The New York Merger, Acquisition, and Collaboration Fund

Do What You Can, With What You Have, Where You Are

In a trenchant piece that should be required reading for any nonprofit leader (see www.giarts.org/article/loss-leaders), Adrian Ellis points out that there is an unavoidable tension between the pursuit of mission and the maintenance of financial viability because:

- There is usually a large gap between an organization's mission and the part of that mission met by current programs so the urge to grow is very powerful. (Even organizations working in areas where the evidence shows that smaller is generally better find it difficult to resist this urge though of course they should);
- Most nonprofits can only fund growth through philanthropy: few have meaningful reserves; equity investment is not an option; fee income is generally too small to make a real difference; and debt-funding requires repayment of both interest and principal which, while often an intelligent way to fund working capital or "lumpy" projects, actually increases the need for philanthropy despite smoothing it over time;
- Unless a nonprofit can articulate — and many can't — and their funders embrace — and most won't — the idea that growth requires investment to cover the *full long-term organizational costs of being* the larger organization they will be tempted to grow with funds that only cover the *short-term marginal costs of becoming* the larger organization. These costs – usually direct program costs – are more visible, more urgent, and more seemingly mission-related than fixed and/or long-term costs such as facilities maintenance, depreciation, working capital, staff development, competitive salaries, or training.

So mission-orientation leads to growth, which in turn can often stretch organizational and financial capacity more and more thinly through the under-funding of long-term costs. In the short-run – particularly in the start-up phase – these costs can be ignored or deferred, but eventually the chickens come home to roost.

In light of this, Adrian suggests that every nonprofit should consider the impact of expansion on its balance sheet as well as its cash flow; it should analyze the full (rather than the marginal) cost of program growth and should find ways to communicate this effectively to the outside world; it should think about the requirements for organizational growth (e.g. board and staff leadership, etc.) in parallel with program growth; it should be explicit about what type of capital structure and balance sheet would be required to achieve its growth objectives; and it should develop several possible scenarios, rather than a single "plan", when thinking through the risks and rewards of growth.

On this basis there will be some organizations that should grow and that prove able, through a combination of talent, hard work, and fortunate circumstances to thread the needle by scaling and maintaining financial viability in parallel over a prolonged period. While it is good to celebrate these rare and wonderful successes, the rest of us seem to be left with two unsatisfactory choices:

1. Ignore financial viability and just go for it. This is very exciting ("*it's better to burn out than to fade away"*) and it sometimes works, but more often than not it ends badly because growth, once started, is very hard to stop without a lot of financial and emotional cost (particularly if the growth phase build-up includes difficult to shed infrastructure like real estate). A nonprofit that has a near-death experience

with failed-growth will often end up having had less impact, and at higher cost, than if it had never tried to grow at all. And it may end up either permanently scarred and risk averse, or caught in a repeating cycle of grow-crash-repeat until funders finally say "enough!"

2. Renounce the impulse to grow and live the quiet life. Always live within your means, build reserves almost every year, never knowingly take financial risks, and modify the mission as necessary to make "the numbers work". This strategy can be tricky for if mission is seen to take a back seat to survival-in-perpetuity some of the most passionate staff and donors may disengage, creating the risk that the organization becomes a nonprofit zombie where the lights are on but nobody (passionate) is home. But it can be done, particularly if the organization is well enough endowed that it doesn't need much enthusiasm in the present since it's funded by the past.

This seems pretty depressing but on a more optimistic note, it may be that between these two stark choices are a range of under-explored opportunities to grow *impact* – perhaps by working together in a formal long-term way with others – without growing *the organization* (and without bearing the full risks associated with "growing it alone"). This could be through joint programming, training others in your program, sharing a back office, or even something more fundamental like combining with another organization. A truly mission-driven organization must be on the lookout for these opportunities and should explore them when they come.

It's also worth remembering that while "growth" means "to scale" it also means "to mature and develop". In situations where growth-as-scale is in such tension with financial viability that it must be renounced, either permanently or for some period of retrenchment in response to changes in the environment, growth-as-development may yet be possible. And this type of growth – less visible, less glamorous, and more difficult to measure than pure size – may sustain mission-driven organizations nevertheless.