations surveyed the landscape, assessed their value, and decided that it was time to go out of business?

Comments

Steven A. Minter

President and Executive Director, The Cleveland Foundation

Community foundations are in a unique position to observe change. Perhaps that is why Tom Wolf made the head of a community foundation a central character in his new book on nonprofit organizations. Like that character, I also see change and new challenges for the nonprofits in my community.

Many of today's nonprofits came into being at a time when all that was really required was to put together a good program — dollars would be there to support the effort. Federal, state, and local public funds joined with United Way to provide operating support. Many organizations never developed the habit of vigorous marketing and fund raising.

Today these same organizations operate in a competitive marketplace. They must sell themselves. Governments

give fewer grants and now contract for fee-based services based on performance. Community foundations, too, now ask many more questions about results. At The Cleveland Foundation, we also look very carefully at an organization's capacity to sustain itself beyond the period of our support.

Over the years, we have recognized that if we care about long-term sustainability, we must go beyond simply responding to unsolicited grant applications. We must look at how major trends will affect organizations. This means convening "round tables" and studies, helping in community-wide strategic planning, and supporting planning and evaluation in individual organizations. We also invest in leadership. Whether it is underwriting the cost of search firms to recruit top leaders or investing in leadership training programs that provide skills in legal areas, social science, or business, we understand the important relationship between leadership and sustainability.

Christine W. Letts

Faculty Member and Executive Director, Hauser Center

for Nonprofit Organizations at Harvard University

Author, High Performance Nonprofit Organizations: Managing Upstream for Greater Impact

Tom Wolf's characterization of "organizational development" phases seems pretty much on target. However, as we enter the third phase associated with strong leadership and adaptability, we need to focus on two issues: 1.) "Leadership for what?" Our attention needs to turn to the performance of organizations. Organizations must demonstrate that they have the right competencies, and deserve (or not) to exist. Nonprofit leaders face the tension between mission and organizational sustainability — effective leadership is demonstrating performance consistently along both dimensions.

2.) Adaptation that goes beyond program delivery. Nonprofits certainly need to adapt (improve) products

and services for clients. But adaptability also means demonstrating comparative value to donors and the public as well as developing and motivating staff. Performance adaptability means going beyond simple questions of solvency and growth metrics (proxy for profits in the nonprofit world) to the "public value" realm. Here we must add indicators of legitimacy and support — breadth of donor support, community knowledge, relations with the policy environment and with government. There are many categories of social capital such as level of volunteer activity, relations with other nonprofits, and quality of trusteeship that are part of the broader adaptation dimension as well.

What will make this new era different than the previous ones is the transparency that will occur as we finally achieve broad information availability on nonprofits through the internet. However, unless we support performance that contributes to the community, the prize is likely to revert to those organizations with ever growing endowments because bottom line numbers going up are the easiest to record and communicate.

Susan Hammer

Former Mayor, City of San Jose, California

Member, California State Board of Education

I look at these challenges from three points of view. First there has been my personal connection with nonprofit organizations for many years as a volunteer. Second has been my involvement as an elected official for 16 years, including eight as Mayor of the 11th largest U.S. city. Third, is my perspective on a different model for sustainability of nonprofit organizations emerging here in Silicon Valley.

Before becoming an elected official, I served on lots of boards. I became convinced that sustainability depends on the commitment and involvement of trustees. That must translate into support for the mission and, by extension, personal financial support. It requires that a trustee spend the time to know the organization and the challenges it faces.

As a Mayor, my perspective shifted. I saw many organizational partners that could do things more effectively than the City could do directly. I oversaw a billion-dollar

budget. But I was amazed sometimes at how much a tiny piece of that budget could do for the community when funneled through a nonprofit. I had a unique opportunity to form relationships with nonprofit leaders that allowed us to address problems. I knew we were disbursing “the people’s money.” So we helped organizations that were clearly serving the community.

Now, I watch my community in transition. “Old wealth” is scarce here, as are the good things that go with it – experienced trusteeship and a strong tradition of philanthropy. The amount of new wealth being created is mind-boggling. Harnessed to the nonprofit community, it can do much good. But not every young CEO with a growing company has the time or the interest to get involved or even to think very deeply about giving.

On the other hand, I do see a new kind of support that is most promising for the nonprofit sector. It is very results-driven. It borrows from the venture capital model rather than the old patronage model. It will help organizations develop the meaningful programs and outstanding management structures to become truly sustainable in the long run.