

## WHAT IS NONPROFIT STRATEGY?

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## WHAT IS NONPROFIT STRATEGY?

Most of what has been written about “strategy” is offered from a “for-profit” perspective. Applying strategy concepts from this for-profit perspective into the nonprofit world is challenging, as key differences exist among the sectors—for example, their different conceptions of organization effectiveness.

This paper briefly reviews the general strategy literature – strategy development, strategy implementation, and strategic planning – and presents a model of nonprofit strategy which considers the differences between nonprofits and for-profits, and yet utilizes concepts from the for-profit literature which transfer appropriately. This model, based on a new concept—“mission gap”—will provide nonprofits with new strategy perspectives that will help guide their operations more effectively.

## WHAT IS NONPROFIT STRATEGY?

Michael Porter sought to answer a similar question in his 1996 Harvard Business Review article, “What is Strategy?” But his was a discussion of “for profit” business strategy. And, while helpful applications of business concepts can be made for nonprofits, the functional and contextual differences between the for-profit and nonprofit sectors need to be addressed when doing so. A clear conception of non-profit strategy is, therefore, needed.

### I. Strategy, For-Profits, Not-for-Profits

#### Strategy

The roots of strategy are in competition. The word “strategic” comes from the Greek “strategos,” which means “a general set of maneuvers carried out to overcome an enemy during combat” (Nutt & Backoff, 1992, p. 56). Perhaps the best selling book of all time on strategy is Porter’s Competitive Strategy (1980), a must-read for business students on the topic. The heritage of “overcoming an enemy” is alive and well in business strategy today. Gaining market share, differentiating products and services from competitors, and—certainly—“gathering marketing intelligence,” all can trace their roots to the competitive, military-based concept of strategy. In Porter’s words: “developing a competitive strategy is developing a broad formula for how a business is going to

compete, what its goals should be, and what policies will be needed to carry out those goals.” (Porter, 1980, p. xvi).

The vast majority of writings on strategy are focused on the business, for-profit world. In these writings, the practice and study of strategy has expanded to develop a number of tools, concepts, and processes for strategy development and implementation. Among these are the 7S model of strategy implementation, “strategic intent” (Hamel & Prahalad, 1989), “strategic thinking” (Mintzberg, 1994a), SWOT (strengths, weaknesses, opportunities, threats) analysis, strategic decision-making amid uncertainty (Courtney, 2001), visioning (Senge, 1990), scenario planning, environmental analysis, and more.

Nonprofits have benefited from the development of strategy concepts in the for-profit world, and have applied many of them (Stone & Crittenden, 1993). For example, Bryson (1988), as well as Nutt & Backoff (1992), utilize SWOT analysis and environmental analysis in their widely used texts on public and nonprofit strategy. Two recent texts (Kearns, 2000; La Piana & Hayes, 2005) even draw directly on the competitive legacy of strategy. The La Piana & Hayes book is entitled “Play to Win: The Nonprofit Guide to Competitive Strategy.”

### Strategy: For-Profits and Not-for-Profits

Applying ideas about strategy to the not-for-profit world, which were created in the for-profit world, needs to be done carefully. Clear differences in these types of organizations exist. One significant difference between for-profit and not-for-profit entities is how they each determine their effectiveness. While a wide variety of perspectives exist on nonprofit effectiveness, and it has been well argued that

effectiveness is “socially constructed” (Herman & Renz, 1997, 1998, 1999), nonprofit effectiveness is often thought of in terms of mission (Sheehan, 1996) while for-profit effectiveness often focuses on “profit” and/or shareholder value (Smith, 1999 & 2004). So, while for-profits may be mostly focused on ways to “outperform rivals” (Porter, 1996, p. 62), not-for-profits can be thought of as focused on “mission accomplishment” (Sheehan, 1996).

While there may be exceptions when a competitive mind-set is appropriate for a nonprofit to consider in developing strategy, most do not take this approach. In utilizing strategy concepts in nonprofit organizations, most practitioners, consultants, and authors use various strategy tools – while purging the ideas of “outperforming rivals,” growing shareholder value, and competition – from the process. But if, those competitive drivers are purged, what is used as a replacement?

This paper argues that the replacement “driver” for competition in nonprofit organizations should be a new concept called “mission gap.” It is the foundational concept of a new model of strategy, described in the next section, which truly captures the essence of the difference between the for-profit and nonprofit sectors.

## II. A Model and Methodology for Nonprofit Strategy

### A Model of Nonprofit Strategy

The idea of a creating a strategy is to catapult an organization to higher levels of performance. With this in mind, following is a definition of nonprofit strategy:

Nonprofit strategy is a coherent set of general ideas which explain how the organization is going to pursue its vision and carry out its mission during the years ahead. The strategy explains how the key functional areas of revenue generation, staffing (paid and unpaid, i.e., volunteers), and mission impact will operate and interrelate. The strategy is generated by the organization's commitment to accomplish its mission and attain its vision.

*Coherent set of general ideas.* As Porter says, strategy is a "broad formula." It is not a detailed plan. It is a general explanation of ideas the organization is going to follow. It is a "cause and effect" story of how the organization is going to get from here to there. And the "story" needs to be coherent. The "cause" in the "story" is the set of actions the organization takes to leverage itself into higher levels of performance. These "strategy levers" then impact other key functional areas of the organization's operation.

*Key functional areas.* Organizations are systems with parts that are interrelated (Ackoff, 1999). If the functions of the parts "feed" and support one another, the organization's performance is enhanced in a kind of "virtuous cycle" (Senge, 1990, p. 81). The opposite relationship would create a vicious cycle of decline. Smith (1999 & 2004) asserts that when the three areas of revenue generation, staffing, and mission impact are equally valued and balanced, an organization can enter into a "cycle of sustainable performance" (1999, p. 11). [Note: Smith uses somewhat different terminology, but the ideas are consistent.]

*Commitment to accomplish its mission.* Commitment to accomplish the mission is the driving force for attaining high performance (Senge, 1990). Nonprofits have missions which are to make a difference in the world. Their aim is to accomplish their missions. Their "mission gap" is a key motivator in strategy development.

The term “mission gap” refers to the difference between the current state of the condition of the “persons, places, and/or things” for whom/which the organization wants to make a difference and their/its condition in an ideal world.

For example, a nonprofit in ABC County is committed to assuring that all individuals and families with low to moderate incomes have suitable housing. They define “low to moderate incomes” as 75% of median income for the county and determine that 12,000 people do not have suitable housing – either it is of low quality, or overcrowded, or they are paying too much for the housing, based on their income. In their ideal world, everyone in their county would have suitable housing. So, their mission gap is 12,000 people.

### Strategy Development Process

Using this model, nonprofits focus on their “mission gap” when creating strategy. They create a “vision” for what they want to organization to be like so that it is ideally designed to fill the mission gap as quickly as possible. They then create a strategy to achieve the vision, and subsequently close the mission gap. Following is a brief description of the process an organization can use to create that strategy.

*Readiness Assessment & Process Design.* Organizations need to determine how extensive of a process of strategy development they want to undertake. For example, do they need a change in “strategy” or is it just time to set new goals for a coming time period? Further, is the organization’s Board prepared for the effort? Boards that do not regularly conduct assessments of their operations may find it helpful to do such an assessment prior to setting off on a strategy development process. Once the Board is

ready to proceed, it needs to complete the process of “mission clarification” and then appoint a Strategy Development Group to carry out the strategy development process.

*Mission Clarification.* This phase involves answering a few key questions. The Board needs to come to agreement on the answers to these questions:

A. What is the “difference” the organization intends to make and “for what persons, places, and/or things?” One way to think about a mission is that it is a stated intention “to make a difference for a person, place, or thing” (Sheehan, 1996).

Answering this question can help sharpen a mission statement.

B. Explain how you determine whether your organization is or is not accomplishing the mission. List the results, outcomes, and specific evidence you look at to make this determination. Answering this question helps keep the organization aligned for performance.

C. Explain the current state of the condition of the “persons, places, and/or things” for whom/which you want to make a difference. Then, explain their/its condition in an ideal world. The difference between the current reality and the ideal is the organization’s “mission gap” – the gap the organization is committed to closing.

*Strategy Development Group.* The Board appoints a Strategy Development Group of 15-20 people – typically a representative subset of the Board with other constituencies represented as well. The SDG needs to have credibility and legitimacy among key stakeholders. The SDG carries out the following activities:

1. *Creating a Vision.* With the “mission gap” in mind, the SDG comes to agreement on what it (the organization) would be like in an ideal world (not a science-fiction world, but ideally). The SDG envisions an organization that would have the

capacity to close the “mission gap” as quickly as possible. They are asked: “If you could have it any way you wanted it, what would your organization be like – in every way?”

2. *Establish Five-Year Strategic Stretch Goals.* With the vision and mission gap in mind, the organization sets at least three five-year, outcome-based “stretch goals” which, if accomplished, would give the organization a quantum leap toward its vision. These goals are SMART: Specific, Measurable, Almost impossible, Relevant, Timely. Extensive research has shown that goals which meet these criteria are more effective (Locke & Latham, 1990). Further, the “stretch” or “almost impossible” aspect of these SMART goals has led to demonstrated higher performance (Smith, 1999; Sheehan, 1999). Hamel & Prahalad (1993) say that “Creating stretch, a misfit between resources and aspirations, is the single most important task senior management faces” (p. 77).

3. *Organization Assessment.* With the context of the mission gap, vision, and strategic stretch goals now established, the organization assesses its current situation. This could include a traditional SWOT (Strengths, Weaknesses, Opportunities, Threats) and environmental analysis, as well as a more comprehensive organizational assessment – such as the McKinsey & Co. (2001) “Capacity Assessment Grid” which was developed for Venture Philanthropy Partners. The organization assessment is purposefully done at this stage, rather than earlier in the process. Once the SDG sets a vision and five year strategic stretch goals, it will have a different context in which to view the organization. So, then, the SWOT questions are asked in this way, for example: “Given our vision and commitment to achieve the stretch goals, what are the key strengths (or WOTs) of XYZ Organization of Central Metropolis?”

4. *Strategy Development.* The strategy development process is a creative act, not an analytic act. Mintzberg (1994a) calls this “strategic thinking.” He says “Strategic thinking, in contrast, is about synthesis. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise, and a not-too-precisely articulated vision of direction . . . (p. 108).” In strategy development, there are no right or wrong answers. The SDG “makes up” a coherent “cause and effect story” that makes sense to them and which they think can be implemented. They begin with the “cause” in the “story.” They need to create ideas about what actions can serve as “strategy levers” to initiate increased performance. The strategy story then needs to include ideas about how the organization will conduct operations in three key areas: revenue generation, staffing, and mission impact. The questions, then, that the SDG needs to answer with the Mission, Mission Gap, Stretch Goals, Organization Assessment, SWOT, and all other data collected in mind, are:

A. What “strategy levers” can you utilize to accelerate your positive cycle of success? (The SWOT Strengths and Opportunities list is a good place for idea starters.)

B. How will the organization conduct its staffing operations (both paid and unpaid staff)?

C. How will the organization generate gross and net revenue?

D. How will the organization make a “difference” in the “people, places, or things” that are the focus of its mission?

E. How will these three operational areas interrelate? How will they have a positive cyclical affect upon one another?

F. What “strategy derailers” should the organization pay attention to? (The SWOT Weaknesses and Threats list is a good place for idea starters.)

## Strategy Examples

How does this model of strategy and strategy development work in the real world? Following are examples of nonprofit strategies which are based on real-world cases, with some changes, to make them somewhat hypothetical.

### *Youth Services Organization Strategy:*

“Use reserves to hire highly qualified and talented CEO to generate revenue for expansion of highly regarded program services. Maintain competitive salaries for top-notch program staff. Stabilize budget and repay reserves as revenues increase. Expand services further with additional revenue. Quality of services and staff remain high throughout expansion.”

*Commentary:* This is an organization with high quality programs that are not reaching the number of people they could. They somehow have to figure out how to increase their reach and impact. They decide to take a “strength,” their reserves, and “invest” some of it in hiring a new CEO whom they would otherwise not be able to afford. Their idea is that this new, highly qualified and talented CEO can increase revenues which would then allow them to expand services. Their strategy levers are spending the reserves and the new CEO. Their areas of operation are consistent with strategy. For example, they are maintaining a commitment to staff quality and program quality. A reduction in these areas would not be a fit with the strategy. Will this work? The obvious derailer is the new CEO. If she/he can increase the revenues significantly, then the strategy could work. The “real world” organization on which this is based turned out to be very successful with this strategy.

*Educational Association Strategy:*

“Hire staff and mobilize volunteers to create endowment and significantly increase annual fund. Cut services and staffing to balance budget for the first time in fifteen years. Increase fees for service and add services back as fees, annual fund dollars, and endowment investment income is available. Continue to increase level and quality of services as revenue is available—as well as upgrade staff quality.”

*Commentary:* This is an organization in crisis, given the years of deficits.

It provides an interesting contrast to the prior example where “investing” reserves actually worked. In this example, the use of reserves has been rationalized for years, with dismal results. The strategy lever here is the decision to get into the “fund-raising business” – to develop a core staff and board competency in this area. It is a risky strategy as it increases fees while reducing services—clearly a potential derailer. Otherwise, risky as it is, the strategy is coherent. It is a somewhat desperate strategy for a desperate time. The “real world” organization on which this is based struggled with this strategy, but at least it stopped producing deficits. After a few years, the strategy actually worked – and then accelerated into very high performance. But it took years.

*Social Services Agency Strategy:*

“Maintain staff level of good people who work here because they care for the mission—even though we can’t pay much. Provide as many services and programs as possible that make a difference, with funding from fees, United Way, and government subsidies. Maintain balanced budget. Limited staff will do the best they can with an overload of cases until things get better.”

*Commentary:* This is an organization with a risky “maintenance strategy”—not a true strategy. There are no strategy levers – except hope (“until things get better”). And, hope is not a strategy. The derailers are that if anything unexpected happens, the maintenance equilibrium it is currently experiencing will quickly crumble into a

“vicious” downward spiral. There is no vision here and the “real world” organizations on which this is based continue to flounder in communities across the country. [When presented with this example, many nonprofit executives across the country claim to have worked for this organization at one time in their careers.]

*Exhibit 1.* The strategies presented thus far have, essentially, been summaries of the more complete set of ideas an organization would create as its strategy. Exhibit 1 demonstrates a more comprehensive strategy explanation, along with Five Year Strategic Stretch Goals. Each operational area is outlined more completely, as are the strategy levers and derailers. It is a coherent strategy, and the organization upon which the example is based is in the process of implementing this strategy. Implementation will determine its success.

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Exhibit 1

## Nonprofit Leadership Organization

### FIVE YEAR STRATEGIC STRETCH GOALS

- Increase number of participants in flagship leadership program by 500% by 9/1/10
- Increase endowment from \$100,000 to \$1,000,000 by 9/1/10
- Increase Annual Fund from \$30,000 per year to \$100,000 per year by 9/1/10
- Maintain current “high quality” customer satisfaction scores on evaluations through 9/1/10

### STRATEGY

#### People

- Mobilize dormant alumni group to participate in raising money and marketing program
- Restructure Board to add more people with connections to potential customers and funders

- Aggressively increase the number of quality volunteer facilitators to lead the flagship program
- Recruit and retain quality staff with market-rate wages, developmental opportunities, and opportunity for advancement

#### Finance

- Significantly increase amount of money contributed to the annual fund and increase the endowment
- Raise program fees every two years, consistent with inflation
- Operate balanced budgets – minimally increase reserves from operations
- Spend endowment income conservatively

#### Programs

- Significantly increase the number of annual participants in the flagship program
- Utilize quality selection in the volunteers who lead the flagship program
- Maintain high quality “value” scores from participants who attend flagship program
- Continue to improve quality of curriculum of flagship program

#### Levers

- Mobilizing the dormant alumni group
- Restructuring the Board

#### Derailers

- Drop in quality “value” scores could turn a potentially “virtuous” cycle into a downward spiral

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### III. Summary

The importance of nonprofit organizations to the quality of life on our planet continues to grow. Knowing this, we are compelled to continue to explore new, different, and better ways to increase nonprofit effectiveness. The ideas presented in this paper are new, but based on solid concepts and practical experience. The new strategy model presented needs to be utilized in more real world settings with case studies completed to test and improve the model. The model needs to be used and changed and improved and tested over time.

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