

Strategy Matters™

ANTHONY KNERR & ASSOCIATES

- 2 Governance as a Key Strategic Asset
- 4 Essential Characteristics of Superb Governance
- 5 Notable Books
- 8 News from ANTHONY KNERR & ASSOCIATES

Established in 1990, ANTHONY KNERR & ASSOCIATES assists leading nonprofit institutions in the United States and Europe successfully solve complex strategic issues.

Governance as a Key Strategic Asset

Over the past few years, a disturbing number of nonprofits have been the subject of embarrassing failures, investigatory probes and ethical lapses. These have ranged from major financial irregularities to stunning “flame-outs” by chief executive officers; self-enrichment by private foundation trustees to misallocation of donated funds; excessive compensation arrangements to college athletic scandals. Other nonprofits seem to have lost their way, beset by significant erosion of membership or audience, bedeviled by recurring budget deficits or hamstrung by apparent irrelevancy of mission or program.

But for all those nonprofits that are tripping, stumbling or falling, there are scores of others that have never been in better shape, organizations that are blessed with record admissions, unprecedented fundraising successes, ever stronger applicant pools or growing numbers of volunteers: Girls Scouts of America, Museum of Modern Art, Princeton University, March of Dimes Birth Defects Foundation, to name just a few.

Why do some nonprofits have such significant—and often public—difficulties whereas others are able to tackle successfully even the most serious issues? While superb executive leadership is always critical, the experience of ANTHONY KNERR & ASSOCIATES suggests that a primary reason is outstanding governance*. Nonprofits with superior governing boards tend, on balance, to be far more effective, focused and financially sound than those with weak, confused or inappropriate ones. They are far less likely to run into major disputes with their chief executive officers, have conflicts of interest or self-enrichment problems or experience significant, continuing budgetary woes.

Superbly governed nonprofits continuously take the long view: they are clear about, and believe wholeheartedly in, their missions; they think and act strategically, focusing on the future rather than the past or present; and they look regularly for

independent external validation of the relevance, quality and effectiveness of programs and initiatives and promptly make appropriate changes and improvements as needed.

These organizations have boards that are tough-minded in regulating and evaluating themselves. These boards insist upon the highest ethical standards in all of the organization’s activities, initiatives and operations. At all times and on all occasions, these boards focus on what is best for the organization rather than what may be pleasing, enticing or persuasive to any one individual, be that person a board member, CEO, key staff person or an important donor. They look to their CEOs for effective realization of mission and programs and insist that their CEOs and his or her staff are “best of league.”

Nonprofits with superior governing boards tend, on balance, to be far more effective.

Organizations that match strong executive leadership with vigorous and effective boards are far less likely to run into significant or insurmountable problems, even though they may be challenged by changing economic circumstances, new competitive pressures, major shifts in public policy or community interest or new demands for improved accountability or transparency. On the other hand, weak boards with strong CEOs are often held hostage to one individual’s values, ambitions and perspectives—which may or may not be in the organization’s (or the CEO’s) long-term interest. And weak boards with weak CEOs will typically find themselves slipping further and further into difficulties, requiring significant transformation and reconstruction to regain their way.

The Board Perspective

Part of the reason that superb governance is so critical to organizational effectiveness is that the board of any organization simultaneously represents the long view—no other component of any organization can, or should be, the custodian of

* This perspective is informed by experience with a wide range of clients spanning the cultural, education and human services sectors, as well as extensive analysis of organizational effectiveness and governance across a broad spectrum of different types of nonprofits. Included in this analysis were universities and colleges, arts and cultural organizations, social service agencies and health and medical institutions, as well as nonprofits of different sizes, origins and ages.

both its history and its future—and embodies its fiduciary responsibilities

- A nonprofit must continually be in touch with its heritage, core values and defining principles, as it looks boldly into the future to determine how it can best manifest its mission, perhaps in ways that are quite different than its historic roots or continuing traditions
- By the same token, all nonprofits have been chartered to help the common weal—and thus their boards are acting as fiduciaries on behalf of society to undertake their particular mission. It is this fiduciary trust that is essential to the management of endowment and other assets entrusted to the organization. It is likewise this fiduciary trust that requires the board to be vigorous in the discharge of governance.

Because boards are responsible for the longer term health and viability of the organization, they play a particularly important role in strategy: in setting it, wrestling with it, revisiting it and monitoring its realization. Undertaking the hard work of thinking strategically positions an organization to be well-prepared for both opportunity and adversity—as well as for the tactical work of raising money. Being clear about an organization’s identity, objectives and ambitions is central to understanding—and taking advantage of—competing opportunities as well as achieving long-term financial stability.

The board’s ability to think and act strategically cannot happen without a determined effort by the CEO. Some nonprofit organizations do not see their boards as helpful or important, but as some variation of necessary evils to be endured. Thus, they do not actively engage them in discussing and adopting sound strategic directions; they do not ensure that board meetings uniformly address important substantive matters; they do not provide their board members with clear analysis that will lead to vigorous, informed discussion and debate.

Just as boards should not be confined to the creation of policy divorced from strategy, so, too, boards that exercise strong fiduciary responsibility should not be seen as a nuisance or improperly interfering with the management of the organization. In this present new age of heightened accountability, boards can and must exercise a tough-minded oversight function, standing in for the external stakeholders who may be even tougher. This is clearly impossible if the board is not actively and continuously engaged as a

Organizations need to have boards that will foreshadow the kinds of tough questions that external stakeholders will ask.

genuine strategic asset that can make for smarter, more informed decisions, more effective reach and improved fund-raising.

In a climate of heightened accountability and demand for greater transparency, organizations need to have boards that will foreshadow the kinds of tough questions that external stakeholders will ask. It is always better to have them answered “in the family” than outside of it. Boards that do not ask tough questions do their institutions no favor.

The Board-CEO Relationship

The best nonprofits understand that governance and management play different, though complementary roles, and must be well-matched in strength, vigor and energy. In these nonprofits, the board and CEO have a professional relationship of mutual respect, clarity and candor as well as, in many cases, a good personal relationship.

But the wise board continually asks questions, is probing and inquiring in order to satisfy itself that the organization is truly delivering on its mission. It wants to have an analytic base for its decisions, not just intuition; it seeks to understand both the upside and the downside; it is curious about other possibilities, approaches and models.

Positioning the board to function at this substantive level requires a significant commitment from the organization. It means that communications between the board chair and CEO are frequent—at some leading nonprofits they are even daily—with no surprises between the two at any time and under any circumstances. It also means the board and the CEO have a shared vision of what “success” looks like that is tied to ongoing performance measures that give concreteness to progress. Further, the board chair and the CEO share a common understanding of what a successful board meeting looks like—one that is routinely and regularly defined by the quality of discussion, engagement, and decision-making—and act as a team to bring about the best in the board and its meetings.

— Governance as a Key Strategic Asset, *continued*

The Rewards of Superb Governance

Some nonprofits are worried that they are—or will be—unable to attract excellent board members in the wake of the Federal Sarbanes-Oxley legislation, increasing competition within the nonprofit sector and the concerns of some about personal liability in serving on any board of directors. But interestingly enough, those organizations that have understood the importance of superb governance are finding

Engaged boards are more likely to make significant investments.

that there are plenty of attractive candidates around and they are taking extra steps to thoughtfully identify, screen and nominate them, with excellent results. Involved boards are more engaged boards and more engaged boards are more likely to make significant investments.

As the race is increasingly to the swift, thoughtful and farsighted nonprofits, those organizations that recognize—and invest in developing—superb governance will have a significant strategic advantage and will increase greatly the odds of their continued relevancy, effectiveness and financial stability.

— *Anthony Knerr*

Essential Characteristics of Superb Governance

■ Board members understand the organization's mission; can articulate it in their own words; are proud of the organization and endorse it to friends and colleagues; and receive board orientation and ongoing board education from the start.

■ The board is strategic in perspective and action, spending significant time at each meeting on the organization's longer-term aspirations, possibilities and constraints and regularly reviewing progress towards the realization of longer-term strategic perspectives.

■ The board ensures that all of its members are substantively engaged in its work and activities; have particular roles and responsibilities related to the realization of its mission; and actively support the organization by annual contributions. Attendance at board meetings is uniformly high—with at least three quarters of the members present, on average, at all full board meetings and committee meetings.

■ The board fosters a sense of inclusiveness and cohesiveness among its members and with staff; ensures diversity and complementarity of backgrounds, capacities and interests among its members; and has the capabilities that the institution needs.

■ The board insists that the CEO is its true partner, undertaking the indispensable role of ensuring the effective realization of mission and programs, while helping it understand—analytically as well as anecdotally—the opportunities and impediments to successful achievement.

■ The board pays active attention to developing and maintaining the organization's culture and values.

■ The board has an active nominating process that continually refreshes the governance of the organization, with something like 10% to 15% of the board turning over each year in order to provide fresh thinking and new perspectives while maintaining continuity.

■ The board evaluates itself each year: it takes stock of what it has done well; what it has overlooked; how it has served the organization; and how it has carried out the work of governance. It likewise annually evaluates each of its members—whether the board member faithfully attends meetings, understands the mission, engages in substantive work and makes a serious annual financial contribution—and acts thoughtfully and sensitively, but tough-mindedly, about retaining only those members who pass the evaluation with flying colors.

■ The board insists on high transparency in all transactions; demands the highest ethical standards; and does not tolerate conflicts of interest by board or staff members.

■ The board ensures that all of the basics—up-to-date bylaws, clear organization design, sound budgeting and rigorous financial planning and reporting—are in place.

Notable Books

In each issue, we identify and briefly describe a small number of important books that are truly insightful about consequential matters and offer new ways of addressing complex topics pertinent to thinking strategically about the nonprofit world. Herewith our selections for this issue:

■ Brand Portfolio Strategy: Creating Relevance, Differentiation, Energy, Leverage and Clarity

David A. Aaker

Free Press, 2004. 348+xviii pp., \$28.00

Although not often recognized, some of the most well-known, powerful and enduring “brands” in the world are in the nonprofit sector: American Red Cross, Lincoln Center, Habitat for Humanity, Harvard University, Junior League, Salvation Army, Médecins sans Frontières, YMCA, to name just a few. Each of these organizations has a set of intangible assets in addition to their actual activities, services and programs. Instantly recognizable, each of these “brands” elicits a host of feelings, images and ideas that strengthen their visibility, identity and positioning in an increasingly crowded, cacophonous and fickle marketplace.

The private sector—and the retail customer market, in particular—has long recognized the importance of branding. Major corporations spend millions to establish, build and maintain brand identity—for particular products, services and the companies themselves. Nonprofits primarily gain brand identity through clarity of mission, strong program focus, consistent service delivery and successful fund raising (and capital campaigns, in particular). But as nonprofit organizations are competing harder than ever for customers, clients, applicants, donors and funders, they have a new interest, if not urgency, in branding as a means to more deliberately shape and communicate a clear identity.

David A. Aaker, E.T. Grether Emeritus Professor of Marketing Strategy at the Haas School of Business at the University of California Berkeley, provides multiple insights, helpful perspectives and reassuring clarity to the whole issue of branding: what it is, how it works, what its value is and why it is important. His new book, *Brand Portfolio Strategy*, builds upon two earlier volumes, *Building Strong Brands* (Free Press, 1996) and *Brand Leadership* (co-authored with Erich Joachimsthaler, Free Press, 2000), and together they provide a seminal treatment of the subject, easily accessible to the lay reader and highly applicable to the nonprofit sector.

Aaker’s work provides a wealth of useful insights and guidance in making more informed and thoughtful decisions—and thus significantly strengthening brand identity and organizational positioning. Aaker suggests that a brand is far more than

Some of the most well-known, powerful and enduring “brands” in the world are in the nonprofit sector.

design (a distinctive logo), identifier (a pertinent tag line) or positioning statement (a short mission statement). Rather, he urges organizations to think of brands along multiple dimensions: as a *product or service* (stressing, for instance, its quality and value); an *organization* (emphasizing, for example, its innovation and concern for the customer); a *symbol* (using, for instance, an image and references to its heritage); and a *customer or key person* (stressing, for example, their skills or determination).

Aaker recommends that organizations think both about their “brand image”—the current perception of itself—as well as their desired “brand identity”—the set of associations that it wants the customer to hold. By thinking of these perspectives separately, an organization can devise ways to span the gap, recognizing that, just as in engineering, it is harder to build a long bridge than a short one.

Nonprofit organizations often make two key mistakes in branding. Because their units often function semi-autonomously, those units tend to develop their own identities that make it difficult for current or potential customers, clients or donors to understand how they relate to the larger organization. And even when there is a single brand identity, it is often applied inconsistently, resulting



© The New Yorker Collection 1991 Robert Weber from cartoonbank.com. All Rights Reserved.

“It’s up to you now, Miller. The only thing that can save us is an accounting breakthrough.”

in a missed opportunity to build a consistent portrait of the organization.

It is the wise nonprofit that realizes that the decisions it makes every day about its services have consequences for the way it is positioned in the minds of external audiences. It is the even wiser nonprofit that makes those decisions informed by a clear vision of how it wishes to be positioned—both explicitly and implicitly—in today’s noisy marketplace.

■ The State of Nonprofit America

Lester M. Salamon, editor

Brookings Institution Press, 2002. 563+xi pp., \$28.95

The nonprofit sector is large, complex and “messy,” having grown in recent decades from a largely unanalyzed and rather poorly understood group of highly disparate institutions and organizations into a far more recognizable—and recognized—important segment of the U.S. economy. Comprising 12% of America’s Gross National Product, the total nonprofit workforce of paid and voluntary workers is some 17.5 million, 50% more than construction and finance, insurance and real estate sectors combined and close to that of the entire U.S. manufacturing sector.

There has not previously been a comprehensive, but accessible, overview and assessment of the state of America’s nonprofit sector that is informative to volunteer board members, executives and staff, policy makers and others. Happily, *The State of Nonprofit America* expertly fills that gap.

Edited by Lester Salamon, Director of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies and former Deputy Associate Director of the U.S. Office of Management and Budget, *The State of Nonprofit America* crisply analyzes the present state of the nonprofit sector; reviews major characteristics, trends, opportunities and risks within various components of the sector and the sector overall; and places the sector in the larger context of the post-September 11th world.

The book covers cross-cutting themes, including commercialization and for-profit competition; devolution and the changing shape of government-nonprofit relations; accountability; demographic and technological issues; and the contributions of the nonprofit sector. In addition, there are insightful essays on eleven individual sub-sectors, from health and education to community development and international assistance to foundations and corporate philanthropy to individual giving and volunteering.

With rich attention to detail and sources, Salamon argues that nonprofit organizations have survived and thrived over the past decade and are far more robust and adaptive than is sometimes thought by general observers because they moved, often decisively, toward the market. In particular, he notes that nonprofits as a sector have taken active advantage of growing demand for services, expanded fee income, launched commercial ventures, forged partnerships with businesses, adopted business-style management techniques, mastered new consumer-side forms of government funding, reshaped organizational structures and adopted sophisticated market and money-management techniques.

Nonprofit organizations have survived and thrived over the past decade... because they moved, often decisively, toward the market.

This has brought a set of unfamiliar challenges to the sector, including a growing identity crisis, increased demands on nonprofit executives and Board members, new threats to nonprofit missions, disadvantaging of smaller organizations and a potential loss of public trust. To deal with these risks, Salamon urges a rethinking and affirmation of the benefit of the sector, better capitalization, improving buy-in by third-party payers and encouraging private giving for high-priority community benefits.

All of these have important implications at the level of policy. Yet the analysis also suggests a new set of questions for nonprofit leaders at the level of practice: how to ensure that organizational structure and capacity that was built for an earlier age meets the ecology of the new landscape; how to structure partnerships in ways that harmonize mission and markets; and how to develop pricing strategies that are market-sensitive but also mission-driven.

■ Greater Expectations: A New Vision for Learning as a Nation Goes to College

Greater Expectations National Panel,

Judith Ramaley, Chair

Association of American Colleges and Universities, 2002. 60+xiv pp., \$15.00

The U.S. has largely completed a transformation from an industrial to a knowledge-based society and is fast approaching universal participation in higher education in the U.S. But while public policy has largely focused on getting students into college, the performance of many students is increasingly faltering, with the result that college is a revolving door for many students and unrewarding for many more. This report analyzes the changing expectations for college-level learning at the beginning of this new century and calls for a dramatic reorganization of undergraduate education to ensure that all college aspirants receive not only access to college but also, once there, an education of lasting value.

Based on the work of a distinguished national panel of education, private sector, public policy and community leaders, the report recommends an end to the traditional distinctions between liberal and practical education and argues for a commitment, from school through college, to make liberal education—across all fields—rigorous, inclusive and pragmatic.

Most intriguingly, the report suggests a tripartite argument for this new kind of education—that students need to be “empowered through the mastery of intellectual and practical skills; informed by knowledge about the natural and social worlds and about forms of inquiry basic to these studies; and responsible for their personal actions and for civic values.”

While public policy has largely focused on getting students into college, the performance of many students is faltering.

The report makes suggestions about the knowledge and capacities all students should acquire, calling for higher education to help all students become intentional learners who can “adapt to new environments, integrate knowledge from different sources and continue learning throughout their lives.” It recommends far closer working relationships between higher and secondary education and describes a learning-center New Academy that embodies a culture centered on learning. It also includes concrete examples of what it considers to be good practice drawn from a wide variety of different institutions and contexts.

The report perceptively analyzes several challenges confronting higher education and suggests a new strategic direction for a whole sector to move beyond them, while grounding its recommendations with a thoughtful recognition of the range and diversity of American colleges and universities.

■ Paris 1919: Six Months That Changed the World

Margaret MacMillan. Foreword by Richard Holbrooke
Random House, 2002. 570 pp., \$35.00

Organizations are better off when they plan and act strategically and ensure that their day-to-day actions build toward larger objectives which are clearly delineated and widely understood. But although ideas are at the heart of strategy, we ignore at our peril the personal predilections of forceful leaders who are driven to settle scores, bring about radical change or transform the world without sufficient understanding of the possible implications or likely consequences of their actions.

That lesson clearly emerges from *Paris 1919*, winner of the Samuel Johnson Prize, among other honors. The book brilliantly illuminates the fateful six months after World War I when the maps of Europe and much of the rest of the world were redrawn—with consequences that endure today. Margaret MacMillan, Provost of Trinity College and Professor of History at the University of Toronto, provides a compelling portrait of Wilson, Lloyd George, Clemenceau and a cast of hundreds more who sought to end “the war to end all wars.”

Rich in detail, scrupulously researched and unfailingly lively, this book compellingly portrays the complex political

and contradictory human idiosyncrasies of the leaders who wrestled with the major issues that emerged as the war ended. It shows how their personalities determined the decisions reached at the Peace Conference and immediately thereafter, shaped the balance of the twentieth century and led to many of the problems that are today’s headlines—including Bosnia, Iraq, Israel, Palestine, Africa, international governance, immigration and human rights, among others.

The great-granddaughter of Lloyd George, MacMillan convincingly argues that the peacemakers have been unfairly tainted as failing to prevent another war. This widely accepted view both distorts the nature of the decisions made in Paris and minimizes the impact of actions taken in subsequent years. The Peace Conference was about much more than producing the treaty that Germany signed.

Although ideas are at the heart of strategy, we ignore at our peril the personal predilections of forceful leaders.

But the Peace Conference tried to do too much too quickly and early on made decisions that significantly compromised its ability to resolve thoughtfully or carefully the larger matters on its agenda. From the outset, there was confusion over the organization, purpose and procedures of the Conference. The reality in Paris was starkly different from that on the ground away from the peace table: communications were fitful; misconceptions rampant; coordination episodic; and fatigue increasingly dominant.



“And now at this point in the meeting I’d like to shift the blame away from me and onto someone else.”

— Notable Books, *continued*

But most of all it was the powerful men, with their likes and dislikes, their national interests and constraints and their hopes and fears, who are critical in understanding the Peace Conference and its impact on the world over the subsequent eight and a half decades. Britain's Lloyd George was wily, amusing and pragmatic; France's Clemenceau was formidable, implacable and controlling, insisting that the Conference be held in Paris, a decision that greatly complicated matters.

And above all, it was President Wilson who played the major role. Idealistic, naïve and noble, he was also remote, rigid and conflicted. He stirred great hopes with his Fourteen Points and the concept of "self-determination", a phrase that even Wilson at times seemed unclear as to what he actually meant. He was often ill-informed and badly prepared for

negotiations. He badly compromised his dreams in Paris and then made the opposite mistake upon his return home when he refused to make relatively minor concessions.

Beyond being a fascinating and sobering history, *Paris 1919* is important to nonprofit leaders for a number of reasons. It illuminates how an extraordinary turning point in history came to shape forcefully today's world and the policy framework—foreign, social and policy—within which nonprofit organizations operate. It illustrates how poorly conceived strategic aspirations and decisions, made with insufficient clarity or precision, can have far reaching consequences. And it vividly tells the story of how damaging overarching ambition, insufficiently informed and grounded, can be in both the short- and longer-term.

News from ANTHONY KNERR & ASSOCIATES

Selected Recent Client Assignments

- **University of Aberdeen:** *strategic counsel on the University's longer-term future*
- **Association of Children with Down Syndrome (ACDS):** *preparation of a strategic plan*
- **Asphalt Green:** *strategic counsel on establishing a Sport Performance Center*
- **Cambridge University:** *strategic counsel on Cambridge's 800th Anniversary Capital Campaign*
- **Council for Unity:** *preparation of a strategic plan and counsel on its implementation*
- **Earlham College:** *strategic counsel*
- **Institute of Laryngology and Voice Restoration:** *strategic counsel*
- **Jewish Child Care Association:** *assistance with a Board retreat*
- **Medical and Health Research Association (MHRA):** *preparation of a strategic plan*
- **National Association of College and University Business Officers (NACUBO):** *strategic counsel on Building Organizational Capacity, an initiative to assist U.S. colleges and universities meet complex challenges*
- **National Urban League:** *strategic review of governance*
- **Polytechnic University:** *strategic counsel on future directions.*

ANTHONY KNERR & ASSOCIATES

485 FIFTH AVENUE NEW YORK, NY 10017 T: 212.302.9600 F: 212.302.0461 www.aknerr.com