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Leading Change: Opportunity At The Edge Of Peril

By Joe Schuler Jr.

There's no way for executives to know what changes the next 20 years will bring. But they're guaranteed this: Organizational needs and challenges will rise and fall, though the art of managing risks will demand anticipating change and potential crises, rather than strategic planning. Leadership will be grounded in ethics, fiscal discipline, and accountability. CEOs will need to relentlessly provide outcome-driven service.

For nonprofit CEOs, the coming decades will require agility to channel the unrelenting changes that put executives at the edge of peril and opportunity.

As a consequence of those changes, CEOs will spend more time looking outside their agencies. They'll need to be visible, accessible, and accountable.

Collaboration and communication with stakeholders will be paramount to work deliberately through change. Yet CEOs will need to drive the organization. They'll need to educate and challenge boards to speak out in order to guarantee their agency's vibrancy through engagement with stakeholders.

If they can't demonstrate that their organization makes a difference, funding will evaporate. Executives will need to learn how to start and nurture for-profit companies to fund nonprofit infrastructure and programs. Diplomacy in their dealings with stakeholders and politicians, on local and national policy levels, will require deft constancy.

Tomorrow's leaders must be passionate. They should develop a presence. No matter how green they are, they must act with clarity and transparency, despite a fast-paced world in which clarity is often clouded by data overload. They'll need to use data efficiently to achieve better outcomes. Their passion will make them champions, single-minded in pursuit of excellence.

Their currency will be their ideas and relationships. They'll have to percolate with ideas – and be grounded in logic. They'll need to fill boards with people who are both analytic and expert in their fields. The executive will need to guide the board through decisions affecting investments in systems, and in senior employees, enriched through change.

They'll need to keep their sense of humor, because if they can't laugh at their mistakes – and missteps are inevitable – they won't learn from them.

This distinguished panel of veteran leaders in the nonprofit community – Diana Aviv; Richard P. Dina; Peter Goldberg; Madonna W. King; Sr. Paulette LoMonaco; Thomas F. Updike – are executives who have seized change in their agencies. They each suggested pieces of this composite picture of a CEO for a time of change. The gravitas of these experts is derived from their 200 years of combined experience in public policy and human services. Their portrait serves as call to action for those vying for leadership positions over the next two decades.

Here's the message: There's no planning for change. You can foster critical traits as you grow but you must find comfort in ambiguity and get ready to run – fast.

Deficits: The Future's Drag

The Bridgespan Group of Boston estimates that large U.S. nonprofits through 2016 will need to attract and develop 640,000 senior managers – 2.4 times current levels. Bridgespan calls the short supply and expanding demand “the leadership deficit.”

While it will create pressure on recruitment at the 1.4 million nonprofits registered with the IRS, it also will cause more pressure on astute executives. “Those in leadership positions are going to be carrying heavier loads because there are fewer nonprofit leaders to share that responsibility,” says Goldberg, of the Alliance for Children and Families. [\[See sidebar\]](#)

Boston College's Center on Wealth and Philanthropy expects that within 30 to 40 years, \$6 trillion in charitable bequests will flow to nonprofits as wealth is transferred from the baby boom generation. Much will be entrusted to the next generation of nonprofit CEOs.

Economic Realities

In contrast to that philanthropic generosity, says Aviv, of Independent Sector, is the \$8.6 trillion national debt, which, when annual budget deficits are finally checked by Congress, could cause the elimination of substantial government funding for health and human services programs. Medicaid and Medicare reform will squeeze the sector further.

These changes, coupled with uncertain state funding, are likely to make the direction of government allocations a major issue.

Nonprofit executives also will need to understand the effects of globalization on health care issues, Aviv says. “If there's a net export of jobs because corporations find it easier to make a profit and fund healthcare overseas, the American economy will be hit hard,” she says.

But gloomy predictions don't always come true, as Aviv told an audience at an October 2006 speech in Minneapolis. She says that despite passage of the Tax Reform Act – the last comprehensive rules change affecting nonprofits until passage of the Pension Protection Act – the number of foundations tripled from 1975 to 2004 and foundation assets increased nearly 17-fold.

Aviv believes tax reform's most important contribution was instilling a greater trust in the stewardship of charitable resources, “reinforcing the public belief in us as devoted agents of social progress.”

But ethical operations alone aren't sufficient for the sector's success. “The key is in translating our passion into meaningful, productive outcomes,” Aviv says. “When are we merely moving, and when are we engaging in forward-thinking, difference-making action?”

All of these developments mean changes for agencies nationwide. When the nonprofit executive is hit with these challenges along with adversities specific to each human services sector, community, or organization, it will look very much like the edge of peril ... or is it opportunity?

Goldberg says this is the stuff that makes true leaders. “Leaders ought to be challenged all the time,” he says.

Change: The Only Sure Prediction

The veteran executives on this panel have captained mergers, revamped modes of service, waded through board and staff reorganizations.

Collectively, they say there's no roadmap to change because it's not a place or destination: It's a critical edge.

"You can't escape the fact that while the organization has to change, it has to become more businesslike, it has to become more entrepreneurial – and at the same time maintain its soul," says Dina of Adelphi University.

"We can't look at change as a negative thing, but how do you manage change?" asks Updike of Jewish Family and Children's Service. "If you're afraid to break it and look at it and see how you can improve, you're going to doom yourself to failure."

So what future challenges can executives anticipate? How can they thrive on adversity?

LoMonaco, of Good Shepherd Services, says for tomorrow's executives, it's time to internalize change, and be willing to lead it. "Unless the leader embraces change," she says, "it's going to be very hard to sell it to any of the constituencies. Accepting the role of change has to start on a personal level."

These experts suggest seven trends that will push CEOs to the edge of opportunity in coming decades.

Connecting With the Community

The CEO's focus has shifted from the internal to external particularly for mission and funding. "When I first became an executive director in 1983, staff used to come to me and say, 'Can we afford to get the kids new sneakers?'" Dina recalls. "Now, it's 'Are you involved in the community? Do you take stands on issues?'"

Goldberg agrees: "The CEO has to be the touchpoint to key constituencies."

The successful leader grooms others for those external roles, as well, LoMonaco adds, "helping the external world realize it's not a one-person show, that the agency has organizational depth."

Stakeholders as Advocates

Being the touch point means educating stakeholders as advocates.

"I can get a person on my board to give donations to the organization, to defend it to the hilt," says Dina, speaking of nonprofits in general. "But if I say, 'Would you come with me and visit this state senator? Because the number of kids who don't have health insurance is abominable, and we need you to speak up' – people shy away."

"It's one thing to have a committed board of good people. It's another for those people to be bold enough to publicly say that things are not right with our social policies."

Once organizations realize their clout, they can grow, Goldberg believes. His 500 agencies provide close to \$5 billion in services. Their 10,000 board members are a natural constituency. "We may not be powerful, but we can't legitimately say we're powerless," he says. "We have to do a better job of capitalizing on that"

profile.”

Measuring Outcomes

As the CEO shifts from a “feel good” appeal to one driven by documented services outcomes, and as nonprofits establish for-profit companies to help fund programs, they will have to avoid the use of for-profit benchmarks and maintain their nonprofit values.

Income streams will become critical as organizations seek funds for infrastructure and systems. How to measure outcomes, particularly across multiple services, will be a challenge.

“If we can’t demonstrate that our programs make a difference, then it doesn’t matter how much we talk about what our great purposes are,” Aviv says.

The most effective way to demonstrate the difference is to have outside evaluators set benchmarks to analyze which tools work best to assess outcomes. “But that’s awfully expensive,” she says. So CEOs will hire trainers, bring in board members with this expertise, or buy the tools themselves. Whatever the case, it must be an open, non-threatening approach, so if it turns out that someone’s activity isn’t fulfilling the mission, they don’t feel like a failure.

King is hiring a data specialist to determine which data to collect as an adjunct to outcomes. She’ll learn how she can use this information to share her organization’s story with the media.

LoMonaco welcomes the new rigor surrounding outcomes. “We need that,” she says. “We need to be more strategic with public and private dollars.”

Goldberg says nonprofits will need to fight comparisons to corporate organizations; businesses have easier metrics. “Our benchmark is more the small and mid-sized company, family-owned companies, entrepreneurial companies, start-ups,” he says. “If we keep comparing every nonprofit organization to GE, we’re going to fall short.”

Stretching Staff to Build Strength

The drive toward strength-based management and leadership will start at the top, as tomorrow’s CEOs follow executives with proven track records. New leaders will recognize their weaknesses and fill the gaps.

King advises executives to assess top talent on their ability to provide in-depth problem solving, champion change, influence and persuade, manage, and possess organizational savvy. New leaders, she says, will need to be compassionate, and jazzed that they’re making a contribution to the world, not just a corporation.

That doesn’t mean they won’t have room to grow. “I want all my vice presidents to be very successful,” Updike says. “I want the receptionist at the front desk to be successful. When you raise the level of expectation, people tend to rise to meet that. Instead of just a ‘reach goal,’ I have ‘stretch goals.’”

Mergers From Backbone

Interest in nonprofit consolidation has boomed.

Mergers carry risks, but leaders on this panel, nearly all of whom have overseen mergers, say that consolidation is necessary to provide the best service to the most people.

An Emeryville, Calif. merger specialist, La Piana Associates, has seen inquiries increase more than 50 percent over the last two years, says the company's Bob Harrington. La Piana annually handles about 20 nonprofit mergers ranging up to \$60 million.

He says organizations are viewing mergers as strategic decisions to strengthen competitive positions while also expanding programmatic or geographic scope. Traditionally, mergers have been based more on financial need.

King says a key skill within agencies will be synergizing services to be able to address more comprehensive goals. "Typically human service organizations operate out of a scarcity model," she says. "You kind of want to hold on to what you have. This can result in choking, as opposed to looking at the whole array, which inspires growth and creativity."

Profits Feeding Nonprofits

Besides pursuing mergers, CEOs will need to be creative to support their infrastructure.

Based on his experience, Updike is a proponent of creating for-profits within nonprofits.

"People have difficulty with making a profit in a nonprofit organization, but they've got to be able to pay bills and have a cash reserve if things go south," he says. "And they have to have cash to grow."

"I'm very hesitant to build major programs just on the goodwill of donors. Financial conditions can change, so it's good to have a stronger financial base, and in order to do that, I have to be far more diversified."

He says if he doesn't make a profit, he's not going to have resources to fund innovative programs such as his Center for Successful Children, which trains parents to help their child's physical, psychological and emotional development.

"I can make a profit on that and when I do I can turn that profit around and allow people who are not able to afford this to have the same type of service," he says.

In other for-profit ventures, the companies provide job-training opportunities for teens and young adults. Updike uses those profits to offer scholarships.

Events Fueling Planning

In an unsettled environment, change comes fast. Pressures mount quickly. So scenario planning is the answer, these executives say.

Because King's organization facilitates international adoptions, it understands the world is volatile and, as a result, the agency can be shaken by events like the SARS epidemic. "We have to be nimble and say, 'What is the strategy to get past this?'"

LoMonaco says during those times a strategic plan is critical, as are strong relationships throughout the organization, from the board to the clients.

"We're just coming out of the incredible loss of funding that we underwent as a result of 9/11, and changes in the market," she says. Her organization's endowment is only now back to where it was in 2001. It had to draw on cash reserves and increase fundraising during years after 9/11 when it decided to maintain service levels as government cut back or terminated contracts.

“If you wait until you know when you have the assets to implement change, you may be paralyzed by inaction,” Goldberg adds.

Leadership Lessons

New leaders won't be able to avoid stepping into the shoes of CEOs with vast expertise. King has followed several 30-year leaders, and made her own mark by quickly ascertaining her weaknesses when compared to her predecessor.

“A leader today needs to know what they're good at and what they're not,” King says. “And they'd better hire people on their executive leadership team to fill in the holes.”

The edge of peril requires leaders to learn as they go. It's possible, these executives say, though Updike adds a caveat: “If you've got an organization in serious trouble, it's leadership that's brought it to where it is. To expect that leader to suddenly change is going to be difficult.”

Coming up with something different to emerge from that nosedive, the loss of a contract, or even a world catastrophe will require new or improved relationships.

Relationship building will be a leader's most important quality, Aviv believes. “It's not enough for a leader to be passionate and to care about something,” she says. “They have to demonstrate much more clearly how what they do will make a difference. There's a high expectation that CEOs will know a lot more coming in – at least at larger organizations.”

Boards ultimately will have the last word on whether an executive has met that high expectation, overcoming the future's peril, sharpening its edge into opportunity.

The reality is leadership in the 21st century offers no other option.

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