

Strategy Matters™

ANTHONY KNERR & ASSOCIATES

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This is the first issue of *Strategy Matters*™, which we are distributing to clients, colleagues and others interested in strategic issues confronting nonprofit institutions. Our aim is to share significant analyses of major topics, including recent research that we have undertaken, together with reviews of books and articles that we believe are of signal importance and, from time to time, key data about the nonprofit field. We intend to publish *Strategy Matters* periodically. We welcome comments and observations about this inaugural issue.

Essential Characteristics of Effective Nonprofit Organizations

Over the past decade nonprofit institutions have generally thrived: plentiful resources, high demand for services, increased interest in and attention to programs and services. Even with the steep declines in the capital markets and rapidly slowing economies in both the U.S. and Europe, most nonprofits—ranging across all sectors in the field—are substantially better situated than they were ten to twelve years ago.

But there has not yet been sustained analysis of either the necessary preconditions for or the significant characteristics of institutional effectiveness. What ingredients drive continuing healthiness and success in the nonprofit sector in varying economic, social and political environments?

Recent research* undertaken by ANTHONY KNERR & ASSOCIATES provides an initial answer to the question. This research suggests that there are a set of common characteristics essential to institutional effectiveness and healthiness that cut across differences in organizational mission, culture, history, aspirations, program structure and organization design, as follows:

- **Mission:** a clear, concise and compelling mission that is well understood by all parties, internally and externally, and unrelenting and rigorous management to the realization and execution of that mission
- **Leadership:** continuing strong leadership at both the governance and executive levels
- **Strategic Thinking:** central and continuing attention to longer-term strategic matters, manifest by strategic plans that are well executed and reflected in sophisticated and successful fundraising efforts

**The research was undertaken on behalf of a client and included an analysis of eleven major organizations that are broadly similar to it in mission, size and program focus as well as 15 case studies of affiliates of the client organization—for a total of 26 in-depth analyses of very large to quite small organizations. This research was subsequently augmented by an extensive analysis of 15 other nonprofit institutions, including universities and liberal arts colleges, arts and cultural organizations, social service and volunteer organizations and health and medical institutions. The objective of this larger study—comprising a universe of 41 different institutions—was to determine whether there are common characteristics across different types of nonprofit organizations that contribute to organizational effectiveness.*

■ **Programs:** activities and services of the highest quality that embody the mission and reflect the organization's strategic thinking, with results that are tangible, easily measured and effectively communicated

■ **Communications:** relentless emphasis on communications and focus on branding and image, both internally and externally

■ **Technology:** effective use of technology for governance, communications, visibility, fundraising, financial management, evaluation and assessment and general administration

■ **The Basics:** up-to-date by-laws, clear organization design, sound budgeting and rigorous financial planning and reporting.

The most essential characteristics of effective nonprofit organizations are clarity of mission, strong leadership and long-term strategic thinking.

Aspects of These Key Characteristics

There are significant differences in the relative importance of these characteristics:

■ The most important are the first three—clarity of mission, continuing strong leadership and a longer-term strategic perspective—for these are central to an organization knowing what it is about, having the leadership necessary to guide it and internalizing a longer-term focus for achieving its mission. Without strength in all three characteristics, organizations appear to be significantly hampered in effectiveness and overall vigor

■ The first five characteristics—mission, leadership, strategic thinking, programs and communications—are highly interrelated, with each one reinforcing the others and the absence of any one of them diminishing effectiveness and/or weakening an organization's overall stability and vigor

■ Technology appears to be a characteristic of emerging importance, but not as essential as the first six. It is highly likely that technology will be increasingly significant—perhaps within the next three years or so

■ The basics of by-laws, organization design, communications and strong financial management are essential but not sufficient to ensure effectiveness.

Effective organizations think strategically, understanding that the realization of their missions is dependent upon a longer view.

In particular, the healthiest organizations manifest strong performance in several of these characteristics.

Mission

These organizations have exceptionally clear missions that, in different ways, speak to their essential purpose and character. These organizations also measure—and announce—their success in meeting their missions, typically through explicit quantitative results. Such quantitative results, which are related to measurable programmatic accomplishments, are important because they indicate the clarity, appeal, impact and value of the mission to volunteers, funders and others. Further, these organizations relentlessly manage to the realization of their missions, recognizing that all decisions, programs and activities are critical paths in moving towards achievement of their primary purpose and goal.

Leadership

These organizations pay particular, continuing attention to ensuring that they are well-led and well-served by their leadership at both the governance and executive levels.

They have serious and thoughtful Board nominating processes led by experienced volunteer leadership that regularly evaluate overall Board performance as well as that of individual Board members. Their Boards seek a balance between continuing membership and the addition of new members; younger and older members; and representation of affiliates and outsiders. They also seek a broad array of professional experience and capabilities with common dedication to the mission and core values of the organization.

Their Boards focus constantly on the articulation and realization of longer-term strategic goals, pay serious continuing attention to the overall vigor of the organization, ensure strong analytic support to all deci-

sions and look to their chief executive officers for effective realization of mission and programs.

These organizations also understand the importance of having gifted chief executive officers and staff who are responsible for realizing the mission and strategic objectives on a day-to-day basis. They expect their chief executive officers to be individuals of proven capacity who are the “best in the field”, capable of exceptional leadership and representation and dedicated to the achievement of the organization’s mission.

Strategic Thinking

These organizations think strategically, understanding that the realization of their missions is dependent upon a longer view that is periodically reassessed and reset, informed by a set of clear three- to five-year goals and objectives and embodied in a formal plan that serves as a road-map for everything the organization is doing.

They also use their strategic plans as key tools to measure organization performance, support development planning and management, inform external and internal communications and branding and, in general, serve as the “operational charter” for guiding the organization.

Further, they see strategic thinking as critical to successful fundraising—for they realize that major donors are interested in knowing about an organization’s future aspirations, take comfort in a track record of successful realization of prior strategic plans and typically concern themselves about longer-term issues.

Facing—and Anticipating—Threats to Viability

Within the past decade or so, some of the most effective organizations have faced—or are now facing—a serious problem (or problems) that has, in some cases, fundamentally threatened its continued viability.

Among the challenges cited have been significant internal conflicts over mission and/or program direction, declining membership, ineffective and/or poorly managed affiliates and inadequate governance and/or executive leadership. Also noted are changing externalities that were not adequately anticipated, serious new competition from other organizations, poor communications and/or branding and significant financial difficulties.

Within the past decade or so, some of the most effective organizations have faced a serious problem.

The organizations report that these challenges tend to multiply. Sometimes this directly causes other difficulties, such as declining membership caused by unanticipated externalities leading to serious financial problems. At other times these challenges are manifestations of deeper and less clear difficulties, such as internal conflicts over mission that are representative of unrecognized mission creep or declining membership reflective of conflicts over program direction.

Each of the most effective organizations has chosen a different approach to meeting its challenges. These include fundamental rethinking of mission, redesign or refocus of programs and services, changes in governance and/or executive leadership, establishing or substantially strengthening standards for affiliates and tightening of financial planning and control.

The organizations that have been most successful in meeting these challenges have strategically and/or organizationally transformed themselves—rethinking and adopting quite new or different approaches to mission, program structure or focus, governance, affiliate relationships and funding.

Such measures have led these organizations to rise above their problems and enjoy a state of stability and vigor far greater than they previously enjoyed—as measured by their progress towards realization of mission, strength of branding, general recognition and visibility, membership growth, number and healthiness of affiliates, size of operating budget and/or size of asset base.

Significant Challenges Ahead

The most effective organizations collectively anticipate that they will face significant challenges over the coming decade. Among the most frequently cited concerns are changing or adverse economic circumstances, mission creep and/or mission irrelevance, new demographics, unbridled growth in membership and/or affiliates, significant declines in membership and/or affiliates and inability to stabilize funding.

Some organizations are more confident than others about their ability to thrive in the face of such challenges, and these organizations are uniformly the ones that appear to embody most robustly the first

three characteristics cited above—clarity of mission, strong leadership and continuing strategic focus.

Several organizations note that while they are uncertain as to exactly what challenges they may confront, they believe strongly that a continuous longer-term focus provides both a way of ensuring an “early alert” as well as flexibility in anticipating and meeting changing circumstances and conditions.

Overall, the organizations surveyed believe that complexity in the nonprofit world is increasing rapidly, with serious implications for their stability and effectiveness. Globalization, technology, increased competition, rising unmet needs, changing public policy, different public funding priorities and an accelerating rate of change are among the reasons cited for this trend.

These organizations anticipate that among the possible consequences of this trend will be a need for even more effective governance, stronger executive and managerial capability and more thoughtful approaches to volunteer participation and leadership. Tighter focus on mission and fundamental purposes, new forms of organization design and more strategic alliances and other forms of institutional partnership and association are also possible implications of this trend.

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Some Implications

There are three powerful implications to this analysis. The most effective nonprofit organizations share certain common characteristics irrespective of their particular sector, mission, size or focus. Secondly, effective nonprofit organizations have successfully faced significant challenges and emerged stronger and healthier not simply by jumping to a single new program or communication effort, but rather through sustained focus on strengthening the deeper drivers of an organization: clarity of mission, strong leadership and continuing strategic focus. And thirdly, successful organizations do not rest on their laurels but anticipate continuing complex challenges and pressures and realize the importance of sustained focus on institutional mission and role, effective governance and executive leadership and continuous long-term thinking.

— *Anthony Knerr*

Notable Books

Our goal is to identify—and briefly describe—the small number of important books that are truly insightful about consequential matters and offer new ways of addressing complex topics pertinent to thinking strategically about the institutional world. Herewith, our first set:

■ The Social Life of Information

by *John Seely Brown and Paul Duguid*

Harvard Business School Press, 2000. 317 pp., \$35.95

The bubble may have burst, but that has hardly stopped prognostications that the Internet and the rapid accessibility of information will change everything, including social organizations as we know them.

But a new line of thinking—superbly presented in *The Social Life of Information*—argues that the telecommunication-induced “death of distance,” to use *Economist* writer Frances Cairncross’ term, actually increases the importance of place. Matters of habit, environment and judgment play critical and under-appreciated roles in how technology gets used and for what purposes.

For nonprofit institutions, the message is clear: when weighing investments in technology, pay as much attention to looking at the social networks in which the technology will be used, as to the more typical IT-centered focus on capacity and capability. The social context of information, say the authors, is decisive in determining the role, value and implications of technology and is as important as the information being transmitted.

Nonprofit executives should not expect prescriptions from this book, but rather a set of questions about the interactions of technology with existing structures and approaches delivered with wit, humor and insight in a series of interconnected essays. The authors—Brown is the former Chief Scientist at Xerox Corporation and former Director of the Xerox Palo Alto Research

Brown and Duguid succinctly discuss the interrelationship of social institutions and technology.

Center (commonly known as PARC) while Duguid is a research specialist in Social and Cultural Studies in Education at the University of California at Berkeley—draw upon a wide array of examples from both the nonprofit and corporate sectors.

The volume is informed by a nicely contrarian sensibility, which coupled with the authors’ expert knowledge, passionate humanism and broad understanding provides provocative insights and thoughtful observations about likely ways technology will affect institutions and enrich work and education.

Against the blind enthusiasms of the futurists and technocrats, Brown and Duguid suggest that “society and social resources can solve many of the problems of both information and technology” and that it is society and social resources to which many technological designs and approaches are “blinkered, if not blind.” The chapters on the unnoticed aspects of the document and their implications for design and the future of the university are particularly cogent. The



“I’ve never actually stormed a castle, but I’ve taken a bunch of siege-management courses.”

authors observe, for instance, that the success of much new technology on campus has little to do with geographical distance and a great deal with enabling people to interact across time, and thus serve as an extension of, not a replacement for, face-to-face meetings.

No other recent volume has so succinctly and compellingly made the case for the role of social institutions on the evolution of technology and, conversely, how technology is, in fact, likely to influence the shape, structure and reach of institutions.

■ The Ideas That Conquered the World: Peace, Democracy, and Free Markets in the Twenty-first Century

by Michael Mandelbaum

PublicAffairs, 2002. 496 pp., \$30.00

The nonprofit sector has become increasingly “privatized” over the past decade or so. Growing attention to the needs and interests of funders and donors, new institutional interrelationships with private sector organizations and emerging private sector players in traditional nonprofit areas are but some of the ways in which nonprofit institutions have been influenced by—and are influencing—increasingly pervasive free markets.

Mandelbaum suggests the need for a powerful articulation of the global role of nonprofits in balancing the effects of the free market.

Michael Mandelbaum provides a compelling backdrop to this trend in his new book, *The Ideas That Conquered the World: Peace, Democracy, and Free Markets in the Twenty-first Century*. He argues that a set of three ideas has come to dominate the world today: peace as the preferred basis for relations between and among nations; democracy as the optimal way to organize political life; and free markets as the best way for countries to grow from poverty to prosperity. Although this Wilsonian perspective is hardly new, Mandelbaum’s book cogently demonstrates how powerfully these ideas have come to dominate international affairs and deftly illuminates their influence on the geopolitical and economic framework within which all Western institutions operate.

A professor of American foreign policy at the Johns Hopkins School of Advanced International Studies and a senior fellow of the Council on Foreign Relations, Mandelbaum provides a superb conceptual backdrop for nonprofit institutions as they think about their strategic situations on both a global and a local level. In particular, it is helpful for nonprofit institutions to keep these central ideas in mind as “givens” in charting their futures. Further, though Mandelbaum does not discuss it explicitly, the increasingly pervasive global influence of the free market has profound implications for the role, character and significance of the nonprofit sector.

Mandelbaum provides a thoughtful and thought-provoking analysis of political and economic theory over the past two centuries and the connection between free trade and the spread of prosperity. He also illuminates how influential the power of example has been in establishing the potency of these ideas and gives a series of warnings about possible future conflicts. He sees the terrorist attacks of September 11th and the war on terrorism as aberrations in the midst of otherwise positive global trends already in play and he seeks to explain why much of the world is less peaceful despite the trend away from war among the great powers.

His book suggests the need for a powerful articulation of the global role of nonprofits in balancing the effects and implications of the free market. The “independent” sector—and the leading institutions within that sector—are uniquely situated to understand and analyze the free market. Without vigorous leadership by the nonprofit sector, there is considerable danger that the benefits and scope of free markets could be compromised in both developed and developing nations. By the same token, the nonprofit sector must be alert to the dangers of rampant globalization that leave the disadvantaged and the underprivileged even further behind. And the growing “privatization” of the nonprofit sector also has important longer-term implications.

One can quarrel with some of his views about “hot spots” in the world today and the impact of alternative courses of action by the United States, which he maintains bears the greatest responsibility for protecting and promoting these central ideas. But his depiction of the free market as an increasingly powerful force that holds the key to a peaceful and democratic future is compelling and convincing.

■ Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment

by David F. Swensen, with a Foreword by Charles D. Ellis

The Free Press, 2000. 364+xvi pp., \$35.00

Managing investments is one of the chief duties of boards. Yet, until recently, there have been few, if any, reference works with analytic solidity and a clear, approachable style. The nonprofit sector can be grateful to David F. Swensen, chief investment officer for Yale University for the past 17 years, for sharing his insights about successful portfolio management.

Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment is important reading for anyone who has responsibility for, or is involved with, investments and endowments both large and small—including trustees and board members, chief executive officers and staff—for Swensen lays out how any institution can generate, over time and with discipline, a successful investment program.

Acknowledged as a leader in his field, Swensen has compiled a remarkable record of investment performance. Concentrating on alternative asset classes rather than domestic marketable securities (hence “an unconventional approach”), Swensen’s focus on a range of less efficiently priced investment alternatives has produced a stellar 17% annualized rate of return for Yale since 1985, putting it in the top 1% of all institutional funds. Yale’s endowment was slightly higher than \$1 billion upon his arrival from Wall Street; it was over \$10.5 billion as of June 30, 2002. And during the

Swensen’s volume is important reading for anyone who has responsibility for, or is involved with, investments and endowments.

past two years of rapidly declining capital markets, the value of Yale’s endowment increased 4%.

Swensen begins by discussing the fundamental purposes of endowments for educational institutions, suggesting that they allow greater institutional independence, provide operational stability and facilitate the achievement of educational excellence. He then turns to examining the goals for institutional portfolios, discussing the role of spending policies, purchasing power evaluation, spending sustainability, portfolio evaluation and the impact of gifts, observing that such goals supply an essential foundation for the process of funds management. He completes his description of the fundamentals by describing the role of asset allocation—the key decision regarding the distribution of a portfolio among different types of investment alternatives.

Swensen’s discussion of the management of a successful investment program is masterful. He presents situations where “real-world frictions” can impede the realization of portfolio objectives; gives a primer on asset class management; outlines a number of performance evaluation issues; and lays out his views on how to structure an effective decision-making process.

What makes Swensen’s volume a classic is the clarity and accessibility with which he explains highly complex and often technical matters. He is equally cogent in laying out the philosophical foundation for successful investment management and the fundamentals as he is in explaining strategic and tactical aspects of portfolio management. A wealth of concrete examples illustrate larger questions of investment goals and concepts, the impact of alternative courses of action that particular institutions have followed and narrower operational and management issues.

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“If we’re going to prioritize, we’re going to need some priorities.”

News from ANTHONY KNERR & ASSOCIATES

New Colleagues

We are delighted with the appointment of three new colleagues:

■ **Emily Menlo Marks** has a wide variety of managerial and programmatic experience in the nonprofit sector. She revitalized United Neighborhood Houses of New York, the federation of settlement houses in New York City, during her almost 15 years as Executive Director. She was previously Deputy Executive Director and Acting Executive Director of the National Service Corporation for the City of New York. She was also Associate Director and Director of Special Projects at the Vera Institute of Social Justice. Earlier she worked in the public sector as Assistant Administrator of the New York City Environmental Protection Administration.

She has served on a number of nonprofit boards, including two terms as President of The Parks Council, where she was a Board member for 30 years, and two terms as President of the International Federation of Settlements and Community Centers where she still is a Trustee. She has written and spoken widely on social policy and community issues and has been honored by numerous organizations. She received her B.A. from Smith College, her M.S. from Columbia University Graduate School of Business and a Certificate from Columbia School of Social Work.

■ **Jeremy S. Taylor** has broad executive and managerial experience in both the nonprofit and for-profit sectors. He was most recently a Director at Standard & Poor's. He was previously Executive Vice President and a founding investor of Portfolio Management

Data, LLC. For the preceding twelve years he was President of Jeremy Taylor and Associates, a firm specializing in executive search and counseling and strategic formulation in international corporate finance and investment. Earlier he was Vice President of M.A. Management Associates and an officer in Chase Manhattan Bank's strategic planning and corporate finance groups as well as Citibank's private banking and investment group.

He has served on numerous nonprofit boards, including Lexington School/Center for the Deaf, Books for Kids Foundation and the Fletcher Club of New York. He has written on multilateral diplomacy and the global economy. He received his B.A. from Moravian College and his M.A. in law and diplomacy from The Fletcher School of Tufts University

■ **Helen L. Gilbert** received her B.A. *cum laude* from Harvard University in June 2002. While at Harvard, she served as Co-President of Harvard Model Congress. She also helped launch a weekly teaching program coordinated with Boston and Cambridge public schools and developed curricula for programs in Boston, San Francisco and Paris. Additionally, she served as a tutor for Get Ready! and as a board member of *Tempus*, a biannual publication of undergraduate historical writings.

New Web Site

Our new Web site—www.aknerr.com—provides background information on the firm, gives an overview of how we work and what we think about, lists selected assignments, provides case studies of five major assignments and includes *Strategy Matters*™.

Established in 1990, ANTHONY KNERR & ASSOCIATES provides strategic counsel to leading nonprofit institutions in the United States and Europe.

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