

## **Nonprofit Sustainability: Making Strategic Decisions for Financial Viability**

**Jeanne Bell, Jan Masaoka, and Steve Zimmerman**

PRA663A – LCMS and the Age of Financialization

Martin E. Lee, March 27, 2020

Many ministries focus on consensus-building or funding to assess whether the ministry is sustainable. The authors of *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability* recommend “a nonprofit’s strategy for sustainability” includes both “programmatic elements” and “financial elements.”<sup>1</sup> Where businesses typically refer to the bottom line, Zimmerman, Bell and Masaoka advise nonprofits refer to a “dual bottom line – impact and financial return.”<sup>2</sup> They assert it “is a concept involving both financial health and programmatic impact, and that leaders are constantly attending to both.”<sup>3</sup>

“An impact strategy,” they explain, “is a plan for the external effects to be sought through a particular business line” (or, for our purposes, “ministry line”) and “a revenue strategy is the means by which a particular business line is financed.”<sup>4</sup> So, for the authors, “each core activity in the business model is associated with both an impact strategy and a revenue strategy.”<sup>5</sup> “Many nonprofit leaders have an intuitive sense of these business strategies,” the authors observe, but “leaders’ intuition is often not well articulated, and so it is hard for others to participate effectively in shaping the organization’s future.”<sup>6</sup>

The authors recommend making the nonprofit business model explicit, and the first step in doing that is “identifying the organization’s core activities, or business lines.”<sup>7</sup> They observe,

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<sup>1</sup> Bell, Jeanne; Masaoka, Jan; Zimmerman, Steve; “Nonprofit Sustainability: Making Strategic Decisions for Financial Viability,” (Jossey-Bass, San Francisco, CA 94103, 2010.), 16.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

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“Core activities are represented by the groups of essentially similar products, services, and revenue-generating vehicles that make up the organization’s overall effort.”<sup>8</sup> A core activity for a typical church is the worship service. The church collects offerings in order to finance these services.

Another possible “core ministry activity” is volunteer labor. The authors describe volunteer labor as a “gray zone” regarding whether it is a business line in itself or a subcategory of other business lines, but “is a large donated resource, which, like all donations, requires staff time to solicit, acknowledge, and manage well.”<sup>9</sup> The authors suggest it may be necessary “to pull volunteer management out as its own separate business line [“ministry line”] because the volunteers are serving two purposes: not only are they delivering a core program for the organization...they also represent a broad base of support to bolster the organization’s advocacy efforts.”<sup>10</sup>

“Discussions about mission impact are often difficult” the authors note because, “There’s an implicit assumption that everything is important and that everything drives toward the mission.”<sup>11</sup> While this may be true, the authors note that some programs “have different levels of impact.”<sup>12</sup> Without wanting to criticize worthwhile programs, they observe, “it’s

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<sup>8</sup> Ibid.

<sup>9</sup> Ibid., 22.

<sup>10</sup> Ibid., 23.

<sup>11</sup> Ibid., 39.

<sup>12</sup> Ibid.

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precisely these judgments – about which are the highest-impact programs – that are used”<sup>13</sup> to decide how to steward an organization’s resources for sustainability.

The next level of analysis is financial return. Before panic breaks out over analyzing ministries according to profitability, the authors caution, “There is a natural resistance in nonprofits to describing a program as losing money, or being unprofitable. Some people assume that unprofitable programs will be eliminated, but it’s important to quash this superficial view of profitability at the beginning of any discussion related to the financial impact of a program. In fact, the very essence of the nonprofit business model is that some activities will be profitable and that others will lose money.”<sup>14</sup> The authors reassure leaders to “take both impact and profitability into account in program selection.”<sup>15</sup>

Financial return includes that uncomfortable term for many nonprofits, particularly religious nonprofits, “performance.” The authors suggest evaluating performance (again) on both bottom lines: impact and financial returns. Such performance evaluation may be considered along similar lines as the Synodical and District recommended use of performance evaluations for pastors and church workers.

When evaluating financial return, the authors recommend a goal for nonprofits is to acquire working capital to avoid disruption of their services. They suggest, “every nonprofit has to have in its portfolio some activities that generate a profit [surplus].”<sup>16</sup> They note,

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<sup>13</sup> Ibid.

<sup>14</sup> Ibid., 28.

<sup>15</sup> Ibid., 29.

<sup>16</sup> Ibid., 28.

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“something has to generate profits [surplus], both to subsidize programs that cannot break even and to build cash reserves and working capital.”

Once core activities are defined, and impact and financial return are determined, the next step is building the visual map of the organization. For example, below is a sustainability Matrix Map (see Figure 1). The authors describe the “Matrix Map” as a useful tool to provide a “compelling visual picture of an organization’s current business model.”<sup>17</sup> For our purposes, a church’s current ministry model. Profitability is on the x-axis (horizontal) and impact on the y-axis (vertical). This map provides a clear picture of the nonprofit’s “activities as well as of their relative impact and their relative financial impact/profitability.”<sup>18</sup>

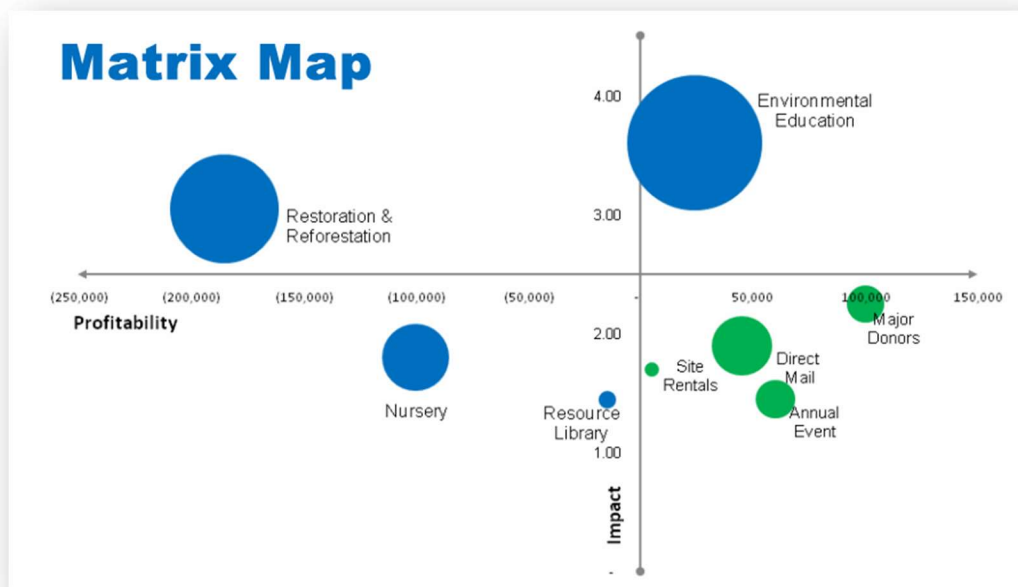


Figure 1 - Plotting ministry lines according to Impact and Profitability.

<sup>17</sup> Ibid., 17.

<sup>18</sup> Ibid., 59.

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The authors recommend integrating the Matrix Map into the nonprofit's strategic planning process. The strategic planning process involves choosing between ministries, whether to add new ones or retire ones that have served their purpose. Each quadrant of the Matrix Map has a strategic imperative: **The Star** – Invest attention and resources. Grow if possible. **The Heart** – Keep and Celebrate. Contain Costs. The **Money Tree** – Keep Watering. Increase impact. **The Stop Sign** – Close or give away (see Figure 2). The authors note, "The Matrix Map is a tool for choice making:" first, "To illustrate to board and staff members what

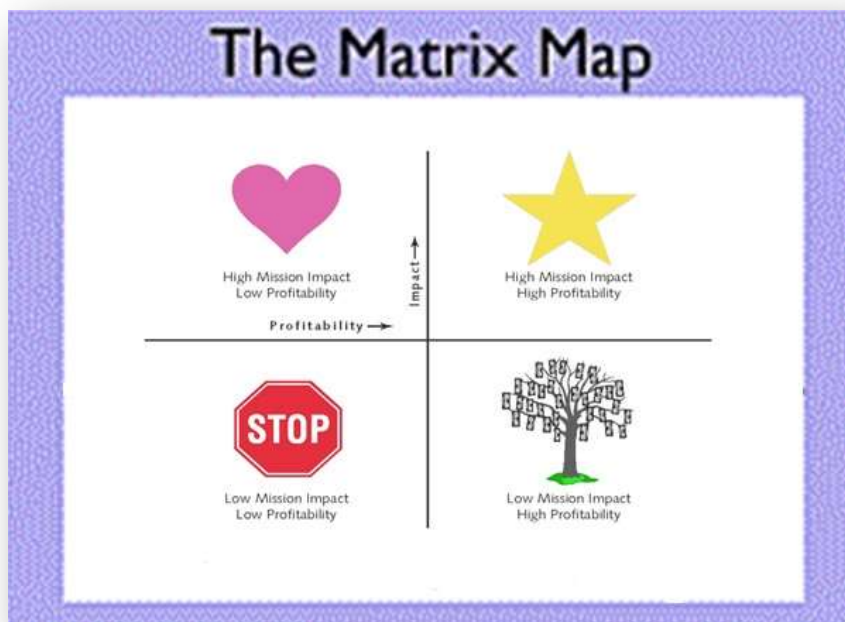


Figure 2 - Each quadrant of the Matrix Map has a strategic imperative.

the organization is already doing as the first stage in planning;" second, "To inform and focus data gathering;" third, "To prioritize among many worthy goals," fourth, "To

ensure that financial concerns are integrated into the strategic plan," and fifth, "As a reality check."<sup>19</sup>

<sup>19</sup> Ibid., 162

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The authors recommend the following steps when utilizing the Matrix Mapping tool as part of the strategic planning process: (1) Create the organization's current Matrix Map; (2) Establish the organization's vision, mission, and goals; (3) Analyze relative impact and relative profitability; (4) Gather data on the external environment to test perceptions of impact and markets; (5) Revise the Matrix Map as the strategic plan; and (6) Write up the narrative of the strategic plan.

Noting it is the responsibility of leadership to steward a nonprofit organization's resources for sustainability, the authors encourage the use of The Matrix Mapping tool to assist in the decision-making process involved in developing and updating strategic plans for both impact and financial return. They maintain, "Leadership is about effective decision making, and the Matrix Map is a powerful tool to support leaders in making sustainability-related decision."<sup>20</sup>

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<sup>20</sup> Ibid., 173.