SUSTAINABLE STRATEGY[A]

(5-17-17)

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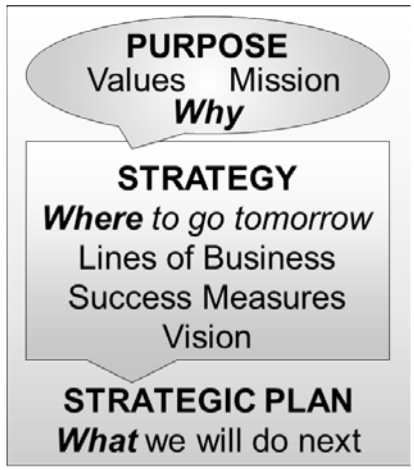

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[A] This book is built upon a template derived from Sustainable Strategy (Light, 2017). All content herein © Mark Light, 2017. Thanks to Dottie Bris-Bois for invaluable editing, clarifying insights, and sharing examples of her sustainable strategy work.

GREAT STRATEGIES

What *should* we do next?

The chief limitations of humanity are in its visions,
not in its powers of achievement.
A. E. Morgan

Build

The Great Strategies process begins by developing a detailed description of the vision strategies you chose at the end of the Great Ideas activity. Peter Brinkerhoff uses a three-question approach for building strategy:

1. What precisely will the business idea do?
2. How will it benefit the organization?
3. What are the characteristics of businesses of this type?[1]

The sustainable strategy approach uses six questions:

1. Who are the people you will serve?
2. What product will you deliver?
3. How will you price the service or product for your clients?
4. Will the cost be low, medium, or high for your agency to launch the strategy?
5. What is your value proposition?
6. What is your plan for implementing the strategy?

The alliteration around the letter P evokes the marketing mix introduced in 1964 by Neil Borden.[2] Jerome McCarthy later grouped Borden's marketing mix into four categories: product, price, place, and promotion, commonly known today as the 4 P's of marketing.[3] By riffing on this methodology, you can better understand the benefits of integrating the strategy into your non-profit organization.

Five Ps

People

The first P in the process describes the people who will benefit from the strategy once implemented. Many experts call this customer segmentation. One such expert, Kristin Majeska, defines customer segmentation as "the identification of groups of customers with common needs, behaviors, and demographic characteristics that can help you target specific groups and tailor your offerings to them."[4]

The goal is to specify your primary customer for each strategy, which Peter Drucker describes as "the person whose life is changed through your work."[5] Let's say that your clients are juvenile girls at risk for pregnancy and that your work in Great Ideas convinced you to improve user outcomes by 20 percent. Your first step would be to describe the client specifically:

People	Young women at risk for pregnancy living in Englewood

In addition to describing the beneficiary of the strategy, define their characteristics as much as you can. How old are they, where do they live, what is their income level, how many are there, how many do you serve? Use ready-made resources like the United States Census Bureau at www.census.gov and the Small Business Association at www.sba.gov to help you describe your market. David La Piana defines this as "market awareness" and recommends that it include four useful questions:

- What the organization's market is, whether that market is stable, shrinking, or growing, and who else is in the market
- Where the organization stands relative to other players in the market
- How the organization got to its current status relative to others
- Where the organization wants to go next within the market[6]

Strategies that address operational effectiveness (e.g. installing your agency-wide intranet to facilitate communications) may not appear to have primary customers or beneficiaries. Yet if the strategy allows staff members to better serve the primary customer, you likely have a defensible plan.

If you cannot draw a defensible link to the primary customer, do not waste your time defending the strategy. You should not build new buildings or boost fundraising as ends unto themselves. Does this mean you should never implement these kinds of operational strategies? Not at all; comfortable and well-trained staff can make a huge difference in serving the primary customer; but having an on-site barista for your morning coffee probably won't.

Product

The second P to uncover is product. Product begins with what transformation the strategy will make to the primary customer. For juvenile girls at risk of pregnancy, the life-changing difference might simply be getting though their pre-teen and teenage years without becoming pregnant.

Just how you intend to make this difference is your next step in describing the product. Is it sex education? Distribution of contraceptives? What about peer mentoring or family counseling? In other words, **what product or service will the people you are serving receive**? In this example, the product is peer-to-peer mentoring:

People	Young women at risk for pregnancy living in Englewood
Product	Peer-to-peer mentoring

Price

Price comes in two flavors: price that you're going to charge the client and price that you will pay to launch and implement the strategy to the point of positive cash flow.

Client

Unless your agency is very large, you will likely not charge your staff a per copy fee for using the office copier. Pricing questions therefore usually arise in conjunction with lines of business with direct relations to the client or intermediary.

Many organizations wait far too long before addressing service or product price. Yet cost is no trivial issue and it should be on the table at the earliest point possible – especially before you talk with customers. It's essential to outline your price in order to get an early indication of a customer's willingness to pay. As Patricia Caesar and Thomas Baker warn:

> Never show people the product or describe the service without the price, because that is not the way it is generally going to be marketed in the real world. You may be reluctant to do this at an early phase of implementation; nevertheless, pick a number, put it down, and get a reaction. Price is an integral part of how any product or service is positioned in the marketplace, and yours, no matter what it is, cannot be evaluated without one.[7]

There are many different ways to think about pricing. The most common is the cost plus method followed closely by breakeven pricing. These approaches focus on what the provider must receive in order to achieve some objective (like breaking even). Instead, **you should first know what others in your field charge for the same products**. If your peer agency charges $225 per camping week in the northern part of the state and regularly reaches 90 percent capacity, perhaps your price of $435 is too high and explains why your capacity percentage is 55 percent and declining.

Regrettably, the typical mistake nonprofits make is not charging too much, but too little or not at all. Nonprofits regularly make the failed assumption that "free of charge" has great meaning. Whenever I see this message trumpeted as an attribute of a program, I wince. As counterintuitive as it may seem, charging nothing for something often conveys a value of nothing. After all, most customers are willing to pay something for what you're offering. How can you justify not charging those who have the means to pay? How can you pass up the chance to serve more people as a result?

Many executives have long known that paying something for a service is good for both the customer and the provider. At its most basic, **charging for services puts skin in the game for both parties.** The recipient of services is now a bona fide customer purchasing something of value and expecting a certain level of quality. The provider is now subject to the accountability that comes from having paying customers instead of take-it-or-leave-it charity cases.

As such, it could be a viable strategy to start charging for something that you have been giving away. You won't be the first. Many nonprofits are beginning to charge for services that no one would have thought possible even a few years ago. Take the strategy of charging homeless people for space in shelters. What could be more unthinkable; homeless people are penniless, right? The Union Rescue Mission (URM) in Los Angeles charges $210 for its 30-day Gateway Project for single men and women. The Mission says that the fee "helps pay for beds, meals, and other services [and] for three reasons . . .

1. Education: We want to help our guests be more accountable and take more responsibility for the services provided to them. Responsibility and accountability are a part of life.
2. Empowerment: Men and women who contribute to their own well-being gain a greater sense of control over their circumstances, as well as greater confidence that they can overcome their present circumstances. This is called empowerment.
3. Equipping: URM's comprehensive services are designed to stabilize and equip men and women experiencing homelessness with the tools and resources they need to get back on their feet. Once they obtain stability in their lives, URM staff works with each individual to learn new life skills and set goals for employment and housing.[8]

To be sure, there may be people who cannot pay a thing for what you are providing. I ran a performing arts center that delivered a school-day educational program for 60,000 kids each year. About a third of the children attended free on scholarships that teachers could request. Instead of saying that everyone could attend free of charge, we said that we would turn no one away. This type of pricing allows you to set a fixed price for everyone, but use discounts or giveaways for those who need help.

There are many ways to think about pricing, but Majeska lays out four common ones:

- Cost plus
- Break even
- Economic value to the customer
- Competition based[9]

Beyond this list, some agencies will use a type of pricing called mission based that is just that – what does the mission say the agency should charge if anything at all? However, **if mission doesn't preclude you from charging customers, the best method is competition**, as the agency bases it upon what other agencies are charging for the same or similar services.

If you are worried about whether this sort of price maximizing will hurt your organization, consider the results from Panera Bread's nonprofit eateries: Its cashiers tell customers their orders' "suggested" price based on the menu. About 60 to 70 percent pay in full . . .

About 15 percent leave a little more and another 15 percent pay less, or nothing at all. A handful of customers have left big donations, like $20 for a cup of coffee.[10]

Is Panera's method working? It is a slow and steady effort that currently has four stores in support of its mission "to raise the level of awareness about food insecurity in this country, while also being a catalyst for change in [its] communities."[11]

Using price to build upon our example of peer-to-peer mentoring for juvenile girls, we now have the following description:

People	Young women at risk for pregnancy living in Englewood
Product	Peer-to-peer mentoring
Price Client	Competition Based

Agency

Here is where you take into account the costs to the agency to reach the point of positive cash flow for the strategy under consideration. **These costs are what it takes to get the strategy going** and include capital expenses like equipment purchases or facility rent and non-capital costs like licenses and consulting fees. The first place to look is the operating reserves.[A] Take the following example of a cash flow budget:

Cash Flow Budget ($ in thousands)	Startup	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Balance	0	(72)	(81)	(99)	(102)	(103)
Revenue: Contributed	32	1	5	5	5	5
Earned		1	2	3	5	6
Total Revenue	32	2	7	8	10	11
Expenses: Programs	68	7	24	9	8	8
Administration	32	3		3	3	3
Marketing/Dev	4	3	2	2	2	2
Total Expenses	104	12	26	13	13	13
Cash Surplus/Deficit	(72)	(10)	(19)	(5)	(3)	(2)
Cash Balance	(72)	(82)	(100)	(104)	(105)	(105)

Here we know that the cost to positive cash flow occurs in July of year three at a price of about $104,000. Is that low, medium, or high relative to the agency's position? A look at the success measures is helpful as shown in the health agency below:

[A] A more conservative view of working capital because you use unrestricted net assets and exclude land, building, and equipment, and temporarily restricted assets (Blackwood & Pollak, 2009, p. 9). Formula = Unrestricted Net Assets minus Land, Building, and Equipment plus Mortgages & Notes

Success Measures ($ in thousands)		Year 1	Year 2	Year 3	Year 4
Profit & Loss	Contributed Revenue $	5,057	5,451	5,368	5,675
	Non-contributed Revenue $	279	208	398	381
	Total Revenue $	5,336	5,659	5,765	6,056
	Total Expenses $	5,270	5,642	5,769	5,874
	Excess/(Deficit) $	66	18	(4)	182
Balance Sheet	Assets $	818	851	871	1,322
	Liabilities $	358	374	397	152
	Net Assets $	460	477	473	893
Capital Structure[A]	Total Margin $	0.01	0.00	(0.00)	0.03
	Current Ratio $	1.8	2.0	1.9	5.4
	Working Capital $	273	357	329	673
	Operating Reserves $	207	170	253	616

As you can see, the agency has $616,000 in operating reserves and this makes the $104,000 seem low in terms of the price to the agency for getting to positive cash flow. Of course, many things may influence that decision about how expensive the strategy will be including opportunity costs and capacity of the agency. We will cover these later in the testing of the strategy. For now, we will list the price to the agency reaching positive cash flow as “Low”:

People	Young women at risk for pregnancy living in Englewood
Product	Peer-to-peer mentoring
Price Client	Competition Based
Price Agency	Low

Proposition

The next P in the process is proposition. This is at the core of marketing and is “the value of what you get relative to what you give in exchange for it.”[12] Put directly, why would your customer write the check? **The value proposition is not about how you will sell the service or product, but *why* the customer would buy it.**

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (T. A. McLaughlin, 2009, p. 83). Formula = Revenue minus Expenses [line 19] divided by Revenue [line 12]
Current Ratio: "the most widely recognized measure of liquidity . . . the ratio should be at least 1” (T. A. McLaughlin, 2009, p. 75). Formula = Current Assets (lines 1-9) divided by Current Liabilities (lines 17 to 19)
Working Capital: According to Charity Navigator, Working Capital determines “how long a charity could sustain its level of spending using its net available assets, or working capital, as reported on its most recently filed Form 990” ("Glossary," 2010). Formula = Unrestricted plus Temporarily Restricted Net Assets
Operating Reserves: A more conservative view of working capital because you use unrestricted net assets and exclude land, building, and equipment, and temporarily restricted assets (Blackwood & Pollak, 2009, p. 9). Formula = Unrestricted Net Assets minus Land, Building, and Equipment plus Mortgages & Notes

Researching the value proposition does not require an MBA or a high-priced marketing consultant. You can get at this information in a variety of ways, but **the easiest is to ask your customers directly**. You may find out that the customer doesn't see the value, or that they would at the right price, or with a different product.

When getting ready to make the vision statement, you connected with some of your customers to understand what they liked and didn't like about their experience with your organization's services, programs, or products. With your strategy defined more specifically, it is now time to go back to these constituents and understand the probabilities that your strategy will succeed. According to Peter Brinckerhoff, this requires "to start the process of delineating the difference between what you *think* people want and what you *know* they want. The only way to know is to ask."[13]

Start with why you think your customers would buy or use your product or service. You should have a good idea by now what life-changing difference you're supposed to be making for your clients. Maybe how you're different from your rivals is also part of the rationale. Make a list of all of the reasons you think are important. Prioritize the top three or four. Now ask your customer whether they would use or buy your service or product at the price you have tentatively established and test out your propositions with a half-dozen customers.

Armed with the information you gained from your research, you are now ready to write the value proposition for your strategy. Like your mission statement, it will be short and to the point:

People	Young women at risk for pregnancy living in Englewood
Product	Peer-to-peer mentoring
Price Client	$2 per session
Price (Startup)	Low
Proposition	Convenience, confidentiality, and companionship

The value proposition – why the juvenile girls would write the check – is for the convenience, confidentiality and companionship.

Plan

The final P in the sustainable strategy splits the vision into three elements to create your plan:

1. The vision statement is a clear picture of the future and is typically idealistic in texture.
2. The vision strategies bring the picture to life and are typically pragmatic.

3. The vision goals directly relate to each strategy and are how you will achieve that strategy.

Here's ann easy approach to creating your plan:

1. Determine problems that you need to fix including the root causes.
2. Develop possible alternatives including best practices from other organizations.
3. Decide best alternatives including determining what could go wrong.
4. Draft an implementation plan including specific completion dates and people responsible.

In the Great Ideas process, your organization already identified the overarching vision and the strategies that will bring the vision to life. Next, you outline the final step – identifying the goals that will make the strategies successful. Here you see the goals and action steps for the development department of a performing arts center that has a strategy to boost fundraising significantly. The initials within the parentheses indicate the person or persons responsible for the goal or action steps:

1. Develop and implement a major gift strategy to raise at least $150,000 from at least 10 new members at the President's Circle level (WM/WB 6/30).
    a. Identify and solicit President's Circle prospects (WM 9/15).
    b. Write a specialized appeal letter for board members to encourage an increase in giving (WM 10/15).
    c. Hold at least two cultivation events for donors (WB/WM 6/30).

2. Develop Corporate Partner campaign to increase giving by $270,500 (WM 6/30).
    a. Send corporate partner mailing by 12/1 to current and lapsed donors (WM 12/1).
    b. Identify prospects from outside lists and Target Solutions data (WM/WB 12/1).
    c. Solicit and close prospects (WM 6/30).

3. Research and cultivate companies of new vendors and/or board members to raise at least $100,000 in new sponsorships (CP 6/30).
    a. Send letter to each company (CP 9/15).
    b. Schedule cultivation visits (CP 9/30).
    c. Meet, cultivate, and close prospects (CP/ML/WB 6/30).

4. Launch a planned giving program so that at least six individuals include the organization in their plans or make an outright gift with a similar intent (WB 6/30).
    a. Develop possible alternatives including best practices from other organizations (WB 8/30).

b. Decide best alternatives including determining what could go wrong (WB 9/30).
c. Draft an implementation plan including specific completion dates and people responsible (WB 10/30).
d. Close six gifts (WB/ML 6/30).

My favorite approach to building goals is the BAM process without the multi-voting. Simply ask what tasks are necessary to bring this strategy to life? Don't worry about the chronology of the ideas until after you brainstorm lots of ideas and then affinity group them into proper order.

How do you know you have an effective goal? Don Hellriegel and John Slocum say that effective goals should have three elements. **First, challenging goals have clarity,** which means the goal taker will "know what is expected and not have to guess."[14] **Second, goals must be difficult**, meaning that they "should be challenging, but not impossible to achieve."[15] The implications of clarity and difficulty are clear:

> Employees with unclear goals or no goals are more prone to work slowly, perform poorly, exhibit a lack of interest, and accomplish less than employees whose goals are clear and challenging. In addition, employees with clearly defined goals appear to be more energetic and productive. They get things done on time and then move on to other activities (and goals).[16]

On way to get at this question of challenge is to use the AIM approach where A stands for *acceptable* minimum, I stands for *ideal*, and M stands for *middle*. Turns out that the middle is typically the most often utilized.

Self-confidence, the third required element, refers to a person's "estimate of his or her own ability to perform a specific task in a specific situation."[17] This is not about ability, but about belief. Though self-efficacy begins with the self, the person you report to heavily influences it. As J. Sterling Livingston, the author of a classic on the subject of expectation effect puts it, "A manager's expectations are key to a subordinate's performance and development."[18]

Setting clear and challenging goals that people believe they can achieve is just the beginning. The goal taker must be motivated to accomplish the goal, which depends upon whether he or she "believes that the behavior will lead to outcomes . . . that these outcomes have positive value for him or her [and] he or she is able to perform at the desired level."[19] In other words, **what's in it for me, do I care about it, and can I get it if I try?** Obviously, no amount of motivation is of any value if the goal taker doesn't have the abilities required to achieve the goal. In other words, attitude is no replacement for skill set.

To make success more likely, involve the goal taker in the process because "positive goal acceptance is more likely if employees participate in setting goals."[20] That said, setting goals is always better than not setting them: "Even when it is necessary to assign goals without the participation of the employees who must implement them, research suggests that more focused efforts and better performance will result than if no goals were set.”[21]

Another popular (and perfectly usable) approach to test the effectiveness of a goal is the SMART method, which originally stood for specific, measurable, assignable, realistic, and time-related,[22] which is the method I recommend. These days the permutations are almost limitless including simple or stretching; motivational or meaningful; action oriented, agreed upon, attainable or ambitious; relevant or rewarding; and trackable or tangible.

Once you’ve determined you have a solid goal, format it. Begin with an action verb followed by a noun describing the goal, measurable results, the person(s) responsible, and the completion due date. You can do this by building the measurable results right into the goal: Increase annual giving $150,000 (ML 5/1). An even better approach: increase annual giving 20 percent to $150,000 (ML 5/1).

Here is our example with the final plan for the implementation goals added:

People	Young women at risk for pregnancy living in Englewood
Product	Peer-to-peer mentoring
Price Client	$2 per session
Price Agency	Low
Proposition	Convenience, confidentiality, and companionship
Plan	1. Develop possible implementation alternatives including best practices (RL 6/1) 2. Decide best alternatives including determining what could go wrong (GG 8/1) 3. Draft an implementation plan (RL, GG 12/1)

Underway

You’re now in the wrap up phase, which requires outlining the strategies your agency currently has underway – if any. What follows is an example for a community health center serving the HIV community:

Strategy	Downtown Housing	Downtown Clinic
Product	Quality affordable housing through rental assistance	Primary care
People	Behavioral health clients	Newly diagnosed or out of care 6-12 months
Price Client	Income-based fees	Sliding-fee scale or insurance
Price Agency	Low	High

Strategy	Downtown Housing	Downtown Clinic
Proposition	Stability Safety Recovery	Excellent convenient care Many services at one place
Plan	Goals planned: finished Goals completed: 2/1/16	Goals planned: finished Goals completed: 5/1/16

New

Once you have outlined your current plans, finish with the new strategies under consideration:

Strategy	In-house Pharmacy	Patient-Centered Medical Home (PCMH)	Broaden Client Payer Mix
Product	Medications	Comprehensive services in a unified process	Excellent care from client-centered practitioners
People	Insured clients	Insured clients	Insured clients
Price Client	Cost plus fee	Rate plus fee	Rate plus fee
Price Agency	High	Medium	Low
Proposition	Convenience Experienced Pharmacists Access to Payment Help	Comprehensive High Quality Accessible	Confidential Convenient High Quality
Plan	Goals planned: 12/1/16 Goals completed: 12/1/16	Goals planned: 5/1/16 Goals completed: 5/1/18	Goals planned: 12/1/16 Goals completed: 12/1/16

Notice in the implementation plans from the examples above that the agency took a plan-to-plan approach. Some might describe this as kicking the can down the road. However, it is also true that planning the implementation is a demanding and time consuming process. In the example for a performing arts organization that follows, the agency displays a more robust approach, albeit without assignments for responsibility:

Strategy	Festival	Student Matinees	New Facility
People	Families and culture-seekers	Students	Funders (individuals, corporations, and foundations)
Product	Access to culture taking performances outdoors	Amplifying teacher lesson plans through live storytelling	Making history through a worthwhile investment
Price Client	Economic value; Flat	Competition based; Fair	Economic value; Premium

Strategy	Festival	Student Matinees	New Facility
Price Agency	High	Low	Very High
Proposition	Low-cost and highly accessible	Uniquely aligning with high school history curriculum	A space worthy of the theatre's artistry
Plan	• Plan program (Months 1-6) • Fund a pilot program of one location and publicize (Months 7-12) • Pilot performance (Month 12) • Evaluate pilot (Months 13-16) • Re-evaluate plan, choose locations for full launch, and raise additional funding (Months 17-22) • Publicize events (Months 22-24) • Full program launch (Month 24)	• Plan program and raise funds (Months 1-6) • Publicize to teachers (Months 6-9) • Develop teacher handbooks • (Months 10-11) • Launch student performances (Months 12-13) • Evaluate (Months 14-15)	• Develop a fiscal pro forma and feasibility study (Months 1-6) • Determine fundraising goal (Months 7) • Create a case for support (Months 9-10) • Create focus group of key stakeholders to test case (Months 11-12) • Make changes to plan and case (Months 13-15) • Silent phase of fundraising and building development (Months 16-36) • Public phase to raise remaining 30% of funds and break ground (Months 36-48) Open building and celebrate donors (Months 49-50)

Perhaps the key advantage for the more detailed approach is that it helps you see what might lie ahead and makes the testing stage more grounded.

Test

Part performance audit and part gap analysis, **testing is an imperative process** for determining the agency's abilities to execute the strategies – new for sure and current if appropriate – and then adjusting them accordingly. Testing current strategies underway becomes applicable in cases where the external environment has changed radically or you have discovered a new strategy that makes a current one obsolete.

What should you do if the forthcoming test results don't support a new or current strategy? Dropping the strategy is certainly one option; adjusting it is another. Goodstein, Nolan, and Pfeiffer offer **four primary tactics for making adjustments**:

1. Lengthen the time frame for accomplishing the objective. This tactic should be considered if the current allocation of resources is appropriate and it will take more time to achieve these aggressive goals than initially planned.
2. Reduce the size or scope of the objective. This tactic applies when the vision was appropriate but lesser or somewhat modified objectives are more achievable and less risky.
3. Reallocate resources to achieve goals. This tactic is appropriate if the goals can be achieved only by rallying existing resources that have spread too thin.
4. Obtain new resources. This tactic should be considered when new talent, products, markets, or capital are necessary to achieve desired goals.[23]

Testing covers two contexts: the external environment evaluates the outside context in which the agency operates and the internal environment looks at the agency's operational effectiveness.

External Environment

In the classic approach to analyzing the external environment, you first examine the general environment consisting of "seven environmental *segments*: demographic, economic, political/legal, sociocultural, technological, global, and physical."[24] I typically advocate considering a different set called the PEST approach, which covers political, economic, social, and technological segments.

The second step is an investigation of the industry environment, which is "a group of firms producing products that are close substitutes."[25] Another word that I find useful to describe an industry is field.

Once you've described the industry for your particular strategies, you could analyze them using Michael Porter's five forces model, which includes threat of entry, power of suppliers, power of buyers, threat of substitutes, and rivalry among existing competitors.[26]

Another method is Sharon Oster's six forces for nonprofits,[27] which she based on Michael Porter's classic five forces approach.[28] Oster begins with defining the market, describing the industry participants, and then analyzing six factors: relations among existing organizations, entry conditions, competition from substitute products, supply, the demand of users, and donor power.

Though analyzing the general and industry environments can be a useful exercise, it can be quite time consuming. The good news is that you have already addressed a good deal of both environments earlier in the Great Ideas process. For example, when you analyzed the Best of the Best in your field (BOBs), you took a snapshot of the industry environment. When you asked the questions in the Drucker Two, you were looking at threats and opportunities, which are distinctively external, and strengths and weaknesses, which are distinctly internal.

The most important and useful element of the external environment is that of the competitor. Competitors are the agencies with whom you directly compete, that are usually in the same market. Some nonprofit executives will argue that their agency has no competitors. But this is wishful thinking especially when it comes to funders. When a proposal for homeless teens arrives, the funder will likely put it with all the other proposals related to homelessness, teens, or perhaps the much larger human services group.

The first step in competitor analysis is to identify and describe your competitors. Second, compare your agency to them using the following four factors:

1. What drives the competitor, as shown by its *future objectives*
2. What the competitor is doing and can do, as revealed by its *current strategy*
3. What the competitor believes about the industry as evidenced by its *assumptions*
4. What the competitor's capabilities are, as shown by its *strengths* and *weaknesses*[29]

Third, describe the relations between **your agency and your competitors** – do you collaborate for the better good? Or is the group generally winner take all? By the way, this question and the next one are borrowed from a traditional industry analysis.

Fourth, determine the degree of high influence and high interest stakeholders for each of your strategies. You have already done a stakeholder analysis in the Great Ideas Report. Knowing that the influence of your stakeholders increases with the amount of resources (e.g. revenue) each stakeholder group supplies allows you to consider how much control they may exert on each of the agency's strategies. A stakeholder group with concentrated and powerful influence may make for a less attractive and riskier industry environment. For example, if you run a blood bank and you have one hospital purchasing all of your supply, a strategy to diversify to other hospitals is something to consider carefully.

Fifth, make a judgment about what response your competitors will take once they learn about your strategy. In the example below from an arts organization, the Facility strategy is not scored because the organization does not know which of its competitors (if any) will also be having a capital campaign.

Strategy	Festival	Student Matinees	Facility
Competitors	Organization that hosts an annual three-day music event the second weekend in July. This family-friendly festival features 60 music acts that range from indie rock, international acts, teachers, and students.[30]	Another theatre in Chicago is the primary competitor for student matinees. This rival has more than 20 years of experience producing student matinees, serves more than 40,000 students annually, and is the go-to field trip for more than 2,500 English and Drama teachers.[31]	NA
Comparison	Weak: The theatre festival is a theatrically driven event that will occur only on July 4th weekend.	Weak: We will have a significantly smaller network and will primarily present works with history classes tied directly to the classroom curriculum.	NA
Relations	Moderate: Our competitor will not seek to dominate the festival market, but they likely won't share resources either.	Moderate: Our competitor works with English teachers and this new program will focus on work with history teachers, so there's not a direct collaboration that can take place.	NA
Influencers	Weak: We anticipate our stakeholders will embrace supporting this program, not decline funding.	Weak: We anticipate our stakeholders will embrace supporting this program, not decline funding.	NA
Response	Not likely to respond: Their festival is music-centered and on a different weekend.	Not likely to respond: Their network is massive and catered to English and Drama students	NA
Fit to Strategy	Attractive	Attractive	NA

Strategy	Festival	Student Matinees	Facility
Industry Description	Summer festivals for families with live entertainment	Field trips for students	NA
Relationships within Industry	Moderate: There are many summer festivals in Chicago; collaboration is unlikely; and we will need to compete for people's leisure time.	Moderate: There are many field trip opportunities for students, but we think this is unique and will survive within the industry.	NA
Stakeholder Influence	Weak: Program support for communities is likely and we expect enough funding to be achievable.	Weak: Program support for arts in education is likely and we expect enough funding to be achievable.	NA

Strategy	Festival	Student Matinees	Facility
Fit to Strategy	Somewhat Attractive	Attractive	NA

Internal Environment

When you get right down to it, internal environment is all about organizational capacity, which is “the ability of an organization to operate its business.”[32] If external environment is about what is happening outside the agency, capacity is about the inside.

I adapted a tool called the Iron Triangle to use when conducting an internal analysis. The Iron Triangle is a phrase coined by Clara Miller formerly at the Nonprofit Finance Fund and describes “a fixed relationship between three elements: programs, capital structure, and organizational capacity, with any change in one inevitably having an impact, planned or unplanned, on the others.”[33] In addition to measuring these three elements, I recommend your organization also measure its risk tolerance.

Mission

According to Clara Miller, an “organization’s mission is usually comparable with a significantly larger range of programs than it has the resources to pursue.”[34] As such, an excellent way to gauge the health of mission is to examine the scope of diversification in your lines of business. Some people call this the degree of mission drift.

On the low side of the diversification spectrum is the single line of business that delivers 95 percent of revenues.[35] This single business nonprofit might be an agency that serves hot meals to the homeless in a single facility or a ballet company that only does classic ballets in the local performing arts center. These types of organizations are typically highly mission-centered.

In the middle of the diversification spectrum are related-constrained lines of business. Typically, these organizations have less than 70 percent of revenue coming from one source, but there are tight links between all of the businesses. A ballet company that presents classic ballets like Swan Lake, operates a ballet school, and tours regionally to high schools; or an agency for the homeless that serves hot meals, provides space for recreation during the day, and makes referrals to overnight shelters. Because of the common link, organizations in the middle of the diversification continuum are also mission-centered.

At the far end of the continuum is unrelated diversification where less than 70 percent of revenue comes from a single business, but there are no common links. An example of this is the ballet company that presents classic ballets, rents its studios out for weddings, and sells bookkeeping services to neighborhood small businesses. All of these lines of business make use of excess capacity, but the only relationship is the common bond of providing revenue. Obviously, you would not see unrelated diversification as especially mission-centered.

The healthiest place to be on the continuum is in the middle. In other words, **you're in a riskier position by having a single line of business or multiple unrelated lines of business.** Unrelated typically means that the lines of business do not relate tightly to the core mission. A franchise with a mission of helping disabled clients that boosts income by packaging light bulbs is unrelated; that same franchise that employs your disabled clients in the store is related.[36]

Of course, you can argue that as long as all of the lines of business link together tightly, the number of businesses doesn't particularly matter. That is true if the organizational capacity is in place to handle the load, but at some point, too many businesses is truly just that. In the end, the question is not whether you have too few or too many business; the question is always whether your intended strategy is mission-centered or not.

Many different things affect the degree of diversification. Funders typically support new programs as opposed to on-going ones or general operating support, which stimulates the demand for diversification.[37] Many board members from the for-profit sector celebrate diversification because it is a popular tactic for growth. Indeed, it is common for nonprofit executives to have heard the ubiquitous axiom of *grow or die*.

Grow or die is synonymous with scaling up or going to scale, which means "creating new service sites in other geographic locations that operate under a common name, use common approaches, and are branches of the same parent organization or very closely tied affiliates."[38] Going to scale is always a hot topic because when you do so, you theoretically increase impact.[39]

Don't be seduced by the allure of going to scale. Keep Michael Porter's warning in mind that among "all other influences, the desire to grow has perhaps the most perverse effect on strategy . . . Too often, efforts to grow blur uniqueness, create compromises, reduce fit, and ultimately undermine competitive advantage."[40]

In order to get a handle on the question of mission drift, go back to the MacMillan Matrix that you used in the Great Ideas process. You have already run all of your current lines of business through the matrix. Now add any of your new business strategies. What is the impact on your other programs as a result?

Capacity

Organizational capacity, according to Clara Miller, is "the short-hand term used for the sum of the resources an organization has at its disposal and the way in which they are organized – development skills, marketing skills, financial management skills, program delivery mechanisms, staff, etc."[41] In essence, **can you deliver on the promises you've made?**

First, revisit the four questions from the Great Start process: assets, capabilities, core competencies, and competitive advantages. Ask yourself whether your strategies build upon the answers to the four questions in general and especially whether you have the core competencies to pull it off.

Second, go back to the MacMillan Matrix and run any of your new strategies through the Stop Fix tool to consider impact on the others. Be careful of anything on that bottom row!

Finally, use the Organizational Capacity Assessment Tool (OCAT), which McKinsey & Company describes as:

> A free online tool that helps non profits assess their operational capacity and identify strengths and areas for improvement. The tool is free of charge. It is an in-depth, online survey that allows the Board, leadership and staff of a non-profit to measure how well their organization performs against best practices.[42]

Fully online and capable of easily accommodating multiple users whose answers are confidential; the following is an example of the output from an organization that had nine raters. For reliability and usefulness, we show only statements that are high consensus and ranked as high or low for the nine raters participating:

OCAT Summary Results		Avg.	Consensus	High/Low
1	Aspirations	2.6	--	Moderate
1.3	Clarity in reason for being	3.57	High	High
2	Strategy	2.5	--	Basic
2.3	Logic model	2.0	High	Low
3	Leadership, Staff, and Volunteers	2.8	NA	Moderate
3.6	CEO external recognition	3.8	High	High
3.18	Board contribution to the organization	2.2	High	Low
3.25	Board operations	3.5	High	High
3.29	Diversity of staff skills and experience	3.7	High	High
3.39	Talent management plan	1.8	High	Low
4	Funding	2.6	--	Moderate
4.1	Fundraising skills	2.1	High	Low
4.3	Strategic funder base	3.3	High	High
4.4	Sustainable funder base	3.3	High	High
4.6	Financial management systems	2.1	High	Low
5	Values	2.8	--	Moderate
5.5	Orientation toward external stakeholders	3.8	High	High
5.7	Organizational impact	3.6	High	High
6	Learning and Innovation	2.9		Moderate
6.6	Monitoring of landscape	3.3	High	High
7	Marketing and Communication	2.8	--	Moderate
8	Managing Processes	2.8	--	Moderate
8.6	Financial controls	3.5	High	High
8.9	Insurance	4.0	High	High

OCAT Summary Results		Avg.	Consensus	High/Low
8.10	Backup systems	3.4	High	High
8.11	Disaster preparedness	2.1	High	Low
9	Organization, Infrastructure, and Technology	2.5	--	Basic
9.3	Cross-functional coordination	2.1	High	Low
9.6	Information technology (IT)	1.9	High	Low

As illustrated in the example table above, there are quite a few low capacity areas due to resources being spread thin (human and capital). Therefore, the assets necessary to curate a successful festival don't seem to exist, making this strategy unattractive. Student Matinees, however, would require very few resources, as the theatre would simply remount an existing production – making this strategy attractive.

The OCAT also illustrates that the theatre's relationship with funders is moderately strong. By further investing into fundraising through a capital campaign, the theatre will develop deeper relationships with current supporters and gain new funders in the process. A campaign will draw upon human resources that are already spread thin, but the payoff of raising money for a new venue and simultaneously establishing an endowment will strengthen all resources in the long run. As a result, this strategy is attractive.

When your organization completes its OCAT, it will also want to summarize its findings like the example theater did.

Capital

Capital structure in the for-profit sector is "how a firm finances its overall operations and growth by using different sources of funds."[43] The concept is quite similar for nonprofits as Clara Miller explains:

> Capital structure . . . is the distribution, nature and magnitude of an organization's assets, liabilities and net assets. Every nonprofit – no matter how small or young – has a capital structure. There are many kinds of capital structure, and there is no such thing as one "correct" kind. It can be simple, with small amounts of cash supplemented by "sweat equity" and enthusiasm, or highly complex, with multiple reserves, investments and assets.[44]

Put simply, capital structure is figuratively "what's in your wallet" and includes your credit cards, cash, checking accounts, the net value of your home and car, and your loans and other obligations; it's about how you pay for your life.

When you add capital structure to organizational success measures, the reader gains a much deeper understanding of the overall health of the agency. The table below shows an agency in crisis. After three years of significant deficits, operating reserves are now negative and although working capital is still positive, it has fallen dramatically. In other words, the agency is running out of cash:

Mission Success Measures ($ in thousands)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Profit & Loss: Contributed Revenue $	2,330	3,552	3,305	2,431	3,477	3,2
Earned Revenue $	177	74	121	140	295	131
Total Revenue $	2,507	3,626	3,426	2,571	3,772	3,542
Total Expenses $	2,072	1,998	2,868	2,962	4,065	3,877
Excess/(Deficit) $	435	1,628	558	(390)	(293)	(335)
Balance Sheet: Assets $	986	3,583	3,968	3,589	2,949	2,463
Liabilities $	554	1,519	1,344	1,349	999	864
Net Assets $	432	2,064	2,624	2,239	1,950	1,599
Capital Structure: Total Margin	0.17	0.45	0.16	(0.15)	(0.08)	(0.09)
Current Ratio	5.6	10.6	11.4	10.9	3.9	2.1
Working Capital $	784	1,477	1,681	1,403	789	382
Operating Reserves $	150	860	1,015	1,109	637	148

[A]

In order to analyze your own capital structure, consider that high performance is always an issue of comparison. Sometimes you compare yourself to others as Michael Porter recommends in his definition of operational effectiveness as “performing similar activities *better* than rivals.”[45]

It is likely that you already gave thought to this when you learned about the best of the best in your field, but in case you didn’t compare your agency then, do it now. If you find anything troubling when looking at your financial analysis, drill a little deeper by using the success measures template. For more formulas to help you understand your financial condition, Thomas McLaughlin is the go-to source.[46]

However you do it, do remember David Renz and Robert Herman’s advice, “The comparison may be to the same organization at earlier times, or to similar organizations at the same time, or to some ideal model, but effectiveness assessments are always a matter of some kind of comparison.”[47] And that includes your agency compared to itself at another time.

[A] **Total Margin**: "This is the bottom line . . . the one [measure] that tough, no-nonsense managers of all stripes supposedly focus on single-mindedly" (T. A. McLaughlin, 2009, p. 83). Formula = Revenue minus Expenses divided by Revenue
Current Ratio: "The most widely recognized measure of liquidity . . . the ratio should be at least 1” (T. A. McLaughlin, 2009, p. 75). Formula = Current Assets divided by Current Liabilities
Working Capital: "Determines how long a charity could sustain its level of spending using its net available assets, or working capital, as reported on its most recently filed Form 990” ("Glossary," 2010). Formula = Unrestricted plus Temporarily Restricted Net Assets
Operating Reserves: A more conservative view of working capital because you use unrestricted net assets and exclude land, building, and equipment, and temporarily restricted assets (Blackwood & Pollak, 2009, p. 9). Formula = Unrestricted Net Assets minus land, building, and equipment plus mortgages and notes

Capital structure is about knowing how much you have, how much you need, when you need it, and where you will get it. To answer the first three questions at a minimum, you will need a balance sheet, a profit and loss statement, and a cash-flow projection:

- ***Balance Sheet (statement of financial position)*****:** This is the window into a nonprofit's financial health. It lays out a lot of good, cumulative information about the assets and liabilities of the organization and is the source for many of the components of the financial ratios.
- ***Profit and Loss Statement (statement of activities)*****:** This statement should show the extent of an organization's profitability. Individual program statements of profit and loss do the same thing and should go to every manager whose program produces receivables.
- ***Cash-Flow Projection*****:** It's much easier to plan for a cash-flow disaster than to be surprised by one. Someone familiar with your nonprofit's operation should be putting together a cash-flow project stretching out one year in advance, or at the very least every quarter.[48]

These aren't the only reports you might consider and the ratios discussed earlier are not the complete universe. Nevertheless, these are the basic ones and you can always add more.

When it comes to where you'll get the money, think about sources both earned, unearned, and borrowed. The easiest place to find the money may be the operating reserves you've built up over the years through modest surpluses. Another place is those underperforming or inconsequential lines of business you can carefully jettison.

Your strategy, of course, may also be fundable through a variety of sources including donors or debt financing. No matter where you get the money, get it you must. Undertaking a strategy without having your sources identified up front is inviting disaster.

Once you have launched the strategy, you have immediately and dramatically reduced the case for funding. Thinking that the money will follow *after* you launch a strategy is wishful thinking at best. Know how much you have, how much you need, when you need it, and where you will get it *before* starting any new strategies.

Risk

Building upon Iron Triangle, I also recommend that you evaluate your risk tolerance. Peter Brinckerhoff explains why understanding your risk orientation has value:

> All of us have different genetics when it comes to risk. Some of us thrive on it, some avoid it so adamantly that our behavior becomes risky in itself. Since our organizations are really just groups of people making decisions, this wide variety of risk-taking thresholds extends to our not-for-profits. As a result, some organizations are cavalier in their approach to risk, and some avoid any risk *at all*

> *costs* (even to the expense of the mission) . . . Remember that there may be more risk in doing nothing.[49]

The first thing to do – and perhaps the most reliable – is to sit down and talk with knowledgeable people. Be sure to include a mix of staff members, board members, funders, and other stakeholders. I like to ask people who are influential enough to champion or obstruct ideas.

Discussing what your mission says about your strategies is also a quick test of your risk orientation. Although nonprofits are typically quite risk-averse,[50] it could be that your board and staff are more comfortable with expansion as opposed to improving operational effectiveness.

The second approach is to test your agency against some basic tests. Begin with Lilya Wagner and Mark Hager's ten symptoms of a dysfunctional organization:

1. Lack of a strategic plan
2. A narrow fundraising base
3. Productivity slowdown
4. Staff-board breakdown
5. Fear of change
6. Poor communication
7. Declining morale
8. Financial instability
9. Unhappy customers
10. Loss of key people[51]

Depending upon how you stack up, you may be willing to take more or less risk and determine if your focus should be on operational effectiveness or on new lines of business. Ironically, sometimes the more dysfunctional an agency, the more willing it is to take risk with new ventures.

You should also consider Peter Brinkerhoff's Social Entrepreneurship Readiness Checklist categories:

- Mission – Has the idea been reviewed for fit to organization culture and mission?
- Risk – How much can you tolerate including capital and stress?
- Systems – Do you have the organizational infrastructure including people and systems?
- Skills – Does the team have the competencies to succeed?
- Space – Do you have the physical space?
- Finance – Do have the means to reach the ends?[52]

Fourth, at the risk of stating the obvious, don't forget to review your lines of business for the possibility that you have too many or too few on your menu. Look at your success measures in general and the financial ones in the mission measures to give you a good sense of how much risk you can tolerate.

Next, because financial position tends to have an enormous impact on risk orientation, many often use it as a catalyst for discussions. For example, the following seven questions fall under Peter Brinckerhoff's finance category from the checklist:

1. Have you been profitable the past 3 years?
2. Do you have 90 days cash on hand?
3. Do you a good relationship with a banker?
4. Do you have a line of credit?
5. Do you have a current ratio of 1 or higher?
6. Do you have a debt to net worth of 0.3 or less?
7. Will any funders penalize you for any net income?[53]

Alternatively, you might consider Howard Tuckman and Cyril Chang's four operational criteria of financial vulnerability:

1. **Inadequate Equity**: A nonprofit's ability to temporarily replace revenues is affected by its equity or net worth. Equity is the difference between a nonprofit's total assets and total liabilities . . . The assumption is that a nonprofit with a large net worth relative to revenues has a great ability to replace revenue than one with a smaller net worth.
2. **Revenue Concentration**: Revenue diversification is assumed to make a nonprofit less vulnerable . . . This is because access to multiple funding sources enhances an organization's chances of being able to balance a gain in one revenue source against a loss in another.
3. **Administrative Costs**: When a financial shock occurs, a third recourse available to nonprofits is to cut their administrative costs . . . This is because organizations that have low administrative costs are already operating at a point where additional cutbacks are likely to affect the administration of their program. A consequence is that program output will suffer.
4. **Reduced Operating Margins**: A nonprofit's net operating margin (defined as its revenues less its expenditures divided by its revenues) shows the percentage that its profits represent of its revenues. The larger this percentage, the larger the net surpluses a nonprofit can draw down in the event of a financial shock.[54]

John Trussel's Quick Test is also a must-have for determining your risk orientation: "a charity is financially vulnerable if it has more than a 20 percent reduction in its fund balance during a three-year period."[55] In his study of 94,002 charitable organizations, 17,112 were financially vulnerable (about one in five). He found that financially vulnerable agencies:

- Have more debt (44.52 percent) than those that are not financially vulnerable (31.58 percent)

- Have a higher concentration of revenues (0.7935 percent) than those that are not financially vulnerable (0.7421 percent)
- Have a lower surplus margin (3.46 percent) than charities that are not financially vulnerable (8.52 percent)
- Are smaller ($268,740 average total assets) than those that are not financially vulnerable ($477,443 average total assets)[56]

Another proven approach to thinking about risk is to do some work around contingencies, for the inevitable mistakes. Moreover, something *will* go wrong, “You may as well accept it right up front, before you take another step toward implementation: reality will not follow your plan.”[57]

There is not a strategy on earth that didn’t somehow stumble during implementation. Don’t forget the words of Scott Anthony, borrowed from the great Prussian General Helmuth von Moltke: “No business plan ever survived its first encounter with the market.”[58] That’s why you need to think about contingencies up front. In the words of Donald Rumsfeld:

> There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.[59]

What can go wrong with your strategy? Plenty. Here are the reasons why business plans fail from Patricia Caesar and Thomas Baker:

> In some cases it is simply because the plan was based on a bad strategy in the first place – a product or service for which there is no market, a new venture that doesn’t fit with the organization’s brand or capabilities. Far more often, however, the idea and the strategy are good enough, but the organization fails to follow through on and execute the plan. . . These details of execution are not details at all – in many cases they make the difference between a plan’s success or failure.[60]

The checklist for anticipating these problems includes the following questions:

- Have you validated your idea in the marketplace?
- Are your pricing and revenue assumptions correct?
- Have you put the right performance metrics in place?
- Do you have the right team?
- Are expectations in your organization set at the right level?
- What if reality does not follow the plan?[61]

Here are Rosabeth Moss Kanter’s four classic traps for why innovations fail:

1. **Strategy Mistakes**: Hurdles Too High, Scope Too Narrow . . . in seeking the killer app, managers may reject opportunities that at first appear too small, and people who aren’t involved in the big projects may feel marginalized.
2. **Process Mistakes**: Controls Too Tight . . . the impulse to strangle innovation with tight controls – the same planning, budgeting, and reviews applied to existing businesses.
3. **Structure Mistakes**: Connections Too Loose, Separations Too Sharp . . . companies must be careful how they structure . . . to avoid a clash of cultures or conflicting agendas. The most dramatic approach is to create a unit apart from the mainstream, which must still serve its embedded base.
4. **Skills Mistakes**: Leadership Too Weak, Communication Too Poor . . . Undervaluing and underinvesting in the human side of innovation.[62]

A different way to think about what can go wrong comes from BoardSource. Over 2,000 board and staff members put their most pressing organizational challenges in order of priority. **Number one was financial sustainability followed by fundraising, and then strategy.** Nevertheless, it is not a mutually exclusive choice of one over the other. Nor should it be. The combination of operational effectiveness and competitive strategy is essential to success.[63]

Operational effectiveness and competitive strategy go hand in hand. As Andy Grove of Intel fame puts it, “I don’t think we should forget that there is more to running an enterprise, small or large, than strategy . . . Figuring out what to do is important . . . Doing [it] well is equally important.”[64] Do not be seduced by the allure of the former at the expense of the latter. As Larry Bossidy and Ram Charan warn:

> When companies fail to deliver on their promises, the most frequent explanation is that the CEO’s strategy was wrong. But the strategy itself is not often the cause. Strategies most often fail because they aren’t executed well. Things that are supposed to happen don’t happen. Either the organizations aren’t capable of making them happen, or the leaders of the business misjudge the challenges their companies face in the business environment, or both.[65]

Another approach to helping you evaluate risk is revisiting the Ansoff Matrix.[66] This time however, instead of hunting for new ideas, put in all of your current and new strategies and follow the Z.[67] The current products/current markets are your safest followed by your new products/current markets and so on:

	Z-Model Test	
	Current Products	New Products
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Another useful tool to ascertain risk is Pfeffer and Sutton's Change or Die Checklist.[68] You should use this tool because "Even presumably good changes carry substantial risks because of the disruption and uncertainty that occur while the transformation is taking place. That's why the aphorism 'change or die' is empirically more likely to be 'change and die.'"[69] As the late David Packard once warned, "More businesses die from indigestion than starvation."[70] Here we see the checklist applied to a theatre's proposed strategies:

Strategy	Festival	Student Matinees	New Facility
Is the practice better than what you are doing now?	No, but would create visibility	Yes, it would expand programs	Yes, a facility is greatly needed
Is it really worth the time, disruption, and money?	No, lack of staff and capital resources	Yes, strategy is easy to implement	Yes
Is it best to make only symbolic changes instead of core changes?	No, core changes are more important	No, the theatre is committed to new initiatives	No, this core change would be positive
Is doing it good for you, but bad for the company?	Yes, the cost of a festival would likely exceed revenue	No, the expanded reach would benefit the organization	No, a new building would benefit all activities
Do you have enough power to make it happen?	No, resources spread too thin	Yes	Maybe, dependence on funders is very high
Are people already overwhelmed by too many changes?	Yes	No, it would not require huge staff resources	Maybe, but a new facility is expected to boost morale
Will people be able to learn and update as it unfolds?	Maybe, staff is smart, but overworked	Yes, staff would learn how to interact with students	Yes, clear planning would take place prior to launching
Will you be able to pull the plug?	Yes	Yes	No
Fit to Strategy	Unattractive	Attractive	Attractive

Finally, before deciding if your agency is risk-tolerant enough to pursue your strategies, heed the advice of Albert Einstein who said: "A ship is always safe at shore, but that is not what it's built for."[71] The final tool to help you choose the best strategies and assess your risk tolerance, is to simply brainstorm the possible events that would make the organization less stable:

Event	Odds	Impact	Trigger	Action
Executive Director Leaves	Low	High	3 month notice of resignation	Executive Board Committee to begin a national search
Annual Fundraising Below Goal	Low	High	15 percent below goal at quarter three benchmark	Development Board Committee gathers to ensure relations among funders remain strong so that future strategies can be implemented
Current Rented Location Lease Terminated	Low	Med	90 days' notice from landlord	Rent theatre space from other stages

Internal Environment Summary

Reviewing all of your findings from your internal environment, summarize your findings like in the table below:

Strategy	Festival	Student Matinees	New Facility
Mission	Mostly Attractive	Very Attractive	N/A
Capacity	Unattractive	Attractive	Attractive
Capital	Unattractive	Attractive	Attractive
Risk	Unattractive	Attractive	Attractive
Fit to Strategy	Unattractive	Attractive	Attractive

Decide

Now that you've reviewed both the external and internal environments, decide which strategies remain attractive as shown in the following example:

Strategy	Festival	Student Matinees	New facility
External Environment	Mostly Attractive	Attractive	N/A
Internal Environment	Unattractive	Attractive	Attractive
Fit to Strategy	Unattractive	Attractive	Attractive

Before dropping a strategy – new or current – consider adjusting the tactics mentioned at the beginning of this test section from Goodstein, Nolan, and Pfeiffer:[72]

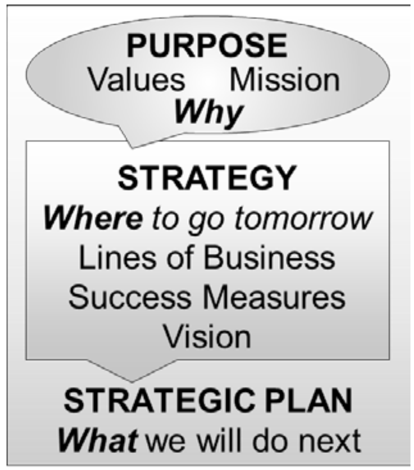
1. Lengthen your time frame
2. Reduce the size or scope
3. Reallocate resources
4. Obtain new resources

Once you've decided on your strategies and addressed the plan to implement them, you're ready to go. In the case of our theatre example, the organization decided not to pursue the festival as a new strategy, but move forward with the other two new strategies.

STRATEGIC PLAN

What *will* we do next?

I always wanted to be somebody,
but I should have been more specific.
Lily Tomlin



Because you've already done the work on the individual elements, putting the strategic plan together is actually a simple task. Usually you follow the strategic plan with an appendix that contains the three reports. This way, people who want to see the backup can do so easily.

Some agencies will present the sections of the strategic plan – purpose (values and mission) and strategy (lines of business, success measures, and vision) – without any introductory material, but most others will provide plentiful guidance because they want to educate their readers as they go along. Please see the sample report in Appendix B on page **Error! Bookmark not defined.** for an example of how to do this.

Executive Summary

Even though you read the executive summary first, you actually write it last. It is not an introduction to say what's coming, or a diary of what you did. **It tells the reader *what you found*, not how you found it.**

The strategic plan itself takes up only three to five pages – not including the cover page, the table of contents, the strategic plan process section, and appendices (if any). Always KISS your writing (keep it short and sweet).

As you write your report, remember that people often read just the first sentence of paragraphs. That's why you should summarize the whole point of the paragraph in that sentence. Think of it as your headline. Then prove your headline with examples, quotes, and arguments in the next few sentences. Limit the length of each paragraph to about four sentences (approximately 75-100 words).

Begin your executive summary with a short introduction sentence that invites the reader into the report and follow with an overview of what you're going to accomplish. Because each of the three sustainable strategy reports contain summaries (Great Start, Great Ideas, and Great Strategies), simply cut, paste, and edit these to build your executive summary.

Purpose

Values

After a brief opening generally describing your agency's values and how you arrived at them, state your agency's values including the "seeable in action" behaviors for each. Be sure to point your reader to the Great Start Report where you discuss the values in detail.

Mission

Again, after a brief introduction that includes pointing the reader to the Great Start Report where they can read more, state your chosen mission. Most people will use the new mission that they created during the process – the simplified mission is often quite powerful.

Strategy

The strategy section may need a bit more explanation because of the details. Again, short briefings and guidance will help the reader understand the big picture.

Lines of Business

Compose an introduction with a short discussion and then insert the lines of business table that you created in the Great Start Report.

Success Measures

Again, compose a brief introduction and then insert the success measures chart you created in the Great Start Report. Remember to point the reader to the full report for more details regarding your conclusions about the figures.

Vision

Statement

Here you'll insert the vision statement you created in the Great Ideas Report, with a reference to the full report so that the reader can learn more about how it was created.

Strategies

Underway

All you need to do here is insert the table you created in the Great Strategies Report.

Strategy	Better Space for Staff	Insightful Productions	Sustainable Growth
People	Employees	Educated Chicago theatregoers	All stakeholders
Product	Boost morale by creating a better workplace	Increase knowledge through deep cultural experiences	Strengthen all facets of the organization
Place	Onsite at the theatre	At our theatre	At our facility and around the city
Price Client	N/A	Competition based	N/A
Price Agency	Low	Medium	Medium
Proposition	Support productivity	Deliver entertaining ways to revisit history	Maintain the theatre's place among great Chicago venues
Plan	• Underway	• Underway	• Underway

New

Again, all you need to do here is insert the table you created in the Great Strategies Report.

Strategy	Student Matinees	New Facility
People	Students	Funders (Individuals, corporations, and foundations)
Product	Amplify teacher lesson plans through live storytelling	Making history through a worthwhile investment
Place	At our theatre during school hours	On Chicago's north side
Price Client	Competition based	Economic value
Price Agency	Medium	Very High
Proposition	Uniquely aligning with CPS history curriculum	A space worthy of the theatre's artistry

Strategy	Student Matinees	New Facility
Plan	• Plan program and raise funds (Months 1-6) • Publicize to teachers (Months 6-9) • Develop teacher handbooks • (Months 10-11) • Launch student performances (Months 12-13) • Evaluate (Months 14-15)	• Develop a fiscal pro forma and feasibility study (Months 1-6) • Determine fundraising goal (Months 7) • Create a case for support (Months 9-10) • Create focus group of key stakeholders to test case (Months 11-12) • Make changes to plan and case (Months 13-15) • Silent phase of fundraising and building development (Months 16-36) • Public phase to raise remaining 30% of funds and break ground (Months 36-48) • Open building and celebrate donors (Months 49-50)

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ENDNOTES

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[2] (Borden, 1964)
[3] (McCarthy, 1971)
[4] (Majeska, 2001, p. 202)
[5] (Drucker & Collins, 2008, p. 25)
[6] (La Piana, 2008, p. 53)
[7] (Caesar & Baker, 2004, p. 214)
[8] ("Gateway Project 30-Day Program for single men and women," 2016)
[9] (Majeska, 2001, pp. 230-231)
[10] (Leonard, 2010, p. A7)
[11] ("Panera cares: Our mission," 2014)
[12] (Majeska, 2001, p. 223)
[13] (Brinckerhoff, 2000, p. 61)
[14] (Hellriegel & Solcum, 2009, pp. 195, bolding added)
[15] (Hellriegel & Solcum, 2009, p. 195)
[16] (Hellriegel & Solcum, 2009, pp. 194-195)
[17] (Hellriegel & Solcum, 2009, p. 195)
[18] (Livingston, 1969, p. 81)
[19] (Nadler & III, 2006)
[20] (Hellriegel, Slocum, & Woodman, 1989, p. 408)
[21] (Hellriegel et al., 1989, p. 408)
[22] (Doran, 1981, p. 35)
[23] (Goodstein, Nolan, & Pfeiffer, 1993, p. 277)

[24] (Hitt, Ireland, & Hoskisson, 2015, p. 38)
[25] (Hitt, Ireland, & Hoskisson, 2013, p. 50)
[26] (Michael E. Porter, 1979)
[27] (Oster, 1995)
[28] (Michael E. Porter, 1998, pp. 4-5)
[29] (Hitt et al., 2013, p. 61)
[30] (Anonymous, 2015)
[31] (Anonymous, 2015)
[32] (Miller, 2001, p. 6)
[33] (Miller, 2001, p. 3)
[34] (Miller, 2001, p. 5)
[35] This discussion of diversification is informed by the work of Michael Hitt, Duane Ireland, and Robert Hoskisson (Hitt et al., 2009)
[36] The Cuyahoga Board of Developmentally Disabled opened its first Just-A-Buck franchise in 2009 and its third franchise opened in 2013
[37] (Salamon, Geller, & Mengel, 2010)
[38] (Taylor, Dees, & Emerson, 2002, p. 236)
[39] For example, Leslie Crutchfield and Heather McLeod Grants' *Forces for good: The six practices of high-impact nonprofits* searched for exemplary agencies without regard to budget, but ended up finding 12 agencies with average revenues of $161.5 million (median $41.5 million) and purposely excluded agencies with “only local impact” (Crutchfield & Grant, 2008, p. 27).
[40] (Michael E Porter, 1996, pp. 76-77)
[41] (Miller, 2001, p. 6)
[42] (McKinsey&Company, 2015)
[43] ("Capital Structure," 2010)
[44] (Miller, 2003, p. 1)
[45] (Michael E Porter, 1996, p. 62)
[46] (T. A. McLaughlin, 2009)
[47] (Renz & Herman, 2004, p. 10)
[48] (T. McLaughlin, 2001, pp. 252-253)
[49] (Adapted from Brinckerhoff, 2000, p. 47)
[50] (Wedig, 1994)
[51] (Wagner & Hager, 1998)
[52] (Brinckerhoff, 2001, p. 13)
[53] (Brinckerhoff, 2001, p. 13)
[54] (Chang & Tuckman, 1991, pp. 560-561, bolding added)
[55] (Trussel, 2002, p. 28)
[56] (Trussel, 2002, pp. 23-24)
[57] (Caesar & Baker, 2004, p. 221)
[58] (Anthony, 2010)
[59] ("BrainyQuote," 2001-2014; "Yelp," 2004-2014)
[60] (Caesar & Baker, 2004, p. 207)
[61] (Caesar & Baker, 2004, pp. 210-221 caps removed)
[62] (Kanter, 2006, pp. 75-78)
[63] (Michael E Porter, 1996)
[64] (Quoted in Pfeffer & Sutton, 2006, p. 157)
[65] (Bossidy, Charan, & Burck, 2002, p. 15)
[66] (Ansoff, 1957)
[67] (From John M. Simonds of Martin-Simonds Associates, Seattle in Goodstein et al., 1993, p. 271)
[68] (Pfeffer & Sutton, 2006, pp. 160-185)
[69] (Pfeffer & Sutton, 2006, p. 185)
[70] (Packard, Kirby, & Lewis, 1995, p. 142)
[71] (Goodreads, 2014)
[72] (Goodstein, Nolan, & Pfeiffer, 1993, p. 277)