

J E A N N E B E L L  
J A N M A S A O K A  
S T E V E Z I M M E R M A N

# NONPROFIT SUSTAINABILITY

MATRIX MAP  
ANALYSIS

DECISION MAKING

THE SUSTAINABLE NONPROFIT  
BUSINESS MODEL

## Making Strategic Decisions FOR Financial Viability

“Wisdom, experience, and know-how. Buy, read, and learn from this terrific book!”

—CLARA MILLER, president and CEO, Nonprofit Finance Fund



“As a former CFO, now an executive leader of a large nonprofit, I found that this makes for a great read to recalibrate my thinking and find greater balance between mission impact and financial return. We, as leaders of social change organizations, are driven by our heart and passion—this book allows for thoughtful and deliberate analysis to evaluate and develop a business model that propels our mission and strengthens our organization while never compromising our philosophies. Executive directors and their board leadership will find this book invaluable—a remarkable resource in assessing and planning their nonprofit’s future success.”

—**Gloria Aguilera Terry**, president, Texas Council on Family Violence

“At last! An urgently needed framework to prepare leaders to meet head-on the persistent twin challenges of impact and sustainability. This is a practical tool based on good business principles that can bring boards and staff members together to lead their organizations to sustainable futures.”

—**Nora Silver**, adjunct professor and director, Center for Nonprofit and Public Leadership, Haas School of Business, University of California, Berkeley

“Up until a few years ago, funding and managing a nonprofit was a bit like undertaking an ocean voyage. You plotted your course, loaded provisions, and set sail. Now, it’s akin to windsurfing—you must be nimble, prepared to maximize even the slightest breeze, and open to modifying your course at a moment’s notice. Innovative executive directors or bold board members who want their organization to be able to ride the big waves of the new American economy must read this book.”

—**Robert L. E. Egger**, president, DC Central Kitchen/Campus Kitchens Project/V3 Campaign

“This book should stay within easy reaching distance and end up completely dog-eared because it walks the reader through a practical but sometimes revelatory process of choosing the right mix of programs for mission impact and financial sustainability. I have used this matrix ever since CompassPoint first published on it and believe, especially considering changing conditions, that its use is a practice in which every nonprofit should engage its board once a year.”

—**Ruth McCambridge**, editor in chief, *The Nonprofit Quarterly*:  
*Promoting Spirited Nonprofit Management*

“Together, Jeanne Bell, Jan Masaoka, and Steve Zimmerman equal wisdom, experience, and know-how on sustainability and lots of other things. Buy, read, and learn from this terrific book!”

—**Clara Miller**, president and CEO, Nonprofit Finance Fund

“This is much more than a financial how-to book. It’s a nonprofit’s guide to empowerment. It demystifies mission impact and financial viability using The Matrix Map to provide strategic options for any organization. A must-read for every nonprofit CEO, CFO, and board member.”

—**Julia A. McClendon**, chief executive officer, YWCA Elgin, Illinois

“Most nonprofits struggle to find a long-term sustainable business model that will enable them to deliver impact on their mission. Thanks to Jeanne Bell, Jan Masaoka, and Steve Zimmerman, help is now in sight. This book offers practical, concrete steps you can take to develop your own unique path to sustainability without compromising your mission.”

—**Heather McLeod Grant**, consultant, Monitor Institute, and author, *Forces for Good: The Six Practices of High-Impact Nonprofits*

## Nonprofit Sustainability

Join Us at  
**Josseybass.com**



**JOSSEY-BASS™**  
An Imprint of  
 **WILEY**

Register at **[www.josseybass.com/email](http://www.josseybass.com/email)**  
for more information on our publications,  
authors, and to receive special offers.

# Nonprofit Sustainability

**MAKING STRATEGIC  
DECISIONS FOR  
FINANCIAL VIABILITY**

Jeanne Bell  
Jan Masaoka  
Steve Zimmerman

 **JOSSEY-BASS**  
A Wiley Imprint  
[www.josseybass.com](http://www.josseybass.com)

Copyright © 2010 by Jan Masaoka, CompassPoint Nonprofit Services, and Spectrum Nonprofit Services, LLC. All rights reserved.

Published by Jossey-Bass  
A Wiley Imprint  
989 Market Street, San Francisco, CA 94103-1741—www.josseybass.com

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400, fax 978-646-8600, or on the Web at [www.copyright.com](http://www.copyright.com). Requests to the publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, 201-748-6011, fax 201-748-6008, or online at [www.wiley.com/go/permissions](http://www.wiley.com/go/permissions).

Readers should be aware that Internet Web sites offered as citations and/or sources for further information may have changed or disappeared between the time this was written and when it is read.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Jossey-Bass books and products are available through most bookstores. To contact Jossey-Bass directly call our Customer Care Department within the U.S. at 800-956-7739, outside the U.S. at 317-572-3986, or fax 317-572-4002.

Jossey-Bass also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

#### **Library of Congress Cataloging-in-Publication Data**

Bell, Jeanne, date.

Nonprofit sustainability: making strategic decisions for financial viability/Jeanne Bell, Jan Masaoka, Steve Zimmerman.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-470-59829-0 (pbk.)

1. Nonprofit organizations—Finance. 2. Nonprofit organizations—Management. I. Masaoka, Jan. II. Zimmerman, Steve, date. III. Title.

HD62.6.B45 2010

658.4'012—dc22

2010026640

Printed in the United States of America

FIRST EDITION

*PB Printing* 10 9 8 7 6 5 4 3 2 1



# CONTENTS

|   |           |
|---|-----------|
| Tables, Figures, and Exhibits                                     | vii       |
| The Authors   | xi        |
| <br>  |           |
| <b>Part One Introduction to Key Concepts</b>                      | <b>1</b>  |
| 1 Who Will Find This Book Useful, and How?                        | 3         |
| 2 Two Aspects of Sustainability                                   | 11        |
| <br>  |           |
| <b>Part Two Mapping Your Business Model:<br/>The Matrix Map</b>   | <b>17</b> |
| 3 Identifying Core Activities: Business Lines                     | 19        |
| 4 Determining Profitability                                       | 27        |
| 5 Determining Relative Impact                                     | 39        |
| 6 Mapping the Matrix  | 55        |
| <br>  |           |
| <b>Part Three Making Choices to Adjust the<br/>Business Model</b> | <b>73</b> |
| 7 The Strategic Imperatives                                       | 75        |
| 8 Toward the New Business Model                                   | 97        |
| 9 The Morphing Map  | 113       |

|   |            |
|---|------------|
| <b>Part Four The Business Logic of Nonprofit<br/>Income Types</b> | <b>127</b> |
| 10 A Look at the Business Logic of Types of Donations             | 129        |
| 11 Earned-Income Business Lines                                   | 151        |
| <br>  |            |
| <b>Part Five Ongoing Decision Making and<br/>Leadership</b>       | <b>159</b> |
| 12 The Matrix Map and Strategic Planning                          | 161        |
| 13 Decision Making and Leadership                                 | 169        |
| <br>  |            |
| Concluding Words  | 175        |
| Additional Resources  | 177        |
| Acknowledgments   | 181        |
| Index   | 183        |

## **TABLES, FIGURES, AND EXHIBITS**

### **TABLES**

|            |   |     |
|------------|---|-----|
| Table 3.1  | Business Lines of Three Nonprofits  | 21  |
| Table 3.2  | Impact and Revenue Strategies at Tempest Theater                                  | 24  |
| Table 4.1  | Determination of Full Costs, Everest Environmentalists                            | 32  |
| Table 4.2  | Assignment of Revenue by Business Lines, Everest Environmentalists                | 37  |
| Table 4.3  | Determination of Profitability, Everest Environmentalists                         | 38  |
| Table 5.1  | Impact Ratings, Tempest Theater   | 47  |
| Table 5.2  | Profitability and Impact Scoring, Everest Environmentalists                       | 51  |
| Table 8.1  | Strategic Imperatives for Everest Environmentalists                               | 98  |
| Table 8.2  | Everest Environmentalists: Decisions Made on the Basis of Strategic Imperatives   | 101 |
| Table 8.3  | Midtown Multiservice Center: Decisions Made on the Basis of Strategic Imperatives | 104 |
| Table 8.4  | Tempest Theater: Decisions Made on the Basis of Strategic Imperatives             | 105 |
| Table 11.1 | Funding Through Government Contracts  | 155 |
| Table 11.2 | Funding Through a Mix of Direct Payers and Government Contracts                   | 156 |
| Table 11.3 | Funding Through a Mix of Direct Payers and Fundraising                            | 157 |
| Table 11.4 | Funding Through a Mix of Direct Payers and Volunteer Efforts                      | 157 |

## FIGURES

|             |  |     |
|-------------|--|-----|
| Figure 3.1  | Dual Bottom Line: Mission Impact and Financial Sustainability                | 25  |
| Figure 6.1  | The Profitability Axis   | 56  |
| Figure 6.2  | Three Programs Along the Profitability Axis                                  | 56  |
| Figure 6.3  | The Impact Axis  | 57  |
| Figure 6.4  | Three Break-Even Programs with Different Impact Levels                       | 57  |
| Figure 6.5  | Impact/Profitability Quadrants   | 58  |
| Figure 6.6  | Scale Numbers Added to Matrix Map Axes                                       | 58  |
| Figure 6.7  | Initial Matrix Map for Tempest Theater                                       | 59  |
| Figure 6.8  | Matrix Map for Tempest Theater with Shaded Circles                           | 59  |
| Figure 6.9  | Completed Matrix Map for Tempest Theater                                     | 60  |
| Figure 6.10 | Matrix Map for Large Human Services Organization                             | 61  |
| Figure 6.11 | Matrix Map for Midtown Multiservice Center                                   | 64  |
| Figure 6.12 | Matrix Map for Everest Environmentalists                                     | 67  |
| Figure 6.13 | Matrix Map with Cluster of Activities  | 69  |
| Figure 6.14 | Matrix Map Magnified   | 70  |
| Figure 7.1  | Matrix Map for Midtown Multiservice Center                                   | 78  |
| Figure 7.2  | The Star: High Impact, High Profitability                                    | 78  |
| Figure 7.3  | Strategic Imperative for Stars: Invest and Grow                              | 79  |
| Figure 7.4  | Matrix Map for Everest Environmentalists                                     | 81  |
| Figure 7.5  | The Stop Sign: Low Impact, Low Profitability                                 | 82  |
| Figure 7.6  | Strategic Imperative for Stop Signs: Close or Give Away                      | 83  |
| Figure 7.7  | The Heart: High Impact, Low Profitability                                    | 86  |
| Figure 7.8  | Strategic Imperative for Hearts: Keep, but Contain Costs                     | 87  |
| Figure 7.9  | The Money Tree: Low Impact, High Profitability                               | 89  |
| Figure 7.10 | Strategic Imperative for Money Trees: Water, Harvest,<br>and Increase Impact | 90  |
| Figure 7.11 | Strategic Imperatives: The Adjustments Demanded<br>for Sustainability        | 93  |
| Figure 8.1  | Matrix Map for Everest Environmentalists                                     | 98  |
| Figure 8.2  | Matrix Map for Midtown Multiservice Center                                   | 103 |
| Figure 8.3  | Matrix Map for Tempest Theater   | 105 |
| Figure 9.1  | Stars Drift to Become Hearts   | 114 |
| Figure 9.2  | Program Migration and Corrective Action                                      | 116 |
| Figure 9.3  | From Star to Heart to Stop Sign  | 117 |

|             |   |     |
|-------------|---|-----|
| Figure 9.4  | A Program Migrates over Time from Star to Stop Sign   | 118 |
| Figure 9.5  | Matrix Map for a Domestic Abuse Prevention Center with Administrative Costs Fully Allocated to Programs   | 120 |
| Figure 9.6  | Matrix Map for a Domestic Abuse Prevention Center with Administrative Costs Broken Out as a Separate Item | 121 |
| Figure 9.7  | Matrix Map for Midtown Multiservice Center  | 122 |
| Figure 9.8  | Organization A Before Merger  | 124 |
| Figure 9.9  | Organization B Before Merger  | 124 |
| Figure 9.10 | Projected Matrix Map for Two Merged Organizations   | 126 |
| Figure 10.1 | In-Kind Donations on the Matrix Map   | 148 |
| Figure 11.1 | Business Models for Five Preschools   | 152 |
| Figure 11.2 | Sliding Scale Programs Can Span the Matrix Map  | 154 |
| Figure 13.1 | From Implementation Focus to Execution and Decision Making  | 171 |

## EXHIBITS

|              |   |     |
|--------------|---|-----|
| Exhibit 1.1  | Notes to Different Types of Readers   | 6   |
| Exhibit 2.1  | Nonprofits and Community  | 15  |
| Exhibit 4.1  | Income Statement for Everest Environmentalists, Year Ending December 31, 2009 | 29  |
| Exhibit 4.2  | Considerations for the Finance Staff  | 33  |
| Exhibit 5.1  | Impact Scoring Sheet, Everest Environmentalists                               | 49  |
| Exhibit 5.2  | Impact Assessment with Compiled Scoring, Everest Environmentalists            | 50  |
| Exhibit 6.1  | Sample Business Model Statements  | 65  |
| Exhibit 7.1  | Closing a Program: Impact on Common and Administrative Costs                  | 84  |
| Exhibit 12.1 | A Strategic Planning Process That Uses the Matrix Map                         | 163 |

One of the most profound questions a nonprofit can ask itself is “Who is our constituency, and what does it need our organization to be?”

This book is dedicated with heartfelt gratitude and admiration to all the people in nonprofits who ask this question, and who know that financial sustainability must be accounted for in the answer.

## THE AUTHORS



**Jeanne Bell** is CEO of CompassPoint Nonprofit Services ([www.compasspoint.org](http://www.compasspoint.org)), one of the country's leading providers of training and consulting services to nonprofit organizations, based in the San Francisco Bay Area with a national practice. Jeanne is a nationally respected consultant, researcher, and speaker on nonprofit finance, strategy, and executive leadership matters. She is coauthor of *Financial Leadership for Nonprofit Executives*, and her other research includes *Daring to Lead: A National Study of Nonprofit Executive Leadership*, *San Francisco's Nonprofit Sector*, and *Securing the Safety Net: A Profile of Community Clinic and Health Center Leadership in California*. Jeanne is board chair of the national Alliance for Nonprofit Management and serves as a board member for the Nonprofits' Insurance Alliance of California and Intersection for the Arts. She has an M. A. degree in nonprofit administration from the University of San Francisco, is co-founder of the Finance Professionals Network, and is a frequent contributor to nonprofit journals.



**Jan Masaoka** is director and editor in chief of *Blue Avocado*, an online magazine for nonprofits that has sixty thousand subscribers ([www.blueavocado.org](http://www.blueavocado.org)). She served as executive director of CompassPoint Nonprofit Services for fourteen years, in which position she was named Nonprofit Executive of the Year by the *Nonprofit Times* in 2003. Jan is an eight-time designee as one of the national nonprofit sector's fifty most influential people, and in 2005 she was named California Community Leader of the Year by Leadership California. She is the author of *The Best of the Board Café* and *All Hands on Board: The Board of Directors in All-Volunteer Organizations*. Her research includes studies on nonprofit leadership, women executive directors of color, all-volunteer organizations, and the nonprofit workforce. She lives in San Francisco, speaks frequently on nonprofit-sector issues, and is a frequent contributor to nonprofit journals.



**Steve Zimmerman** is principal at Spectrum Nonprofit Services ([www.spectrumnonprofit.com](http://www.spectrumnonprofit.com)) in Milwaukee, where he provides consulting to community-based organizations in the areas of finance and strategy and works with staff and boards to better understand and strengthen their business models. Steve also speaks frequently and conducts trainings nationally on these subjects. Prior to starting Spectrum, Steve was a projects director with CompassPoint Nonprofit Services, where, in addition to training, he consulted on management issues to organizations whose revenues ranged from \$250,000 to more than \$20 million. He has also served as chief financial officer, development director, and associate director at other nonprofits. In addition to being a certified public accountant, Steve has a B.A. degree from Claremont McKenna College and an M.A. degree in business administration from Yale University.



## Nonprofit Sustainability



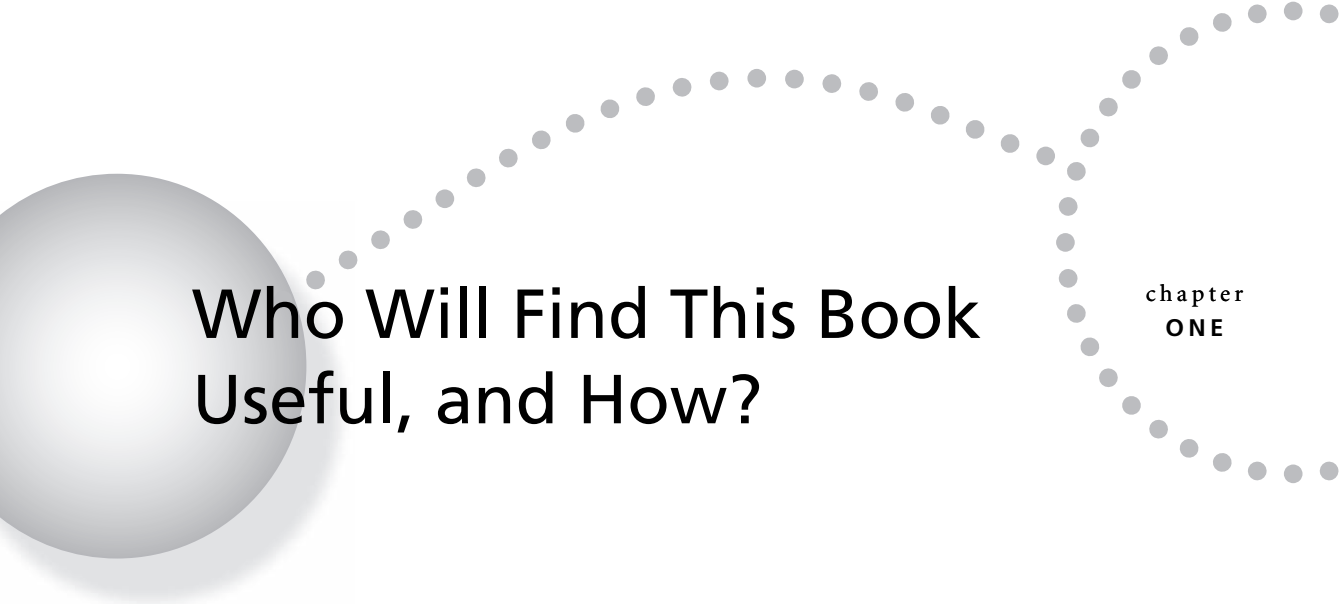


## **PART ONE**

# Introduction to Key Concepts

In Part One of the book, we explore the key concepts of sustainability, decision making, and strategies for nonprofit organizations. Chapter One offers an overview of what is covered in the book, describes how the topics are organized, and discusses how different audiences may use the book in different ways. Chapter Two introduces you to the three fictitious organizations that are used throughout the book to illustrate a variety of business model concepts.





# Who Will Find This Book Useful, and How?

chapter  
ONE

**T**his book is about sustaining financial health and mission impact over time. Today, nonprofit leaders are deeply challenged by an array of complex, changing, urgent pressures that demand faster, smarter decisions than ever before. Success cannot be driven—or measured—by long-term, detailed plans and by whether those plans were carried out as written. Instead, community nonprofits sail in stormy seas where changing conditions mean a new route must be plotted every day. And on board these tossing ships is precious cargo: the lives of people in our communities, and the spirits and hearts of communities themselves.

For nonprofits, financial sustainability and programmatic sustainability cannot be separated. It's not enough to have a high-impact program if there's no effective strategy for sustaining the organization financially. And neither is it enough to be financially stable: we build our organizations for *impact*, not for financial stability.

Yet surprisingly, in the nonprofit sector financial information and information about mission impact are seldom discussed in an integrated way. Instead, financial reports and analysis rarely include data about what impacts have been driven by a particular financial activity. Moreover, program evaluations and progress reports are discussed out of context with funding streams, profitability, and financial sustainability.