VIEWPOINT

INSIGHTS FROM THE FRONT LINES

Fundamentals, Not Fads

The experience of prize-winning social sector leaders highlights the enduring lessons of nonprofit management.

BY KIM JONKER & WILLIAM F. MEEHAN III

If you're based in Silicon Valley, as both of us are, it's hard to argue against the idea of innovation. The assumption in this part of the world is that if you want to change things, you need to develop a new business model or a new technology. And that spirit infuses the social sector not only here but also globally. At myriad conferences, you hear constant chatter about "new ideas": impact investing, high-impact corporate social responsibility, venture philanthropy, hybrid legal and organizational forms. These ideas have some merit, to be sure. But in most cases, they are likely to have only a limited impact on the way that we build and sustain organizations in the social sector.

In our experience, the managerial issues that social sector organizations struggle to resolve—the issues that complicate their efforts to make a bigger impact on the world—are perennial. The latest fads in social innovation won't solve them. Instead, they require a relentless focus on timeless fundamentals.

NINE PRIZE WINNERS

Last April, we facilitated a daylong retreat for winners of the Henry R. Kravis Prize in Leadership. The Kravis Prize is awarded annually to an individual or an organization with a track record of demonstrated social impact. Since 2006, there have been nine recipients of the award. The impact that each of them has made in the world is significant, transformative, and proven (through external impact evaluations). That impact, moreover, has been broad as well as deep: Collectively, the nine prize recipients have positively affected the lives of more than 560 million people in 75 countries on five continents. (This February, judges will name the 10th winner of the prize.)

At the retreat last year, we encouraged Kravis Prize leaders to discuss the practices that had enabled them to make such a large impact on the world, along with the challenges that they confront in working to sustain and increase that impact. Two important insights emerged from that discussion. First, what allows each Kravis Prize winner to excel is its commitment to one or two mission-driven core competencies. Second, and more intriguingly, the challenges cited by Kravis Prize leaders are the same ones that virtually every social sector organization faces today. In short, outside of their areas of core competency, even these high-performing organizations wrestle with basic and enduring management challenges.

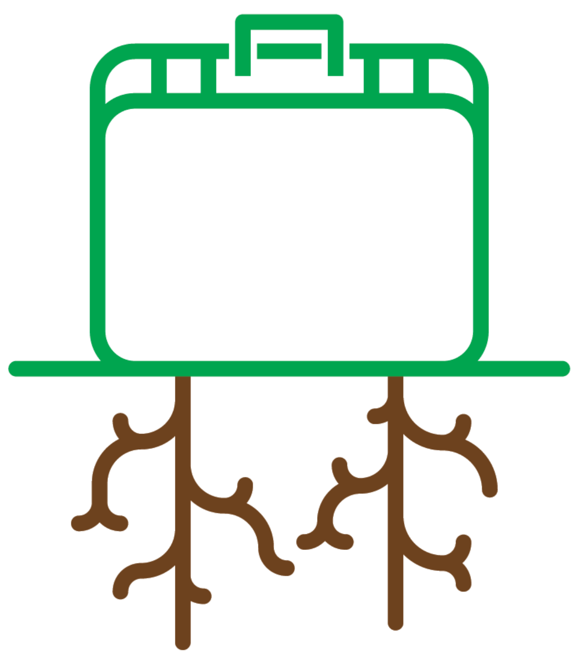

ILLUSTRATION BY MIKEL JASO

FIVE PERENNIAL ISSUES

The challenges that every nonprofit organization faces, we believe, involve the need for improved execution in five areas of fundamental concern: mission focus, fundraising and development, board governance, succession planning, and performance measurement. When we have seen well-performing nonprofits lose their way, usually one (or more) of these five perennial issues lies at the root of the problem.

Mission matters most | Leaders of a for-profit corporation can assert with ease that their mission is to maximize shareholder value. But nonprofit leaders lack such an inherent clarity of purpose. Mission creep, therefore, remains the greatest threat to nonprofit organizations. Countless external and internal stakeholders can lead a nonprofit astray. Many funders, for example, exert subtle but fierce pressure on nonprofits to broaden their mission to accommodate a particular grantmaking interest.

Among Kravis Prize recipients, there is general agreement on the need to say "No, thank you" to funders whose grants might cause mission creep. "Once, when I tried to protect us from mission creep, I lost a multimillion-dollar funding opportunity," says Sakena Yacoobi, founder and CEO of the Afghan Institute of Learning. "That was significant for us, because our total budget is only $3 million. I said to the funder, 'I'm not going to do what you are telling me to do, since it is outside the scope of our mission. I am doing what our beneficiaries need me to do.' And I lost that funding." The price of saying no can be perilously high. But smart nonprofit leaders understand the cost of saying yes. Mission creep can stretch the resources of an organization so thin that it loses the ability to pursue its core goals.

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▸ "Fundamentals of Nonprofit Management," a five-part series

Fundraising is fundamental (if not always fun) | For any nonprofit, the effort to achieve greater scale requires money. And that means investing in development. A standard rule of thumb: Every dollar spent on development will raise four dollars in funding for an organization. It's a lesson that's not lost on Kravis Prize winners. Consider Johann Koss, founder and CEO of Right to Play, who grew the budget of his organization from $2 million in 2001 to $42 million in 2013. "In 2002, we were very fortunate to raise an additional $5 million, but we resisted pressure to spend it all on programs," Koss explains. "Instead, we reinvested 40 percent of it in development." He and his team used that money to hire a director of development and several major gift officers.

Right to Play exemplifies another cardinal rule of fundraising: Start with your board. "Expectations of board members regarding development are very explicit: Every board member is expected to make Right to Play one of their top three priorities for charitable giving, and also is expected to help us raise money from others," Koss says. "Every year, the board chair and I have a conversation with each board member about what they've given, what they've raised from others, and plans for next year."

A better board will make you better | Members of a nonprofit board must engage directly and deeply in the work of their organization. Otherwise, board meetings will degenerate into rubber-stamp exercises that deprive nonprofit leaders of much-needed strategic guidance; board members, for their part, will feel that their time has not been well spent. Leaders at Mothers2mothers, a Kravis Prize organization, take that lesson to heart. Its board members "talk and argue to such an extent that meetings can be exhausting!" says Andrew Stern, founding board chair. "They come to our two-day-long meetings to guide the organization's strategy and to make critical decisions. They are not attending in order to listen to updates, nod, and then go home."

An equally important matter is board composition. "Our board has a diverse composition of professional backgrounds, with representatives from the private sector and from various segments of the global public health landscape," Stern notes. "The board also has notable diversity in its appetite for risk. Roughly half of our members are conservative; the others have a 'go-getter' perspective. Our diversity creates rich and ultimately very helpful discussions and balances our decision-making."

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Nothing succeeds like succession | Intentional succession planning is important for any organization. For a social sector organization led by a dynamic and visionary founder, it's an absolute imperative. Founder transitions are fraught with potential challenges—challenges that pivot around primal, life-and-death issues much more than institutional and organizational ones. The same personality traits that drive many founders (an urge to push past apparent constraints, for example) make it hard for them to see their mortality as something that they must plan for.

Which is why it's never too early to begin succession planning. Leaders at one Kravis Prize organization, Landesa, are standard bearers of that best practice. They identified Tim Hanstad as the future replacement for founder and chief executive Roy Prosterman in 1992—13 years before he took the reins as president and CEO. During the intervening period, Hanstad served as executive director. "We had done so much succession planning for so long that by the time Tim took over, the transition was incredibly smooth," Prosterman says. (After Prosterman stepped down, he took a seat on the Landesa board. Crucially, however, he had the wisdom to declare that he would never become the board chair.)

Clear measurement counts | In conducting due diligence for the Kravis Prize selection process, we have observed how rare it is for organizations to obtain substantive data on whether their intervention actually works. More than 75 percent of the 800-plus nonprofits that we have researched over the past nine years do not have impact data that one could deem reliable. In our view, too many nonprofits fail to appreciate the benefits of rigorous performance measurement.

The gold standard of evaluation methods is the randomized controlled trial (RCT). Many nonprofits are reluctant to embrace RCTs: Not only are RCTs expensive to conduct, but they also risk turning a spotlight on organizational failure. Yet some Kravis Prize recipients are using RCTs to transform their organizations in positive ways. Pratham, for example, has completed 11 RCTs over the past 12 years. "RCTs have been tremendously helpful in letting us zoom in on a strategy that works," says founder and CEO Madhav Chavan. "The data give us impetus to act. Yes, the RCT process is expensive, but the value is enormous. The RCT process builds internal capacity. After we started doing RCTs, we acquired a better understanding of how to think of impact with a mindset that constantly tries to maximize it."

These five issues are matters of eternal vigilance for all social sector organizations—prizewinners and non-prizewinners alike. They are conceptually simple but very difficult in practice, because they hinge on perennially challenging trade-offs: Should we accept a generous grant, or should we decline it in order to protect our core mission? Should we spend money on programs, or should we invest in fundraising capacity? The ability to manage such trade-offs, rather than a knack for embracing the latest fads, is what spells success or failure for most nonprofits. ■