

Axelson Review

For Nonprofit Leaders

INSPIRE. EDUCATE. CONNECT. SPRING 2010



The Axelson Interview

Changing for the better

Janet Lapp, Ph.D., is a licensed clinical psychologist and one of the nation's most respected change agents. A former registered nurse and professor with a doctorate in psychology from McGill University, she has created and hosted the award-winning CBS series Keep Well and authored five books, including Plant your Feet Firmly in Mid-Air and Leading at the Edge of Change. Janet Lapp will be the opening keynote speaker at the Axelson Center Symposium on May 13.

Strategy of hope

As I sat down to write my Spring column about trends impacting Chicago area nonprofits, my mind kept wandering to the prior day's events. I spent several hours volunteering for two youth programs of the Cape Town, South Africa YMCA. So many images—some beautiful, some harsh—kept firing through my head.

Forcing myself to concentrate on my column, one word kept coming to mind. Hope. It occurred to me that this is the management strategy that launched the nonprofit sector; and it is this same strategy that will keep us moving forward.

Hope transforms.

I met a teenage boy in Cape Town who was in prison for several years for gang and drug involvement. He was excited to talk about his dream of becoming a lawyer. As an advocate for justice, he could help others who found themselves in similar situations. No matter how difficult his life, this young man kept hold of the one asset that might just propel him to a new realm of opportunities. Hope.

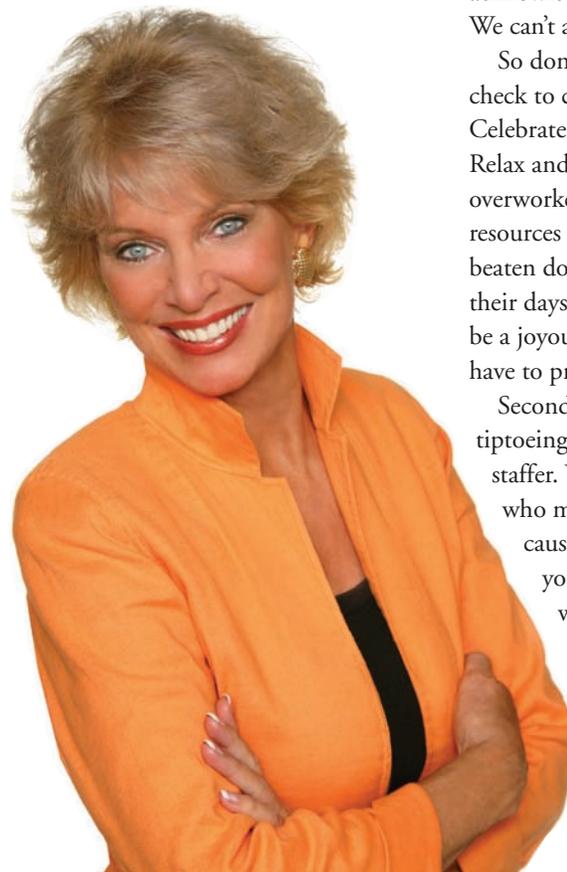
Hope also makes a difference in the life of a nonprofit organization. When hope drives an organization, you can see it at every level—from the mission, to the board,
continues on page 2

**THE AXELSON CENTER
FOR NONPROFIT MANAGEMENT**

at North Park University in Chicago

How can nonprofit leaders prepare for an uncertain future?

It's virtually impossible to prepare for challenges we can't predict. All we know is that everything that is, won't be for long. Either we decide to create our own future, or someone else will create it for us. If we get our own house in order, we can ride out all kinds of storms.



Here's what I mean. As an individual, I can't develop immunity to every new virus I may eventually encounter. But I can strengthen my immune system.

In the same way, nonprofits can't prepare for every possible situation they might face in five or 10 years. But they can strengthen their systems—their human capital, their technology, and so on. When their systems are strong, the odds are good they'll be able to tackle whatever the future brings.

What are some of the best ways to boost our organizational "immune systems"?

First, celebrate everything that goes well—and do it as often as you can. Laughter and happiness improve the health of individuals and organizations alike. Even the most dedicated staffers will eventually wither and fall off the vine without acknowledgement and positive feedback. We can't afford to lose them!

So don't wait for that million-dollar check to come in from a new donor. Celebrate small, everyday victories. Relax and have fun. When staffers are overworked and underpaid, and when resources are spread thin, it's easy to feel beaten down. But nonprofit leaders spend their days helping people—and that should be a joyous way to live. Sometimes you have to program in the joy.

Second, face problems head-on. Stop tiptoeing around that dysfunctional staffer. You know who I mean—the one who makes lots of negative noise and causes all kinds of trouble. As long as you allow it, that kind of behavior will shift everyone's focus away from what really matters. That person will drain precious energy and weaken your whole

continues on page 3

Nonprofit financial health—a dashboard approach



Al Kamienski, Ph.D., M.B.A., and Tim O'Brien, Ph.D., are professors of finance at North Park University's School of Business and Nonprofit Management. They will be facilitating a session about board governance and financial stability at the Axelson Center Pre-Conference Institute on May 12.

The recent economic uncertainty underscores the need for nonprofit organizations to have sound financial management practices. Research shows that nonprofits need long-term financial sustainability. This recognition, however, is incongruent with current funding policies and donor practices that restrict funds to programmatic use, leaving little for sustainability reserves. In a 2010 Donors Forum survey, nonprofits reported systematic reductions in funding, staff, and services to clients. Interestingly, foundation officers reported an increased awareness about the need for sustainability practices.

In the Axelson Center's recent research project that examined 300 Chicago area

human service organizations, we concluded that financial health is a function of three factors:

- Operations—the internal capacity to manage the financial elements of the organization.
- Governance—the knowledge, skill, and engagement of the board to oversee and lead the financial function.
- Financial Literacy—the proliferation of financial knowledge whereby all constituents are aware of the financial status and how it supports the organization's mission.

Our main recommendation, which covers all three elements, is for organizations to create a dashboard of key financial performance indicators that would inform the reader, at a glance, about the overall status of the organization (without wading through reams of financial reports).

While the dashboard approach might also include elements of programmatic and fundraising accomplishments, our focus here is on the financial health of the organizations and the three dimensions listed above.

The dashboard provides a quick, comprehensible overview of the organization's financial status and overall direction. The items displayed are critical measures of financial performance and effectiveness. This implies that significant

outcomes have been outlined during a planning process. Our research indicated that rigorous planning, which included key board and staff members, was likely to lead to a financially healthy organization. The dashboard is simply a way to indicate how the organization is performing relative to key financial and operating objectives.

The dashboard approach aids in the literacy of the organization by providing a sense-making method. This means that key performance indicators are presented in a simple, easy to understand format, facilitating the governance responsibility for critical oversight and freeing up time for strategic discussion. A key aspect of governance oversight is to continually develop the ability to interpret data, and require management to present information on how objectives are being met.

Because of immense diversity of size and operations of nonprofits, there is reluctance to agree on standardized metrics. A custom dashboard based on your organization's own strategic and tactical objectives provides a possible solution for this issue.

While no method is a panacea, contemporary theorists in the nonprofit sector seem to agree that providing an easy to understand, customized tool can provide a way for boards to interpret current conditions and develop appropriate strategic responses. (See page 3 for sample dashboard.) ■

Strategy of hope *(continued from page 1)*

to the staff and clients. "Active" hope is a strategy that propels people and organizations.

Just to be clear, I'm not talking about the kind of hope where leadership sits back and waits for an "angel funder" to come to the rescue or some other quick-fix. I'm referring to a type of hope that translates into passion and action. One that is contagious. One that turns supporters into evangelists.

As we ride out the end of the recession and look to the future, our active

hope will be what guides us to new opportunities (resources, contacts, etc.). That spark of hope may be the very thing that pushes you to attend the networking event that you were dreading...where you meet your next board chair or major gift prospect or... It is the ability to see potential that makes our sector unique. We see the world for what it is, then we see what it could be. And we work toward that end. ■

**Pier C. Rogers, Ph.D., Director,
The Axelson Center**

About the Axelson Review

The *Axelson Review* is published quarterly by the Axelson Center for Nonprofit Management at North Park University, which serves the educational needs of nonprofit professionals through degrees and certificate programs, on-site trainings, and an annual symposium series that addresses the contemporary issues and challenges confronting nonprofit organizations. For comments or feedback regarding the content of the *Axelson Review*, please email cbeall@northpark.edu or call (773) 244-5747. To subscribe, please email your contact information (name, organization name, address, email) to axelson@northpark.edu. Include in the subject line "Axelson Review Subscription." Please notify us if you would like to be removed from the list, or if you are receiving multiple copies.

Creating your organization’s dashboard

This is an example of the type of information that could be included in a financial health dashboard. Leadership should select metrics that will aid in the board’s understanding of the organization’s financial health. Below is an explanation of the metrics listed under the Operating Activities category.

Working Capital:

The assets of an organization that could be applied to operations. This metric indicates whether an organization has sufficient funds to satisfy operating expenses. It is calculated by subtracting current liabilities from current assets.

Cash Reserves:

An organization’s cash reserves are the funds available to meet its needs for cash (especially unanticipated needs). What level of cash reserves is sufficient depends on the organization’s operating budget. The figures listed in the dashboard represent the number of months that the cash reserves would cover the operating expenses of the organization.

Dashboard of Financial Health				
Performance Measure	Status	Target	Actual	Variance
Operating Activities				
Working Capital	▲	\$275,000.00	\$300,000.00	\$25,000.00
Cash Reserves	▼	5.00	3.20	(1.80)
Debt Ratio	▲	0.20	0.08	0.12
Program Expense Ratio	▼	91%	90%	-1%
Financial Literacy				
Board	▼	Medium	Low	
Executives	▲	High	High	
Staff	▲	Medium	High	
Governance Structure				
Policy Development: Finance	▲	High	High	
Investment Performance	▲	\$200,000.00	\$230,000.00	\$30,000.00
Committee Outcomes	▼	High	Low	

Debt Ratio:

This ratio measures the extent to which borrowed funds have been used to finance the organization’s operations. An increase shows a greater reliance on borrowed monies, which could be a red flag. To determine the debt ratio, divide total debt (liabilities) by total assets.

Program Expense Ratio:

This ratio shows what portion of total spending relates to program activities. Although exceptions exist, it is generally accepted that organizations should spend at least 75 percent of their budget on program-related expenses. To calculate the program expense ratio, divide program expenses by total expenses. ■

Changing for the better *(continued from page 1)*

organization—maybe even threaten its survival.

Any tips for coping with external threats—such as today’s economy?

Don’t be consumed by the hype and mass hysteria around the “bad economy.” Some organizations are doing better than ever. Everyone—at nonprofits and for-profits alike—needs to beware the “scarcity mentality” that’s so common these days. Despite everything, the world is a place of abundance, there’s plenty to go around, and we’re not doomed to “scrape by.” Billions of dollars are sitting out there, just waiting to be claimed. Believe they are there, be open

to innovation and creative thinking, and you’ll be amazed by what flows in.

Also remember that when times get tough, most people respond by slowing down, hunkering down, even retreating. Those responses make room for others to push ahead. So abandon the negative assumptions, get braver and bolder, and you’ll find tremendous new opportunities waiting for you.

Won’t making these changes take too long?

Absolutely not. We’ve inherited the belief that positive change takes time. That’s nothing but a myth. In reality, great changes can happen instantly. Change by itself

does not increase stress levels. Our brains are infinitely plastic, and sudden change is just as palatable to our systems as gradual change.

All we need to make a change instantly is a compelling reason. That’s it. Don’t accept the way things are. Make the decision and follow through.

One reason why folks might have a hard time with change is that change, to them, means they must have been doing something wrong. It’s not that you were doing things wrong before; you probably did exactly what was needed at that time. But times change, so we change. It’s time to do something new. It’s that simple. ■

Moving at the speed of change



The following text was excerpted with permission from Convergence: How Five Trends Will Reshape the Social Sector. This research report, produced

by La Piana Consulting, will be presented by Heather Gowdy at the Axelson Center Symposium on May 13, 2010.

Already, national and global trends are changing the environment for nonprofits. Thoughtful observers recognize that five years from now the sector will not simply have returned to its previous, pre-crisis state. They know that a fundamental change in Americans' attitudes toward credit, debt, risk, work, and philanthropy, coupled with the loss of 100,000 or more nonprofits, will permanently change the landscape.

For the nonprofit sector to survive and thrive, everyone—nonprofits, funders, and capacity builders alike—must become futurists. Being a futurist demands that we ask ourselves and our organizations some difficult questions, such as:

- Are we truly and effectively engaging the right individuals, communities, and networks in our work?
- What are we positioned to do uniquely better than anyone else? Do we even need to be an organization to accomplish our work?
- How do we keep on top of ways that our environment is changing?

Research identified five key trends converging to reshape the social sector. While each dynamic has profound

implications for how nonprofits will do business in the future, it is their convergence that will transform the sector. These trends include:

- **Demographic** Shifts Redefine Participation
- **Technological** Advances Abound
- **Networks** Enable Work to Be Organized in New Ways
- Interest in Civic Engagement and **Volunteerism** Is Rising
- Sector **Boundaries** Are Blurring

The *Convergence* report includes key strategies for each trend area, including:

- Acknowledge and discuss generational differences, diversity, inclusion and cultural competency—and clarify their relevance to organizational effectiveness and the ability to effect social change (Demographic).
- Use technology strategically as part of an overall communication plan, not just because it's novel; and remember that it is a tool for advancing the mission, not an end in itself (Technological).
- Think more systemically about the challenges they seek to address, and about possible approaches and partners (Networks).
- Engage volunteers in meaningful work for the organization that leverages their skills and interests, treating them as partners rather than just another set of hands (Volunteerism).
- Be creative in considering and pursuing cross-sector partnership opportunities, alternative sources of revenue, and structural alternatives to the traditional 501(c)(3) organizational structure (Boundaries). ■

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