Turning Disclosure into Strategic Advantage

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Welcome to the era of accountability. Pressure to demonstrate objectively what nonprofits accomplish comes from every direction: government, foundations, donors and stakeholders. A recent example is the revised IRS Form 990 with its 16 information schedules. But the government is not alone in demanding more information. The philanthropic sector has long pressed for more complete data on its grant recipients. More than increased disclosure is at issue. As demand for philanthropic support increases, donors look not only for ways to ration scarce dollars, but also to distinguish the better performing organizations from the others.

From Compliance to Strategic Thinking

Accountability is a powerful lever used to compel excellence in nonprofit management and governance. We see the trend in the promotion of best practices; in efforts to consolidate redundant service agencies; in capacity-building grants to enable better management. Funders are looking beyond determining which causes are more worthy of support to the issue of effectiveness: which nonprofits maximize the impact of the contributed dollar.

No one likes accountability. As with all regulations, compliance shifts the operational cost curve upward and further burdens already-lean staffs. Nor do stakeholders always know best which information is most meaningful. However, as long as nonprofits depend on other people's money, the necessity of justifying external support is indisputable. So, how does the nonprofit turn compliance obligations to the advantage of the organization?

Common sense dictates that disclosure has some value because it educates the organization on the quality of its own performance. However, I argue that the nonprofits ought to maximize this benefit by fostering a strategy-driven, data-based, decision-making environment: that is, a culture of strategic planning.

Grounded in the nonprofit mission, strategic planning is a cyclical process that describes a path leading from board-authorized goals, to action plans, then to measurement of results, and finally to reporting and oversight. Measurement motivates not only compliance with the plan but also growth and improvement. Therefore, accountability achieved within

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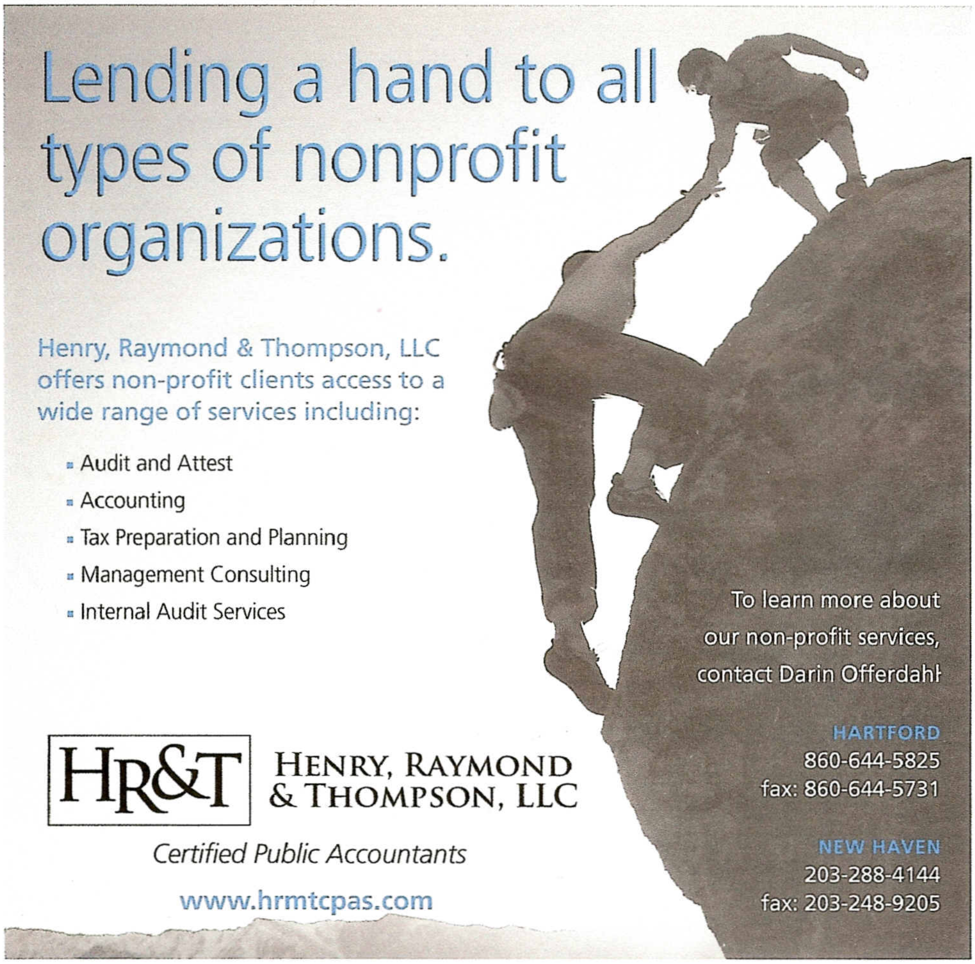

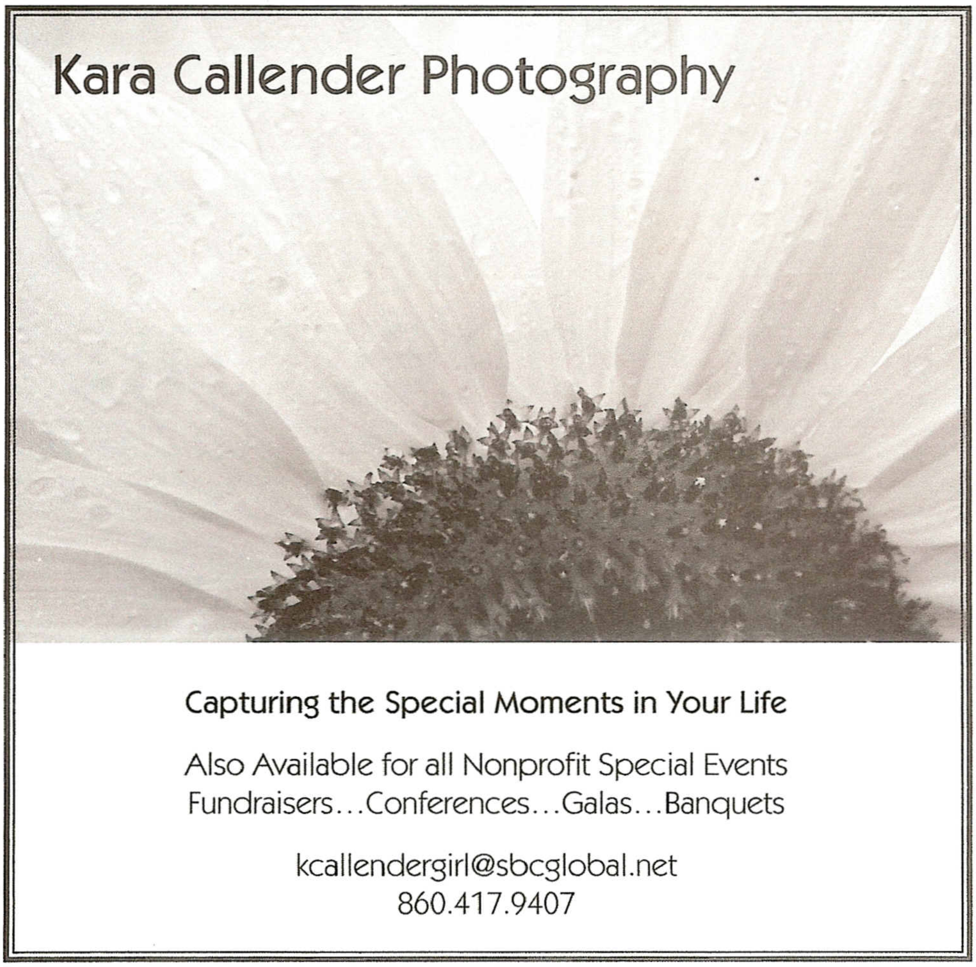

a strategic planning framework will exceed in benefits the disclosure made strictly for compliance purposes.

Using Data Strategically

Data expands in significance with refinement – what we call drilling down. The data may even change in meaning as it is considered in greater detail. Take the example of a fictitious job counseling agency that is required to report two series of data to its funders: Gross number of client visits to the agency; and, Number of clients placed in jobs during the reporting period.

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The agency conducts 1,500 visits with 350 clients, and makes 300 placements. The agency's operating model is built on the premise that clients find a placement after about five counseling sessions. With 1,500 visits and 300 placements, the agency seems to be on target with a ratio of 5:1 in visits per placement. But this simple relationship may hide other problems.

Further scrutiny shows that 100 out of 350 clients were placed after 3 visits; 200 after 4 visits; the remaining clients (50) accounted for some 400 visits - 8 per client - with no placement. The original data may indicate an on-track performance, but the message is mixed when the analysis is carried further.

Disparity in outcomes among the agency's clients raises a number of questions about cause(s): under-performing personnel? deficient intake and screening? inadequate training resources? The more granular analysis calls for an examination of the counselor recruiting and, perhaps, oversight. It also suggests that the assumptions underlying the business model may be flawed. This is the stuff of continuous improvement and competitiveness.

The value added derived from a planning culture manifests itself first in greater organizational self-awareness:

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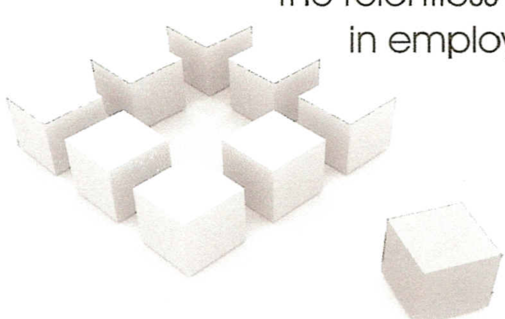

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the in-depth knowledge of what works that Jim Collins ascribes to the hedgehogs of his great companies in Good to Great (HarperBusiness, 2001). Self-awareness engenders learning, which translates into best practices and operational effectiveness. The planning culture establishes the nonprofit as master of its controllables and equips it to manage more effectively its non-controllables: what we usually describe as change management. A planning culture moves the nonprofit from a passive stance –mere compliance – to an active posture characterized by learning for competitive advantage.

Postscript: The Database

There is no effective planning without measurement of results, and no analytical benefit to be had from chaotic data. Accordingly, the organizational database holds a privileged place in strategic planning. For the best analytical results, the nonprofit must carefully plan the content, structure, degree of detail, and integrative capacity of its database. Garbage in, garbage out remains a fundamental axiom of database planning.

Cost and digestibility are also concerns in database design. For the small nonprofit, constructing a database does not necessarily entail large technology expenditures. Standard office applications may well suffice. The key is design. It is often a far greater challenge to know what data you require than to collect it, just as establishing the action plan for achieving a goal may be more difficult than defining the goal.

There is also a point of diminishing returns to data-gathering. Just because you can obtain information does not mean that you should. Board and management must exercise good judgment on the usefulness of increasing volumes of data. The point is to understand the best indicators of strategic progress and to make them readily available, which brings us full circle back to the value of strategic planning. While few will rejoice that greater accountability is here for the long term, the good news is that embracing accountability can lead to enhanced mission fulfillment and sustainability. Or, to paraphrase Hamlet: The plan's the thing …

Spearpoint Strategy Advisors is a nonprofit consulting firm in Warren, CT. Learn more at www.spearpointllc.net, or call 860-619-8115.