Foundations and Trends® in
Marketing
Vol. 6, Nos. 3–4 (2011) 151–326

DOI: 10.1561/1700000034

Mission • Money • Merit: Using the Portfolio Approach to Drive Nonprofit Performance

By Kersti Krug and Charles B. Weinberg

Contents

Foundations and Trends® in
Marketing
Vol. 6, Nos. 3–4 (2011) 151–326

DOI: 10.1561/1700000034

Mission • Money • Merit: Using the Portfolio Approach to Drive Nonprofit Performance

Kersti Krug[1] and Charles B. Weinberg[2]

[1] *The University of British Columbia, Canada, kersti.krug@telus.net*
[2] *Sauder School of Business, The University of British Columbia, Canada, charles.weinberg@sauder.ubc.ca*

Abstract

Nonprofit organizations are continually faced with the challenge of where to allocate their limited funds and other resources across the diverse range of programs that they offer. Rather than examining each program separately, nonprofits should view their activities as a portfolio of programs. Mission, Money, and Merit are the three critical axes for strategic management of a nonprofit's portfolio.

The ***M3*** portfolio approach developed here visually presents the size (typically cost) of each program, as well as the relationships among the programs relative to the nonprofit's mission, resource-cost coverage, and performance quality. The portfolio model then measures the

center of gravity for the nonprofit on each axis and the overall balance of the organization's activities. By presenting the complexity of any organization visually and colorfully, management can better see and judge what programs may need enhancing, changing, or eliminating.

But this is not all the model offers. Through its participatory approach of asking managers to independently rate each of the programs on the three axes, hidden assumptions are illuminated, differences are highlighted, agreements are shared, and learning takes place. The enhanced communication among managers that occurs as a result of this process contributes enormously and directly to the quality of strategic and tactical decision-making by the nonprofit toward greater productivity, effectiveness, sustainability, balance, and success.

Part I

Overview

1

Introduction

Not-for-profits play noteworthy and highly diverse roles in our communities and our world. Ensuring their health and capacity to continue performing successfully is therefore vital to our collective wellbeing.

These nonprofits continually face challenges of where to allocate their limited funds and other resources across a diverse range of programs. To improve organizational effectiveness, we offer our ***M3*** three-dimensional visual portfolio approach, which examines organizational activities as a portfolio of programs, rather than the less effective, and much riskier, examination of each program separately.

Mission, Money, and Merit are the three critical axes for strategic management of the portfolio. The M3 portfolio approach allows management to view all programs in terms of

- advancement of ***Mission***,
- revenue and cost balance, or ***Money***, and
- quality of performance, or ***Merit***.

The ***M3*** visual presentation shows the size (typically cost) of each program, as well as relationships among programs within the portfolio.

It then measures the center of gravity on each axis as well as the overall balance of the nonprofit's total activities. By presenting the complexity of any organization visually and colorfully, management can better see and judge what programs may need enhancing, changing, or eliminating.

Intended for board members, executives, professionals, and administrators who individually and collectively contribute to decision-making, the ***M3*** approach is a visually attractive, three-dimensional grid that helps management make better decisions, as well as serving as a stimulus to far-reaching and revealing discussions regarding the principles and practices underlying the organization's core strategy.

As our two organizational snapshots below suggest, some nonprofits manage their organizational portfolios at principled and courageous levels of excellence in both analysis and decision-making, while others have considerable problems focusing their time, energy, resources, and strategic judgment on tough but critical decisions, and consequently perform indifferently or even fail.

1.1 Two Organizational Snapshots: Coping with Threats & Opportunities

Snapshot 1: The Dean's Dilemma

The Dean stood at his office window, gazing out at a mall bustling with students. He was struggling with the University President's instruction to him to cut his Faculty's budget by 5% ($1.2 million).

He had begun by reviewing his academic programs, noting that some had received very positive external reviews, new grants, prestigious awards, fund raising success, soaring student demand, program growth, and high graduation rates, while others suffered poor reviews, drops in student demand, resignations by top faculty members, budget overruns, and/or drops in donations.

Given this call for budget cuts, he acknowledged to himself that he should cut programs that were not performing well, that were running up costs without attracting revenues, and that were questionably fitting the university's strategic priorities. But recognizing that such selective cuts would evoke significant criticism from their faculty members, he hesitated.

Even though he would be returning to one of the strong departments in less than three years, he was hesitant to get involved in battles over which programs got protected and which got trimmed. Instead, he would implement an across-the-board 5% cut, trusting that the strong programs could easily weather such a cut and that the poorer ones would have time to find ways to improve their activities and return to the kind of success they had experienced some decades ago. As Dean, he would help them to achieve this turnaround.

Convinced that this was the fairest way to go, he called in his assistant to implement his decision. No one would be happy about cuts, but no one would feel singled out to suffer more than others.

Three years later, the Faculty had gone into deep debt and loss of program demand, forcing the university to call in consultants to help make draconian changes to solve very serious financial problems.

> The Dean's dilemma represents the all-too-frequent example of an organization, not just a university, making strategic decisions that opt for "fairness" rather than courageous and sustainable decisions based on rigorous reviews. This approach punishes and rewards the best and the worst equally, regardless of their contributions to the organization's mission, financial sustainability, or performance quality.

Snapshot 2: A Social Services Solution

The Executive Director (ED) of the BC Lower Mainland John Howard Society (JHS), a member of the Canada-wide family of community-based nonprofit agencies delivering programs, services, and advocacy in criminal and social justice, stood at the window of his Vancouver neighborhood, staring out at the street where some of his clients and neighbors walked and talked.

He had been reminded this morning that one of the half-way houses that JHS ran was in such bad shape that it desperately needed repairs. But as they rented this and all their other houses, they had little control over quality. As well, the landlord was maintaining high rents that were cutting into the Society's cash flow. He had looked at other rentals in other neighborhoods, but few welcomed half-way houses. Still, something needed to be done and done quickly for the clients at this house.

It was not going to be easy. The JH Societies across the country were facing government operating grant cuts in a political climate that was "tough on crime." At the same time, with the growing multi-cultural community of the city and the older ages of clients coming out of prisons, the ED needed to provide information in languages other than English, and deliver services to older clients by older staff than his current cadre of very young people. But older workers were difficult to attract at salaries he could afford. He therefore needed to find new sources of funding to support the high standards he set for the Society's programs, at the same time as replacing the dilapidated house.

He had an idea, an idea that had not received enthusiastic response from his board when brought up in the past, and that was to buy, rather than rent, housing properties. If he could raise a deposit, mortgage payments would equal rentals, and they would have equity giving them future growth and contingencies.

To save money, he would cut their youth counseling services because these were being delivered better by another agency. In addition, he would partner with a different agency to deliver domestic violence services, services attracting government contracts and costing JHS only half a salary. In both cases, competition was not as beneficial as letting better agencies run some services, while partnering with others to combine resources.

A few years later, after taking risks, cutting some programs, collaborating with other agencies to lower costs and improve services, avoiding competing with agencies whose programs advanced the JHS mission, working with the community and key funding groups to attract special grants to support some programs as well as buy rather than rent houses that were in better environments, that could be properly upgraded, and that would build wealth, the ED had not only been able to make the service quality changes to which he was committed, but also increase the Society's revenues, net worth, and contingency account.

By being able to pay higher salaries to attract more experienced people, JHS not only provided more appropriate services to its clients, but also discovered that these new individuals were attracting fresh funds. The uncontrolled risks, while still a threat, were offset as revenues and costs came into positive balance across the Society's portfolio of programs, a balance now controlled by the Society, not politics.

> The John Howard Society, with its multiple independent and loosely connected operations across Canada, including the Vancouver area society described here, is perhaps one of the thorniest of organizations to run given the Society's mission to work on "Effective, just, and humane responses to the causes and consequences of crime" www.johnhoward.ca/about/mission/index. php (2012).
>
> Despite its challenges, the executive of this regional society approached the mission, money, and merit components of the organizational portfolio in all the ways that achieve success. This work will cover in more detail how such success can be copied using the **M3** approach.

1.2 Benefitting from the $M3$ Portfolio Approach: Mission, Money, Merit

The M3 approach is intended to help not-for-profit management, including executives, board members, senior professionals and administrators, to visualize and manage complexity in colorful, innovative, and winning ways.

By adopting the approach that we will describe here, nonprofits can enjoy these nine advantages:

1. easily visualize the programs in the organization's portfolio;
2. agree on how each program advances or detracts from mission;
3. understand what each program costs and brings in as revenue;
4. assess capabilities, outcomes, and performance for each program;
5. decide which programs should be grown, cut, and/or changed;
6. focus more efficiently and indeed more courageously, but less riskily, on programs that need most attention;

7. allow each participant around the senior management table to safely discover what they and their colleagues know, what they don't know, and how to contribute more effectively to the collective enterprise;
8. participate actively in organizational learning; and
9. perhaps most importantly, bring a healthy and effective balance to the organization as a whole

VISUAL MODELS

M3 is a visual model.

There are many benefits to using visual approaches, including the following:

- they make a complex organization simpler, and thus easier, to visualize or "see" it as a total entity;
- they aid in pattern recognition, which can show gaps and overlaps in an organization's collection of programs and services, and thus better balance the organization as a whole;
- they render the all-too-familiar organization in a fresh, new, and often surprising light, which gives members of decision-making teams an opportunity to rethink what many may have taken for granted without conscious awareness or open discussion — undeclared assumptions around a board-room table not being effective for the best possible decision-making; and,
- as shown by educational theorists, visuals can be powerful learning tools for the many among us who cannot readily grasp abstract ideas or complex realities via words or numbers.

1.3 21st Century Challenges to Nonprofits: The Need for an *M3* Approach

Not-for-profit organizations around the world contribute positively to the well-being of individuals, societies, and our planet. The variety of their activities is huge, ranging from health, education, social services, justice, sports, religion, and human rights, to environment, arts and culture, security, heritage, and more.

Nonprofits achieve much, and do so despite their very difficult natures — multiple and often conflicting constituencies, fragile funding sources, individual volunteers and volunteer governing bodies, no universally focusing "bottom line" requirement, varying interpretations of mission, and, frequently, lack of time and resources to undertake evaluation, research, and other constructive studies. Then during economic, socio-political, and environmental difficulties, funding sources get cut, or disappear entirely, ironically at times when resources are most threatened and demands on services are greatest.

The economic, demographic, environmental, political, and social context of our world today is placing increasing challenges on not-for-profits. Not only are cyclical world-wide economic challenges, government debt, aging populations, climate change, health risks, and other planet-wide transitions imposing increased demands on nonprofits to deliver services, but at the same time, these same factors are reducing grants, donations, and other revenues to fund activities.

In response to such pressures, nonprofits must not only balance the need for new services with the maintenance of existing ones, but simultaneously cope with tight and shifting budget constraints. The ***M3*** portfolio approach can dramatically help to achieve that balance in a nonprofit's strategic plan.

1.4 Strategic Planning: Approaches, Frameworks & Tools

Many useful conceptual approaches, frameworks, and tools have been developed over the years to aid strategic decision-making in both for-profits and not-for-profits.

Some of the best known include the "7-S" model of *the Search for Excellence* by Tom Peters and Robert Waterman (1982); the "balanced scorecard," a performance management tool, by Robert S. Kaplan (2005); the "triple bottom line" (or TBL), also known as "people, planet, profit" or "the three pillars" of economy, ecology, and society, by Elkington (1998). All of these, and other, strategic approaches mix financial analysis with such non-financial measures as impact of activities and managerial insight, with each approach aimed at enhancing organizational success.

Each of the above approaches was developed initially to improve the performance of profit-making businesses. Our approach is specifically designed for nonprofits, and focuses on their key concerns.

With its three axes, our three-dimensional ***M3*** model may be assumed at first glance to be the same as the "triple bottom line." However, the TBL or "people, planet, profit" was developed specifically for for-profit businesses to consider not just their bottom line (profit), but also such ethical matters as their ecological impact (planet) and their impact on society (people).

Given that the fundamental nature of nonprofits already incorporates positive contributions to society and environment, then something complementing these other tested models and advancing them for nonprofits is needed.

1.5 Two-Dimensional Portfolio Models: Financial Well Being, Personal Balance & Organizational Management

The fundamental principle of a portfolio approach is that no one activity can accomplish all of an individual's or an organization's goals. Instead, a combination of activities that is well balanced can lead to such success. The "portfolio" becomes, in essence, the total picture of complex activities. Portfolio models can thus look at the sum total of activities, focus on individual corners, and expose gaps and overlaps to balance the whole in a more successful, sustainable, and comfortably weighted center. Portfolio graphs have been used in various ways for both individual and collective needs, some of which we will illustrate here.

1.5.1 Individual Financial Portfolios

This type of two-dimensional portfolio graph is no doubt familiar, having proven useful in fields such as investment analysis. Each investment is measured in a portfolio chart by the size of that financial investment against two axes: risk and return. By calculating a center of gravity for the overall risk/return portfolio, investors can check their comfort level when balancing hoped-for returns against odds of losing more than

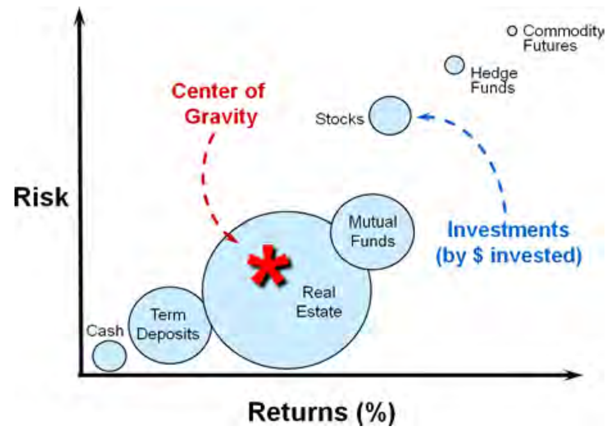

Fig. 1.1 Individual financial portfolio graph.

they can afford, thus ensuring a more sustainable long-term investment approach.

In Figure 1.1, as the center of gravity shows, this investor has concentrated funds in a relatively conservative corner of the graph, making the handful of riskier investments safely balanced against the core investment strategy.

1.5.2 Personal Portfolios

For individuals, a similar model can work in making decisions about balancing life choices. Here each sphere size measures how much time, as opposed to money, each activity takes in the individual's life, and how each contributes toward personal life goals. On one such personal portfolio axis, the dimension is health and happiness; on the other, economic well being.

In Figure 1.2, our hypothetical individual is a young adult, married with children, working, and completing some college courses. As the graph illustrates, much of this person's time is spent in stressful and not overly happy activities, leaving less time for family, travel, entertainment, fitness, or simply relaxing. Time spheres show more gaps in the upper (health & happiness) half of the axis, while virtually filling the lower (stress or tedium) axis.

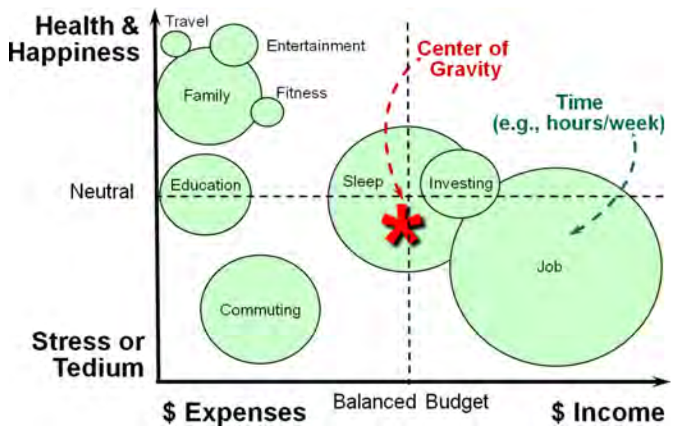

Fig. 1.2 Personal portfolio graph.

Fortunately, the household budget is almost balanced, but a shorter commute, more fulfilling job, and less demanding educational scheduling and course choices might be considered.

1.5.3 Organizational Portfolios

For not-for-profit organizations, a similar two-dimensional portfolio matrix as displayed in Figure 1.3 can be used to address how each program performs relative to both mission and revenue/cost coverage. The vertical Y axis assesses how each program advances the nonprofit's mission, while the horizontal X axis shows where the program sits regarding the revenues it attracts and the costs it bears. The size of each program circle represents its annual operating cost to the organization (Lovelock and Weinberg, 1989, pp. 214–216).

Lovelock and Weinberg's illustrative example shows a medium-sized museum. The core programs of this museum are positively above the neutral mission advancement line, with Special Exhibitions attracting more income in sponsorships and ticket sales than the high cost of exhibit planning, preparation, design, installation, advertising, security, and insurance. Because of their high staff and operating costs, Collections, and School and Public Programs, as well as other core programs, need financial subsidies from the museum's revenue-generating programs.

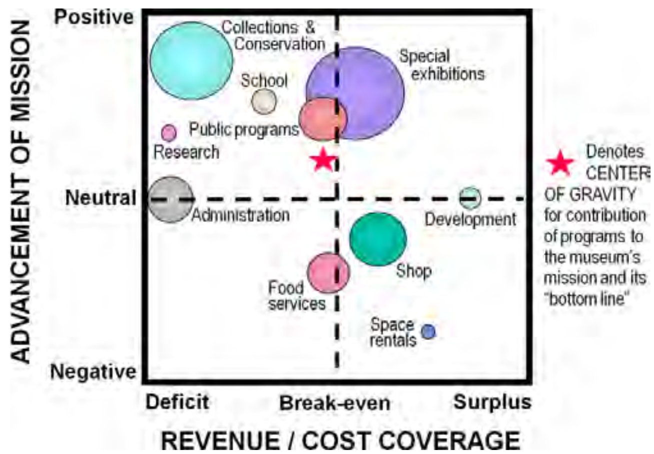

Fig. 1.3 Organizational portfolio graph.

Generally, revenue-generating programs are not set up to advance mission, but should be neutral, not actually detracting from mission. In this example, however, several actually detract from mission, some more than others, for example, the Shop sells items completely disconnected from the museum's collections, while Space Rentals allows any renting group to act as if they were renting a hotel, not a museum.

Despite the fact that Food Services provide a positive visitor benefit, these services do not fully cover their own costs, much less contribute to core programs. If the Development office was not effective in bringing in significant donations and sponsorships, this museum would be in even worse deficit than its center of gravity indicates.

1.6 From Two to Three Dimensions

Despite the helpfulness of this early portfolio model for nonprofit managers, research showed that a critical third dimension — performance — was missing (Krug and Weinberg, 2004).

It was not enough to ensure that programs collectively advanced mission and were financially sustainable; it was also necessary to ensure that they were effectively performed and their outputs reviewed, measured, and confirmed.

Drawing on the museum example above, School Programs, which were an important aspect of the museum's mission and incurred a moderate deficit, were delivered very ineffectively. Local teachers complained that visits were time-consuming to arrange, and that the docents did little to tailor the tour to the learning needs of students in specific grades. While management may have assumed that the high demand from school groups leading to overbooked tours was due to the high quality of the program, it was actually due more to the limited number of time slots available. A deeper analysis showed that a increasing numbers of teachers were dropping their class visits to the museum.

Also, although Collections and Conservation were very high on the mission axis, artifacts had been damaged and records lost or misplaced. Only when performance was added to the portfolio model did senior management fully appreciate the serious implications of these two program issues.

The two-dimensional illustration of the museum hints at another argument for evaluating performance, and that is to enhance donor and sponsor support. While it is the core mission-advancing programs that attract specific donor support, Development could achieve even more in fund raising if the quality of these programs was exceptionally and consistently high. Mission and Merit, the latter being our name for performance quality, are not the same measures, but both are critical to nonprofit success. In brief, doing good is one thing; doing good well is another.

Furthermore, Development could also bring in more funds if the museum‘s reputation for the disengaged Shop and thoughtless rentals described above were not becoming publicly known, therefore putting the whole museum in a less positive light. In "Philanthropy: Rethinking How to Give," Feldman (2010) supports this funding argument, stating that there is a "growing movement to review and rate charities on their real world results [thereby giving] donors a better idea of where they can do most good."

Philanthropists donating to charitable enterprises should therefore look not only at organizational mission, but also at the quality and impact of actual delivered services and operations. To attract more

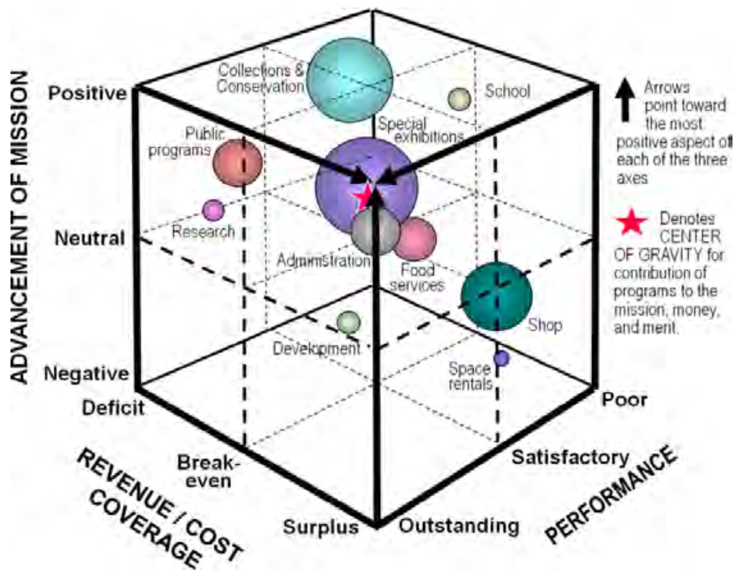

Fig. 1.4 3-Dimensional portfolio model.

funding, performance counts. When adding the third performance axis and using the same museum example, our multi-dimensional portfolio model would now resemble Figure 1.4.

The relative positions of the museum's 10 programs on the three dimensions of ***Mission***, ***Money*** (revenue/cost coverage), and ***Merit*** (performance quality) can be seen. It is possible now to appreciate that not all assessments of how programs advance mission, perform, or cover costs are as straightforward as they may have appeared on the two-dimensional model.

The reasons for some surprising outcomes in the relative ratings of programs against three, not two, axes, are described in detail in Part II of our book. Here we share experiences from nonprofits in which we conducted field tests and consulted. While working with these organizations and presenting to them colorful graphics from spreadsheets that they themselves had filled in, the results were particularly dramatic. When clicking on images from averages to extremes, or when comparing a program's mission rating with that of its performance, the spheres danced, often in dramatic ways. As a result, those sitting around the boardroom table quickly recognized that what they as individuals had assumed they knew about their organization and shared with their colleagues was more complex than previously realized and perhaps not reflective of realities.

The visual ***M3*** portfolio turned into something not only surprising, but far more illuminating — not to mention entertaining — leading to the organization's strategy and performance being more openly and creatively discussed than ever before, with learning visibly taking place.

1.7 The $M3$ Book: What Follows

What follows describes in greater detail how nonprofits can use the ***M3*** model to:

- improve strategic decision-making by providing a framework to clarify and even simplify this challenging process;
- make the delivery of mission-driven services more sustainable and the organization healthier;
- help managers decide which services to enhance, which to maintain, and which to drop;
- improve communications within the organization;
- enhance the knowledge and performance of board members, executives, professionals, and administrators who contribute to or influence critical decisions; and
- achieve productive organization-wide balance.

These sections cover the context, value, and use of the ***M3*** model for nonprofits, and include a variety of experiences of organizations around the world which illustrate how different approaches to strategic decision-making can bring about great success or become timely warnings of impending failure.

1.7.1 Part I: Overview

Sections 2, 3 & 4 introduce the basic concepts of the three-dimensional portfolio approach.

Section 2 begins by looking at the variety, complexity, and diversity of nonprofit services or programs; nonprofits have typically gone from single purpose entities to organizations offering a diversity of programs. The section demonstrates the critical need to balance program differentiation and integration, the former being the tendency to segment the organization into sub-units as growth occurs; the latter being the process of unifying these sub-elements to ensure delivery of the nonprofit's mission. A suggested breakdown of program types includes those deemed to be core to mission, versus those that are supplementary, resource attraction, or common services. The section shows how these program breakdowns improve the strategic decision-making process by both simplifying and enriching that process.

Section 3 demonstrates how the graphical, visual, colorful, three dimensional ***M3*** approach allows managers to understand complexity, to see the familiar in new ways, to improve communication, and to enhance learning by individuals around any boardroom table. The ***M3*** approach contributes a richer learning mechanism for managerial teams to better understand the balance of programs across a complex organization, and thus make more intelligent, more effective collective strategic decisions. The section shows how the ***M3*** model breaks down organizational activities, and how to bundle or amalgamate them for more effective communication and decision making.

Section 4 illustrates in simple, colorful detail how to launch the ***M3*** portfolio in a nonprofit organization, including how to represent the total cost of any program; how to set up a rating system to assess contributions of programs to the nonprofit's mission, its revenue/cost coverage (or money), and the quality of its performance (or merit); how to seek individual's ratings of all programs; and culminating in the most arresting and often most entertaining part of the ***M3*** process — the presentation of the results.

1.7.2 Part II: Exploring the Three Portfolio Axes

Sections 5, 6 & 7 delve deeply into each of the three axes: ***Mission***, ***Money***, and ***Merit***. Each section defines the axis, outlining why it is important for organizations to include these in evaluating programs.

Section 5 covers the ***Mission*** axis. Mission is what launches nonprofits, what sustains them, what attracts volunteers, donors, and government and other grants, and what delivers value to communities, societies, and the environment. Measuring how each program advances or detracts from mission may be considered the most obvious measure for a nonprofit, but unresolved issues of mission statements, different interpretations, and subsequent disagreements arise to potentially weaken the nonprofit.

Section 6 covers the ***Money*** axis. By definition, money or profit is not the goal of the nonprofit, but is critical to support mission-advancing programs, to allow growth when demand for services increases, and particularly to sustain the nonprofit over the long term. Various approaches to assessing revenues, costs, and contributions of programs and activities are covered.

Section 7 covers the ***Merit*** axis. This is the newly added axis that argues for rigorous, consequential, and comprehensive evaluation of program/service performance. It is not enough for a program to contribute "simply" to mission, but management must also be confident that what is produced and what services are delivered actually reach the intended audiences and have the desired impact. Service quality, outputs, and the actual meeting of needs are evaluated here.

1.7.3 Part III: Moving the Nonprofit Forward

Sections 8 & 9 tackle two important management issues: first, the portfolio model's ability to enhance internal communications; and second, positioning funding within the portfolio.

Section 8 describes how the portfolio approach can enhance internal communications. Field testing of the ***M3*** model showed that this tool allows people to safely assess their own knowledge and opinion about how programs advance mission, what they cost, what they attract in revenues, and how well they performed. This process not only illuminates untested assumptions, potential ignorance, and sources of disagreements, but also why in the past the organization has not arrived at well founded, rigorous, and sustainable decisions. In addition to its inherent value in improving strategic decisions, the system improves communication within the organization, leading to more commitment and better performance.

Section 9 explores how to position the often complex aspects of funding within the organization's portfolio. For management to better understand who or what is actually drawing in the funds — be they donations, government grants, or other income — so that it can further enhance these sources, it is valuable to track such funds and accurately apply them to the programs. It also becomes critical for management to know how such funds are raised so that the process does not detract from mission or jeopardize future income. As we argue in the section, fund raising activities that detract from the organizational mission should not be tolerated.

1.7.4 Part IV

This part summarizes the M3 approach and brings all the elements together.

Section 10 addresses all three axes, ***Mission***, ***Money***, and ***Merit***, in their capacity to better integrate and balance the organization, as well as provide the checks and balances for principled accountability. The section offers powerful examples of how some nonprofits have achieved successful balance leading to their increasing contributions to society. They have done so by harmonizing strong organizational cultures for collective decision-making, high quality program deliveries, long-term financial sustainability, and clear but always flexible direction on where they are going and how to get there.

1.8 Summary

Our three-dimensional ***M3*** portfolio approach helps to illustrate visually how programs, costs, revenue, performance quality, and advancement of mission balance across the whole organization, and thus where the organization's "center of gravity" lies. Moreover, it provides a vehicle by which managers can readily discuss, confront, and resolve critical strategic or tactical issues.

At the very highest level, management can now more easily make decisions regarding which programs need to be improved on the mission axis, across the revenue-cost axis, and/or along the performance axis — or which need cutting, repairing, or enhancing to bring the center of gravity, the nonprofit's weighted center, to a more economical, efficient, and effective balance. As well, management can get a good sense of whether the mission statement itself needs rewriting.

This ***M3*** portfolio approach is not prescriptive. It does not propose to prescribe what the organization should do or what the mission statement should say, nor does it question what any nonprofit's goals and priorities are. By focusing management attention on the three critical axes of mission, money, and merit, it leads to clarify the meaning of each axis and to how each program contributes to organizational success.

Most importantly, by highlighting key issues in an integrated, balanced, portfolio-wide format, the ***M3*** approach allows management to visualize complexity and the varying opinions of its decision-makers, to consider options and trade-offs, to play what–ifs, to measure progress over the years, to use resources better, and most usefully, to judge overall organizational balance and arrive at optimal decisions relative to the three critical axes.

At the senior management level, the approach can facilitate decision-making that ensures that managers, administrators, professionals, and board members have a shared understanding of the situation, by revealing differences in perceptions and assumptions, and by gaining a clearer understanding of improvements needed. As a powerful visual tool for management, it also draws the best out of those in the decision-making ranks of the organization, and thereby collectively builds the nonprofit toward greater capacity, quality, and sustainability.

Although our ***M3*** approach is seemingly simple, the scope of its impact is broad, deep, and richly valuable for improving both external outcomes and internal processes.

2

Not-For-Profit Programs

"The conceptual gap between simplistic and complex is smaller than the gap between simplistic and simple."
— Ross Greenwood, Management Consultant

2.1 Nonprofit Complexity: From Single to Multiple Programs

Services and products that nonprofits deliver vary enormously, ranging from health, education, social services, justice, advocacy, and human rights, to arts and culture, the environment, security, sports, religion, and more.

Not only is the sector diverse, but each organization offers a diverse set of programs and activities. Although most nonprofits come into being with a very specific and clear focus, over time, as events, needs, technologies, regulations, competition, politics, leadership, The Red Cross is international in scope, with each country, including not only its originating body in Switzerland, providing similar relief services, but also programs distinctive to each. By looking back at histories of why and when new services and products were added (today easily accessed on websites), we can see how dramatically nonprofit program portfolios can grow.

For example: The evolution of the American Red Cross

1881: In this year, Congress created the American version of the International Red Cross. Just days later, when major forest fires occurred in Michigan, the new Red Cross leaped into its first disaster relief operation.

1889: At the Johnstown flood, the Red Cross set up large shelters to temporarily house those dislocated by the disaster, adding sheltering and feeding to its portfolio of programs.

1900: For years, as wars were pulling in American soldiers, Congress gave the Red Cross a mandate to render aid to those wounded in war, including providing communication between family members and members of the military.

1906: This year, the Red Cross responded to the San Francisco earthquake. Then to increase resources for such major disaster relief and to prevent casualties, it added classes in first aid, nursing, and water safety to its programs.

1907: Given the impact of consumption on human health, the Red Cross began selling Christmas Seals to raise money for the National Tuberculosis Association. Its Easter Seals campaign was eventually turned over to the National Tuberculosis Society.

1914–1918: The First World War greatly increased its sections, volunteers, and funds as nurses were sent overseas, and as it established veterans' hospitals, helped to organize the home front, delivered care packages, organized ambulances, and even trained dogs to search for the wounded.

1939–1945: In World War II, the American Red Cross not only played a similar role as in WWI, but also sent millions of food packages to POWs, began a blood collection service for the wounded, and established such clubs as the Rainbow Corner to offer food and entertainment to servicemen.

1945–present: After WWII, the Red Cross not only continued to offer aid to victims of disasters and wars, but also established a civilian blood collection service, added CPR classes, and created a Holocaust and War Victims Tracing & Information Center.

risks, opportunities, and constraints evolve, organizations also adapt, grow, and diversify their activities, often dramatically — the Red Cross society, today the world's largest volunteer organization, being a prime example.

Not-for-profits are usually better at adding programs than deleting them. Organizations principally set up "to do good" continue to find grounds for doing more, for reaching out more broadly to have a more positive impact. That growth then becomes a powerful upside to the benefit of communities and our world.

However, as organizations grow and become bigger and more complex, there comes a downside for management: the allocation of resources becomes more difficult as does controlling the quality of all products and services.

Most not-for-profits provide services, with very few producing goods as a primary activity. However, over the past several decades, an increasing number have added physical goods as a sideline for bringing in revenues needed to support mission-related activities, as well as to facilitate the use of services. For example, universities sell text books and athletic wear; museums sell gifts and reproductions of their collections; hospitals sell flowers and cards, and family planning agencies provide birth control products. These nonprofits can appropriately be called multi-service, multi-product organizations.

2.2 Nonprofit Diversification: Integrating & Differentiating

To illustrate further how programs multiply and become more diverse when organizations grow, and the implications of that growth, we can draw on the programs of a case study we have revised and renamed Pacific Park (PP). Taken over its 20-year history, the full analysis of the impact on mission of its growth is described in Section 5.

Pacific Park (PP) was originally founded to provide rigorous experiential education for groups of teenagers in wilderness settings to develop self-confidence, teamwork, and respect for the environment. Pacific Park opened in 1992 on the Oregon coast as a sea program, offering summer kayaking and sailing experiences for students.

Differentiation & integration

What nonprofits are now wrestling with is increasing differentiation with the continuing need for integration.

Although Paul R. Lawrence and Jay W. Lorsch, in "Differentiation and Integration in Complex Organizations," 1967, make their arguments for for-profit companies, their arguments also hold for not-for-profits, and that is that:

> "Organizations must balance differentiation and integration to be successful. Those companies who manage to achieve high sub-unit differentiation and yet still maintain high integration between sub-units seem to be best equipped to adapt to environmental changes."

The authors define *differentiation* as "the state of segmentation of the organizational systems into subsystems, each of which tends to develop particular attributes in relation to the requirements posed by it relevant to the external environment."

They define *integration* as "the process of achieving unity of effort among the various subsystems in the accomplishment of the organization's task."

In other words, differentiation responds to delivering specific services to the nonprofit's various constituencies; integration responds to the need for holding the organization together.

Over the next two decades, PP began to diversify from its single location and limited summer season to over 50 courses offered at 16 sites, ranging from California in the south to Washington, British Columbia, and Alaska in the north. No longer was Pacific Park limited to summer kayaking courses at one site; it now offered sea experiences during the winter, as well as a variety of land experiences such as hiking and mountain climbing in summer, and alpine and cross-country skiing in winter.

Its offerings were split into two segments: special programs for special needs students, both teens and adults, and public courses for the broader community. As new demands from special publics and opportunities for increasing revenues arose, professional development, instructor training, and courses for business people were added.

In the same way that we see most other nonprofits expand their activities, Pacific Park was growing and diversifying.

The historic pattern of diversification involves not only adding new core mission-related activities as public or environmental needs change, but also supplementary offerings, and resource-attracting products and services. And as organizations grow and become more complex, the provision of administrative, regulatory, and common or centralized support services also get added.

Also, program shifts occur in relation to mission and revenue generation. For example, libraries have found that access to electronic materials, previously a minor program in supplementing their physical collections, is becoming central to the library's mission of providing information to people, as well as financially an increasing portion of the library's spending.

Traditional military-style hierarchies long influenced hierarchical structuring and limiting span of control in many if not most organizations. However, cultural, social, professional, and technological changes over the past decades have been offering new, creative, and successful alternatives, including very flat organizations. The structural choices today, therefore, are as differentiated as nonprofits themselves.

Nonetheless, for complex nonprofits, as for businesses, effective structuring of the organization's portfolio of activities is critical for management and organizational success. The ***M3*** approach helps management to achieve this success.

2.3 M3 Program Structures

- Core Mission
- Supplementary
- Resource Attraction
- Administration/Common Services

While not-for-profits vary in how they organize themselves and what terminology they use for their structural units, for the purposes of our ***M3*** visual approach, we use the term "program" to represent all coherent groupings of activities within a nonprofit's portfolio.

In broad terms, core or mission programs are what the nonprofit is fundamentally in existence to do. For example, a university's mission is research and teaching, so the various disciplinary undergraduate degree programs collectively become a core program. Supplementary programs are added to enrich this and other core programs, or to fill gaps where the nonprofits' various constituencies receive benefits. For example, a university might add bookstores, continuing studies programs, food services, sports and entertainment, and housing for students, faculty, staff, and visiting scholars. These programs are not core to mission, but must not detract from mission. Although they may contribute revenues to the nonprofit, more often they are cost-neutral, aiming to simply cover their own costs.

It is the resource-attraction programs that are set up specifically to raise funds for the nonprofit, such as development or fund raising offices and the sale of clothing and other items displaying the university's logo. As noted, these are not core to mission, but again, should not detract from mission.

Ideally, the organization would have an accounting system such that the expenses for all common programs and administrative costs could be appropriately allocated to each of the organization's programs (see Section 6: The Money Axis). But as many services cannot be accurately accounted for or be reasonably applied, administration may need to be considered a fourth type of program. Included here might be legal services, human resources, finance, presidential or directorial offices, and boards of trustees.

In Table 2.1, we offer examples from three different not-for-profits, based on our interpretations of these organizations' annual reports and other published materials.

2.4 Program Mass

While it is important to classify each program into its appropriate category in order to better clarify its role in the organization, the size or mass of each program sphere is crucial when examining its contributions and costs. Although no program should detract from the organization's mission, bigger programs that draw more resources

Table 2.1. Examples of 3 nonprofit portfolio program breakdowns by category.

Program types	Pacific Park	The University of British Columbia	American Red Cross
1. Core mission programs	Public courses: Oregon Sea Program; Pacific Sea Program; Summer Land Program; Winter Ski Program; Special Programs	Undergraduate programs; Graduate programs; Research	Disaster relief development; Blood collection; First-aid, health & safety programs; Shelters & food packages; CPR classes
2. Supplementary programs	PDP — Managers Program; Career development; Contracts/groups	Bookstore; Housing & conferences; Food services; Performance & athletic facilities; Museums & gardens	Entertainment services to armed forces; Tracing, information & communication services; Educational programs
3. Resource-attraction programs	Instructor training; Development or fund raising	Development/fund raising; Property development — leasing university land to private real estate firms	Fund raising; Volunteer programs; Product & service revenues
4. Administration & common support services	Administration	Administration; Physical plant; IT; Public relations	Management & general; Audit; Public affairs

from the organization deserve more attention. Visualizing the size or mass of one program relative to other programs better identifies strategic issues for core, supplementary, resource-attraction, or administrative/common services.

In our experience, the most representative measure of the size or mass of a program is its financial cost. While it would be tempting to use revenues, the key goal for many not-for-profits is to provide core services to people who could not afford them if a price were charged that covered all costs. Stated alternatively, nonprofits often subsidize key programs, so revenues are not a good measure of the program's impact on the overall organization's resources.

In some cases, such as preserving the core collection in a museum, providing food for homeless and low income persons, or encouraging people to engage in healthy behaviors, there is virtually no revenue at all. In the diagrams, the size of the sphere representing a program is proportional to the program's cost. Given that most nonprofits find themselves constrained by the financial resources they have available, cost provides a direct indication of where the organizations resources are being allocated. As well, managers appear to naturally find this the appropriate measure of size.

In practice, even when cost data are available for each of the programs, until the size (and location in the portfolio diagram) of the programs are visually presented, management often fails to appreciate that a supplementary or resource attraction program can account for more of the organization's costs than some of the core programs.

Questions then arise such as: is this one unexpectedly massive sphere for a supplementary program worth its cost to our mission? Is it so big because the demand is high and growing, or alternatively, has it been poorly managed? Given that it is so much more massive than all of our other programs, is this the time to differentiate or segment this mega program so we can better manage its component parts? Or does it matter that it is so large because we can also see that it brings in more revenues than its costs, so perhaps there is no need to make change?

Perhaps, a supplemental program has become so large that it can be separated out and perhaps even sold to an outside organization. For example, some universities and hospitals have engaged food service firms to run on-site restaurant operations.

While supplementary programs that consume too much of an organization's resources are a concern, more risky is the situation where core programs turn out to be using only a small portion of the organization's resources, posing more questions: is that unexpectedly tiny core program getting the resources it needs given its importance to our mission? Is it time to integrate this small program into another core program to achieve greater efficiencies? Or is this very lean program an example of exceptional economic management, and if so, what can we learn from it to manage our more massive, more costly programs?

Other questions might include: do these equally small core and supplementary programs spheres scattered across our portfolio diagram all serve our mission or contribute in some other way to our organization and our constituencies? Or is it time to concentrate on the few that really do contribute and are also well performed, then cut back on those that are doing neither very well, and transfer their resources to those we agree are most worthwhile? Would it be sensible to transfer resources so that our core programs can move to the highest level on the quality or merit dimension, having fewer programs but ones with higher quality performance? There are no universal answers to any of these questions. Each nonprofit can determine what works best for them.

For the ***M3*** visual approach to be most useful, we have found that no more than 10 or perhaps 12 programs should be considered. Too small a number of programs limits management's ability to see what the trade-offs are among the different ones. Too many programs tend to lead to clutter and confusion, and a consequent lack of clarity.

In some cases, management may find it useful to combine smaller, but closely related programs together. For example, an organization providing social services at its large city headquarters and at a number of regional branches, might find it useful for strategic planning purpose to combine all its regional operations into one program, rather than treating each as a separate one. A review of the individual programs would then occur at a different level of the organization.

2.5 Using M3 in Strategic Planning

Growth and diversification of nonprofit activities can overwhelm management's ability to fully grasp the complexity and interrelationships of the organization's total portfolio of programs, whether core to mission, supplementary, revenue-generating, or administrative support.

To provide leadership, effective management, and greater clarity for strategic planning, organizations have found ways to assess these activities, although even then, decision-making about what activities to keep, to drop, to add, to change, especially in the face of growing demands, changing competition and regulations, and constraining finances can be challenging indeed.

Failure to confront these challenges can lead to failure to fulfill the organization's mission and, even more dramatically, to bankruptcy and closure of the institution. In the United States, for example, more than 108 public and private colleges and universities closed their doors in the first decade of the 21st century (Source: *Digest of Educational Statistics*, 2011, National Center for Educational Statistics, nces.ed.gov/pubs2011/2011015.pdf, 2012).

Not-for-profits usually undertake strategic planning, some annually, others every 2–5 years. Strategic plans are often required by regulators, frequently by boards of trustees, and always by the intelligent leadership of the nonprofit. Successful strategic planning requires of board members, senior executives, operating managers, professionals, and administrators, some of whom are very knowledgeable about what goes into answering strategic questions; others, less so.

The **STRATEGIC PLANNING PROCESS** involves:

- Creating, reaffirming, or rewriting the organization's mission or fundamental purpose.
- Defining the organization's objectives, goals, and priorities.
- Assessing the organization's strengths and weaknesses, which includes evaluating the quality of organizational activities, processes, and outcomes.
- Assessing environmental and social opportunities and threats.
- Agreeing on appropriate strategy or strategies, both for the organization and at unit or program levels; and
- Fixing on a timed action plan.

The ***M3*** visual portfolio model not only provides help to make such strategic decisions, but also to shed light on unspoken disagreements, hidden assumptions, and knowledge gaps. The role of visual models in illuminating such gaps is discussed in the following section.

Examples of how the ***M3*** portfolio approach can be used in various nonprofit organizations are provided throughout this book. The model can help management more easily answer critical questions about what to keep, drop, add, or change, and where to enhance or decrease resources; as well as contribute in a safe way to the learning of those participating in the decision. The approach helps organizations to see the linkage among the different dimensions of the portfolio model.

In the example here, Michela Perrone illustrates how mission and merit are interconnected:

Marrying Mission & Merit

As part of reviewing its strategic plan, the board of a nonprofit preparing high school students for college, asked whether its ultimate goal was to prepare them for college or to help them graduate successfully from college.

> "After much deliberation, the board decides that college graduation is the desired result. This decision is seminal in the development of the organization's programs, because it requires additional services, staff and resources not only to assist students in their high school studies, college entrance examinations, and college and scholarship application processes, but also to track them after they have entered college and to support them while in college.
>
> Once the mission is revised and the expectations for the program outcomes clarified, the board determines [what new programs to offer to students in university] measures of success for the programs. Given the organization's resources and track record, how many students should enter the college of their choice? How many of those should graduate? Once the board has determined such outcomes, the CEO presents regular reports on accomplishments."
>
> — Michela M. Perrone, 2009, "Governing the Nonprofit Organization," p. 3.

The ***M3*** approach also provides a simple way to track the history of program assessments, changes made, and outcomes or impacts of those changes – and thus promote organizational learning. Projecting the impact of current and future changes, therefore, can be based more confidently on past decisions, especially as the decision-making team learns from the visualized experience.

2.6 Summary

Growth and diversification of programs both across the not-for-profit sector and within each nonprofit are widespread phenomena with two contrasting impacts: one that benefits our communities, societies, and world, another that renders management decisions more complex. Nonprofits generally start with the provision of services, but when more income is needed, products are added. The challenge now is to alance the differentiation of programs at the same time as integrating the organization.

Over time, as growth occurs, programs can be categorized as four structures: (1) those that serve the nonprofit's core mission, (2) those that supplement the core, (3) those that are principally set up to attract resources, and (4) those that provide administrative or common services. Too often, as new and different programs are added to the core mission ones, confusion and conflicts occur in attempts to arrive at effective strategic decisions.

The multi-dimensional ***M3*** portfolio model is specifically set up to tackle such issues.

3

Models & Visualization

3.1 The Value of Models & Visualization

The ***M3*** presentation approach involves three basic tenets:

1. use of visual, colorful images to summarize information and draw attention to key issues,
2. presentation of information in the relatively simple format of a model, and
3. use of computer dynamics to show variation in people's opinions and change over time.

We discuss each of these features briefly.

The rationale for using visuals is based on extensive research from education, management, psychology, neuroscience, and other scholarly disciplines. A recent summary of this research is described here:

> Visual and other kinds of images play an important role in human thinking. Pictorial representations capture visual and spatial information in a much more usable form than lengthy verbal descriptions. Computational procedures well suited to visual representations include inspecting, finding, zooming,

> rotating, and transforming. Such operations can be very useful for generating plans and explanations in domains to which pictorial representations apply (4.5 Images, p. 7 in Paul Thagard's "Cognitive Science," *Stanford Encyclopedia of Philosophy*, http://plato.stanford.edu/entries/cognitive-science/accessed 2011).

Visualization helps managers make better decisions by allowing them to see patterns in the data that otherwise would not be apparent, and thus derive new insights. Color further helps managers to interpret complex data by helping to highlight patterns and to aid them in focusing on the most important areas.

Advantages of Models

- One of the most useful contributions of models is that they make the complex accessible, the hidden visible, and the familiar strange.
- By making the familiar strange, we can see the commonplace as if for the first time and expose hidden assumptions.
- Models can act as spotlights to bring light into the darkness of complexity, over-familiarity, or disconnectedness from daily activities.
- Visual models in particular can let decision-makers see patterns in their organization's strategy and tactics.
- Models also give people joined in a common venture something on which to focus attention so they can collectively arrive at more thoughtful and effective decisions.
- Model-making can be aided by computers that can hold and manipulate complex information in multiple dimensions, yet represent these data with simple graphics or visuals that make complexity understandable.
- Computer models, thus, can be both deep and simple. Such deeply simple visual models give people new insights so that they can collectively arrive at well grounded decisions
- Models can become tools for successful decision-making.

3.2 The M3 Portfolio Diagram

Our ***M3*** approach requires careful analysis to identify programs critical for the organization's success and to locate them on the three axes of ***Mission***, ***Money***, and ***Merit***. In some cases, this process can involve extensive research in order to prepare the ***M3*** graph; in other cases, evaluations may be more subjectively based. Whatever the source of the information, we believe that senior management discussion is most stimulating and informative when information is summarized in a relatively simple portfolio diagram.

3.3 Three Dimensions

While we suggest that the ***M3*** approach is simple, it cannot be too simple and must cover all critical elements. We therefore use three dimensions rather than the two dimensions of the earlier not-for-profit portfolio model because a program's quality is important in deciding whether it should be retained and how it should be developed. Although three dimensions may seem cumbersome at first, empirical research (Nanda Kumar and Izak Benbasats, "The Effect of Relationship Encoding, Task Type, and Complexity on Information Representation: An Empirical Evaluation of 2D and 3D Line Graphs," 2004) provides

In *The Power of the* 2×2 *Matrix: Using* 2×2 *Thinking to Solve Business Problems and Make Better Decisions* (2004), Alex Lowy and Phil Hood argue strongly for the use of simplified graphs for strategic, organizational, and even personal decision-making. Using such matrices, they claim in their introduction (p. 3):

- leads to open explorations of issues to expose the "inherent tensions" that exist within shifting contexts;
- offers opportunities for learning that enables change by "embracing the new and letting go of unhelpful and invalid views";
- produces a dialogue that is "rich, informative, and honest" when thinking is interpersonal;
- encourages "thinkers to move toward, not away from, complexity" in that analysis is not simplified but is enriched;
- "requires openness" which leads to reconsidering problems and vigorously challenging underlying assumptions";
- draws individuals into "seeing both sides of an issue" leading to "paradoxical situations, which are explored rather than denied or ignored";
- simplifies and intensifies focus to "gain deeper meaning and arrive at more informed choices."

evidence for the superiority of 3D graphs over 2D counterparts in more complex settings.

To be useful, the portfolio diagram must not be so detailed that it obscures the critical issues, but it needs to be sufficiently comprehensive to promote effective communication and decision-making. To achieve this, our experience has shown that three dimensions are required, and research has demonstrated that managers can effectively use 3D graphs, especially today with existing technologies. As noted earlier, the use of color enhances the ability of the ***M3*** graph to summarize information.

3.4 Dynamics

Throughout Sections 4–10, we describe in detail how the visuals of the ***M3*** portfolio approach helped various organizations enhance their decision-making, but briefly mention two uses here.

First, by showing the organization's portfolio over several years, senior management can understand how the organization grew to its current shape. As the Red Cross example in Section 2 indicates, a portfolio of programs can change dramatically over time. Projecting forward, management can visualize how the organization will evolve when different strategies are undertaken. Visualization of the impact of alternative scenarios is a powerful way for managers to assess the impact of decisions taken today on the future of the organization.

Second, visual dynamics can be used to show the differing views of the organization held by managers. Rather than focusing on a consensus or average view of the organization's portfolio, showing the graphs of each rater in turn can dramatize the variance in views. By drawing on multiple contributors and by sharing these varied views, the ***M3*** approach can arrive at more innovative collaborative judgments than even the smartest single person at the top might offer.

In addition to dynamics, interactive features such as zoom, filter, and rotation allow managers to understand better the role of each program and the overall composition of the organization's activities.

3.5 Qualitative & Quantitative Information

While the ***M3*** strategic portfolio model emphasizes visuals, it promotes the use of qualitative and quantitative information to resolve issues.

In the first instance, use of the graphical portfolio approach stimulates managers to better understand the contribution of each program to the three dimensions. And second, discussion of the portfolio leads managers to ask further questions about next steps.

> As John Little notes: "One of the most evident consequences of the model is that it is a stone in the shoe for better data. Under present planning procedures, many measurement problems are glossed over or suppressed. The model faces explicit consideration of every *factor* it contains and so pinpoints data needs."
> — John Little, "Models and Managers," p. 31.

When presenting the outcomes as colorful, moving, rotating visuals, the portfolio graph has a capacity to clarify complexity. More than that, and as we will describe in more detail later (see Section 8 in particular), it exposes the unspoken assumptions of individuals, highlights areas of both ignorance and innovation, and encourages more open conversation about mission, money, and merit relative to the nonprofit's strategic decision-making.

3.6 Visualizing Nonprofit Program Spheres

In the ***M3*** portfolio model, the essential visual element is "the program," a structural element that different nonprofits call many things — units, departments, centers, etc., or in cases of flat organizations, focused activities. The program's visual representation is the sphere whose size is based on relative costs to the organization, including direct and indirect or overhead costs. As discussed earlier, most often costs are measured in monetary terms, although for some volunteer-based organizations, human time may be more meaningful.

We illustrate the ***M3*** approach to program definition and visualization in the context of a university. It is important that programs not include so much that people cannot get their minds around what each contains, nor so little that the whole organization is represented by a mass of meaningless activities. Six to 10 programs on one graph are ideal, with 12 perhaps a maximum. To avoid problems inherent in comparing very large programs with very small ones, those included in one graph should vary in size by no more than a factor of 10.

A balance must be struck between capturing organization detail that is meaningful to middle managers yet provides a broad overview to leaders or board members. Both can be achieved by rolling activities up from the small to the large through graphic layers. For the most effective use of the collection and presentation of programs using this approach, experience in business intelligence suggests that management begin at the highest level to grasp the overall relationships across the organization, and only then drill down to lower levels (Sabherwal and Becerra-Fernandez, 2011).

In our university example, the volume of each sphere or its mass is sized by the total cost of the program to the university. As described in earlier sections, visualizing the overall draw on costs, be it money, time, or other resource, is most meaningful. This gives management an immediate and quick overview of their portfolio, a view that can then be developed to measure more clearly how each of these programs contributes to mission, how each covers costs with revenues, and how well each program is performed.

Color-coding the program spheres, perhaps from warm to cool like here in Figure 3.1, may be useful in letting those around the strategic decision-making table to more easily recall which programs belong where in terms of their relevance to the organization. In cases of color-blindness among decision-makers, coding spheres in shades of grey or different patterns of black and white also works well.

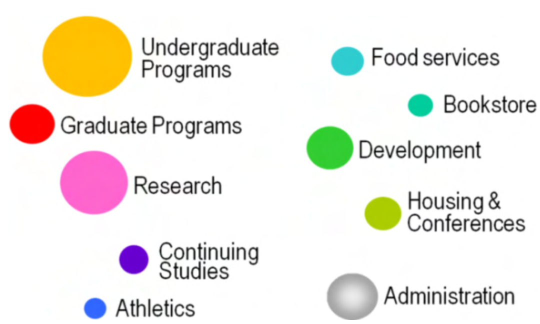

Fig. 3.1 Color coding program spheres.

How each program's costs have been calculated is illustrated in Figure 3.2, in this case using only Undergraduate Programs and the Bookstore as examples.

Undergraduate Programs		Bookstore
$ 14,000,000	Salaries	$ 500,000
3,000,000	Contracts	500,000
500,000	Materials & Supplies	2,500,000
500,000	Communications Technology	200,000
5,000,000	Space & Building Services	200,000
1,000,000	Overhead	100,000
$ 24,000,000	**TOTAL PROGRAM COST**	**$ 4,000,000**

Fig. 3.2 Calculating program costs to define sphere size.

As we can easily see, the program sphere for Undergraduate Programs at a cost of $24 million is six times the volume of the Bookstore's $4 million cost. As we indicated earlier, a maximum 10:1 ratio for the largest to smallest program is important for ensuring reasonable comparability within any one graph.

Given the cost estimates (see Section 6) the nonprofit can begin placing each program on each of ***M3***'s three critical axes: ***Mission***, ***Money***, and ***Merit*** — or mission advancement, revenue/cost coverage, and performance quality. How these placements are made will be covered in the next section.

3.7 Summary

The ***M3*** portfolio model draws on significant research that argues for the effectiveness of models, visualization, color, and dynamics in individual learning and the capacity of complexity to be presented in ways that are digestible by the human eye and mind. The three dimensions of the ***M3*** model were developed to fully represent not only the three most critical components of nonprofit strategic decision-making: ***Mission***, ***Money***, and ***Merit***, but also the visual element of the program sphere, or its mass. Collectively, these help management to understand the significance of each of the programs in the portfolio.

The essential element of the ***M3*** approach is the program, each one illustrated by a unique color or pattern, and a relative sphere size or mass representing its total cost to the organization.

From this beginning, we now move to the placement of these program spheres on a matrix which allows management to better approach strategic decision-making.

4

Building the M3 Portfolio

4.1 Stages in Launching the *M*3 Portfolio Process

> "The secret of getting ahead is getting started. The secret of getting started is breaking your complex overwhelming tasks into small manageable tasks, and then starting on the first one."
>
> — Mark Twain

Building the ***M3*** three-dimensional portfolio model for strategic decision-making normally goes through two stages. The first involves how to compile, list, and describe the organization's programs, set up the rating system, and arrange the visual presentation so that contributors to organizational decision-making can enter their assessment of how each program contributes to mission advancement, revenue–cost coverage, and performance quality. In addition, the overall balance of the organizations and its programs can also be seen.

> "If I were given one hour to save the planet, I would spend 59 minutes defining the problem and one minute resolving it."
>
> — Albert Einstein

At this first stage, input should be anonymous so that when the results are presented, individuals are not embarrassed by possible ignorance, implicit or untested assumptions, or disagreement with their colleagues. Despite the anonymity, effective learning takes place as alternative views are shared, a process which then feeds into the second stage.

> "When it is obvious that the goals cannot be reached,
> don't adjust the goals, adjust the action steps."
>
> — Confucius

This second stage involves doing something about participants' varying, perhaps unchecked assumptions and knowledge, by seeking more accurate inputs and communicating these, so that contributors to future decision-making are more soundly grounded. A variety of approaches may be used, including clarifying mission statements, seeking more accurate financials, and undertaking formal evaluations of program performance.

Over time, the first learning stage comes closer to the second, and anonymity may no longer be needed.

4.2 Beginning the Process

Building the nonprofit's ***M3*** portfolio begins with the program. Basing the portfolio analysis on programs (e.g., discrete activity units) allows managers to more clearly evaluate the organization's performance. Management can thereby more rigorously define strategies and priorities, including what programs should be enhanced, repaired, restructured, or cut.

As described in Section 2, these program units usually include:

1. Core mission programs
2. Supplementary programs
3. Resource-attraction programs
4. Administration & common support services

In building the portfolio model, the first thing to do is get general agreement on what programs are to be included at both the overall organizational levels and, if the organization is big enough and complex enough, at one or more subunit levels. Once the nonprofit's programs have been identified, the next step is to determine a rating system for each of the ***M3*** axes: ***Mission***, ***Money***, and ***Merit***.

4.3 Setting Up the Rating Systems

The rating system includes both qualitative and quantitative information. For example, mission ratings would draw on qualitative information. On the money axis, direct costs and revenues, measures would draw on quantitative information. While on the merit or performance axis, ratings would draw on both qualitative and quantitative information, as would the organization's application of indirect costs and overhead to any program or the allocation of fund raising income.

In most nonprofits that are implementing the ***M3*** approach, typically between 5 and 10 senior organizational personnel would be involved in providing input to this portfolio assessment and for discussing the results. These people would consist of the senior organizational team, including the senior executives of the organization and the heads of its major programs or units. Depending on the nonprofit's involvement with volunteer board members in strategic decision-making, selected members of that board would participate as well. In choosing participants, the goal is not to seek uniformity of opinion, but rather to ensure that those most vital for the future success of the organization are involved in evaluating the nonprofit's current position and directing its future strategy.

For the ***Mission*** axis in Figure 4.1, given that this is usually a more qualitative or subjective rating than the other two axes which can draw on quantitative data, and given that there is a neutral line between advancing mission and detracting from mission, then a range of 11 points, 5 on each side of the 0 neutral line, with $+5$ being positive advancement and -5 being negative, provides sufficient scope for alternative evaluations to be presented across the range of programs offered by the organization.

For the ***Money*** axis in Figure 4.1, which draws on revenue/cost coverage data, actual activity-based accounting figures would be used

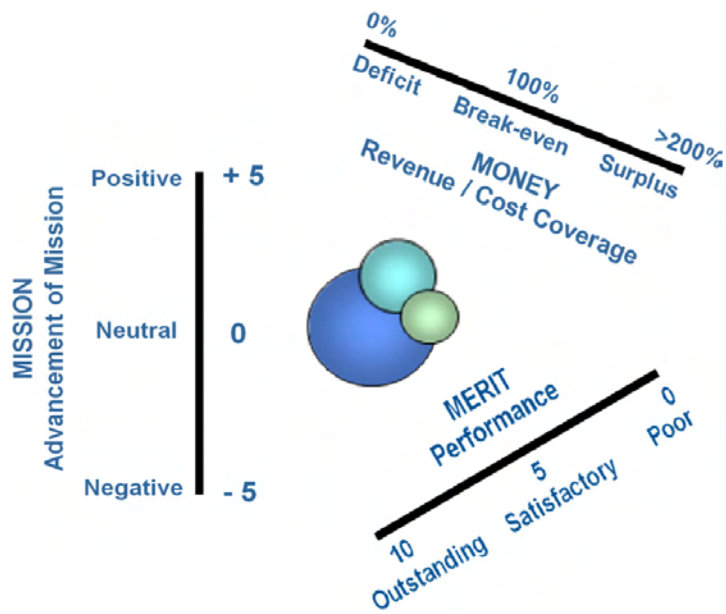

Fig. 4.1 Rating program spheres on mission, money, and merit axes.

with 100% coverage at the break-even point. The end points would depend upon the range of ratio of revenues to costs in the different programs. 0% would represent no revenues at all, whereas 200% would indicate that revenues were at least double the cost of the program.

To reinforce the idea that each axis represents a discrete aspect of program performance, it is important that the rating scale for the ***Merit*** axis in Figure 4.1 differ from the one for Mission. Drawing on the very familiar teacher's grading scale for classroom assignments, we have found it useful to use a scale of 0–10, where 0 is poor, or more accurately, an utter failure; 5 being acceptable, satisfactory, or a pass; and 10 outstanding or top of the class.

The total monetary cost of each program, preferably including all attributed overhead costs (see Section 6 for a fuller discussion of this), is transformed into a uniquely colored sphere, its relative volume or mass indicating the program's total cost. The ***Program Spheres*** in Figure 4.1 can then be placed on each of the three axes.

4.4 The $M3$ Rating Process: An Illustrative Aquarium Example

To illustrate the rating process, we offer a composite example based on our field experience, but told here more as a story.

4.4.1 The Raters and the Rating Process

The Aquarium Director stood at his office window pondering a recent critical newspaper article arguing for changes in the activities of not only his aquarium but also aquaria and zoos across the continent. Once enthusiastically embraced by broad publics for exhibiting exotic animals, the Director found himself increasingly imposing shifts to the aquarium's early mission of display and entertainment, toward protection, research, and education. The process, he recalled, had not always been easy on both staff, some of whose jobs became redundant, and volunteer board members who had joined the aquarium on the basis of its original mission. Nor had these changes brought economic stability as some members left and visitor numbers fell. And now, here was more criticism about what his institution was doing.

Another strategy session was obviously needed. But he had found past meetings of his senior managers and involved board members to be more fractured as the varying opinions around the table did not result in the kind of creative discussions that would eventually arrive at a productive agreement, but more often felt like an unhappy win–lose battle. Also, he was concerned that people's strongly held opinions, albeit valuable to ensure broad input, were often based in unmovable, and sometimes out-of-date, ideology more than the kind of broad knowledge that managers should bring to the table.

He sighed, returning to his desk to re-read the article. Despite its negativity, he suddenly realized that it offered a potential impetus to solving the aquarium's too-frequent win–lose scenario, a scenario that many on his management team had resisted in the past. He still did not understand why some of them resisted change, but knew that with external pressures, the aquarium had to make some hard decisions, at the same time as ensuring that professionals, board members, and managers could all contribute to how and when to make change, and then support those decisions when running their operations and dealing with the public.

He pored through the details of this ***M3*** portfolio approach, and decided to try it, for it promised to not only strengthen the quality of decision-making, but also tell him more clearly where the resistance was coming from.

To begin this new ***M3*** portfolio process, he first needed to identify and name the aquarium's programs, then generate an appropriate rating system. Given that this was the first time he and his team would participate in this new approach, he limited the programs to the largest, most easily identifiable eight. More than that would simply be confusing.

To further limit confusion, he included the aquarium's common services (IT, cleaning, etc.) under Administration. For the time being, they would not be as critical to their strategic issues as the other programs. The rating structure suggested in the article seemed just fine to him, so he kept it as such.

He asked a staff IT person to set up the program in MS Excel, software with which his senior management team was familiar, then upload it to their secure website. To avoid embarrassing anyone in this new venture, he asked IT to ensure confidentiality for individuals to input opinions by giving each a fictitious name or alias. He also asked IT to configure the software to produce visuals of input data.

Next, the Director began listing whom he would invite to join him in the process. He would obviously take all his program heads, as well as the president of his board, an individual who had always been involved in strategic policy and planning. And as their mission statement would most likely need revising, the board's involvement was critical. In total, he would invite 9 colleagues.

While the spreadsheet program was being set up by IT, he invited these 10 to a brief introductory session in the aquarium's boardroom where he explained why a revised strategy for the aquarium was critical, why he was taking this approach, what the eight programs were and what each included, and how he and they would be asked to rate the programs. He emphasized that all this would be done in complete confidentiality in that each person would be given a fictitious name.

He then added that if this new approach worked well, in future people would likely feel comfortable with using their own names.

At the end, he asked people to schedule themselves over the next week to provide their input. He also arranged a full morning at the end of that week for all to view the anonymous results, explore what each individual had learned, consider the pros and cons of the ***M3*** approach, then move on to discuss where the aquarium would go from here.

4.4.2 Rating the Programs

Once the IT work on the software program was done, the rating process began. Figure 4.2 shows what each person was presented with as he or she clicked on the internal, confidential ***M3*** website. Each rater could only access the page of their own fictitious name or alias.

PROGRAMS			
Program#	**Program Name**	**Program Activities**	**Period**
1	Public aquarium	Permanent exhibits, admissions, marketing	2013-14
2	Collections	Animal care, operations, collecting	2013-14
3	Special exhibits	Curatorial, design, production, advertising	2013-14
4	Research / Conservation	Scholarship, publications, consulting, service	2013-14
5	Education	Schools, informal, media, docents, library	2013-14
6	Retail	Shop, food services, space rentals	2013-14
7	Development	Fund raising, members, donor relations	2013-14
8	Administration	Leadership, finance, board relations, human resources, IT	2013-14
	RATINGS		
	Rated Element	**Description**	**Rating unit**
	Cost	Annual dollar cost of activity	$
	Revenue	Annual dollar attraction of revenues	$
	Mission	Degree of advancement of mission	-5 • 0 • +5
	Merit	Quality of program / service performance	0 to 10
	RATERS		
	Alias	(In future, this can include position titles along with actual names)	**User #**
	Alpha		1
	Beta		2
	Delta		3
	Epsilon		4
	Gamma		5
	Zeta		6
	Eta		7
	Iota		8
	Kappa		9
	Lambda		10

Fig. 4.2 Nonprofit program rating framework.

The first person to enter the web site was "Zeta." She clicked on the Zeta-user page, and saw what is shown in Figure 4.3.

#	Program Title	PROGRAM RATINGS: Zeta				
		Annual Cost $ 000	Mission Advancement -5 - 0 - +5	Annual Revenues $ 000	Merit or Quality of Performance 0 to 10	Revenue / Cost Coverage %
1	Public aquarium					
2	Collections					
3	Special exhibits					
4	Research/Conservation					
5	Education					
6	Retail					
7	Development					
8	Administration					

Fig. 4.3 Individual rating framework.

With brow furrowed, she struggled to fill in the first column on costs. She moved more comfortably to filling in each program's advancement of mission. She began with the core programs, then glanced down to see that the spreadsheet had produced visuals of her cost ratings in colorful spheres. But it now also showed her mission ratings visually below the mission column, as displayed in Figure 4.4.

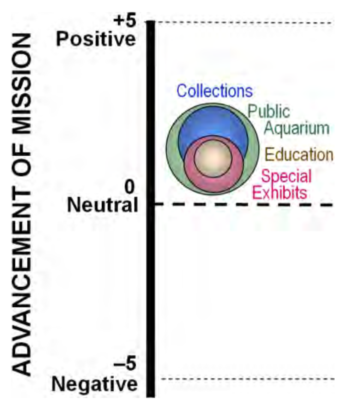

Fig. 4.4 Visualizing one rater's assessment of programs on one axis.

Immediately she realized that she had rated all of these core programs in a thin band just above the mission neutral line. The numbers had not as clearly given her this feedback, and knowing that she believed there were greater differences among the programs, she readjusted her numbers. Ah, she now, felt that the range of rankings made more sense to her.

She then moved on to judging what revenues each program brought in, noting that the computer calculated for her what the money axis would show — that is, the percentage revenue/cost coverage. Given the visual feedback she was getting below each numerical column, she felt more confident as she moved on to rate how well each program performed.

She then left the computer, feeling, on the one hand, confident that her knowledge and experience had allowed her to contribute decisively to the aquarium's success; on the other hand, uncertain about some facts that she had thought she knew, but perhaps did not.

The Director, the board president, and the other eight participants followed, seeing only their own user pages and filling in what they thought about each program. At the end of the week, the IT person took the results, confirmed that all the managers had properly filled in their individual spreadsheets, checked that the visuals were working properly, and ensured that the software was not only showing the collective averages of all raters for the three axes as well as overall 3-D portfolio, but also showing high and low extremes rated by unidentified individuals.

While maintaining the confidentiality of individual raters, the IT manager then gave the Director access to the system, showed him how to illustrate the results in various ways, and helped him to prepare his upcoming presentation using the aquarium's video projection set-up in the boardroom.

4.4.3 Presenting the Ratings

The Director initially clicked on the complete three-dimensional portfolio cube, a view intended to remind everyone what the overall ***M3*** portfolio of their organization included, and against what criteria each of their programs would be assessed.

In Figure 4.5, the arrows on the cube pointed to the most positive ratings for each of the three axes: ***Mission***, ***Money***, and ***Merit***.

As managers might want to look at only two dimensions at a time, he had asked IT to enable the cube to be rotated to show each of the three possibilities separately: Mission & Money, Mission & Merit, and

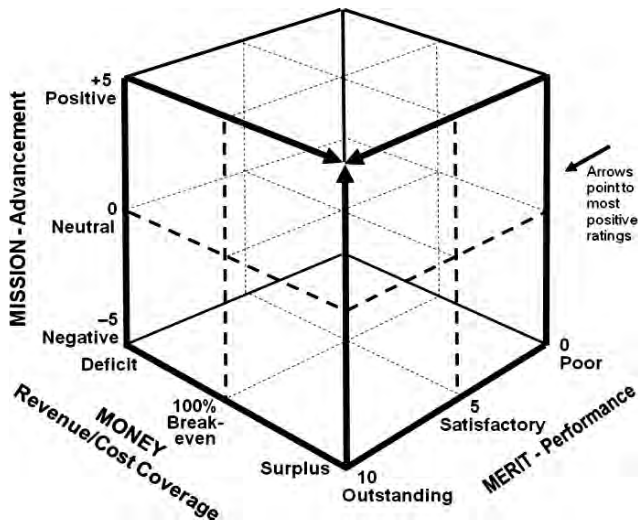

Fig. 4.5 3-Dimensional structure for visualizing portfolio of program ratings.

Merit & Money. Given normal graphic protocols, the negative scenario would be shown at the bottom left in all cases. He had also asked IT to not only label but also color the eight program spheres differently for the audience to readily differentiate. Clicking on another button that threw up one of the two-dimensional graphs, he discovered the colorful visuals easy to follow.

Once he felt that the participants had digested these 3-D and 2-D visuals, he would click on other links to illustrate each of the three axes, thereby allowing individuals to focus more directly on the placement of all the programs against all the measures. Each version would give everyone a somewhat different view, and hopefully open up the conversation for a potentially more productive meeting.

When the participating managers and board president entered the boardroom, he thanked them for their input, reminded them of the urgency for the aquarium to reconsider its vision, mission, strategy, priorities, and plans, specifically including how each program would contribute to such a revised mission, to financial sustainability, and to high performance quality, then launched into the visuals. Beginning with the overall average of all respondents, followed by high and low extremes, he observed many nods and ahs as participants got a general sense of how they and their still-unidentified colleagues had evaluated the programs.

The Director then turned to the ratings of each of these anonymous individuals, running randomly through the Alphas to Lambdas. What they now saw were sometimes subtly, other times wildly "dancing balls," dramatizing the range of opinion and knowledge of individuals. More nods, ahas, and sometimes, outbursts of laughter, as these colorful bouncing spheres flew from one corner to another. At other times, there was deep silence as people, chin in hand, foreheads wrinkled, stared at the results.

Something was certainly happening, the Director noted, hoping that the same deeper reflection and learning that he noted himself was beginning to happen to others. That would make their tough decisions more creative, productive, and perhaps even fun.

4.5 Mission & Money

The first two-dimensional graph that he had shown included the Mission and Money axes. Figure 4.6 shows the average of the eight program assessments.

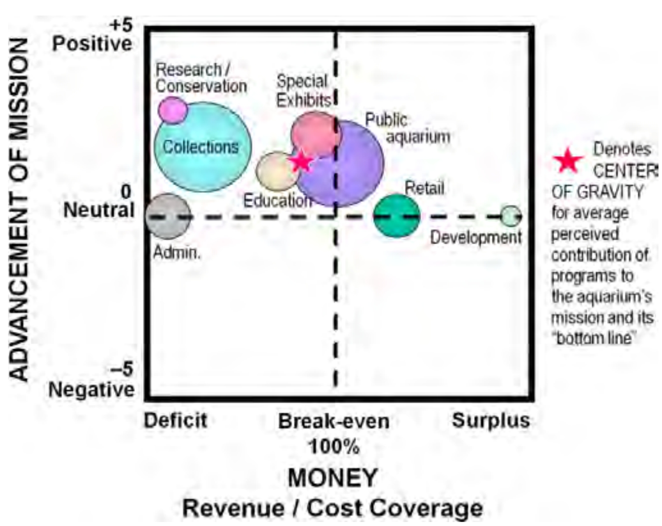

Fig. 4.6 Visualizing collective program ratings on two axes - mission and money.

On average and as a collective, the aquarium's management team perceived that all programs were at the neutral line or above in advancing mission, but that most were below break-even in revenue/cost coverage, with only retail (shops, food services, space rentals), and development covering more than their own costs, while the public aquarium, albeit expensive, broke even by bringing in the aquarium's admissions income.

At first glance, programs were reasonably or perhaps logically placed, with all core mission and supplementary programs mission positive, and the two revenue generation and administrative/common services safely neutral. However, the Director mused that, on average, the aquarium's advancement of mission was good, but not great. In the long term, could the aquarium survive, give the threats that it faced, at this level of meeting its mission. In addition, the management team was apparently worried that the aquarium overall was not covering its high costs, placing its center of gravity in worrisome deficit.

Whereas consideration of the overall consensus view of the senior management team was important, the group learned more from looking at each participant's evaluation of Mission *vs.* Money, evaluations in which considerable diversity became apparent (see Figure 4.7). Although no one in the room was aware of who had rated two of the more extreme cases, a couple of brave participants soon realized that there was little value in retaining their personal anonymity, one being

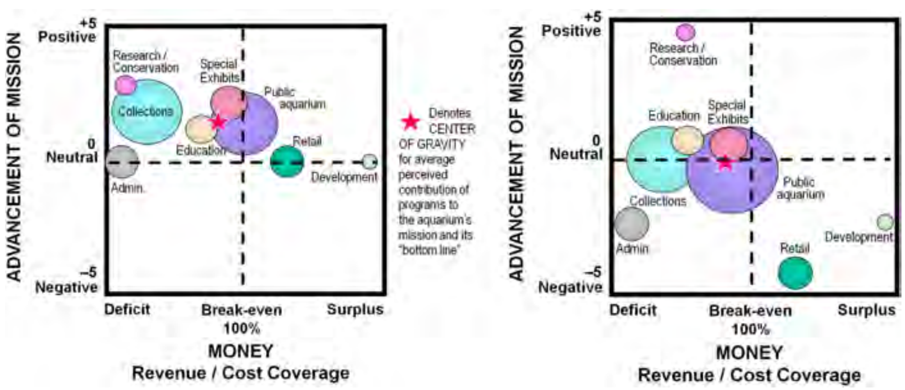

Fig. 4.7 Visualizing individual extremes of program ratings on two axes.

the president of the board, the other, the head of collections, a professional biologist.

The board president, who had long been a volunteer docent before joining the board, and who was recently elected president, perceived that all of the public aquarium, its special exhibitions, the collection of sea life, and education of students and the broader public, were what the aquarium was all about. So she had placed these programs high on the mission scale. Also, as she perceived that the Director and his staff provided positive leadership to the aquarium and gave her board excellent support, she raised it above the neutral mission line.

Although she enjoyed the shop and food services, and utilized space rentals for various board and personal events, she did not see that they had much to do with advancing mission. And as she admitted that she was less familiar with what was going on in research, she had let it fall closer to the neutral line, and significantly left of the break-even line. She also stated that, in her opinion, development was about raising money and not about mission, but then apologized to the development director across the table from her because she had been rather aggressively approached recently by one of its major gifts officers for a personal donation, and thus had placed that program below the mission advancement scale.

The collections head biologist admitted that he had long ago recognized that collections, the public display and performance of the animals, and other traditional aquarium traditions had to change. What he personally knew was that the aquarium could work, and today was increasingly working, with universities and other scientists to protect sea life and educate the broad public, and do so in ways other than looking like a theme park.

With current technology, publications, public lectures, and other means, the aquarium could do what it should do — continue to learn more about life in the oceans and spread that learning, and not have dolphins jumping through hoops in an unacceptably tight space, but return them as safely and intelligently as possible into their natural habitat.

He also reminded the team around the table that research was bringing in significant grant funds, and so his rating of this program was farther toward break-even. The other programs, he concluded, were simply expensive, and by now certainly needed to change.

4.6 Pursuing Other Axis Combinations

Though we present only this one example visually and in detail, the aquarium's presentations that day continued to work through combinations of the other axes, bringing with them new revelations where people discovered shared assumptions and knowledge, where confusions or misunderstanding occurred, and where divergent opinions were exposed, all making people think in fresh ways about their programs.

Confusion about mission and merit was most common. Several assumed that "if this program advanced mission, it has to be well performed," while others assumed that "if it's well performed, it must be advancing mission." This complexity or perhaps puzzlement among axis combinations and the revelations, assumptions, knowledge, and options that emerged will be discussed in more detail in Part II.

As the aquarium had not established a regular or rigorous process for evaluating the quality of program delivery, individuals also assessed performance quality from their different perspectives — often from their professional or job-related impressions. For example, the development director put significant value on how programs attracted donations and other funding, while the finance director judged how programs prepared budgets, spent their funds, or managed resources. Others introduced what they knew about program impact on the public they served, but without verified evidence, they were not always able to influence their colleagues' opinions.

4.7 Learning from the Presentation

When the presentation ended, and the projector was shut off, the Director better understood why some past meetings had seen more conflict than creativity, and had not always wound up at broader and more productive agreement. He wondered if those sitting around the table were beginning to reflect on their assumptions, in the same way that he was now doing, the reasons for their differences, and their sometimes lack of actual knowledge of what the programs were contributing. It had certainly made effective decisions more difficult to reach.

He looked thoughtfully at the participants sitting around the boardroom table. The silence continued for several minutes. But then one person spoke up, acknowledging that she had not understood or known things that she felt she should have known better, and that this made her a bit embarrassed. Immediately the conversation opened up as others came forward with similar and different concerns.

One mentioned that although he had been nervous when watching the presentation, he discovered himself feeling unexpectedly happy when he saw that his personal ratings were close to the average, and that therefore he must be "right," and that others agreed with his assessments. He liked that there appeared to be a consensus, that the aquarium had a strong organizational culture, and that he and others appeared to understand what they were all doing to advance mission, what their programs cost, what revenues they brought in, and how well they were performing.

Another person interrupted, acknowledging that her ratings and some others' had been way off that average, and that such a consensus may not in fact exist. Still, she added, what's wrong with differences of opinion? Having everyone think the same way does not encourage innovation and new ways to think about things. Granted, she acknowledged, we do not usually express openly what our assumptions are, perhaps we do not even know ourselves what they are until tested. Nor do we seem to listen well to others' views to understand where they are coming from.

Not only that, another participant added, if we do not agree on what our mission is or how each program advances that, we can never agree. Also, it seems that we all brought different perspectives to the quality of our program performance. We do not really do performance measurement very rigorously or, in some cases, even at all. Opinions are not evidence. We need to dig deeper.

Another participant noted that we managers do not always know what things cost and what exactly is bringing in the revenues that we need. If we were going to make some tough decisions about our future, we are going to need better information. I, for one, cannot understand these financial tables, but would like to know more.

As the meeting concluded, the Director thanked everyone for the honesty of their reflections. He had learned a lot, including acknowledging that a rigorous re-reading of their mission statement, to ensure everyone had the same understanding, was needed. He also agreed that more digestible financial information should be shared with the senior management team. He also said that although some formal program evaluations were indeed done, more and more rigorous ones were needed.

Such changes, he concluded, would make it easier for the aquarium to make the difficult decisions it needed to make today as recent public pressure and changing government and donor funding support would continue to buffet them in the near and long-term future.

In addition, he suggested to his team that all program directors consider introducing the process to their own staff, and that the board president do the same with her board members.

4.8 Summary

The aquarium example suggests what happens at stage one — the rating of all nonprofit programs by anonymous participants to expose for themselves and their colleagues what they know, what they don't know, where they agree with their colleagues, and where they disagree, so that they can move to the next stage, that is, doing something about untested ignorance, hidden assumptions, and more rigorous measurements of program deliveries. We would argue that it is unlikely that effective strategic decision-making can be pursued if such underlying issues are not first exposed and tested.

Once this process has been opened up and there is a better understanding by individuals and collectives about ***Mission***, ***Money***, and ***Merit***, as well as program mass or sphere size, then the next stage of the process is to not only agree on assumptions and opinions, for example, what really is the mission and on what basis does a program advance or detract from it; but also agree on facts, such as, what does a program really cost and what revenues does it attract, or how well are we really delivering our programs and services — and how do we know?

Answering these questions will be pursued in depth in the upcoming sections.

Part II

Exploring the Three Portfolio Axes

5

The Mission Axis

"The best nonprofits devote a great deal of thought to defining the organization's mission. They avoid sweeping statements full of good intentions and focus, instead, on objectives that have clear-cut implications for the work their members perform — staff and volunteers both. The Salvation Army's goal, for example, is to turn society's rejects — alcoholics, criminals, derelicts — into citizens. The Girl Scouts help youngsters become confident, capable young women who respect themselves and other people. The Nature Conservancy preserves the diversity of nature's fauna and flora ....

"A well-defined mission serves as a constant reminder of the need to look outside the organization, not only for 'customers' but also for measures of success. The temptation to content oneself with the 'goodness of our cause' — and thus to substitute good intentions for results — always exists in nonprofit organizations. It is precisely because of this that the successful and performing nonprofits have learned to define clearly what changes outside the organization constitute 'results' and to focus on them."

— Peter F. Drucker, "What business can learn from nonprofits," 1989, p. 89.

5.1 Organizational Missions

An organization's mission defines what the organization seeks to achieve and the rationale for its existence. The mission is the fundamental definition of the organization and its role in society.

Any organization's mission, be it for-profit or not-for-profit, is determined by answering such essential questions as: what business are we in? What are we fundamentally all about? Whom are we serving? What value do we provide to our clients?

Just as it is a mistake to say the purpose of a business is to maximize profits, it is a mistake to say that the purpose of a nonprofit is "to better society." In the same way that profit is the outcome of a business fulfilling its mission, bettering society is an outcome of a nonprofit fulfilling its mission. It is not a definition of the mission itself.

5.2 Not-for-Profit Missions

More than for-profit enterprises, however, not-for-profits are mission-driven. In his article, "What Business Can Learn from Nonprofits," Drucker (1989) describes mission as a positive lesson for businesses:

> Starting with the mission and its requirements may be the first lesson business can learn from successful nonprofits. It focuses the organization on action. It defines the specific strategies needed to attain the crucial goals. It creates a disciplined organization. It alone can prevent the most common degenerative disease of organizations, especially large ones: splintering their always limited resources on things that are 'interesting' or look 'profitable' rather than concentrating them on a very small number of productive efforts (p. 89).

Development of an effective mission statement is a difficult task. A danger to avoid is writing a statement that, on the one hand, is so general as to be operationally meaningless — such as when a health clinic says its purpose is to improve the health of the community; while, on the other hand, is so specific and inwardly focused as to provide little long-term guidance on how to make choices in a changing environment, such as when the clinic defines its purpose as providing facilities for administering contraceptives. A sound mission statement provides guidance to an organization and helps it to make difficult decisions.

Finally, an effective mission statement should be motivating. It should be prepared in a manner that inspires the employees, volunteers, and others who work with the organization to help the organization fulfill its mission. The Salvation Army's goal to "turn society's rejects into useful citizens" is inspirational to all involved with the organization.

5.3 The First $M3$ Axis: Advancing Mission

As we described in Section 3, to what degree a program advances or detracts from mission begins with assessments by the organization's key decision makers.

Once their input on each program's relationship to mission has been compiled, and the results presented, discussions can begin about what, if any, differences in opinion there are, why they may exist, and whether judgments on mission advancement need to be readjusted.

It may also become clear that the mission statement needs to be rewritten (see example below), either to bring it up-to-date with changes in the nonprofit's environment, or to make the statement clearer so that everyone around the table has the same interpretation. While a simple redrafting of the mission statement may be sufficient in some cases, in other cases the organization may have to fundamentally re-think the very nature of its mission. Peter Drucker's writings, which we cite above, provide valuable guidance to managers leading an organization-wide effort to redefine their collective mission.

To illustrate the consequences of mission confusion, we offer the museum example from our field research exploring the ***M3*** approach.

The mission statement of a large regional museum spoke of service to the people of their region, including the founding peoples of the area.

Despite the existence of a recently revised mission statement, senior managers differed significantly in their interpretation of how or whether the museum's special exhibitions program advanced that mission.

One manager concluded the following: "Last year, when our main exhibition showed 'Exhibition X' [the inventions of a long-dead European], mission was not advanced because this inventor has nothing to do with our region. But this summer, when we produced our 'Exhibition Y' [an exhibit organized with a nearby community of originating peoples], our mission was perfectly advanced."

A second manager concluded the opposite: "This year mission was not well advanced because not many visitors came to see 'Y,' our local, community-based show — so apparently it was only marginally relevant to the public we claim to serve. But last year, when we got huge crowds of visitors from all across this region to see 'X,' the inventor's show, mission was better advanced because that exhibit reached and was obviously relevant to our public."

Here, museum managers' opinions about the role of the museum's special exhibitions in fulfilling the museum's mission are 180 degrees apart. How it happened was particularly illuminating. To start, the mission statement had been recently rewritten by the board, with less than full involvement by senior staff members who provided input to the ***M3*** model. Not only did a few of them not entirely understand what the new statement meant, but also others did not agree with or like the new version, and so relied on an earlier statement that they preferred.

An organization's mission statement must be well communicated and well understood throughout the organization before it can motivate, guide, and inspire organizational decision-making. Otherwise, it not only wastes the time of managers, directors, and volunteers as individuals argue about how or if the program advances mission, but it also threatens the value of what is done by different individuals throughout the year. As many managers have realized, doing the "right things well," not the "wrong things well" is key to accomplishing the organization's mission.

While the ***M3*** model helps management determine how to allocate resources to programs and to position the programs within the organization, the process of assessing each program's contribution to mission can also expose problems in the organization's mission statement.

5.4 Assessing Contributions to Mission

Once a nonprofit has defined its mission so that it is well understood throughout the organization and truly helps to guide the organization's decision-making, then, as described in Section 2, senior managers, board members, and other relevant stakeholders need to judge how well each of the programs contributes to that mission.

In this section, we present two broad views of how to do this: (1) a single-item global rating of how each program contributes to the organization's mission, and, (2) a detailed, bottom-up approach which breaks down the mission into its component parts, adds weightings, then builds each up to an overall program rating.

5.4.1 The Single-Item Scale Approach

As discussed in Section 4, each program's contribution to mission is rated on an 11-point scale from -5 to $+5$ in response to the question: "How does this program advance our mission?"

Rating programs on a single item scale has a number of valuable features. It conserves management time, so that managers can concentrate on the key issues. As portfolio analysis requires judgments on each of the three key axes (mission, money, and merit) across as many as 10–12 programs, this feature is very important. One needs to avoid "analysis paralysis" and "survey fatigue" where the real work of management is dissipated in information gathering exercises. On the other hand, use of a single item typically requires a great deal of confidence that participants can provide valid responses.

We find that there are two main, but somewhat contradictory, situations in which the single item measure is most useful.

5.4.1.1 First situation: A clearly understood mission

Situation one is when the not-for-profit's mission is extremely well understood throughout the organization so that everyone has a clear definition of what the purpose of the organization is. Such clarity of mission is not unique to small organizations, but as demonstrated in Berry and Seltman's 2008 book, *Management Lessons from Mayo Clinic,* a large, multi-site, and complex organization can be guided by a clear mission that is consistently applied and understood throughout the organization.

Their Mayo Clinic example highlights the power of a clearly understood, broadly supported, deeply valued, and continually reinforced mission for this close to 150-year-old organization. While its mission obviously involves the provision of a broad range of excellent medical care, its mission statement simply says: "The needs of the patient come first." This core value is reinforced in many ways, including the codification of the Mayo Clinic's values and culture, and the expectations it has for all who work there in what they call their "Mayo Clinic Model of Care" statement. The statement describes in more detail the core elements of patient care and the Mayo environment. The impact of their approach to communicating and reinforcing their mission has made this institution, as the authors state, "one of the world's most admired service organizations" — a significant achievement for an organization in the increasingly complex and demanding health care sector. For further discussion of the Mayo Clinic, see Section 7.

For the Mayo Clinic and for other nonprofits with such organizational-wide clarity on mission, the single-item scale for judging program contributions to mission would be both adequate and reliable.

5.4.1.2 Second situation: Lack of clarity on mission

Situation two, very different from our Mayo Clinic example, is when an organization needs to significantly re-evaluate its strategy or when it discovers that it has not done enough to articulate and promulgate its mission throughout the organization. Typically, this happens in organizations that have grown over the years by adding a wide range of activities either as needs arise or as board members, managers, or volunteers develop new interests. This process is often described as "mission creep."

Although such organizations broadly view themselves as bettering society and serving a valuable purpose, they often do not fulfill their potential. They, no doubt, also experience greater difficulty in arriving at strategic decisions that take them in more positive directions.

In these cases, the most that can be expected with the ***M3*** portfolio process is to seek an overall rating of a program's contribution to mission. In this case, a detailed breakdown, which we cover below, would be not only difficult but more likely a useless or at least confusing waste of time.

Nonetheless, and as reflected in the box describing the museum earlier in this section, the ***M3*** approach helps to expose such a lack of understanding about what the mission is, or lack of acceptance of the current mission, and consequently any consensus on mission, thereby making it extremely difficult to assess how well each program contributes to mission. It is by exposing such previously unknown confusion or disagreement about mission that the ***M3*** portfolio approach allows management to take action — for once a problem is exposed, it can be fixed.

5.4.2 The Detailed Breakdown Approach

In different situations, the detailed breakdown approach offers additional, deeper levels of information to the organization, in particular because comparing disparate programs on a single item scale is no doubt challenging. Different programs can contribute in different ways to multi-faceted mission statements, and so it is not always clear how to provide an overall ranking for any one program.

In such cases, we have found it useful to divide a mission statement into its underlying components, then weigh each of these components on its relative importance. The program can then be evaluated on its effectiveness in relation to each of these components.

5.4.2.1 Pacific Park: Exploring the second approach

Consider, for example, the case of Pacific Park (PP), which we introduced in Section 2. Its mission statement read as follows:

> "Providing safe, challenging, educational experiences for young people, particularly those from low income homes, in a wilderness setting, carefully structured to improve self esteem, self-reliance, concern for others, and care for the environment."

However, when looking at the mission statement itself, there is a great deal of room in interpreting for whom PP's programs should be directed to advance mission. Mission, as we have emphasized, must be agreed upon by all who contribute to the organization's operations.

The question now for management is how to bring together divergent preferences, preferences that can result in inefficient discord, and move more effectively in their long-term resource allocation strategy regarding whether some programs should indeed be discontinued or changed, or whether the mission statement needs refining.

Based on our assessment, we offer the following process and judgments made when evaluating the programs and their contributions to mission.

The programs that we will focus on here are PP's core and supplementary programs, for simplicity, leaving out revenue-generation, administration, and other services. These core and supplementary programs offered a variety of shorter or longer sessions to users:

Core programs: **Oregon Sea** — offered on the original campus in summer months.

Winter Sea — offered in southern California during winter months.

Summer Land — offered in several locations, including Alaska, but primarily Oregon.

Winter Land — also offered in British Columbia and Washington States.

Supplementary: **Professional Development Programs** — offered to fit in with management training needs of corporations.

Special Contracts — for example, programs for returning war veterans.

To launch the analysis, the key criteria for assessing these programs against PP's mission drew on the mission statement. Then weights for rating each mission element, including what kind of experience was offered, what category of public was served, where programs were delivered, and what age groups were served, were developed to measure the relevance of contribution to mission advancement.

Specifically, the importance of providing educational experiences in the wilderness that promoted concern and respect for the environment was given a weighting of 0.3; building self esteem, self-reliance, and concern for others, serving young people, and serving minorities and the underprivileged, were each given a weighting of 0.2; and for being offered in PP's home in Oregon, a weighting of 0.1, for a total of 1.0.

Once the weightings were agreed to, each program could be assessed on how it fits the experiences, publics, and locations, using the suggested ratings of +5 for the most positive advancement of mission, 0 for neutral advancement, and −5 for the most negative contribution.

Table 5.1 reflects a general consensus in assessing Pacific Park's core and supplementary programs. Note that the rating of each program is calculated as follows:

$$\begin{aligned}&\text{Rating of programs against mission}\\&\quad = \text{Sum of }[(\text{Weight of each mission element})\\&\qquad \times (\text{Evaluation of each program on that element})]\end{aligned}$$

To understand these analyses, the following points were taken into consideration.

Among the programs that PP offered was a continuation of its original Oregon Sea program where primarily high school students kayaked and sailed for an extended time during the summer of the Oregon coast. This program was rated +5 in terms of wilderness education, building personal skills, and offered in this central Pacific state, +4 in terms

Table 5.1. Breakdown of individual ratings of programs against advancement of organizational mission.

Establishment of key criteria & weights		Ratings of individual programs against mission					
Criteria	Weight	Oregon sea	Winter sea (California)	Summer land	Winter land	PDP (Managers)	Special contracts
Wilderness education	0.3	+5.0	+4.0	+4.0	+4.0	+3.0	+4.0
Self-esteem, concern for others	0.2	+5.0	+4.0	+4.0	+4.0	+2.0	+5.0
Serving under-privileged	0.2	−1.0	−3.0	+2.0	−1.0	−5.0	+4.0
Serving youth	0.2	+4.0	−2.0	+2.0	0	−5.0	+2.0
Offered in original state (Oregon)	0.1	+5.0	− 5.0	+4.0	−4.0	0	0
Weighted ratings	**1.00**	**+3.6**	**+0.5**	**+3.2**	**+1.4**	**−0.7**	**+3.4**

of attracting mainly high school students, but −1 in terms of attracting lower income students. The calculations and overall rating of this program were:

$$0.3(+5) + 0.2(+5) + 0.2(-1) + 0.2(+4) + 0.1(+5) = +3.6$$

− suggesting that the Oregon Sea program contributes substantially to mission.

Later in its history, PP started to offer courses to managers, initially from Oregon and later from high tech companies located in Seattle and the Silicon Valley which sought to embed a PP experience into their executive training sessions. As these sessions were relatively short they were rated +3 in terms of wilderness education, as +2 for building self esteem, and as −5 for both reaching teens and low income people. Also, as they were offered in many regions, that rating became a neutral 0. The calculations and overall rating of this program then were:

$$0.3(+3) + 0.2(+2) + 0.2(-5) + 0.2(-5) + 0.1(0) = -0.7$$

− suggesting that PDP does not contribute to mission.

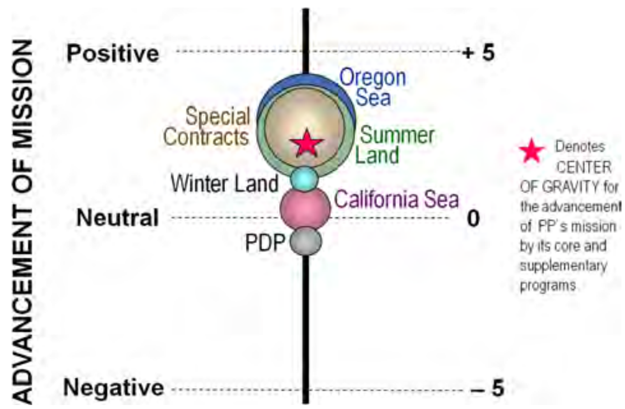

Fig. 5.1 Visualizing collective ratings of all programs against mission advancement.

5.5 Visualizing the PP Ratings

Figure 5.1 displays that once these ratings were done, programs could be placed visually on the first axis of the portfolio graph: Mission. Sphere sizes, or their mass, were based on the total cost of each program, in this case:

Oregon Sea	$1,020,675
California Sea	$ 189,600
Summer Land	$1,032,225
Winter Land	$ 97,800
PDP (Managers)	$ 104,100
Special Contracts	$ 912,750

5.6 Strategic Decision-Making for Pacific Park

Although the diagram does not show the different opinions offered by managers and senior professionals, the de-compositional approach helps to identify the source of disparity for there was considerable disagreement among the senior staff. For example, some professional staff and board members felt that Pacific Park has a special mandate to serve the underprivileged as opposed to well-to-do managers. Others disagreed, suggesting that business people need to learn compassion, openness, and emotional coping skills in order to be stronger assets not only to their companies but also to their communities.

In other words, they disagreed on the weights assigned to serving the young and the underprivileged. At the extreme, a few would even say that serving only some groups was actually outside the organization's mission.

The role of history also affected how individuals perceived advancement of mission by various programs. For example, there is no question that Oregon Sea, their original program, would continue to be integral to PP's operations. As can be seen in the mission analysis, this program contributes significantly to mission, so there is unlikely to be a challenge to this position. However, at times, an organization may find that its original purpose is no longer significant, and that it needs to find a way to move in a new direction or to disband.

As an example of such reconsiderations, the US March of Dimes, which was founded by President Roosevelt in 1938 to mobilize huge field trials for people with polio, changed its original mission to focus on the prevention of birth defects after Jonas Salk's polio vaccine was discovered and widely adopted.

Extending the extra effort of the detailed breakdown approach is worthwhile in two cases: (1) if the mission statement is multi-faceted as it is in our PP example, or (2) if there appears to be a question about how mission is interpreted across the organization. The latter often occurs when new programs have been added, or when there has not been adequately unambiguous communication and continual reinforcement of what the mission really is, as occurs so effectively in the Mayo Clinic example.

5.7 Summary

Mission is critical to not-for-profit organizational relevance, success, and sustainability. Organizations need to have a mission, to state and communicate it clearly, to measure their programs against that standard, and utilize it in decision making.

There are two broad approaches to assessing mission advancement: a single-item global rating which judges how each program contributes to that mission, or a detailed bottom-up approach which breaks down the mission into its component elements, weights them, and builds it up to an overall rating for each program that the organization is evaluating.

By conducting such a breakdown of what the mission actually means and by adding weights, the organization not only can assess each program's contribution far more accurately, but also can communicate the meaning of mission far more broadly throughout the organization.

If all those who contribute to what the organization does, and especially to its strategic decision-making, are not clear about that mission or have not checked their assumptions against those of their colleagues, then the single-item approach will not provide a dependable outcome for managerial decision-making. What it will do, however, is expose the divergences, the hidden assumption, and the need for either communicating mission better across the organization, or perhaps rethinking and rewriting the mission statement to bring it up-to-date with what the nonprofits' constituencies expect and leadership deems.

Beginning with the single-scale approach may be a practical way to discover each organization's situation, a situation that may be suspected but not clearly known, or one that may not even be imagined to exist. Then if needed, it would be wise to move into the more detailed, bottom-up, and weighted rating approach.

6

The Money Axis

6.1 Managing Money

> "If you don't survive in the immediate term, you're unlikely to achieve your goals in the longer term."
>
> — Ross Greenwood

> "The use of money is all the advantage there is in having money."
>
> — Benjamin Franklin

> "Money is the root of all evil, and yet it is such a useful root that we cannot get on without it any more than we can without potatoes."
>
> — Louisa May Alcott

> "It is a mistake to think you can solve any major problems just with potatoes."
>
> — Douglas Adams

In terms of economics, the goal of survival, or more specifically, the goal of minimizing deficits as opposed to maximizing revenues, may be seen as the fundamental difference between not-for-profits and for-profits. This is no doubt an overly broad generalization, although delivering as much service as possible within existing budgets and defined mission, while, controlling costs, drive most if not all nonprofits.

The ideal financial achievement, then, is where revenues (including grants and donations) equal costs — in other words, breaking even across the organization's portfolio of programs and over an appropriate time horizon.

A focus on money makes sense. For if costs increase and revenues decrease, then the matter of mission and merit become somewhat moot. Short-term financial survival and long-term financial sustainability are obviously critical. In our ***M3*** portfolio, the ***Money*** axis, or measuring costs incurred and revenues attracted by all programs, is as vital for management as is measuring ***Mission*** advancement and the ***Merit*** of program/service quality.

The cost of a program is crucial not only in providing the denominator of the Money (revenue/cost) axis, but also as it typically serves as the measure of the mass (or size) of each program's sphere, helping to shape management judgment about the weight of each program.

Although financial accounting is something not-for-profits do to meet the requirements of regulators, foundations, auditors, and others, program level cost accounting or management accounting (differences we will explore later in this section) is often only done to a limited extent. While accounting for costs and revenues is not as straightforward as it might seem, it is essential to help management arrive at the best possible decisions regarding what programs are contributing, or not, to the overall revenue–cost coverage — in other words, what programs need supporting, bolstering, repairing, or dropping.

As we learned in the field research and consultations that launched our book, some board members, professionals, and even a few managers who contribute significantly to strategic decision-making are only minimally aware of what programs cost and what they bring in. In fact, a number of senior people expressed distress that they did not know what the costs were, nor what revenues were coming in and from where — sometimes even about programs that they themselves were overseeing.

In testing the ***M3*** multi-dimensional portfolio matrix with managers, we discovered that our approach not only provided an easily visible overview of costs, expenditures, and revenues, as well as other relationships, but also became an effective educational tool for those involved in budgeting, operating, accountability, and strategic decision-making.

6.2 Approaches and Dilemmas in Economic Management

As we mentioned at the start, not-for-profits differ fundamentally from for-profits by focusing on maximum mission achievement, typically by concentrating on usage of mission-driven programs and/or by performing at high quality levels, and not by seeking maximum profits. Within this broad generalization, and using rather extreme examples, we found two different approaches by nonprofits to economic management. One approach involves paying little attention throughout the year to revenues and costs, particularly at a program level, then at year end, scrambling to cover unforeseen shortfalls, and potentially forcing draconian cuts to even core mission-advancing programs. Any manager who has been subject to across-the-board budget cuts can relate to the negative consequences of such an approach.

The opposite approach is to focus too much throughout the year on costs and revenues in pursuit of limiting deficits, but doing so to the detriment of mission. This is because the nonprofit's fundamental goal, that is its mission, is taking a back seat to money, and thus not receiving a critical share of limited energies and attention. One of Oscar Wilde's famous quotes about cynics — "A man who knows the price of everything and the value of nothing" — fits appropriately here.

Deficit budgeting warning: Ichak Adizes argues that the built-in budgeting bias of nonprofits that has them concentrating on deficit reductions — or staying out of the red — creates special difficulties in that

> "deficit budgeting may increase deficits rather than reduce them. Usually the organization tends to under-

> estimate expenses and overestimate income. If it did not show a small planned deficit, it would encounter difficulties in raising funds to cover the gap. In reality, the expenses are higher and the income is lower . . . and the organization is deeper in debt than before (p. 101)."
>
> — Adizes, Ichak, "Introduction and Overview: Administering for the Arts," 1972, pp. 98–102.

A way to avoid this second approach, and potentially dangerous deficit bias that Adizes warns us about, is to not emphasize limiting deficits, but instead to visualize how each program offers opportunities for both revenue improvement and cost economies and efficiencies. In addition, such knowledge helps to drive the fund raising arms of the organization. Funds can be raised not only to help provide enhanced or new services, but also to cover costs which cannot be further reduced without harming the organization's current mission and the products or services it provides. In fund raising, some of the efforts can be devoted to specific activities and some to the general purposes of the nonprofit.

As Robert Anthony and David Young discuss in their book *Management Control in Nonprofit Organizations*, nonprofit organizations have been slow to adopt management controls, having for too long "survived on the strength of public and private support for their activities (p. 1)."

> "As with most principles of management, the tenets of management control are incomplete, inconclusive, tentative, vague, contradictory, and inadequately supported by experimental or other evidence. Some initial *truths* have been proven wrong. Other principles, however, have shown sufficient validity in terms of managerial and organizational performance that managers increasingly are taking them into account."
>
> — Anthony and Young, 1984, p. 2

In large part, this apparent slowness reflects the greater complexity and ambiguity of accounting for costs and revenues in not-for-profits. Another reason may be that cost accounting systems were initially established to calculate selling prices, a primary for-profit concern, and therefore not a surprise that nonprofits did not embrace these systems.

Although the concepts of cost accounting, or management control over activities, are basic, the application of cost accounting in nonprofits requires adjusting to their special nature. Anthony and Young's detailed and directly relevant book for all sizes and types of nonprofit organizations, offers effective approaches and solutions, some of which we summarize here.

To step back for a moment, and as promised earlier, we will begin by differentiating accounting types.

6.3 Cost, Management & Activity-Based Accounting

> "Managers of not-for-profits should not be intimidated by cost or activity-based accounting. Such accounting depends primarily on understanding how the organization and its activities actually operate, rather than on financial accounting rules and principles. So an experienced not-for-profit manager is in an ideal position to contribute to, and understand the outcomes and benefits of, cost or activity-based accounting.
>
> On the other hand, some professional accountants find cost accounting difficult and challenging compared with financial accounting."
>
> —Ross Greenwood, Management Consultant

In economic management, how is "cost accounting" different from "normal" accounting? In essence, there are two broad accounting terms:

- **Financial accounting** involves balance sheets, and income and cash flow statements. These financial summaries are often tightly regulated, audited, and reported externally to governments and others. They often use such standard approaches as GAAP (Generally Accepted Accounting Principles).
- **Cost, management, or activity-based accounting** involves internal, rather than external, accounting systems.

> Such accounting helps management understand what costs and revenues are attributable to the organization's major activities. Accounting approaches can vary significantly.

The terms cost, managerial, and internal accounting have evolved over time to emphasize slightly different approaches — although essentially they are the same thing. For example, cost accounting, the most widely used term, puts the attention on costs more than on revenues; management accounting, which emphasizes management control, tends to be a broad rather than precise term; while activity-based accounting, which emphasizes what the organization does, including accounting for both costs and revenues, tends to fit best for nonprofits and for our ***M3*** model. Activity-based costing assigns the cost of each activity to the program for which it is incurred. Of course, developing the rules for assigning costs to programs is often challenging and may require considerable effort to do so accurately.

Reporting Expenses and Revenues

> "... [E]xpenses may be classified either by **elements** (e.g., salaries, fringe benefits, supplies, depreciation) or by **programs** *[bold and italic highlights ours]*. A program is a principal category of activity that the entity undertakes in order to achieve its objectives.... Classification of expenses by programs is generally more informative than classifying them by elements. Some organizations report a main classification by programs, and report expenses by elements under each principal program. If some expenses are incurred for two or more programs, an equitable share of such *joint* or *common* expenses is allocated to each program."
>
> — Anthony and Young, 1984, p. 95.

Unlike financial accounting with its rigid standards, for example, GAAP, there are no fixed rules governing how any not-for-profit keeps track of cost and revenue data, although many formal approaches exist for use. Sources on the web and in publications are easy to find, as is software to make tracking simpler.

For the ***M3*** portfolio's money axis, activity-based accounting is the critical tool for both short-term survival and long-term sustainability. Rigorous accounting is vital to control the organization's current activities, and to predict or budget future activities, as described in the above box. Used within the ***M3*** approach, this helps management determine more accurately what programs to enhance, repair, or cut.

6.4 Tracking Costs

So what costs are tracked? They may be variable, fixed, and semi-variable costs; there are also direct and indirect costs, as well as opportunity costs and sunk costs. We offer the following examples of ways of looking at costs: the first three cost categories (A) refer to ways in which costs vary relative to the number of people served; the next two categories (B) indicate costs that can be readily, or with some difficulty, attributed to a particular unit or program; and the last two categories (C) deal with broader and often longer-term aspects that are important in thinking about costs.

- A.1 **Variable Costs:** these costs change in proportion to the level of activity. For example, if the number of meals provided by a charity which feeds low income people increases by 10%, then the cost of ingredients would increase as well. If it was simply a matter of the ingredients increasing directly with the number of people served, then the costs would increase by 10%. If there were economies of scale, then the costs would increase by less than 10%. The important notion is that the costs increase in proportion to the number of people served.
- A.2 **Fixed Costs:** such a cost remains unchanged as the level of activity varies. For example, the cost of an opera singer and orchestra members is the same regardless of the size of the audience; or, if all are salaried for the year, costs are the same regardless of the number of performances.
- A.3 **Semi-variable or Capacity Costs:** these are costs that vary with the capacity to provide service, but not directly with the number of people served. For example, if a symphony hall has a capacity of 1000 seats, then the cost of

staging a performance remains approximately the same as long as attendance is below the seating capacity. However, if the orchestra decides to perform the concert twice, then the staging costs would double. In other words, these are the costs of creating the capacity to provide service. Another example would be if a library decides to open on the weekends. Its primary cost increase is not based on the number of people who come to the library, but on the need to hire staff who can provide service on Saturday and Sunday.

B.1 **Direct Costs:** this is the cost of direct labor and materials used in making the product or delivering the service. For example, in an undergraduate science program, the cost of instructors, their teaching assistants, course handouts, and laboratory equipment are direct program costs.

B.2 **Indirect Costs/Overhead Costs:** indirect costs are costs of an activity not easily associated with the delivery of specific products or services. For example, and using the same undergraduate program, the cost of the dean's office, student services, library, and other university services are not easily attributed to the program.

C.1 **Opportunity Costs:** this assesses the benefit sacrificed when the choice of one action precludes an alternative course of action. For example, when a hospital decides to convert an underused surgical suite to a chronic care facility to meet the growing needs of the elderly, but then must not only pay for reconfiguring this space, but also has to deal with the opportunity cost of not having that space available if the demand for surgical procedures grows.

C.2 **Sunk Costs:** these are costs that have been incurred in the past and cannot be changed by current actions. For example, if Greenpeace decides to send one of its ocean-going ships to protest, the cost of the boat itself is sunk. Alternatively, if Greenpeace had to rent a ship to do this, then the cost of the rented ship would not be sunk because that cost would have to be incurred. Or when an art gallery needs to upgrade its collection storages, the space cost would be considered sunk.

> However, if a new temperature control system were required in storage, then that cost would not be sunk. In other words, sunk costs are costs to the organization which occur whether it uses the resource or not.

Obviously, not all aspects of tracking these costs are straightforward. While such clearly identifiable costs as labor or materials or travel can be accounted for reasonably easily, other costs such as administration, common services, and other overhead costs, are not as easily allocated across the nonprofit's programs.

However, there is a downside to not allocating such overhead costs to individual programs, and that is that it removes responsibility for the draw on common services from the program and its manager. Because if no one is accountable for a cost, it is very likely to be ignored, or in the worst case scenario, costs may increase when attempts are made to shift more visible program costs to less visible overhead.

6.5 Tracking Revenues

So what revenues are tracked? In addition to the revenues (if any) for the organization's core programs, they would include all contributions generated through fund raising activities, including annual gifts and donations, donated goods and services, as well as grants from foundations or governments. Also included are membership dues, sales of goods or services, and various fees.

For the ***M3*** approach to be successful, both costs and revenues need to be allocated to programs following the principles of activity-based accounting. The ***M3*** approach is designed so that money alone is not the sole or even the main factor in decision making, but that all financial contributions need to be considered. If only costs are considered or measured accurately, then the focus is often on reducing the size of such programs. If only revenues are considered, then the focus is often on programs which draw in members paying fees or donors who give to certain activities. Including both costs and revenues allows management to balance both sides of the financial equation, while recognizing that money is only one of three axes involved in strategic portfolio management.

> As the financial figures in activity-based accounting can be split to easily acknowledge more than one contributor to the economic health and well-being of the organization, then the benefits of recognizing everyone's contribution can outweigh the time costs of doing so.

How then, we need to ask, should such multi-program allocations be made? For example, how would an organization with a strong membership base track the fees paid by members? In an aquarium, let us say, is it the professional and research staff developing the content, looking after the animals, and producing the knowledge who do the attracting of new or more members, or are public/educational programs the key here? Different organizations will answer differently, but if both programs are contributing, and given that dollar figures are the common measure of financial performance, then accurate methods of allocating funds can and should be implemented.

While management incentive issues are beyond the scope of this work, accurate accounting can help in motivating personnel. For example, if professional staff and researchers do not receive "revenue" credit for their efforts on behalf of public education programs, then there is a danger that when some of those experts are asked to prepare public presentations for members, they may not provide the effort required if the only measureable result is a reduction in their research contributions. Of course, many factors such as organizational culture, service philosophy, and shared mission affect the quality and level of a person's contribution, but we emphasize the possibly deleterious effects of inadequate accounting systems.

6.6 Fund Raising

In fund raising, there are complex tracking issues both on the revenue and cost sides. Fund raising, or what today is commonly called development, involves soliciting and gathering money or other resources from individuals, businesses, charitable foundations, or governmental agencies. Fund raising costs can be calculated in a variety of ways by different charities and not-for-profits.

Careful tracking of the cost of raising funds is critically important. By using the ***M3*** model, tracking these ratios over time also becomes simpler and clearer in helping the organization to get more efficient as management learns what changes have worked and which ones have not.

How does one do such tracking? The example presented earlier on allocating membership income would also work for fund raising. Although it is the development office that handles the identification and nurturing of donors, prepares the appeals, closes deals, and maintains long-term relationships, it is the program producing the content and delivering the services that initially attracts donor attention, and whose experts are often called in to meet with donors to describe what is needed and worth supporting — and perhaps even motivate the pen to sign the check.

In many not-for-profits, the development office gets 100% of the credit, ignoring the significant contributions of those in core mission-advancing programs. Often this creates envy and some internal discord because development is considered the funding hero, while other programs are seen merely as the cost centers but lucky beneficiaries of someone else's work. Appropriate attribution of costs and revenues to fund raising is crucial. We will return to this issue more fully in Section 9, where we examine fund raising in relationship to all three ***M3*** axes — ***Mission***, ***Money***, and ***Merit***.

6.7 Pricing Goods & Services

> "In a university, board and room charges should be based on full cost because students live in dormitories and eat in dining rooms as a necessary part of the educational process. Textbooks, laboratory supplies, and the like, should be priced at full cost for the same reason. But rental of space to outside groups, the price of special programs furnished at the request of outside groups, prices at soda fountains, and so forth, are not closely related to the main objective of the university. The university does not have a monopoly with respect to these services, and their prices should be

> market-based. Similarly, price for research projects conducted to accomplish the university's objectives should be based on full cost, as contrasted with the price of research for the benefit of a commercial client, which should be market-based."
>
> — Anthony and Young, 1984, pp. 189–190.

One of the great benefits of cost or activity-based accounting is that it makes for better pricing decisions. In fact, it was for this very purpose, i.e., making pricing decisions, that cost accounting was originally introduced as a tool in for-profit businesses. For example, to know what price to put on its newly built automobile, the company had to know what all the costs had been so that the selling price would cover those costs and avoid a slow slide into bankruptcy. Thus the matter of pricing also considers tracking the costs of producing products or services in relation to the income these products or services bring in.

Although prices of goods or services for not-for-profits are based on different criteria than they are for profit-seeking organizations, nonetheless understanding the true cost of delivering services or distributing goods helps management to arrive at a figure that does not slowly drive the nonprofit into insurmountable debt. At the same time, management needs to balance such considerations as not jeopardizing its mission by simply charging high market-based prices to its core clients.

Nonprofits would generally charge at or below cost for services that are directly related to their mission. The pricing strategy critically depends on the effect of price on the usage of the service. Supplementary activities, like those described in Anthony and Young's book (see box above), can correspond to higher market prices for similar services.

Subsidy or lower than cost pricing is used to encourage new use or greater use (e.g., lower fees on slower use times or days of the week, free admission days to introduce audiences to the nonprofit's services, etc.), or to serve those who do not have the capacity to pay. Penalty or higher than cost pricing is useful to discourage the use of certain services (e.g., higher prices for peak times), or to cover the cost of repairing harm (e.g., environmental damage caused by activities that the nonprofit's mission seeks to change).

So in ensuring that there is an appropriate mix, one that balances full or lower than cost pricing for mission-related activities with higher than cost pricing for supplementary activities, cost or activity-based accounting becomes key. For if costs and revenues do not minimally balance, or if revenues do not occasionally exceed costs so that new or enhanced programs and services can be offered when needs arise, then the nonprofit is significantly constrained in providing its mission-advancing services, not to mention being driven into ongoing deficit or insurmountable debt.

If management has reliably tracked and allocated cost and revenue figures through the application of activity-based accounting systems, then potentially more constructive pricing of all goods and services to users can be determined, and the nonprofit can remain healthy in the short term, sustainable in the long term, and deliver more to its constituencies.

6.8 The $M3$ Portfolio: Visualizing the Money Axis

In turning to the ***M3*** portfolio's money axis and presenting an example case, we can explore different approaches to some of the complexities inherent in activity-based accounting, and show the benefits of a rigorous approach to attributing revenues and costs to the appropriate programs.

Our money axis, unlike the other two axes of mission and merit, visually displays both costs and revenues, rather than just costs. In the money axis, each program sphere is located on the axis depending on the degree to which the program's revenue covers its own costs, these costs reflected by the size or mass of the program sphere. Collectively, the matrix will visually illustrate how the organization can improve the overall placement and relative mass of its programs and how they individually and collectively contribute to the center of gravity, i.e., the location of the weighted balance on the deficit or surplus side of the break-even line.

6.9 Example Case: Metropolitan Audubon Society (MAS)

Our example is based on a real audubon society, but we have adjusted some of the estimates to simplify the situation and clarify key issues.

Specifically, we begin with their two core mission advancing programs, Wildlife Protection & Conservation, and Education & Advocacy — and initially as well, Administration & General Services.

In our example, all those inputting their estimates of costs and revenues are volunteer board members. We will call our illustrated organization the Metropolitan Audubon Society.

Metropolitan Audubon Society (MAS)

The mission of the Society is "to protect and preserve wildlife and wildlife habitats in the city; to educate and inform members and the general public about environmental issues; to study and enjoy birds and other wildlife, and to foster appreciation for the natural world; to cooperate with the National Audubon Society and other conservation organizations in furthering sound environmental practices; to serve as a resource and advisor to other groups concerned with specific environmental issues; and to defend and improve the quality of green spaces and the environment in the metropolitan area for both wildlife and humans."

To deliver these programs, MAS had established two major programs run by committees of volunteers:

1. **Wildlife Protection & Conservation** — this program involved testifying and writing letters on environmental issues, wildlife monitoring and security of protected properties, and developing management plans.
2. **Education & Advocacy** — this program involved birding and photography courses in local parks, running long field trips, participating in bird counts, publishing a newsletter, providing information about upcoming events, and organizing advocacy campaigns.

When the volunteer board first employed the ***M3*** portfolio to estimate their Money axis in the example we have created for this section, they drew on their standard financial tables to see that Education & Advocacy expenses were close to but slightly higher than those of Wildlife Protection & Conservation, that neither program was very costly given that they were run primarily by volunteers, and that both programs drew funding support from the public, from membership fees, from corporations, foundations, and government grants, as well as from pricing program services and some investment income.

Noting also that Wildlife Protection & Conservation had recently received a $250,000 gift, but without considering how such funds (or interest from the gift) were to be used annually, some board members assumed that this program would place well into the surplus. As a result, they visualized their money axis very positively (as shown in Figure 6.1).

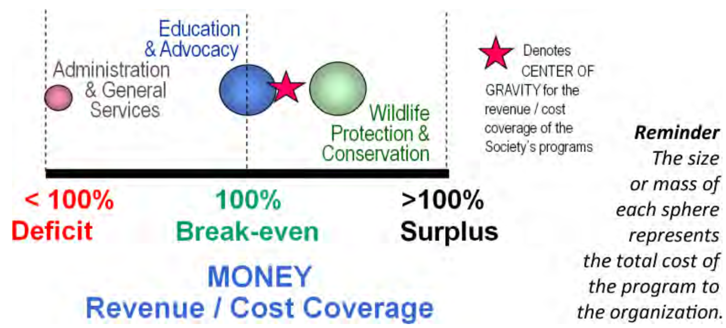

Fig. 6.1 Visualizing program ratings on the money axis at first stage.

Because the Society had not begun activity-based accounting, and therefore had not attempted to allocate Administration & General Service costs to the two mission-advancing programs, they added it as a third program sphere. Not long afterwards, they sought the advice of a financial consultant who recommended that they treat all major gifts as endowments, and only use the interest from these endowments to cover ongoing expenses. The board agreed. To reflect this policy change, the center of gravity moved visibly to the left, or toward a deficit (as did Wildlife Protection & Conservation), albeit still above break-even.

Over time, the demand for their Wildlife Protection & Conservation services grew dramatically. In response and despite the deficit, the Audubon Society began to significantly expand the activities of this program. However, as grants and donations were not growing as quickly, and as their endowment income had not increased, Figure 6.2 shows them running a more serious deficit.

Aware that they could not return to more limited, less costly levels of activity, the Board turned to considering ways of increasing revenues, most likely by establishing a dedicated fund raising capacity, rather than the more passive, opportunistic approach they had traditionally used. This threw the Society's members into conflict as they perceived their mission, history, and culture changing. They argued over whether

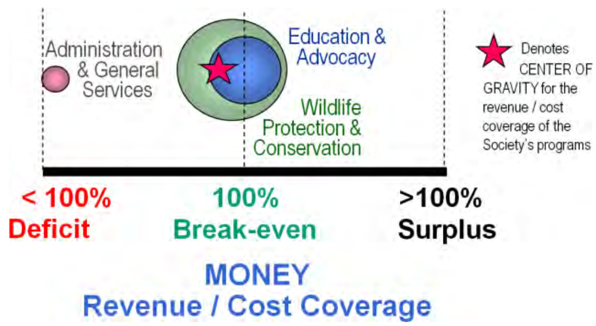

Fig. 6.2 Visualizing program ratings on the money axis at second stage.

to seek another willing volunteer or hire a salaried fundraiser. If the latter, and despite employing several biologists and educators, this would be their first salaried administrative staff.

After much discussion, they decided to hire an experienced, professional fundraiser, informing this new officer that her first priority was to raise money to cover her own salary and related fund raising expenditures, and within two years, to show a measurable increase in net funds for running their two core programs.

As shown in Figure 6.3, their money axis now included a fourth sphere: fund raising. In the short term, as they had required that fund raising would cover its own expenses, their Money axis showed the center of gravity virtually unchanged, still worrisomely below the break-even line.

Fig. 6.3 Visualizing program ratings on the money axis at third stage.

However, as fund raising became increasingly successful, MAS was able to keep its higher level of Wildlife Protection & Conservation activities supported without pulling the Society into deficit. What they had not initially noticed, but which turned into a happy surprise, was that significant fund raising revenues were coming to Education & Advocacy, allowing this program to also expand services. And although fund raising costs themselves were increasing, revenues were growing much faster, bringing the center of gravity at long last to the break-even line.

Recognizing that the Society was precariously balanced at break-even, with no cushion to deal with new opportunities or sudden losses of grant or other funds, they also decided to increase membership fees and prices for some services, prices that had not risen for several years (see Figure 6.4). This resulted in a small surplus which would give them a comfortable cushion for further program growth or potential diversification of services.

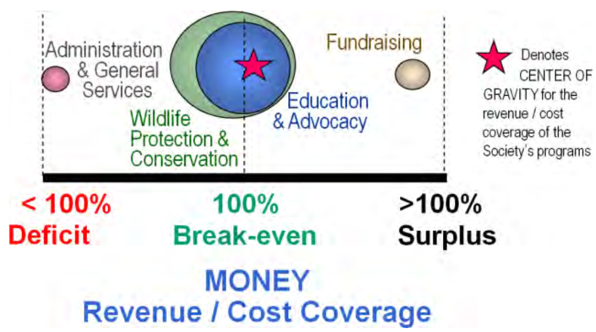

Fig. 6.4 Visualizing program ratings on the money axis at fourth stage.

As well, given the level of fund raising effort, and the Board's renewed interest in tracking how funds went toward specific activities, the Board adopted activity-based accounting to not only allocate these revenues to the two mission-related programs, but also to allocate the Society's administrative and general service costs more appropriately, and more visibly to them. Their money axis would now show only two larger, and not very informative, spheres, with the center of gravity unchanged.

As the two mission-advancing programs grew in size, scope, and complexity over time, they became unwieldy to manage. Consequently

MAS restructured them into the five smaller, more managerially coherent programs displayed in Figure 6.5.

1. **Wildlife protection:** monitoring, planning, and securing wildlife protection.
2. **Conservation:** researching conservation issues; offering approaches to solutions.
3. **Advocacy:** testifying and organizing campaigns.
4. **Public education:** delivering courses, including organizing trips, tours, and other public activities; and
5. **Communication:** informing members and public about events, publishing newsletters.

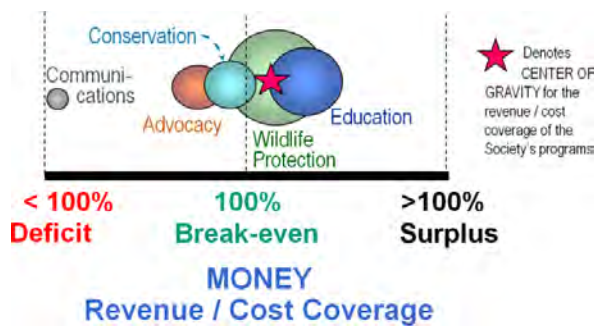

Fig. 6.5 Visualizing program ratings on the money axis after restructuring.

Eventually, as each program focused more directly on advancing the Metropolitan Audubon Society's mission, memberships, grants, donations, and other sources of support increased, allowing the Society to also increase its services. While the larger set of programs made it more complicated to allocate membership fees, general contributions, and administrative costs to individual programs, this small downside was made up by a very large upside: not only did it enable the board to focus management and staff attention on the financial performance of each program, but also to enhance its contribution to mission advancement and performance quality.

As a result of this evolution, MAS significantly improved its financial sustainability, its impact on the city, and its reputation.

6.10 Summary

Few not-for-profits track costs and revenues closely. From multiple perspectives, this section argues for the importance of such tracking, using activity-based accounting. At the same time, we illustrate the significant short- and long-term benefits of taking more rigorous management control over program activities and their costs, as well as undertaking revenue generation options and their allocation across programs.

In using the ***M3*** portfolio's approach to visualize program costs and revenues, we emphasized two factors: economic analysis and allocation challenges & dilemmas.

In conclusion, the ***M3*** Money axis helps managers visualize where each program sits along the continuum between deficit and surplus, and, more critically, on which side of the breakeven line the entire nonprofit sits. Although ensuring some surplus on an ongoing basis offers a comforting contingency buffer or a short-term piggy bank for special planned initiatives, generally the goal of not-for-profits is to break even, not to hoard money.

7

The Merit Axis

"Those who speak most of progress measure it by quantity and not by quality."

— George Santayana

"Ability is what you're capable of doing. Motivation determines what you do. Attitude determines how well you do it."

— Raymond Chandler

It is not enough to do good; one must do it in a good way.

— Marquis de Condorcet (1743–94)

7.1 Assessing the Quality of Nonprofit Programs

In our first section, we noted that there was an increasing awareness by governments, foundations, and donors to not simply consider a nonprofit's mission, but to take a harder look at outcomes — in other words, how the organization performs and what it accomplishes. Once we agree that a not-for-profit's goals are worthy, two questions remain: (1) is the organization actually delivering on those goals, and, if so, where is the evidence? (2) How well is the not-for-profit doing it, and what measures are being used to assess quality?

In "Strategic Performance Measurement in Nonprofit Organizations," 2001, Robert S. Kaplan argues that "The topic of accountability and performance measurement has become urgent for nonprofit organizations as they encounter increasing competition from a proliferating number of agencies, all competing for scarce donor, foundation, and government funding (p. 353)."

7.2 Performance Measurement: Judging What Matters

Measuring what matters

> "... [C]oncrete measures of success are an important marketing tool for attracting donors and building public support. Many foundations now demand to see the results of their investments in nonprofit organizations and will finance only those that can give them detailed answers. Increasingly, these funders are not satisfied with answers that amount to little more than laundry lists of activities. 'We're not grant makers; we're change makers,' says a senior official of the Kellogg Foundation.
>
> "To individual donors, focused performance measures communicate a businesslike attitude and a high degree of competence. Many nonprofit organizations, such as the Chesapeake Bay Foundation and the American Cancer Society, have successfully used well-publicized performance targets to influence public opinion and the policy aspects of government."
>
> — John Sawhill and David Williamson, "Measuring What Matters in Nonprofits," 2001, p. 9.

Once we agree on this need for measurement, the question then becomes: what should be measured? What performance matters? In the previous section on the Money axis, we noted that often organizations will define performance by such financial measures as donations raised, revenues attracted, overhead costs constrained, and expenditures controlled.

Often too, such metrics as visitor counts, membership growth, and number of people served are used to measure performance. But as Sawhill and Williamson argue in "Measuring What Matters in Nonprofits," "These metrics are certainly important, but they don't measure the real success of an organization in achieving its mission (p. 2)."

They then point to a troublesome issue that exists in many nonprofits, and that is that "nonprofit missions are notoriously lofty and vague." This makes measurement extremely difficult. They offer several examples of such lofty and vague mission statements, including CARE USA, a nonprofit that "exists to 'affirm the dignity and worth of individuals and families living in some of the world's poorest communities'. Try to measure that (p. 2)," they challenge.

On a positive and productive note, however, they offer solutions to what might seem like an intractable problem. No matter how big an organization is or how ambiguous its mission statement, effective performance measurement can be achieved using three kinds of metrics (p. 5):

1. success in mobilizing resources,
2. the effectiveness of staff on the job, and
3. progress in fulfilling the nonprofit's mission.

The first two metrics are more easily measured than the third. Mobilizing resources — information regularly sought by boards as well as by governments and foundations, and today used by virtually all nonprofits — might include donations raised and growth in volunteers and membership. Job effectiveness — familiar to most organizations as part of annual staff performance appraisals — might assess the number of people served or projects completed, though as the scope of a person's job gets broader, measuring staff performance becomes more difficult. The third metric — fulfilling mission — might seem simple, but as we introduced in Section 5 and will pursue further here, measuring such fulfillment can be complex, controversial, and indefinite.

7.3 Mission vs. Service Quality

The approach of our ***M3*** portfolio's merit axis is to seek answers to two broad and important questions with respect to the performance, or the merit, of a nonprofit's programs.

1. The first question links performance to mission: is this program advancing our mission, and how can we be sure?
2. The second question links performance to service quality: are we delivering the services of this program in an excellent, high quality way, and how can we be sure?

If the organization's mission includes service quality — as does the mission of the Mayo Clinic with its clear focus on "the needs of the patient come first," and its deeply entrenched organizational culture of excellence — then the two are inextricably linked. But as mission statements often state what the organization is doing, not how well it is doing it, then both measures need to be undertaken.

We begin with (1) the linking of performance to mission, then follow with (2) the linking of performance to service quality.

7.3.1 Linking Performance Metrics to Mission

Sawhill and Williamson offer three options for linking performance to mission. The first, and perhaps easiest, is to define mission quite narrowly so that it can indeed be measured. The danger here is to oversimplify by treating symptoms instead of causes. For example, if a mission statement says "we educate people," then the nonprofit can too easily count the number of students enrolled in college or university, without bothering with the more critical and socially beneficial component, the contribution of educated people to society and the economy. If the mission deals with the latter, then advocacy and broader public education become part of the nonprofit's work. Alternatively, if the organization is pursuing accessibility to education as its strategy, then counting the number of students enrolled might be sufficient. In other words, mission needs to drive the performance metric. By defining mission too simply or too narrowly, a nonprofit's contribution to the betterment of our world might be less.

A second option proposed by the authors is to undertake research that provides evidence that a program is indeed delivering what is intended. This is not always easy or financially affordable, especially when studies must be spread across large geographic areas, over extended periods of time, or into highly qualitative, complex issues.

With the broad and ambitious goals that many not-for-profits have, assessing impact takes time and money. However, by doing so, many benefits occur, not just with donor and government rewards, but some serendipitously. For example, the nonprofit organization, Jump$tart Coalition, which seeks to strengthen educational outcomes of poor children by improving their financial literacy (Sawhill and Williamson, 2001, p. 6), undertook research to determine whether in fact they were making a difference by offering basic financial literacy skills to four-year olds. They compiled comparative statistics of Jump$tart graduates and similar low-income students entering kindergarten, and discovered that

American Cancer Society (ACS)

> "The very act of aligning the mission, goals, and performance metrics of an organization can change it profoundly."
>
> After it had set ambitious yet concrete goals for reducing cancer rates, the American Cancer Society discovered that it could not measure the impact of its activities because of the multiple variables that influence cancer rates. But then, by accepting that it does not matter who gets credit for any decline in rates, and by noting from empirical research that prevention, screening, and educational programs are extremely effective in reducing the incidence and mortality of cancer, ACS changed its strategy. They reduced their previous concentration on research, and moved more actively toward prevention and awareness programs.
>
> Dr. John Seffrin, the organization's chief executive, explained it this way: "Our new emphasis on advocacy .. [and] mobilizing major public resources for cancer research makes for better leverage than raising all that money ourselves."
>
> — Sawhill and Williamson, 2001, p. 9.

their graduates had better educational outcomes throughout primary school. Now with such a link between what the Jump$tart program was doing and its outcomes, the organization could now measure its success, not by further expensive research, but by counting the simple number of children completing its programs.

For many not-for-profits, however, neither option — narrowly defining mission or investing in major research — is feasible. The third option suggests a way to mitigate the costs of significant research projects while still making progress in gathering evidence of outcomes. The way to do this is to develop concrete micro-level goals that take samples in smaller, controllable areas of the nonprofit's work and project these more limited outcomes on broader impact. For example, the American Legacy Foundation (now known more simply as "Legacy"), which employed intensive, and, at times, controversial advertising as part of its "Truth" campaign, to reduce teenage smoking, was able to measure its success by statistically relating the intensity of its advertising in different metropolitan areas to the percentage of teenage smokers in each area (Farrelly et al., 2005, pp. 425–431).

In addition to such affordable micro-level assessment, nonprofits can draw on data from existing studies done by governments or other agencies at no cost to the nonprofit. By analyzing these data, adding in the nonprofit's specific activities, then communicating overall results to the nonprofit's constituencies, it can be not only affordable but also highly effective. As an added benefit, by communicating any results more broadly via the media, the kind of change in public awareness that a particular nonprofit seeks to make in society can actually occur. A win win.

For some organizations, monitoring social media is also a way to measure performance. Many for-profits use social media extremely well to better serve their customers, grow their markets, attain a competitive advantage, and succeed. Not-for-profits are thus well advised to monitor relevant web traffic as part of their performance measurement system.

Several websites exist to help nonprofits in such monitoring. One of these is Nonprofit Tech 2.0: A Social Media Guide for Nonprofits, http://nonprofitorgs.wordpress.com/2009/11/15/five-simple-ways-non profits-can-measure-social-media-roi-return-on-investment/, 2012. It describes (1) how to monitor the traffic on their own websites, including from where traffic comes and where it goes from there; (2) how to poll donors, including what "communication tool inspired them the most to donate"; (3) how to ask people to subscribe to your electronic newsletter or mobile lists; (4) how to "ask people to become volunteers"; (5) and how to "plot fans, followers, friends, [and] subscribers" on your own spreadsheets so that you can measure your social media return on "investment" (ROI) and do so over time. They also offer "webinars" — or courses on how to use social media most effectively.

Another way to mitigate the cost of research to measure program or organizational performance is to approach universities and colleges. Often courses in, for example, research methods, nonprofit marketing, or statistics, seek real-world projects for students to undertake, projects supervised by expert faculty. Also, individual master's students often require such opportunities for their projects and theses, as do PhD candidate dissertations. More potential win wins.

7.3.2 Measuring Service Quality

In addition to measuring how or if a program advances mission, the measurement of service quality is equally, or perhaps even more, important. For example, among the very large and growing number of eye banks in India, mission might be advanced by counting how many people are being served. Many consider that an effective measure of performance. We would argue, however, that what must be also asked is how well these people are being served, what are their short-term and long-term visual outcomes, how adjustable are surgery schedules to meet the personal and family needs of the patients, and how useful is the preparatory and departure information that they receive?

This example illustrates a broad trend, and that is that when service quality measurements are done, there is a tendency to concentrate on volume metrics rather than quality or effectiveness ones. An example here are food banks that count the number of people fed rather than the quality of food or service provided. Recently, there has been significant criticism of school lunch programs in the US which showed that the nutritional value of meals were not considered critical, simply that meals were served. (In 2010, new US regulations came into effect which set nutritional standards for school lunches.) As the authors of the Toronto meal program study discovered, although 128,000 meals and snacks were provided per week by a large number of nonprofits, most could or would only measure the numbers served, and not other effectiveness measures, such as calories per person, food freshness and variety, and support for improved human health. Also rarely measured were the means by which food was delivered in terms of scheduling, meeting individual needs, and even more rarely, the negative impact on human dignity of line-ups and crowding.

Charitable Meal Programs, Toronto, Canada

There has been a significant proliferation of these programs in Toronto as well as other cities. With the absence of effective government services, community groups have initiated many programs to serve those in need. These include meals and snacks to the homeless in soup kitchens, mobile vans, shelters, housing projects, health care services, educational and training programs, and more.

However, "many programs struggled to manage demand. Program operators maintained that they were feeding people who otherwise would not eat, yet the assistance provided was limited, intermittent, and uncoordinated" (p.1).

> "The limited, intermittent, and uncoordinated nature of these food services has additional implication for those who are outside the shelter system and have insufficient funds to purchase whatever additional food they require. . . . [O]ptions for food acquisition included panhandling, food theft, the receipt of food from other people sometimes through engagement in exploitive relationships, and the consumption of food discarded by others — strategies that are deeply stigmatizing, risky, illegal, and socially undesirable."
>
> — Tarasku and Dachner, 2009, p. 445

Another example involves a 2010 international study by the Commonwealth Fund, a charitable foundation that promotes quality health care. The study compared 11 developed countries around the world on the quality of their health care systems, based on five criteria: quality of care, access, efficiency, equity, and health outcomes. The countries included Australia, Canada, France, Germany, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

COMMOWEALTH FUND HEALTH CARE STUDY

Andrė Picard, The Globe & Mail, July 15, 2010: "Universal, yes, but we need quality too"

1. **Outcomes**: "Canada ranked second in outcomes, meaning that our citizens lead long, healthy, productive lives." However, many of the key measures "are not strictly a result of good health care . . . [but] depend largely on socio-economic factors and robust social welfare programs."
2. **Equity**: Canada's health system ranked fifth out of the total eleven on equity, often because "low-income Canadians often forgo medical treatment because of cost barriers. . . . When compared with a country such as the Netherlands . . . Canada's systems looks decidedly incomplete and unfair."
3. **Efficiency**: Canada's health care system is rated as less than efficient in large part because many patients are too often "treated in emergency departments who could be treated elsewhere." There are also "high rates of readmission . . . a propensity for medical records/tests being lost; and a pathetic lack of electronic health records."
4. **Access**: "[W]hen it comes to timeliness of medical care, Canada ranks poorly in all measures" including "wait times for basic medical care, after-hours care, specialist care, and elective surgery."
5. **Quality**: "The final measure, quality is the most troubling of all. The Commonwealth Fund defines high-quality care as 'care that is effective, safe, co-ordinated and patient-centered.' Here, "Canada ranks dead last" partly because the country does not invest as much on prevention as on reactive care for the sick, because the most expensive care for chronically ill patients is "horribly uncoordinated," because "medical and medication errors are troublingly high, and there remains a reluctance to discuss the problem openly and address is systematically."

Interestingly, Canada, with its expressed pride in universality of health care, fared surprisingly poorly on all but one criterion — outcomes. The study summarized in the box above was described in informative detail by health journalist, Andrė Picard.

As Picard describes, Canadians are proud of their medicare system and like to hail its strong points: universality, fairness, and cost-effectiveness. Canadian medicare, he claims, is a badge of citizenship, a program that distinguishes this country from its neighbors to the south, the US, a nation whose health care system has traditionally been expensive and not available to all.

Other nations, many of those in Europe, whose health care systems rated higher in quality, have taken a more complete, multi-faceted, or balanced approach to the elements that constitute service excellence.

Picard summarizes the outcomes of the study powerfully with:

> "... Canada does not have a patient-centered health system.... The new report provides the type of feedback our politicians and policy makers need to hear. What it says, in a nutshell, is that Canada's medicare system could be a lot better if it stopped hiding behind mythology and started listening to patients and their families. Universality matters, but so too does quality and timeliness."

Although Picard is writing about the approach of a country, not a specific organization, to the delivery of services, the lesson here for nonprofit organizations is valuable. And that is to not let, in Canada's case, ideology, and in a nonprofit's case, mission, take over the need to continually assess merit by measuring program quality, and thereby ensure that performance balances with what the organization believes is its essential purpose. Picard's arguments also provide an effective reminder to include not only performance measurement as a route to quality and success, but also revenue/cost coverage or money, and thereby to sustainable success — all three balanced, and not one taking over decision-making.

7.4 Where Mission & Merit Meet

The ***Mission*** and ***Merit*** axes of the ***M3*** portfolio matrix overlap yet differ. The mission axis deals principally with the former, that is, advancing mission, although as noted above, measurements of each program's performance still need to be undertaken. While the merit axis may also encompass measurements of meeting mission (here is where the overlap occurs), it focuses more directly on the latter, that is, on service quality (so here is where they differ).

A simple way to consider this no doubt messy notion about how mission and merit relate yet differ comes from Christopher Lovelock's 1994 book, *Product Plus: How Product + Service = Competitive Advantage*. In it, he describes the approach used by FedEx to reinforce quality service, an approach based on a grid developed by Organizational Dynamics Inc. It measures on one axis what one does, and on the other, how one works — in other words mission and merit, respectively.

Figure 7.1 interprets their grid (p. 137) in terms of the M3 approach. In other words, there are two ways to look at how programs contribute to an organization's portfolio: (1) what activities are actually delivered; (2) how well they are performed. And in each case, as the graph shows, two extreme options are possible. In that sense, the grid works

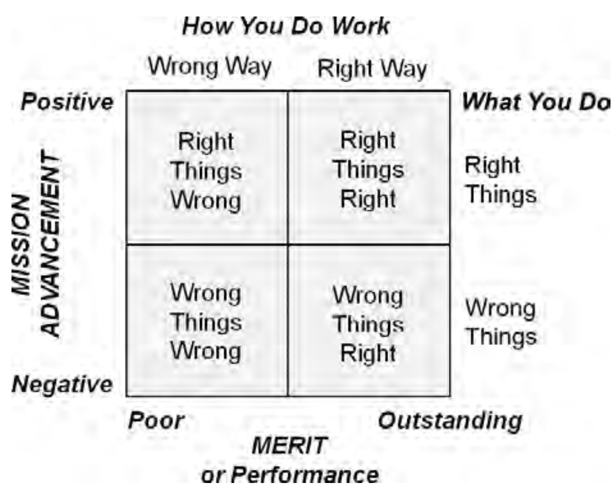

Fig. 7.1 Structuring an approach to rating programs against merit and mission.

effectively in differentiating between mission and merit. Obviously, the most positive possibility, doing the right thing right, i.e., delivering mission services at very high quality, or perhaps better put, making service quality clearly part of the mission statement, should be a nonprofit's ultimate goal. A solution offered by Michela Perrone that some not-for-profits have reached in creating a balanced connection between mission and merit is discussed next.

7.4.1 Marrying Mission & Merit

As part of reviewing its strategic plan, the board of a nonprofit preparing high school students for college, asked whether its ultimate goal was to prepare them for college or to help them graduate successfully from college.

> "After much deliberation, the board decides that college graduation is the desired result. This decision is seminal in the development of the organization's programs, because it requires additional services, staff and resources not only to assist students in their high school studies, college entrance examinations, and college and scholarship application processes, but also to track them after they have entered college and to support them while in college.
>
> Once the mission is revised and the expectations for the program outcomes clarified, the board determines [what new programs to offer to students in university] measures of success for the programs. Given the organization's resources and track record, how many students should enter the college of their choice? How many of those should graduate? Once the board has determined such outcomes, the CEO presents regular reports on accomplishments."
>
> — Michela M. Perrone
> "Governing the Nonprofit Organization," , 2009, p. 3.

To illustrate further how to achieve this ultimate mission–merit connection, and what benefits it offers not-for-profit organizations, we draw again on one of the most successful nonprofits — the Mayo Clinic. This health care organization illustrates exceptionally well how the merit and mission axes can come together. For not only does the Clinic's mission itself include excellence, there is a continual reinforcement of excellence in delivery, embedded as it is in the formally expressed values of the organization. It is also embedded throughout the organizational culture, a culture accepted, nurtured, and, judged constantly by all those who provide the services and those who are served.

Mayo Clinic: Management Lessons

> "In preparing for tomorrow today, Mayo is redoubling efforts to improve in every part of the organization... It is doing so by delegating improvement to the people who know the work best.... Teams of employees are being charged with achieving higher standards of quality for the practice.
>
> "Doctors lead, but representatives from the whole care team — nurses, therapists, technicians, computer programmers, systems engineers — gather to solve the problems.... Together these experts design the care protocols and implementation plan and then measure the results. The authority to take an organization to a higher level of performance is in the minds and hands of the subject experts who do the work.
>
> "Although leaders must articulate the vision, communicate its importance, and provide the resources of time and tools, they become active spectators as the teams transform service delivery."
>
> — Berry and Seltman, 2008, p. 249

In perhaps less successful not-for-profits, the two axes of mission and merit are often disconnected, or worse, that only one, mission, is ever considered — albeit with mission achievement never actually measured.

Using the Lovelock grid as an illustration, such a nonprofit risks having a program wind up in any of three negative scenarios: doing the right things wrong, doing the wrong things right, or, most expensive of all, doing the wrong things wrong.

7.5 Where Mission & Merit Depart: Improving the Quality of Services

Once the nonprofit has done its measurements to discover how well or how poorly programs advance mission, and how well or how poorly services are being delivered, what happens next? Answers might include revising the mission statement to better express what the nonprofit's actual goals are, or perhaps adjusting those goals so that they can be better measured.

If the conclusion is that yes, we may be serving lots of people, but no, the quality of our services are poor, then improvements must be made; or, in the most seriously dismal findings, cuts to programs must be considered.

Improvements to services are not always easy, though interestingly, many successful organizations have found ways to do so. On the other hand, if the organization cannot find a way to offer high service quality or if it believes that its resources are better deployed elsewhere, then elimination of the program or reduction in its scope need to be considered.

Before choosing the most draconian option — program elimination or dramatic reduction — we should remember that sometimes even simple changes can have big impact, especially if they are consistently applied by management. Included are such approaches as open and active communication throughout the organization, seeking feedback on activities undertaken, and sharing stories as examples of excellence — something clearly and frequently done at the Mayo Clinic. Excellence can be spread by simply hearing such stories, while making sure that workers have the scope to act in exemplary ways.

Another means for making change reasonably involves such simple 'research' techniques as observation, a qualitative method used often in anthropology. By just watching, one can arrive at valuable *Aha!* moments. Another useful approach is testing different structures or processes or procedures to find one that works better. Not all positive changes to performance need to be expensive or laborious.

7.6 Example Case: The Hearing Agency

As we described in Section 4, a reasonable assessment of the merit of a program could use what is likely familiar to us all from school assignments, wherein:

- 10 is outstanding, excellent, or a perfect score;
- 5 is average, a pass, or a satisfactory score, and
- 0 is so poor as to be a failure.

To illustrate the placement of programs on the ***M3*** Merit axis, we will use as our example, the Hearing Agency (adapted and revised from a case study), a residential facility for late-deafened adults who became deaf due to abuse, accident, exposure to sound, illness, or aging, as compared to being deaf at birth. This nonprofit provided services such as psychological, rehabilitative, and other adjustment training. The agency believed that with its focus on people who became deaf as adults, a critical aspect of its work was to help individuals cope psychologically with the loss of hearing and, in many cases, loss of independence and social relations. Although virtually all of its clients were able to speak, training such clients in sign language and lip reading often posed challenges, especially for elderly people.

As new needs were uncovered and new opportunities arose, the organization expanded its services. However, the agency had limited funds available and limited ability to recruit staff and maintain its facilities, so the quality of service varied across programs and market segments served. At the same time, in recent years it had begun to offer functionally oriented in-home programs in living skills for people who were unwilling to come to the agency's facilities. The latter program, although not offering psychological counseling and other help, was rapidly growing.

The agency offered four main programs, evaluated as follows:

- **"Golden" Residential Program** was named for the Golden family who, at the time of the agency's founding, had given a large gift of property and money for a program to specifically serve an elderly population. The program targeted the elderly deaf. Those who were there complained at times that services offered by highly specialized staff were not always desired, for not everyone wanted or needed the same training. The spartan living conditions were particularly challenging for people who were not accustomed to being away from home. The program rarely reached full capacity in available beds, in fact was usually only half full, thereby creating low morale among the staff. Given these numerous criticisms, this program received the lowest performance quality rating.

- **Independence Program**, which targeted newly deafened younger people, was usually full, though that required significant staff time to achieve. To ensure full houses on a regular basis, scheduling was rigid, offering little flexibility for people with different needs. Also, working staff suffered from both inadequate numbers and sometimes inadequate experience. The building in which these deaf people were housed only met minimal standards for acceptable living. Given not just many positives but also several negatives, the program was considered just satisfactory.
- **At Home Services** provided flexible services according to individual needs. This successful program, however, suffered from inadequate numbers of instructor graduates. Although it met individual needs, it did not offer psychological help, a high priority for the agency. Despite this and weather-related constraints, the program provided flexible, patient-centered services, and was thus ranked higher in service quality than the two houses.
- **The High School Program** targeted deaf high school graduates who were leaving home to go to college. It used the Golden facility for the six weeks in the summer, when that facility was not otherwise used. The program ran regularly at full capacity. It met a very specific need of deaf students heading to higher education, and did so smoothly and with positive results. It therefore received the highest performance rating.

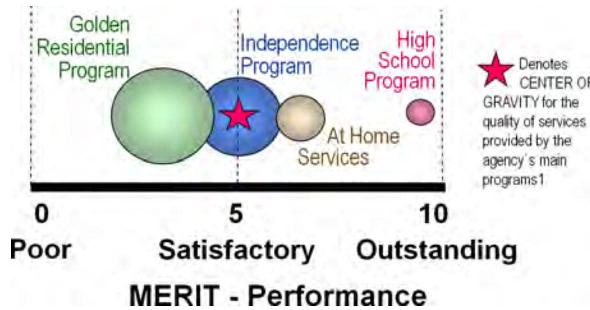

Fig. 7.2 Visualizing program ratings on the merit axis.

Based on this assessment of service quality, the four programs might be rated as follows on the ***M3*** Merit axis as displayed in Figure 7.2. Again, the sizes of the spheres illustrate the total cost of each program.

Ironically, as the axis and sphere sizes show, the programs involving the lowest financial costs to the Hearing Agency were those with the highest quality. Moreover, the older traditional residential programs also had lower merit ratings than the newer programs. The lesson here might be that growing some programs to an unnecessarily large size over time without reassessing their usefulness does not often contribute to quality. At the same time, adding new programs as specific needs in the community arise often delivers more effective services. Also, lean programs can sometimes be more energetic and effective than bigger, less responsive ones.

The bottom line in all such cases, is the need to recognize that quality issues is a key step in designing an effective strategy. However, how the agency should respond to these challenges depends also upon how the programs are ranked on the axes of mission and money. What is clear, even at this stage, is that the major programs of this agency, if they are to be retained, need to be delivered at much higher quality.

7.7 Summary

There is an increasing pressure on not-for-profits — from donors, media, foundations, and governments — to measure the quality of outcomes.

Ambitious mission statements are no longer enough to attract their support. Merit, most now agree, needs measuring.

Despite the increasing awareness by those who run nonprofits to realize that 'doing good' must be measureable, there remains in some circles a tendency to avoid formal appraisals of program performance. The resistance, one might imagine, is that when one is doing good, one's focus or priority is simply to work hard to do, rather than wasting time by looking back to assess what was done.

Such a lack of measurement can make strategic decision-making less effective, or even ineffective. As the ***M3*** portfolio approach continues to emphasize in this book, but perhaps most clearly put by Robert Kaplan: "Strategy is not only what the organization intends to do, but also what it decides *not to do*, a message that is particularly relevant for nonprofits" (Kaplan, 2001, p. 358).

The merit section emphasizes two significant considerations to keep in mind:

1. To acknowledge the connection between mission and merit, and thus to dig into measurements of performance that provide evidence for how well programs are contributing to mission — although the issue of how mission goals are stated remains crucial.
2. To concentrate on the quality of service, and not just on such quantifiable assessments as numbers served or donations attracted, but more on the real impact of what and on whom and where and how this nonprofit's activities are taking place.

To answer such quality questions, then, what performance measurement approaches should not-for-profits use? A simple answer includes both qualitative and quantitative study methods, as well as both long-term outcomes and short-term processes. Examples abound in the literature. This section has not dwelled on the specifics that are readily discovered out there, but on general attitudes and approaches to what is important to know, and how to amass such knowledge while mitigating costs.

Although ***M3***'s mission and merit axes are connected, they are also inherently different. Merit also has connections to and differences from the money axis, which we covered in the last section. The issue with this merit/money relationship, as many have argued, is that there is a tendency among nonprofit internal performance measurement systems to focus on such financial matters as expenditures, donations, grants, and sales, rather than quality, impact, and outcomes.

Financial matters are indeed critical to nonprofit sustainability, but they play an enabling or constraining role. Simply put, financial matters are not the primary role of a nonprofit's mission and goals. A narrow focus on money avoids the true measurements of nonprofit success: how effectively and efficiently the organization's programs serve the needs of their clients and constituencies.

The following sections will summarize the benefits that using the three-dimensional ***M3*** strategic portfolio approach can bring to any not-for-profit. It will also expose some of the research undertaken to test the portfolio model in the field. Also included, will be more useful and interesting examples of nonprofits that have already successfully embraced answering all three challenges presented by ***Mission***, ***Money***, and ***Merit***.

Part III

Moving the Nonprofit Forward

8

Enhancing Internal Communication

> "Your assumptions are your windows on the world. Scrub them off every once in a while, or the light won't come in."
>
> — Alan Alda

> "There go the people. I must follow them, for I am their leader."
>
> — Attributed to Alexandre Auguste Ledru-Rollin

> "The greatest obstacle to discovery is not ignorance; it is the illusion of knowledge."
>
> — Daniel J. Boorstin

8.1 Decision-Making Communications

Effective communication is a vital component in decision-making. The management literature and our long personal experience lead us to offer two critical reminders. The first is the importance of communicating the leader's vision clearly to those who deliver the services and products. The second is the value of seeking input and feedback from those managing the operations, those interacting with users, those who can anticipate the impact (both positive and negative) of potentially risky decisions, and those who can offer new ideas or new approaches that strengthen leadership judgments. Collectively, such communication leads to more sustainable and successful outcomes.

The goal of obtaining the best knowledge, experience, and input from others, is not necessarily to arrive at unanimity or consensus, but to welcome new ideas and create opportunities to learn. Effective communicating then becomes the essential substance of any decision-making framework or structure. However, in the end, the leader must lead.

> "Speech has allowed the communication of ideas, enabling human beings to work together to build the impossible. Mankind's greatest achievements have come about by talking, and its greatest failures by not talking. It doesn't have to be like this. Our greatest hopes could become reality in the future. With the technology at our disposal, the possibilities are unbounded. All we need to do is make sure we keep talking."
>
> — Stephen Hawking

Whereas communicating — or talking, as Stephen Hawking celebrates — is indeed positive, let us remember that not just any communication is positive or useful, as some input can be unhelpfully distracting, negative, or even destructive.

Our ***M3*** portfolio approach, with its visual and technological features, is specifically designed to improve communication about strategic or tactical decisions. We will demonstrate how the M3 approach accomplishes this by summarizing some experiences in the field.

8.2 Exploring the M3 Portfolio's Communication Benefits

We began our field tests and consulting explorations into the usefulness of ***M3***' for strategic communication and decision-making with the acknowledgment that not-for-profits can be highly complex organizations suffering shifts in leadership, uneven knowledge and commitment levels of board members, arrivals and departures of managers and professionals, unexpected regulatory changes, insecurities in presumably stable funding, pressure from donors or members to modify existing missions, and the huge and increasing demand today on delivering their services.

Nonprofits often face frequent turnover, at both the board level and the staff or volunteer service delivery levels, thereby making the need for communication, both up and down hierarchies or across matrix organizational structures, somewhat demanding. As well, when making strategic decisions to influence the organization's future, the need to have at hand relevant historical knowledge of what worked and what did not can become increasingly difficult in the face of these changes.

Such challenges can no doubt make strategic decision-making overwhelming. Our study's aim, therefore, was to find out if the ***M3*** portfolio approach could offer communications solutions to mitigate some or all of such challenges.

Designing the Decision-Making Process

> "It's hard to find an organization where no decision crosses an organizational boundary, where decision-making never involves groups with different objectives, where the responsibilities of teams and individuals, staff and line, never conflict. These are the points of intersection where gridlock tends to occur. The organization stops dead in its tracks, not on the substance of an issue but on how a decision will be made. If it's implementability you're after, you must be as clear about decision-making as you are about product and service delivery. You must:
>
> - Designate the key decisions needed to execute a strategy
> - Identify the critical issues, data, and analyses required
> - Enumerate the roles and accountabilities of each individual and group involved
> - Describe the process and timing by which the necessary people and information will all come together"
>
> — Gadiesh and Olivet, 1997, p. 59

What we learned in the field developed over two stages: the first involved the experience that individuals in a variety of nonprofit organizations had with using the ***M3*** portfolio decision-making approach for the first time; the second stage involved subsequent uses of the model. To share our findings, we will describe some experiences from the field and then highlight the conclusions we reached.

To clarify the process by which the field consultations occurred, here were the steps:

1. ***General introductory session:*** after receiving the agreement of the chief executive officer to involve the organization in our testing, their management team was selected, then called together for a meeting to receive an oral and visual presentation of the history and conceptual underpinnings of the ***M3*** portfolio approach. At the end, all were asked whether they would be willing to contribute to the testing and provide as much feedback as possible. In all cases, everyone agreed.
2. ***Defining the programs:*** the next step was meeting with the nonprofit's financial or other administrator with the clearest knowledge of how the organization was structured in order to learn how the nonprofit currently broke down programs and tracked costs and revenues. This was followed by a meeting with the chief executive officer, sometimes including a few senior managers, to confine the programs to fewer than a dozen programs, as well as describe the content of each.
3. ***Private meetings with individual participants:*** each participant would begin by receiving the agreed-upon program breakdown and rating system, then enter their assessment of how each program stood on the mission, money, and merit axes into the prepared database presented to them on a laptop computer. In case anyone had questions or problems with the process, they received the help of the researcher or consultant who sat with them.
4. ***Concluding meeting:*** this second all-participant meeting would demonstrate how their anonymous input appeared in the multi-dimensional visual matrix, including the collective

organizational average as well as some individual extremes. This presentation was followed by an open discussion, involving reflections and critiques, as well as our question to them about the usefulness of this approach to their organization.

8.3 Findings from the First Stage

8.3.1 General Introductory Session

As noted, our early field research and later consultations all began with the presentation of the portfolio approach before the senior management team. In some organizations, we immediately received intelligent and provocative questions, including such missing intangibles as politics and policies, or how narratives could be added to the system. The candor here was impressive, suggesting that the organizational culture was healthy with management open to input.

Other ideas and questions that came forth included whether building and space costs were important, and if so, how could these be added. Also, under different historical circumstances, some wondered, if axes should be weighted differently. A few partcicipants immediately saw that there was great value in illuminating cross-divisional or cross-disciplinary demands on other units. In other words, some suggested that colleagues would know and should know better what costs were imposed on others.

Conclusions from the introductory meeting:

- If organizations wanted to gather information from different areas or to explore different approaches, and therefore needed to expand or transform their ***M3*** model, it would be possible to do so. The model turned out to be inherently flexible. However, we also concluded that to begin or to establish a comfortable, trusting foundation for decision-making discussions, the three-dimensions offered were adequate — in fact, as it turned out, more than adequate to launch meaningful communications.
- The organizational histories, especially those involving the experience and strength of leadership and management,

noticeably influenced people's early assessment of the model. In some strongly led, mature organizations, everyone easily communicated at the start, most contributing from sound knowledge, experience, and confidence. In newer or less strategically experienced nonprofit organizations, there was more silence and fewer critical questions. So readiness for the portfolio approach varied depending on the style and grounding of existing management. Nonetheless, as we later learned, the ***M3*** approach opened and strengthened communications and learning by those who participated in the testing.

8.3.2 Defining the Programs

Given that organizations structured themselves differently, we expected that defining the programs would be one of the more difficult stages to get through. By seeking the advice of the organization's financial officer about how they broke down their operational or cost centers, we came across a mix of organizations. These included some with interdisciplinary teams operating in an overall matrix structure; some small organizations with no apparent structure, other than single staff and volunteers working on their projects; some larger organizations with clearly defined structures, albeit virtually all with more than the maximum twelve units that we sought for the system, and surprisingly one with even fewer. In all but that one organization with its clear breakdown of fewer than a dozen units, we worked with the executive officer and sometimes other senior managers to integrate or rearrange some units.

Interestingly, in several nonprofits, managers, sometimes very senior managers, acknowledged that they had not thought fully about their organization's portfolio, concentrating only on what they themselves were working. Some even said they were "not interested" in knowing more. However, later, when going through the ***M3*** portfolio exercise, they openly acknowledged that they "should" know. Otherwise, they now admitted, they felt less able to contribute as effectively as they could to strategic planning.

Conclusions from the program-defining step:

- As expected, the financial officers provided the most useful introduction to the breakdown of units in any organization. But frequently, we found that this information was neither passed on to other managers or board members, nor was it communicated in a way that non-financial people could readily digest.
- Despite discovering such a wide variety of breakdowns of programs in different nonprofits, we found that by working with senior people, virtually all were able to consolidate these units into fewer than a dozen programs. Not only were they able to do so acceptably well and apparently easily, but the results were often more illuminating for managers and board members who expressed that they now had a much clearer understanding of what their organization's portfolio of activities actually was and how they themselves fit in.
- Once the programs were agreed to, we learned that it was not enough to simply name them, but to provide a short description to communicate what each contained. Although this was not necessary in one mature organization that had already clearly defined its programs to less than a dozen, it was needed for those structured in more complex ways or were new and still evolving their operations and units.
- Our proposed rating system was accepted readily by everyone, though some suggested that they might want to adjust these for their specific needs in future — something clearly possible to do. Most importantly, the dimensions and scores on each axis would become an effective way for managers to discuss the various programs and their value or cost to the organization.

8.3.3 Individual Rating Meetings with Participants

Once the programs were defined and placed into a familiar database structure, it was delivered at the agreed-upon time to each contributor on a laptop computer to input their ratings. As noted, all identities were kept confidential. Whenever available, each participant was handed the organization's mission statement to help guide them on their assessment of each program against advancement of mission.

Because the process was new to everyone, as each person entered their rating of each program against the mission, money, and merit axes, help was available in case they had questions or in case there were glitches in the process. This gave us unexpected access to some of their openly expressed thoughts as they worked through the process.

Overall, many participants were relatively consistent in their evaluations of the programs on each of the axes, but in a few organizations, views were quite diverse, both among programs and across axes. The latter primarily occurred in nonprofits that had devoted only limited attention to strategic decision-making, organizations that had several new managers, or where participants saw themselves as representatives of alternative publics or interests rather than viewing the organization as a whole.

8.3.3.1 The mission axis

When it came to rating how programs advanced mission, virtually everyone expressed confidence when inputting their ratings. But when listening more closely, it appeared that some were rating what "should be" the work of one or more programs relative to mission, not what these programs were in fact currently delivering. Some expressed this ambiguity most clearly as being a temporary downside or failure in sticking to mission for environmental or financial or political or leadership changes that had occurred or were occurring. Despite that, a few believed that these programs were still advancing mission.

As one would expect, participants differed in their assessments, some in minor ways, some in striking ways, and sometimes for unexpected or creatively differentiated reasons. The variation often depended on an individual's particular role in the organization and/or their long history in the nonprofit where the past apparently influenced opinion, rather than a more objective assessment of the program's current contribution to the nonprofit's current mission statement.

One of the most intriguing cases that arose from this exposure is highlighted in a box in Section 5: The Mission Axis. In essence, it dealt with the rating of mission advancement by two senior managers in a large North American regional museum regarding that year's special exhibition. Although both had the museum's mission statement in front of them, one of them rejected it, drawing out his preferred statement produced a few years ago.

The first individual rated the current year's exhibit very highly given that it had been produced collaboratively with an aboriginal community in their region. The person then added that he would have given an earlier exhibit a low rating because it had to do with a long-dead European artist — a subject that had nothing to do with their real mission.

The other person, however, rated the current year's exhibition quite low because the person said that, despite working with one of their regional communities, few visitors had come to see it. So "obviously, it was not relevant to those living in the region being served by our museum." On the other hand, this person acknowledged that he would have given the earlier exhibit very high marks because it drew in huge crowds, and "thus served their region and mission exceptionally well."

Given these diametrically opposite opinions, we looked forward to hearing the discussion that would ensue about what the current mission statement really intended and how one or the other exhibits would advance or not advance it, and why. Apparently in this dramatic case, mission statements had been changed, and changed frequently, by board members in some apparent secrecy without involving management or professional staff. The apparent reason was that the continual rewriting of the mission would make them look as if they were actively influencing the direction of the organization, especially in light of their close relationship to government.

Interestingly, in a few organizations, having the mission statement before them while undertaking the rating was very helpful because many either never considered it or could not recall what it said. If nothing else, the ***M3*** process helped to communicate the organization's mission to its senior managers. By contrast, in one strongly led and well managed organization, everyone knew exactly what it said and could quote parts as they proceeded through the rating.

8.3.3.2 The money axis

With regard to the money axis, many had great trouble assessing overall costs and incoming revenues that could be attributed to a program. Some managers expressed limited knowledge of the budgets of others' programs, and occasionally even their own, though often that did not stop them from making their ratings. A few added that they "should know." Some recognized that they would need to spend more time with the organization's financial officers to better understand the finances of their own unit, as well as of other programs that the nonprofit operated.

Interestingly, we found that in some organizations actual revenues and costs were concealed for political reasons. In one nonprofit, gift shop revenues were hidden because there was fear that the government would take such income away. Instead, revenues were secreted via convoluted paths into mission-specific programs or transferred to their volunteer organization which then returned them as a donation. Also, in this particular nonprofit, fund raising income was allocated directly to programs with no record shown in the development office — again to hide this income from government.

In a different organization, all fund raising income was recorded in the development office, making it a very rich program indeed, while other programs, which were the reason donations were given in the first place, appeared poor. So the two extremes — either allocating all development money to programs or allocating all funds to the development office, made rating the money axis rather difficult for many.

Also, the role of fund raising in relation to mission and merit created confusion. Some stated that a development program could never advance mission, while others said that as their work directly supports mission-advancing programs, it had to be advancing mission. A development manager clarified that not everyone knows how fund raising is performed. To appreciate the contribution development makes in supporting missing-related programs or even how well it is being performed, others need to understand that officers may need to spend several years wooing a client before donations, if any, are received.

8.3.3.3 The merit axis

Often there was confusion expressed about the mission and merit axes, with some concluding that if the program advanced mission, it must be well performed. In most nonprofits, many acknowledged with some embarrassment that as no evaluations were being done, they could not properly rate programs.

In one organization, in this case a large North American aquarium (similar to the illustration in Section 4: Building the ***M3*** Portfolio), in which all were very familiar with the mission statement, the matter of merit remained complex. When it came to rating the programs on the merit axis, one person considered more highly the quality of care they were providing and the visible changes they were making, especially in the minds of younger people in respecting wildlife. Still others felt that the aging building and some inadequate environmental systems made animal care "less than exemplary." The need for more formal program evaluations was suggested by several to resolve some of their confusion about performance.

In one highly regarded social service organization that had never before undertaken formal performance evaluations, their recently adopted accreditation process had revealed new information on the relative merit of one of the organization's programs compared to that of its peers. So to reduce waste and deliver services more effectively, the society negotiated with the other society to take on their services. During their collaborative process, they discovering that by working together this way, both societies could focus better on what they were doing well, what could be improved, and what they could learn from each other, and sometimes even share critically needed services at far lower costs.

As a result, not only were they now doing more, they were doing it with less. Having thereby understood the value of evaluations, the director began conducting more studies, all contributing to quality and the society's growing reputation.

8.3.3.4 All axes

In summary, not all senior managers understood the contributions of each program to the three axes of mission, money, and merit. They tended to have a better understanding of programs they directly managed or had experience with, and would often make inappropriate assumptions about other programs. As noted, often individuals were unable to separate mission advancement from performance.

Conclusions from the individual-rating step:

- The critical importance of communicating mission statements was reinforced. Without such reinforcement, many senior people could not assess appropriately what program advanced or did not advance that mission, and thereby one had to question whether the organization was working most effectively and efficiently toward a commonly agreed-upon goal. At a minimum, senior people need to be involved in producing, reviewing, and revising mission statements so that all can understand the real intent of the organization's mission. Similarly, as turnover in nonprofits is a fact of life, the organization needs to be continually proactive in communicating the mission to new employees and volunteers, whether in senior or entry level positions.
- Because of the complex and varied ways in which revenues from gift shops and fund raising are allocated to different programs, this becomes one issue that needs further clarification — something we will do in Section 9. As consultants with an aim to helping nonprofits make positive progress, it is our view that the need to disguise or over-simply and under-communicate allocations of revenues and costs is misguided. While there may be some apparent short-term gains from these practices, in the longer term, it will surely lead to less effective decision making.
- With regard to assessing merit, the ***M3*** approach encourages nonprofits to see the benefit of undertaking program reviews and evaluations to ensure that they were in fact delivering what they believed they were. However, flexibility is needed

to reassess standards as well as time periods. We also suggest that the cost of running studies is not a good reason for not doing so, for costs can be significantly mitigated by more creatively seeking volunteers, students, grants, donations, and existing statistics to support these costs.

- We certainly learned how imaginative were the assumptions and interpretations that many people brought to the exercise — assumptions and interpretations that were not shared usually with colleagues and sometimes apparently not even with themselves. For example, this exercise exposed that some people's standards appear to be more focused on what *should* be or what *has been*, as opposed to what *is*, or that individual perspectives outweigh a balanced, comprehensive view of the entire organizational portfolio. Given that the ratings will be used in subsequent meetings, it confirmed the critical importance of enhancing communications. And as pointed out, it is here that the ***M3*** portfolio approach works especially well.

8.3.4 Culminating Meeting

Once everyone's input was entered, and the graphics created, participants from each organization met again to view the results presented visually on a large screen. What they saw first was the average of everyone's rating of each program on the mission, money, and merit axes.

There were mild reactions, hmms and nods to the averages, but more dramatic reactions, when differences and extremes were shown. These drew on the most positive and most negative input that anyone had provided, as well as the averages of any one individual. As the colorful program spheres danced dramatically before their eyes, there were shaking heads, wrinkled foreheads, and gasps as individuals examined the differences. Often also, there was laughter.

As averages and extremes continued to show up on the screen, many leaned back in their chairs, apparently to reflect on these unexpected differences. Some were apparently recalling their own ratings, comparing these to their colleagues' ratings as well as the collective average.

Measurement issues sometimes arose. One executive director sought to know if there was a difference among individuals who always rated programs high or always rated them low in order to understand whether the programs were indeed highly or poorly assessed or whether certain individuals had styles of assessing that skewed the results.

The process also helped to surface situations where the manager of a program had high ratings not shared throughout the organization. This could lead either to the manager convincing others that his/her program was actually performing better than others perceived, or the manager having to accept that judgments about one's own programs were biased.

Eventually one or two people would say why they had rated this or that program high or low, bringing others into the conversation to share their ratings and underlying assumptions. As more people communicated their thoughts, others would join them. Some acknowledged that they were unhappy to find their personal ratings differed dramatically from those of their colleagues; others challenged their colleagues to rethink their assessments. These conversations typically became more lively, more open, and more positively exploratory as the session proceeded.

Attention also went to the overall balance of the portfolio. If the overall balance was positive on all the three axes, then most in the room were contented with the result. If some axes were negative, then more attention focused first on why there was a negative result, and whether it was due to a problem in a single program or was an overall organization issue. Sometimes, managers challenged the measurement process, but more often the conversation focused on the more substantive issues. (In the final section, we will explore more fully the issues involved in obtaining organizational balance.)

At the end of the meeting, most declared that they had found the exercises valuable, some very valuable. Their comments touched not only on how much more complex the organization now seemed, but also how much more understandable was this complexity. Some admitted how much they really had not known, but should have, and how many new conversations they now were looking forward to having with their colleagues.

When the chief executive and, at times, board chair, entered the dialogue, many offered appreciations to their staff and board members for their candor. One mentioned in particular how the process was dispelling organizational myths — "especially the more negative ones." Several said they liked the idea of improving the knowledge of people contributing to this organization, and some added that they wanted to run the process through for others as well — both lower-level staff and service volunteers, as well as more board volunteers, and even some community or government representatives.

Near the conclusion of the session, one executive director stood up to make a strong speech about his view of the organization, where it had been, where it was going, and what opportunities and risks lay before them. One person whispered happily that this was the first time he had ever heard such a clear explanation, making future communicating and decision-making so much easier and more effective.

Additionally, individuals offered positive ideas of how to use the model for management training, and strategic planning. As one said, "It turned on a light switch for everyone. Going through this exercise focused our discussion in ways that nothing else had done before. The value of the model would be also to track progress and provide a tool for important discussions." One of the individuals who had recently come from the private sector even commented that "this is not just a tool for nonprofits, but would be immediately applicable to for-profits as well."

Another leader stated that "this was the best management tool he had seen: despite the dozens of workshops, conference, and seminars he had attended in his life where big name people present zoomy graphs and tell other how to plan and make strategic decisions — most of which he now thought were "fluff compared to this."

Conclusions from this final meeting:

- Because of the possible embarrassment of some people and any potential unhelpful criticism of colleagues, running this first exercise anonymously was critical.
- Managers who had initially focused on their own program, began to open their focus to the organization as a whole.

As they better understood the strategic positioning of other units, they felt more able to contribute to real strategic decision-making.

- From the feedback, the ***M3*** approach has as much value for developing productive organizational communications as it does for quantifying or qualifying specific factors in portfolio reviews or strategic decision-making.
- Learning takes place, and visibly so, during the organization's first use of the tool.
- As people appreciated how much they had learned and how valuable was the experience of truly understanding the entire organizational portfolio, they saw the potential value of involving individuals at lower organizational levels, as well as those external to but involved with the organization. The ***M3*** approach can be both rolled up from below and dropped in from outside.
- It is helpful, especially for executives, to learn about people's inclinations to always mark high or low, then assess the variance and central tendencies. Otherwise, there could be an inappropriate skewing overall of program assessments that would skew results.
- Managers and professionals expressed great interest in the communication process, in some cases more than their leaders. The portfolio approach illuminated issues with which they had been struggling and did so in a relatively safe way. The exercise also gave them easy and clear access to the leader's vision and plans. By focusing on the visuals, and not on each other, they felt they were making progress toward difficult decision-making, resolving long-standing inter-program or collegial conflicts, and exposing constraining organizational myths and untested assumptions.
- Consultations revealed that there are many component parts, each with its own challenges; that managing the organization requires an integrated approach across the various programs, and that the three dimensions are useful in strategically analyzing the various programs.

8.4 Findings from Subsequent Stages

After the first round, most individuals completed their spreadsheets by themselves, making our main role the facilitation of group meetings. By now, most individuals chose to no longer protect their identities, so communication became more open.

When the summary presentations were again made with its spheres dancing on the screen as the presented clicked on links from collective averages to individual high and low extremes, the communication turned much more quickly to seeking explanations for why and how people had arrived at their ratings. It was now less about challenging one another, and more about learning.

Individuals also almost automatically exposed their underlying assumptions, assumptions that they had either kept to themselves in the first meeting, or had not even acknowledged to themselves that they held these thoughts. They asked better questions, more profound ones, questions that led to better answers. Many also learned to focus on areas of silence, prodding their colleagues to share their thoughts. And increasingly often, this happened as people felt safer, felt that criticism was not as much personal as an innovative search for better solutions to complex organizational issues.

In most cases, communication at these later meetings turned openly and efficiently to dealing with decisions and changes that the organization needed to tackle to improve overall program balance as well as individual program performance, including undertaking evaluations, cleaning up confusing mission statements so that everyone was on the same page, and asking financial officers to provide clearer accounting information so that all could contribute to improving revenues, reducing costs, and ensuring a higher likelihood of long-term sustainability.

As we discuss more fully in the last section, the ***M3*** process helped executives understand why some programs might be dropped while others gained resources, and to explain decisions both to the board and to the staff.

Also, some organizations began to take the exercise to the staff and volunteers in many of their programs to both seek deeper understanding of how these individuals understood their roles in the nonprofit. One organization even took it to some of the government and community representatives who were closely involved with their mission and funding. All expressed a positive sense of how valuable these broader exposures in communications had been.

In brief, the ***M3*** approach worked exceptionally well to significantly enhance communications, to dramatically increase individual and collective learning, and to confidently move the organization to improve mission statements, establish program evaluations, and better inform these senior people what programs cost, what they brought in, and consequently what improvements could be made in the short and longer terms.

We also concluded that, by opening up what had been hidden, the feeling of trust grew noticeably. Managers tended to stop focusing just on their own programs to now focus on the organization as a whole. When program managers better understand the strategic positioning of other units, they could better understand how organizational resources can be deployed, and why some programs need more resources, and why others may even be dropped.

The portfolio matrix is a way of preserving organizational history and thus a means of communicating as new people come on board. A completed portfolio analysis helps communicate organizational strategy and performance up and down the organization. Up the organization, it was being shared with board members and even funders. Down the organization, it was now being shared with operating managers, staff members, and service volunteers.

In some instances, we saw it justifying the need for cost control or for quality improvement. In other words, the finished portfolio document had a communications value in and of itself.

8.5 Summary

> "The reliability of the person giving you the facts is as important as the facts themselves. Keep in mind that facts are seldom facts, but what people think are facts, heavily tinged with assumptions."
>
> — Harold Geneen

> "First learn the meaning of what you say, and then speak."
>
> — Epictetus

> "The trouble with people is not that they dont know, but that they know so much that ain't so."
>
> — Josh Billings (Henry Wheeler Shaw)

> "Quality questions create a quality life. Successful people ask better questions, and as a result, they get better answers."
>
> — Anthony Robbins

> "To be conscious that you are ignorant is a great step to knowledge."
>
> — Benjamin Disraeli

Drawing the best out of those who contribute to decisions is critical for making progress.

A key component in communicating is not simply about talking, but listening carefully to the points of view of others to draw relevant meaning out of their comments. Another critical component is both listening to what is being said, and what is not being said. And finally, something that we often forget, one needs to also listen carefully to oneself.

The riskiest situation is for individuals in critical decision-making roles to not fully understand what they know, what they don't know, and what meaning they are conveying to others around the decision-making table. We also discovered that some based their arguments on underlying assumptions that were not openly expressed to their colleagues, and, more interestingly, assumptions that they apparently did not acknowledge even to themselves, or simply assumed were shared "facts."

The questions these discoveries posed for us initially were twofold: (1) how effective were the organization's decisions, and (2) what learning was taking place among the important decision-makers? We have answered these in sharing our field experiences, but we might also conclude that asking good questions is always a good beginning.

Another answer to our question is that by openly sharing our assumptions, listening to others, and acknowledging differences in opinions, we can move the organization collectively to greater success. The need is for all is to acknowledge what we know, what we don't know, and on what assumptions we are basing our contributions to decision-making. As Disraeli emphasizes, such openness and honesty in most organizations needs to begin in a safe environment. Again, here is where the ***M3*** portfolio approach comes in.

As we argued at the beginning, what this approach seeks to do is enhance and enrich communication so that the organization can arrive at the best possible decisions. The point is not to seek unanimity or consensus or some sort of noncontroversial committee agreement, but to create an environment in which innovation, best practices, and productive new ideas can flourish. And as our consultations in the field indicated, this actually happens.

In the end of collective deliberations, it remains the responsibility of the executive leader and/or Board to make a final decision on behalf of the organization — a decision that becomes stronger, and whose delivered outcomes become more productive, after hearing the best possible thoughts of others.

Employing the ***Mission, Money, Merit*** portfolio framework can make a positive difference by visually summarizing and simplifying the complexity of the organization, and by drawing the best out of those contributing to the overall effort of the not-for-profit in delivering its valuable social and environmental services, be it in small local operations or large international ones.

> "One man with courage is a majority."
>
> — Thomas Jefferson.

This quote by Jefferson has been connected years later to Abraham Lincoln's presidency and courageous leadership this way: After his cabinet all voted "Nay" on his emancipation proclamation, Lincoln raised his hand and said, "The Ayes have it!"

9

Positioning Fund Raising in the Portfolio

"In good times and bad, we know that people give because you meet needs, not because you have needs."
— Kay Grace

9.1 Allocating Funds in the Portfolio

Fund raising has become a major component of a nonprofit's strategy. By working with various nonprofits on the ***M3*** portfolio approach, we found that many managers had particular difficulty in assessing fund raising's performance on the three axes of mission, money, and merit, and so we have devoted this separate section to these issues.

In Section 8: Enhancing Communications, we describe the significant disparity in managers' and board members' opinions about how to assess development activities, not only against the money axis, but also the mission and merit axes. This disparity made it more difficult for management to undertake sustainable strategic decision-making because there was little understanding about how funds were actually being attracted. Without such clarity and agreement, it was difficult to further enhance the most successful approaches or correct troublesome ones.

Gift shops, cafés, and other retail outlets have become important sources of funds for cultural organizations, universities, and other nonprofits with physical sites. Such revenue generating sources are reasonably easy to situate within the ***M3*** portfolio, but doing so for fund raising or development, and other newer sources of income, is not always as straightforward.

Some gifts and donations, grants, or sponsorships, are designed for specific projects or programs, and thus readily allocated to a program sphere; however, there are others which are so unspecific or general or dispensed over long periods that finding a way to acknowledge this income visually requires careful consideration.

The goal here, as elsewhere in the portfolio approach, is to ensure that management can understand clearly how any income contributes or what it may cost the organization in money, mission, or merit, and thus make strategically effective decisions about both programs and fund raising approaches.

In this section, we will explore a number of practical options focusing on the more difficult allocations of fund raising or development income. To provide context, we begin by sharing our experiences with some nonprofit organizations. Then to help avoid the potential harm of some donations to mission or performance quality, we offer some cautionary tales and practical solutions. We begin with the money axis, then mission, and finally merit.

9.2 Relating Fund Raising to the Money Axis

9.2.1 The Field Experience

The conundrums that managers face can be illustrated with the following two extreme examples touched on in Section 6: The Money Axis.

In one organization, all fund raising monies were accounted for in the development office, not in mission-advancing programs that may have worked to bring in the funds, and where the funds were most likely intended to go and be spent.

Thus development received the visible "credit," while mission programs were treated as recipients of development's "generosity." In the other organization, all raised funds were immediately accounted for in the programs, leaving development to appear on the sidelines with no clear accounting or organizational acknowledgment for their role in raising donations.

Both were unnecessary extremes in allocating funds — although in the second example, as noted, the argument made was to hide these funds from government given the fear that government could reduce operating grants if it perceived that the nonprofit was overly effective in raising its own funds. More than the pragmatic issues discussed here, the ethics of such an approach are the most serious concern.

Moreover, given that money can be allocated to programs using the management accounting principles discussed in Section 6, more accurate and informative approaches are available and should be used. As the ***M3*** portfolio works principally for the use of management to better see how the parts of and the whole organization are performing, applying such rigor is highly useful. Again, we caution that any internal financial or external regulatory accounting work can exist in parallel, as long as the organization is behaving in an ethical way.

9.2.2 Allocating Development Funds on the Money Axis

To illustrate how either of the two extremes of allocating raised funds, either fully to the development office or entirely to mission-related programs, can limit management's understanding of the situation and thereafter make progress, following are graphs of the money axis showing the two extreme examples noted above. A third graph suggests a more balanced and informative alternative.

First, if all funds are allocated to development, the ***M3*** money axis would look like Figure 9.1. (Note that for ease of illustrating our argument, we have assumed that none of the three mission-delivery programs — examples A, B, and C — bring in any other revenues, and thus are represented here initially as cost centers. The next two examples continue to only include development funds.)

Reminder: The size of each sphere denotes only the cost of the program. The location of thesphere on the axis balances this cost with any incoming revenues attributed to that program.

Fig. 9.1 Visualizing programs on the money axis if all development funds raised are counted in the development office.

Clearly, this view does not let management visualize what programs are contributing and, therefore, what changes may need to be made to correct problem programs or to enhance highly successful ones. The three mission-advancing programs all look expensive and non-contributing, while development is excellent beyond reality.

Second, if all funds are allocated to programs, whether or not they themselves actually contributed to the raising of these funds or whether the donors specifically identified that their funds go there; and if none of the incoming funds are reflected in development, leaving that program to show that it is not even covering its own costs, the money axis would look like Figure 9.2.

Fig. 9.2 Visualizing programs on the money axis if all development funds raised are counted within recipient programs.

This could make the viewer perhaps too hastily question what the development office is achieving if most programs can apparently support themselves. Obviously, one would figure out the reality, but again, it does not reflect directly which programs are contributing to the task of fund raising or are actively attracting donors, and therefore where change may need to be made or where management can better learn what constitutes best practice.

To balance those two extremes, and to illustrate an approach used by many nonprofit organizations, we suggest the use of sound management accounting principles to allocate fund raising revenues and costs, which here would lead to the situation in Figure 9.3.

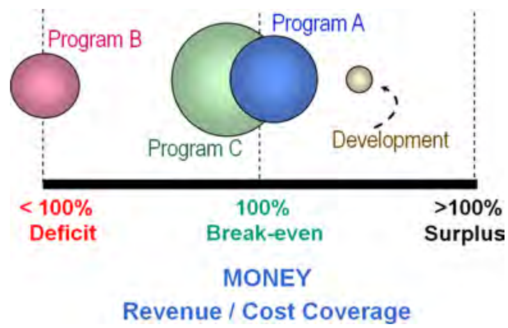

Fig. 9.3 Visualizing programs on the money axis if all funds raised are allocated more precisely to those contributing to the raising of these funds.

We now see that development is covering its own costs, bringing in funds that support the organization as a whole, as well as contributing directly to individual programs. Given that this fund raising work is highly effective and based on the general purposes of the not-for-profit, development shows up well past the break-even line. Program A, the medium sized sphere, is attracting a noteworthy level of gifts, donations, and sponsorships, thereby more than covering its own cost. Program C, the most costly program, while not covering its own costs, is approaching the break-even line.

Program B now shows up as being significantly costly to the organization. It remains at the extreme deficit line with funds neither coming in from development contributions nor other means. There may be good reasons for this depending on the kind of program it is, but at least now management can focus on why its revenue/cost coverage is so poor. Is it because the services are unattractive to any funders, or are those managing the program not working effectively with the development office to bring in donations, grants, or other funding sources? Or is this something over which no one has control, such as dealing with a difficult to reach population that is not attractive to funders?

The questions that arise for management to consider now are clearer and far more useful to strategic decision-making. For example, how much are programs A and C doing on their own in raising of funds? How is development contributing to that? If they are working effectively together, are there ways to make these collaborative fund raising activities even more successful? Or is there some innovative way for program B to also attract funds, or, depending on its mission-advancing role, is the only reasonable option to reduce its costs so it becomes a lesser burden on the organization? And if development is so effective in raising funds on behalf of the whole organization, can even more be done to support growth or reduce deficits? As well, why not now consider seeking new fund raising strategies by surveying other nonprofits?

9.2.3 Synopsis: Allocating Development Funds within the Portfolio

Although we recognize that making these funding allocations within the ***M3*** portfolio's money axis is difficult, here are some useful principles to make the process easier. A practical approach would be to separate the allocation of costs and incoming funds to mission-advancing programs from those going to development in these four ways:

1. Funds raised only by the development office on behalf of the whole organization might be counted fully in development. These are often endowments, major capital grants, estates and wills, annual campaigns, or similar donations.
2. Where a mission-advancing program has done all or most of the work in attracting funds and when these funds are for specific projects or program activities, including corporate sponsorships, then all of the monies would be allocated there.

3. If the development office has contributed significant time and expertise in partnering with the program in the raising of funds, then an appropriate percentage reflecting its effort might be transferred to that office.
4. In situations 2 and 3, the cost of raising funds, amounts which change the size of the program sphere, should also be allocated to the relevant programs.

As emphasized in the last section on enhancing communications, communicating costs and contributions to the management team and board members is key to making ongoing progress, not only in personal understanding and learning, but also in organizational sustainability and operating success. Recognizing those who make contributions is part of a healthy organizational culture and process.

9.3 Relating Fund Raising to the Mission Axis

With regard to the increasing focus on bringing in more funds, we offer some cautionary tales on its potential impact on mission. But we begin by describing some examples of how individual managers and board members perceive the activities of development regarding the organization's mission.

9.3.1 The Field Experience

As described in detail in Section 8, many managers had difficulty assessing the mission contribution of development or fund raising activities. Some said that development's role was merely to raise money and in no way related to organizational mission. Others commented that development's role directly contributed to mission by supporting the organization's mission-advancing programs. One manager added that given the expertise of the development office, they were able to identify and highlight attractive mission-related activities to donors and sponsors, activities that the program itself simply assumed everyone understood. They themselves had not found a way to communicate their own value and thus reach potential funders. Here development was more positive than passive.

Within any one organization, many managers perceived that general giving (e.g., operating grants, endowments, some sponsorships, annual drives, memberships, and wills and estates), or giving only to the organization as a whole rated as a non-mission advancing activity, placing development at or below the neutral mission-advancing line. By contrast, those who focused on specific giving that would go to mission-related programs, placed development above the neutral line.

But balancing these two development goals with a single rating left many in a degree of confused discomfort. As a result, managers in most nonprofits rated it close to neutral in mission advancement (e.g., Organization Y in Figure 9.4).

Overall, different organizations exhibited different tendencies. In a few, where development activities were well understood and actively engaged in by managers and board members, development more often rated above the neutral line (e.g., Organization X in Figure 9.4). In some others, however, where development was less well understood or less clearly connected to supporting mission programs, it would fall below the neutral line (e.g., Organization Z in Figure 9.4).

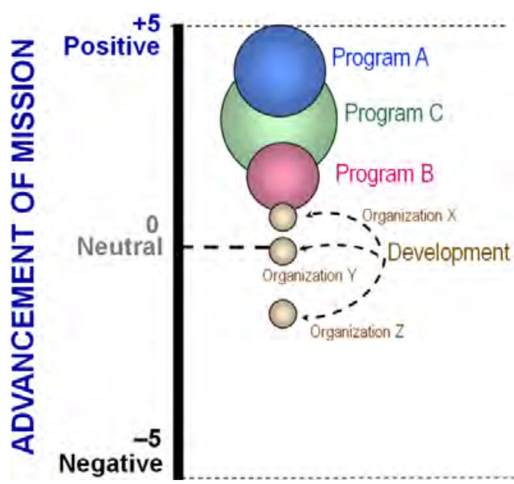

Fig. 9.4 Visualizing 3 trends in rating development against other programs on the mission advancement axis.

9.3.2 Some Cautionary Tales about Fund Raising & Missions

> "Money is like manure. If you pile it up, it stinks, but if you spread it round it certainly helps make things grow."
>
> — Sir Edwin Leather

> "Risk comes from not knowing what yo're doing."
>
> — Warren Buffett

> "First weigh the consideration, then take the risks."
>
> — Helmuth von Moltke

"Father Flanagan's Boys Town . . . appears to be considerably better at fund raising than at child raising."

This now famous quote comes from Benson P. Shapiro's article, "Marketing for Nonprofit Organizations," 1973, p. 124.

He draws on an article from *Time* magazine entitled "Boys Town Bonanza" (April 10, 1972, p. 17), which describes the history of Boys Town, established in Nebraska in 1917, as a refuge for homeless boys. It became a legendary success story, then exposed in 1972 as "successful beyond Father Flanagan's wildest dreams." *Time* adds that "today the institution has more money than it knows what to do with."

Boys Town was rich with a huge endowment, with ongoing annual donation drives, and with land. Its income greatly exceeded its costs, given its use of cheap or volunteer labor. In 1972, Warren Buffett, published the first expose of the Town's finances, showing how the money was going to fewer and fewer "mentally and physically sound boys," instead of expanding to support those with mental and physical problems — or otherwise more needy boys — a service that would be more expensive but well within their financial and space capacity.

As the Father Flanagan's Boys Town example illustrates, raising money must be vigilantly done together with assessing its impact on mission. It also emphasizes that if more than enough money is available, then expanding or renewing mission becomes an ethical responsibility of not-for-profits.

Perhaps the most risky mission-detracting fund raising or development work can involve major donations and corporate sponsorships, as illustrated by the following cautionary tales.

One example involves the nonprofit television channel PBS, the Public Broadcasting System. In its early years, it presented programs with virtually no interference from the broadcaster. Infrequently, but on an understood schedule as the channel needed to raise funds from its viewing supporters, it would interrupt programming to communicate that need, and to appropriately thank supporters for past support and in advance for their potential new donations. The only "advertising" involved reminding viewers about the quality of shows traditionally presented and their commitment to high quality future programs.

As time, costs, and funding needs increased, these interruptions became somewhat more frequent and disruptive, turning some former supporters off, and thereby increasing the need for funds. The organization then sought and received sponsorship support from corporations. To thank these sponsoring corporations, they included them in their gratitude to the public. In acknowledging the support of these businesses, over time they began screening images of their products, thereby looking more and more like actual advertising. This changed the image of PBS. No longer did people clearly identify this channel with a charitable nonprofit, but some increasingly associated it with just another TV channel. The PBS mission was not only changing, but was being harmed. Unfortunately, limited donor support often compels a nonprofit to make difficult choices; the M3 model helps in that decision making.

Another example of the potential damage gifts and fund raising may have on mission involves a major donor offering a huge collection of objects to a museum, objects from a completely different era and part of the world. By offering this gift to an institution that had become world famous for collecting and exhibiting something quite different, its mission was not only significantly altered but it also bore unexpected additional costs in space, curatorial expertise, and support activities for the donor's gift.

The museum now also faced difficulties in communicating its identity at the same time as showing respect for the donor's gift. Nonetheless, over time, as intelligent adjustments were made and the museum moved from a focused collection to a far more internationally diverse one, the donor's collection fit in more comfortably in this now-enlarged mission.

A third example of potential risks arises from venture philanthropy, a recent approach to fund raising. The term comes from for-profit venture capital, applied here to philanthropic goals. Its focus is on capacity building rather than on existing programs or operating expenses, and draws on measurable results — a positive approach to manage new ventures where funders set benchmarks together with the nonprofit. Venture philanthropy funding is usually spread over several years. This close involvement or partnership often involves donors taking positions on the board of the nonprofit.

The potential risks to the nonprofit's mission come from various sources. First, the length of time of project support may see the nonprofit increasingly rely on this new income, perhaps diverting attention from important mission activities. Second, the active engagement of individuals external to the organization, including donors placed on management boards, may skew existing missions. Whereas some of these shifts could be negative, many changes can be welcome, timely, and healthy. Key is the need for leadership to understand the agenda, and manage the opportunity while controlling any negative outcome.

The questions these cautionary tales pose is: Who is driving changes in mission — boards and executive management, or donors and other funders? While the board ultimately needs to determine the mission, the answer is usually quite nuanced. As noted, turning aside major donations that threaten to alter or divert the mission is certainly difficult, although over time and with creative leadership positive adjustments are possible.

Indeed, an intervention from outside can be the push to the organization's mission for much needed change. Given that some nonprofits find themselves stuck in traditional missions and not responding when society, environment, or the world changes around them, then an intervention from outside can be the positive push for needed change. This, of course, is one of the goals of venture philanthropy.

Nevertheless, the threat to current missions needs to be recognized. Regardless, the ***M3*** portfolio approach allows management to more effectively track and manage negative risks and positive opportunities.

9.3.3 Overcoming Fund Raising Challenges to Mission

> "Take calculated risks. That is quite different from being rash."
>
> — George S. Patton

> "Progress always involves risk; you can't steal second base and keep your foot on first base."
>
> — Fredrick Wilcox

> "Donors don't give to institutions. They invest in ideas and people in whom they believe."
>
> — G. T. Smith

> "When we recognize that a better word for fund raising is "friend raising," we open limitless doors to creativity in support of our causes."
>
> — Sue Vineyard

As some organizations illustrate, when leaders and the development office team all have a good sense of mission, fund raising can occur in strategically positive, mission-related, and successful directions. By clarifying mission and developing effective strategies, including preparing for change, fund raising can do much to shape both its own activities and steer gifts in ways that are mission enhancing, both in the short and long terms.

A powerful example comes from one department in a major research-intensive university whose development team assists their researchers by positioning their studies in ways that attract donations. The team works with academics whose scholarly training often makes them critical of environmental and social topics. In the academy, it is the scholarly goal of researchers to expose issues in order to move society and the world forward. And as critical and even negative stories are often preferred by the media to attract public interest, and as such research furthers the careers of the academics, many do not or cannot avoid taking that critical approach. Negative critiques, unfortunately, do not usually attract donors.

Although the development team cannot attempt to change the nature of faculty research nor outcomes or critiques, the team can work together with the researcher to make sure that the research process is understood, to indicate how research findings — even those that are critical of current practices — can lead to positive future outcomes, and to ensure that such constructive results are well communicated.

Many universities have found that making academic experts available to the media to interpret current news events leads to an increased public appreciation of the role of academic research. By helping with such re-positioning, donors are attracted to the essential work of the researcher and become engaged in a shared opportunity to positively change the world.

By attracting otherwise uninterested funders to the faculty's researchers, and thereby contributing to the mission-advancing research role of the university, the development office is, in effect, advancing the faculty's and the university's overall mission to create knowledge, to share knowledge with students, other researchers, and broad publics.

In the process of involving individuals in the community to support further knowledge creation and dissemination, the development team also contributes to community engagement. Enhancing community relationships is often a mission-related role of any not-for-profit. By understanding how to best build bridges between those within the organization and current and potential donors, the expertise and experience of a development team can contribute significantly to mission.

On this same topic, let us briefly turn away from focusing only on development and fund raising, and consider other means by which nonprofits generate income and engage the community. For example, a university bookstore, a museum's gift shop, an environmental advocacy group's t-shirts, a cancer society's wrist bracelets, and a myriad of innovative revenue-generating activities, not only bring in funds, but also develop closer relationships between community supporters and the nonprofit — again, not antithetical to mission if done right.

9.4 Relating Fund Raising to the Merit Axis

The raising of funds, if not done right, not only challenges mission, but can affect program performance on the merit axis, not to mention jeopardizing ongoing sustainability or the very existence of the nonprofit.

9.4.1 The Field Experience

As with the mission and money axes of the ***M3*** portfolio, we discovered not only excellence in practice, but also conflicts, confusions, and eventual clarities in some nonprofit organizations regarding fund raising and performance quality.

Most often, development was rated simply on their success in bringing in funds, rather than on the approaches taken to seeking those funds, building relationships with various donors and sponsors, following up after gifts had been received, and generally providing professional expertise. But sometimes the senior managers or board members who rated programs, were not fully aware of how development conducted their work, nor did they have a clear understanding of what constituted professional work.

So the placement of the development sphere typically showed significant variability within an organization depending on the manager or board member doing the rating. As we described more fully in Section 8: Enhancing Communications, once individuals saw the dancing spheres and discussion ensued on who had rated the activity how and why, people invariably began to better understand what the differences were between high and low performance in fund raising.

In a few cases, some had perceived that if a donor had attached strings to a gift, often a major gift, it was because of the less than skilled performance of the development office. Others pointed out that it is never easy to turn down a major gift, even if it does threaten mission or program performance. This too common and highly troubling occurrence takes us to some more cautionary tales, here regarding merit.

9.4.2 Some Cautionary Tales about Fund Raising & Performance Quality

The impact of fund raising can negatively affect not only mission-advancing programs, but also the development office or organization itself. The first three tales provide examples of the former, the rest, the latter.

As our first cautionary tale in the mission section above, we described how PBS changed the way it publicly acknowledged its corporate sponsors, thereby negatively affecting their stated mission of presenting TV programs without appearing to be advertising. When considering the merit or performance axis, one can make an argument about the negative impact of even interrupting programs with drives for money. The very fact of interrupting programs with such drives, especially ones that appear to be advertising, would lower the quality of the viewing experience and decrease enjoyment.

Another impact on performance quality arising from the station's need to increase donations is that PBS chose to put on programs, often repeatedly, that were most likely to attract donors, rather than programs that would most effectively support its mission. One might suggest here that the raising of funds was driving programming. Although it is not easy for PBS to raise needed funds without imposing interrupting fund raising drives, the risk here is how intrusive to let fund raising be. For if viewing satisfaction drops, then donations drop, and the tendency would be to become more aggressive in donation drives, leading potentially to a vicious downward spiral.

Although we are not suggesting that this is the case at PBS, our cautionary tale for all nonprofits is to avoid potential negative spirals by letting the raising of funds threaten performance quality.

A second tale comes from a dramatic news story that hit in April of 2012 on radio, TV, newspapers, and the web — with many attributing it to April Fool's Day. Here is one version of this event.

FAUX REAL: A FORGER'S STORY
The Tale of Mark Landis, Art Forger

Forgery Artist's Long Trail of Fake Gifts Leads to Fame
Wynne Parry, LiveScience Senior Writer

Date: 09 April 2012 Time: 08:06 AM ET
www.livescience.com/19531-art-forgery-museum-donations.html (2012)

Matthew Leininger first became suspicious when the names of two pieces that had just been given to the Oklahoma City Art Museum also showed up as new donations at two other institutions.

It was August 2008. Leininger, registrar at the museum, took one of the works, an oil painting by a 19th-century Frenchman named Stanislas Lepine, and put it under an ultraviolet light. Parts glowed a bright, ominous white. A handheld magnifying loop confirmed the worst: telltale dots, the pixels of a digital copy. Leininger then went to a third piece from the same donor, a centuries-old French academic drawing of a reclining nude.

"I remember to this day, I peeled back the lower left corner of the mat board that the supposed 17th- century drawing was attached to," he said. "Something that old should have been brittle or broken. It was stark white. I brought it to my nose; it smelled like stale coffee."

The story of American art forger Mark Landis is a most curious one. Over a 30-year period, he produced more than 100 works of art in virtually all media, including oil, watercolor, pastels, chalk, ink and pencil, of such well-known artists as Picasso and others. He then attempted to donate them to over 50 art museums across 20 states. He typically targeted smaller museums without the expertise to adequately check art donations. These museums did not pay Landis, nor did he seek tax receipts. Instead he fabricated his stories such as making a special donation in someone's memory.

Many museums did not realize that they had been duped, at least not until Matthew Leininger, Registrar at the Oklahoma City Museum of Art, had the above revelation. Then together with a colleague at the University of Cincinnati's Dorothy W. & C. Lawson Reed Jr. Gallery, they made the story public by putting on an exhibition of his works, an exhibit whose goal was not to judge Landis, but to illustrate how such forgeries happen and to expose the risk to institutions and the public.

The lesson here is that many organizations, when offered a gift, did not question the quality of that gift, in part because it was free and in part because their staff were not capable of judging authenticity. As a result, officials acknowledged that their reputations had been hurt and that future art donations may be curtailed because their performance standards had been shown to be unacceptable.

A third tale involves a major city symphony that received an offer from a donor to fund a special concert of young composers' works to be played by the symphony in its hall. It was a positive idea, one which the symphony director could ill afford to turn down for multiple reasons, including its long relationship with the donor, pressure from the government's cultural agency to make opportunities for young musicians happen, as well as the enthusiastic appreciation of upcoming composers who would get a chance to hear their music played by professional musicians in a proper symphony hall.

On the negative side, although some of the symphony's musicians were happy to play something new and different, many did not want to spend time on learning these young composers' works. Also, the quality of the performance did not meet the classical standards set by the symphony over the years, standards expected by many of their regular patrons who came to hear the works of well known and familiar composers. Because the symphony had not communicated this special event clearly enough, some subscribers left the concert at the intermission, and later complained to the symphony director.

The donation imposed a cost to the symphony in disappointing and even losing some regular patrons. It took the symphony time and special focus on communicating the continuation of their high standards and reputation for high quality, classical performances to rebuild trust long established with their audiences. This is not to argue that the symphony made an inappropriate strategic choice, but rather to indicate both how fund raising choices can affect the performance of the organization, and perhaps more importantly, the need to ensure that management has a strategy to cope with any negative impacts.

9.4.3 Overcoming Fund Raising Challenges to Performance Quality

In looking at innovative practices over the years, more creative ways of working with donors can be applied, in this case, to avoid the symphony's dilemma. One way might have been to repackage the young composers' performance as a fund raising event, an event where the donor pays for the costs, but where the performance is hosted in a different venue to highlight how it is different, yet still connected to the symphony and its desire to welcome upcoming composers to music.

A fourth cautionary example of damage done to the organization occurs when fund raising itself is performed poorly. In too many cases, it arises from inadequately trained development staff who not only misunderstand their roles as professional fund raisers, but also do not fully understand the purpose and work of the organization. They can anger existing donors by not thanking them properly or following up over the coming months and years. They can fail to attract new donors or sponsors because they do not spend enough time with them to connect donor interests with the needs of the nonprofit or because they waste time by not recognizing that some have no funds to offer. They can too quickly and easily accept the strings tied to some donations thereby putting the nonprofit into the difficult position of either accept risky strings or the embarrassing position of then turning down the donation. They can fail to appreciate and therefore involve some of the effective people in the organization who can best appeal to donors. And finally, they can fail to know clearly what the organization needs.

And finally, damage to performance quality that reflects not only on the development office but also on the whole organization involves the now familiar critique of charities measured against clear standards. These standards measure both the percentage of donated funds going to the delivery of services as well as the cost of raising funds relative to funds raised. Although there are now many agencies that define such standards and assess nonprofits against them, we will use the Better Business Bureau as our example These are their two basic standards: www.bbb.org/us/standards-for-charity-accountability/ (2012)

(1) The charity must spend at least 65% of its total expenses on program activities. To calculate this percentage, the charity divides its total program service expenses by its total expenses, with the "passing grade" being at least 65%.
(2) The charity must spend no more than 35% of related contributions on the raising of funds. Such related contributions include donations, legacies, and other gifts. To determine this percentage, the charity divides its total fund raising expenses by its total related contributions, with the "passing grade" being no more than 35%.

Many nonprofits have been setting even higher standards, including the Salvation Army which stands out at 92% of its funds going directly to mission delivery. Of course, its capacity to do so depends in part on its use of volunteers. As an organization hires staff, then its costs must go up. Also raising funds from new donors is more costly than soliciting funds from past donors. Newer, more controversial, less well known organizations, or less familiar causes may also require higher fund raising costs.

Furthermore, by highlighting the capacity to raise funds at low cost, a nonprofit can further enhance its appeal to potential donors. For example, the nonprofit Hole in the Wall Gang Camp, a "community dedicated to providing 'a different kind of healing' to children and their families coping with cancer, sickle cell anemia and other serious illnesses," emphasizes on their website that their fund raising costs are well below the standards set by leading oversight agencies. www.hole-in-the-wall.com (2012), This claim helps attract even more funds to their organization.

The basic standards set by such organizations as BBB are critical, made more so today by increasingly open access to the internet to allow potential donors to do research on any registered charity. Donors can quickly and easily determine whose performance is good and whose is not, thus not worthy of their support.

There are many organizations on the web currently that assess the fund raising quality and efficiency of charitable nonprofits. One such site, the Navigator www.charitynavigator.org/ (2012), "works to advance a more efficient and responsive philanthropic marketplace by evaluating the financial health and accountability and transparency of America's largest charities." Their site provides a number of "Top Ten Lists," including one labeled "Inefficient Fundraisers."

That list shows 10 charities all of which spent 80–90 cents, or significantly more than the 35 cents defined by BBB, to raise a single dollar, thereby making them extremely inefficient. These are embarrassingly poorly performing charities. As such highly accessible web listings can have a rapidly negative impact on the organization's capacity to appeal to donors and thus raise funds, then improving the performance of the development office and increasing management control are critical.

The damage done to a charitable organization when the media and public are made aware of apparent abuses of donations can be severe. The Canadian Cancer Society story provides a recent case that put a highly respected society into a very negative spotlight.

Canadian Cancer Society: Fund Raising Controversy

In July of 2011, the Canadian Cancer Society (CCS), which supports important cancer research, was exposed by the Canadian Broadcasting Corporation (CBC) for both increasing donations over the past ten years at the same time as reducing the amount of funding going to research. One result of this apparent contradiction was that researchers were now spending more time than ever trying to find the funds to support their research.

In fact, the CBC reported, that "the greatest amount of money raised was being allocated to fund raising." In 2011, 23% of each dollar donated was spent on cancer research, 17% on patient services, while 42% was spent on fund raising. Moreover, CCS spent $23 million on a lottery program that only raised $24 million. While the CCS later issued a strongly worded statement pointing out the reasons for these figures and to show how effective its programs were, the first and negative impression from this CBC story were difficult to counteract.

— Erica Johnson, "Cancer Society Spends More on Fundraising Than Research," CBC News, July 6, 2011, www.cbc.ca/news/canada/story/2011/07/04/cancer-society-funding.html (2011).

Although this section discusses the quality of fund raising relative to the merit axes, the matter of the cost of raising funds also affects the size of the program sphere and the money axis. Nonetheless, in rating development on the merit axis, what must be evaluated is the quality of activities performed, as well as the success of drawing in funds.

9.5 Synopsis: Managing Fund Raising Impacts on Mission & Merit

One of the ways in which a nonprofit can better manage and thus avoid the potential negative impact of donations on mission and merit, is to use the LAI Principle of Prospecting, a method that has been successful for many organizations. LAI stands for:

- **Linkage** — finding connections between the prospect and the specific nonprofit.
- **Ability** — discovering whether the prospect has the financial ability to make a donation.
- **Interests** — ensuring that the prospect's interests and values overlap with the nonprofit.

By ensuring that development uses this approach, then not only can the not-for-profit control negative impacts on mission and performance, but also the development office itself would deserve a higher rating on both mission and merit axes.

As described above, there are potential risks to the nonprofit arising with some donations, gifts, and sponsorships to change or even damage mission and program performance, but it is also easy to see the costs incurred to some nonprofits when donated funds are badly used. This latter risk is increasingly sobering because it is virtually impossible to hide such damaging information given today's easy access to information gathered by the Better Business Bureau and other agencies, and exposed on the internet.

It is therefore increasingly important for management to consider not just how to bring in funds and manage its impact on mission and merit, but also to look rigorously at how these funds are used so that potential costs to the organization can be evaluated, corrected, and then prevented. By using the ***M3*** approach to visualize more clearly how such funds are coming in and applied to service delivery, management can begin to reverse poor, irresponsible, and highly damaging organization-wide impact.

9.6 Summary

This section concentrates on positioning fund raising or development activities within the ***M3*** portfolio, because positioning and rating these sources of funds proved to be very difficult for managers and board members. In particular, funds coming in to the organization as a whole were more difficult to allocate on all three axes than those coming directly into a specific program or project.

As a result, we offered four simple options to best inform management about what funds were coming in, and how, so that not only could management correct problems, enhance effective approaches, and communicate such information to all those contributing to strategic decision-making, but also acknowledge and reward those making the contributions. These options include:

1. Counting funds raised only by the development office on behalf of the whole organization fully as development.
2. Allocating all funds raised by a mission-advancing program that has done all, or most, of the work in attracting funds for specific program activities.
3. Transferring an appropriate percentage to a development office that has contributed time and expertise in partnership with the program in raising funds reflecting those efforts.
4. In cases 2 and 3, allocating costs associated with raising funds, which change sizes of program spheres, to both development and any program involved in the raising of such funds.

In our application of these funds to the mission and merit axes, we again discovered difficulties and confusion in how nonprofit managers and board members considered the raising of funds, thereby limiting the most effective decision-making. Thus the four options above can help to better understand not only what programs are contributing, but also specifically how development can be more appropriately rated against the mission and merit axes.

After reviewing the relationship among fund raising, mission, and merit we offered a few cautionary tales of how donors or funders could change organizational mission, in some cases very positively, but in other cases, negatively. This review further supported our argument for the use of the ***M3*** portfolio approach to visualize and enhance the positive while managing or controlling the negative.

A critical component is the quality of performance of the development office or team whose work can significantly impact the effectiveness of the nonprofit's reputation, financial well being, and operational effectiveness. It can also do much to inform new managers and board members on how to assess and support activities that not only bring in funds, but also how those funds are then used.

Part IV

Conclusion

10

Achieving Balance

10.1 The Value of Balancing & Advancing

> "The greatest challenge to organizations is the balance between continuity and change. You need both. At different times, the balance is slightly more over here, or slightly more over there, but you need both. And balance is basically the greatest task in leadership. Organizations have to have continuity, and yet if there is not enough new challenge, not enough change, they become empty bureaucracies, awfully fast."
>
> — Peter F. Drucker

This section wraps up the critical arguments made throughout this work about the value to not-for-profit management of using the ***M3*** portfolio approach for strategic decision-making. The earlier sections draw on many compelling examples of how this portfolio approach has helped nonprofits to achieve more successful balance, thereby leading to improved performance. The three axes of mission, money, and merit encapsulate the important considerations for management to critically review, deeply understand, and wisely balance its programs in making the most effective strategic decisions.

This section will first cover how defining programs, visualizing their spheres, and rating them on the three axes can integrate and balance the entire organization, while providing checks and balances for principled accountability. Additionally, it explores time-tracking past decision-making as a means to improve the quality of future decisions; and offers a means to start the process so that it leads smoothly to an effective, ongoing part of the organization's strategic planning and general management. A summary focuses on the critical elements for making the ***M3*** approach work readily and effectively, and indicates why a framework, which some see as a constraining factor to creative thinking, actually produces a more powerful mechanism for ingenuity and innovation.

10.2 Integrating & Balancing the Whole Organization

> "It is the harmony of the diverse parts, their symmetry, their happy balance; in a word it is all that introduces order, all that gives unit, that permits us to see clearly and to comprehend at once both the ensemble and the detail."
>
> — Henri Poincare

There are several ways in which the ***M3*** approach integrates and balances the organization as a whole. One of these ways is in the creation of a visible portfolio of the various programs that the nonprofit delivers. By representing each program's cost to the organization with the size of sphere and by adding a center of gravity, management can quickly view where their investment in effort and money is going, and where the whole organization is currently centered.

By placing these individual program spheres on the three axes of mission, money, and merit, management can also view which programs are contributing to the nonprofit's essential purposes, to its revenue and cost coverage, and to the quality of delivered services or activities. In essence, the whole organization becomes visibly integrated and balanced within a portfolio that measures all critical aspects of the organization. Management can now ask better questions about why programs wind up here or there and what, if anything, needs to be done to enhance, cut, or change directions.

The ***M3*** approach further integrates the organization by involving professional and managerial staff, board members, and others in contributing to the rating of each program, to safely sharing their underlying assumptions and organizational knowledge, to more openly communicating, and to collectively learning in order to contribute more effectively to strategic decision-making. Success, in this sense, does not necessarily mean reaching unanimity or even consensus, but opening up a space in which all contribute more openly and creatively to discussions and decisions, and thus create a more integrated management team that can innovate and advance the nonprofit's work and survival. As divergent opinions and ideas are put forth, nonprofit leadership can better see where the balance exists at organizational or operational levels as well as at managerial or human levels.

10.3 Judging Organizational Balance

The use of the ***M3*** portfolio approach is not prescriptive, as it does not suggest what the organization should do. Instead, it suggests trade-offs, stimulating careful management by highlighting the key issues in an integrated format. By visualizing complexity and the varying opinions of its decision-makers, the nonprofit can better judge overall balance. Management can also play what–ifs and measure overall progress over the years.

For example, it can help to visualize conditions and trends, such as how a large and growing program may be crowding out all others, both in terms of increasing financial cost and narrowing the diversity of programs that serve different mission goals. While such crowding may be appropriate, it can also be costly in more ways than financial. The point for management is to see such imbalances so that more astute questions can be posed and more intelligent strategic action can occur. For example, Figures 10.1 and 10.2 show the extremes of crowding and balance.

Although it is not as easy to visualize a 3-D portfolio in two dimensions as it would be when rotated in the computer spreadsheet, we can still see the differences in balance.

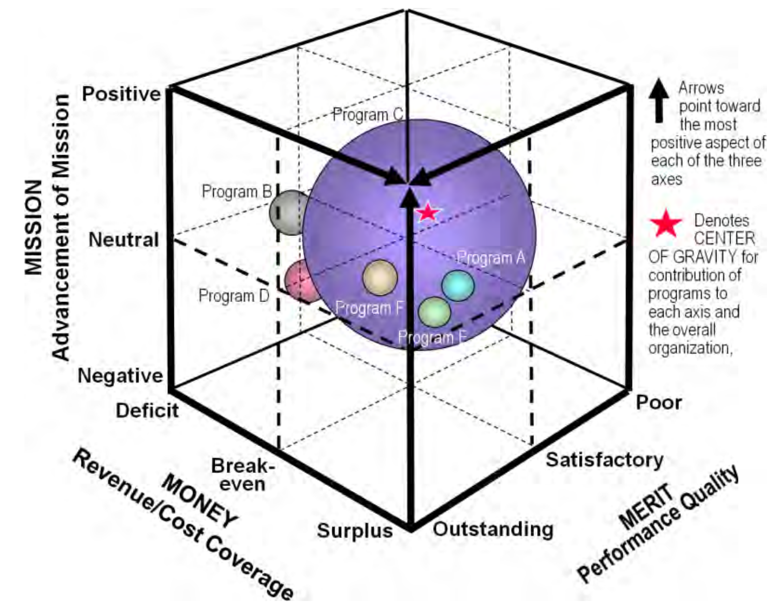

Fig. 10.1 Visualizing imbalance of programs across an organization's portfolio.

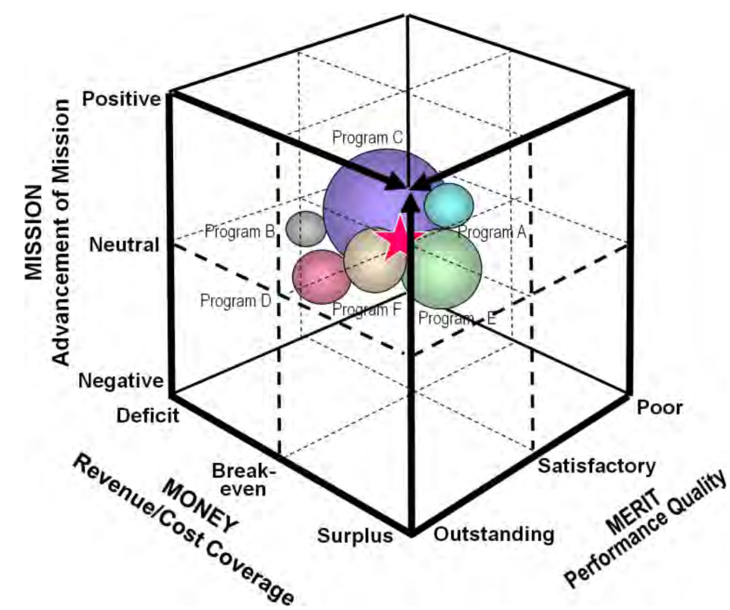

Fig. 10.2 Visualizing balance of programs across the organization's portfolio.

In the portfolio shown in Figure 10.1, there is a clearly unbalanced crowding by Program C, allowed to grow perhaps because it positively advances mission. However, not only is the organization's center of gravity now heading below break-even on the money axis because of Program C's huge cost and the inability of the other programs to attract enough revenues to balance this cost, the organization overall is also performing far from an outstanding fashion on the merit axis, again because the smaller programs, many of which are performing well above satisfactory, cannot balance the large one that is not quite at satisfactory. Of the three axes, mission is the most positively advanced.

Alternatively, management judgment might be that the organization should focus on Program C and improve its performance on money and merit, and drop the smaller programs from its operations. Of course, as the diagram indicates, this is not an immediate crisis as the organization is still not seriously negative on any of the three dimensions, as in dictated by the position of its center of gravity. The portfolio visuals, however, focus management's attention on the need to reconsider its current situation.

In this situation, management decided that Program C was unwisely dominating the organization's efforts. In the portfolio shown in Figure 10.2, we see that management over time has brought more balance to the programs, resulting in the center of gravity remaining high on the mission axis, a little past the break-even line on the money axis, and closer to the outstanding merit axis as performance can be better monitored and delivered.

10.4 Judging Managerial Balance

> "Competitive team sports focus on the balance between individual achievement and team achievement with the emphasis on team achievement."
>
> — Warren Farrel

A similar judgment of balance can also arise on the management side. For example, if one board member, manager, or professional is always significantly divergent from all others, there may be an opportunity to rethink organizational purposes and performance quality that only this person has foreseen. Alternatively, if this person focuses on narrow self-interests, on untested or biased measures of performance, clings to a previous mission when organizational realities have changed, and is not responding to learning by colleagues, then this may become an issue for leadership to pursue via discussions or more precipitous action to improve the balance of decision input and staff contributions.

Again, as emphasized, no organization should avoid diversity of opinion or perception or over-control homogeneity. If everyone brings the same view to strategic decision-making, then the chances are high that this organization will lose its way as social, economic, environmental, political, and other external changes stimulate responsive internal change.

By visualizing organizational balance or imbalance at the programmatic, financial, performance, or managerial levels, decision-makers can not only nudge that balance point to a healthier center, but can also more easily spot outliers or programs where change needs to take place. The value of the ***M3*** approach is to expose these matters safely and therefore make adjustments more positively.

10.5 The Center of Gravity as a Beacon

Not-for-profits often struggle for a way to measure their overall performance. The center of gravity is one useful way to provide a quick overview of how well the organization is doing strategically. If the center of gravity is positive on all three dimensions, then the organization may conclude that while it looks for programs that are outliers on the positive or negative side and is continually on the outlook for ways to improve, it usually can do so with some degree of assurance that the overall organization is likely to continue on a successful track.

If the center of gravity is negative on one dimension, this suggests that the senior management might want to focus on that dimension in a review of all the programs that it offers. It might indicate that only one or two programs are underperforming on that dimension, or it may suggest that system wide the organization has neglected that dimension and needs to strategically improve performance on that dimension. As we discussed in Section 9 regarding the case of Father Flanagan's Boys Town, the main programs were of poor quality and failing to effectively raise orphans who were in their care.

On the positive side, an organization may find that it is doing an outstanding job on one dimension, and may use it as a way to effectively leverage that skill to other programs. The Mayo Clinic, for example, which developed a reputation for excellence in clinical care at its original Rochester, Minnesota location, has expanded to two additional sites (in Arizona and Florida), and to electronic delivery of a broad range of health information services.

If the organizational position is negative by a substantial amount on two or more dimensions, then management needs to recognize that the organization's survival is at stake. Even if the fund raising program is successful because donors have not yet realized the poor performance, the message is still the same. Management needs to take drastic action, including the possible elimination of some programs and the improvement of others, if the organization is likely to survive and make a meaningful social contribution.

10.6 Time-Tracking the Quality of Decisions

Another contribution of the ***M3*** approach is to produce a visual history of where the organization has been, what changes have been imposed by past decisions, where it is now, and where it plans to go. It becomes another learning mechanism for management to more clearly see and understand how past decisions moved the organization in positive or negative directions. Such 'what–if testing gives management a better check on its decisions, thereby avoiding risks and seeking opportunities.

Time-tracking can take place both visually and verbally, or both. A visual example is shown in Figure 10.3.

Rather than using the full three-dimensional portfolio matrix in this written format, we illustrate two dimensions, perhaps two that might be most useful to management in any particular instance.

They show what changes in centers of gravity have occurred over previous years, how they line up with the current year, then imagine where management plans to move in future. Also shown is a specific

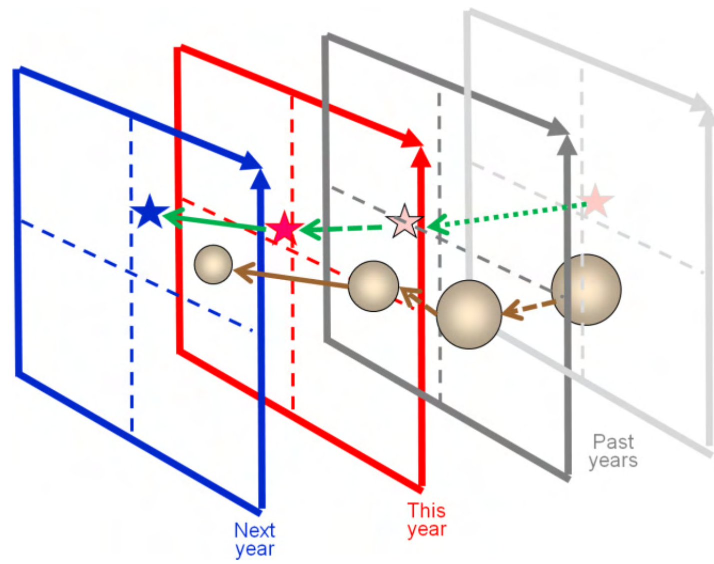

Fig. 10.3 Tracking the organization's center of gravity and one program over time.

program, one which is currently important for management to track, showing its continuing reduced cost and increasingly positive position against both selected axes.

Notes recording what strategic decisions have been made and how they have influenced progress can also be added. With the power of current computer technology, the presentation of changes over the years can be made simple or complex, as needed, including turning the matrices to different angles and visually understandable.

Alternatively, or at the same time, management can track the types of questions shown in Table 10.1.

Other questions will no doubt arise. Posting some questions beforehand for the management team to focus on assists in launching strategically useful discussions.

10.7 Embracing the *M3* Approach

To begin the process of using the ***M3*** approach within an organization, we suggest using an outside consultant both to maintain the recommended privacy of individuals' program ratings the first time,

Table 10.1. Asking effective questions of individual programs, of each of the three axes, and the overall portfolio balance over time.

M3 axes	Yesterday	Today	Tomorrow
Programs	What programs did or did not advance mission in the past?	How are these programs advancing our mission now?	How can programs better advance our mission in future?
	What have programs cost and what funds have they brought in in the past?	What progress are programs making to lower costs and increase funding?	What else is possible to do in cutting costs or raising funds?
	How have previous changes worked out?	On what changes should we focus now?	What changes must we make in future?
	Where was the center of gravity on each of the three axes in the past?	Where is the center of gravity on each axis today?	How can we move the center of gravity to better places on all three axes?
Mission	Did we do the right things in the past?	Are we doing the right things now?	Could we do better things in the future?
Money	How have we used our resources in the past?	How are we using our resources currently?	How can we use our resources in future?
Merit	Did we do things right in the past, and how did we know?	Are we doing things right today, and how do we know?	Could we do things even better in future, and what do we need to know?
Portfolio	Where was the center of gravity or how balanced was our organization in the past?	Where is the overall center of gravity or how balanced are we today?	How could we move the center of gravity to balance ourselves better in future?

but also to assist these individuals with any technical or other types of questions. Then when all input has been received and the program prepared to show at the first meeting, the consultant can remain neutral as people wrestle with their first view of their and their colleagues' views of the organization's programs as they contribute to mission, money, and merit. Alternatively, the executive director can ask a trusted senior manager or board member to manage the process.

After this first run, given that individuals typically begin to self-reveal reasonably quickly, the executive director can undertake future sessions. Although the book comes with free software so that nonprofits can launch their own process, technical support is useful to maintain the quality of visuals and update the system, while financial officer can provide appropriate cost and revenue figures so that others do not continue to rely on poor or biased information. As for assessing the mission and merit axes, this is where clarifying and perhaps updating mission statements and ensuring that program performance is properly evaluated becomes important.

We recommend starting with the senior management team, including important board members and perhaps senior professionals. Once the senior management team is comfortable with the process, the organization can include other staff, volunteers, and even individuals in relevant foundations, governments, or other agencies.

10.8 Points to Remember

Based on our experience, the points in Table 10.2 are notable in applying the ***M3*** approach most effectively.

Table 10.2. Tips for implementing the M3 portfolio approach within the organization.

Define programs properly	Programs need to be distinct in meaningful ways to justify separate treatment and evaluation. In the portfolio, ten or fewer programs of significance work best.
Get acceptance	Not everyone uses models intuitively nor interprets data visually. Rejection of or disappointment in the model is a natural response. Patiently building up its features helps.
Fit the organization	The portfolio works best in open organizational cultures and in nonprofits with adequate program complexity, though breakdowns of single programs are possible. In some cases, the portfolio approach can be part of an overall program to open communications in an organization which has previously not been open.
Assure confidentiality	Ensuring participant confidentiality, especially at the beginning, is important and can be aided by selecting the right person for information management. At the very beginning an external consultant is preferable. As the process proceeds, managers begin to self-reveal.

(*Continued*)

Table 10.2. (*Continued*)

Separate opinion from fact	Dependability of input needs more than majority opinion and acknowledgement that territorial biases exist. Accurate figures, rigorous analyses, systematic research, evidence, and experience have a critical place in management.
Keep it simple	Although the portfolio model can accommodate other dimensions, the three axes provide sufficient complexity. Familiar, easy-to-use, off-the-shelf software eases the process.
Make it timely	Using the ***M3*** portfolio is best in normal strategic planning and annual budgeting cycles — once, or no more than twice a year. As the portfolio approach can be used at different levels of the organization, the process can be sequenced to build up or pass down the organization.
Consider summary measures	The center of gravity is an aggregate measure. It provides a quick but critical fix on where the nonprofit as a whole stands and how and where it is balanced.
Expose systemic issues	In the process of making underlying assumptions concrete and visible, portfolio analyses expose organizational and accounting issues which would otherwise be hidden.
Encourage activity-based accounting	Given that often managers pay little attention to financial and accounting issues and thus can be ignorant about costs and revenues, it becomes important to introduce activity-based accounting, which is more meaningful and results in greater reality when evaluating the financial impact of programs.
Invite broader input	Computer capacity enables input from individuals beyond the senior management team (e.g., volunteers, staff, board members, and even government or foundation representatives) and offers a natural extension toward more robust decision-making.
Improve mission statements	By assessing programs against mission, not only programs scrutinized, but so are the mission statements themselves and their varying interpretations by managers.
Require performance evaluation	The merit or performance axis invites input of often-resisted expertise. It supports the nonprofit's accountability to boards, governments, and other publics.
Learn safely and enjoyably	Expressing opinions as numbers and showing them as dynamic graphics are more likely to evoke learning and enjoyment than defensive interpersonal reactions.
Test future what–ifs	Testing of proposed new directions and changed priorities provides a potential new tool to better-considered decisions as well as buy-in to change.

10.9 How Frameworks Improve Quality & Creativity

> "I don't remember being forced to accept compromises,
> but I've willingly accepted constraints."
>
> — Charles Eames

Some people may argue that imposing a framework or structure on decision-making for any organization limits freedom and constrains creativity. However, frameworks that impose a structure on human activity can significantly improve decision quality and innovation. As the research described in the box entitled "The Impact of Constraints on Creativity" confirms, constraining and requiring thinking to follow a rigorous path produces more effective results. The researchers also point out that the familiar solution to solving problems, for example, brainstorming, is paradoxically flawed in that constraints and requirements are not usually part of such techniques.

In the John Howard Society example presented at the start of Section 1 (Section 1.1, 2), the Executive Director also described significant improvements in their decision-making, including mission, financial, and performance aspects of the society's work, that resulted from the imposition of a reporting structure tied to their new accreditation affiliation. By forcing unexpected questions, constraints, and requirements on the organization, JHS found itself coming up with better answers, new ideas, and significantly stronger decisions.

As the constraint impact study in 'The Impact of Constraints on Creativity' suggests, if everything is possible and no constraints or restrictions are imposed, the human mind may spread itself far too thin and not impose a discipline that contributes to learning, innovating, and generally ensuring that more good questions are posed to force more good answers, rather than leaping to the first, often non-optimal, solution.

The ***M3*** portfolio allows the organization to effectively visualize and balance its activities. By drawing spheres to represent program costs, placing each program on three axes, defining centers of gravity, and measuring the overall organizational balance, the ***M3*** portfolio contributes a framework for innovation because management is no longer arriving at too familiar, too easy, and rarely best solutions.

The Impact of Constraints on Creativity

A recent study concluded that constraints and requirements directly contribute to the creative process.

> The researchers argue that "when constraints are not operating . . . "people are inclined to follow "the 'path-of-least-resistance' or POLR strategy, where the default approach in creative tasks is to implement the first solution that comes to mind, either based on a previous solution or a category exemplar. Only when constraints are operating are people likely to stray away from POLR because to do so requires more cognitive resources and creates more uncertainty in the outcome."
>
> In addition to constraints, they emphasize the importance of requirements. "When inputs are both restricted and required, participants will deviate from the path of least resistance, showing more evidence of creative cognitive processing than participants for whom one or both of the constraints are relaxed."
>
> — C. Page Moreau and Darren W. Dahl, "Designing the Solution: The Impact of Constraints on Consumers' Creativity," *Journal of Consumer Research*, Vol. 32, June 2005, pp. 13–22

10.10 Summary

> "We define organic order as the kind of order that is achieved when there is a perfect balance between the needs of the parts, and the needs of the whole."
>
> — Christopher Alexander

The ***M3*** portfolio model helps to illustrate visually how programs, costs, revenue, performance quality, and advancement of mission balance across the whole organization, and thus where the organization's "center of gravity" lies. It also provides a vehicle by which managers can readily discuss, confront, and resolve critical strategic issues. The simple employment of a rigorous, constraining, and required framework offers a positive impact on creativity and innovation in decision-making.

In embracing the ***M3*** framework, management can more easily make decisions at the highest organizational level regarding which programs need to be improved on the mission axis, across the revenue/cost axis, and/or along the performance axis — or which need cutting, repairing, or enhancing to bring the center of gravity, the nonprofit's weighted center, to a more economical, efficient, and effective balance. As well, management can get a better sense of whether the mission statement itself needs rewriting or re-communicating. Furthermore, management can look back at the impact of past decisions, reflect on the current state, and better imagine and implement future strategic adjustments.

At the senior management level, the approach facilitates decision-making, and helps to ensure that managers, administrators, professionals, and board members have a shared understanding of the organization and its context by revealing differences in perceptions and assumptions, and by gaining a clearer understanding of improvements needed. Of course, senior managers may still differ on what they believe to be the best course of action for the organization; strategy is rarely simple, and consensus is far from guaranteed.

When the ***M3*** approach is implemented, communication is enhanced and opportunities for richer learning and understanding occur. Although the ***M3*** approach is seemingly simple, the scope of its impact is broad, deep, and richly valuable for improving both external outcomes and internal processes.

Acknowledgments

Our writing of this M3 approach, and the field work that supports it, could not have been achieved without the financial support of the Social Sciences and Humanities Research Council of Canada as well as the Hampton Grant of the University of British Columbia. We gratefully acknowledge their support.

Also, we are grateful for the intellectual and experiential support of all those nonprofit directors, managers, board members, administrators, professionals, and other field experts who participated in our explorations of this portfolio approach to decision-making. They provided exceptional feedback and wisdom to bring this ***M3*** model, the article and book chapter that followed, and now this full account to fruition. We gratefully acknowledge their expertise and support. In addition, we are thankful to Alan Andreasen, the external reviewer, who offered wise comments on the draft.

We also gratefully acknowledge Aaron Bohnen and Alex Joshi, two UBC students who over different time frames developed the colorful, attractive, and easy-to-navigate spreadsheet and presentation graphics. For those who buy this book, the spreadsheet is offered for free, allowing any nonprofit to enter the process.

And finally, in preparing this manuscript and getting it to publication, we are grateful for those who provided not only expertise and pioneering support, but also the emotional support that helped us get to the end. We dedicate our work this way:

Kersti Krug: I dedicate this to three special people:

The first is Chuck Weinberg, my co-author. It was he who first introduced me to using a two-dimensional graphic model to more clearly understand complex organizations. He supported me through my PhD program and my years of teaching his nonprofit marketing course, getting a grant to send me out to the field in North America to study our new three-dimensional model, then co-author a journal article, a book section, and now, a full volume — and generously naming me first author. Thank you, Chuck. It's been wonderful.

The second is my former boss, Michael Ames, Professor of Anthropology and Director of the UBC Museum of Anthropology, and now sadly deceased. He was the man who talked me into doing a PhD, and who worked with Chuck Weinberg to deliver the UBC grant for the field research. He would have been so proud to see one of his people achieve this.

And finally, my spousal partner, Ross Greenwood, a senior organizational consultant, with long experience in the for-profit, governmental, and nonprofit sectors. He has provided wisdom and critique in working my way through not just the articles and the book, but my life.

Charles B. Weinberg: I dedicate this book as follows:

To the late Christopher H. Lovelock, one of the pioneers of nonprofit marketing. From the time we first met in 1972, shortly after we received our doctorates, we became close friends and colleagues. That year we jointly taught a course in Public and Nonprofit Marketing at Stanford University and from there went on to write a series of articles and several books. Christopher's high standards for teaching and research, his creativity, his insights, and his incredible gift for writing were truly inspiring. He provided wise counsel in the early stages of this project, and I miss him deeply.

To my family. Specifically, I dedicate this work to my wife, Joanne, an accomplished academic in her own right, whose encouragement and love make everything possible; to my two daughters (Beth and Amy), who always make me proud, and the wonderful men they married (Geoff Taubman and David Lieberman); and to my four grandsons (Josh, Sammy, Aidan and Gabe), collectively known as "the Stack," who are a constant source of energy and joy.

References

Adizes, I. (1972), 'Introduction and overview: Administering for the arts'. *California Management Review* **15**(Special Ed.).

Anthony, R. N. and D. W. Young (1984, 2002), *Management Control in Nonprofit Organizations*. Homewood, IL: Richard D. Irwin, Inc., 3rd & 7th editions.

Berry, L. L. and K. D. Seltman (2008), *Management Lessons from Mayo Clinic: Inside One of the World's Most Admired Service Organizations*. New York: McGraw Hill.

Better Business Bureau (2003), 'Standards for charity accountablity'. Available at www.bbb.org/us/standards-for-charity-accountability/.

Digest of Educational Statistics (2011), 'National Center for Educational Statistics'. Available at www.nces.ed.gov/pubs2011/2011015.pdf.

Drucker, P. F. (1989), 'What business can learn from nonprofits'. *Harvard Business Review* **67**.

Elkington, J. (1998), *Cannibal with Forks*. Wiley.

Farrelly, M. C., K. C. Davis, M. Lyndon Haviland, P. Messeri, and C. G. Healton (2005), 'Evidence of a dose — response relationship between 'truth' antismoking ads and youth smoking prevalence'. *American Journal of Public Health* **95**(3).

Feldman, A. (2010), 'Philanthropy: Rethinking how to give'. *Business Week*. http://www.businessweek.com/print/magazine/content/10_5/b41650, January 21.

Gadiesh, O. and S. Olivet (1997), 'Designing for implementability'. In: Frances Hesselbein, et al. (ed.): *The Organization of the Future*. New York: The Peter F. Drucker Foundation for Nonprofit Management.

Johnson, E. (2011), 'Cancer society spends more on fundraising than research'. CBC News, July 6. Available at www.cbc.ca/news/canada/story/2011/07/04/cancer-society-funding.html.

Kaplan, R. S. (2001), 'Strategic performance measurement and management in nonprofit organizations'. *Nonprofit Management and Leadership* **11**(3).

Kaplan, R. S. (2005), 'How the balanced scorecard complements the McKinsey 7-S model'. *Strategy and Ledership* **33**(3).

Krug, K. and C. B. Weinberg (2004), 'Mission, money, and merit: Strategic decision making by nonprofit managers'. *Nonprofit Management & Leadership* **14**(3).

Krug, K. and C. B. Weinberg (2008), 'Marketing strategies and portfolio analyses'. In: *The Routledge Companion to Nonprofit Marketing*. Indianapolis: Indiana University-Purdue University.

Kumar, N. and I. Benbasats (2004), 'The effect of relationship encoding, task type, and complexity on information representation: An empirical evaluation of 2D and 3D line graphs'. *MIS Quarterly* **28**(2).

Lawrence, P. R. and J. W. Lorsch (1967), 'Differentiation and integration in complex organizations'. *Administrative Science Quarterly* **12**(1).

Little, J. D. C. (1970), 'Models and managers: The concept of a decision calculus'. *Management Science* **16**(8).

Lovelock, C. H. (1994), *Product Plus: How Product + Service = Competitive Advantage*. McGraw-Hill.

Lovelock, C. H. and C. B. Weinberg (1989), *Public and Nonprofit Marketing*. Redwood City, CA: The Scientific Press, 2nd edition.

Lowry, A. and P. Hood (2004), *The Power of the* 2×2 *Matrix: Using* 2×2 *Thinking to Solve Business Problems and Make Better Decisions*. Jossey-Bass.

Moreau, C. P. and D. W. Dahl (2005), 'Designing the solution: The impact of constraints on consumers' creativity'. *Journal of Consumer Research* **32**(1).

Navigator, C. (2012), 'America's largest charity evaluator'. Available at www.charitynavigator.org.

Parry, W. (2012), 'Faux real: A forger's story: The tale of mark landis'. *Art Forger — Forgery Artist's Long Trail of Fake Gifts Leads to Fame*, Available at www.livescience.com/19531-art-forgery-museum-donations.html.

Perrone, M. M. (2009), *Governing the Nonprofit Organization*. Georgetown Public Policy Institute, Georgetown University Center for Public and Nonprofit Leadership.

Peters, T. and R. Waterman (1982), *In Search for Excellence*. NY: Harper & Rowe.

Picard, A. (2010), 'Universal, yes, but we need quality too'. *The Globe and Mail* **July 15**.

Sabherwal, R. and I. Becerra-Fernandez (2011), *Business Intelligence: Practices, Technologies, and Management*. Hoboken, NJ: John Wiley & Sons.

Sawhill, J. and D. Williamson (2001), 'Measuring what matters in nonprofits'. *McKinsey Quarterly* **3**.

Shapiro, B. P. (1973), 'Marketing for nonprofit organizations'. *Harvard Business Review* **51**.

Tarasku, V. and N. Dachner (2009), 'The proliferation of charitable meal programs in Toronto'. *Canadian Public Policy* **XXXV**(4).

Thagard, P. (2007), 'Cognitive science'. *Stanford Encyclopedia of Philosophy*. http://plato.standford.edu/entries/cognitive-science/.