



Achieving Excellence in Nonprofits

Q&A with: Herman B. Leonard

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Sean Silverthorne: What organizations are included in "social enterprise," and why do you define it in the way that you do?

Herman "Dutch" Leonard: We include as a "social enterprise" any organization that places a social mission at the center of its universe. In other words, the organization has as its main purpose the advancement of a set of social goals and the creation of social value.

That obviously (by law!) includes nonprofit organizations, but it can also include the so-called new social enterprises (for-profit organizations established to produce social outcomes, but using the scalability and capital access of the for-profit form of activity), the corporate social responsibility activities of a traditional for-profit business, and even governmental organizations.

There is an hypothesis embedded in this way of defining the group of organizations we are focusing on; that is, the most important and defining feature of these organizations is whether their central mission is social rather than private. We refer to them as "social-mission-driven organizations" (SMDOs). We are arguing, in effect, that SMDOs are similar to one another (even if they have different organizational forms: nonprofit, for-profit, governmental) in the managerial challenges they face and in the kinds of strategies they need to pursue in creating social value, and that they are more similar to one another in these respects than they are to other organizations of the same form that are *not* social-mission-driven.

Q: What are some of the critical issues facing nonprofit boards and their leaders today?

A: The biggest challenge is keeping focused on key goals; developing a strategy for accomplishing them; and generating a set of tactics, operations, and actions that are aligned with producing them. Fundamentally, that is the focus of our work in the Social Enterprise Initiative.

Board and executive leaders today are confronted by a confusing landscape of conflicting demands, rapidly evolving rules, and changing opportunities for finding the resources they need. This can easily lead to "mission creep"—the random accumulation of new goals and tasks as the organization follows funding (rather than its mission)—or to "mission shear"—direct and consistent pressure that pushes the organization systematically away from its mission and toward other interests.

Staying on mission and building an effective organization to carry out the mission requires a clear strategic focus and a well-developed strategy backed by well-aligned operations. This is the focus of our research and teaching in Social Enterprise. We are dedicated to the proposition that all nonprofit organizations, indeed all SMDOs, should be high-performing.

Q: Nonprofit boards must have effective relationships with their CEOs, but what role do board leaders have in fostering those relations? Where can things go wrong?

A: To borrow from Tolstoy, every happy board and executive management team is alike; every unhappy board

and executive management team is unhappy in its own special way.

In high-performing SMDOs, the board and executive management team have worked out an agreed and clear set of goals to achieve, have formulated a coherent strategy for advancing those goals, and have organized and are executing an aligned set of actions consistent with that strategy. This takes hard work, discipline, and focus on the part of the board and executive team working together to develop and maintain a coherent and consistent set of visions: a vision of what they are trying to accomplish, a vision of their role in accomplishing it, a vision of the activities and operations they will need to make progress on it. It takes strong communication between the CEO and board, and strong communication with clients, workers, and supporters.

Q: You've argued that nonprofits should write mission statements that can be relied upon as a promise to deliver specified social value. Why is this important?

A: It is important for nonprofits to be clear about what they are claiming to accomplish for two reasons.

Externally, it is useful for funders and other constituents to whom the nonprofit is accountable to understand the organization's intentions, so that they can determine in advance whether they want to offer their support, and then assess after the fact whether the organization is making progress to determine whether they want to *continue* to offer their support.

Internally, it is important so that people working within the nonprofit have a clear idea of concrete goals that the organization is saying it will achieve, because this will help them figure out what actions to take, motivate them to make greater effort, and encourage them to find new approaches. It will also allow them to determine which actions they are now taking (or might take) that are not aligned with achieving these goals. The greater the clarity about key goals, the higher the likelihood that the actions we are taking are going to be highly productive, efficient, and on target—and the higher the likelihood that we will be able to learn, over time, how to do better.

Q: We are headed for some economic turmoil that could affect nonprofits in any number of ways. What should nonprofit boards be doing to prepare?

A: You can't really prepare for turmoil, you just have to adapt to it. This is a tumultuous time, but all times are pretty tumultuous, just in different ways. Nonprofits are always embedded in an environment of rapidly evolving challenges and opportunities. So they *always* need to be adaptive. First and foremost, this means that they need to maintain "situational awareness"—a grasp of the key elements of their environment. Second, it means that they need to rethink their approaches—severing themselves from things that used to work, inventing things that will work now. Third, they have to implement change—constantly.

So today's tumultuous world may be a bit more tumultuous than usual, but what nonprofits need to do is what they always need to do: learn and adapt.

Q: The issue of financial oversight for nonprofits seems to be facing increasing regulatory (Sarbanes-Oxley-like) and media attention. Are the responsibilities for nonprofit boards evolving in this area?

A: Yes, they are, and that is not necessarily a good thing. Financial accountability is an important characteristic of high-performing nonprofits, to be sure. But an undue focus on narrowly defined financial accountability can lead to a lot of extra cost (most of it captured as revenue by outside audit firms) without providing much or sometimes any guidance about how to improve actual mission performance.

I'd like to see a renewed focus on mission performance rather than on financial performance, which in the end is only one small part of the overall picture. Of course, it is an easy part of the picture to measure, and this is one more reason why it is important for organizations to develop clear and measurable outcome goals and commit to them. If outcome goals are not clear, the pressure for accountability will translate into a conversation about the financial indicators. But if we can clarify mission outcomes, we can shift the accountability discussion to


being about what we have accomplished, about what social value was created in return for the time and treasure invested. *That* conversation will help us move the ball down the field.

Q: In December you will teach *Governing for Nonprofit Excellence* in the Executive Education program. How would GNE have been different for its participants five years ago, and do you think it will be significantly different if taught five years from now?

A: The core themes—the basic questions—haven't changed, and they won't. The fundamental issues are durable: understanding the environment, choosing a few key goals to focus on, building a strategy, and ensuring effective execution. But the environment that organizations are adapting to live successfully within is evolving, and therefore there are major changes under way in the answers organizations are giving.

Funding continues to evolve, with the rise of venture philanthropy, shifts in the availability of government funds, and many other currents flowing. Funding relationships are being altered as foundations and government funders insist on greater focus on results. And there is more attention today than there was five years ago on building broader coalitions—"networked organizations"—that can work in a coordinated way to achieve system-level changes like the alleviation of poverty that individual organizations cannot address on their own.

I suspect we will see these trends continue—additional emphasis on specifying goals and achievement, more creative networked forms of organization and activity, and more attention to working on systemic challenges. This will force us, together with the high-performing organizations we work with and study, to develop new tools for guiding and enhancing performance in a systems context.

We look forward to the learning—theirs and ours—that this will create and to teaching about what we've learned in the GNE of five years from now. 

About the author

Sean Silverthorne is the editor of *HBS Working Knowledge*.

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