Nonprofit Boards and Governance Review

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The Key Ingredients to Organizational Effectiveness and High Impact Results, Part 1

by Cassandra O'Neill

The following article is the first part of a two part article. These articles synthesize the research findings on best practices which lead to organizational effectiveness and exceptional results. This research is widely read in the social sector. Their findings when examined together provide a recipe for organizational effectiveness and high impact results, and thus the key ingredients for the leaders of organizations in the social sector.

Part one of this article covers the major findings from two books that summarize research done on businesses — *Built to Last* by Jim Collins and Jerry I. Porras, and *Good to Great* by Jim Collins and the accompanying *Monograph for the Social Sector*. These books discuss the research findings on exceptional businesses, and are widely used in both the business and social sectors. Part two of this article covers research specific to high impact non profit organizations, and looks at the findings collectively.

Built to Last published in 1994 described the organizational practices of businesses that were consistently high performing, as measured by stock price. The study design involved (1) developing criteria to measure high performing businesses, (2) identifying companies that met this criteria, and (3) studying these businesses to identify what led to the high performance. Their findings were completely opposite of what they expected to find. Their expectations were based on what conventional wisdom said about what led to high performance. This conventional wisdom was reflected in what people generally believed to be true, and the content of books published on these topics, and conventional teachings in business schools. Some of the conventional wisdom included the beliefs that for businesses to be high performing they needed to (1) have a charismatic leader who was driving the vision, (2) start with a great idea for a product or service, and (3) follow traditional strategic and business planning which would lead to good outcomes. What they found was that none of this was true.

Their relevant findings:

- The CEOs of the highest performing businesses did not match the description of "charismatic leader" that conventional wisdom said was necessary. Often no one outside the companies even knew who the CEOs were.
- These businesses started out by testing a lot of ideas and eventually hitting upon one that took off, they did not start with a great idea.
- High performing companies did indeed engage in planning, but it was an outcome of their being great. Traditional planning processes did not lead to their greatness.
- High performing companies had strong values that they stayed true to, they changed their strategies but did not abandon their values.
- The CEOs and leadership of these companies developed environments and organizational cultures that supported employees in being their best. The focus on supporting people to perform at their best led to the consistent high performance of the organization.

Good to Great was published in 2001. The focus of this book was companies who went from good to great, as measured by stock price. The research was conducted in the same way as *Built to Last*. The study design included the same methodology used in *Built to Last*, they (1) developed criteria for determining how to measure when a company moved from good to great, (2) identified companies that did this, and (3) studied what they did to create this outcome. Although these findings were about businesses, they were widely used by organizations in the social sector. As a result, Jim Collins wrote an accompanying Monograph for applying the ideas to organizations in the social sector.

One of the findings in *Good to Great* that was most applicable to organizational effectiveness of non profits is what Jim Collins calls the Hedgehog Concept. For businesses, becoming great was due in part to the consistency of the focus of each company on the intersection of three things: (1) what people were passionate about, (2) what the organization could be best in the world at, and (3) some measurement of profitability. The discovery within each business of what this intersection was for them was not the result of a traditional strategic planning process. In each case, the businesses deliberated over a period of time on what they were passionate about, what they could be the best in the world at, and how they could make the most profit doing what they were passionate about and best at. In each case, this was an organic and emergent process that sometimes took many years to evolve. This echoed the finding in *Built to Last* that engaging in traditional strategic planning processes which are based in the conventional wisdom and are linear, prescriptive, deficit based, and reduce complex and interrelated issues to overly simplistic measurable outcomes does not lead to greatness in organizational performance.

Good to Great in the Social Sectors: A Monograph to Accompany Good to Great was published in 2005. Based on additional research on organizations in the social sector, Jim Collins adjusted the Hedgehog Concept. The economic driver for business, which was profit as reflected in stock value, is not transferable to non profit organizations. He changed the third component of the Hedgehog Concept for organizations in the social sector to resources, which includes but is not limited to money. This broader concept of resources includes volunteer time and other assets that contribute to organizational effectiveness in the social sector.

Staying true to the Hedgehog Concept for organizations in the social sector means that they need to stay focused on the following three thingsa: (1) their shared passion, (2) what they can be best in the world at i.e. their unique strengths, and (3) a resource engine that allows the organization to stay committed to the values which are integral to their passion and what they are best at.

This is easier said than done in the social sector. Most non profit agencies raise money through (1) government contracts and grants, (2) foundation grants, and (3) individual and corporate donations. There are a small number of non profits that raise money by selling a product such as the Girl Scouts who sell cookies, but this type of revenue generation remains rare among organizations in the social sector. Government agencies fund non profits in two ways, the first is through contracting with service providers. Government agencies use contracts to purchase services such as health care and social services to specific populations. Contracts usually base payment on delivery of a unit of service i.e. cost per doctor visit, hour of counseling etc.

The second way governments fund services is through grants. This is also how foundations most often fund organizations. The primary difference between grants and contracts is that grant funding is generally tied to a particular program rather than a unit of service. The overwhelming majority of grants are for delivering specific services, and not for advocacy, capacity building, or assisting organizations in developing revenue. For an organization to stay true to their shared passion and unique strengths, they must be able to generate revenue which allows them to retain their uniqueness and operate from their strengths. The temptation for many organizations is to do whatever funders want to fund – which results in mission drift and abandonment of their passion and unique strengths. The methods of generating revenue which allows organizations to stay true to the Hedgehog Concept are individual donations and/or revenue generation — which remain elusive for most organizations in the social sector.

Another important finding in Good to Great that is equally applicable to organizations in all sectors is the setting of Big Hairy Audacious Goals (BHAG). Effective organizations set huge goals, they do not set incremental or random increases in services delivered or annual revenue as their goals.

Part 2 of this article, to run on CharityChannel August 26, covers research specific to high impact nonprofit organizations, and looks at the findings when these works are reviewed collectively.

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The Key Ingredients to Organizational Effectiveness and High Impact Results, Part 2

by Cassandra O'Neill

Part 1 of this article covered the key findings from the books *Built to Last* and *Good to Great* on organizational effectiveness. Part 2 summarizes the findings from *Forces for Good* by Leslie R. Crutchfield and Heather McLeod Grant, reviews key findings from the article "The Networked Nonprofit" by Jane Wei-Skillern and Sonia Marciano, and synthesizes the collective findings. These findings inform best practice for Executive Directors and Boards of Directors in the social sector.

Forces for Good was published in 2008. The focus of this book was to discover the practices that high impact non profit organizations used to create social change. The research methodology was similar to that used by Jim Collins in that the study design included (1) development of a criteria to select high impact non profits, (2) selection of a group of non profit organizations, and (3) a study of these organizations to determine what they did to achieve this high impact. An interesting similarity between the findings in this book and the Jim Collins books was that once again, the conventional wisdom was wrong.

The conventional wisdom for non profit effectiveness focused primarily on increasing efficiency and budgets. This conventional wisdom is based on the following myths that were disproved by this research including: (1) perfect management was necessary for high impact, (2) brand-name awareness was necessary, (3) a breakthrough new idea was required, (4) textbook mission statements led to high impact and were required for it, (5) high ratings on conventional metrics led to high impact, and (6) large budgets were necessary for high impact. The authors found that none of this was true.

The authors discovered the following six practices that the high impact non profits used to create high impact:

1. Serve and Advocate. Partnering with others was essential to doing both of these well and led to high impact.
2. Make Markets Work. By partnering with corporations these high-impact

nonprofits were able to shift corporate practices and work jointly with businesses toward a social good. Many also operated earned income ventures which provide stable funding for their work.

3. Inspire Evangelists. By connecting people with a way to act on their passions, high-impact nonprofits generated powerful and enthusiastic supporters who recruited others.
4. Nurture Nonprofit Networks. These nonprofits helped their peers succeed by continuously asking how they could help others benefit from their own organization's strengths and knowledge, and this resulted in increased value for all.
5. Master the Art of Adaptation. Constantly assessing the results of their actions, gathering input from a wide group, and applying what they learned in a meaningful way led to high impact.
6. Share Leadership. Strong leadership was present in these nonprofits who had strong Executive Directors, seconds in command, boards, and strong partners in coalitions. Their benches are deep, which allows for collective leadership.

Networked Nonprofit

The Spring 08 *Stanford Social Innovation Review* article "The Networked Nonprofit" shows on how nonprofits can greatly increase their impact, not by getting bigger or raising more money for their organization, but by cultivating networks with others that have a shared mission.

The article presents case studies of three nonprofits that increased their impact by cultivating these types of networks. To do this, they had to see the shared mission as the hub of the network and their organization as a node, rather than their organization as the hub.

One example they studied is the microfinancier — Women's World Banking. By cultivating networks with other banks and microlenders they went from reaching 50,000 clients and lending $25 million through network affiliates in 1990 to lending 18 million people over $8.5 billion in 2003 — a more than 350-fold increase! And how much did they grow their own budget and staff? They went from 16 employees in 1993 to 50 employees in 2003, and from an organizational budget of $3 million in 1993 to $10 million in 2003. This is clearly not about going to scale by doing the same thing for the same costs to more people. This is about exponential growth by collaborating in meaningful ways with others who share a common mission.

Some great quotes from this article:

> "By mobilizing resources outside their immediate control, networked nonprofits achieve their missions far more efficiently, effectively, and sustainably than they could have by working alone."

> "Management wisdom says that nonprofits must be large and in charge to do the most good. But some of the world's most successful organizations instead stay small, sharing their load with like-minded, long-term partners. The success of these networked nonprofits suggests that organizations should focus less on growing themselves and more on cultivating networks."

> "Many traditional nonprofits form short-term partnerships with superficially similar organizations to execute a single program, exchange a few resources, or attract funding. In contrast, networked nonprofits forge long-term partnerships with trusted peers to tackle their missions on multiple fronts."

Synthesis of Findings

While each book and article is useful on its own, collectively these findings provide a comprehensive blue print for organizational effectiveness and identify the key ingredients for high performance and high impact. One of the findings consistently across all the research discussed was that the conventional wisdom was wrong, in every case. This is significant, because it means that the majority of literature on organizational effectiveness and high impact non profits is NOT based on or aligned with what research has shown to lead to high impact.

When looked at collectively this research provides the key ingredients for high impact which are based on research and refute conventional wisdom.

The following is a summary of the highlights of the conventional wisdom which was found not to be true:

- Strategic planning does not lead to great results; the strategic planning that the great organizations did was a result of their greatness and did not cause it.
- The highest impact organizations did not always start out with a great idea or radical innovation. Sometimes they experiment until something stuck, and sometimes they took old ideas and tweaked them until they experienced success.
- Visionary and charismatic leaders who provided a vision that others followed - were not responsible for the organizations success.
- Following the money did not make organizations great.
- Efficiency alone did not lead to high impact.
- Traditional marketing and branding strategies was not used by many high impact non profits.

The following is a summary of the highlights of what research found led to organizational effectiveness and high impact includes:

- Leaders who create work environments in which people can perform at their best leads to greatness.
- Shared leadership where people pursue a shared passion and vision that aligns with their individual and organizational strengths led to great outcomes.
- When looked at together the hedgehog principle (sticking with passion and strengths) and the 6 practices of high impact non profits provides a blueprint of how an organization can develop a big vision or a Big Hairy Audacious Goal – and then use the practices to make this vision a reality.Collaborating with others to reach shared goals and visions is much more impactful than focusing on growing a single agency's budget and services.

Conclusions

While resource development for any non-profit is challenging, it is particularly challenging to raise money to support social change through advocacy. Government agencies do not fund advocacy. While most non-profits have government funding, this funding pays for service delivery and not advocacy. Foundations also primarily fund services and rarely fund research or advocacy.

Research has shown that conservative foundations have a much bigger impact with their funding than progressive foundations. In fact, a conservative foundation was one of the 12 high impact non profits studied in *Forces for Good*. Conservative foundations invest large amounts with a small number of organizations over long periods of time, and they focus on creating change that has a large impact, which includes funding research, advocacy, and policy work. In contrast, progressive foundations fund small amounts of money spread out over many different organizations and focus on service delivery rather than the types of investment which would lead to policy change and bigger impact. (Lakoff, 2004)

This supports the following conclusions, organizations wanting to achieve high impact, high performance, and be effective should:

- Abandon practices that do not align with these findings.
- Adopt the practices that are supported by research to support effectiveness.
- Create Movements rather focus narrowly and exclusively on delivering services. One of the findings in *Forces for Good* was that these 12 high impact non profits created movements. Jim Collins in a recent article in Inc. said the same thing about what businesses need to do to be successful – create movements.
- Abandon outdated ineffective marketing and communications approaches which rely on "convincing" and "selling to" others. The book *The Contrarian Effect* by Michael Port and Elizabeth Marshall, published in 2008 explain why the old approaches to marketing and communication no longer work in our technologically transformed global economy, and what does work.
- Abandon incremental or arbitrary increases in budgets as goals and think big – Adopt Big Hairy Audacious Goals.
- Align how funding is distributed in this sector with what promotes high impact, rather than what detracts from or inhibits it.

Why is this SO important?

This is important because many of the practices of foundation and government funders and the direction provided by Boards or resulting from typical stakeholder involvement is based on conventional wisdom, and NOT what research has found to increase organizational effectiveness and impact. If leaders of organizations in the social sector want to increase their impact it is critical that they know what is the truth and what is the fiction about how to do this.

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Co-Editors:

Jane Garthson

Jane Garthson is President of the Garthson Leadership Centre, dedicated to strengthening communities through enhanced leadership and ethics in nonprofit and government organizations. Since 1992, Jane has worked with community, public and mutual benefit organizations in the areas of governance, integrity, strategic planning, risk management, board-staff relations, ethics oversight and assurance and organizational reviews. She holds an honours certificate in Voluntary Management and Leadership from York University.

Terrie Temkin, Ph.D.

Founding principal of the international consulting firm CoreStrategies for Nonprofits, Dr. Terrie Temkin is an acknowledged thought leader in the areas of governance and board development. An award-winning speaker, an engaging group facilitator and a prolific writer, she brings more than 30 years of nonprofit management, organizational communication and adult education experience to her work. One of the authors of Community Engagement Governance – a new governance framework that is gaining significant attention – Terrie is probably still best known for her "On Nonprofits" column that ran in the *Miami Herald* for five years and is found today on *Philanthropy Journal* and the CoreStrategies on Nonprofits Blog*.* Besides serving her own clients, writing and making conference presentations, Terrie teaches governance to master's-level students in the nonprofit management program at Florida Atlantic University .

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