Robert E. Gruber
Mary Mohr

Strategic Management for Multiprogram Nonprofit Organizations

"Strategic planning," "strategic audits," "portfolio management," and "product line pruning" are familiar terms in the private sector, but they also have ready applicability for many nonprofit organizations. These business concepts can be particularly useful to nonprofit organizations that provide more than one service to their clientele. Examples of such institutions are numerous and include such diverse operations as human services, arts and culture, health maintenance, and religious organizations. These and many other groups operate a variety of programs, and, like their private sector, multiproduct counterparts, they are learning that maximum effectiveness can only be obtained if the collection of programs or services the organization offers—what we shall refer to as the agency's "program portfolio"—is managed as a totality.

The concept of managing a totality (say, managing a product line rather than merely concentrating on individual products within the line) stems principally from the work of the Boston Consulting Group in the early 1970s.[1] In its now well-known and accepted "product-portfolio" model, the group maintained that important interdependencies exist among products in a line. Particular products could not and should not be considered in isolation. It is the purpose of this article to demonstrate the utility of this seemingly simple idea in a nonprofit context by the presentation of a "program classification" model that facilitates strategic decisions.

Interdependencies among Programs

Programs, like products, must not be considered in isolation since they often interact with one another. In the private sector, examples of interactions among products in a product line abound. The most common example is that of so-called complementary products, such as cameras and film. The demand for the camera, which is priced so as to yield little or no profit, can trigger demand for a fully priced, and hence highly profitable, film line. Obviously, it would be absurd for a manager to make any change in the camera line, such as a price increase, without considering the impact on the sale of film as well. So, too, can programs interact. For example, the social activities offered by religious groups may stimulate attendance at church services.

Further, programs, like products, should not be considered in isolation if for no other reason than that they compete with one another for the scarce resources of the organization. This competition requires that upper-level management make the long-term strategic decisions concerning which programs to emphasize, which to deemphasize, and which to discontin-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

ue. The model described below attempts to facilitate these important decision areas. It should prove helpful to administrators, to donors, to boards of directors, and to all those who oversee organizational functions by:

- encouraging strategic (long-range—what to do) as opposed to tactical (short-range—how to do it) thinking;
- encouraging a holistic, as opposed to an atomistic, viewpoint;
- identifying trade-offs to be considered by program-oriented personnel;
- identifying programs in need of redesign, candidates for expansion, or candidates for divestiture;
- suggesting the direction of cash flow among programs; and
- providing broad guidelines for assessing the overall health of an organization.

Cost Benefit Analysis

The model, described in the next section, provides a way of thinking about the kinds of programs offered by an organization. The scheme suggests that programs can be more readily evaluated if they are first classified in terms of the costs and benefits associated with them.

Robert E. Gruber, an assistant professor of marketing at the College of Business Administration of the University of Denver in Colorado, specializes in strategic management. He earned his Ph.D. from the Graduate School of Business of Columbia University in 1978 after more than twenty-five years of executive positions in industry—most recently as vice-president in a high technology electronics firm he helped found in 1961. Dr. Gruber serves as a volunteer to the Technical Assistance Corporation, a nonprofit management support organization, where he helps supervise M.B.A. student teams providing consulting services to nonprofit firms in the Denver community.

Mary L. Mohr is the vice-president of marketing for First Trust Corporation of Denver, Colorado. She previously served as director of marketing for the Jewish Community Center of Denver. Her experience includes extensive professional and volunteer service to nonprofit organizations. Ms. Mohr has a M.B.A. from the University of Denver, a B.A. in English Literature from Gettysburg College, and is currently enrolled at the University of Denver College of Law. She has served as a member of the board of directors of the Denver Chapter of the American Marketing Association.

Cost/benefit analysis is commonly used in the private sector, perhaps because it is relatively easy to accomplish. One assesses the dollar costs and merely compares these to the benefits—which, in the usual case, are readily measurable profits, also denominated in dollars. This process is not as straightforward in the nonprofit case. The principal difficulty is that the benefits are social benefits, intangible and extremely difficult to quantify.[2] This issue is complicated because programs can be beneficial if they serve any social need, no matter how broadly defined. This complication can be avoided by more narrowly defining a program as producing a benefit, which we can refer to as a "relevant benefit," only if it contributes to the overall mission and purpose of the nonprofit organization, to the specific set of social goals the organization was set up to accomplish.

This evaluation is made difficult because benefits are usually multifaceted in nature. Programs can benefit the constituency being served in more than one way. Hot meals served at a senior citizen community center are beneficial from a nutritional and a social point of view. The social benefit may or may not outweigh the nutritional, but both must be taken into account when assessing the total benefits derived from a hot meal program.

Costs, like benefits, are multidimensional and include more than the money costs associated with the operation of a given program. Costs should be conceived of in terms of total resources—money, manpower, floor space—dedicated to a program. For simplicity, we will consider only operating costs, at first.

In many cases, costs are partially or completely defrayed by the fees received for the service. The net expenditure is what we are after, the difference between costs and fees. Where fees actually exceed costs, a rare but not impossible situation, we can say the program enjoys positive financial returns. In the more usual case, where costs are greater than fees, the program can be said to produce negative financial returns. How important are positive financial returns? That depends to a great extent on the financial situation of the nonprofit organization. Those organizations that are richly endowed, the recipients of a stream of gifts and

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Figure 1. 4-Way Program Classification Model

Financial Returns	Benefits (Social Value): Low	Benefits (Social Value): High
Positive	**Sustaining** (Necessary evil?) Basic Strategy: Maintenance Use of Funds:* Subsidize "worthwhile" programs	**Beneficial** (Best of all possible worlds) Basic Strategy: Cautious expansion Use of Funds: Trade-off—plowback or subsidize "worthwhile" programs
Negative	**Detrimental** (No redeeming qualities) Basic Strategy: Pruning Use of Funds: None available	**Worthwhile** (Satisfying, good for society) Basic Strategy: Careful nurturing Use of Funds: None available

* Refers to internally generated funds.

grants, will obviously place a lower value upon net income derived from fees for service. Those that seek, to some extent, the goal of financial self-sufficiency, will more highly value such income. As with social benefits, the degree to which positive financial returns are desirable is a function of the requirements and goals of the particular organization.

Conceptually, costs and revenues are more readily evaluated than benefits. However, as a practical matter, many nonprofit organizations suffer from the lack of an adequate accounting system. This important issue has been addressed elsewhere and is beyond the scope of this article.[3] In the sections that follow, a sound system of accrual accounting will be assumed.

The Model

The program classification model described in this section is based upon the principles of cost/benefit analysis, discussed above. The idea is to consider each of the programs offered by the organization in turn and to decide that program A is, for example, high in benefits and provides positive financial returns, that program B is low in benefits and produces negative financial returns, and so forth.

Notwithstanding the difficulties of assessing benefits or accounting for costs, referred to in the preceding section, we will rely on the expert opinion of program-oriented personnel to dichotomize programs into those judged high in terms of relevant benefits as opposed to those thought of as low in this regard. We assume that programs exhibiting negative financial returns can be distinguished. This leads to the classification scheme illustrated in Figure 1. The four basic program types are described below. The names assigned to each category are primarily for convenient reference in the discussion that follows.

Beneficial Programs. Beneficial programs are those judged high in terms of the relevant social benefits provided. They are very beneficial to the constituency being served and contribute greatly to the social goals of the organization. Beneficial programs take in more in revenue than they pay out in expenses (positive financial returns)—and, hence, contribute to the survival of the organization in a very practical way. These highly desirable programs, the best of all possible worlds, may be hard to find but are not difficult to imagine. Consider an inexpensive cancer vaccine, where an easily affordable token fee exceeds the vaccine costs.

Worthwhile Programs. These programs are also rated high in terms of relevant social benefits, but they differ from the first category in that

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

they are costly to operate—costs exceed fees. They exhibit negative financial returns and, therefore, are a drain upon the resources of the organization. Worthwhile programs serve important community needs. They are good for society, bad for the pocketbook. If the costs of the hypothetical cancer vaccine mentioned above exceeded the fee that could reasonably be charged, the program would be placed in the worthwhile category.

Sustaining Programs. Those programs judged to be low in terms of the social benefits they provide but which generate funds in excess of their operating costs are sustaining programs. They provide positive financial returns. One example is the operation by a hospital of a gift shop, which provides benefits in that it contributes, at least to a limited extent, to the physical and mental well-being of the patients, and which operates at a profit.

There are three very important aspects of sustaining programs that should be examined at the outset. First, why would a nonprofit organization wish to have such a program at all? The answer to this question has been discussed above: if the organization desires some degree of self-sufficiency, then sustaining programs must be included. Second, what about the tax consequences of sustaining programs? If related to the nonprofit organization's exempt purpose (the hospital gift shop qualifies), there is no problem. If unrelated, the potential problems range from having to pay a tax on the proceeds to actually losing tax exempt status (the latter is uncommon).[4] Third, and of particular interest in the context of this article, "The IRS considers how the funds derived from the activity are used as immaterial in determining whether the activity is related or unrelated."[5] The sustaining activity must be substantially related to the tax exempt purpose of the nonprofit organization even if the funds are used to subsidize worthwhile offerings, as will be suggested below.

Detrimental Programs. The last of our four categories, these programs are the worst of all possible worlds, low in terms of benefits and producing negative financial rewards. The hospital gift shop that is poorly managed, customarily out of the many items patients desire, and not being operated on a profitable basis is an example. A detrimental program has no redeeming features; it provides neither benefits nor financial returns.

Implications for Strategy

Using the scheme outlined above, the first step in program portfolio analysis is the classification of the organization's various offerings. Once programs are classified, the implications for strategy, resource allocation, and direction of cash flow will often be obvious. Indeed, in the usual case, the most straightforward implications are those that apply to the beneficial and detrimental categories. These will be considered first.

In the case of a detrimental program, the most direct response is to simply eliminate it. Programs of this type are detrimental to the organization because they fail to measure up in terms of either benefits or financial rewards. Thus, the basic strategy for a detrimental program is to prune it from the portfolio. As with all pruning, the underlying notion is to sacrifice a part for the good of the whole.[6] The implications for resource allocation are equally straightforward. Paraphrasing Peter Drucker, famed management consultant, good programs should be nourished and bad ones starved. If detrimental programs cannot be eliminated—and it is hard to think of compelling reasons why they should not be—then resource allocations should be reduced to a bare minimum so that they can be more gainfully employed elsewhere. A caveat: With reduced support, the already deficient service may become even more of a liability if allowed to deterioriate to the point where it can further degrade the image of the organization's other offerings. At this point, two responses are possible: the appropriate and courageous one—prune immediately; or the incorrect, yet prevalent, one—siphon off much-needed resources from more deserving programs to maintain the detrimental service at a minimally acceptable level.

The knee jerk response in the case of beneficial programs is "expansion," but first an additional dimension, the demand for the program, must be explicitly considered. If the program is known to be in great demand, then expansion may be justified. But expansion implies that

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

more, or even most, of the organization's finite supply of resources be allocated to beneficial programs and that all "profits" be "plowed back," reserved for use in the beneficial program that generated them in the first place. The alternative possibility is to divert resources, including all or part of the financial rewards obtained from beneficial programs, to subsidize their worthwhile fellows. Funds should be diverted to those programs where the relevant benefits are greatest. This determination requires value judgments, which can only be made by those with intimate knowledge of the programmatic aspects and of the principal goals of the organization. Thus, the basic strategic response for beneficial programs can best be restated as "cautious expansion."

Sustaining programs generate funds in excess of their costs. Just as General Electric's mundane light bulb division helps to subsidize more esoteric and perhaps soul-satisfying corporate endeavors, so can sustaining programs provide sustenance to other, more socially desirable programs in the portfolio. Here is a perfect example of why programs should not be considered in isolation. If the sustaining program is considered alone, then one possible, but misguided, strategic response is to prune it. The sustaining program may not make an important, direct contribution to the attainment of the desired social goals of the organization, but its indirect contribution may be enormous, the providing of financial support for other, more socially desirable offerings. A more pragmatic view, and the basic strategy recommended here, is "maintenance" of these programs, followed by the use of their excess "profits" to subsidize their worthwhile fellows. By maintenance we mean that sufficient resources must be made available to sustaining programs on an ongoing basis so as to insure the viability of these bread-and-butter offerings. Obviously, the goal of self-sufficiency and the tax implications discussed above also play an important part in determining the strategies for sustaining programs.

Finally, consider the worthwhile programs. The greatest number of programs in any given portfolio probably fall into this category; they rate high in terms of benefits but produce negative financial returns. These important components of the portfolio must be handled with extreme care. Prudent management must resist the tendency towards undue expansion and proliferation of worthwhile programs to the point where available resources, spread thinly over many of these programs, are simply insufficient to insure effective implementation of any one of them. Pruning (of those highest in cost and lowest in benefits) may be abhorrent, but should be considered by courageous managers.

A worthwhile program may no longer provide the requisite benefits or may be too costly to operate. Perhaps it is being retained out of inertia or out of loyalty to some long-term, respected supporter of the organization. All alleged worthwhile programs (and all others, for that matter) should be periodically reviewed—on a "zero-base" or "sunset law" basis—and considered as candidates for pruning.

These caveats notwithstanding, the recommended basic strategy for worthwhile programs is "careful nurturing," the redirecting of funds obtained from money-making programs to their use. In this way, internally generated funds can supplement the more usual external sources of funds on which worthwhile programs depend. The term *careful nurturing* is intended to remind program managers of the dangers of proliferation, discussed above, and to suggest that these programs, collectively, be very carefully controlled, so that good intentions do not outrun cash flow.

Program Redesign

Since programs that rate highest in terms of benefits are preferred and since beneficial programs are the best of all possible worlds, wherever possible an attempt should be made to move programs toward worthwhile or beneficial status by redesigning program content or pricing.[7] Perhaps some socially redeeming feature can be added to a sustaining program—some state governments have attempted this by directing lottery proceeds be used to support schools and hospitals. Perhaps fees on a worthwhile program can be based on ability to pay and effectively be raised. Conceptually, even detrimental programs can be revitalized but only if the time and effort for redesign are kept at a bare minimum. The simplest and quickest

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

modification may be to raise the fees drastically. If the program cannot quickly be converted to sustaining status, if it fails to attract clients at the new higher price, then it deserves to die.

When considering prices, other product line pricing concepts are relevant. In the commercial product context, prices should be set on individual products so as to maximize revenues or profits across the entire product line.[8] This focus on total monetary return is appropriate for sustaining as well as detrimental programs, since their only reason for being is to produce positive financial rewards. Specifically, sustaining programs in great demand can and should be priced high, high enough to be "profitable" when all costs are considered but not so high as to inhibit demand and reduce total revenues.[9] In the case of worthwhile and beneficial programs, where social goals are paramount, this narrow monetary view does not suffice. Yet setting fees too low in such programs may be myopic if higher prices (at least for some clients) can lead to a more viable (self-sufficient) organization, which can better serve all of its constituencies and thereby better accomplish its prime mission and goals.

Addition of New Programs

Another strategic decision is whether or not the organization should attempt to inaugurate a new program. This decision is conceptually identical to the new product decision faced by private sector firms. Considering the product or program in isolation, there is one overriding condition that must be satisfied: Does the new program contribute to the accomplishment of the nonprofit organization's mission and purpose? Are its benefits relevant? A new program may fulfill many other conditions (be socially beneficial in a general sense, fulfill an unmet need of a client group), but if this condition is not satisfied, the new program probably should not be added. It is often all too easy to stray from one's main mission by falling into the trap of going where the funds are and this tendency must be resisted.

Consideration of a program's contribution to the overall mission, in isolation, is not enough. As this article suggests, the potential interdependencies among the new and existing programs are also of great importance and should be carefully examined. An appropriate question is, How will the new program fit in with others in the portfolio? How might the new offering be categorized in terms of our program classification model, and what, exactly, can we expect from it in terms of benefits and financial returns? If the new program falls into the worthwhile category, which resources (money, space, manpower—including volunteers) will it siphon off, and from where? Which existing programs will it complement? Which will it detract from or even cannibalize?

A further consideration is the overall manageability of the portfolio. Experience in the private sector indicates a tendency towards unnecessary product proliferation. The same tendencies can be observed in the nonprofit area. The question is whether or not an ever-increasing number of programs can be effectively implemented, administered, and controlled by the organization. This reinforces the notion that a new program must contribute substantially to the prime purpose of the nonprofit organization if it is to be added to the portfolio and suggests the possible applicability of the dictum, "Never add a new product until you drop and old (and presumably, worn-out) one."

An Illustration

The Jewish Community Center of Denver, Colorado is a forward-looking social service agency primarily serving the social, cultural, and athletic needs of the Jewish community in Denver.[10] The various services provided by the agency are also made available to the public at large. In terms of general scope of services offered, it is an organization like the Y.M.C.A., funded by such donor agencies as United Way and the Allied Jewish Federation. Some fraction of its income is generated by fees received for certain of its services. Although it is a local agency, the center is not unlike other Jewish community centers across the country.

The Denver Jewish Community Center is a good example because it provides many, diverse offerings, including programs for the elderly such as hot meals, programs for children (a day care center), athletic and health club ser-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Table 1. Partial Listing of JCC Programs

Adult Education (Jewish programs)	Rentals
Adult Education (non-Jewish programs)	Russian Resettlement
Art Classes	Senior Citizens
Art Exhibits	Singles
B'nai Brith	Skiing
Boys Camp	Swimming
Day Camp	Tennis
Early Childhood Education	Theatre (Jewish content)
Health Club	Theatre (no Jewish content)
Health and Physical Education	Volleyball
Holiday Programs	Young Judea
Jewish Art Shows	Youth Department
Jewish Performing Arts	Youth Programs

vices (saunas, exercise rooms, swimming), an extensive educational program (language instruction, dance, arts and crafts) for all age groups, and much more.

In line with the scheme described above, the Jewish Community Center's various programs can be classified along the dimensions of costs and benefits, where the multifaceted benefits which this organization provides can be conveniently subsumed under the label "Jewish values." An adult education program such as language instruction in Hebrew can be classified as worthwhile since it is high in Jewish values yet costly (the fees charged do not cover the cost of instruction). By contrast, swimming is sustaining, "profitable," but low in Jewish values. The health club is a good example of a beneficial program. It is financially rewarding, actually "profitable," and is perceived to be high in terms of value because it facilitates affiliation and sociability among the predominantly Jewish membership.

A partial listing of the center programs is presented in two ways below. Table 1 contains a simple tabulation of these programs. Other than noting there are many programs and that efficient management of the agency is a formidable task, particular strategic implications cannot readily be seen. In Figure 2 the same listing is presented, classified in accordance with the model described above. Programs in heavy demand (now or based on future projections) are indicated by capital letters.

We hope you agree that merely placing these programs in categories is extremely helpful in assessing the Jewish Community Center's situation. Among the strategic questions that come to mind are:

- Why continue to offer skiing or the other six detrimental programs? Have they been classified correctly? Can any of them be easily converted to sustaining via an increased fee schedule, or should they all be seriously considered as candidates for pruning? (In actuality, the center does not have seven detrimental programs. Most of those shown have been intentionally misclassified for illustrative purposes.)
- Can the rather large number (twelve) of worthwhile programs be adequately managed? Are some less worthwhile than others? Should some be dropped or cut back? Could (or should) fees be raised on others so as to make them, at least, self-supporting?
- Are the "profits" from sustaining programs being correctly allocated? Are these services being properly maintained? Could one or more of them be expanded within IRS limitations, so as to provide increased cash inflows (say, health and physical education), or would such an expansion take much-needed resources (such as floor space) from other, more socially deserving offerings?
- Should any of the beneficial programs be expanded? Could a cautiously expanded early childhood education program (the one in greatest demand) subsidize and thus contribute to the careful nurturing of its companion, worthwhile offering, day camp?

We might ask which of the programs can be considered as substitutes for one another. The adult education program competes with those of other institutions, its external competition. But how about competition among the center's own programs: Do folk dance, modern dance, and ballet compete one with the other for clients from a limited pool, and would one or

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Figure 2. Classification of JCC Programs

Sustaining	**Beneficial**
HEALTH AND PHYSICAL EDUCATION Art Exhibits Swimming Rentals	EARLY CHILDHOOD EDUCATION Health Club Boys Camp Plowback? Subsidize?
Detrimental	**Worthwhile**
Theatre (no Jewish content) Volleyball Youth Department Skiing Art Classes Tennis Adult Education (non-Jewish programs)	Theatre (Jewish content) SENIOR CITIZENS Day Camp Youth Programs SINGLES Young Judea Adult Education (Jewish programs) B'nai Brith Russian Resettlement Holiday programs Jewish Art Shows Jewish Performing Arts

Note: arrows represent use of internally generated funds.

more survivors be healthier if some judicious pruning were done? Is there a proper mix of programs? If not, in which direction must the organization move to bring its portfolio into balance?

Conclusion

The task of managing a multiprogram nonprofit organization can be arduous. Such organizations must manage their program portfolios in order to maximize effectiveness. Programs should not be considered in isolation from one another. The program classification model presented here allows nonprofit managers to view their programs with a holistic perspective.

There is a growing demand for accountability in a sophisticated donor community, motivated in part by the generally poor economic environment. This provides the impetus for the adoption of well-known business concepts so that nonprofit organizations may use their dwindling funds more effectively. Administrators and board directors of nonprofit organizations will be faced with increasingly severe competition for time, money, and management skills as the nonprofit sector becomes more cost conscious. Dedication must be accompanied by performance results, idealism tempered with pragmatism.[11]

REFERENCES

1. B.D. Henderson, "The Product Portfolio," pamphlet (Boston Consulting Group, 1970). Also see W.E. Cox, Jr., "Product Portfolio Strategy: An Analysis of the Boston Consulting Group Approach to Marketing Strategies," *Proceeds of the American Marketing Association* (1974).

2. Even in the private sector, firms often have objectives other than profits, such as reputation or market standing, changes in which are difficult to quantify.

3. See for example, R. Herzlinger, "Managing the Finances of Nonprofit Organizations," *California Management Review* (Spring 1979); and R.K. Macleod, "Program Budgeting Works in Nonprofit Institutions," *Harvard Business Review* (September/October 1971).

4. See G.N. Scrivner and Christopher T. Callahan, "A Path to Self-Sufficiency," *Philanthropy Monthly* (September 1980).

5. Ibid., p. 16.

6. See "The Product-Elimination Decision," in P. Kotler, *Marketing for Nonprofit Organizations* (Prentice-Hall, 1975), p. 173.

7. Ibid., p. 172.

8. Ibid., p. 178.

9. Ibid. The concept of price elasticity of demand is discussed on pp. 185-186.

10. One of the pioneering nonprofit organizations in the use of strategic planning as a way of providing an overview of their operations, the Jewish Community Center actually wrote a strategic plan for itself. It was among the first agencies of its kind to respond to an environmentally induced decline in demand by coordinating all "marketing" activities under a marketing manager (the junior author).

11. Another interesting article on the audit of program portfolios is D.B. Herron, "Developing a Marketing Audit for Social Service Organizations," in C.H. Lovelock and C.B. Weinberg (eds.), *Readings in Public and Nonprofit Marketing* (The Scientific Press, 1978), pp. 267-271.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.