THE RULE OF THREE

By Michael P. Dombeck and Francis P. Pandolfi

> "Each year, about $300 billion in philanthropic giving is distributed to about 1.1 million organizations in the United States (including religious organizations). While these organizations address some of the most challenging issues of our time and provide essential services to those in need, there is no way to gauge if resources are going to the highest performers.
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> "The nonprofit market lacks the robust flow of timely, accurate information that is a hallmark of high-performing markets."
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> *The Nonprofit Marketplace: Bridging the Information Gap in Philanthropy*, The William and Flora Hewlett Foundation, McKinsey & Company, 2009. www.givingmarketplaces.org

Why is it that nonprofit organizations ("NGOs"), particularly small ones, have such a hard time proving their effectiveness, and what can be done about this problem? In the years ahead, it will become increasingly important to understand in more quantitative terms how much an NGO is achieving. There is much that can be learned from the private sector providing that any useful concepts adapted do not conflict with the culture of the NGO.

The majority of the 1.1 million NGOs referred to above -- 501 (c) (3) organizations that file IRS form 990 -- are small organizations with annual budgets ranging from just a few tens of thousands of dollars to a few million dollars. In these organizations passion exists in abundance but analytical skills often do not. Thus there is frequently little appreciation for the need to calculate Return on Investment ("ROI") and even less ability actually to do so. Yet, as Hewlett and McKinsey say, it is important to know who the "highest performers" are. And every day as economic conditions continue to implode, that importance grows. Fewer resources must fund growing numbers of NGOs, and simple arithmetic tells us that the dollars available per NGO are going down quickly.

There are three main factors that have the greatest impact on the success of NGO's, particularly the smaller ones. This is the Rule of Three:

1. ***SIMPLICITY*** - Complexity is the enemy. Keep things simple.

2. ***FOCUS*** - Establish focus and priorities.

3. ***MEASUREMENT*** - Base the organization's actions on maximizing measurable results.

SIMPLICITY AND FOCUS

We know that there is a wide cultural divide between the private sector and NGOs at a very fundamental level:

> Private sector organizations are **profit** driven.
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> NGOs are **mission** driven.

Building a business when the available data is quantitative is a process that can be easily tracked and evaluated. This is the case in the private sector. Where it is possible to demonstrate success, such as increasing sales and profitability, investment capital is obtainable and the business can be grown to an even larger and more profitable size. At the same time, the management team that is responsible for the company's progress is rewarded with bonuses of cash or stock options to incentivize them to continue to grow sales and profits.

On the other hand, an NGO seldom has quantitative data to demonstrate its success. While it may point to contribution levels and the ability to balance its budget, that is not why it exists. It exists to achieve its mission and its management team is not incentivized to grow it beyond feeling that the passion to achieve the mission has been rewarded. But if it can demonstrate increasing success, it will attract more contributions and grants, the NGO's equivalent of investment capital.

The mission of an NGO is likely to focus on changing the behavior of a certain constituency. For example, the Nature Conservancy tries to teach people the benefits of protecting and preserving land and the plants and animals that represent the diversity of life on earth. The Red Cross demonstrates the need for responding to emergencies so that it can develop a supportive base of constituents who will provide the funds to allow it to achieve its mission of aiding people in distress.

If, then, we look at the private sector and see all that it does to understand the drivers of profitability, to create budgets to allow it to manage its business thoughtfully, to monitor sales and profits and so on, we must ask the question of whether or not an NGO shouldn't put just as much effort into creating and monitoring its mission. A well-constructed and well-understood mission should enable an NGO to achieve success just as readily as a private-sector enterprise using profit for the same purpose.

The creation of a mission, if done properly, will create the simplicity and focus that a smaller NGO needs to survive and prosper – and prosperity in this case means achieving that very mission on a better and better basis each year. Without simplicity and focus, a small NGO may well flounder.

So when we talk about a "mission," what do we really mean? Missions, goals, visions, agendas, objectives, aims, values – in how many ways can you possibly describe where your organization is headed in the future? A group of people asked to define any of these "planning" words, "mission" in particular, would likely come up with as many definitions as there are people. What we are looking for in a mission is an action tool, not a slogan. We want something that is easy to articulate and understand, that is competitively distinct and compelling. In other words, what we want is a clear description of where an organization is headed in the future which distinctly sets it apart from other entities and makes a compelling case for the need it fills.

The term that best describes this effort is a "Statement of Purpose." The Statement of Purpose, created according to a formula, is well described in *The Business of the Conservation Nonprofit* (Michael Dombeck and Francis Pandolfi, published by Social Enterprise Strategies Group, 2008). It has four components: a description of the actions of the NGO, the target upon whom or which the actions are focused, the measurable results that are important and the vision of the organization. When developed with care, the Statement of Purpose will be only 25 to 30 words long (you are more likely to achieve what you can remember). To achieve something meaningful which is that short, the creators are forced to build a Statement that is simple and focused. This is not an easy process and cannot be completed in a couple of hours any more than a budget designed to achieve profitability can be created in a few hours. But it is quite possible!

MEASUREMENT

> "If you can't measure it, you can't manage it."
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> R. Giuliani
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> "What organizations measure, they get; what they fail to measure, they sacrifice to produce the effects they do measure. It is crucially important, then, that organizations measure the things that really matter."
>
> M.H. Moore

Trying to decide what to measure to clearly demonstrate success when you do not have the quantitative measures of sales and profits is a challenge. But there's a question you can ask that you may find helpful: What will make you happy about your work in five years?

Is it possible to measure the change over time in whatever factors will make you happy? Typically these are not easy things to measure and they are called "outcomes" by comparison to "outputs" which are much easier to measure. Some of the differences between outcomes and outputs are these:

OUTPUTS	OUTCOMES
Short term	**Long term**
Lots of measures	**Few measures**
Easy to measure	**Hard to measure**
Highly specific	**Non specific**
Data points	**Trends**
Easy to understand	**Hard to understand**
A means to an end	**An ultimate result**
A direct measure of $ spent	**A measure of true progress**
Immediate result of spending $	**Hard to correlate with $ spent**
Function of a single input	**Function of multiple inputs**

As an example of the difference between an output and an outcome, let's look at the National Environmental Education Foundation, which provides knowledge to professionals such as pediatricians, who, in turn, educate their patients about the environmental causes of asthma. In this case the measurable outputs might include the number of pediatricians reached by the Foundation and/or the number of patients seen by these pediatricians. But the outcome is much different: it is the change in behavior of the children who have seen the pediatricians thus resulting in fewer cases of asthma.

When choosing measures, keep in mind that measuring things is seldom free; and so measures must be few in number.

Before completing thoughts on measures, note that the regular financial reporting of NGOs frequently leaves a lot to be desired. Monthly financial data seldom are displayed in a fashion that permits effective decision making. This may start with a poorly prepared budget and be followed by an information layout that does not highlight the most important factors but rather tosses them in with a large number of less important numbers. Some professional help might be called for here; but it is important to get this right.

FINAL THOUGHTS

How do we assure that NGOs follow the Rule of Three? Boards of NGOs should make certain that it is followed; but this will not always be the case. Board members, because they may not have the time or the experience do not regularly insist on applying this discipline. But those who do will certainly create more effective NGOs. It is also up to the NGO's managers to see to it that the Rule of Three is followed. One clear benefit of such discipline is that the resources of the organization will stretch farther; and, these days, any organization that can make one dollar do the work of two will have a definite competitive advantage.

Following the Rule of Three will help to achieve the Statement of Purpose and the passion that the managers and Board members have for their endeavor will be rewarded.

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