Introducing Strategic Thinking into a Non-profit Organization to Develop Alternative Income Streams

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Non-profit organizations are sobering to the reality that traditional streams of incomes, like grants and government contracts, are drying up due to the tenuous American economy and the over-crowding of other non-profits in similar niche markets. These factors influence non-profit leader, as they determine to discontinue or maintain vital social programs. Non-profit organizations do not have to experience the stress of fighting for a scintilla of awarded funds if they develop businesses that can earn them income. For many years, non-profits have been balancing the regulations of a 501c3 label while earning income through creative business structures and agreements. Organizations that do it correctly find financial success and sustain their organizations independent of grants. Non-profits that are seeking to establish businesses need to ensure that everyone in their organization and on their board of directors are strategic thinkers so they can provide maximum value. Strategic thinkers contribute to the development of creative sustainable ideas that give the organization a competitive advantage. A competitive advantage, in these economic times, is what the doctor ordered for non-profits to sustain their programs.

Why Most Non-profits Struggle Financially

According to the Nonprofit Finance Fund (2009), non-profit organizations are struggling to maintain the level of service they have historically provided to their clients. Non-profits are forced to take a second look at the capacity of their operations to determine how many clients they can service. Below are statistics provided by the Nonprofit Finance Fund 2009 survey that tells the troubling financial story of many non-profit organizations.

- 12% expect to operate above break even
- 16% have enough funds to cover operating expenses for 2009 & 2010
- 31% do not have enough operating cash to cover one to three months of expenses
- 52% expect the recession to have long-term or permanent effects on their financial health
- 93% of life line essentials services organizations anticipate an increase in demand (with no increase in resources)
These statistics speak to the importance for non-profit organizations to re-evaluate their financial management practices to ensure their clients are receiving the services they need. Many non-profits are feeling pressure from their boards and constituents to follow the growing trend of acting like for-profit organizations by generating alternative income, becoming partners in business ventures, and directly managing profit-generating entities. Non-profits that do not embrace this trend will continue to struggle in maintaining their basic operational needs in an climate where philanthropic giving is declining (Ahmed, 2006).

Non-profits must evaluate their current financial planning practices to ensure a culture of efficiency and accountability governs the management of scarce resources (Tyler, 2006). Over-committing resources beyond its capability is a recipe for disaster and reduces the likelihood of any organization achieving its goals. Overcommitting of resources is a result of organizations failing to complete a financial feasibility analysis of its strategic plan or forecasting financial plans in a silo (Calandro & Flynn, 2007). Non-profit organizations must corral strategic thinkers at all levels of the organization to capture the best ideas that will lead to the implementation of supplemental income to support its programming.

**What Is Strategic Thinking?**

Strategic thinking is the process of collecting, interpreting, generating, and evaluating information and ideas to shape organizational sustainability and competitive advantages (Hughes & Beatty, 2005). Organizations use strategic thinking to ensure the longevity of their operation, while others use it to become or remain number one in their market. This same logic can be applied to non-profit organizations. Unlike for-profit organizations, non-profit organizations, for the most part, are dependent upon predetermined streams of income, like grants, to sustain their programs and services. Non-profit organizations compete with other non-profits for these limited funds, which can restrict their organizational life cycle and opportunity for growth. This competitive environment forces non-profits to work hard to become market leaders for the services and programs they provide. Few non-profit organizations have alternative streams of income to supplement or support long-term operations in the absence of grant funding. To accommodate for this loss, non-profit organizations must think strategically to develop alternative income streams to guarantee the longevity of their programs and to ensure their clients will continue to receive the services they need.

Successful strategic thinkers have a holistic view of their business and remain opportunistically about their ability to solve problems in the future (Liedtka, 1998). Strategic thinking results in a strong planning process that scrutinizes every idea and leads to the implementation of a sound strategy. The implementation of a sound strategy allows an organization to continuously monitor the performance and alignment of all business groups and subsidiaries (Micheli, Mura, & Agliati, 2011, cites Dossi & Patelli, 2008). Performance management allows leaders to make strategic business decisions that are in the interest of organizational sustainability. If a business group or subsidiary is not performing to the standards that are expected of them, a decision can be made to remove them, provide training or support, add additional resources, or replace the leadership team.

Strategic thinkers are in constant pursuit of innovative ideas that will create a sustainable future for their organization (Graetz, 2002). Non-profit leaders should replace outdated practices that are not relevant in today’s economy and cause inefficiency and replace them with sustainable
practices. This will require them to be creative and utilize their professional and personal experiences to develop solutions that answer the question, ‘How can we sustain our business?’ (Graetz, 2002).

**Why Strategic Thinking is Important**

Strategic thinking leads to decisions that have lasting effects (Harrison, 1995). Strategic thinking is vital to the sustainability of an organization and often contributes to the redevelopment or tweaking of an organization's mission statement, goals, objectives, and strategies (Nieboer, 2011). Tweaks and changes to this vital information potentially impact the way an organization is branded and perceived by customers and all stakeholders.

Good strategic thinking leads to sound strategic planning. Strategic planning has historical footing in military planning (Carter, 1999), and has been proven to enhance an organization's performance (Schraeder, 2002). Strategic planning provides strategies on how to implement the ideas that were produced from the strategic-thinking process. A strategy is a pattern of purposes and policies that define the approach an organization will take to accomplish a goal (Carter, 1999). The output of strategic planning is a strategic plan. A strategic plan is generally a long-term plan that details all of the tasks that need to be completed to achieve a set of goals. A strategic plan is continuously evaluated and controlled to ensure it remains relevant to achieving the goals of the organization (Kraus, Harms & Schwarz, 2006).

**Why Non-profit Organizations Rarely Use Strategic Thinking and Strategic Planning**

Non-profit organizations are designed to meet the social needs of their constituents. Leaders of these organizations are challenged with meeting the needs of their constituency on an unsecured, shoestring budget. Satisfying the funding requirements of funders and walking the fine line of financial efficiency while achieving their mission (McMurray, Pirola-Merlo, Sarros, & Islam, 2010) creates an organizational environment that is concerned with implementing survival tactics, which is the antithesis of strategic planning.

Non-profit organizations are expected to solve their social mission with the resources that are made available to them; however, there are low expectations of them to develop a plan on how to manage those resources to fulfill their mission (Thach & Thompson, 2007). Downgraded expectations affect the performance of non-profits. Most non-profit cultures are influenced by the assumption that a non-profit is not a business and should not have strategic goals. In addition, these low expectations are supported by the idea that non-profits do not have a profit-generating interest and should not worry about planning the same way as a for-profit organization. Regardless of an organization’s IRS label, strategic planning is relevant to all organizations because it captures a vision of the organization and is managed by the goals and objectives that influence day-to-day operations (Harrison, 1995, cites Goodstein, Pfeiffer, & Nolan, 1986). The absence of a plan leaves non-profit organizations handicapped and inflexible, unable to accommodate dynamic operational needs. The intense focus on social solutions is the engine that drives non-profit operations. Unfortunately, this lends itself to convenience planning and results in an uncoordinated effort towards strategic planning (Sharp & Brock, 2010).

The strategic planning process can lead to the tweaking or changing of the mission of the organization and obstruct the continuity of an organizational culture (Sharp & Brock, 2010).
Sharp and Block's research also discovered it is difficult for a non-profit’s workers to deal with change and ultimately resist the strategic planning process. Although the goal for non-profits is to make social investments, the return on the investment is measured by how an organization executes their strategic plan (Kelly & Lewis, 2009). Many non-profit organizations prefer to engage in convenience planning than strategic planning to avoid changing their culture. They later learn the likelihood of being successful is diminished by not having a strategic plan (Kraus, Harms, & Schwarz, 2006).

Most non-profit organizations employ organizational structures that create communication roadblocks between management and staff. Communication builds a bridge between the strategy of an organization and its implementation. The research findings of Carrière, Bourque, and Bonaccio (2007) suggest failure to communicate results in low job satisfaction and minimum use of strategic plans (Žnidarič, Penger & Dimovski, 2010). Effective communication links employee performance to the strategic plan. This holds staff accountable for their performance and contribution to the mission of the organization. Non-profit organizations are in need of as many resources they can acquire and avoid strategic planning to maintain employee and volunteer interest.

**Implementing Strategic Thinking Within an Organization**

**Business Coaching**

Business coaching is known to help clients set and achieve measurable performance goals, think through major decisions, solve problems, and assist clients with a host of additional challenges which can complicate an individual’s ability to produce desired results (King & Eaton, 1999). Coaching differs from training because it provides anomalous attention to the professional needs of each client. The systemic approach to coaching highlights the value coaching places on engaging clients in the process of clearly identifying their challenges and developing action plans that outlines a path to success (Giglio, Diamante, & Urban, 1998). In addition, coaching is essential to developing a culture of self-leaders and strategic thinkers. Research suggests coaches are effective in working with clients throughout their employment life cycle, which can result in significant improvements in retention, engagement, productivity, and performance among clients, their direct reports, and surrogate coaches (Rock & Donde, 2008).

**A Self-Leadership Culture**

The engine of a business is the worker that provides skills and services. Similarly, workers are the reasons why organizational cultures persist and why organizational cultures are also susceptible to change. Implementing a new culture, organizational structure, or strategic plan requires leaders to engage and empower their staff to take ownership of the process. The success of an organization is contingent on the psychological contract, which details shared expectations of job responsibilities between the follower and the leader (Lucas & Kline, 2008). The culture and success of an organization is closely linked to its management and the quality of leadership (Mohanty & Yadav, 1996). Non-profit organizations have to make an honest assessment of the management style and quality of leadership within their organization’s structure and determine if the current leadership team is fit to lead the organization in this new direction.
Self-leaders value the behaviors they exhibit, how they reward themselves for their performance, and the constructive thoughts that sustain self-analysis (Houghton & Neck, 2002). Self-leaders hold themselves accountable for accomplishing goals related to the organizational strategy. To the self-leader, the goals of the organization are important and are kept in the forefront of a self-leaders mind. In particular, self-leaders are constructive thinkers and concerned about motivating themselves. Jeffery Houghton and Christopher Neck (2002) suggest in their research that constructive thinkers talk themselves through difficult challenges as a means to remaining inspired and motivated until a resolution is identified. As leaders and followers self-talk through their individual challenges, they remind themselves to remain aligned according to their predefined roles and responsibilities. A self-leadership culture sustains strategic thinking within an organization.

**Strategic Thinkers at All Levels**

Non-profits are a threat to each other because of limited grant funding and large number of applications. Non-profits need to develop their staff to become strategic thinkers within the context of their job responsibilities to shift from total grant dependency to self-sufficiency in order to remain competitive and sustainable (Alpander & Lee, 1995). Strategic thinking is the process of collecting, interpreting, generating, and evaluating information and ideas to shape an organization's sustainable competitive advantage (Hughes & Beatty, 2005). All employees can become strategic thinkers if they are taught how to apply it to their jobs. Below are recommendations on how to teach staffers to become strategic thinkers (Bonn, 2001).

- Match employees with assignments that make use of their expertise and abilities
- Give employees autonomy in how they approach their work
- Provide the necessary resources
- Establish supportive work-teams
- Provide performance recognition
- Create a climate where the whole organization supports creative efforts

Bonn (2001) provides additional thoughts on how to implement strategic thinking within an organization.

Show staff how to leverage their past experiences as evidence of their ability to think strategically. Life circumstances, such as turning around a failed business, job loss, or a demotion, are experiences that serve as the backdrop of the development of strategic thinkers. These diverse experiences provide alternative insights on how to solve current organizational problems. It also develops staff into strong pillars for establishing a strategic thinking culture within the organization. Their support and their experiences will encourage others to see the value of strategic thinking.

Develop a think tank for staff to provide ideas that focus on competitive sustainability. This group should meet regularly to discuss their ideas and collaborate on the ones that show the greatest promise. A commitment from senior leaders to review these ideas strengthens the
cohesion of the group. This type of support encourages further development of concepts that have the potential of generate pioneering new products, services, and businesses.

The think tank should have basic rules for establishing strategic thinking (Bonn, 2001). Some rules include the following:

Eliminate the “we do not have time” syndrome. People make time for what they deem important. They invest their time if they believe they will receive a return on their investment. Strong leadership makes time investments worth the while of team members because they show individual consideration for the skills and asset each team member provides to the efforts of the team.

Encourage team members to explore their ideas and tactics and bring them before the team for examination. Ideas that do not receive feedback tend to loose out on being refined and cannot be tested for organizational adoption. Feedback brings the best out of all team members, which ultimately benefits the organization.

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Team members must be prepared to seriously listen to each other. Staff can be cynical towards others, thinking their own ideas are automatically better than others. People tend not to take advantage of the assessment of others and as a result, stunt their own growth. A team that listens to each other learns each other’s strengths and builds commodity around their collected strengths.

Treat team members as colleagues. Everyone that is a part of the strategic thinking team should be able to depend on their teammates to challenge their ideas and actively participate in their development as a strategic thinker.

Pass on recommendations to senior leaders for consideration. People become frustrated when they invest themselves in their work and receive no feedback from senior leaders. Strategic thinkers, above anything, need encouragement from those that make final decisions within the organization. If you, as a leader, take the time to put together a think tank of strategic thinkers, be sure the ideas from this group will have an audience with the decision makers of the organization.

**Pursuing Profits as a Non-profit**

Non-profit organizations are confronted with depleting budgets. A continual decrease in available grants is forcing non-profits to fiercely compete for available funds. These tough times provide an opportunity for non-profits to re-evaluate their business practices, save money, increase efficiency, and increase cash flow. This also forces non-profits to discuss how they should generate income. Non-profits must now consider mixed revenue streams to support their operations. Organizations with accessible resources are likely to move forward with for-profit aspirations and reduce their financial and programmatic risks. Koljatic and Silvan (2010) cite Midttun (2008) as saying the corporate social responsibility (CSR) has become a component of
business strategy that can facilitate conflict management and strengthen business decisions. The social goals of a non-profit organization provide insight into the appropriate investments they should make to maintain the integrity of their mission.

William Foster and Jeffrey Bradach (2005) believe non-profit organizations are at a disadvantage when they decide generate income because of the following reasons:

- **Conflicting priorities** - Non-profit organizations are created to solve problems. Extending themselves outside of their social mission to manage a business is often outside of their area of expertise.

- **Lack of business perspective** - Non-profit organizations misjudge the costs of doing business and end up losing larger amounts of money than their for-profit counterparts.

- **Reliance on indirect customers** - Non-profits are used to serving a non-paying client base. Converting these clients to paying customers is highly unlikely; however, non-profit organizations become totally fixated on trying to convert these clients and misappropriate their resources toward the wrong client base.

- **Philanthropic capital and the escalation of commitment** - Like some for-profit businesses, some non-profits continue to invest their money in failing projects and do not know when to cut their losses. They increase their financial commitment to make the project work at the risk of losing more capital.

Non-profit organizations should be selective and strategic about how they can realistically create additional income streams. In his article, “Eight Basic Principles for Nonprofit Entrepreneurs,” Jerr Boschee (2001) provide guidelines non-profit leaders should use to ensure they are pursuing the right business opportunities to sustain their non-profit organization:

- **Earned income is paramount** because money from philanthropic organization limited. Depending on these resources as a sole source of income can severely cripple the independence of a non-profit organization.

- **Non-profit organizations struggle with being all things to all people**. If an organization does not have the resources or qualifications to serve their current client base, get out of that business, even if that business is dear to your heart.

- **Revenue streams can come from various means**. Instead of starting a new business from scratch, survey your current program offerings to your clients and determine if you are able to offer those services for a fee to a different client base. This consolidates the time spent on developing new income streams and utilizes current income streams.

- **As stated above, unrelated business activities can become a threat to your bottom line and your resources**. In addition, if these businesses do not affirm your mission statement and help you achieve your social mission, it is not worth your time or effort.

- **Be patient and do not run out of money. Cash flow is so important to sustaining any type of business. Social entrepreneurs are known for underestimating the amount of money and time needed to make a business venture successful.** A typical business does not realize significant
profits until its seventh year of existence. By the sixth year, the nature of the business would have changed from its original function.

Recognize the differences between innovators, entrepreneurs, and professional managers. Knowing the difference between these roles in an organization helps determine what job function people should operate in, to contribute maximum value on behalf of the organization. If people are not in the right position, they become liabilities to the organization and its business interests.

The non-profit culture gets in the way of making sound business decisions. The culture of most non-profit organizations prevents them from doing the following critical tasks to ensure its success:

- Taking the type of risk that will grow the business.
- Relinquishing control of everything to allow the organization to be agile and flexible.
- Becoming customer-focused.
- Price more aggressively - Nonprofits are generally happy with pricing their products at a price that will cover their cost while for-profit organizations builds a 50% gross profit margin in their products to have a 3% - 5% net profit margin at the end of the year. Pricing aggressively ensures a non-profit will experience longevity and sustainability.

**Hybrid Organizations**

Hybrid non-profits are non-profit organizations that have a relationship with for-profit entities via a contract agreement or subsidiary arrangement. These agreements are established to sustain the operations of a non-profit (Bromberger, 2011). These arrangements have challenges and benefits. To determine if this structure is appropriate for your non-profit, below are some basic tips to consider as you are making your decision.

If a non-profit organization enters into an agreement with a for-profit organization or creates a for-profit entity, both organizations must have legally independent and different boards. The non-profit board may have controlling interest of the for-profit but the board of the for-profit must make independent decisions that will benefit the interest of the for-profit.

Various contract types can be used to document the relationship between the for-profit and the non-profit. This agreement can detail the exchange of funds and services between the two entities and reflect the business direction each entity is going in. These contracts must be negotiated at arm’s length, meaning there needs to be an assessment of the benefits of the contract for both entities before the agreement is final.

The non-profit is to receive fair value and compensation for its ownership interest, the services it provides, and the products it sells while under contract with the for-profit entity. This goes back to the point that non-profits generally do not handle business well because they feel guilty about making a profit and managing a business. Like other persons or entities that own stock in a business, non-profits need to be compensated for the value of their holdings.
Payments made from the for-profit organization to the non-profit are not considered tax deductible and cannot be used as a means to leverage the status of the non-profit. All payments are considered taxable and must be treated as such.

All transactions should be fully documented, reviewed, and approved by both boards.

Pursuing this option may result in an increase in overhead costs and complex board structures, but all of these issues can be resolved.

Taxes must be paid on income generated by unrelated activity to the 501c3 label. File the 990 tax form according to the schedule guidelines of the IRS.

Avoid conflicts of interests. As much as possible, separate the two boards.

About the Author

William Clark's career is committed to empowering and strengthening homeless and low-income families to become more conscious of their potential to be self-leaders and advising family service organizations to help them leverage their current resources to help families create and sustain self-leadership. Since 2008, he has served over 2400 homeless and disadvantaged families through family development workshops and advocacy for affordable housing. For over ten years, he has provided leadership development and coaching, strategic planning, and service design and delivery support to public and private organizations in the healthcare, public housing, and faith-based markets. He is a trainer, mentor, and coach to current and emerging leaders in various organizations.

William is the founder of the Family Leadership & Empowerment Institute (FLEI). FLEI appeals to individual desires to change and teaches life management skills to homeless families to sustain self-sufficiency. He is currently a Doctor of Strategic Leadership student at Regent University. He holds degrees in Leadership Development and Information Technology from Penn State University. He is a sought-after preacher, speaker, and lecturer. He resides in Philadelphia with his family. Questions or comments regarding this article may be directed to the author at: clark.william@gmail.com.

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