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Don’t Just Survive – Thrive!

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About the Research

The survey was conducted in October through December, 2009.

Sample was balanced according to the denominational distribution of Protestant churches across the 48 continental states.

Sample size was 1,114 pastors and church leaders.

Source: Economic Outlook Survey, June 2009, Christian Leadership Alliance

Surviving vs. Thriving – Where are We?

According to the Economic Outlook Survey pastors and church leaders described their finances over the last two months as:

stable	62%
getting better	21%
worsening	17%

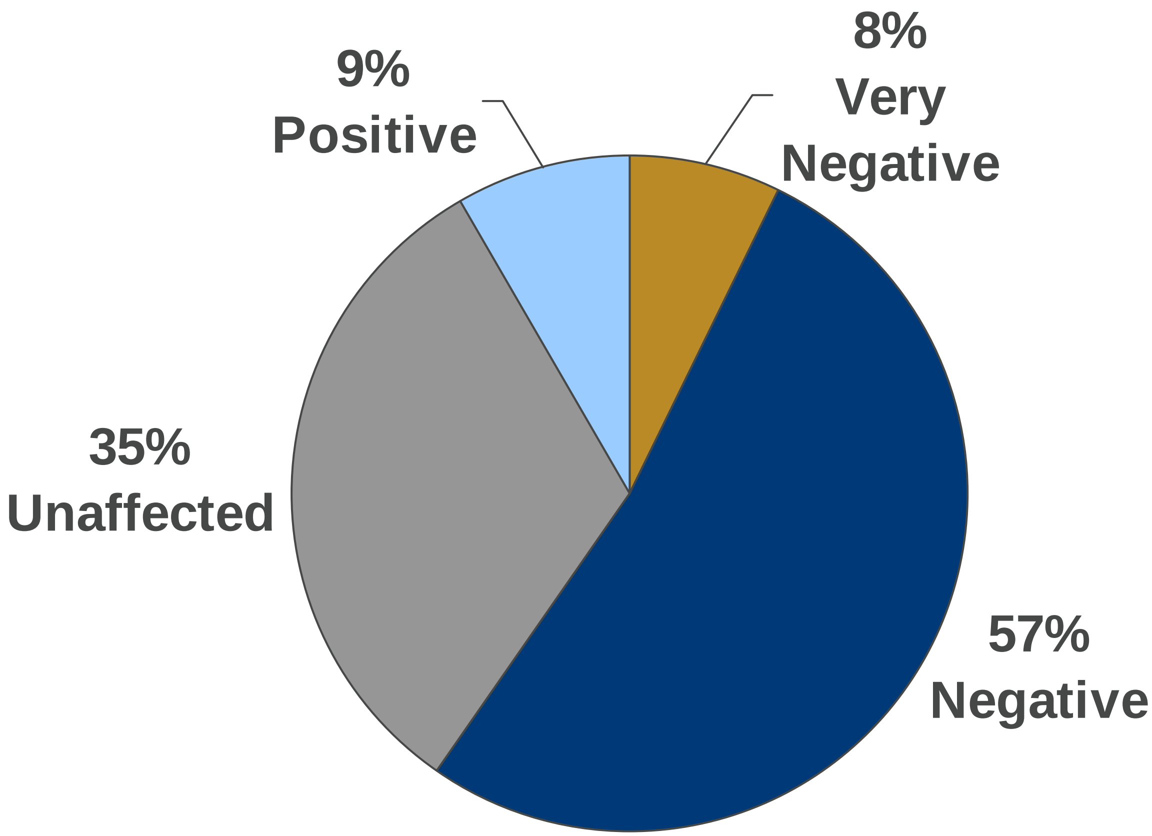
Source: Economic Outlook Survey, June 2009, Christian Leadership Alliance

Who is being impacted the most?

- Churches with fewer than 100 members lost more of their income than churches larger than 1000 members (16% vs. 9%).
- Larger churches, however, were more likely to report being under financial duress.
- Researchers speculate that the decrease in income is more painful for larger churches because they have larger budgets, and in actual dollars their cuts are larger.

Source: Economic Outlook Survey, June 2009, Christian Leadership Alliance

Financial impact: survey of church leaders



Source: The Barna Group of Ventura, California, “Congregational Budgets (Part 1 of 3),” *The Economy’s Impact on Churches*, January 11, 2010, <http://www.barna.org> (February 12, 2010).

Donors Reduce Giving

A recent survey (conducted Jan-Feb., 2010) revealed the following:

- 48% of adults surveyed had reduced their giving to non-profit organizations in the last three months (excluding churches and houses of worship)
- 29% of Americans had dropped their level of support to churches and congregations in recent months

Source: The Barna Group of Ventura, California, “Donors Reduce Giving, Brace for the Long Haul (Part 3 of 3),” *The Economy’s Impact on Churches*, February 8, 2010, <http://www.barna.org> (February 12, 2010).

How have we responded?

52% reduced travel

44% froze any raises

43% cut their overall budget for 2009

36% instituted a hiring freeze

29% reduced or eliminated training expenses

28% froze infrastructure expenses (facility, IT)

28% reduced full-time staff

Source: J. David Schmidt & Associates, “Economic Outlook Survey Research Results,” Christian Leadership Alliance, June 2009, p. 6.

What have we learned?

- **58%** indicated that their organization has learned some difficult stewardship lessons that would serve them well in the future.
- **43%** said the downturn was forcing them to face issues they should have faced long ago
- **12%** said their organization had been living beyond its means & were now facing the consequences

Source: J. David Schmidt & Associates, "Economic Outlook Survey Research Results," Christian Leadership Alliance, June 2009, p. 9.

Managing an Organization for Outcomes

Financial Empowerment: A Definition

Becoming financially empowered means that you have the money to pursue your mission with flexibility and high quality of service.

– Peter C. Brinckerhoff

Source: Brinckerhoff, Peter C., *Financial Empowerment: More Money for More Mission,* Wiley, New York, 1998, p. 1.

Obstacles to Financial Empowerment

- The economic downturn
- Lower contributions
- Increased demand on services
- Trouble forecasting future income
- Tight credit market
- Operations are so lean, nothing else to cut!

Any others?

Why is it Important to be Empowered?

1. Do more mission, meet more needs, be more responsive to changing needs
2. Increases competitiveness, with both funders and customers
3. Frees management to focus on mission instead of "financial fire-fighting"

Be a channel, not a storehouse

God expects us to live as a channel, not a storehouse. God's promise to Abraham was that he would bless Abraham and his descendants, and that they would be a blessing to others (Gen. 12:2-3). God intends for his provision to flow through us for the benefit of others.[1]

[1] Source: Shelly Cochrane, "Wise Financial Management," *Outcomes*, Christian Leadership Alliance, December 4, 2009 <http://www.christianleadershipalliance.com/outcomes/2009/winter/wisefinancialmanagement.html> February 8, 2010.

Three Essential Philosophies

1. Your organization is a mission-based business.
2. No one gives you a dime.
3. Not-for-profit does not mean nonprofit.

Your Organization is a Mission-Based Business

- Your Organization is in the mission business.
- The mission, not profit, is and always should be your bottom line, but that does not give you the license to disregard good business principles.
- Decisions should be made in the context of sound business practices not just program based. Pay attention to the bottom line, put a high value on “customer” satisfaction and quality of services, hire and retain good staff, etc.

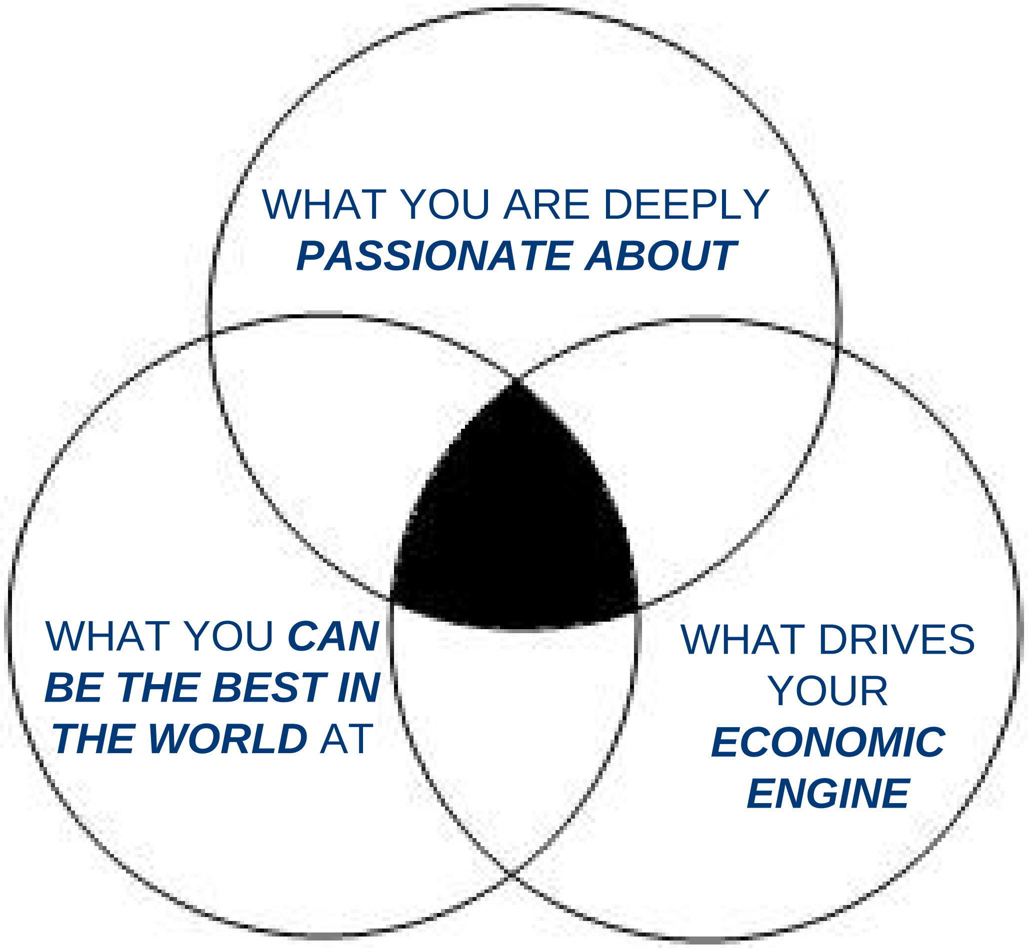
No One Gives You a Dime

- The organization **earns** all the support. The organization does something in exchange for the contribution.
- The concept is critical when paired with the idea of a mission-based business.
- The organization adds economic value in the community it serves.

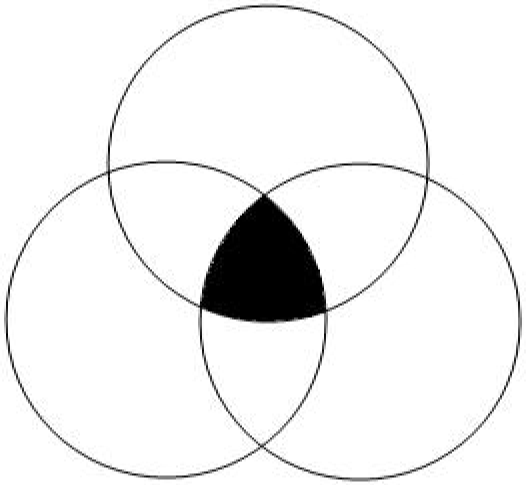
Not-For-Profit Does Not Mean Nonprofit

- The IRS grants "tax exempt" status to not-for-profit organizations so the organization does not have to pay tax on the profits
- Not-for-profits **should** make a profit. It is not illegal. It is not immoral.
- Making a profit is essential to financial empowerment.

Hedgehog Concept – Simplicity in 3 Circles



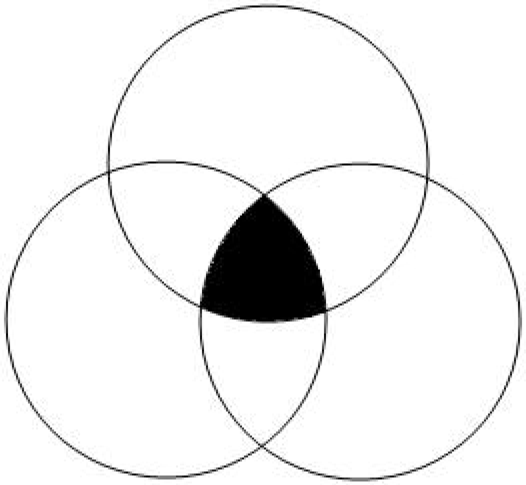
Source: Collins, Jim, "Good to Great," HarperCollins Publishers, 2001



WHAT YOU ARE DEEPLY ***PASSIONATE ABOUT***

- It's when you're looking forward to going to work and diving into the day with all you have.
- It's not that there is passion for the mechanics of the business, but passion for what the business stands for.
- "You can't manufacture passion or 'motivate' people to feel passionate. You can only *discover* what ignites your passion and the passions of those around you."

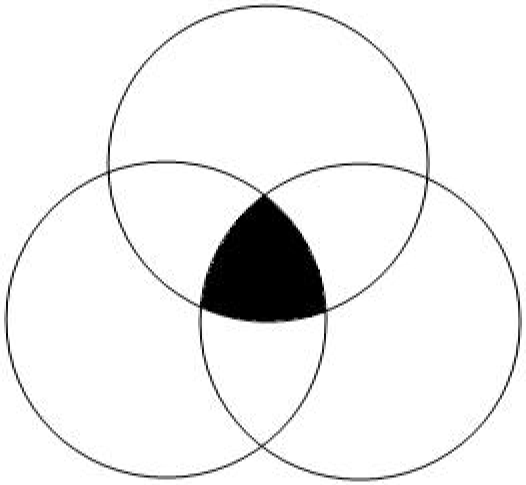
Source: Collins, Jim, "Good to Great," HarperCollins Publishers, 2001



WHAT YOU ***CAN BE THE BEST IN THE WORLD*** AT

- Ask yourself: What can we potentially do better than any other organization, and, equally important, what can we *not* do better than any other organization?
- Also ask: If we can not be the best at what we do, then why are we doing it at all?
- It is what you understand, letting your abilities and not your ego determine what you attempt.

Source: Collins, Jim, "Good to Great," HarperCollins Publishers, 2001



WHAT DRIVES YOUR ***ECONOMIC ENGINE***

"Think about it in terms of the following question: *If you could pick one and only one ratio – profit per x (or in the social sector, cash flow per x) – to systematically increase over time, what x would have the greatest and most sustainable impact on your economic engine?* We learned that this single question leads to profound insight into the inner workings of an organization's economics."

Source: Collins, Jim, "Good to Great," HarperCollins Publishers, 2001

Nine Characteristics of a Successful NFP

Nine Characteristics of a Successful NFP

There are nine central characteristics that are found in the successful not-for-profits that I have observed, worked with, and consulted for since 1982 . . . All of the characteristics come together to make a successful, dynamic, and sustainable not-for-profit. Think of them as parts of the whole, not as stand-alone components.

– Peter C. Brinckerhoff

Source: Brinckerhoff, Peter C., *Financial Empowerment: More Money for More Mission,* Wiley, New York, 1998.

Characteristic #1: A Viable Mission

- The organization should have a mission statement that inspires the board, staff, and community.
- The mission statement should outline the vision of what you want to be, not where you were 20 years ago.
- This can be a tool to attract and motivate staff. Also can be used to attract funds.

Characteristic #2: A Businesslike Board of Directors

- The board is the most under-utilized resource that most not-for-profits possess.
- The board should focus on policy setting, being a link to the community, and helping the organization with its stewardship.
- The board should have a skill set that complements the other staff. A financial skill set will help the organization be more successful.

Characteristic #3: A Strong, Well-Educated Staff

- The organization needs to attract and retain good staff.
- Invest in the staff through continuing education and incorporate them into the budgeting and planning process.
- Treat the direct service staff as the most important employees the organization has.

Insights from CLA's Economic Outlook Survey

Perhaps what separates the Christian charity and church world from most for-profit organizations is how staff have been engaged in a recession response plan.[2]

- 86% asked staff to brainstorm cost-cutting ways
- 48% engaged staff in strategic thinking and decision making
- 31% asked staff to make voluntary adjustments

Source: Economic Outlook Survey, June 2009, Christian Leadership Alliance

Characteristic #4: A Tight Set of Controls

- Effective policies and procedures allows leadership to manage rather than administer.
- This includes not only financial policies but also personnel, media, quality assurance, investment and disaster policies.
- The bylaws of the organization should also be current.

Characteristic #5: A Bias for Marketing

- Realize that everything the staff and board does is marketing for the organization.
- Understand who the markets are and what they want.
- Consider what the payer market wants versus what the service market wants.

Characteristic #6: A Vision for Where You Are Going

- A long-term strategic plan is very important.
- Without a plan, the only way you get where you are going is by accident.
- Planning offers a unique opportunity to build staff morale and to increase input and ownership from all the people the organization touches.

Insights from CLA's Economic Outlook Survey

"An organization's strategic plan plays the dual role of stabilizer and compass – two critical functions in times of turbulence." [2]

Nearly six out of ten respondents (58%) either have a strategic plan that is **not up-to-date** or **needs attention**.[2]

Source: Economic Outlook Survey, June 2009, Christian Leadership Alliance

Characteristic #7: Financially Empowered

- No money, no mission.
- Inconsistent money, inconsistent mission.
- Financial empowerment is important but it must be combined with the other eight characteristics to be effective.
- Financial empowerment results in increased flexibility.

Characteristic #8: Social Entrepreneurs

- The organization must be willing to take risks to achieve its mission.
- Must be willing to try and try again.
- Refine the mission in response to these efforts.
- Financial empowerment provides the resources to take risks.

Characteristic #9: Rapid Response to Changing Circumstances

- Part of being an entrepreneur is taking advantage of opportunities as they surface, not two years later.
- Must be able to change as the community's needs change.
- "Younger" organizations tend to change more easily than older, mature organizations.

Recap: 9 Characteristics of a Successful NFP

1. A Viable Mission
2. A Businesslike Board of Directors
3. A Strong, Well-Educated Staff
4. A Tight Set of Controls
5. A Bias for Marketing
6. A Vision for Where You Are Going
7. Financially Empowered
8. Social Entrepreneurs
9. Rapid Response to Changing Circumstances

Questions?

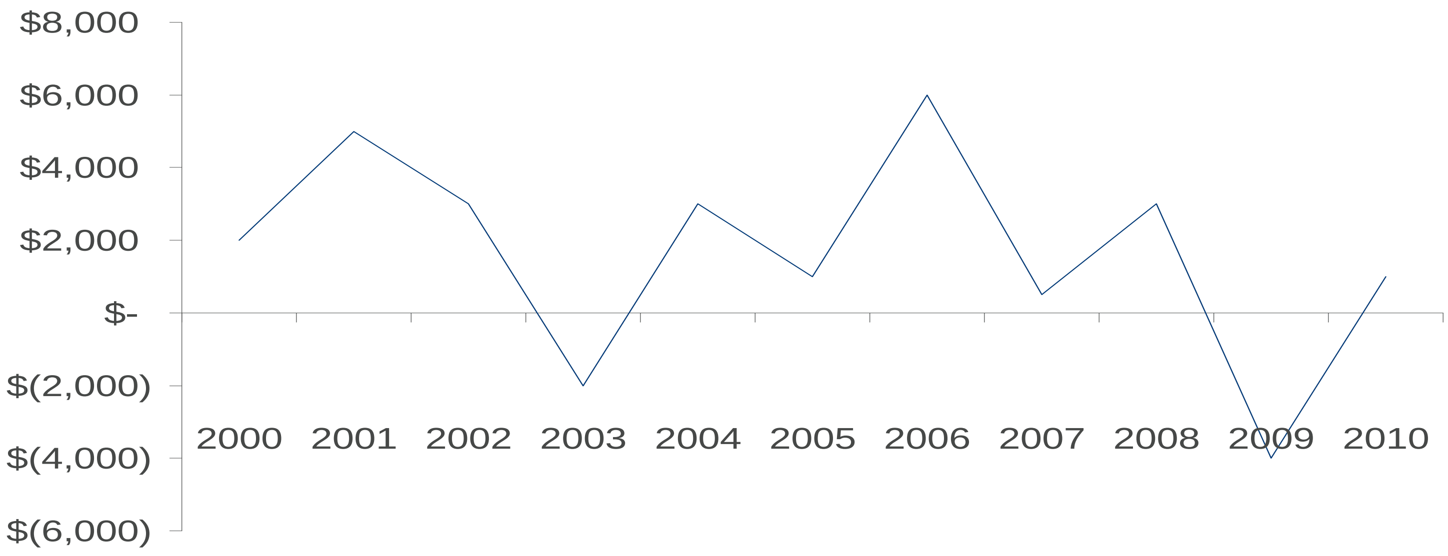
Building a Financially Empowered Organization

Eight Core Characteristics of Financial Empowerment

- The characteristics are divided into the following three categories:
  - **Measurable** – having quantifiable outcomes
  - **Management** – characteristics that require changes in management style and attitude
  - **Mission** – outcomes that directly impact the mission capability

Measurable Characteristics

1. The organization has net income in <u>at least</u> 7 out of 10 years.
   - If you don't meet this test, most of the rest of the goals will be unattainable.



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Measurable Characteristics

2. The organization has a cash operating reserve of at least 90 days.
   - Not a firm number, need to determine how many days are best for you
   - You want to have enough to not be constantly worrying

Insights from CLA's Economic Outlook Survey

Respondents were asked if there was one decision or action their organization made in the past that had served them well. The most common response?

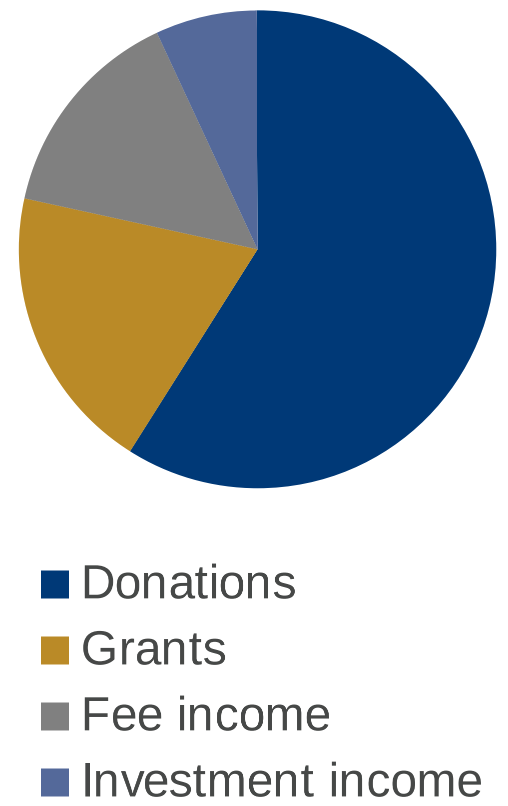
"Building cash reserves."

Measurable Characteristics

3. The organization gets at least 5% of its total income from earnings on its endowment.
    - Endowments are for large AND small organizations
    - A resource that cannot be overlooked

Measurable Characteristics

4. The organization has sources of revenue from non-traditional non-governmental sources: it has business income.



Management Characteristics

5. The organization shares its financial information widely, and practices bottom-up budgeting.
   - Share your numbers and share the responsibility of doing budgets. You, your staff, and your organization will all benefit.

Management Characteristics

6. The organization is appropriately leveraged.
   - Prudent debt in organizations that are making money can provide important services now rather than later.

Mission Characteristics

7. The organization supports its mission directly by establishing and using a rapid-response mission reserve.
    - This is what it is all about – if you are going to become financially empowered, you should have a funded and active mission reserve.

Mission Characteristics

8. The organization is financially flexible enough to accommodate changes in service delivery.
   - Times change, service patterns evolve, and, in a competitive environment, you need to be able to respond quickly and efficiently. Can you?

Key Performance Measures

Key Performance Measures

“The most important thing in communication, is hearing what <u>isn't</u> said.”

Peter Drucker

Key Performance Measures

- Benchmarking and ratio analysis
  - Internal comparisons
  - External comparisons
- Dashboard reporting
  - What to include
  - How often
  - Who should be involved

Key Performance Measures

- Reserves
  - Determine how much is needed
  - Various types of reserves
  - Determine when to use them
  - Build Reserves Now?!?!?!

Key Performance Measures

- Human Capital
  - Manage human capital as a major asset
  - Mobilize people’s talents and contributions
  - Invest in people’s development and growth
  - Unleash growth and innovation
  - Create value and maximize impact

Key Performance Measures

- Donor Capital
  - Serve donors and volunteers as you do others
  - Evaluate what you can do to improve donor care
  - Create a donor care culture
  - Create a donor care plan
  - Establish clear and regular communications on activities, needs, stewardship, and outcomes

Key Performance Measures

- Outcome Based Measurements

  The measurable change that happens in a person's behavior, attitude, decisions, skill or life situation as a direct result of a specific program.

Key Performance Measures

- Outcome Based Measurements
  - Is a measureable reality check
  - Assesses your program(s) success
  - Focuses on the people your ministry serves
  - Determines what is different after they were served by your ministry
  - Compares pre and post-program and follow-up (6-24 months) after having completed your program.

Key Performance Measures

- Outcome Based Measurements
  - Provides the ministry with clearly defined outcomes / goals for your program(s)
  - Measures the actual changes in the people you serve
  - Helps you manage programs better
  - Helps you to tell a better "ministry story"
  - Makes your ministry more attractive to donors and prospective donors

Summary of Key Performance Measures

- Benchmarks, ratios, and dashboards of key performance indicators
- Trends in donor giving, new donors, lapse donors, aging donors, average gifts, major donors, corporate and foundation giving
- Trends in sales, cost of sales, tuition, fees, enrollment, members, gifts in kind, etc.
- Operating reserves

Summary of Key Performance Measures

- Liquidity – available cash to cover cash calls including donor restricted balances, current liabilities, debt coming due, etc.
- Human capital – cultural assessments
- Donor capital – constituent assessments
- Outcome based measurements of programs

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