

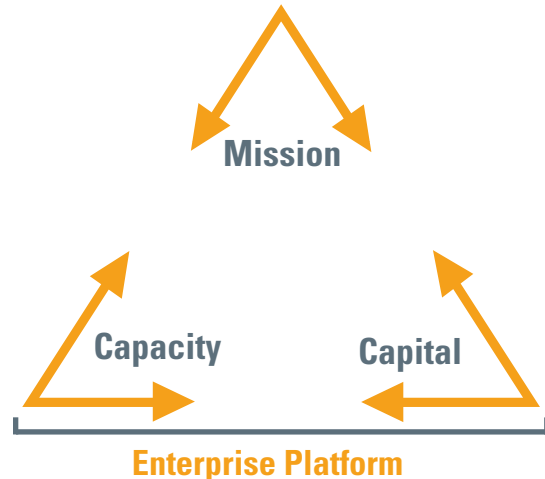
## Effective Nonprofit Leaders....

### 1 ... keep mission, capacity and finance in balance.

These three elements are interdependent and exist in dynamic tension. If one changes, the others change, too. This happens in all organizations, whether seen or unseen, planned or unplanned.

### 2 ... never ignore the dynamics of the “enterprise platform.”

The combination of capacity and capital comprises the “enterprise platform,” by which mission is delivered. It exists in every organization. It is related to, yet separate from, program and mission. Money does not flow directly to program; it is turned into program execution via the enterprise platform. If the platform is weak, program execution will be undermined. Nonprofits with similar missions and programs can have very different enterprise platforms.



### 3 ... are proud of nonprofit tax status.

It exists for a reason, and it’s a commercial reason. We enter the market when the for-profit and governmental sectors can’t, won’t or shouldn’t, generally due to a gap or failure in the market economy. This commercial flaw is why nonprofits (501(c)3s) are provided two powerful tools to reliably subsidize operations: tax exemption and access to tax-advantaged charitable contributions.

### 4 ... insist on having clear, reliable, routine, management-friendly financial information.

Effective leaders share it with their board, funders, internal and external stakeholders and use it as a tool to effectively communicate their organization’s financial story.

### 5 ... can tell their program story in financial terms, and their financial story in program terms.

They, and others in senior roles and board positions, can fluidly connect money and mission based on the needs and perspectives of who they’re talking to, and what they’re talking about.

### 6 ... predict how their organization will end the year financially, on January 1.

They also know what the levers are that will make their prediction more or less likely. They will continue to update predictions with “actuals” and new projections to year-end and beyond as the year proceeds. They share these routine numbers with the board, and make course corrections accordingly.

### 7 ... understand that they manage in a looking-glass world, commercially speaking.

Many of the standard rules and conventions that for-profit managers rely on are reversed, or at best unreliable, in the nonprofit environment: growth almost always increases the need for fundraising and decreases “self sufficiency”; cash is not always fungible, “surpluses” are often prohibited; expenditures on overhead are seen as wasteful...and more. Leaders from the for-profit world must understand these (and other) management realities to make better decisions.

### 8 ... understand that they run at least two businesses.

There’s the core business, related to delivering on mission (healing, teaching, sheltering, etc.), and then there’s the “mission support business” (usually fundraising) that makes up for the market flaw.

### 9 ... understand that growth is especially demanding in the nonprofit world, for commercial reasons.

Growth is more capital intensive, takes longer, and is riskier from a quality control and mission perspective than for-profit sector growth (which is difficult as well). Increased revenue frequently means decreased net revenue.

### 10 ... distinguish regular, routine operating revenue from capital and extraordinary revenue, and manage accordingly.

They match their fixed costs to reliable revenue and understand (and fill) the capital demands of rapid growth, incremental growth, and routine capacity refreshment and maintenance.

## Effective Funders....

### 1 ... understand that nonprofits must balance mission, capacity and finance to be effective.

Grants that affect one of these elements will always affect and change the others. For example, grants restricted to program, will affect and make draws on capacity and financial resources, even when unintended. This happens in all organizations, whether seen or unseen, planned or unplanned. Thus, top funders understand that it is possible to make a generous restricted grant and have it cost more to the grantee than its face value.

### 2 ... never ignore the “enterprise platform.”

They realize that each of their grantees has a distinct enterprise platform (or business model), even when their missions or programs are similar. And they see that money is turned into program execution via the dynamic operation of the enterprise platform. They avoid “enterprise blind” grants, because they know that if the platform is weak, program execution will be undermined.

### 3 ... realize that “nonprofit” is a tax status, not a business plan.

It exists so enterprises can serve a social need where the for-profit and governmental sectors can't, won't or shouldn't, generally due to a gap or failure in the market economy. The tools provided nonprofits (501(c)3s)—tax exemption and tax-advantaged charitable contributions—are meant to reliably subsidize healthy operations, and this means surpluses. A wise funder is glad when its grantees operate with surpluses.

### 4 ... make grants that take into consideration and accurately reflect a grantee’s financial state.

To do this, they insist on having clear, reliable, routine, management-friendly financial information that is appropriate given the size and complexity of a grantee’s operations.

### 5 ... think outside the grant by understanding the “whole enterprise,” not just the individual program they’re funding.

This requires them to understand each grantee’s program story in financial terms, and financial story in program terms. This also demands that funders spend time becoming familiar with their grantees short- and long-term financial forecasts and know the levers that will make those predictions more or less likely.

### 6 ... think “net grants” and tread lightly on “unfunded mandates” accompanying project and restricted funding.

Both net grants and unfunded mandates carry hidden expenses—such as fundraising time, data systems upgrades, customized reporting and staff training, to name a few. These expenses reduce the amount of the grant that is actually available to serve the public.

### 7 ... understand that nonprofits manage in a looking-glass world, commercially speaking.

Many of the conventions that for-profit managers rely on are reversed or improbable in the nonprofit environment: growth almost always increases the need for fundraising and decreases “self sufficiency”; cash is not always fungible, “surpluses” are often prohibited; expenditures on overhead are seen as wasteful...and more. This knowledge keeps wise funders from urging organizations along a financially risky path.

### 8 ... understand that nonprofits run at least two businesses.

There’s the core business, related to delivering on mission, and then there’s the business (usually fundraising) that makes up for the market flaw. This means that when program expands, so must the “subsidy business” or problems ensue.

### 9 ... understand that growth is especially demanding in the nonprofit world, for commercial reasons.

Growth for nonprofits is more capital intensive, takes longer and is riskier from a quality control and mission perspective than for for-profits. Growth, and increased revenue, may mean decreased *net* revenue. Effective funders therefore look at enterprise platform and mission to understand how best to fund—whether it’s sustaining day-to-day operations, supporting programs, or funding growth—and have reasonable programmatic expectations of growing grantees.

### 10 ... know their role—as buyer or builder—and play it well.

They distinguish regular, routine operating revenue from capital and extraordinary revenue, gather their colleagues to co-invest when their own grant resources won’t get a growing nonprofit where it needs to go. They celebrate general support grants, and urge colleagues to make them available.

