

# The Pursuit of SUSTAINABILITY

**One of the roles that most decently functioning boards play quite well is providing financial oversight.** Compared to other board functions, financial oversight is relatively clear: there is a treasurer, finance/audit committee, and tangible products such as an annual budget and financial statements. The problem is none of those tangible products in and of themselves has anything to do with sustainability. And it is sustainability that is keeping chief executives up at night, not financial oversight.

In a book I coauthored, *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*, my colleagues and I define sustainability as being both programmatic and financial:

Sustainability encompasses both financial sustainability (the ability to generate resources to meet the needs of the present without compromising the future) and programmatic sustainability (the ability to develop, mature, and cycle out programs to be responsive to constituencies over time).

In other words, board finance committees can look at annual budgets, financial statements, and audits forever, but if some group of board members is not considering those financial results in light of the organization's programming mix and its results, then their efforts are very unlikely to contribute to sustainability. The complex challenges facing community-based nonprofits require that we shift our mental model from boards being primarily about financial oversight and accountability to boards being concerned in an ongoing way with the financial sustainability of their organizations. To pivot your board, I suggest the following actions:

- 1. Create a board culture that expects and supports financial literacy from all members.** A sustainability orientation requires members who are financially literate and can ask how a core program is performing both financially and programmatically.
- 2. Add non-traditional members to your finance committee.** A "finance/sustainability" committee comprising both finance experts and programmatic folks actively engaging with the business model's concerns will support the pivot to a "beyond oversight" board. When a diverse group of members is reviewing and discussing the numbers, it can go beyond merely reporting how close to budget the organization is or is not; it can frame for the board the questions of "why?" and "what might we do about it?" With this approach, the treasurer role evolves from that of a CPA to a leadership role that supports the full board's focus on complex questions and difficult decision making.
- 3. Normalize profit.** Profit, like program impact, is fundamental to sustainability. A board that is uncomfortable budgeting for surplus and unwilling to face the brutal facts about the prospects for profitability of core activities is not operating with a sustainability orientation. It is important not to conflate profitability with earned income, however. Many community-based nonprofits achieve profitability — that is, consistent annual surpluses — through a mix of earned and donated income. The key is to look for profit wherever it can be generated in the model, and to ensure that, as a set, the organization's activities yield more than they consume.

During the most recent recession, many leaders had to face the reality that they could no longer subsidize core activities that do not cover their own costs. The fact that an activity is core to an organization's mission and very needed by its constituency does not necessarily mean that the organization can afford to keep it in its business

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model. Part of pursuing sustainability is determining the desired profitability of every core activity — programmatic and fundraising. While most community-based organizations will elect to subsidize a handful of money-losers — allow the profits from an activity to offset the losses in a program, for instance — the board should be very clear on these decisions and ensure that those subsidy decisions do not result in deficits for the organization overall.

- 4. Engage in projection.** Ironically, financial plans and reports, including monthly financial statements and an audit, can keep your board focused on oversight rather than business model sustainability. When you focus too much on annual budget variance, for example, you are often not sufficiently engaging in projection. Members of the finance/sustainability committee want to be anticipating the next several quarters' results, too.

Rolling projection moves the board away from the silly obsession with “hitting the year-end budget” and toward the capacity to make earlier and better decisions given the economic forces happening in real time. When boards focus only on predicting the coming 12 months (annual budget), monitoring variance from that increasingly outdated prediction, and reviewing the past year's statements, they risk not actually engaging in the pressing and emerging business issues facing their organizations right now. Financial oversight is critical but insufficient for sustainability.

- 5. Actively engage in decision making and execution on business-model issues.** A board that is focused on sustainability will be working a handful of key business-model issues all the time. The finance/sustainability committee members will partner with staff leadership to articulate those issues and find meaningful ways for the board to understand them and, where possible, contribute to their resolution. For instance, the committee may determine that the organization needs to close or transfer a program because it is losing money and unlikely to survive the next round of governmental budget cuts. A committee member can partner with the chief executive to craft a presentation to the full board, laying out the data and framing the key questions for decision making: Are we prepared to end this program, and if so, by what date? Are there elements of this program that we can transfer to a collaborator or competitor? Are there financial implications of closing this program that we need to understand (for example, laying off staff, alienating a key funder, or losing the contract's modest contribution to defraying overhead costs)? One board member can be engaged in reaching out to another organization about the potential for program transfer; another member can join the chief executive in breaking the news to the government funder; and so on. In this fashion, the full board is actively engaged in decision making and execution on a business-model issue essential to the organization's sustainability.

For too long, too much of our boards' finance focus has been on reviewing the past. For many nonprofits, this meant decision making was too slow in the face of the mounting recession. Modest reserves were depleted, and organizations were left exceedingly vulnerable during a time of great community need. The lesson of the recession was that boards must engage not only in financial oversight but also in the pursuit of sustainability. To do this well, boards have to be composed of financially literate members who engage in real-time analysis and focus on answering the complex business-model questions their organizations face today.

## Resources:

[\*Nonprofit Sustainability: Making Strategic Decisions for Financial Viability\*](#) by Jeanne Bell, Jan Masaoka, and Steve Zimmerman.

[\*The Sustainability Mindset: Using the Matrix Map to Make Strategic Decisions\*](#) by Jeanne Bell and Steve Zimmerman.

[\*Understanding Nonprofit Financial Statements\*](#) by Steven Berger.