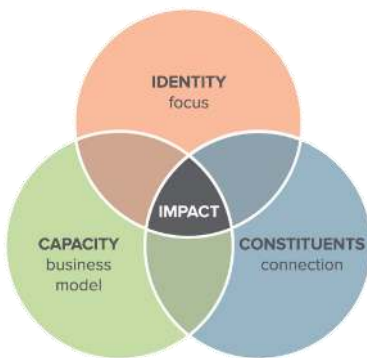


# CAPACITY: THE POWER OF THE BUSINESS MODEL

By Karen Buck & Shelli Bischoff



Integrated Strategy for Success and Sustainability  
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## INTRODUCTION

Your mission is clear. You have a laser-like focus on your goals and you achieve results. Your supporters, volunteers, partners, and beneficiaries love your organization and the work you do. They show up when you need help and they actively connect others to your cause.

And that's still not enough to ensure the long-term success and sustainability of your organization.

An organization cannot make an impact towards its mission without sufficient capacity. *The Integrated Strategy for Success and Sustainability*<sup>1</sup> illustrates this connection and shows how an organization that aligns its capacity with a focused identity and connected constituents achieves impact. Impact *requires* capacity. However, the way that capacity is attracted, organized, managed, and allocated can either contribute towards or detract from impact.

This article offers an holistic definition of capacity, explores why capacity building doesn't necessarily lead to increased impact, and introduces the business model as a powerful way to leverage the capacity to increase impact, success, and sustainability.

## BUILDING CAPACITY

Leaders of mission-driven organizations know they need capacity to achieve their goals. Without capacity, one is a capable driver with a beautiful new car and places to go, but no gasoline. Or engine.

This understanding spurs many organizations to engage in capacity building efforts. These efforts can focus on many things, like

<sup>1</sup> See *The Integrated Strategy For Success and Sustainability* at [www.conservationimpact-nonprofitimpact.com](http://www.conservationimpact-nonprofitimpact.com) for an overview of all three components.



implementing a new database, conducting a board training, or adding a new staff position. Most often they concentrate on raising more funds.

Consider an example from our work with a park friends group—a nonprofit organization dedicated to supporting and improving the park and its infrastructure. Following years of budget cuts, a large number of maintenance and improvement projects had accumulated. To address the backlog, the group started a capacity building effort to raise the needed funding. Their effort was successful and millions of dollars were raised. Unfortunately, this success didn't lead to impact.

Two years later, none of the projects had been completed. While they had the funding, park administrators lacked a robust enough project management system and sufficient staff time to complete the projects. A hiring freeze meant that no additional staff could be brought on and the dollars raised were restricted and could not be used to upgrade systems.

Lots of capacity building success. Zero impact.

## **WHY DOESN'T CAPACITY BUILDING WORK?**

More, newer, or bigger capacity isn't necessarily better. It's just more, newer, or bigger.

Capacity building is not an effective means of increasing impact because it is tactical. It focuses on one or two aspects of capacity at a time and neglects the reality that the organization is a system. Change in one part of the system affects all the other parts; traditional capacity building does not take these ripple effects in account.

Another shortcoming of this tactical focus is that it can cause leaders to lose sight of the organization's larger context and mission. This explains how some organizations come to invest in technology they cannot afford to maintain, re-brand in a way that fails to connect with core constituents, or raise money that they cannot spend.

## **THE BUSINESS MODEL**

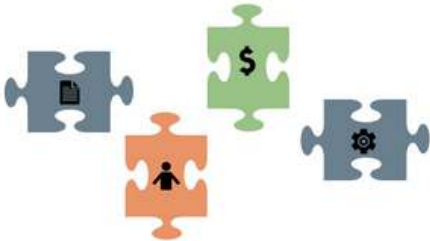
While the friends group was unable to leverage the millions of dollars raised and make an impact, some organizations make a significant difference while seeming to operate on a shoestring. The difference is that in these high-impact organizations, every action and effort is

### **FIRST THINGS FIRST**

*If an organization's identity is vague or its constituents unclear, it cannot define its business model. In such cases, identity must be honed (through strategic decision-making or positioning) and constituents must be understood and delineated (through market analysis or strategic marketing planning)*

## CAPACITY

*All of the resources an organization brings to bear in its work: its human and financial resources; its talent and expertise; its systems and processes.*



## BUSINESS MODEL

*How an organization attracts, organizes, manages, and allocates its capacity to achieve goals and create impact.*



incredibly strategic; their every resource maximized; their every goal realized.

The *Integrated Strategy* shows that organizations like these have a clear, focused identity. They know who they are and focus like a laser on the difference they want to make in the world. They also have the support of an engaged base of constituents. They know who their target markets are and connect with them in ways that resonate and strive to be constituent-centered in all they do.

Lastly, they have a clearly defined business model that ensures that every aspect of their capacity contributes towards impact.

A business model describes how an organization attracts, organizes, manages, and allocates its capacity to achieve goals and create impact. It outlines how much capacity is needed, what constitutes the right kind of capacity for that organization, and how all the capacity “puzzle pieces” fit together to create a coordinated, cohesive whole. The business model is the tool that allows organizations to leverage all of their capacity and maximize impact.

## FINDING THE RIGHT BUSINESS MODEL

A business model can only maximize an organization’s impact if it is the right business model for the organization. At times, it can be tempting to just replicate another’s business model. However, even organizations that look very similar on the surface often require very different business models to create impact. Consider this case from work we completed a few years ago to understand why customization is so critical to success.

State government health agencies in two different northwestern states hired us to define business models for the exact same evidence-based public health program. Each agency received funding from the same sources. Both partnered with community-level public, tribal, and nonprofit entities to provide the program across their state. And roughly the same number of individuals attended the program in each state, with similar rates of completion rates.

A few key distinctions meant that different business models were needed for impact. In State A, implementation of the Affordable Care

Act (ACA) was moving quickly, which made securing approval for program costs to be reimbursed by insurance a strong likelihood. Turning this opportunity into reality required a business model with a professional, central office to streamline billing and administration and a reliable program delivery network to serve insurance companies.

Meanwhile in State B, the agency had historically delegated program management responsibility to strong regional-level organizations that were very dedicated to the program. The potential for an insurance reimbursement revenue stream to support the program was years away because ACA implementation was proceeding slowly and unevenly. In this situation, the best business model built on the strengths of regional-level leaders to take over program ownership while state agency leaders continued to monitor for new opportunities as they emerge.

Business Model	State A's Business Model	State B's Business Model
Description	Public-private partnership between state agency and a nonprofit or small business	Individual regional agencies and mid-large nonprofit organizations
Structure	A central office with a network of independent and contracted “franchisees” operating statewide	Lead regional organizations coordinate network of smaller community-level program providers
Revenue model	Earned income—fee-for-service and franchisee/contractor fees	Mix of fee-for-service and funding from foundation and regional-level government sources
Staffing	5-6 central office staff with skills in business development, marketing, and systems design	.5-1 FTE/region with skills in program management and partner relations
Systems	Central program enrollment, evaluation, franchisee management and medical billing systems	Piggy-backs on existing systems within the lead regional organization

An organization’s right business model is the one customized to its unique features and circumstances. This ensures that the business model attracts, organizes, manages, and allocates *enough* capacity and *the right kind* of capacity (i.e., whatever kind of capacity necessary to achieve goals and connect with constituents) for success and impact.

## ORGANIZATIONAL ANALYSIS AND DEVELOPMENT

We use an organizational analysis and development process to help clients define their business models. An organizational analysis is a rigorous, objective, comprehensive review of an organization’s capacity

## SIGNS YOU HAVE THE WRONG BUSINESS MODEL

- ▲ *Programs, products, and services realize fewer results over time*
- ▲ *Increased attrition of donors, volunteers, and supporters (often accompanied by decreased funding)*
- ▲ *High staff and volunteer turnover*
- ▲ *Maintaining systems and infrastructure takes increasing amounts of time and effort*
- ▲ *Pervasive sense of disconnection within the organization*

relative to where it is today and where it hopes to go in the future (e.g., current and projected goals, existing and new constituents, etc.). It also considers the organization's external operating environment, especially the trends and issues influencing its subsector and the culture and profile of its community or service area.

This type of analysis is neither a needs assessment nor an evaluation of what an organization is doing right or wrong. Rather it examines how efficiently and effectively the organization is using its capacity towards achieving goals *today* and what will affect its organizational development, growth, and sustainability *in years to come*. The analysis provides the context for leaders to make strategic decisions that inform and define the business model. Then, organizational development can begin.

Organizational development, in the words of Ivancevich and Mattson<sup>2</sup> is a, "planned effort to improve an organization's operations through a more effective utilization of organizational resources." The organizational development plan defines the business model and outlines the steps the organization must take to implement it and to address any other critical issues (see outline on page 7).

## THE REVENUE MODEL

While capacity doesn't equal funding, financial resources are a critical aspect of an organization's capacity. We use the term revenue model to indicate how an organization's financial resources are organized within the overall business model.

The same way the business model aligns *every aspect* of an organization's capacity towards accomplishing its mission, the revenue model aligns every aspect of an organization's revenue-raising efforts for maximum results. And because organizations are systems—the revenue model affects other aspects of capacity.

For example, a social service agency with a revenue model dominated by government funding will have few, if any, of the systems, skills, or relationships needed to raise funds from individuals. And a healthy communities coalition that does raise individual dollars needs a fundraising database, a base of connected donors, and fundraising and relationship-building skills to be effective.



<sup>2</sup>John Ivancevich, Robert Konopaske, Michael Matteson (January 30, 2013) Organizational Behavior and Management 10th Edition McGraw-Hill.

## **BUSINESS MODEL LIFESPAN**

*As organizations evolve, business models must be **maintained** and sometimes require **reinvention**.*

## **MAINTENANCE AND REINVENTION**

Business models have a lifespan. They must adapt to change or become less and less effective over time. For example, the business model that fits an organization during its all-volunteer, start-up phase will no longer suit it 10 years later when it has grown, expanded, and hired 15 staff. The reality is that, just like a car, a business model needs regular maintenance. And in certain circumstances, it needs to be traded in for a new model.

The very act of pursuing a mission—setting and achieving strategic goals over time—affects an organization’s identity and constituents. The organization develops, shifts focus to meet emerging needs, expands to reach new constituents, and (not so) suddenly, things aren’t working quite as well as they used to. This sort of erosion of the business model’s effectiveness happens gradually, often unperceptively.

Regularly maintaining a business model helps it evolve in tandem with the organization. The key is to realign capacity proactively as things change. For example, when that scrappy, all-volunteer group started hiring staff, it had to expand its human resource systems, processes, and policies; increase its annual revenue to cover salaries; and reconsider the role played by volunteers. Realigning those aspects of capacity ensures that the business model adapts to best serve a changing organization. This kind of realignment can be especially important after setting new strategic goals.

Sometimes realignment is not enough and the business model must be reinvented. The need to reinvent a business model can be prompted by major new opportunities—such as an infusion of unexpected revenue from a bequest or the start of a significant new project. Leadership transitions can also be a catalyst for reinvention, especially when a founder or long-standing CEO moves on.

Dramatic changes in an organization’s operating environment also spur the need for reinvention. Many land trusts we work with are nearing the point where they will have protected all of the environmentally critical land in their service area. Now what? A business model centered on protecting land (and aligned revenue

## ORGANIZATIONAL DEVELOPMENT PLAN

### *Introduction*

- ▲ Purpose
- ▲ Summary of organizational analysis
- ▲ Critical issues

### *Alignment*

- ▲ Identity
  - Mission
  - Strategic Focus
  - Goals
- ▲ Constituents
  - Target markets
  - Partners
  - Outreach strategies

### *Capacity*

- ▲ **Structure**
  - Leadership
  - Management
  - Governance
  - Organizational chart
- ▲ **Staffing**
  - Positions
  - Core functions
  - Skills and competencies
- ▲ **Systems**
  - Information management
  - Project management
  - Constituent relations management
- ▲ **Processes and procedures**
  - Decision making
  - Communication
  - Human resource policies
- ▲ **Financial resources**
  - Revenue model
  - Revenue sources
  - Expense budget
  - Projections

model based on transaction fees or grants) no longer leads to mission impact (or financial sustainability!).

For these land trusts, reinvention begins with identity as they decide what their conservation mission requires now that their land protection work is done. As they update their identity, perhaps to become an environmental stewardship organization, reinvention may also require connecting with a more diverse group of constituents. In turn, the business model must now be reinvented to best support the new identity and constituents.

## CONCLUSION

The *Integrated Strategy*<sup>3</sup> illustrates that identity, constituents, and capacity are the three critical components for long-term success and sustainability. Defining, maintaining, and when needed, reinventing, your business model is the most effective way to maximize capacity's contribution to impact.

Organizational analysis and development yields a customized business model that attracts, manages, organizes, and allocates all aspects of an organization's capacity into a comprehensive whole. And it is through understanding the organization as a system—rather than narrowly focusing on just one or two aspects of capacity—that all of your human, financial, administrative, programmatic, and technological resources are leveraged for maximum impact. That is what it means to tap the power of your business model.

<sup>3</sup> To read more about the other components of the Integrated Strategy model, visit [www.conservationimpact-nonprofitimpact.com](http://www.conservationimpact-nonprofitimpact.com) and download *Strategic Planning and Positioning* and *Creating a Constituent-Centered Organization*. Check out *The Business Plan Blueprint* to learn more about how all three components tie together.

## About the Company

Conservation Impact and Nonprofit Impact are client-centered practices of our mission-driven, B Corp certified company. We work to radically impact how organizations achieve results towards mission and demonstrate impact.

We provide comprehensive planning, marketing, and organizational development consulting and training solely to nonprofits, public agencies, and foundations. Our practices focus on the conservation, environment, food systems, healthy living, and healthy aging sectors.

Founded in 1996, we have successfully completed more than 1,010 projects with 675 clients in 46 states and five countries. In all our work, we apply a comprehensive systems approach as defined in our *Integrated Strategy*. We have distinct expertise in strategic decision making, positioning, marketing, organization analysis and development, business planning, and sustainability.

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Vice President of Conservation Impact and Nonprofit Impact, **Karen Buck** spent 15 years in key fundraising and management positions with health, human service, and civic engagement organizations before joining the company nine years ago. Karen wrote *The Path to Program Sustainability*, a guide to sustaining evidence-based programs. She has conducted organizational analyses, defined business and revenue models, and developed business, organizational development, and strategic fundraising and marketing plans for clients across the country.



Karen is also a well-regarded trainer on topics such as program sustainability, project management, and partner relations management. She holds a Master of Nonprofit Management from Regis University.



Founder and president of Conservation Impact and Nonprofit Impact, **Shelli Bischoff**, has 30 years of experience in nonprofit planning, marketing, and organizational development. Shelli developed the *Integrated Strategy* as a framework for creating more impactful and sustainable organizations.

Shelli is a sought after speaker and trainer known for her content expertise and her dynamic and truth-telling style. She holds a Master of Public Administration from University of Colorado.