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Getting to "No"

For further information:
Curt Bailey, San Francisco: curt.bailey@booz.com
Karla Martin, San Francisco: karla.martin@booz.com
Booz & Company

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Getting to "No"

How nonprofit organizations can stretch their limited resources by focusing on priorities and avoiding mission creep.

by Curt Bailey and Karla Martin

Nongovernmental organizations (NGOs) are threatened by their own collective success. They have become the helpers of first resort for communities in trouble — communities dealing with the aftermath of a military or terrorist attack, recovering from an environmental disaster, or facing a pandemic or medical crisis. The number of nonprofit organizations and the total funds they disburse has risen dramatically during the past two decades, and some experts predict far more extensive increases to come. This trend has been driven by highly visible donors such as Bill Gates and Warren Buffett, the deep-pocketed baby boom generation as it enters its mature years, and the new fund-raising capabilities of the Internet. By meeting so many needs so well and mobilizing money so effectively, these organizations are gaining in prominence and political influence. Yet, with the U.S. government cutting back emergency funding even as the demand for emergency services continues to climb, NGOs now face the riskiest decade in their history.

This isn't hyperbole: A survey of major U.S. nonprofits conducted by Johns Hopkins University in 2004 found that nearly 90 percent were experiencing some degree of fiscal distress, with 51 percent describing their distress as "severe." Although the study blamed their financial problems on government budget cuts and the rising cost of employee benefits, the deeper cause is complexity.

Because the mission of most nonprofit organizations, no matter how well-defined, must be interpreted afresh in the face of every new catastrophe or demand for help, the leaders of these organizations can't avoid asking *Whom will we help?* The answer is never obvious, but the more complicated events become, the more the demand for help seems unlimited.

One easy answer, and the most natural response in some ways, is to help *everybody*. Many large nonprofits, especially as they grow, have a humane and healthy tendency to try to be all-embracing. Often led by an energetic and empathetic executive team eager to take on new missions, new constituencies, and new funding streams, the reach of a large nonprofit organization can easily extend itself into many new areas of activity.

Unfortunately, as noble as this tendency toward "mission creep" might seem in the beginning, it can lead to counterproductive and even cruel results. The first stresses typically occur internally. Decisions to start new programs are made haphazardly. In an aid organization, for instance, the head office may make new commitments without first gaining an understanding of how much their expenses will contribute to total operational costs. Or field officers may act on their own initiative, not realizing

Curt Bailey
(bailey_curt@bah.com) is a principal with Booz Allen Hamilton in San Francisco. His expertise lies in defining and implementing operations strategies for manufacturing and service industries, with extensive experience in building operations capabilities for aerospace manufacturers, telecommunications companies, health insurers, financial institutions, and other producers of highly engineered products and services.

Karla Martin
(martin_karla@bah.com) is a principal with Booz Allen Hamilton in San Francisco. Her work focuses on the role of organization in driving growth and reducing complexity.

that their actions have consequences for the organization as a whole, beyond the local communities they serve.

As this haphazard evolution continues, the organizations grow increasingly unwieldy. Frontline managers begin to see the head office not as a source of support, but as a bureaucracy that issues endless and often conflicting directives, which they must work around and even ignore to get something accomplished. Ultimately, the "clients" — people served by the organization — start to notice a decline in the quality of help, and in responsiveness. Complaints drift back to the donors, who may add overseers and rules ("strings") to ensure that their gifts don't vanish into administrative overhead. This move exacerbates the organizational complexities, and thus further weakens an organization's ability to fulfill its mission.

One of the world's largest global relief and development organizations fell into this pattern several years ago. The organization was structured to give field offices independence in pursuing development projects, as long as those offices raised their funding — even in sectors where the organization lacked the scale and coordination to have an impact commensurate with the resources it was expending. As a result, field offices favored their pet projects; some solicited money for projects that they were not capable of completing. The organization had to return grant money after failing to deliver on an infrastructure project; in another instance, it was forced to withdraw from two countries because it could not align fund raising with the overall development aspirations.

Mission Creep and Customization

The problem of weakened NGOs is not just an organizational issue; it affects the broader social mission as well. On the one hand, NGOs are coping by picking their targets. The $29.2 billion Bill & Melinda Gates Foundation, for instance, focuses on just two goals: raising the U.S. high school graduation rate and finding better ways to fight the diseases that disproportionately afflict poor countries. But because social problems do not stand still, even the most ruthlessly focused organizations will have to find ways to deal with mission creep. Inevitably, these problems grow more complex, and a strategy of picking targets is not, in itself, enough.

Hence the value of customization. In recent years, a number of leading for-profit companies have seen the need to make trade-offs as they expand, distinguishing between the new products and services that genuinely add value for customers, and those that merely add more complexity and cost. This approach, developed at (and trademarked by) Booz Allen Hamilton, is known as "Smart Customization," and we have seen it implemented firsthand in companies ranging from airplane manufacturers to consumer products retailers. Early work with NGOs shows that it could also make a difference in the nonprofit world.

At heart, Smart Customization is based on a simple principle: In any complex set of processes and programs, some are universally applicable while others are good fits with either a particular group of customers or a particular local circumstance. When you scale up and standardize the universal while keeping the particular as customized as possible, you combine immense cost advantage with the resilience and flexibility of a custom operation. In a nonprofit, this principle translates into an unconventional kind of project development: designing programs to operate in similar ways across a variety of locations. The goal is to separate those elements that are always needed (such as food in a relief operation) from those that change depending on the environment (such as security needs in a war zone versus those in a peaceful region). This kind of planning for scale reveals where economies of scale are possible — for instance, in creating a single e-mail server for the entire organization, or a single back-office operation for donor-payment processing — without sacrificing the ability to meet the needs of particular locales or groups.

Creating such modular program designs also helps each operational unit benefit from the knowledge gained from similar experiences in other places. Without modular architecture, each project is unique and carries a high probability of costly duplication. Some local managers might argue that a standardized organizational infrastructure would limit innovation, but the converse is more often the case: A lack of fixed architecture means that the organization spends more time and money building the same services and then running into the same problems over and over again, perpetually reinventing the wheel and falling into the same potholes.

Smart Customization can also help project leaders achieve a greater understanding of the overall cost of a given kind of operation. Most typical project costs depend on factors that are already determined before the project starts. For example, the costs associated with property leases, equipment leases, and most local staffing can be known long before the doors of any new facility open. These numbers are easier to gather and keep when the processes involved are standardized; cost-to-serve numbers can simplify budgeting and reassure donors that the organization knows its business in detail.

The Smart Customization principle could also be helpful in fund raising. In many nonprofits, development staff often struggle to reach an ever-widening circle of potential donors with surprisingly little analysis about which groups they can pursue profitably and how they should go about it. Frequently, the result is a collection of unrelated tactics that rely on instinct. Instead, foundation and nonprofit leaders do better with a more differentiated approach: First, calibrate the cost to reach and cultivate a given prospective donor against the anticipated yield. Second, separate those parts of donor service that can be standardized, and design a more centralized or common approach to them (for example, some nonprofits have begun to outsource their accounting and tax functions). Only then should nonprofits devote some thought to the aspects of relationship-building that cannot be standardized. The goal is to use both standardized processes and in-depth awareness of donors and potential donors to build the capability to ask for the right amount of money from the right target at the right time.

Beyond mobilizing an organization to do the right thing, Smart Customization gives the organization the discipline to avoid certain traps. In the realm of business, it has helped many companies stick to what they do best. In the nonprofit world, it is beginning to help executives see when a request by a deep-pocketed philanthropist or nongovernmental organization to take on a new project that doesn't quite align with the organization's mission should be turned down. Ultimately, Smart Customization is a tool that can help any complex organization learn when it's necessary to say no. +

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